BALAJI INSTITUTE OF I.T AND MANAGEMENT KADAPA

INTERNATIONAL MARKETING (17E00408)

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1st Internal Exam Syllabus

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(17E00408) INTERNATIONAL MARKETING
(Elective VI)

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1. International Marketing: Scope and Significance of International Marketing, The importance of international marketing, Differences between international and domestic marketing, legal environment and regulatory environment of international marketing.

2. International Market Entry Strategies: Indirect Exporting, , Direct Exporting, Foreign Manufacturing Strategies with Direct Investment. Entry Strategies of Indian Firms.

3. International product management: International product positioning, Product saturation Levels in global Market, New products in International Market, Products and culture, brands in International Market.

4. International Marketing Channels: Distribution Structures, Distribution Patterns, Factors effecting Choice of Channels, the Challenges in Managing an international Distribution Strategy, Selecting Foreign Country Market intermediaries. The management of physical distribution of goods, Grey Market goods.

5. Export Marketing: Introduction to Export Marketing, Export Policy Decisions of a firm, EXIM policy of India. Export costing and pricing, Export procedures and export documentation. Export assistance and incentives in India.

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UNIT – 1
INTERNATIONAL MARKETING

1. Scope of International Marketing:

1.1 Introduction to International Marketing:

- The modern world is organized on the theory that each nation state is sovereign and independent from other countries. In reality, however, no country can completely isolate its internal affairs from external forces.
- Even the most inward-looking regimes realized the limitations of their own resources as well as the benefits of opening up their borders.
- This major change in the orientation most regimes has led to an enormous amount of activity in the international marketplace.
- A global economic boom, in the last decade of twentieth century has bee one of the drivers for efficiency, productivity and open, unregulated markets that swept the world.
- Never before in world history have businesses been so deeply involved in and affected by international global developments.
- Powerful economic, technological, industrial, political and demographic forces are converging to build the foundation of a new global economic order on which the structure of a world economic and market system will be built.
- Whether or not a company wants to participate directly in international business, it can-not escape the effect of the ever-increasing number of domestic firms exporting, importing, and/or manufacturing abroad; the number of foreign-based firms operating in most markets; the growth of regional trade areas; the rapid growth of world markets; and the increasing number of competitors for global markets.

Of all the trends affecting global business today, five stand out as the most dynamic and as the ones that are influencing the shape of international business:

- The interdependence of the world economies.
- The rapid growth of regional free trade areas such as EU, NAFTA, ASEAN and APEC.
- The increase in wealth and growth in most parts of the world, causing enhanced purchasing power.
- The evolution of large emerging markets such as Brazil, China, India, Malaysia, Russia, Hungary and Poland
- Availability of advanced methods of communication and transportation due to developments in information technology.

- These forces affecting the international business have led to a dramatic growth in international trade and have contributed to a perception that world has become a smaller and interdependent place.
- If we look at the Swiss Multinational Company, Nestlé, 'The Food Company of the World', it claims its products are sold in every country in the world. It has factories in more than 80 countries and it has many brands that are recognized all over the world.
- Toyota and its subsidiaries sell their cars in more than 170 countries, giving it a presence in more countries than any other auto manufacturer.
- Today most business activities are global in scope. Finance, technology, research, capital and investment flows, production facilities, purchasing and marketing and distribution networks all have global dimensions.
- Every business must be prepared to compete in an increasingly interdependent global economic environment, and all business people must be aware of the effects of these trends when managing a multinational conglomerate or a domestic company that exports.
- As one international expert noted, 'every company is international, at least to the extent that its business performance is conditioned in part by events that occur abroad.
- Even companies that do not operate in the international arena are affected to some degree by the success of the European Union, the post 9-11 political economy and the economic changes taking place in China and India. The aftermath of 9-11 and the war in Afghanistan and Iraq have changed the political as well as economic scene. The interdependence among the nations and markets has however not been affected. Companies have become even more aggressive to capture new markets to compensate recessions at home or in their traditional markets

Imports:
This is the easiest form of International Marketing a company can get into – Importing from one country and selling in the domestic market. This is possible only in a scenario where there is demand in the domestic market for the imported goods or services. Companies also localize the imported product depending on the needs of the market.

Exports:
Opposite of Importing and selling, companies export their finalized products to international markets or on to their other franchises in far off markets where they can sell the products to their localities for generating huge revenues.

Contractual Agreements:
Whenever, business moves beyond their domestic boundaries, its scope of international marketing exposes it to greater chances of doing a lot more business. The market expands, the consumer base expands and even volumes and profits expand. Companies grow exponentially by getting into contractual agreements with several other partners overseas.

Joint Venturing:
Two brands can come together and enter a potential market. The investments, profit or losses are pre decided in terms of both value and time period. At time it is beneficial for companies to enter into a JV for raise the scope of international marketing as a result of barrier to new entrants in foreign markets. A local partner can prove to be immensely useful for doing

business not only operationally but also from a domestic understanding of the market dynamics.

Fully Owned Manufacturing:

Relatively a higher level of engagement in the foreign soils, companies can own a fully owned manufacturing in a country. The company can use this facility to sell products within the country or export to nearby nations. Owning a fully owned manufacturing helps companies control quality.

2. Significance /Importance of international marketing:

Importance from the consumer's point of view:

- Consumption of unpronounced goods
- Consumption of goods at a low price
- Enjoying benefits of competition
- Consumption of new products

Importance from the producer's point of view:

- Export of surplus production
- Expansion of market in foreign countries
- Production of goods at a low cost
- Increase in production
- More profitable
- Reduce business risk
- Reduce cost

Importance from economic point of view:

- Increases total production
- Increases export earnings
- Challenging natural calamities
- knowledge and cultural progress
- Increases international peace and assistantship
- Extension of industry
- Export of unusual goods
- Optimum utilization of natural resources
- Progress in technological knowledge
- Image development
- Increase in consumption

3. Difference between Domestic and International Marketing:

Difference between International Marketing and Domestic Marketing		
Basis	**Domestic Marketing**	**International Marketing**
Definition	"It is concerned with the marketing practises within the researchers or Marketers home country (domestic market)."	"It is the performance of business activities designed to plan, price, promote and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit."
Role of Politics	Political factors are of minor importance.	Political factors play a vital role.
Languages & Cultures	One language and culture.	Many languages and difference in cultures.
Financial Climate	Uniform financial climate.	Variety of financial climate.
Risk Involved	Normal risk is involved.	Higher risks of different nature are involved.
Control of Marketing Activities	Control of marketing activities is easy as compared to international activities.	Control of marketing activities is difficult because of different factors like – regional, cultural, political, etc.
Payment	Minimum payment and credit risks.	Considerable payment and credit risks.
Familiarity	Well familiarity with domestic market.	Lack of Familiarity with foreign markets, research becomes essential.
Knowledge Requirement	Management knowledge is required.	Specific management knowledge and competence is required.

Product Mix	Product mix is decided keeping in view the satisfaction and more sales.	Product mix is decided according to foreign market.
Product Planning and Development	Product planning and development according to domestic market.	Product planning and development according to foreign market.
Focus	Focus of interest is on general information.	Focus of interest is on strategic emphasis.
Market Aspect	Market is much more homogeneous and different segments.	Different or diverse markets fragmented in nature

4. The legal environment of International Marketing:

Legal Issues:

- The legal system varies from nation to nation - - no uniform system of laws exists. The notion that there is "International Law" is a myth.
- While there are some legal principles that countries consider binding, there is no legal mechanism that can enforce these principles in much the same way that they are enforced inside a given country.
- Therefore, it is impossible for a citizen of one nation to bring a case against a citizen of another country in an International Court of law.
- Generally, the International Court is used to help address issues between nation states with full recognition that either party may decide not to abide by the judicial decision.
- International law is based upon treaties between or among nation states covering such issues as trade, and war. In this respect, the decision of the court is used to help create international and/or political pressure in the United Nations or similar bodies.

Issues Jurisdiction:

- In the case of a trade disagreement, which set of laws should the disputing parties use to settle the dispute? This is not an automatic decision.
- The parties to the agreement should therefore stipulate conditions and applicable laws for settling disputes. In attempting to decide on jurisdiction pay attention to rules of competition.
- For example a firm from country "A" signs an agreement with a firm from country "B" but the agreement was signed in country "C" and the laws across all three countries differ.
- Which set of laws should be used to settle disputes, is it A's or B's or is it C's laws?

It is impossible to answer this question unless the parties to the agreement so specify in the agreement.

- It is important that the parties to the agreement include a jurisdiction (settlement of dispute) clause in their contract/agreement.

Intellectual Property:

- Patents and trademarks do not receive universal protection simply because they are registered in one country (note that to some extent this is changing as the WTO seeks to expand global trade.
- However, enforcement continues to be problematic). The worldwide demand for some goods have given rise to counterfeiting or unauthorized production and sale of products to include use of restricted technology, patents, and brand name.

Bribery and Corruption:

- Bribery is often used to buy influence and lessen political and other kinds of risk. However, in the long run, bribery may result to negative exposure in the home and foreign market and can affect the firms programs and standing and result in high fines and or criminal penalty.
- Under the Foreign Corrupt Practices Act (FCPA, 1977) it is illegal for American companies to pay bribes to foreign officials or political parties to retain or gain business.
- While many other countries have similar rules enforcement is often a major problem. Criticism of the law includes claims of moral imperialism (the US telling others what is good and right for them) and claims that the law puts American companies at a disadvantage since firms from other countries often pay bribes to foreign officials.
- For example, it is illegal for German firms to pay a bribe inside Germany but it is perfectly legal for them to do so in a foreign country and claim it as an international business expense.
- Corporate codes of conduct and ethical/moral sensitivity and training can be used to help employees recognize and avoid ethical dilemmas such as those brought about by requests for bribes.

Conflict Resolution Options:

- Conflicts between trading partners does not always have to end up in court. The parties to an agreement can stipulate how and where conflicts will be handled.
- Given the relatively high cost of litigation and the negative publicity that goes with it, many firms are opting for arbitration and other forms of non-court based solutions to disputes.
- With arbitration the parties agree to have a third party hear and decide the case with the decision being “binding” (the parties agree before hand to legally accept the decision).
- If one party refused to accept the decision, the other party can go to court to enforce

the decision that was reached. Thus, while the courts can still be used, its purpose is to enforce the decision not to decide on the merits/demerits of the dispute.

5. The Regulatory environment of International Marketing:

Regulating Global Trade:

Much of the world's trade is regulated by regional and or international organizations. Much of the world is divided into huge trading blocks (Europe, Central Europe, the Americas, Asian pacific Rim, Africa, Middle East) with subdivisions within these major blocks. Chief among the trade blocks or organizations are:

- ASEAN (Association of Southeast Asian Nations)
- EU (European Union)
- CAEU (Council of Arab Economic Unity)
- CARICOM (Caribbean Economic Community)
- CEFTA (Central Europe Free Trade Area)
- ECCAS (Economic Council of Central African States)
- IMF (International Monetary Fund)
- LAFTA (Latin American Free Trade Association)
- NAFTA (North American Free Trade Association)
- WTO (World Trade Organization – successor to GATT – General Agreement of Tariffs and Trade).

QUESTIONS:

1. What is international marketing environment? Explain the differences between international and domestic marketing?
2. Examine the legal and regulatory environment factors associated with international marketing?
3. Explain the scope and significance of international marketing in present day business?

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UNIT – 2
INTERNATIONAL MARKET ENTRY STRATEGIES

1. DIRECT EXPORTING AND INDIRECT EXPORTING:

DIRECT EXPORTING	INDIRECT EXPORTING
1.Meaning: Export marketing is undertaken directly by the manufacturer.	The manufacturer exporter exports the goods through intermediaries.
2. First Hand information: The manufacturer exporter can get first hand information on the importer's requirement.	The manufacturer exporter may not get first hand information as he has to depend on intermediaries.
3. Control: The exporter can exercise direct control over packaging, pricing, promotion, after sale service, etc.	The manufacturer may not be able to exercise direct control over packaging, pricing, promotion, etc.
4. Reputation: The direct exporter can earn goodwill in international markets.	The manufacturer may not earn reputation in overseas markets. The intermediaries gets the reputation.
5. Risks: There are more risks as the exporter has to assume production and marketing risks.	The risks involved are less as the manufacturer has to bear only the manufacturing risks.
6. Investment: It requires more investment for manufacturing as well as for distribution network.	The manufacturer requires less investment as he has to look after only the manufacturing aspects.
7. Incentives: The direct exporter can claim a number of incentives such as income tax benefits, duty drawback. special licenses etc.	The manufacturer may not be able to claim various incentives unless the export documents are in his name.
8. Overheads: The manufacturer/exporter has to bear production and distribution overheads.	The manufacturer has .to bear only production overheads.
9. Specialisation: It requires concentration on both marketing and production aspects and as such lacks specialisation.	In indirect marketing, the manufacturer can specialize in manufacturing aspects.
10. Suitability: It is more suitable and feasible for large-scale exporters.	It is more suitable and feasible for small scale exporters.

2. The Foreign Manufacturing Strategies with Direct Investment:

- According to the International Monetary Fund's Balance of Payments Manual, "FDI is an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise".
- Foreign direct investments (FDI) in wholly owned manufacturing subsidiaries are considered by global firms for many reasons.
- It is done for acquiring raw materials, operate at lower manufacturing cost, for avoiding tariff barriers and satisfy local content requirements, and for penetrating the local market.

- Manufacturing of FDI is very beneficial for market penetration. It helps in local production means price escalation caused by transport costs, local turnover cost custom duty fee can be either nullified or can be reduced.

- Generally the resellers are being assured for the availability of the product, minimizing the channel conflicts, eliminating delays for ultimate buyers.

- Location of the production may help the country which may lead to more uniform quality.

- There are several problems or demerits to FDI in manufacturing, among which the main is the risk exposure that comes with the resource commitment on the scale usually needed.

- Joint ventures are also not free from this type of commitment and risks since most agreements stipulate heavy costs for one partner's withdrawal.

- There is potential problem in overseas manufacturing when country – of – origin effects are strong.

- Companies entering foreign markets have to decide on more than the most suitable entry strategy.

- They also need to arrange ownership either as a wholly owned subsidiary in a joint venture or more recently in strategic alliance.

Foreign manufacturing strategies with direct investment include:

1. Joint Ventures
2. Strategic Alliances,
3. Merger,
4. Acquisition,
5. Wholly-Owned Subsidiary,
6. Assembly Operations, and
7. Integrated Local Manufacturing.

Joint Ventures:

- A joint venture is any kind of cooperative arrangement between two or more independent companies which leads to the establishment of a third entity organisationally separate from the “parent” companies.
- Whilst two companies contributing complementary expertise might be a significant feature of other entry methods, such as licensing, the difference with joint ventures is that each company takes an equity stake in the newly formed firm.
- The stake taken by one company might be as low as 10 per cent but this still gives them a voice in the management of the joint venture.
- A joint venture may be the only way to enter a country or region if government contract negotiation practices routinely favour local companies or if laws prohibit foreign control but permit joint ventures.
- Besides operating to reduce political and economic risk, joint ventures provide a less risky way to enter markets with regards to legal and cultural issues than would be the case in an acquisition of an existing company.
- The strategic goals of a joint venture are focused on the creation and exploitation of synergies as well as the transfer of technologies and skills.
- The equity share of the international company can range between 10% and 90% but is generally 25-75%.
- Joint venture is a very important foreign market entry and growth strategy employed by Indian firms.
- It is an important route taken by pharmaceutical firms like Ranbaxy, Lupin and Reddy’s, etc. In several cases joint ventures, as in the case of foreign subsidiaries, help Indian firms stabilize and consolidate their domestic business, besides the expansion of the foreign business.
- Esser Gujarat’s joint ventures in countries like Indonesia and Bangladesh to manufacture Cold Rolled (CR) stell have resulted from a strategy to create an assured market for its Hot Rolled (HR) coil mother plant at Hazira (HR coils are inputs for manufacturing CR steel products).
- Essel Packaging has taken the joint venture route to expand its business abroad. The joint ventures abroad convert the laminate into tubes to be marketed in foreign markets.
- The centralization of the laminates production in India enables the company to reap enormous economies of scale.

- The high cost of transportation of tubes over laminates makes the conversion at laminates into tubes in the foreign markets more profitable.
- Further, the establishment of tube production facilities in foreign markets helps to preempt competition.
- The liberalization of policy towards foreign investment by Indian firms along with the new economic environment seems to have given joint ventures a boost.
- Not only the number of joint ventures is increasing, but also the number of countries and industries in the map of Indian joint ventures is expanding. Further liberalization, like enhancement of the investment limit of automatic clearance, is needed for a fast expansion of the Indian investment abroad.

Characteristics of Joint Venture:

Critical Driving Forces:
There should be compelling forces which push the alliance together. Without these forces, there is no true reason for the alliance.

Strategic Synergy:
There should be complementary strengths – strategic synergy – in the potential partner. To be successful, the two or more participants must have greater strength when combined than they would independently. Mathematically stated; "1 + 1 > 3" must be the rule; if not, walk away.

Great Chemistry:
There should be co-operative efficiencies with the other company. There should be a co-operative spirit. There must be a high level of trust so that executives can work through difficulties that will arise. Don't "sell" your company's "beauty", it must be desired by the prospective partner, not sold.

Win-Win:
All members of the Alliance must see that the structure, operations, risks and rewards are fairly apportioned among the members. Fair apportionment prevents internal dissension that can corrode and eventually destroy the venture.

Operational Integration:
Beyond a good strategic fit, the there must be careful co-ordination at the operational level where actual implementation of plans and projects occurs.

Growth Opportunity:
There should be an excellent opportunity to place the company in a leadership position – to sell a new product or service, to secure access to technology or raw material. The partner should be uniquely positioned with the "know-how" and reputation to take advantage of that opportunity.

Sharp Focus:

There is a strong correlation between success of a venture arid clear overall purpose – specific, concrete objectives, goals, timetables, lines of responsibility and measurable results.

Commitment and Support:
Unless top and middle management are highly committed to the success of the venture, there is little chance of success

Reasons for Joint Ventures:

Cost Savings:
A common rationale is the objective of saving costs by- achieving synergy benefits through rationalization of employment or other fixed costs or by sharing with a joint venture partner or partners the costs of Research and Development (R&D) or capital investment programmes (a particular feature given the magnitude of investment costs involved in many industries such its electronics, defense, pharmaceuticals, telecommunications and aero engines).

Risk Sharing:
A similar rationale behind many ventures is the wish to share with another party or parties the significant financial risks which may be involved in undertaking a speculative or capital intensive project. Projects of considerable size, such as power stations and other natural resource or infrastructure projects, are frequently undertaken as joint venture projects.

Access to Technology:
Joint ventures may provide a route for a party to gain access to and learn from, a co-venture's technology and skills and thus accelerate entry into a particular technology or market. Joint ventures are common in industries where technology plays a key role and where that technology is rapidly changing. Technical skills and experience often comprise "organizationally embedded knowledge" where the resource is inherently tied to the organization and cannot be easily extricated. In these cases, integration of the two organizational structures through a joint venture is necessary for the parties to gain effective access to their respective technical experience.

Expansion of Customer Base:
International joint ventures can provide the most effective route for a party to expand the scope of its customer base by utilizing a co-venture's strength in different geographic markets or by buying into a co-venture's distribution or sales network.

Entry into Emerging Economies:
Joint ventures may also provide the best and sometimes only realistic, route for gaining entry to new emerging markets in areas such as Eastern Europe or Asia where access to local knowledge, contacts or sponsorship is often a practical necessity.

Entry into New Technical Markets:
The rapid pace of technological change is itself producing new markets. Effective entry into those markets can often be accelerated by participation with another company which already has a technical start in that field or provides complementary skills; a "go-it-alone" strategy may simply take too long or cost too much.

Pressures of Global Competition:
On an international scale, the merger of similar businesses between two or more participants may be desirable in order to establish the economies of scale, global customer reach, purchasing power or capital investment resources necessary to meet the strength of international competition.

Leveraged Joint Venture:
Joining forces with a financial partner can be a method of financing an acquisition which would not otherwise be affordable – or, sometimes, structuring art acquisition in a way which can avoid consolidation of the acquired business as a subsidiary for balance sheet purposes.

Creeping Sale or Acquisition:
A joint venture may be first step in an eventual full disposal or acquisition of a business – with a further tranche of the disposal or acquisition being contemplated, but perhaps not specified, for a later time.

Catalyst for Change:
Sometimes there is a less obvious reason – perhaps simply a wish, by bringing in a partner, to create a catalyst for change or to stimulate more entrepreneurial activity in a particular area of a party's business.

Advantages of Joint Ventures:

1) Joint ventures provide large capital funds. Joint ventures are suitable for major projects.

2) Joint ventures spread the risk between or among partners.

3) Different parties to the joint venture bring different kinds of skills like technical skills, technology, human skills, expertise, marketing skills or marketing networks.

4) Joint ventures make large projects and turn key projects feasible and possible.

5) Joint ventures provide synergy due to combined efforts of varied parties

6) They have more direct participation in the local market and thus gain a better understanding of how it works

7) Companies entering joint ventures are able to exert greater control over the operation of the joint venture.

Disadvantages of Joint Ventures:

1) Joint ventures are also potential for conflicts. They result in disputes between or among parties due to varied interests. For example, the interest of a host country's company in

developing countries would be to get the technology from its partner while the interest of a partner of an advanced country would be to get the marketing expertise from the host country's company.

2) The partners delay the decision-making once the dispute arises. Then the operations become unresponsive and inefficient.

3) Decision-making is normally slowed down in joint ventures due to the involvement of a number of parties.

4) Scope for collapse of a joint venture is more due to entry of competitors, changes in the business environment in the two countries, changes in the partners' strengths etc.

5) Life cycle of a joint venture is hindered by many causes of collapse.

6) The other disadvantages of this form of market entry compared to, e.g., licensing or the use of agents is that a substantial commitment of investment of capital and management resources must be made in order to ensure success. Many companies would argue that the demands on management time might be even greater for a joint venture them for a directly owned subsidiary because of the need to educate, negotiate and agree with the partner many of the operational details of the joint venture.

Strategic Alliances:

- Whilst all market entry methods essentially involve alliances of some kind, during the 1980s the term strategic alliance started to be used, without being precisely defined, to cover a variety of contractual arrangements which are intended to be strategically beneficial to both parties but cannot be defined as clearly as licensing or joint ventures.
- Bronder and Pritzl have defined strategic alliances in terms of at least two companies combining value chain activities for the purpose of competitive advantage.
- A Strategic International Alliance (SIA) is a business relationship established by two or more companies to co-operate out of mutual need and to share risk in achieving a common objective.
- Strategic alliances grew in importance over the last few decades as a competitive strategy in global marketing management.
- SIAs are sought as a way to shore up weaknesses and increase competitive strengths. Opportunities for rapid expansion into new markets, access to new technology, more efficient production and marketing costs, strategic competitive moves and access to additional sources of capital are motives for engaging in strategic international alliances.
- Finally, there is some evidence that SIAs often contribute nicely to profits.
- Strategic alliance is also sometimes used as a market entry strategy. For example, a firm may enter a foreign market by forming an alliance with a firm in the foreign market for

marketing or distributing the former's products.

- For example, Tata Tea had entered in to a strategic alliance with Tetley for marketing tea abroad. Later, Tetley was acquired by Tata Tea.

Types of Strategic Alliances:

Technology-based Alliances:
Many alliances are focused on technology and the sharing of research and development expertise and findings. The most commonly cited reasons for entering these technology-based alliances are access to markets, exploitation of complementary technology, and a need to reduce the time it takes to bring an innovation to market.

Production-based Alliances:
A large number of production-based alliances have been formed, particularly in the automobile industry. These alliances fall into two groups:

i) There is the search for efficiency through component linkages that may include engines or other key components of a car.

ii) Companies have begun to share entire car models, either by developing them together or by producing them jointly.

Distribution-based Alliances:

- Alliances with a special emphasis on distribution are becoming increasingly common. General Mills, a U.S.-based company marketing breakfast cereals, had long been number two in the United States, with some 27 per cent market share, compared to Kellogg's 40 to 45 per cent share.
- With no effective position outside the United States, the company entered into a global alliance with Nestle of Switzerland.

- Forming Cereal Partners Worldwide (CPW), owned equally by the two companies, General Mills gained access to the local distribution and marketing skills of Nestle in Europe, the Far East, and Latin America.

- In return, General Mills provided product technology and the experience it had acquired competing against Kellogg's.

- CPW was formed as a full business unit with responsibility for the entire world except the United States. In 2004, CPY reached sales of $1 billion and a market share outside the United States of 25 per cent.

Advantages of Strategic Alliances:

The advantages or merits or strategic alliance are as follows:

Spread and Reduce Costs:

- To produce or sell abroad, a company must incur certain fixed costs. At a small volume of business, it may be cheaper for it to contract the work to a specialist rather than handle it internally.
- A specialist can spread the fixed costs to more than one company. If business increases enough, the contracting company then may be able to handle the business more cheaply itself.
- Companies should periodically reappraise the question of internal versus external handling of their operations.

Specialize in Competencies:

- The resource-based view of the fan holds that each company has a unique combination of competencies.
- A company may seek to improve its performance by concentrating on those activities that best fit its competencies and by depending on oilier firms to supply it with products, services, or support activities for; which it has lesser competency.
- Large, diversified companies are constantly realigning their product lines to focus on their major strengths.
- This realigning may leave them with products, assets, or technologies that they do not wish to exploit themselves but that may be profitably transferred to other companies.

Avoid or Counter Competition:

Sometimes markets are not large enough, to hold many competitors. Companies may then band together so that they do not have to compete with one another.

Secure Vertical and Horizontal Links:

- There are potential cost savings and supply assurances from vertical integration. However, companies may lack the competence or resources needed to own and manage the full value-chain of activities.
- Horizontal links may provide finished products or components.
- For finished products, there may be economies of scope in distribution, e.g., sales reps may be able to offer a full line of products, thereby increasing the sales per fixed cost for a visit to potential customers.

Gain Location-Specific Assets:

- Cultural, political, competitive, and economic differences among countries create barriers for companies that want to operate abroad.
- When they feel ill-equipped to handle these differences, such companies may seek to collaborate with local companies that will help manage local operations.

Overcome Governmental Constraints:

- Many countries limit foreign ownership. For example, the United States limits foreign ownership in airlines that service the domestic market and i in sensitive defence manufacturers.
- Mexico Unfits ownership in the oil industry. China and India are particularly restrictive, often requiring foreign companies either to share ownership or make numerous concessions to help them meet their economic and sovereignty goals.
- Thus, companies may have to collaborate if they are to serve certain foreign markets.

Diversify Geographically:

- By operating in a variety of countries (geographic diversification), a company can smooth its sales and earnings because business cycles occur at different times within the different countries.
- Collaborative arrangements offer a faster initial means of entering multiple markets. Moreover, if product conditions favour a diversification rather than a concentration strategy, there are more compelling reasons to establish foreign collaborative arrangements.

Minimize Exposure in Risky Environments:

- Companies worry that political or economic changes will affect the safety of assets and their earnings in their foreign operations.
- One way to minimize loss from foreign political occurrences is to minimize the base of assets located abroad – or to share them.
- A government may be less willing to move against a shared operation for fear of encountering opposition from more than one company, especially if they are from different countries and can potentially elicit support from their home governments.

Disadvantages of Strategic Alliances:

The Disadvantages or demerits or strategic alliance are as follows:

Adverse Selection:

- One serious problem with alliances is the adverse selection of partners.
- Potential co-operative partners can misrepresent the skills, abilities, and other resources that they will bring to an alliance.
- The partner may promise to bring to the alliance certain resources that it either does not control or cannot acquire

Moral Hazard:

- Partners in an alliance may possess resources and capabilities of high quality and of considerable value but fail to make them available to alliances partners.
- For example, a partner, in an engineering strategic alliance may agree to send only its most talented and best trained engineers to work in the alliance but then actually send less talented, poorly trained ones.
- These engineers may not be able to contribute a great deal to the success of the alliance,

but may learn from more qualified and talented personnel sent by other partners.

Hold Up:
- A hold up may take place even without an adverse selection.
- Once a strategic alliance has been formed, partners may make investments that have value only in the context of that alliance and in no other activities.

Access to Information:
- Access to information is another drawback of strategic alliance.
- For collaboration to work effectively, one alliance partner (or both) may have to provide the other with information it would prefer to keep secret.
- It is often difficult to identify information needs ahead of time.

Distribution of Earnings:
- This is the most serious problem between alliance partners. As the partners share risks and costs, they also share profits.
- This amounts to over-simplification of the issue. There are other financial considerations that can cause conflict

Potential Loss of Autonomy:
- Loss of autonomy is another potential drawback of a strategic alliance.
- It was for this reason that the late Dhirubhai Ambani never countenanced the idea of an alliance.
- He bought technology for his PFY plant at Patalaganga from DuPont but refused their equity participation.

Changing Circumstances:
- Changing circumstances may also affect the viability of a strategic alliance.
- The economic conditions that motivated the co-operative arrangement may no longer exist, or technological advances may render the alliance obsolete.

Merger:
- Merger is an external strategy for growth of the organization. A merger is a combination (other terms used: amalgamation, consolidation, or integration) of two or more organizations in which one acquires the assets and liabilities of the other in exchange for shares or cash, or both the organizations are dissolved, and the assets and liabilities are combined and new stock is issued.
- For the organization, which acquires another, it is an acquisition. For the organization, which is acquired, it is a merge).
- If both organizations dissolve their identity to create a new organization, it is consolidation.

- A merger is a combination of equals. Therefore it is usual for the Board of a merged company not to be dominated by the management of either of its predecessors.

- As a merger is necessarily an agreed (by the Boards) transaction, this is anyway likely as Directors are not likely to agree to a merger that would deprive too many of the Board of their jobs.

- A merger is not likely to involve a payment of significant premiums to the shareholder of either predecessor company.
- This makes it less likely to destroy shareholder value. Like acquisitions, the synergies that provide the usual rationale for a merger may not actually happen, and integration is almost always difficult and costly.
- Some mergers appear to be an attempt by Directors to scale-up sufficiently to deter acquisitions. Mergers often require clearance from competition regulators.
- In some case they are blocked, or only allowed subject to conditions (such as the sale of particular businesses).
- Foreign investment by Indian companies was very limited until recently. The attractiveness of the domestic market, lack of global orientation, government regulations, etc., were responsible for this.
- Recently, however, there has been a substantial increase in foreign investments by the Indian companies. Foreign investments may be for establishing wholly-owned subsidiaries, joint ventures, assembly facilities or marketing infrastructure.
- Foreign investments are also caused by cross,- border Mergers and Acquisitions (M&As).
- Mergers and Acquisitions (M&As) are very important market entry as well as growth strategy.
- M&As have certain advantages. It may be used to acquire new technology. M&As would have the effect of eliminating/reducing competition.
- One great advantage of M&As in some cases is that it provides instant access to markets and distribution network.
- As one of the most difficult areas in international marketing is the distribution, this is sometimes the most important objective of M&As.
- A number of Indian companies have resorted to acquisition of companies abroad to gain a foothold in the foreign market and to increase the overseas business.
- For example, companies like Asian Paints and Essel Propack (earlier Essel Packaging) entered some of the foreign markets and substantially expanded their global business by acquisitions.
- M&As is a very important globalization strategy of a number of Indian companies.

Reasons for Merger:

- A number of mergers, takeovers and consolidation have taken place in the recent times.
- The major reason cited, for such mergers, is the liberalization of economy.
- Liberalization is forcing companies to enter new business, exit from others, and consolidate in some simultaneously.

The following are the other important reasons for mergers:

Economies of Scale:

- An amalgamation company will have more reasons at its command that the individual companies.
- This will help in increasing the scale of operations and the economies of large Scale will be available.
- These economies will occur because of more intensive utilization of production facilities, distribution network, research and development facilities, etc.
- These economies will be available in horizontal mergers where scope of more intensive use of resources is greater.

Operating Economies:

- A number of operating economies will be availed with the merger of two or more companies.
- Duplicating facilities in accounting, purchasing, marketing, etc., will be eliminated. Operating
- inefficiencies of small concerns will be controlled by the superior management emerging from the amalgamation.
- The amalgamated company will be in a better position to operate than the amalgamating companies individually.

Synergy:

- Synergy refers to the greater combined value of merged firms than the sum of the values of individual units.
- It is something like one plus one more than two. It results from benefits other than those related to economies of scale.
- Operating economies are one of the various synergy benefits of merger or consolidation.
- The other instances which may result into synergy benefits includes, strong R&D facilities of one firm merged with better organised facilities of another unit, enhanced managerial capabilities, the substantial financial resources of one being combined with profitable investment opportunities of the other.

Growth:

- A company may not grow rapidly throw internal expansion.
- Merger or amalgamation enables satisfactory and balanced growth of a company.
- It can cross many stages of growth at one time through amalgamation. Growth through merger or amalgamation is also cheaper and less risky.
- A number of costs and risk of expansion and taking on a new product line are avoided by the acquaint of a going concern.

- By acquiring other companies a desired level of growth can be maintained by an enterprise.

Diversification:

- Two or more companies operating in different lines can diversify their activities through amalgamation.
- Since different companies are already dealing in their respective lines there will be less risk in diversification.
- When a company tries to enter new lines of activities then it may face a number of problems in production, marketing, etc., where some concerns are already operating in different lines, they must have crossed many obstacles and difficulties.
- Amalgamation will bring together the experience of different persons in various activities. So amalgamation will be the best way of diversification.

Utilization of Tax Shield:

- When a company with accumulate losses merges with a profit making company it is able to utilize tax shields.
- A company having losses will not be able to set-off losses against future profits,because it is not a profit making unit.
- On the other hand if it merges with a concern making profits then the accumulated losses of one unit will be set-off against the future profits of the other unit.
- In this way the merger or amalgamation will enable the concern to avail tax benefits.

Increase in Value:

- One of the main reasons of merger or amalgamation is the increase in value of the merged company.
- The value of merged company is greater than the sum of the independent values of the merged company.

Elimination of Competition:

- The merger or amalgamation of two or more companies will eliminate competition among them.
- The companies will be able to save their advertisement expenses thus enabling them to reduce their prices.
- The consumers will also benefit in the form of cheap goods being available to them.

Better Financial Planning:

- The merged companies will be able to plan their resources in a better way.
- The collective finances of merged companies will be more and their utilization may be better than in the separate concerns.
- It may happen that one of the merging companies has short gestation period while the other has the longer gestation period.
- The profits of the company with short gestation period will be utilized to finance the other company.
- When the company with the longer gestation period starts eating profits then it will improve financial position as a whole.

Economic Necessity:

- It may force the merger of some units. If there are two sick units, government may force their merger to improve their financial position and overall working.
- A sick unit may be required to merge with the healthy unit to insure better utilization of resources, improve and better management.
- Rehabilitation of sick units is a social necessity because their closure may result in unemployment, etc.

Types of Merger:

Horizontal Mergers:

- Horizontal mergers take place when there is a combination of two or more organisations in the same business, or of organisations engaged in certain aspects of the production or marketing processes.
- For example, a company making footwear combines with another footwear company, or a retailer of pharmaceuticals combines with another retailer in the same business.

Vertical Mergers:

- Vertical mergers take place when there is a combination of two or more organisations, not necessarily in the same business, which create complementary, either in terms of supply of materials (inputs) or marketing of goods and services (outputs).
- For example, a footwear company combines with a leather tannery or with a chain of shoe retail stores.

Concentric Mergers:

- Concentric mergers take place when there is a combination of two or more organisations related to each other either in terms of customer functions, customer groups, or the alternative technologies used.
- Thus, a footwear company combining with hosiery firm making socks or another specialty footwear company, or with a leather goods company making purses, handbags, and so on.

Conglomerate Mergers:

Conglomerate mergers take place when there is a combination of two or more organisations unrelated to each other, either in terms of customer functions, customer groups, or alternative technologies used. For example, footwear company combining with pharmaceutical firm.

Reverse Mergers:

- Reverse merger, also known as a back door listing, or a reverse merger, is a financial transaction that results in a privately-held company becoming a publicly-held company without going the traditional route of filing a prospectus and undertaking an initial public offering (IPO).

- Rather, it is accomplished by the shareholders of the private company selling all of their shares in the private company to the public company in exchange for shares of the public company.

- While the transaction is technically a takeover of the private company by the public company, it is called a reverse takeover because the public company involved is typically a "shell" (also known as a "blank check company", "capital pool company" or "cash shell company") and it typically issues such a large number of shares to acquire the private company that the former shareholders of the private company end up controlling the public company.

Advantages of Merger:

Economies of Scale:

This occurs when a larger firm with increased output can reduce average costs. Different economies of scale include:

i) Technical Economies:

If the firm has significant fixed costs then the new larger firm would have lower average costs.

ii) Bulk Buying:

Discount for buying large quantities of raw materials.

iii) Financial:

Better rate of interest for large company.

iv) Organizational:

- One head office rather than two is more efficient.
- A vertical merger would have less potential economies of scale than a horizontal merger, e.g., a vertical merger could not benefit form technical economies of scale.

International Competition:

Mergers can help firms deal with the threat of multinationals and compete on an international scale.

Mergers May Allow Greater Investment in R&D:

This is because the new firm will have more profit. This can lead to a better quality of goods for consumers.

Greater Efficiency:

Redundancies can be merited if they can be employed more efficiently.

Disadvantages of Merger:

Integration Difficulties:

- These include combining two disparate corporate cultures, linking different financial and control systems, building effective working relationships (particularly when management styles differ) and resolving issues concerning the status of the newly acquired firm's executives.

- An American manager, having learned that a friendly pat on the arm or back would make workers feel good, took every chance to touch his subordinates in a newly acquired firm.
- His Asian employees hated being touched and thus started avoiding him, and several asked for transfers.

<u>Inadequate Evaluation of Target</u>:

The failure to complete an effective due-diligence process (thorough evaluation of the target firm) often results in the acquiring firm paying an excessive premium (disproportionate to the performance gains).

<u>Large Debt Burden</u>:

- Firms are often encouraged to utilize significant leverage to finance large acquisitions. The large debt burden may put the firm in a messy situation, especially when the returns are poor (e.g., India Cements acquisition of Raasi Cements, CCI, Visaka Cements in quick succession increased its debt burden to over Rs 1800 crore.
- It is now forced to sell all its prized acquisitions to stay in the business).
- It also prevents the firm from investing in Research and Development activities.

<u>Inability to Achieve Synergy</u>:

The acquisitions, often, fail to achieve intended synergy because of various reasons (managerial failures, non-cooperation from employees, skepticism, emotional doubts, etc.).

<u>Too much Diversification</u>:

Over diversification may be counter productive. The merger mania that gripped the 1980s did not yield any concrete gains to conglomerates. In fact excessive diversification forced many of these firms to divest the under performing units after some time.

<u>Too Large</u>:

Increased size has its own inherent limitations. Achieving consistency in terms of decisions and actions may be difficult. Formalized rules and policies may come in the way of flexibility and innovation.

<u>Others</u>:

i) Higher prices leading to allocative inefficiency.

ii) Lower Quantity and reduction in consumer surplus.

(iii) Monopolies are more likely to be productively inefficient and not produce on the lowest point on the average cost curve.

(iv) Easier to collude.

v) If there is less competition complacency amongst firms then it can lead to lower quality of products and less investment in new products.

vi) Fewer firm, therefore less choice for consumers.

vii) With increased supernormal profits, the firm can engage in cross subsidization or predatory pricing increasing barriers to entry.

viii) The new firm can pay lower prices to suppliers.

ix) Mergers can lead to job losses.

x) If the firm becomes too big it may suffer from diseconomies of scale.

xi) The motives for mergers are often poor, e.g., managers may prefer to work for a big company where they get higher salaries and more prestige.

Acquisition:

- Acquisitions is acquiring or purchasing an existing venture. It is one of the easy means of expanding a business by entering new markets OT new product areas.
- An entrepreneur must be careful in structuring the payment so that he will not be financially overburdened.
- He must create a scope for phase wise payments so that the company generates funds to pay.
- An acquisition strategy is based upon the assumption that companies for potential acquisition will be available, but if the choice of companies is limited, the decision may be taken on the basis of expediency rather than suitability.
- The belief that acquisitions will be a time-saving alternative to waiting for organic growth to take effect may not prove to be true in practice.
- It can take a considerable amount of time to search and evaluate possible acquisition targets, engage in protracted negotiations and then integrate the acquired company into the existing organization structure.
- The process of acquisition is a case of dominance of one company over the other.
- Here a bigger company will take over the shares and assets of the smaller company and either run it under the bigger company's name or might run it under a combined name.
- An acquisition is a transaction in which a firm buys a controlling interest in another firm with the intention of either making it a subsidiary business or combining it with its current business or businesses.
- It is important to understand that for some firms, an acquisition is a "one-time only" event.

- For example, a firm using a differentiation business-level strategy might decide to acquire only one other company because it has truly specialized skills that the local firm requires to create unique value for its customers.

- It is rare, though, for a firm to complete only a single acquisition. Most firms involved with acquisitions form an acquisition strategy.

- An acquisition strategy is an action plan that the firm develops to successfully acquire other companies.

- An effective acquisition strategy enables significant firm growth.

Reasons for Acquisition:

Increased Market Power:

- A primary reason for acquisitions is to achieve greater market power.
- Market power exists when a firm is able to sell its goods or services above competitive levels or when the costs of its primary or support activities are below those of its competitors.
- Market power usually is derived from the size of the firm and its resources and capabilities to compete in the marketplace. It is also affected by the firm's share of the market.

- Therefore, most acquisitions that are designed to achieve greater market power entail buying a competitor, a supplier, a distributor, or a business in a highly related industry to allow the exercise of a core competence and to gain competitive advantage in the acquiring firm's primary market.

- One goal in achieving market power is to become a market leader.

Overcoming Entry Barriers:

- Barriers to entry are factors associated with the market or with the firms currently operating in it that increase the expense and difficulty faced by new ventures trying to enter that particular market.
- Facing the entry barriers created by economies of scale and differentiated products, a new entrant may find acquiring an established company to be more effective than entering the market as a competitor offering a good or service that is unfamiliar to current buyers.
- In fact the higher the barriers to market entry, the greater the probability that a firm will acquire an existing firm to overcome them.
- Although an acquisition can be expensive, it does provide the new entrant with immediate market access.

Cost of New Product Development and Increased Speed to Market:

- Developing new products internally and successfully introducing them into the marketplace often require significant investments of a firm's resources, including time, making it difficult to quickly earn a profitable return.
- Also of concern to firm's managers is achieving adequate returns from the capital

invested to develop and commercialize new products.

- Acquisitions are another means a firm can use to gain access to new products and to current products that are new to the firm. Compared with internal product development processes, acquisitions provide more predictable returns as well as faster market entry.

<u>Adequate and Easy Terms Working Capital</u>:

- Acquisition not only secures the necessary working plant and equipment more quickly than building up its own, but also helps the firm by making available desired amount of working capital.
- It means that by making available the much needed working capital, the problems of supply of inputs and distribution of final products are solved.

<u>Access to Resourceful Management</u>:

- Management or managerial competencies play important role in running the business, in expanding it either by intensification or diversion and reaching new heights.
- The firms which have failed need both financial and managerial resources to repair the existing loss and achieving new heights of progress and prosperity.
- This is possible by acquisition.

<u>Increased Diversification</u>:

- Acquisitions are also used to diversify firms. Based on experience and the insights resulting from it, firms typically find it easier to develop and introduce new products in markets currently served by the firm.
- In contrast it is difficult for companies to develop products that differ from their current lines for markets in which they lack experience.

<u>Reshaping the Firm's Competitive Scope</u>:

- The intensity of competitive rivalry is an industry characteristic that affects the firm's profitability.
- To reduce the negative effect of an intense rivalry on their financial performance, firms may use acquisitions to lessen their dependence on one or more products or markets.
- Reducing a company's dependence on specific markets alters the firm's competitive scope.

<u>Learning and Developing New Capabilities</u>:

- Some acquisitions are made to gain capabilities that the firm does not possess. For example, acquisitions may be used to acquire a special technological capability.
- Research has shown that firms can broaden their knowledge base and reduce inertia through acquisitions.
- Therefore, acquiring a firm with skills and capabilities that differ from its own helps the acquiring firm to gain access to new knowledge and remain agile.

Types of Acquisition:

There are four types of acquisitions:

1) Friendly Acquisition: Both the companies approve of the acquisition under friendly terms. There is no forceful acquisition and the entire process is cordial.

2) Reverse Acquisition: One way for a company to become publicly traded, by acquiring a public company and then installing its own management team and renaming the acquired company.

3) Back Flip Acquisition: A very rare case of acquisition in which, the purchasing company becomes a subsidiary of the purchased company.

4) Hostile Acquisition: Here, as the name suggests, the entire process is done by force. The smaller company is either driven to such a condition that it has no option but to say yes to the acquisition to save its skin or the bigger company just buys-off all its share, their by establishing majority and hence initiating the acquisition.

Advantages of Acquisition:

The advantages of acquisition are as follows:

1) Assets Acquisition:

While acquiring the buyer has an advantage of choosing exactly which assets to acquire (e.g., liquid assets, real estate or intellectual property), as well as which liabilities it can cover (leases, bank loans, mezzanine loans and so forth).

2) Gain Experience and Assets:

One of the benefits of an acquisition is that the company can quickly gain the experience, goodwill and assets of the other business. If the acquired business can complement the business the company does, the merger can improve the overall efficiency. With the increase in staff and assets, the company can increase output and improve profits.

3) Excite the Shareholders:

An acquisition can breed excitement among the shareholders. When shareholders of a public company hear of an acquisition, they tend to have a positive outlook on the value of (lie company as veil as the one for sale. Taking steps toward an acquisition often leads to an increase in the stock price and the equity of their investments.

4) Combining Organisation Cultures:

One of the most important advantages of acquisition is that it combines the cultures of two different organisations.

5) Reducing Costs and Overheads:

A company can reduce it costs and overheads through shared marketing budgets, increased purchasing power and lower costs.

6) Accessing Funds or Valuable Assets for New Development:

Better production or distribution facilities are often less expensive to acquire than build. Look for target businesses that ate only marginally profitable and have large unused capacity which can be bought at a small premium to net asset value.

Disadvantages of Acquisition:

The disadvantages of acquisition are as follows:

1) Cost:

- Purchasing a larger company is expensive. The company may not have the cash available to buy the second firm, and if it does have enough cash, it will not be able to use this cash on other projects.
- If the company has to row money to purchase the second firm, this increases the company's total debt burden.
- The company can also issue stock so it can afford the purchase, although the current stockholders will lose some control and ownership rights.

2) Employee Retention:

- In an acquisition, the company will have employees at both firms performing similar jobs after the purchase is complete.
- The buyer commonly fires excess employees if it has too many workers doing the same tasks after the buyout- Because employees are concerned about a future layoff, some employees will start looking for other jobs or quit after the company announces its acquisition plan.

3) Productivity:

- Combining two firms depends on the culture at each firm. A company that has a hierarchical and authoritarian structure may purchase a company which is much more flexible and allows workers more control over their job tasks.
- Workers may not be happy with the new management and productivity may decrease, if the purchaser makes many changes to previous workplace policies.

4) Letter of Intent:

- In an acquisition, the acquisition letter of intent is very important.
- Acquisition letters of intent often include a confidentiality agreement, because the buyer can otherwise ai.cel the purchase and use the seller's trade secrets to compete against it.
- The letter of intent may allow the buyer to take advantage of the seller if it is not written fairly.

5) Value:

- Valuation of the combination is important.
- The seller's assets include intangible assets such as brand strength and goodwill, which the buyer pays as part of the purchase price.
- The business acquisition itself can destroy some of these assets. If an oil company that is responsible for a major oil spill purchases a solar panel manufacturer, the goodwill of the solar firm may become impaired because of the buyer's negative reputation.

6) Duplication:

- An acquisition can lead to unnecessary duplication.
- When two similar companies are combined, many of the positions held in one business will be at work in the other.
- This leads to two people or departments doing the same job.

Wholly-Owned Subsidiary:

- For any firm the most expensive method of market entry is likely to be the development of its own foreign subsidiary, as this requires the greatest commitment in terms of management time and resources.
- It can only be undertaken when demand for the market appears to be assured.
- In order to have complete control and ownership of international operations, a firm opts for foreign direct investment to own foreign operations.
- Tata Tea which entered into a joint venture with Tetley Group, UK, in 1994 acquired Tetley in 2000 to become one of the largest integrated branded tea companies in the world.
- When a subsidiary is considered to be wholly-owned, this indicates that all of the outstanding common stock that is currently issued by the company is in the hands of a single holding company.
- Essentially, a wholly-owned subsidiary is a business that is completely owned by another entity.
- The subsidiary continues to operate with the permission of the holding company, either with or without direct input from the controlling entity.
- There are several reasons why a company would choose to operate a wholly-owned subsidiary, rather than simply absorbing the acquired company into the central corporate operation.
- One of the most common reasons is a matter of location. The wholly-owned subsidiary may physically reside in a different country from the holding company.
- When this is the case, there may be compelling financial and regulatory factors that make it much more financially sound to allow the company to continue more or less autonomously.
- Another common reason for the operating the wholly-owned subsidiary separately from the owner company could be name value.
- Often, a well- known and respected corporation is acquired by another entity that has no name recognition in that particular market.
- Rather than spend huge amounts of time and resources to create a reputation, the holding company will simply decide to remain in the background.
- This allows the wholly-owned subsidiary to continue to enjoy the current name recognition and market share, while being able to work with the resources of the

parent company to find ways to enhance that reputation.

- Tata Megraw Hill is one of the most popular marketing companies of India. It is the Indian subsidiary of the McGraw-Hill Companies and also the market topper in educational books encompassing books on variety of subjects and interest.
- Their main activity is reprinting, publishing and marketing of McGraw-Hill books. This company was founded in 1970.
- Noted among the top Indian marketing companies, Godrej aims at innovation. It deals in fast moving consumer goods and operates in India and other cities across the globe.
- The company provides variety in the brands like cosmetics, toiletries, hair care, fabric care, baby care, household care and many others.
- The ITC is undoubtedly one among the premier marketing companies of India. The company has a market capitalization of about $19 billion and turnover of more than $1.5 billion.
- It is also rated among the world's best big companies. It specializes in hotels, agri-business, FMCG products, personal care, and branded apparel.
- Their business motive is to create multiple drivers from corporate strategies. They have peerless distribution reach, great supply chain management, and effective brand building.
- Tata International is considered as the gateway of Tata Group's business to the world.
- The company was founded in the year 1962.The global business units of the company are minerals, engineering, steel, chemical and bulk commodities.
- This marketing company also markets consumer products and IT services. It has offices in Thailand, India, UK, Singapore and across other countries of the world.

<u>Advantages of Wholly-Owned Manufacturing Subsidiary</u>*:*

1) No risk of losing technical competence to a competitor thus gaining a competitive edge.
2) It provides tight control over operations.
3) It provides the ability to realize learning curve and location economies.
4) Protection of technology can be well executed.
5) It provides ability to engage in global strategic coordination,

6) It provides ability to realize location and experience economies

<u>Disadvantages of Wholly-Owned Manufacturing Subsidiary</u>*:*

1) Company bears full cost and risk,

2) An effective supervision and direction is needed which increases rigidity.

3) It faces several hurdles in the forms of regulations and taxations in foreign countries.

4) Heavier pre-decision information gathering and research evaluation.

5) Political risk.

6) Country-of-origin effects can be lost by manufacturing elsewhere. 5.2.7.6. Assembly Operations

<u>Assembly Operation</u>:

- A foreign owned operation might be set up simply to assemble components which have been manufactured in the domestic market.
- It has the advantage of reducing the effect of tariff barriers, which are normally lower on components than on finished goods.
- It is also advantageous if the product is large and transport costs are high, e.g., in the case of cars.

- There are other benefits for the firm too, as retaining component manufacture in the domestic plant allows development and production skills and investment to be concentrated, thus maintaining the benefit from economies of scale.

- By contrast, the assembly plant can be made a relatively simple activity requiring low levels of local management, engineering skills and development support.

- There is an argument that assembly plants do not contribute significantly to the local economy in the long-term. In initially attracting Nissan, Honda and Toyota assembly plants, the UK government claimed that many jobs would be created at relatively low cost but critics claimed that the number of jobs created in the assembly plants was not very significant and, unless the components were made locally, little transfer of technology would be achieved and the assembly plants could relatively easily be; moved to a new location.

- In practice as other car manufacturers withdrew from the UK market these Japanese manufacturers became the only major established firms.

- Both to counter threats such as this and also: to generate further employment, countries can take steps to develop the component supply business either by interrupting the component Supply chain through imposition of import or foreign exchange rate restrictions or, as in the case of Czech Invest, the inward investment arm of the Czech Republic, by supporting local component manufacturer who can supply 'just in time .

- For the international firm, of course, using the assembly option-presents an opportunity, to move plant from country to country in order to take advantage of lower wage cost and government incentives.

- A manufacturer who wants many of the advantages that are associated with overseas manufacturing facilities and yet does not want to go that far may find, it desirable to establish overseas assembly facilities in selected markets.

- In a sense, the establishment of an assembly operation represents a cross between exporting and overseas manufacturing.

- Having assembly facilities in foreign markets is very when there are economies of scale in the manufacture of parts and components and when assembly operations are labour intensive and labour is cheap in the foreign country.

- It is also popular when exporting the product as Completely Built Unit (CBU) makes transportation cost very high and there is import duty differential between and CBU and CKD (Completely Knocked Down) or SKD (Semi-Knocked Down) imports.

- Assembling the product meant for the foreign market in the foreign market itself has certain other advantages, besides the cost advantage.

- Assembly operations would satisfy the 'local content' demand, atleast to some extent. Because of the employment generation, the foreign government's attitude will be more favourable than towards the import of the finished product.

- Another advantage is that the investment to be made in the foreign country is very small in comparison with that required for establishing complete manufacturing facilities.

- The political risks of foreign investment are, therefore, not much. Facilities for servicing of the product may also be established along with the assembly facility.

- Some Indian auto firms have such facilities abroad. The leader in establishing manufacturing bases abroad is the Aditya Birla group.

- Aditya Birla, whom the Forbes called India's only international businessman, made this strategic move as early as 1970s.

- The Ballapore Industries of the Thapars are setting up a giant paper mill in Indonesia at an estimated cost of? 1800 crore A plantation put up on 2, 50,000 hectares of land will feed the mill.

- Any surplus pulp may be exported to India to feed Thapar paper mills here.

- The significance of this should be viewed against the possible wood and pulp shortage in future in India.

Integrated Local Manufacturing:

- Establishing a fully integrated local production unit is the greatest commitment a company can make for a foreign market.
- Building a plant involves a substantial capital outlay.
- Companies do so only where demand appears ensured. International companies can have any number of reasons for establishing factories in foreign countries.
- These reasons are related primarily to market demand or cost considerations. Often, the main reason is to take advantage of lower costs in a country, thus providing a better basis for competing with local firms or other foreign companies already present.
- Also, high transportation costs and tariffs may make imported goods non-competitive.
- Although most manufacturing tends to shift from developed to developing countries, Mexican firms are moving production to the United States.
- The DuPont Company sold three plants to Alfa, SA. Alfa is refitting the former textile plants to produce plastics used in beverage containers and frozen-food trays.
- Since 1994 Mexico has moved from number thirty-three to the sixth largest investor in the United States.

3. ENTRY STRATEGIES OF INDIAN FIRMS:

1) Licensing / Franchising
2) Exporting
3) Contract manufacturing
4) Management contract
5) Assembly operations
6) Fully owned manufacturing facilities
7) Joint venturing
8) Countertrade
9) Mergers and acquisitions
10) Strategic alliance
11) Third country location

LICENSING

- Under international licensing, a firm in one country permits a firm in another country (licensee) to use its intellectual property.
- The property benefit to the licensor is the royalty or fees which licensee pays.
- Fees or royalties are regulated by government and does not exceed five percent of the sales.

FRANCHISING

- It is a form of licensing in which a parent company grants another independent entity, the right to do business in a prescribed manner.
- This right can take the form of selling the franchisor's product's, using its name', production and marketing techniques, or general business approach.

EXPORTING STRATEGY

- The volume of foreign business is not large enough to justify production in the foreign market.
- Cost of production in the foreign market is high
- The foreign market is characterized by production bottlenecks like infrastructural problems, problems with materials supplies etc.
- There are political or other risks of investment in the foreign country.
- The company has no permanent interest in the foreign market concerned or that there is no guarantee of the market available for a long period.
- Foreign investment is not favored by the foreign country concerned.
- Licensing or contract manufacturing is not a better alternative.

CONTRACT MANUFACTURING

- Under this a company doing international marketing contracts with firms in foreign countries to manufacturing or assemble the products while retaining the responsibility of marketing the product. This is a common practice in international business.

ADVANTAGES

- The company does not have to commit resource for setting up production facilities.
- It frees the company form the risks of investing in foreign countries.
- If idle production capacity is readily available in the foreign country, it enables the marketer to get started immediately.
- In many cases, the cost of the product obtained by contract manufacturing is lower than if it were manufacturing by international firm.
- Contract manufacturing also has the advantage that it is a less risky way to start with.
- Contract manufacturing may enable the international firm to enlist national support.

DISADVANTAGES

- There will be the loss of potential profits form manufacturing.
- Less control over the manufacturing process.
- Contract manufacturing also has the risk of developing potential competitors.
- It would not be suitable in cases of high-tech products and cases which involve technical secrets etc.

MANAGEMENT CONTRACTING

- Under this contract, the firm providing the management know-how many not have any equity shake in the enterprise being managed.
- In a management contract the supplier brings together a package of skills that will provide an integrated service to the client without incurring the risk and benefit of ownership

TRUNKEY CONTRACTS

- Trunkey contracts are common in international business in the supply, erection and commissioning of plants.
- A turnkey operation is an agreement by the seller to supply a buyer with a facility fully equipped and ready to be operated by the buyer's personnel, who will be trained by the seller.
- The term is sometimes used in fast-food franchising when a franchiser agrees to select a store site, build the store, equip it, training the franchisee and employees and sometimes arrange for the financing.
- Many turnkey contracts involve government/public sector as buyer

FULLY OWNED MANUFACTURING FACILITIES

- Companies with long term and substantial interest in the foreign market normally establish fully owned manufacturing facilities there.
- This method may not be allowed or favored in some countries, particularly in low priority areas.
- This method demands sufficient financial and managerial resources on the part of the company.

ASSEMBLY OPERATIONS

- The establishment of an assembly operation represents a cross between exporting and overseas manufacturing.
- Having this facility in foreign markets is very ideal when there are economies of scale in the manufacture of parts and components and when assembly operations are labor intensive and labor is cheap in the foreign country.

JOINT VENTURES

- It is a very common strategy of entering the foreign market.
- In the widest sense, any form of association which implies collaboration for more than a transitory period is a joint venture.
- Such a broad definition encompasses many diverse types of joint overseas operations.

THIRD COUNTRY LOCATION

- Third country location is sometimes used as an entry strategy
- When there is no commercial transaction between two nations because of political reasons or when direct transactions between two nations are difficult due to political reasons.

MERGERS AND ACQUISITIONS

- It provides instant access to markets and distribution network.
- Another important objective of M and A is to obtain access to new technology or a patent right.
- Sometimes the cost of acquisition may be unrealistically high.

STRATEGIC ALLIANCE

- This strategy seeks to enhance the long term competitive advantage of the firm by forming alliance with its competitors, existing or potential in critical areas, instead of competing with each other.
- The goals are to leverage critical capabilities, increase the flow of innovations and increase flexibility in responding to market and technological changes

COUNTERTRADE

- Countertrade is a form of international trade in which certain export and import transactions are directly linked with each other and in which import of goods are paid for by export of goods, instead of money payments.

FORMS OF COUNTERTADE

- BARTER
- BUY BACK
- COMPENSATION DEAL
- COUNTERPURCHASE
- GROWTH OF COUNTERTRADE

REASONS FOR THE GROWTH OF COUNTERTRADE

1. Countertrade was very common between the communist countries.

2. Countertrade became popular in the east-west trade mainly due to the foreign exchange problems faced by the east block.

3. When the foreign exchange problem became more server for the developing countries.

4. Many companies in the advanced countries have resorted to countertrade for various reasons like selling obsolete products.

DRAWBACKS OF COUNTERTRADE

- It encourages bilateralism at the expense of multilateralism.
- It adversely affects exports market development.
- Several countries regard countertrade as an easy route to export, they often stand to lose in terms of price.
- It very adversely affects competition.

3.1 ENTRY STRATEGIES OF INDIAN FIRMS:

- India's economic integration with the rest of the world was very limited because of the restrictive economic policies followed until 1991.
- With the new economic policy ushered in 1991 there has, however, been a change.
- Globalization has a buzz-word with Indian firms now and many are expanding their overseas business by different strategies.

INDIAN EXPORTING

- Exporting is, by far, the most important entry route employed by Indian firms.
- Several Indian companies have entered foreign markets targeting their exports at the ethnic population.
- West Asia, with a large expatriate Indian population, naturally is the first target in many of these cases.

INDIAN FOREIGN INVESTMENT

- Foreign investment by Indian companies has so far been very limited
- With the economic liberalization and growing global orientation, many Indian companies are setting up manufacturing/assembling/trading bases aboard, either wholly or in partnership with foreign firms.
- A number of large and small Indian companies are investing abroad as part of their globalization strategy.

INDIAN MERGERS AND ACQUISITIONS

- Vijay Mallya's U.B. group acquired a small British company, Wiltshire Brewery.
- A number of other Indian companies have also resorted to acquisition of companies abroad to gain a foothold in the foreign market and to increase the overseas business.

INDIAN JOINT VENTURES

- Joint venturing is a very important foreign market entry and growth strategy in the context of the Indian firms in resources, technology and marketing.
- The Essel packaging has taken the joint venture route to expand its business aboard.

INDIAN LICENSING AND FRANCHISING

- Many Indian firms can use licensing or franchising for the overseas market; particularly the developing countries.
- Ranbaxy has licensing arrangement in countries like Indonesia and Jordan.

SUMMARY

- The intent of globalization is efficiency improvement and market optimization taking advantage of the global environment.
- If the Indian firms have the facility to obtain the latest technology in the world, to raise finance from the cheapest sources and procure the materials form the best source in the world, they are on equal footing with the foreign firms in many respects.
- The liberalization in India and in other countries pose a real challenge to the Indian business to prove its mettle.

QUESTIONS:

1. Walt Disney company has successfully adapted licensing as a market entry mode in different countries. What are the advantages of using licensing as entry mode?
2. Joint ventures are becoming very popular as entry mode into foreign markets. Why is this strategy so attractive to companies interested in entering other markets in the world?
3. Critically discuss the factors that determine the choice of market entry mode. Support your answer with examples?
4. Discuss the importance of the market entry strategy decisions in terms of global expansion. Give reasons?
5. Describe latest international market entry strategies?
6. Explain major entry strategies of Indian companies?

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UNIT – 3
INTERNATIONAL PRODUCT MANAGEMENT

1. INTERNATIONAL PRODUCT POSITIONING:

- After the global market has been segmented and one or more segments have been targeted, it is essential to plan a way to reach the target(s). To achieve this task, marketers use positioning, a
- Process whereby a company establishes an image for its product in the minds of consumers relative to the image of competitors' product offerings.
- In today's global market environment, many companies find it increasingly important to have a unified global positioning strategy.
- Can global positioning work for all products? One study suggests that global positioning is most effective for product categories that approach either end of a "high-touch/high-tech" continuum.
- Both ends of the continuum are characterized by high levels of customer involvement and by a shared "language" among consumers.

High Tech Positioning:

- Personal computers, video and stereo equipment, and automobiles are examples of product categories where high-tech positioning has proven effective.
- Such products are frequently purchased on the basis of concrete product features, although image may also be important.
- Buyers typically already possess or wish to acquire considerable technical information. High-tech products may be divided into three categories: technical products, special-interest products, and demonstrable products.

Technical Products:

Computers, chemicals, tires, and financial services are just a sample of the product categories whose buyers have specialized needs; require a great deal of product information and who share a common "language."

Special-Interest Products:

- While less technical and more leisure or recreation oriented, special-interest products also are characterized by a shared experience and high involvement among users.
- Again, the common language and symbols associated with such products can transcend language and cultural barriers.
- Fuji bicycles, Adidas sports equipment, and Canon cameras are examples of successful global special- interest products.

Products that Demonstrate Well:

Products that "speak for themselves" in advertising of features and benefits can also travel well.

High-Touch Positioning:

- Marketing of high-touch products requires less emphasis on specialized information and more emphasis on image.
- \Like high-tech products, however, high touch categories are highly involving for consumers.
- Buyers high-touch products also share a common language and set of symbols relating to themes of wealth, materialism, and romance.

The three categories of high-touch products are:

Products that solve a Common Problem:

- At the other end of the price spectrum from high-tech, products in this category provide benefits linked to "life's little moments."
- Ads that show friends talking over a cup of coffee in a cafe or quenching thirst with a soft drink during a day at the beach put the product at the centre of everyday life and communicate the benefit offered in a way that is understood worldwide.

Global Village Products:

- Channel fragrances, designer fashions, mineral water, and pizza are all examples of products whose positioning is strongly cosmopolitan in nature.
- Fragrances and fashions have traveled as a result of growing worldwide interest in high-quality, highly visible, high-price products that often enhance social status.
- However, the lower- priced food products just mentioned show that the global village category encompasses a broad price spectrum.

Products that use Universal Themes:

Some advertising themes and product appeals are thought to be basic enough that they are truly transnational. Additional themes are materialism (keyed to images of well-being or status), heroism (themes include rugged individuals or self-sacrifice), play (leisure/recreation), and procreation (image of courtship and romance).

2. Product saturation levels in global market:

Product saturation level is one of the most essential factor in global business and marketing world. We are going to disclose the nine points of product saturation with the view of time and Custom zones.

Product design:-

Product design is the key factor of success in global market so it is need to keep in mind that single design may not be work same in globally .It needs modification due to change of time and customs changing level in internationally.

Product Preferences:-

Product preferences depend on color and taste based because same color or taste may not be suitable for another customs or nation so product must give preference on the basis of particular custom or nation(s).

Product cost:-

Product cost is one of the major factor of global market so when it design must keep in mind to as much as cheapest cost either in manufacturing or selling matter.

Product Law & Regulation:-

Product design does never violet the law and regulation of any nation or international any treaty between the nations. If it violets then must bear great loss in globally.

Local Like Design:-

Product design must bear the local made sign on it because on a days nationalism growing more and more for the capturing the capitalism.

Self Produce Design:-

Self produce design means that manufacturing unit must covers the nationals where it situated. If possible more and more local employees should keeps in hand to design.

Nontariff Barriers:-

Non tariff barriers means the product design have to cross the boundaries of many nations so it have to obey the local government and touches countries laws and policies which they apply on your design.

Communication Strategic Alternatives:-

Product design must have the alternative strategic source under the on time situation basis that is the demand of time and custom(s).

Product Compatibility:-

Product design last issue is compatibility with the environment in which it is used. Simply any one can say that translate all things as manual, warranty card, electricity consume; repair diagram etc must be on the basis of local custom and tradition. Another thing is that climate which can maintain the withstand humidity.

3. New Products in International Market:

- What is a new product? Newness can be assessed in the context of the product itself, the organization, and the market.
- The product may be an entirely new invention or innovation—for example, the videocassette recorder (VCR) or the compact disc. It may be a line extension (a modification of an existing product) such as Diet Coke.
- Newness may also be organizational, as when a company acquires an already existing product with which it has no previous experience.
- Finally, an existing product that is not new to a company may be new to a particular market.
- In today‘s dynamic, competitive market environment, many Companies realize that continuous development and introduction of new products are keys to survival and growth.
- Which companies excel at these activities? Gary Reiner, a new-product specialist with the Boston Consulting Group, has compiled the following list: Honda, Compaq, Motorola, Canon, Boeing, Merck, Microsoft, Intel, and Toyota.

- They are global companies that pursue opportunities in global markets in which competition is fierce, thus ensuring that new products will be world class. Other characteristics noted by Reiner are as follows:

1. They focus on one or only a few businesses.

2. Senior management is actively involved in defining and improving the product development process.

3. They have the ability to recruit and retain the best and the brightest people in their fields.

4. They understand that speed in bringing new products to market reinforces product quality.

New Product Development

There are six distinct steps in new product development:

1. The first step is the generation of new product ideas. Such ideas can come from any number of sources (e.g., salespersons, employees, competitors, governments, marketing research firms, customers, etc.). A 3M company chemist, after spilling some liquid on her tennis shoes, found that they had become capable of repelling water and dirt, and that is how Scotch-gard fabric protector was born.

2. The second step involves the screening of ideas. Ideas must be acknowledged and reviewed to determine their feasibility. To determine suitability, a new product concept may simply be presented to potential users, or an advertisement based on the product can be drawn and shown to focus groups to elicit candid reactions. As a rule, ―corporations usually have predetermined goals that a new product must meet. Kao Corporation, a major Japanese manufacturer of consumer goods, is guided by the following five principles of product development:

(i) A new product should be truly useful to society, not only now but also in the future

(ii) It should make use of Kao‘s own creative technology or skill

(iii) It should be superior to the new products of competitors, from the standpoint of both cost and performance

(iv) It should be able to stand exhaustive product tests at all stages before it is commercialized

(v) It should be capable of delivering its own message at every level of distribution.

3. The third step is business analysis, which is necessary to estimate product features, cost, demand, and profit. Xerox has small so-called product synthesis teams to test and weed out unsuitable ideas. Several competing teams of designers produce a prototype, and the winning model that meets preset goals then goes to the ―product development‖ team.

4. The fourth step is product development, which involves lab and technical tests as well as manufacturing pilot models in small quantities. At this stage the product is likely to be handmade or produced by existing machinery rather than by any new specialized equipment. Ideally, engineers should receive direct feedback from customers and dealers.

5. The fifth step involves test marketing to determine potential marketing problems and the optimal marketing mix.

6. Finally, assuming that things go well, the company is ready for full-scale commercialization by actually going through with full-scale production and marketing.

- It should be pointed out that not all of these six steps in new product development will be applicable to all products and countries.
- Test marketing, for example, may be irrelevant in countries where most major media are more national than local.
- If the television medium has a nationwide coverage, it is not practical to limit a marketing campaign to one city or province for test marketing purposes.
- Unfortunately, it is easier for a new product to fail than to succeed. Naturally, so many things can go wrong (-see Marketing-Strategy 10-1).
- Therefore, it is just as critical for a company to know when to retreat as when to launch a product. Coca-Cola‗s Ambasa Whitewater, a lactic-based drink, was removed from the market after eighteen months when sales started to decline.

QUESTIONS:

1. Outline the steps in New Product Development Process. What are the possible problems and their solution in international marketing?
2. Describe the different types of international product strategy with examples

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2nd Internal Exam Syllabus

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4. PRODUCT AND CULTURE:

Culture

- Culture is the way that we do things around here. Culture could relate to a country (national culture), a distinct section of the community (sub-culture), or an organization (corporate culture).
- It is widely accepted that you are not born with a culture, and that it is learned. So, culture includes all that we have learned in relation to values and norms, customs and traditions, beliefs and religions, rituals and artifacts (i.e. tangible symbols of a culture, such as the Sydney Opera House or the Great Wall of China).

Values and Attitudes

- Values and attitudes vary between nations, and even vary within nations. So if you are planning to take a product or service overseas make sure that you have a good grasp the locality before you enter the market.
- This could mean altering promotional material or subtle branding messages. There may also be an issue when managing local employees.
- For example, in France workers tend to take vacations for the whole of August, whilst in the United States employees may only take a couple of week's vacation in an entire year.
- In 2004, China banned a Nike television commercial showing U.S. basketball star LeBron James in a battle with animated cartoon kung fu masters and two dragons, because it was argued that the ad insults Chinese national dignity.
- In 2006, Tourism Australian launched its ad campaign entitled *"So where the bloody hell are you?"* in Britain. The $130 million (US) campaign was banned by the British Advertising Standards Authority from the United Kingdom.
- The campaign featured all the standard icons of Australia such as beaches, deserts, and coral reefs, as well as traditional symbols like the Opera House and the Sydney Education
- The level and nature of education in each international market will vary. This may impact the type of message or even the medium that you employ.
- For example, in countries with low literacy levels, advertisers would avoid communications which depended upon written copy, and would favor radio advertising with an audio message or visual media such as billboards. The labeling of products may also be an issue.
- In the People's Republic of China a nationwide system of public education is in place, which includes primary schools, middle schools (lower and upper), and universities. Nine years of education is compulsory for all Chinese students.
- In Finland school attendance is compulsory between the ages of 7 and 16, the first nine years of education (primary and secondary school) are compulsory, and the pupils go to their local school.

- The education after primary school is divided to the vocational and academic systems, according to the old German model.
- In Uganda schooling includes 7 years of primary education, 6 years of secondary education (divided into 4 years of lower secondary and 2 years of upper secondary school), and 3 to 5 years of post-secondary education.

Social Organizations

- This aspect of Terpstra and Sarathy's Cultural Framework relates to how a national society is organized.
- For example, what is the role of women in a society? How is the country governed – centralized or devolved? The level influence of class or casts upon a society needs to be considered.
- For example, India has an established caste system – and many Western countries still have an embedded class system. So social mobility could be restricted where caste and class systems are in place.
- Whether or not there are strong trade unions will impact upon management decisions if you employ local workers.

Technology and Material Culture

- Technology is a term that includes many other elements. It includes questions such as is there energy to power our products? Is there a transport infrastructure to distribute our goods to consumers? Does the local port have large enough cranes to offload containers from ships? How quickly does innovation diffuse? Also of key importance, do consumers actually buy material goods i.e. are they materialistic?
- Trevor Baylis launched the clockwork radio upon the African market. Since batteries were expensive in Africa and power supplies in rural areas are non-existent. The clockwork radio innovation was a huge success.
- China's car market grew 25% in 2006 and it has overtaken Japan to be the second-largest car market in the world with sales of 8 million vehicles. With just six car owners per 100 people (6%), compared with 90% car ownership in the US and 80% in the UK, the potential for growth in the Chinese market is immense.

Law and Politics

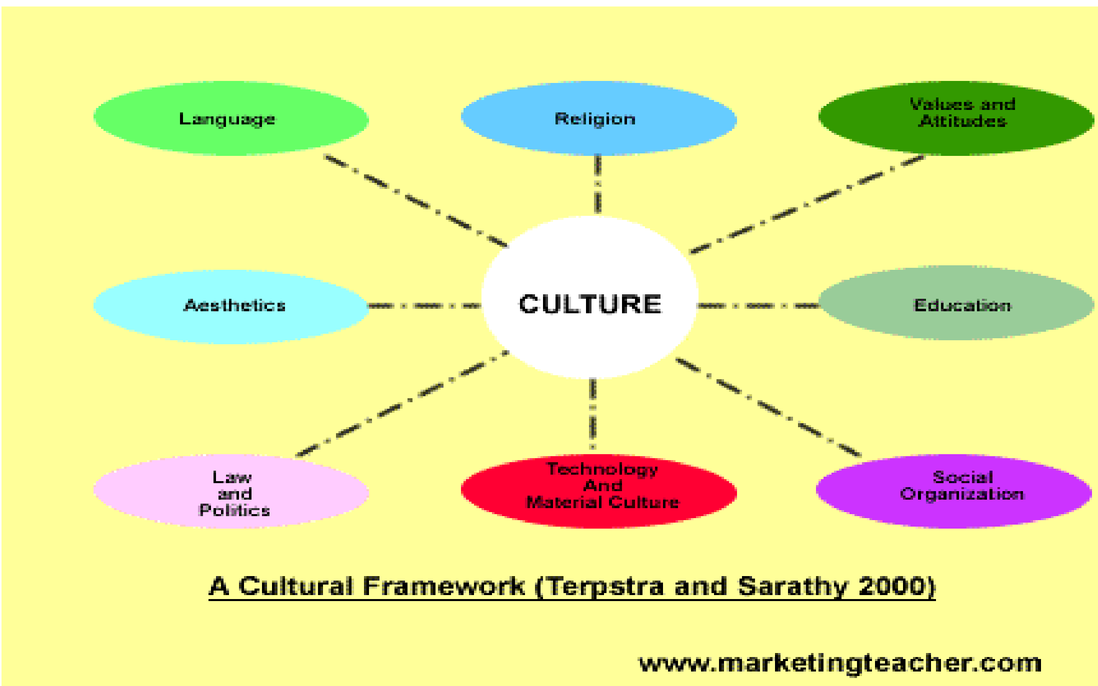
- As with many aspects of Terpstra and Sarathy's Cultural Framework, the underpinning social culture will drive the political and legal landscape.
- The political ideology on which the society is based will impact upon your decision to market there. For example, the United Kingdom has a largely market-driven, democratic society with laws based upon precedent and legislation, whilst Iran has a political and legal system based upon the teachings and principles Islam and a Sharia tradition.

Aesthetics

- Aesthetics relate to your senses, and the appreciation of the artistic nature of something, including its smell, taste or ambience. For example, is something beautiful? Does it have a fashionable design? Was an advert delivered in good taste? Do you find the color, music or architecture relating to an experience pleasing? Is everything relating to branding aesthetically pleasing?

Language

- With language one should consider whether or not the national culture is predominantly a high context culture or a low context culture (Hall and Hall 1986). The concept relates to the balance between the verbal and the non-verbal communication.



- In a low context culture spoken language carries the emphasis of the communication i.e. what is said is what is meant. Examples include Australia and the Netherlands.
- In a high context culture verbal communications tend not to carry a direct message i.e. what is said may not be what is meant.
- So with a high context culture hidden cultural meaning needs to be considered, as does body language. Examples of a high context cultures include Japan and some Arabic nations.

Religion

- The nature and complexity of the different religions an international marketer could encounter is pretty diverse.
- The organization needs to make sure that their products and services are not offensive, unlawful or distasteful to the local nation. This includes marketing promotion and branding.
- In China in 2007 (which was the year of the pig) all advertising which included pictures of pigs was banned.
- This was to maintain harmony with the country's Muslim population of around 2%. The ban included pictures of sausages that contained pork, and even advertising that included an animated (cartoon) pig.
- In 2005 France's Catholic Church won a court injunction to ban a clothing advertisement (by clothing designers Marithe and Francois Girbaud based upon Leonardo da Vinci's Christ's Last Supper.

5. BRANDS IN INTERNATIONAL MARKETING:

- Building a global brand requires more than just launching a web site that's accessible from almost anywhere in the world.
- From language missteps to misunderstanding cultural norms, veteran branding expert Barbara E. Kahn has seen it all when it comes to the missteps of launching a brand across borders. Here, she shares five tips to help entrepreneurs avoid the pitfalls.

Understand customer behavior.

- Just because consumers have certain buying preferences or habits in one culture, doesn't mean that such preferences are universal. "It's astonishing how many retailers haven't made it because they haven't studied how consumers shop," she says.

Position yourself properly.

- Good brand positioning includes truly understanding your competition and then looking at your competitive advantage. Who are the providers of similar products and services that you sell in this country? They may not be the same providers as in the U.S.
- For example, if you sell athletic clothing, look at where people are buying their athletic clothing. It could be from specialty stores, online retailers, or sporting goods stores.
- If you have a high-end brand and you're going into a market where the preferred buying location is discount retailers, it may take a different strategy from the one you use in the U.S. "You need to understand how people shop and how your brand will fit into that mix," she says.

Know how your brand translates.

- A clever brand or product name in one language may translate into an embarrassing misstep in another.
- For example, the French cheese brand Kiri changed its name to Kibi in Iran because the former name means “rotten” or “rank” in Farsi -- not exactly the association you want for cheese.
- In addition to ensuring that your brand translates well into other languages, consider which colors are favored in various markets.
- In the U.S., blues and greens are favored, while reds and yellows are frequently used in some Latin American countries and may be appealing and familiar to audience members from those areas.

Think broadly.

- Since your company may need to expand into offering new products based on regional market demands, it's important that your company name be broad enough to accommodate those changes.
- "Boston Chicken changed its name to Boston Market because it had expanded into other foods," Kahn says. If your company name is Brian's Computers for example, consider whether that will be limiting in other markets if you also sell peripherals and services, she says.

Find good partners.

- Work with your attorney to protect your intellectual property overseas, filing the appropriate trademark and patent protections in the U.S. and elsewhere, if applicable.
- Find trade representatives who come recommended from colleagues or state or federal trade offices, since they're more likely to be reputable.
- If you decide to license your product or service name to a manufacturer or provider overseas, exercise tight controls to make sure that the provider is reputable and won't misuse or misappropriate your name and will adhere to your quality control standards.
- "When you put your brand name on [a product or service], you want a consistent experience so that every time, people have it, they understand the values of the brand," Kahn says.

QUESTIONS:

1) If a label on a product states “Made in Thailand”, and a similar product has a label “Made in Germany”, then why do consumers consider the latter to be better than the former? What difference does a label make in the perception of a consumer?
2) Explain different brands in international market?

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1. International Marketing: Scope and Significance of International Marketing, The importance of international marketing, Differences between international and domestic marketing, legal environment and regulatory environment of international marketing.

2. International Market Entry Strategies: Indirect Exporting, Direct Exporting, Foreign Manufacturing Strategies with Direct Investment. Entry Strategies of Indian Firms.

3. International product management: International product positioning, Product saturation Levels in global Market, New products in International Market, Products and culture, brands in International Market.

4. International Marketing Channels: Distribution Structures, Distribution Patterns, Factors effecting Choice of Channels, the Challenges in Managing an international Distribution Strategy, Selecting Foreign Country Market intermediaries. The management of physical distribution of goods, Grey Market goods.

5. Export Marketing: Introduction to Export Marketing, Export Policy Decisions of a firm, EXIM policy of India. Export costing and pricing, Export procedures and export documentation. Export assistance and incentives in India.

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UNIT - 4
INTERNATIONAL MARKETING CHANNELS

Introduction:

- A channel is a passageway that allows the happening of certain processes. Marketing is understood to be an exchange process. Marketing channels help this exchange process to take place. A marketing channel can be defined as a group of exchange relationships, which create customer value in acquiring, consuming and disposing of products and services.
- International marketing involves coordinating the firm's marketing activities in more than one nation. The international marketing strategy is effectively realized by choosing the suitable international marketing channel. The channel is the medium through which the firm's global marketing strategy is communicated among the customers scattered all around the globe.
- Marketing Channels are set of interdependent organizations involved in the process of making a product or service available for use or consumption.
- A major focus of channels of distribution is delivery. It is only through distribution that public and private goods and services can be made available for use or consumption.
- The emergence and arrangement of a wide variety of distribution oriented institutions and agencies, typically called intermediaries because they stand between productions on the one hand and consumption on the other can be explained in the following terms:

1) Intermediaries can improve the efficiency of the process.
2) They help in the proper arrangement of routes of transactions.
3) They help in the searching process.
4) They help in the sorting process.

- Internationally operating companies have to partner with these distributors to gain access to their unique expertise and knowledge. Channel innovation depends on many factors like level of economic development of the country in which the firm is operating, local demographic/geographic factors, social norms, government actions and competitive pressures. A properly designed distribution channel will help a company achieve a sustainable competitive advantage. Channel structure varies depending on the customer.

- Transactions between parties that do not involve the ultimate consumer are considered wholesale transactions. There are two types of wholesale intermediaries: merchant intermediaries and functional intermediaries. Merchant intermediaries buy products and resell them.
- Functional intermediaries negotiate and just expedite exchange among producers and resellers. They charge fees and/or commission. An international firm must take adequate care when entering into agreements with distributors. This can make or mar its chances of success. A firm can choose direct or indirect channel based on requirements. It can similarly go for selective or intensive distribution depending on the need.

1. DISTRIBUTION STRUCTURES:

1. Objectives What is international distribution system What is indirect exporting What is direct export What are the types of foreign intermediaries Why the distribution system in the market is influenced by the business environment What is international logistics International Marketing Decision

2. Introduction Place, i.e., placing the product, is one of the four P's of marketing and it refers to the distribution of the product covering channels of distribution and physical distribution. The path traced in the direct or indirect transfer of title to a product as it moves from a producer to ultimate consumers or industrial users. International Marketing Decision

3. International Channel System The international distribution system consists of two subsystems, namely, the domestic system and the foreign system. There are broadly two ways of exporting, namely, direct exporting and indirect exporting. International Marketing Decision

4. Indirect Exporting The indirect method is more popular with firms which are just beginning their exporting activities and with those whose export business is not considerable. Two alternative channels for indirect exporting.1. International marketing middlemen 2. Co-operative organizations. International Marketing Decision

5. Marketing middlemen Export merchants Export/trading houses Trading companies Export drop shipper Agents/brokers International Marketing Decision

6. Co-operative organizations the co-operative exporting organizations, which represent a cross between indirect and direct export, carries on exporting activities on behalf of several producers, and is partly under the administrative control of the manufacturers.1. Piggyback marketing2. Exporting combinations International Marketing Decision

7. Direct Export As the name indicates, direct export refers to the sale in the foreign market directly by the manufacturer. Firms with considerable export business usually resort to direct exporting. International Marketing Decision

8. Types Of Foreign Intermediaries Importers Distributors Wholesalers Retailers Multiple channels Government Departments State buying organizations Joint-ventures and licensees/franchisees International Marketing Decision

9. Marketing Environment and Internal Distribution The nature of the distribution system in a market is generally influenced by the relevant business environment. A particular distribution channel best suited for a product in one market may be inappropriate in another market. Within-country channels of distribution very considerably from country to country for consumer goods. International Marketing Decision

10. Factors Influencing Channel Selection 1. Product characteristics 2. Market and customer characteristics 3. Middlemen characteristic 4. Company characteristic and objectives 5. Competitor's characteristics 6. Environmental characteristics International Marketing Decision

11. International Logistics International logistics defined as 'the designing and managing of a system that contracts the flow of materials into, through, and out of the international corporation. It encompasses the total movement concept by covering the entire range of operations concerned with product movement. International Marketing Decision

12. Components Of Logistics Management Fixed facilities location Transportation Inventory management Order processing Materials handling and warehousing International Marketing Decision

13. Summary The international channel is affected by the method of exporting. Direct exporting and indirect exporting are the two ways of exporting Some important foreign intermediaries are; importers, distributors, wholesalers, retailers, multiple channels, government departments, state buying organizations, joint ventures and licenses. Logistics is a factor which affects the competitiveness of a firm.

2. DISTRIBUTION PATTERNS:

- Even though patterns of distribution are in a state of change and new patterns are developing international marketers need a general awareness of the traditional distribution base.
- The traditional system will not change overnight and vestiges of it will remain for years to come.
- Nearly every international firm is for end by the structure of the market to use at least some middlemen in the distribution arrangement.
- It is all too easy to conclude that because the structural arrangements of foreign and domestic distribution seem alike, foreign channels are the same as or similar to domestic channels of the same name.
- This is misleading. Only when the varied intricacies of actual distribution patterns are understood can the complexity of the distribution task be appreciated. The following description should covey a sense of the variety of distribution patterns.

Distribution Patterns:

- Generalizing about internal distribution channel patterns of various countries is almost as difficult as generalizing about behavior patterns of people.
- Despite similarities marketing channels are not the same through the world.
- Marketing methods taken for granted in the United States are rare in many countries.

a. MIDDLEMEN SERVICES:

- The service attitudes of people in trade vary sharply at both the retail and wholesale levels from country to country.
- In Egypt, e.g. the primary purpose of the simple trading system is to handle the physical distribution of available goods.
- On the other hand hen margins are low and there is a continuing battle for customer preference both wholesalers and retailers try to offer extra services to make their goods attractive to consumers.
- Such is the case in china where wholesales see their function as storing the goods and waiting for their customers to come to them.

b. LINE BREADTH:

- Every nation has distinct pattern relative to the breadth of line carried by wholesalers and retailers.
- The distribution system of some countries is characterized by middlemen who carry or can get everything in others every middleman is a specialist dealing only in extremely narrow lines.
- Government regulations in some countries limit the breadth of line that can be carried by middlemen and licensing requirements to handle certain merchandise are not uncommon.

c. COST AND MARGINS:

- Cost levels and middlemen margins vary widely from country to country depending on the level of competition services offered efficiencies or inefficiencies of scale and geographic and turnover factors related to market size, purchasing power, tradition and other basic determines.

- In India competition in large cities is so intense that costs are low and margins thin in rural areas however the lack of capital has permitted the few traders with capital to gain monopolies with consequent high prices and wide margins.

d. CHANNEL LENG:

- Some correlation may be found between the stage of economic development and the length of marketing channels. In every country channels are likely to be shorter for industrial goods and high priced consumer goods than for low priced products.
- In general there is an inverse relationship between channel length and the size of the purchase.
- Combination wholesaler retailer or semi wholesalers exist in many countries adding one or two links to the length of the distribution chain.
- It can be profitable for a company to sell directly to the two top level wholesalers and have them sell to third level which is so small that it would be unprofitable for the company to seek out.

e. NON-EXISTENT CHANNELS:

- One of the things companies discover about international channel of distribution patterns is that in many countries adequate market coverage through a simple channel of distribution is nearly impossible.
- In many instances appropriate channels do not exist in others parts of a channel system are available but other parts are not. In Peru e.g. the informal distribution network accounts for almost a quarter of all retail cash far wider market penetration than formal distribution companies.
- Further their prices are generally lower than traditional retailers partly because of lower overhead costs compared with the higher costs generated by the overextended formal distribution chain of the traditional retailer.
- Thus several distinct distribution channels are necessary to reach different segments of a market channels suitable for distribution in urban areas seldom provide adequate rural coverage.

f. BLOCKED CHANNELS:

- International marketers may be blocked from using the channel of their choice.
- Blockage can result from competitors already established lines in the various channels or

from trade associations or cartels having closed certain channels.

- The classic example of blocked channels is Japan but it is by no means the only example. In china FedEx and DHL initially ran into the Chinese government's own mail service as a blocking competitor.

g. STOCKING:

- The high cost of credit the danger of loss through inflation a lack of capital and other concerns cause foreign middlemen in many countries to limit inventories.
- This often results in out of stock conditions and sales lost to competitors.
- Physical distribution lags intensify the problem so that in many cases the manufacturer must provide local warehousing or extend cases the manufacturing must provide local warehousing or extend long credit to encourage middlemen to carry large inventories.
- BMW took a unique step to alleviate this problem in Germany.
- They encourage their customers to pick up their new cars at the factory by providing an amusement park for the kids adjacent to the plant.

h. POWER AND COMPETITION:

- Distribution power tends to concentration in countries where a few large wholesalers distribute to a mass of small middlemen.
- Large wholesalers generally finance middlemen downstream.
- Large strong allegiance they command from their customers enables them to effectively block existing channels and force an outsider to rely on less effectively and more costly distribution.

2. RETAIL PATTERNS:

- Retailing shows even greater diversity in its structure than does wholesaling. In Italy and morocco, retailing is composed largely of specialty houses that carry narrow lines whereas in Finland most retailers carry a more general line of merchandise.
- Retail size is represented at one end by Japan's giant department store, Mitsukoshi, which reportedly ends the patronage of more than 100, 00 customers everyday and at the other extreme by the market of Ibadan, Nigeria, where some 3.000 one or two person stalls serve not many more customers.

a. SIZE PATTERNS:

- The shows even greater diversity in its structure than does wholesaling.
- The retail structure and the problems it engenders because real difficult for the international marketing firm selling consumer goods.
- Large dominant retailers can be sold direct, but there is no adequate way to directly reach small retailers who in the aggregate handle a great volume of sales.

b. DIRECT MARKETING:

- Selling directly to the consumer through the mail by telephone or door to door is often the approach of choice in markets with insufficient or under developed distribution systems.
- The approach of course also works well in the most affluent markets. Amway operating in 42 foreign countries successfully expanded into Latin America and Asia with its method of direct marketing.
- Companies that enlist individuals to sell their products are proving to be especially popular in eastern euro and other countries where many people are looking for ways to become entrepreneurs.

c. RESISTANCE TO CHANGE:

- Efforts to improve the efficiency of the distribution system new types of middlemen and other attempts to change traditional ways are typically viewed as threatening and are thus resisted.
- A classic example is restructuring of the film distribution business being caused by the fast changing technologies of digitization and piracy.
- Laws abound that protect the entrenched in their positions.

3. FACTORS AFFECTING CHOICE OF CHANNELS:

Some of the factors influencing channel decisions in international market are as follows:

- International marketing channels deal with channels within which goods and services pass to reach their foreign consumers. This implies that manufacturers and consumers must be located in either the manufacturers or consumers country or having presence in both countries.
- The choice of the channel to use is a fundamental decision for the manufacturer where a number of factors and objectives have to be considered as a basis for such decision.
- The international marketer needs a clear understanding of market characteristics and must have established operating policies before beginning the selection of channel middlemen.

The following points should be addressed prior to the selection process:

1) Identify specific target markets within and across countries.

2) Specify marketing goals in terms of volume, market share, and profit margin requirements.

3) Specify financial and personnel commitments to the development of international distribution.

4) Identify control, length of channels, terms of sale, and channel ownership.

There are a number of factors both objective and subjective and varying from company to company which govern choice or selection of channel of distribution. But there are some which stand out and influence channel of distribution choice in all cases.
They are as follows:

1) Factors Relating to Product Characteristics:

Product manufactured by a company itself is a governing factor in the selection of the channel of distribution.

Product characteristics are as follows:

i) <u>Industrial/Consumer Product</u>:

- When the product being manufactured and sold is industrial in nature, direct channel of distribution is useful because of the relatively small number of customers, need for personal attention, salesman's technical qualifications and after-sale servicing etc.
- However, in case of a consumer product indirect channel of distribution, such as wholesalers, retailers, is most suitable.

ii) <u>Perishability</u>:

- Perishable goods, such as, vegetables, milk, butter, bakery products, fruits, sea foods etc., require direct selling as they must reach the consumers as easily as possible after production because of the dangers associated with delays in repeated handling.

iii) <u>Unit Value:</u>

- When the unit value of a product is high, it is usually economical to choose direct channel of distribution such as company's own sales force than middlemen. On the contrary, if the unit value is low and the amount involved in each transaction is generally small, it is desirable to choose indirect channel of distribution, i.e. through middlemen.

iv) <u>Style Obsolescence:</u>

- When there is high degree of sty obsolescence in products like fashion garments, it is desirable to sell direct to retailers who specialize in fashion goods.

v) <u>Weight and Technicality</u>:

- When the products are bulky, large in size and technically complicated, it is useful to choose direct channel of distribution.

vi) <u>Standardized Products</u>:

- When the products are standardized, each unit is similar in shape, size, weight, colour and quality etc. it is useful to choose indirect channel of distribution. On the contrary, if the product is not standardized and is produced on order, it is desirable to have direct channel of distribution.

vii) <u>Purchase Frequency:</u>

- Products that are frequently purchased need direct channel of distribution so as to reduce the cost and burden of distribution of such products.

viii) <u>Newness and Market Acceptance:</u>

- For new products with high degree of market acceptance, usually there is need for an aggressive selling effort. Hence indirect channels may be used by appointing wholesalers and retailers as sole agents. This may ensure channel loyalty and aggressive selling by intermediaries.

ix) <u>Seasonally:</u>

- When the product is subject to seasonal variations, such as woolen textiles in India, it is desirable to appoint sole selling agents who undertake the sale of production by booking orders from retailers and direct mills to dispatch goods as soon as they are ready for sale as per the order.

x) **Product Breadth*:***

- When the company is manufacturing a large number of product items, it has greater ability to deal directly with customers because the breadth of the product line enhances its ability to clinch the sale.

2) Factors Relating to Company Characteristics:

The choice of channel of distribution is also influenced by company's own characteristics as to its size, financial position, reputation, past channel experience, current marketing policies and product mix etc. In this connection, some of the main factors are as follows:

i) Financial Strength:

A company which is financially sound may engage itself in direct setting. On the contrary, a company which is financially weak has to depend on intermediaries and, therefore, has to select indirect channel of distribution, such as Wholesalers, retailers, with strong financial background.

ii) Marketing Policies:

The Policies relevant to channel decision may relate to delivery, advertising, after-sale service and pricing, etc. For example, a company which likes to have a policy of speedy delivery of goods to ultimate consumers may prefer direct selling and thus avoid intermediaries and will adopt a speedy transportation system.

iii) Size of the Company:

A large-sized company handling a wide rang of products would prefer to have a direct channel for selling its products. On the contrary, a small-sized company would prefer indirect selling by appointing wholesalers, retailers etc.

iv) **Past Channel Experience:**

Past Channel experience of the company also influences the choice of selection of channel distribution. For instance, an old and established company with its past good experience of working with certain kinds of intermediaries will like to opt for the same channel. However, different will be the case in reverse situation.

v) Product Mix:

The wider is the company's product mix, the greater will be its strength to deal with its customers directly. Similarly, consistency in the company's product mix ensures greater homogeneity or uniformity and similarity in its marketing channels.

vi) Reputation:

It is said that reputation travels faster than the man. It is true in the case of companies also who wish to select channel of distribution. In case of companies with outstanding reputation like Tata Steel, Bajaj Scooters, Hindustan Levers etc indirect channel of distribution (wholesalers, retailers, etc.) is more desirable and profitable.

3) <u>Factors Relating to Market or Consumer Characteristics</u>:

Market or consumer characteristics refer to buying habits, location of market, size of orders, etc. They influence the channel choice significantly. They are:

i) <u>Consumer Buying Habits:</u>
If the consumer expects credit facilities or desires personal services of the salesman or desires to make all purchases at one place, the channel of distribution may be short or long depending on the capacity of the company for providing these facilities. If the manufacturer can afford those facilities, the channel will be shorter, otherwise longer.

ii) <u>Location of the Market</u>:
When the customers are spread over a wide geographical area, the long channel of distribution is most suitable. On the contrary, if the customers are concentrated and localized, direct selling would be beneficial.

iii) <u>Number of Customers</u>:
If the number of customers is quite large, the channel of distribution may be indirect and long, such as wholesalers, retailers, etc. On the contrary, if the number of customers is small or limited, direct selling may be beneficial.

iv) <u>Size of Orders</u>:
Where customers purchase the product in large quantities, direct selling may be preferred. On the contrary, where customers purchase the product in small quantities frequently and regularly, such as cigarettes, matches, etc., long (wholesalers, retailers, etc.) of distribution may be preferred.

4) <u>Factors Relating to Middlemen Considerations</u>:

The choice of the channel of distribution is also influenced by the middlemen considerations. They may include the following:

i) <u>Sales Volume Potential:</u>
In selecting channel of distribution, the company should consider the capability of the middlemen to ensure a targeted sales volume. The sales volume potential of the channel may be estimated through market surveys.

***ii)* <u>Availability of Middlemen:</u>**
The company should make efforts to select aggressively oriented middlemen. In case they are not available, it is desirable to wait for some time and then to pick up. In such cases, the company should manage its own channel so long the right types of middlemen are not available.

iii) **Middlemen's Attitude:**

If the company follows the resale price maintenance policy, the choice is limited. On the contrary, if the company allows the middlemen to adopt their own price policy, the choice is quite wide. Quite a large number of middlemen would be interested in selling company's products.

iv) **Services Provided by Middlemen:**

If the nature of product requires after-sale services, repair services, etc., such as automobiles, cars, scooters etc, only those middlemen should be appointed who can provide such services, otherwise the company will adopt direct selling channel.

v) Cost of Channel:

Direct selling generally is costlier and thus distribution arranged through middlemen is more economical.

5) Factors Relating to Environmental Characteristics:

The environmental factors which include competitors' channels, economic conditions, legal restrictions, fiscal structure etc., as given below, affect significantly the channel choice.

i) **Economic Conditions*:***

When economic conditions are bright such as inflation, it is desirable to opt for indirect channel of distribution because there is an all-round mood of expectancy; market tendencies are bullish and favorable. On the contrary, if the market is depressed (such as deflation), shorter channel may be preferred.

ii) **Legal Restrictions:**

The legislative and other restrictions imposed by the state are extremely formidable and give final shape to the channel choice. For example, in India M.R.TP. Act, 1969 prevents channel arrangements that tend to substantially lessen competition, create monopoly and are otherwise prejudicial to public interest. With these objectives at the backdrop, it prevents exclusive distributorship, territorial restrictions, resale price maintenance etc.

iii) Competitors' Channel:

This also influences the channel choice decision. Mostly, in practice, similar types of channels of distribution used by the competitors are preferred.

iv) Fiscal Structure:

- Fiscal structure of a country also influences the channel choice decision. For example, in India, State Sales Tax rates vary from state to state and form a significant part of the ultimate price payable by a consumer. As a result, it becomes an important factor in evolving channel arrangements.

- Differences in the sales tax rates in two different states would not only bring about difference in the price payable by a consumer but also in the distribution channel selected. Hence the company should appoint the channel in that stale where the sales tax rates are quite low, such as in Delhi, and that would give price advantage to the buyers of those states where the sales tax rates are high.

4. CHALLENGES IN MANAGING INTERNATIONAL DISTRIBUTION STRATEGIES:

- Many companies today distribute goods throughout their local region or across the country with considerable success, and some may be considering expanding into an international market to increase sales.
- The fact is that managing international distribution channels can be profitable and rewarding for many companies, but it can also be challenging on several different levels.
- By spending some time analyzing what is involved in managing international distribution channels, you may make a more informed decision about expansion that is right for your company.

The Right Market for Your Products

- First, you should carefully consider the benefit associated with finding an international market that is similar to your own.
- Reaching into international markets can be difficult to do because your products may appeal to a different target audience, marketing messages may be skewed when they reach a foreign audience or are translated into a foreign language and more.
- Examples of similar international markets that may be compatible include New Zealand and Australia or Singapore, Malaysia and Hong Kong.
- Do your research and find out if the desired market does have a demand for your goods.
- Choosing the right international market is imperative for success as your company expands.
- Talk to local retailers and their customers to establish if the market is worth the investment.

Other Logistical Concerns

- In addition to selecting the right international market to invest in, there are other logistical concerns to consider when managing international distribution channels.
- For example, you must consider if you will sell your goods online or through local retailers.

Selling Online to International Markets

- Online distribution only requires you to ship goods overseas direct to the customer.
- But international freight can cause issues and lost stock can be a time consuming nightmare to deal with. Consider insurance.

Supplying International Retailers

- While selling big orders to international retailers sounds good it also brings with it some administrative issues.
- The lack of transparency, trust and distance between you and the retailer can cause communication issues and in a lot of cases the retailer will ignore your account leaving you with little hope in recovering what's owed to you.
- Get in front of you desired retailers as much as possible.
- Establish a good business relationship with them before entering into a risky business deal.
- Consider getting a local distributor. Someone who can go door knocking when it comes time to do the debt collection.

Managing Multiple Currencies

- You must also navigate the challenges associated with working with multiple currencies. Fluctuating currencies rates are not manageable on spreadsheets.
- Consider a good cloud based inventory management and sales management system to handle this for you.
- As you can see, there are many factors to consider when you are evaluating the pros and cons of managing international distribution channels.
- Thanks to innovations in technology, shipping services and more, expanding a company's operations into international areas is easier to do than ever before, and many companies are finding great levels of success from these efforts.
- However, you do want to carefully consider each of these points so that you make the best decision possible for your business.

5. SELECTING FOREIGN COUNTRY MARKET INTERMEDIARIES:

- International Market intermediaries are middleman or intermediaries who act as channel members in the product distribution channel. They facilitate the sales process buy linking buyers with sellers.
- International market intermediaries are responsible for seeking potential buyers/sellers, negotiating terms of trade and importing/exporting the products to the end user.

Types of International Market Intermediaries

The various types of international market intermediaries are as follows:-

Foreign Distributor

- If refers to a foreign company having exclusive rights to distribute a company's product in the foreign market or specific area.

Foreign Retailer

- It is a retailing company in a foreign country engaged by the foreign distributor concerning dealing and selling of a company's products. Foreign retailers deal in products meant for consumers.

State-Controlled Trading Company

- It is a government owned company authorized to deal and sell the products/services of foreign companies. Generally utility and telecommunication equipment are sold to state controlled companies by manufactures. Example - State Trading Corporation of India.

Export Broker

- An export broker is engaged in exporting goods for a domestic company by charging a fee. Export brokers act as a representative of a manufacturer and are responsible for bringing together buyers and sellers and negotiating the terms for the seller. The export broker may operate under its own name or that of the manufacturer.

Manufacturer's Export Agent/Sales Representative

- It is an independent firm exclusively engaged to take up all export activities of a domestic manufacture. An export agent operates under his own name and charges a commission for seeking potential buyers and selling the domestic manufacturer's product.

Export Management Company

- It is a company that manages the entire export activities of a domestic company on a contract. It may function as an export department for a manufacturer therefore it is also known as a Combination Export Manager (CEM).

Cooperative Exporter

- Manufactures of a particular product in the domestic country form a cooperative union to manage their export activities. Example – Singer, Borg Warner

Web-Pomerene Association

- It is an export cartel jointly formed by two or more domestic manufacturers to market their product overseas.

Purchasing/Buying Agent

- It is a agency of a foreign buyer/importer company which appoints agents to arrange for buying products from other countries.

Country Controlled Buying Agent

- It is a government agency involved in locating and buying products for its country.

Resident Buyer

- A resident buyer is an independent agent located near a highly centralized production industry involved in buying products on behalf of an importer.

Export Merchant

- An export merchant is a person who buys products in domestic country to sell them in foreign country.

Export Drop Shipper

- A person who links exporters and importers. An export drop shipper is also known as a desk jobber or cable merchant.

Export Distributor

- A company which is granted exclusive rights to represent the manufacturer in selling the products in foreign country. The company may use his own name or manufacturer's name to sell the product.

6. MANAGEMENT OF PHYSICAL DISTRIBUTION OF GOODS:

(1) Order Processing:

A company receives orders from other companies, middlemen, or directly from customers through mail, e-mail, fax, phone, or salesmen. Order processing is an importation component of the distribution system. It is considered as a key to customer service and satisfaction.

Order processing mainly includes:

1. Receiving order
2. Recording order
3. Filing order
4. Executing order or assembling of products for dispatch
5. Credit and collection.

- Thus, it concerns with processing the orders quickly, accurately, and efficiently. The time period from the receipt of an order to the date of dispatch of products must be as short as possible.
- Ideally, the order recycle time should be completed within 8 days. But, the use of computer and computer networks, for speedy and accurate order processing, can save time, money and efforts for the company and increases customer satisfaction.
- It is often called as electronic data processing that minimizes possibility of error and omission. Every firm should establish the standard order procedure.
- The physical distribution must be customer-oriented. It starts with customer order. Note that order processing affects customer service in two ways – reordering time (interval between two orders) and consistency of delivery time (delivering products within the fixed time).
- Rapid order processing enables a company to attain economy in other areas of physical distribution.

The person in charge of order processing must be careful for following aspects:

1. Assembling product must be exactly as per demand of customers in terms of quantity, quality, features, and price.
2. Execution must be as quick as possible.
3. The dispatch must be in appropriate mode of transportation.
4. Credit discount and other allied benefits must be offered as per policy.
5. Assessing the effectiveness of order processing. That includes feedback and follow-up.

(2) Warehousing:

- In today's context, production is made in expectation of demand. Therefore, products are to be stored or preserved safely for the future demand. And also, all the production is not sold directly.

- Warehousing plays an important role for balancing demand and supply. For example, most of the agricultural products are produced seasonally, but have demand throughout the year.
- It facilitates both continuous production and continuous marketing of the production. Warehousing service can contribute to customer satisfaction.
- Be clear that storage and warehousing are not similar terms, though are closely related.
- Storage is marketing activity that involves holding and preserving products from the time of their production until their sale.
- Warehousing embraces storage plus a broad range of functions, such as assembling, breaking the bulk, dispatching as per need of middlemen, sorting/classification, providing market intelligence, preparing product for reshipping, etc. Warehousing involves more activities.

Classification of Warehouses:

Warehouses may be classified on two bases, on the basis of commodity and on the basis of ownership. Let's have overview of different warehouses.

On the Basis of Commodity:
On the basis of commodity stored, there can be:

1. Special Commodity Warehouses provide facility for storing special types of commodities, e.g., cotton warehouses, potato warehouses, grain warehouses, tanks for liquid products, explosive product warehouses, etc.
2. Cold Storage Warehouses provide facility for storing perishable products, e.g., fish, flowers, vegetable, fruits, etc.

On the Basis of Ownership:

According to the ownership, there may be various types of warehouses, like:

1. Private Warehouses are owned by individual, or firms. They are owned by retailers and wholesalers, or by manufacturers. Retailers and wholesalers store finished products while manufacturers store raw materials, provision, tools-equipment's, and finished products.

2. Cooperative Warehouses are owned on cooperative basis by two or more private parties to utilize storage facility jointly.

3. Public Warehouses owned by local authorities such as municipality, or by the state and central governments. Such warehouses are used by public/traders as well as by government. Traders can use these warehouses on the rents fixed by the government. Government uses these

warehouses to buy and maintain stock of certain essential commodities.

4. Household Warehouses are temporary in nature owned by household/family to store and protect furniture, paintings, furs, tapestry, etc.

5. Bonded Warehouses are used to store product until payment is made or documents are cleared. They are situated near the Port for export and import business.

Many companies set up their distribution centers in each of regions around the market and integrate its distribution network with them for smooth, safe, and speedy delivery of products. The latest technology is used for maximum consumer benefits. Warehouses offer a number of direct advantages to manufacturers and sellers, and indirect advantages to customers.

Benefits Offered by Warehouses:

Following are the important benefits offered by warehouses:

1. Protection of products from fire, sunlight, dust, theft, heat/cold, etc.

2. Modern warehouses enable to store or preserve perishable products, like milk, fruits, vegetable, flowers, and certain types of chemicals, for reasonably longer period.

3. Professional warehouses provide a lot of facilities, such as inspection, protection, records, displacement on demand, insurance, etc., at affordable charges. Such warehouses are well-equipped with human and mechanical devices.

4. Warehouses at different key centers can speed up order processing efficiently with less risk and costs.

5. Producers and sellers can avail loans on the product stored in warehouses.

6. Consumers have a number of indirect benefits like quick and continuous availability, low price, quality, etc. Producers, sellers, and users equally share all the benefits of warehousing.

Key Issues/Decisions in Warehousing:

The manager should consider following aspects while utilizing warehouses:

1. Type of product
2. Time to store the product
3. Rent charged and facilities available
4. Location
5. Working capital requirement
6. Ownership
7. Risk, etc.

(3) Transportation:

- Transportation is one of the core components of distribution system. It consists of moving or transferring products from producers to final users.
- Transportation involves two parties, carriers and shippers. Carriers are those companies that provide transportation facilities to others, such as the Western Railway, Indian Airline, Indian Shipping Companies, and many other private carriers provide transportation services by road, rail, water, air and underground pipes.
- Shippers are those organizations and individuals such as manufacturers, middlemen, customers, and others to whom the carriers provide transportation services.
- For different modes of transportation, various regulatory bodies deal with various issues related to transportation of products. The Central and the State Governments have formulated a lot of Acts or legal provision to regulate transportation activities in the country.

The main regulatory bodies may include:

i. The Civil Aviation Department, for air carriers.

ii. The Shipping Corporation of India, for water carriers.

iii. The Oil and Natural Gas Commission, for pipeline carriers.

iv. The Road Transport Corporation of the state, for land or road carriers

v. The Railway Authorities, for rail transportation, etc.

- Transportation plays a crucial role in today's global marketing. It creates the place utility. In brief, transportation has positive impact in every facet of economic, social, and cultural development of the society. The key issues in transportation are type, costs, time, speed, risk, suitability, and availability. Marketer should take transportation decision carefully.

Key Issues in Transportation Decisions:

A marketer needs to consider on following issues**:**

1. Mode of Transportation:

- This decision relates with selecting an appropriate mode of transportation. Main modes of transportation are road, railway, water, air, and pipeline. As per financial capacity, need, time available and overall suitability, the appropriate mode of transportation should be selected.

2. Costs and Availability:

- One should select such a mode of transportation that is the most suitable and low in costs.

Similarly, the mode must be easily available.

3. Suitability and Credibility:

- It is an important consideration. The mode of transportation must fit to the products and company's overall internal situation, and must be reliable.

4. Relations:

- In the era of relationship marketing, the marketer must maintain long-term profitable relations with various transport agencies. A firm has to perform many activities to establish and maintain healthy and profitable relations with the transport agencies.

5. Legal Provisions and Restrictions:

- A firm must take transportation decisions within limit of contemporary legal provisions. Knowledge of legal provisions is essential.

6. Ownership:

- This issue concerns with whether a firm should own, contract, or hire transportation means. Depending upon a company's capacity and requirements, it may own its own means of transportation, may undergo the contracts, or may hire such facilities.

(4) Organizational Responsibility for Physical Distribution:

- Physical distribution is an important decision in today's marketing management. It involves a wide range of activities.
- Therefore, an effective coordination of various activities, such as order processing, warehousing, transportation, inventory control, etc., is indispensable to contribute in overall success of marketing strategies.
- The entire range of physical distribution must be systematic and even scientific for effective distribution of products to the ultimate users.
- For the purpose, the systematic structure of organisation should be created to take care of physical distribution activities.
- Organisation of physical distribution must be well-equipped and properly organized to serve the purpose over time.
- Type, nature, formation, and activities of organizational structure for physical distribution depend upon various factors like type of business, size of operation, resource availability, management philosophy, and so on.
- After proper analysis of various relevant variables, the suitable structure of organization should be created and implemented.
- There may be practically two alternatives, physical distribution committee or physical distribution department.

Physical Distribution Committee:

- In order to manage distribution activities effectively and efficiently, many companies formulate a permanent committee.
- The committee consists of a group of people who work jointly for attaining marketing

goals.

- The number of members in committee depends on types of key activities in distribution system.
- A physical distribution committee consists of experts on various areas of distribution like warehousing, transportation, communication, order processing, and so on.
- This committee is headed by distribution manager or marketing manager. Each of the experts in a committee has necessary skills and experience to handle specific group of activities.
- The committee, known as physical distribution committee, takes care of the entire range of activities related to distribution of products and is responsible for smooth distribution of products.
- The committee meets periodically and formulates policy to improve physical distribution system.

Physical Distribution Department:

- Some companies treat physical distribution as a separate area of marketing management and maintain a separate physical distribution department.
- This department is headed by physical distribution manager. He is solely responsible for managing physical distribution activities.
- He appoints needed experts in his department to assist him carrying different types of activities related to physical distribution.
- The physical distribution manager works under either production manager or marketing manager.
- Mostly, the companies engaged in production and distribution activities, appoint physical distribution manager under marketing manager.
- He may be line administrator, a manager with staff responsibility, or the combination of both staff and line function. This type of organization is typically portrayed in Figure.

Marketing Manager:

- He, along with other marketing activities, also directs and controls physical distribution activities. Under him, the physical distribution manager is placed. Here, physical distribution is treated as a part of marketing. He takes care of marketing and distribution activities.

Physical Distribution Manager*:*

- He is a direct authority responsible for physical distribution. He works under marketing manager. His functions involve storage and warehousing, inventory management, transportation, order processing and dispatching, communication, etc. He coordinates various activities needed for effective physical distribution. Various officers are appointed under him for each type of activities.

The officers who work under his direct supervision and control include:

1. Storage and warehousing officer
2. Inventory officer
3. Transportation officer
4. Order processing and dispatching officer
5. Communication officer, etc.

As per need, the required staff is appointed to assist each of these officers in performing their respective tasks. Sometimes, more officers are appointed for different types of works such as accountant, packing officers, and so on. The entire department headed by distribution manager works as a team to deal with total distribution system.

(5) Inventory Management:

- Inventory refers to stock of goods meant for the future sales. It can also be said as reservoir of goods held in anticipation of sales.
- Demand is fluctuating and exact prediction is not possible. So, the primary purpose of holding inventory is to meet market demand continuously.
- The firm always maintains adequate stocks of products to meet customer orders immediately. It is considered as a link between ordering and production.
- Inventory management supports demand creation and consumer satisfaction.

- Three types of costs are associated with inventory. The first is, holding costs (carrying costs), which include warehousing and storage costs, costs of capital tied up in inventory, costs of price decline, obsolescence, spoilage, pilferages, and taxes and insurance on inventory.
- The Second is, costs of stock out or shortage, which include loss of sales, adverse impact on goodwill, losing customers permanently due to shortage of stocks, and administrative costs.
- The third is, replenishing or reordering costs (order processing costs), such as preparing and placing order; transportation, insurances and wastage during movement; and costs of receiving, inspecting, and handling materials.
- However, carrying costs and ordering costs are more important, and if they are balanced, the total costs can be effectively reduced.

- A company has to decide on total annual need of inventory, ordering size, and level of inventory (called as ordering level) at which new order should be placed. It must determine maximum and minimum quantity that may be needed at any time.
- The main issues are ordering size – how much to order, and (reordering) ordering level – when to order.
- Ordering and carrying costs are important considerations in inventory management. Ordering and carrying costs are adversely related.
- If more inventory/stock is maintained, carrying costs are high and ordering costs are low.
- Quite opposite to it, when low level of inventory is maintained, carrying costs are low, and, due to more frequent order of smaller quantity, ordering costs go high.
- Therefore, the manager should decide on the optimum order size to reduce total cost of inventory.
- It is necessary to strike out balance between two types of costs to minimize total costs.

The most popular technique to determine optimum size of order is Economic Ordering Quantity, which can be determined by using following formula:

EOQ = √2 AO/C
Where,
A = Annual sales O = Ordering costs C = Carrying costs
Sometimes, ordering size or level is determined by trial and error or graphical method. The level of inventory at which costs are minimum, is taken as ordering size.

(6) <u>Other Components</u>:

In fact, physical distribution consists of a lot of decisions.

Some of minor decisions have been listed below:

i. Material Management
ii. Communication
iii. Sorting and packing
iv. Customer service, etc.

(7) <u>Logistical Coordination or Market Logistics</u>:

- To distribute products from the point of production to the point of consumption (consumers) is traditionally called physical distribution.
- It starts from the factory and reaches the final destinations at the right time, in the right way and form, and at low costs.

- Distribution is treated as a separate function of marketing, and the special independent arrangement is made for smooth distribution.
- Problem of physical distribution is thought of only after products are produced. Thus, physical distribution concerns with systematically distributing products to final users.
- It involves all activities necessary (like warehousing, transportation, communicating, insurance, banking, ordering processing, inventory management, and services of channel

members) to avail the products conveniently to ultimate users.

- Market logistics (often called as supply chain management) is the modern form of physical distribution.
- Simple distribution is expanded into a broader concept of supply chain management.
- Supply chain management starts before physical distribution. Logistics means a detailed organization of large and complex exercise.
- Here, distribution is not treated as an independent activity but as an integral part of the total business system.
- Market logistics or supply chain management is a detailed programme attempting to procure the right inputs (raw materials, components, and capital equipment's); covert them effectively into finished products; and distribute them to the final destinations.
- It can help a company identify superior suppliers and help improve its productivity. It leads to low costs and better quality products that ultimately results into better customer satisfaction and/or strengthening the competitive position.
- Market logistics system is prepared by considering target market's requirements. Thus, study of target market's requirements, preproduction (production planning), production process, and distribution are integrated to form market logistics system.

Market logistics involves:

(1) Estimating target markets requirements,
(2) Procuring necessary inputs for producing the right products,
(3) Converting inputs into finished products (production process), and
(4) Systematically distributing the products to ultimate users

Advertising:

1. Global advertising encompasses areas such as advertising planning, budgeting, resource allocation issues, message strategy, and media decisions. Other areas include: local regulations, advertising agency selection, coordination of multi-country communication efforts and regional and global campaigns

2. Global Advertising and Culture

    - Language Barriers – Language is one of the most formidable barriers in global marketing.

Three types of translation errors can occur in international marketing:

- Simple carelessness
- Multiple-meaning words
- Idioms

3. Setting the Global Advertising Budget

Companies rely on different kind of advertising budgeting methods which include:

- Percentage of Sales
- Competitive Parity
- Objective-and-Task Method

First establish concrete marketing objectives, the advertiser determines how much it will cost to meet them.

4. Creative Strategy

- The “Standardization” versus “Adaptation Debate”

- Merits of Standardization: – Scale Economies – Consistent Image – Global Consumer Segments

5. Creative Strategy

- Barriers to Standardization: – Cultural Differences – Advertising Regulations – Market Maturity “Not-Invented-Here” (NIH) Syndrome

6. Global Media Decisions

- Media Infrastructure – Media infrastructure differs from country to country
- Media Limitations – The major limitation in many markets is media availability.

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8. Global Media Decisions

- Recent Developments in the Global Media Landscape: – Growing commercialization and deregulation of mass media – Shift from radio and print to TV advertising – Rise of global and regional media – Growing spread of interactive marketing – Growing popularity of text messaging. Improved monitoring – Improved TV-viewership measurement

9. Advertising Regulations

- The major types of advertising regulations include: – Advertising of “Vice Products” and Pharmaceuticals – Comparative Advertising – Content of Advertising Messages – Advertising Targeting Children – Other Advertising Regulations: Issues of local languages, tax issues, and advertising rates.

10. Advertising Regulations

- Strategies to deal with advertising regulations: – Keep track of regulations and pending legislation-Screen the campaign early on – Lobbying activities – Challenge regulations in court – Adapt marketing mix strategy

11. Choosing an Advertising Agency

In selecting an ad agency, the international marketer has several options:

1. Work with the agency that handles the advertising in the firm's home market.

2. Pick a purely local agency in the foreign market.
3. Choose the local office of a large international agency.

4. Select an international network of ad agencies that spans the globe.

12. Choosing an Advertising Agency

Criteria for screening ad agencies: – Market coverage – Quality of coverage – Expertise with developing a central international campaign – Creative reputation – Scope and quality of support services – Desirable image ("global" versus "local") – Size of the agency – Conflicting accounts

13. Globally Integrated Marketing Communications (GIMC)

Integrated Marketing Communications (IMC): – IMC coordinates different communication vehicles – mass advertising, sponsorships, sales promotion, packaging, point-of- purchase displays, so forth.

7. GREY MARKET GOODS:

- A grey market (sometimes called a parallel market), but this can also mean other things not to be confused with a black market or a grey economy is the trade of a commodity through distribution channels that are legal but unintended by the original manufacturer.
- The most common type of grey market is the sale, by individuals or small companies not authorized by the manufacturer, of imported goods which would otherwise be either more expensive or unavailable in the country to which they are being imported.
- An example of this would be the import and subsequent re-sale of Apple products by unlicensed intermediaries in countries such as South Korea where Apple does not currently operate retail outlets and licensed reseller markups are high.

Goods:

Arcade games

- Certain arcade games (with the same game play) are marketed under different titles (especially titles from Japanese companies), such as Carrier Air wing/US Navy, Mega Man/Rock man, and Police 911/Police 24/7.
- When certain arcade games (especially titles for Japan) are first powered on, a warning

message is shown such as “this game is intended only for sale and use in (country/region)” and often, such a message is occasionally displayed when the game is idle.

- One reason for regional variations for the game title despite the same game play is trademark issues in different regions e.g. someone else could already own the rights a particular trademark in a particular country or region even though the particular game company owns the rights to the same trademark in their home country.
- Another reason for regional variations for the game title is to help combat bootleg arcade games at one time, including those from Japanese versions.

Automobiles

- Automobile manufacturers segment world markets by territory and price, thus creating a demand for grey import vehicles.
- Although some grey imports are a bargain, some buyers have discovered that their vehicles do not meet local regulations, or that parts and services are difficult to obtain because these cars are different from the versions sold through the new car dealer network.
- Also, ensuring service history and mechanical condition for a vehicle purchased at a distance can be a problem.
- Many used cars come from Singapore or Japan, and are sold in other countries around the world, including United Kingdom, Russia and New Zealand. Japan and Singapore both have strict laws against older cars. The Japanese "Shaken" road-worthiness testing regime, requires progressively more expensive maintenance, involving the replacement of entire vehicle systems, that are unnecessary for safety, year on year, to devalue older cars and promote new cars on their home market that were available for low prices.
- This makes these well running cars seem reasonably priced, even after transport expenses. There are very few cars in Japan more than five years old.
- New car arbitrage has become an issue in the US as well, especially when the US price is lower in the US than in countries like China.
- Beyond cost issues, grey market cars provide consumer access to models never officially released. Before 1987, the Range Rover and Lamborghini Countach, both revolutionary designs, were grey import vehicles in the United States.
- The grey market provided a clear signal to these manufacturers that the United States had significant demand for these cars, and their present-day US model descendants remain popular.
- Years later, Nissan similarly decided to sell the GT-R in North America after seeing how many people were importing older Skylines.
- Although Mercedes-Benz was also a beneficiary of the signals to US consumer demand that the grey market provided, their lobbying in Washington succeeded in virtually ending the US grey market in 1988.
- In the UK, some Japanese domestic market models fetch a high price in the UK because of their performance, novelty or status.

Broadcasting

- In television and radio broadcasting, grey markets primarily exist in relation to satellite radio and satellite television delivery.

- The most common form is companies reselling the equipment and services of a provider not licensed to operate in the market.
- For instance, a Canadian consumer who wants access to American television and radio services that are not available in Canada may approach a grey market reseller of Dish Network or DirecTV.
- There is also a grey market in the United States for Canadian satellite services such as Bell TV or Shaw Direct.
- In Europe some satellite TV services are encrypted since they have only been authorized by content suppliers to broadcast films, sporting events and US entertainment programming in a certain country or countries, hence only residents of the UK and Ireland may subscribe to Sky Digital.
- In other European countries with large British expatriate populations, such as Spain, Sky is widely available through the grey market. Although Sky discourages the use of its viewing cards outside the UK or Ireland, and has the technology to render them invalid, many people continue to use them.
- Parallel importing of "free-to-view" Sky cards from the UK to Ireland is often done so that Irish Sky customers can receive Channel 5 and some of the other channels not generally available via Sky in the Republic because of trademark and other licensing issues.
- Conversely, Sky viewing cards from the Republic of Ireland, which allow viewing of Irish terrestrial channels, are imported into the UK.
- Northern Ireland residents subscribing to Sky can watch RTÉ One and Two and TG4, although not TV3, which carries many of the same programs as ITV, a lot of the programs airing before ITV can show them.

- It is also becoming increasingly common in the UK for some pubs to use satellite decoder cards from Greece, Norway, Poland or the Arab world to receive satellite TV broadcasting live English
- Football matches from those countries. Alternatively, they may use cards which allow pirate decryption of scrambled signals. Such cards are typically much cheaper than the cards available in the UK from Sky (who charge extra fees for public showing licenses).
- However, Sky has taken civil and criminal action against some who do this. Two recent cases involving grey cards have been referred to the Justice.
- The suppliers of grey cards and Karen Murphy have won their cases at the European Court of Justice. The judges have ruled that right holders cannot license their content on an exclusive territorial basis as it breaches EU Law on competition and free movement of goods and services.
- However, whilst this ruling allows domestic viewers to subscribe to foreign satellite services, pubs may still need permission from right holders such as the Premier League to broadcast content. This is because certain elements of the broadcast such as branding are copyrighted. The matter now rests on the High Court to incorporate the ruling into UK Law.
- There have been two High Court judgments on this matter now. Mr. Justice Kitchen has ruled that QC Leisure and other suppliers of foreign satellite systems can carry on with their businesses if they can prevent copyright elements such as branding of football matches from being shown in a public place.
- The Premier League can pursue prosecutions of licensees who show branding of matches

via foreign satellite systems. Karen Murphy has won her case in the High Court following the ruling from the European Court of Justice.

- The ruling from Justice Stanley Burnt on allows Ms Murphy to shop for the cheapest foreign satellite provider.
- However the ruling from Justice Kit chin prevents Ms Murphy from showing matches in her pub via foreign satellite systems because branding are copyrighted.
- It is no longer illegal though for a customer to purchase a foreign viewing card from an EU country and use it outside the territory.

Cell phones

- The emergence of the GSM international standard for cell phones in 1990 prompted the beginning of the grey market in the cell phone industry. As global demand for mobile phones grew, so did the size of the parallel market.
- Today, it is estimated that over 30% of all mobile phones traded will pass through the grey market and that statistic continues to grow.
- It is impossible to quantify an exact figure, but sources suggest that as many as 500,000 mobile phones are bought and sold outside official distribution channels through their trading platforms every day.
- The driving forces behind a heavily active mobile phone grey market include currency fluctuations, customers demands, manufacturers policies and price variations.
- It is not uncommon for grey market traders to introduce a product into a market months in advance of the official launch.
- This was evident with the launch of the iPhone 4, where international grey market traders bought large quantities at Apple’s retail price then shipped to countries where the product was not available adding a substantial margin to the resale price.

Computer games

- Purchasing some games from online content distribution systems, such as Valve's Steam, simply requires entering a valid CD key to associate with an account. In 2007, after the release of The Orange Box, Valve deactivated accounts with CD keys that were purchased outside of the consumer's territory in order to maintain the integrity of region-specific licensing.
- This generated complaints from North American customers who had circumvented their Steam end-user license agreement by purchasing The Orange Box through cheaper, market retailers.
- Due to regional lockout, videogame consoles and their games are often subjected to grey market trade and are chosen as the alternative to modding by some gamers.
- The reasons for this may range from the console being crippled in some markets to that of the desired game not being released for the market the potential consumer of the game is in.
- PC Code Stripping is a process by which boxed PC product is bought in large quantities at cheap rates.
- Manual labor is then used to open the box, retrieve the activation code from the box and enter the code into a database.

- The activation code is then sold online as a download key and the physical product is discarded.

<u>Electronics</u>

- There is a grey market in electronics in which retailers import merchandise from regions where the prices are cheaper or where regional design differences are more favourable to consumers, and subsequently sell merchandise in regions where the manufacturer's selling price is more expensive.
- Online retailers are often able to exploit pricing disparities in various countries by using grey- market imports from regions where the product is sold at lower costs and reselling them without regional buyer restrictions.
- Websites such as Taobao and Amazon.com enable customers to buy products designed for foreign regions with different features or at cheaper costs, using parallel importation.
- The grey market for photographic equipment and other such electronics is thriving in heavily taxed states like Singapore with dealers importing directly from lower taxed states and selling at lower prices, creating competition against local distributors recognized by the products' manufacturers.
- Grey sets, as colloquially called, are often comparable to products purchased from the manufacturer's preferred retailer.
- The warranty provided, and since the grey sets were manufactured for another state, photographic equipment manufacturers often offer local warranty, instead of international warranty, which will render grey sets ineligible for warranty claims with the manufacturer.
- Because of the nature of local warranties, importers of grey sets usually offer their own warranty schemes to compensate for the manufacturers' refusal of service.

- Grey sets do not differ particularly from official imports. They look and function identically. In the salad days of camera sales during the 60s and 70s, when lenses had amber coating, the bargain basements for Japanese equipment were Hong Kong and Singapore, through which goods were channeled to European shop windows bypassing the often substantial levy of the official importers.
- World-market pricing and the Internet have largely eliminated this. Canon gives their hard-selling DSLR cameras names like "Rebel" in the USA and "EOS xx0/xx00" outside it, aimed at preventing the competitively priced US-merchandise reaching Europe where sales are slower but achieve a higher profit.

<u>Frequent-flyer miles</u>

- Trade or bartering of frequent-flyer miles is prohibited by nearly all major airlines, although an authorised medium exists for specific frequent flyer programs.
- Unauthorized exchanges of frequent flyer miles – of which several exist – are also major examples of grey markets.

Pharmaceuticals

- Some prescription medications, most notably popular and branded drugs, can have very high prices in comparison to their cost of transport. In addition, pharmaceutical prices can vary significantly between countries, particularly as a result of government intervention in prices.
- As a consequence, the grey market for pharmaceuticals flourishes, particularly in Europe and along the US–Canadian border where Canadians often pay significantly lower prices for US made pharmaceuticals than Americans do.

Stock market securities

- Public company securities that are not listed, traded or quoted on any U.S. stock exchange or the OTC markets are sometimes purchased or sold over the counter (OTC) via the grey market.
- Grey market securities have no market makers quoting the stock. Since grey market securities are not traded or quoted on an exchange or interdealer quotation system, investors' bids and offers are not collected in a central spot so market transparency is diminished and effective execution of orders is difficult.

MARKETING CHANNELS AND LOGISTICS: A CASE STUDY OF PEPSI INTERNATIONAL.

Introduction

When a company enters a foreign market, the distribution strategy and channel it uses are keys to its success in the market, as well as market know-how and customer knowledge and understanding (Bellhouse and Hutchison, 1993; Ilonen,et al., 2011). Because an effective distribution strategy under efficient supply-chain management opens doors for attaining competitive advantage and strong brand equity in the market, it is a component of the marketing mix that cannot be ignored (Bowersox and Morash, 1989). The distribution strategy and the channel design have to be right the first time (Daugherty, 2011; Layton, 2011). The case study of Pepsi International provides evidence of the situation that a company faces when its distribution strategy in the international supply-chain management is, in fact, ineffective and not right!

Pepsi Cola International accessed the Ukrainian market via exports back in 1968 and since then has been trying to sustain its position in the market. It exports its concentrate, via routes to the country that are interchanged every now and then, to 12 local bottling companies who then sell it to distributors, who then deliver it to retail stores. Despite the fact that the supply-chain management has led Pepsi to gain local fame and popularity, it is inefficient in terms of cost which reduces the ability of the company to earn higher profits (Menachof, 2001).

Task 1

GAPS IN DEMAND AND SUPPLY:

One of the two big challenges faced by Pepsi is the gap in supply and demand. This is mainly a result of Pepsi's lack of presence in the market and its heavy reliance on outsourced distribution. Gaps in demand exist in the supply chain when the company fails to meet the demand via distribution. The delivery of irregular quantities produces this gap (Bowersox and Cooper, 1992). Gaps in supply exist due to the channel members' lack of expertise in the distribution process. Efficient supply-chain management has been widely advocated in the literature on marketing channels and logistics (Wetzels, et al., 1995; Harvey and Novicevic, 2002; Minuj and Sahin, 2011; and Rollins, et al., 2011).

Evidence that there is an efficient and effective supply-chain strategy comes from customer satisfaction and the quality of customer service provided. In the case of Pepsi Cola International, an entire rural segment of customers is excluded from distribution, which shows the lack of focus given to customer service in the supply chain. As much as Pepsi Cola International would like to blame the local distributors for this, the main responsibility lies on its own head for developing a distribution strategy without proper consideration of the customer segments that exist in the country and for not hiring managers to control the supply-chain operations in the country, who would have inculcated efficiency in the supply chain (Menachof, 2001).

Pepsi Cola International has two consumer segments in the Ukraine that have not been segmented properly. So far, Pepsi's focus has been on the urban consumers. This case study highlights the growing demand for Pepsi in the rural areas (Menachof, 2001), which is not surprising as recent studies of the developing economies of the world have found that the largest and fastest growing customer segment is rural populations. However, their variable income and therefore their purchasing power is different from that of the urban consumers. This results in marketers generally ignoring the rural population and focusing mainly on urban consumers, as Pepsi is doing in the Ukraine. There is immense geographic dispersion and this, together with lack of proper infrastructure, prevents big companies from establishing tailored marketing channels to target these customers. Ignoring the rural consumers may be a disaster for Pepsi in terms of losing out on access to a larger market share in the country.

CHANNEL CONFLICT

Channel conflict is another big challenge faced by Pepsi Cola International in the Ukraine. It is the result of the high level of interdependence in the supply chain between different parties and channels and the lack of power and control exercised by Pepsi Cola International in the supply chain. All power has been given to the locals which has inculcated inefficiencies in providing quality customer service and reaching all customers as desired by Pepsi (Menachof, 2001). The main source of this conflict is the cultural difference between the local distributors and the Pepsi Cola International's country of origin.

The locals have the mindset and approach towards business whereby they allow themselves to practice any form of legal or illegal practice that may enable them to earn short-term and quick profits, regardless of their commitments to their suppliers (Menachof, 2001). They have the same approach towards Pepsi. With Pepsi outsourcing the entire supply-chain operation to locals, the locals feel free to assume their own business philosophies and execution methods as they hold no fear of disappointing their supplier. Without power and control from the vertical chain, the distributors are free to deliver as they please, regardless whether they meet marketing targets. This is a challenge; it is partly the result of carelessness on the part of Pepsi for outsourcing the supply chain entirely and showing no sign of taking authority and control of any part of the marketing channel.

While Pepsi Cola International's management is used to independence in decision-making in marketing strategies and plans, in the Ukraine it has refused to tailor its strategies to meet the local challenges and has completely given up all control of everything that the locals take over (Menachof, 2001). It is, without doubt, a failure on its part to give away power and control that needs to be positioned in the supply-chain management of the company.

The supply chain is most vulnerable to economic, social and external impacts. The challenges faced by Pepsi in the Ukraine are common to multinationals when they enter developing countries. According to Svensson (2002), there is a high level of vulnerability in the supply chains due to various interdependencies between the channels and parties within the supply chain that inculcate issues of power and control. Also, channel conflicts, channel coordination and relationships between the channels can create a level of vulnerability. About 90 per cent of the challenges faced by Pepsi Cola International in its marketing channels in the Ukraine are related to the relationships between the channel members. The main cause of vulnerability in marketing channels, as identified by Svensson (2002), is due to the relationship dependencies. These need to be in the control of the company in order to avoid any existing and potential threats.

ENVIRONMENTAL IMPACTS:

The case study has identified that the infrastructure also poses a challenge for Pepsi with regard to effective distribution and increased transit times. This has both time and cost implications and therefore contributes further towards inefficiency in the overall supply-chain management of Pepsi Cola International in the Ukraine. The roads are of poor quality and traffic is very leniently managed which adds to the complexity of- and difficulty in managing routes. The distributors mainly use roads to distribute the product to the stores. Where the pickup time from the bottlers can be managed and monitored, the delivery time is hardly ever followed as per schedule, due to the problems caused partly by the infrastructure and partly by the carelessness of the distributors. It is the distributors who pick up the final product from the bottlers and take it to the stores where customers can purchase the bottles for consumption (Menachof, 2001).

As regards bringing in the concentrate from the port to the bottlers, Pepsi Cola International has to ensure care at any cost. Therefore, it prefers to use rail travel for this. However, during winter the concentrate tends to freeze, making it useless for consumption. This adds to costs for the company and further reduces the efficiency of the supply chain (Menachof, 2001). There is no other way to deal with the matter. Pepsi has not brought in its own specialised vehicles that could ensure the safety and security of the concentrate. It has chosen to rely on the vehicles of the bottlers and the distributors, which has only produced further challenges for the company.

THEFT

Theft is a common problem in the Ukraine which has weak law enforcement and the multinational companies operating in the country are not spared from this threat. The concentrate that is shipped in is most vulnerable to theft at the port. For this reason, PCI has to deploy security staff to make sure the concentrate reaches the bottlers safely (Menachof, 2001) which adds to costs in the supply chain. Further, this does not fully ensure the safety of the concentrate and the company still has to accept that on a regular basis some of the concentrate will be stolen from the port or on its way to the bottlers. The loss itself creates a cost burden for the company. The distributors also face the threat of theft, but locals are much more immune to this and know how to deal with it. The foreigners are the ones most affected by local theft.

CONCLUSION

Marketing channels have been regarded as gatekeepers and important assets for the success and effectiveness of the marketing strategy of any company (Bowersox and Cooper, 1992; Bourlakis and Melewar, 2011). If Pepsi is to gain competitive advantage in the market, it needs to invest further in its supply-chain management. With the growing interest of companies in expanding overseas into foreign markets, emphasis in research has been placed upon global supply-chain management, where the notions of channel strategies, channel conflicts and channel designs have been drawing interest of both researchers and practitioners (Beresford et al., 2011). Pepsi needs to incorporate these concepts and tools into its marketing strategy in order to enable efficiency in supply-chain management. Its focus needs to be on customer satisfaction in the market and cost efficiency along with a leadership strategy that takes into account cultural gaps that are affecting its ability to reach all customers.

<u>QUESTIONS:</u>

1) List out various elements involved in physical distribution of goods?
2) Explain the issues involved in selection of market intermediaries in foreign countries?
3) What is a channel of distribution? What are the activities that take place in the channels of distribution by channel members?
4) Explain the various concepts of distribution structures and patterns?

(17E00408) INTERNATIONAL MARKETING
(Elective VI)

Objective: The objective of the course is to provide students with a perspective of International Marketing Management, its environment and complexities.

1. International Marketing: Scope and Significance of International Marketing, The importance of international marketing, Differences between international and domestic marketing, legal environment and regulatory environment of international marketing.

2. International Market Entry Strategies: Indirect Exporting, , Direct Exporting, Foreign Manufacturing Strategies with Direct Investment. Entry Strategies of Indian Firms.

3. International product management: International product positioning, Product saturation Levels in global Market, New products in International Market, Products and culture, brands in International Market.

4. International Marketing Channels: Distribution Structures, Distribution Patterns, Factors effecting Choice of Channels, the Challenges in Managing an international Distribution Strategy, Selecting Foreign Country Market intermediaries. The management of physical distribution of goods, Grey Market goods.

5. Export Marketing: Introduction to Export Marketing, Export Policy Decisions of a firm, EXIM policy of India. Export costing and pricing, Export procedures and export documentation. Export assistance and incentives in India.

Text books:

- International Marketing, Michael R.Czinkota, Likka A Ronkainen, Cengage .
- Global marketing Management , Keegan, Green, 4/e, Pearson

References:

- International Marketing Analysis and Strategy, SakOnkvisit, John J. Shaw, PHI.
- International Marketing, Philip R. Cateora, John L. Graham, Prasanth Salwan, TMH.
- International Marketing,Vasudeva PK, excel.
- Global Maketing, Management, Lee, Carter, Oxford.
- International Marketing and Export management, Albaum , Pearson Education.
- Global Marketing, Johansson, TMH.
- Integrated Marking Management – Text and Cases, Mathur, Sage.

UNIT – 5
EXPORT MARKETING

1. INTRODUCTION TO EXPORT MARKETING:

- TRADE Transfer of ownership of goods or services. Trade is sometimes loosely called commerce or financial transaction or barter. INTERNATIONAL TARDE International trade is the exchange of capital, goods, and services across international borders.
- EXPORT In International Trade, "exports" refers to selling goods and services produced in the home country to other countries. The seller of such goods and services is referred to as an "exporter“.
- IMPORT In International Trade, “imports" refers to buying goods and services produced in a foreign country to other countries. The buyer of such goods and services is referred to an "importer".

EXPORT MARKETING:

- Export marketing means exporting goods to other countries of the world as per the procedures framed by the exporting country as well as by the importing country. Export marketing has wider economic significance as it offers various advantages to the national economy. It has bought back several nations back from the dead.

DEFINITION:

- According to B. S. Rathor “Export marketing includes the management of marketing activities for products which cross the national boundaries of a country”. “Export marketing means marketing of goods and services beyond the national boundaries”.

FEATURES:

1. Systematic Process – Export marketing is a systematic process of developing and distributing goods and services in overseas markets. The export marketing manager needs to undertake various marketing activities, such as marketing research, product design, branding, packaging, pricing, promotion etc.

2. Large Scale Operations – Normally, export marketing is undertaken on a large scale. Emphasis is placed on large orders in order to obtain economies in large sole production and distribution of goods.

3. Dominance of Multinational Corporations – Export marketing is dominated by MNCs, from USA, Europe and Japan. They are in a position to develop worldwide contacts through their network and conduct business operations efficiently and economically.

4. Trade barriers – Export marketing is not free like internal marketing. There are various trade barriers because of the protective policies of different countries. Tariff and non-tariff barriers are used by countries for restricting import.
5. Documentation – Export marketing is subject to various documentation formalities. Exporters require various documents to submit them to various authorities like bill of lading.

Need / Importance of Export Marketing at the National Level:

1) Earning foreign exchange – Exports bring valuable foreign exchange to the exporting

country, which is mainly required to pay for import of capital goods, raw materials, spares and components as well as importing advance technical knowledge.

2) International Relations – Almost all countries of the world want to prosper in a peaceful environment. One way to maintain political and cultural ties and peace with other countries is through international trade.

3) Balance of payment – Large – scale exports solve BOP problem and enable countries to have favourable BOP position. The deficit in the BOT and BOP can be removed through large-scale exports.

4) Reputation in the world – A country which is foremost in the field of exports, commands a lot of respect, goodwill and reputation from other countries.

5) Employment Opportunities – Export trade calls for more production. More production opens the doors for more employment opportunities, not only in export sector but also in allied sector like banking, insurance etc.

Need / Importance of export marketing at Business / Enterprise Level

1) Reputation – An organization which undertakes exports can become famous not only in the export markets, but also in the home market. For example, firms like Phillips, , Sony, coca cola, Pepsi, enjoy international reputation.

2) Optimum Production – A company can export its excess production after meeting domestic demand. Thus, the production can be carried on up to the optimum product

3) Spreading of Risk – A firm engaged in domestic as well as export marketing can spread its marketing risk in two parts. The loss is one part (i.e. in one area of marketing) can be compensated by the profit earned in the other part / area.

4) Higher profits – Exports enable a business enterprise to earn higher prices for goods. If the exporters offer quality products, they can charge higher prices than those charged in the home market and thereby raise the profit margin.

A typical export marketing plan focuses on the following aspects:

1. Marketing Objectives- The first step in developing an export marketing plan is to establish export marketing objectives. These objectives should be attainable, realistic and should be communicated throughout the business firm. Since they will determine the business firm's direction and its activities, management will have to devote considerable time and effort to setting them.

2. Market Segmentation- An export marketing plan is not complete until the business firm has identified its target segment in the export market. Any large market would have different market segments that differ substantially from each other.

3. Market Research- To succeed in export trade, A business firm must identify attractive export markets and estimate the export potential for its products in them. Market research and forecasting are therefore, of great importance.

4. Product Characteristics- The business firm should next consider the products that it has to offer. An analysis should be any modifications required in the products, packaging changes needed labeling requirements, brand name and after sales services are expected.

5. Export Pricing- In setting an export price, the business firm should consider additional costs that do not enter into pricing for the domestic market such as international freight and insurance charges, product adaptation costs, import duties, commissions for import agents and foreign exchange risk coverage.

CHALLENGES TO EXPORT MARKETING

1. Technological differences- The developed countries are equipped with sophisticated technologies less developed countries, on the other hand, lack technical knowledge and latest equipments.

2. Reduction in export Incentives– Over the years, the Govt. of India has reduced export incentives such as withdrawal of income tax benefits for majority of exporters. The reduction in export incentives de-motivates exporters

3. Several competitions in global marketing– Export marketing is highly competitive. Indian exporters face three-faced competition while exporting.

4. Problem of product standards– Developed countries insist on high product standards from developing countries like India. The products from developing countries are subject to product tests in the importing countries.

5. Problem in preparing Documents– Export involves a large number of documents. The exporter will have to arrange export documents required in his country and also all the documents as mentioned in the documentary letter of credit. In India, there are as many as 25 documents.

IMPORTANCE OF EXPORT MARKETING

1) Increased Sales and Profits. Selling goods and services to a market the company never had before boost sales and increases revenues. Additional foreign sales over the long term, once export development costs have been covered, increase overall profitability.

2) Enhance Domestic Competitiveness Most companies become competitive in the domestic market before they venture in the international arena. Being competitive in the domestic market helps companies to acquire some strategies that can help them in the international arena.

3) Gain Global Market Shares. By going international companies will participate in the global market and gain a piece of their share from the huge international marketplace.

4) Diversification. Selling to multiple markets allows companies to diversify their business and spread their risk. Companies will not be tied to the changes of the business cycle of domestic market or of one specific country.

5) Lower Per Unit Costs. Capturing an additional foreign market will usually expand production to meet foreign demand. Increased production can often lower per unit costs and lead to greater use of existing capacities.

2. EXPORT POLICY DECISIONS/EXPORT MARKETING PLAN OF A FIRM:

Marketing planning is the work of setting up objectives for marketing activities and of determining and scheduling the steps necessary to achieve such objectives. Thus the initial step of the management in marketing planning is deciding the marketing objectives and thereafter the marketing activities including purchase sales product planning and development advertisement sales promotion after sales service etc.

A plan for export marketing is nothing but an inventory of the physical and human resources of the micro level and a forecast for the future. Such inventory should be prepared in detail a more skeleton planning will not be of much use. For this purpose information regarding different variables of marketing mix and production mix is one of the three indispensable elements of the international market i.e., product efficient sales and distribution organization and a marketing plan.

The marketing plan should therefore not be over looked. An exporter may be successful even without preparing marketing plan but such cases are not very common.

Preparing a marketing plan or planning may be regarded as the work of setting up objectives for marketing activities and then work according to it to achieve those objectives. A variation may be allowed achieve the objectives in a better way. All marketing activities should be geared to achieve those objectives.

FACTORS AFFECTING EXPORT POLICY

1. **LIST OF OBJECTIVES**: first of all the marketing should prepare a list of the firm's own goals or objectives.
2. **INVENTORY OF RESOURCES**: resources are of two types of physical and human resources. Include workers and their skills managerial know how of exports etc. inventory of these should be made in order to take stock of the whole situations.
3. **METHODS**: now should be decided how the firm intends to implement the plan for export marketing? Specific methods must be checked and analyzed.
4. **STRATEGY**: strategy means how do was penetrating into the export market in the first place? A specific marketing strategy must be listed and understood by those who have to implement it.
5. **TARGETS**: minute goals in terms of short and long targets must be fixed. It should be determined where the company intends to be in six months one year three years five years and two years this requires making a forecast for the future.
6. **MARKETING COST**: the export marketing planners should be meticulous about getting and analyzing the export marketing cost information. The following information about cost should be gathered.

a. **ESTIMATIION OF MARKETING COSTS IN THE SPECIFIC EXPORT MARKET:** this includes the following ,

- Market costs
- Expenditure to meet the changing requirements of customers abroad i.e., in adaptation of product
- Packaging shipping and marine insurance cost
- Travel cost to foreign markets if any
- Estimated sales during a particular year
- Estimated profits from export sales.

b. Investment of the exporting company in installing a new plant for export production

c. **RESPONSIBILITY OF THE INTERMEDIARIES IN DETERMINING THE COST**: if an independent of sale in foreign markets the companies' investment and risks will be substantially reduced. If there is no such intermediary and the company directly contacts the foreign buyers the investment and risks are greater.

7. **KNOWLEDGE OF EXPORT MARKET ENVIRONMENT**: The company should acquire and maintain a good knowledge of the changing export market environment which has undergone a number of significant changes since 1947 in India creating both new opportunities and new problems following have been the most significant changes,

- Rapid internationalization of the worked economy reflected in the rapid growth of worked trade.
- Continuous and increasing unfavorable balance of trade
- Rise in economic power of third world countries in the export markets.
- The establishment of a working international financial system offering improved currency convertibility and much other international organization.
- Since 1973 the shift of world income to the oil producing countries.

8. **MARKETING ENVIRONMENT OF SPEFICIED HOST COUNTRIES:** the important factors in it are climate, distance communication methods difference in business and social customs language barriers and variables in market structure and the stage of economic growth that it has reached. All these should be studied.

9. **OTHER FACTORS:** some other factors which require attention are political arrangements and relations between home and host countries tariff policies and non tariff barriers national monetary systems and foreign currency controls transportation cost of international commerce differing business standards around the world such as system of weights and measurement etc. the above factors are impotent in preparing and developing an export marketing plan.

10. **EXPORT IMPORT POLICY:** export import policy of India and the assistance provided to exporters under the EXIM policy and other acts should also be considered.

3. EXIM POLICY OF INDIA:

- The Foreign Trade Policy of India is guided by the Export Import in known as in short EXIM Policy of the Indian Government and is regulated by the Foreign Trade Development and Regulation Act, 1992. DGFT (Directorate General of Foreign Trade) is the main governing body in matters related to Exim Policy. The main objective of the Foreign Trade (Development and Regulation) Act is to provide the development and regulation of foreign trade by facilitating imports into, and augmenting exports from India. Foreign Trade Act has replaced the earlier law known as the imports and Exports (Control) Act 1947.

EXIM Policy

- Indian EXIM Policy contains various policy related decisions taken by the government in the sphere of Foreign Trade, i.e., with respect to imports and exports from the country and more especially export promotion measures, policies and procedures related thereto. Trade Policy is prepared and announced by the Central Government (Ministry of Commerce). India's Export Import Policy also know as Foreign Trade Policy, in general, aims at developing export potential, improving export performance, encouraging foreign trade and creating favorable balance of payments position.

History of Exim Policy of India

- In the year 1962, the Government of India appointed a special Exim Policy Committee to review the government previous export import policies. The committee was later on approved by the Government of India. Mr. V. P. Singh, the then Commerce Minister and announced the Exim Policy on the 12th of April, 1985. Initially the EXIM Policy was introduced for the period of three years with main objective to boost the export business in India.

Exim Policy Documents

The Exim Policy of India has been described in the following documents:

- Interim New Exim Policy 2009 - 2010
- Exim Policy: 2004- 2009
- Handbook of Procedures Volume I
- Handbook of Procedures Volume II
- ITC(HS) Classification of Export- Import Items

The major information in matters related to export and import is given in the document named "Exim Policy 2002-2007".

Objectives Of The Exim Policy: -

- Government control import of non-essential items through the EXIM Policy. At the same time, all-out efforts are made to promote exports. Thus, there are two aspects of Exim Policy; the import policy which is concerned with regulation and management of imports and the export policy which is concerned with exports not only promotion but also regulation. The main objective of the Government's EXIM Policy is to promote exports to the maximum extent. Exports should be promoted in such a manner that the economy of the country is not affected by unregulated exportable items specially needed within the country. Export control is, therefore, exercised in respect of a limited number of items whose supply position demands that their exports should be regulated in the larger interests of the country. In other words, the main objective of the Exim Policy is:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To stimulate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production.
- To enhance the techno local strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To generate new employment.
- Opportunities and encourage the attainment of internationally accepted standards of quality.
- To provide quality consumer products at reasonable prices.

Governing Body of Exim Policy

- The Government of India notifies the Exim Policy for a period of five years (1997-2002) under Section 5 of the Foreign Trade (Development and Regulation Act), 1992. The current Export Import Policy covers the period 2002-2007.
- The Exim Policy is updated every year on the 31st of March and the modifications, improvements and new schemes became effective from 1st Aprilofeveryyear.
- All types of changes or modifications related to the EXIM Policy is normally announced by the Union Minister of Commerce and Industry who co-ordinates with the Ministry of Finance, the Directorate General of Foreign Trade and network of Deft Regional Offices.

Exim Policy 1992 -1997 :

- In order to liberalize imports and boost exports, the Government of India for the first time introduced the Indian Exim Policy on April I, 1992. In order to bring stability and continuity, the Export Import Policy was made for the duration of 5 years. However, the Central Government reserves the right in public interest to make any amendments to the trade Policy in exercise of the powers conferred by Section-5 of the Act. Such amendment shall be made by means of a Notification published in the Gazette of India. Export Import Policy is believed to be an important step towards the economic reforms of India.

Exim Policy 1997 -2002

- With time the Exim Policy 1992-1997 became old, and a New Export Import Policy was need for the smooth functioning of the Indian export import trade. Hence, the Government of India introduced a new Exim Policy for the year 1997-2002. This policy has further simplified the procedures and educed the interface between exporters and the Director General of Foreign Trade (DGFT) by reducing the number of documents required for export by half. Import has been further liberalized and better efforts have been made to promote Indian exports in international trade.
-

Objectives of the Exim Policy 1997 -2002

The principal objectives of the Export Import Policy 1997 -2002 are as under:

- To accelerate the economy from low level of economic activities to high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities.
- To motivate sustained economic growth by providing access to essential raw materials, intermediates, components,' consumables and capital goods required for augmenting production. To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby, improving their competitiveness.
- To create new employment. Opportunities and encourage the attainment of internationally accepted standards of quality.
- To give quality consumer products at practical prices.

Highlights of the Exim Policy 1997-2002

1. Period of the Exim Policy

• This policy is valid for five years instead of three years as in the case of earlier policies. It is effective from 1st April 1997 to 31st March 2002.

2. Liberalization

• A very important feature of the policy is liberalization.

• It has substantially eliminated licensing, quantitative restrictions and other regulatory and discretionary controls. All goods, except those coming under negative list, may be freely imported or exported.

3. Imports Liberalization

• Of 542 items from the restricted list 150 items have been transferred to Special Import Licence (SIL) list and remaining 392 items have been transferred to Open General Licence (OGL) List.

4. Export Promotion Capital Goods (EPCG) Scheme

• The duty on imported capital goods under EPCG Scheme has been reduced from 15% to 10%.

• Under the zero duty EPCG Scheme, the threshold limit has been reduced from Rs. 20 crore to Rs. 5 crore for agricultural and allied Sectors

5. Advance Licence Scheme

• Under Advance License Scheme, the period for export obligation has been extended from 12 months to 18 months.

• A further extension for six months can be given on payment of 1 % of the value of unfulfilled exports.

6. Duty Entitlement Pass Book (DEPB) Scheme

• Under the DEPB Scheme an exporter may apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency.

• Such credit can be can be utilized for import of raw materials, intermediates, components, parts, packaging materials, etc. for export purpose.

Impact of Exim Policy 1997 –2002

(a) Globalization of Indian Economy:

- The Exim Policy 1997-02 proposed with an aim to prepare a framework for globalizations of Indian economy. This is evident from the very first objective of the policy, which states.
- "Toaccelerate the economy from low level of economic activities to- high level of economic activities by making it a globally oriented vibrant economy and to derive maximum benefits from expanding global market opportunities."

(b) Impact on the Indian Industry:

- In the EXIM policy 1997-02, a series of reform measures have been introduced in order to give boost to India's industrial growth and generate employment opportunities in non-agricultural sector.
- These include the reduction of duty from 15% to 10% under EPCG scheme that enables Indian firms to import capital goods and is an important step in improving the quality and productivity of the Indian industry.

(c) Impact on Agriculture:

- Many encouraging steps have been taken in the Exim Policy 1997-2002 in order to give a boost to Indian agricultural sector. These steps includes provision of additional SIL of 1 % for export of agro products, allowing EOU's and other units in EPZs in agriculture sectors to 50% of their output in the domestic tariff area (DTA) on payment of duty.

(d) Impact on Foreign Investment.

- In order to encourage foreign investment in India, the Exim Policy 1997-02 has permitted 100% foreign equity participation in the case of 100% EOUs, and units set up in EPZs.

(e) Impact on Quality up gradation:

- The SIL entitlement of exporters holding ISO 9000 certification has been increased from 2% to 5% of the FOB value of exports, which has encouraged Indian industries to undertake research and development programmers and upgrade the quality of their products.

(f) Impact on Self-Reliance:-

- The Exim Policy 1997-2002 successfully fulfills one of the India's long terms objective of Self-reliance. The Exim Policy has achieved this by encouraging domestic sourcing of raw materials, in order to build up a strong domestic production base. New incentives added in the Exim Policy have also added benefits to the exporters.

Exim Policy 2002 – 2007:

- The Exim Policy 2002 - 2007 deals with both the export and import of merchandise and services. It is worth mentioning here that the Exim Policy: 1997 - 2002 had accorded a status of exporter to the business firm exporting services with effect from1.4.1999. Such business firms are known as Service Providers.

Objectives of the Exim Policy: 2002 – 2007

The main objectives of the Export Import Policy 2002-2007 are as follows:

1. To encourage economic growth of India by providing supply of essential raw materials, intermediates, components, consumables and capital goods required for augmenting production and providing services.
2. To improve the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities and encourage the attainment of internationally accepted standards of quality; and
3. To provide consumers with good quality products and services at internationally competitive prices while at the same time creating a level playing field for the domestic producers.

Main Elements of Exim Policy 2004-2009

The new Exim Policy 2004-2009 has the following main elements:

- Preamble
- Legal Framework
- Special Focus Initiatives
- Board Of Trade
- General Provisions Regarding Imports And Exports
- Promotional Measures
- Duty Exemption / Remission Schemes
- Export Promotion Capital Goods Scheme
- Export Oriented Units (EOUs),Electronics Hardware Technology Parks (EHTPS), Software Technology Parks (STPs) and Bio-Technology Parks (BTPs)
- Special Economic Zones
- Free Trade & Warehousing Zones
- Deemed Exports

Permeable of Exim Policy 2004-2009:

- It is a speech given by the Ministry of Commerce and Industries. The speech for the Exim Policy 2004-2009 was given by Kamal Nath, on 31ST AUGUST, 2004.

Legal Framework of Exim Policy 2004-2009

1.1 Preamble

The Preamble spells out the broad framework and is an integral part of the Foreign Trade Policy.

1.2 Duration

In exercise of the powers conferred under Section 5 of The Foreign Trade (Development and Regulation Act), 1992 (No. 22 of 1992), the Central Government hereby notifies the Exim Policy for the period 2004-2009 incorporating the Export Import Policy for the period 2002-2007, as modified. This Policy shall come into force with effect from 1st September, 2004 and shall remain in force up to 31st March, 2009, unless as otherwise specified.

1.3Amendments

The Central Government reserves the right in public interest to make any amendments to this Policy in exercise of the powers conferred by Section-5 of the Act. Such amendment shall be made by means of a Notification published in the Gazette of India.

1.4TransitionalArrangements

- Notifications made or Public Notices issued or anything done under the previous Export / Import policies and in force immediately before the commencement of this Policy shall, in so far as they are not inconsistent with the provisions of this Policy, continue to be in force and shall be deemed to have been made, issued or done under this Policy.

1.5FreeExportImport

- In case an export or import that is permitted freely under Export Import Policy is subsequently subjected to any restriction or regulation, such export or import will ordinarily be permitted notwithstanding such restriction or regulation, unless otherwise stipulated, provided that the shipment of the export or import is made within the original validity of an irrevocable letter of credit established before the date of imposition of such restriction.

Special Focus Initiative of Exim Policy 2004-2009

- With a view to doubling our percentage share of global trade within 5 years and expanding employment opportunities, especially in semi urban and rural areas, certain special focus initiatives have been identified for agriculture, handlooms, handicraft, gems & jewellery, leather and Marine sectors.

- Government of India shall make concerted efforts to promote exports in these sectors by specific sectoral strategies that shall be notified from time to time.

Board of Trade of Exim Policy 2004-2009

BOT has a clear and dynamic role in advising government on relevant issues connected with foreign trade.

- To advise Government on Policy measures for preparation and implementation of both short and long term plans for increasing exports in the light of emerging national and international economic scenarios;
- To review export performance of various sectors, identify constraints and suggest industry specific measures to optimize export earnings;
- To examine existing institutional framework for imports and exports and suggest practical measures for further streamlining to achieve desired objectives;
- To review policy instruments and procedures for imports and exports and suggest steps to rationalize and channelize such schemes for optimum use;
- To examine issues which are considered relevant for promotion of India's foreign trade, and to strengthen international competitiveness of Indian goods and services; and
- To commission studies for furtherance of above objectives.

General Provisions Regarding Exports and Imports of Exim Policy 2004-2009

- Countries of Imports/Exports - Unless otherwise specifically provided, import/ export will be valid from/to any country. However, import/exports of arms and related material from/to Iraq shall be prohibited.
- The above provisions shall, however, be subject to all conditionality, or requirement of licence, or permission, as may be required under Schedule II of ITC (HS).

Promotional Measures of Exim Policy 2004-2009

The Government of India has set up several institutions whose main functions are to help an exporter in his work. It would be advisable for an exporter to acquaint him with these institutions and the nature of help that they can provide so that he can initially contact them and have a clear picture of what help he can expect of the organized sources in his export effort. Some of these institution are as follows.

- Export Promotion Councils
- Commodity Boards
- Marine Products Export Development Authority
- Agricultural & Processed Food Products Export Development Authority
- Indian Institute of Foreign Trade
- India Trade Promotion Organization (ITPO)
- National Centre for Trade Information (NCTI)
- Export Credit Guarantee Corporation (ECGC)
- Export-Import Bank
- Export Inspection Council
- Indian Council of Arbitration
- Federation of Indian Export Organizations
- Department of Commercial Intelligence and Statistics
- Directorate General of Shipping

- Freight Investigation Bureau

Duty Exemption / Remission Schemes of Exim Policy 2004-2009

- The Duty Exemption Scheme enables import of inputs required for export production. It includes the following exemptions-

Duty Drawback: -

- The Duty Drawback Scheme is administered by the Directorate of Drawback, Ministry of Finance. Under Duty Drawback scheme, an exporter is entitled to claim Indian Customs Duty paid on the imported goods and Central Excise Duty paid on indigenous raw materials or components.

Excise Duty Refund: -

- Excise Duty is a tax imposed by the Central Government on goods manufactured in India. Excise duty is collected at source, i.e., before removal of goods from the factory premises. Export goods are totally exempted from central excise duty.

Octroi Exemption: -

- Octroi is a duty paid on manufactured goods, when they enter the municipal limits of a city or a town. However, export goods are exempted from Octroi.

- The Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in the export product.

DEPB:

- Duty Entitlement Pass Book in short DEPB Rate is basically an export incentive scheme. The objective of DEPB Scheme is to neutralize the incidence of basic custom duty on the import content of the exported products.

4. EXPORT COSTING AND PRICING:

- In the era of Global Market Economy and fierce competition, importance of accurate costing of product need not be over – emphasized. In accurate costing can lead to either losing of orders or losing of profits.
- Export pricing is most important tool for promoting sales and contesting international competition. Exporter has to face domestic producers in the export market, producers in other competing supplying countries and domestic producer’s in one owns country. Costs, Demand and Competition are the three important factors that determine price. The price for export should be as realistic as possible. The exporter has to exclude cost for domestic production which are not applicable for export and add those elements of costs which are relevant to export product. Exporter has to compete with manufacturers formal over the world. Hence, his price has to be realistic considering all export benefits and price in foreign market.
- There is no fixed formula for successful export pricing. It differs from exporter to exporter depending upon whether the exporter is a merchant exporter or manufacturer exporter or exporting through canalizing agency. Exporter has to assess the strength of his competitor And anticipate the move of competitor in the market of operation. Exporter can still be competitive with higher prices with better delivery package or added advantage.

Following are few examples of such factors:

- Range of product offered
- Prompt deliveries and continuity in supplies
- Product differentiation and brand image
- Frequency of purchases
- Presumed relationship between quality and price
- Credit offered

Pricing Vs Costing :

There is a lot of confusion between the price and the cost. Many consider these synonymous. A few points to give you a mental pictures of these points are as under

- Price is what we offer to the customer. Cost is the price that we pay / incur for the product.
- Price includes our profit margin. Cost only gives the expenses we have incurred.
- Costing is the Cost Accountant’s privilege. Pricing is the Marketing man’s privilege.

Export Price:

Once the Ex- works / purchase price has been decided the additional expenses that have to be added are as under :

- Loading charges from work to truck/ rail/ air etc.
- Freight charges to port of shipment
- Clearing and forwarding charges

- Dock charges / wharf age/ terminal handling charges etc.
- Freight charges to the destination port
- Insurance charges
- Insurance (both to port of shipment and destination)
- Commission
- Interest charges
- Guarantee/Warrantee costs

In order to withstand international competition, the Government offers certain exemptions and incentives / benefits. These are additional realizations which tend to reduce the cost of your product. the following are few of them :

- There is no sales tax applicable on the final product
- There is no excise applicable on the final product
- Duty free import of raw materials, components and consumables is permitted under the advance licensing scheme.
- Income tax benefit under 80HHC
- Special import license
- Credit of duty under the duty Entitlement Pass Book Scheme
- Any other special subsidy announced by the government

Special Factors for Exporting Pricing:

There are many unique factors relating to goods to be sold abroad. These factors influence their determination in comparison to those having bearing on pricing for domestic products. These factors may be delivery schedules, terms of payments, motivation of pricing, size of order etc.

Factors that increase price of Export Products :

- Special packing, marking and labeling
- Additional supervision and effort for Export product
- Export Transaction cost
- Cost of Export Procedure
- Marketing cost
- Additional Insurance cost

Factors that reduce price of Export Products :

- Export Assistance and Facilities
- Refund or exemption from excise duty
- Lower price due to Imported components and spares

Import of raw materials at International price

- Benefit of economy of scale
- Cheaper Export credit

5. EXPORT PROCEDURE AND EXPORT DOCUMENTATION:

EXPORT PROCEDURE

Processing of export order involves following stages:

1) **REGISTRATION STAGES**: - The exporter is required to register his organization with a number of institutions and authorities, which directly or indirectly help him in the smooth conduct of export, trade. The registration stage includes:

i)**REGISTRATION OF THE ORGANISATION** :- The form of organization selected by the exporter must be registered under the appropriate Act of the country

a) A joint stock company under the companies Act,1956,
b)A partnership firm under the Indian partnership Act, 1932, and
c) A scale trader should seek permission from the local authorities, as required.

Registration Stage
Pre-shipment stage
Shipment stage
Post-shipment stage

ii)**OPENING BANK ACCOUNT**:- The exporter should open a current account in the name of the firm or company with a commercial bank which is authorized by the Reserve Bank of India (RBI) to deal in foreign exchange. Such bank also serves as a source of pre-shipment finance of the exporter.

iii) **OBTAINING IMPORTER-EXPORTER CODE NUMBER (IEC No.)**: Prior to 1.1.1997, it was obligatory for every exporter to obtain CNX number from the RBI. However, since then, IEC number issued by the Director General for Foreign Trade (DGFT) has replaced the CNX number. The application form for obtaining IEC number should be accompanied by fee of, 1000.

iv) **OBTAINING PERMANENT ACCOUNT NUMBER (PAN)**:- Export income is subject to a number of exemptions and deductions under different sections of the Income Tax Act. For claiming such exemptions and deductions, the exporter should register his organization with the Income Tax Authorities and obtain the permanent Account Number (PAN).

v) **OBTAINING SALES TAX NUMBER**:-Exportable goods are exempted form sales tax, provided, the exporter or his firm is registered with the Sales Tax Authorities. For this purpose, the exporter is required to make an application in the prescribed from to the Sales Tax Office (STO) in whose jurisdiction his (exporter's) Office is situated.

vi) **REGISTRATION WITH EXPORT PROMOTION COUNCIL (EPC)** :- It is obligatory for every exporter to register with the appropriate Export Promotion Council (EPC) and obtain the 'Registration-cum-Membership Certificate' (RMC). The benefits provided in the current EXIM policy are extended only to the registered exporters having valid RCMC.

Vii) **REGISTRATION WITH ECGC** :-The exporter should also register with the Export Credit and Guarantee Corporation of India (ECGC) in order to secure overseas payment against political and commercial risks. It helps the exporters in obtaining the financial assistance form commercial banks and other financial instructions.

viii) **REGISTRATION WITH OTHER AUTHORITIES**: - The exporter should also register with various other authorities, such as:
a) Federation of Indian Export Organization (FLEO),
b) Indian Trade Promotion Organization (ITPO),
c) Chambers of Commerce (COC), and
d) Productivity Councils, etc.

2) **PRE-SHIPMENT STAGE**:- Pre-shipment stage consists of the following steps:

i) **APPORACHING FOREGIN BUYERS**:-In order to secure an export order, a new exporter can make use of one or more of the techniques, such as advertising in international media, sales promotion, public relation, personal selling publicity and participation in trade fairs and exhibitions.

ii) **INQUIRY AND OFFER**:- An inquiry is a request from a prospective importer about description of goods, their standard or grade, size, weight or quantify, terms of payments, etc., on getting an inquiry, the exporter must process it immediately by making an offer in the form of a Performa invoice.

iii) **CONFIRMATION OF ORDER**: **-** Once the negotiations are completed and the terms and conditions are finalized, the exporter sends three copies of Performa invoice to the importer for the confirmation of order. The importer signs these copies and sends back two copies to the exporter.

iv) **OPENING LETTER OF CREDIT**: **-** The documentary credit or letter of credit is the most appropriate and secured method of payment adopted to settle international transactions, on the finalization of the export, contract, and the importer opens a letter of credit in favour of the exporter, if agreed upon in the contract.

v) **ARRANGMENT OF PRE-SHIPMENT FINANCE** :- On securing the letter of credit, the exporter procures a pre-shipment finance from his bank for procuring raw materials and other components, processing and packing of goods and transfer of goods to the port of shipment.

vi) **PRODUCTION OR PROCUREMENT OF GOODS**:-On securing the pre-shipment finance the bank, the exporter either arranges for the production of the required goods, or procures them from the domestic market as per the specifications of the importer.

vii) **PACKING AND MARKETING** :- Then the goods should be properly packed and marked with necessary details such as port of shipment and destination, country of origin, gross and net weight, etc. if required, assistance can be taken form the Indian institute of packing (IIP).

viii) **PRE-SHIPMENT 'INSPECTION**':- If the goods to be exported are subject to compulsory quality control and pre-shipment inspection then the exporter should contract the export inspection Agency (EIA). For obtaining an inspection certificate.

ix) **CENTRAL EXCISE CLEARANCE**:- The exporter are totally exempted from the payment of central excise duty. However, the exemption should be claimed in one of the following ways:
a) Export under rebate
b) Export under bond.

x) **OBTAINING INSURANCE COVER**: - The exporter must take appropriate policies in order to insure risks: ECGC policy order to cover credit risks, Marine policy, if the price quotation agreed upon in CIF.

xi) **APPOINTMENT OF C&F AGENT**:- Since exporting is a complex and time consuming process, the exporter should appoint a clearing and forwarding (C&F) agent for the smooth clearance of goods form the customer and preparation and submission of various export documents.

3) **SHIPMENT STAGES**: The shipment stage includes the following steps:-

i) **RESERVATION OF SHIPPING SPACE**:- Once the export contract is finalized, the exporter reserves the required space in the vessel for shipment. On accepting the exporter's request, the shipping company issues a shipping order. The original copy of the shipping order as given to the exporter and the duplicate instruction by the shipping company to the commanding officer of the ship that the goods per the details given should be received on board.

ii) A**RRANGMENT OF INTERNAL TRANSPORTATION UP TO THE PORT OF SHIPMENT**: the exporter makes necessary arrangements for transportation of goods to the port either by road or railways. On loading goods into the railway wagon, the railway authorities issue a 'Railway Receipt', which may be either 'freight paid' or freight to pay. It serves a title to the goods. The exporter does the railway receipt in favour of his agent to enable him to take delivery of the goods at the port of shipment.

iii) **PREPARATION AND PROCESSING OF SHIPPING DOCUMENTS**: - As the goods reaches the port of shipment, the exporter should issue detailed instructions to the C&F agent for the shipment of cargo along with a complete set of the documents listed below:

a) Letter of Credit along with the export contract or export order,
b) Commercial invoice (2 copies),
c) Packing list or packing note.
d) Certificate of origin
e) GR form (original and duplicate),
f) ARE-I form
g) Certificate of inspection, where necessary (original copy), and
h) Marine insurance policy.

iv) **CUSTOMERS CLEARANCE**: - The cargo must be cleared from the customs before it is loaded on the ship. For this, the above mentioned documents, along with five copies of shipping bill, are to be submitted to the customs appraiser at the customs house.

v) **OBTAINING 'CARTING ORDER' FROM THE PORT TRUST AUTHORITIES**:- The C&F agent, then, approaches the superintendent of the concerned port trust for obtaining the 'Carting Order' for moving the cargo inside the dock. After obtaining the carting order, the cargo is physically moved into the port area and stored in the appropriate shed.
vi) **CUSTOMES EXAMINATION AND ISSUE OF 'LET EXPORT ORDER'**: The customs examiner at the port of shipment physically examines the goods and seals the packages in his presence. The same can be arranged for at the factory or warehouse of the exporter by making an application to the Assistant Collector of Customs. The customs examiner, if satisfied , issues a formal permission for the loading of cargo on the ship in the form of a 'Let Export Order'.
vii) **OBTAINING 'LET SHIP ORDER FROM CUSTOMS PREVENTIVE OFFICER**': 'Let export order' must be supplemented by a 'Let ship order' issued by the customs prevention officer. The C&F agent submits the duplicate copy of shipping bill, duly endorsed by the customs examiner, to the customs preventive officer who endorses it with the 'Let ship order'.
Viii) **OBTAINING MATE'S RECEPIT AND BILL OF LADING**:-The goods are then loaded on board the ship for which the mate or the captain of the ship issues Mate's receipt to the port superintendent. The port superintendent, on receipt of port dues, hands over the mate's receipt to the shipping company for obtaining the bill of landing. The shipping company issues two to three negotiable and two to three non-negotiable copies of bill of landing.

POST-SHIPMENT STAGE: The post-shipment stage consists of the following steps:

i) **SUBMISSION OF DOCUMENTS BY THE C&F AGENT TO THE EXPORTER**: On the completion of the shipping procedure, the C&F agent submit the following documents to the exporter:
a) A copy of invoice duly attested by the customs.
b) Drawback copy of the shipping bill.
C) Export promotion copy of the shipping bill.
d) A full set of negotiable and non-negotiable copies of bill of landing.
e) The original L/C, export order or contract, and
f) Duplicate copy of the ARE-I form.

ii) **SHIPMENT ADVICE TO IMPORTER**:- After the shipment of goods, the exporter intimates the importer about the shipment of goods giving him details about the date of shipment, the name of the vessel, the destination, etc. he should also send one copy of non-negotiable bill of landing to the importer.

iii) **PRESENTATION OF DOCUMENT TO BANK FOR NEGOTIATION**:- Submission of relevant documents to the bank and the process of getting the payment from the bank are called 'Negotiable of the Documents' and title documents are called 'Negotiable set of Documents'. The set normally contains:

a) Bill of exchange, sight draft or usance draft,
b) Full set of bill of landing or airway bill,
c) Original letter of credit
d) Customs invoice.
e) Commercial invoice including one copy duly certificated by the customs.

f) Packing list.
g) Foreign exchange declaration forms, GR/SOFTEX/PP Forms in duplicate.
h) Exchange control copy of the shipping bill.
i) Certificate of origin, GSP or APR certificate, etc.,
j) Marine insurance policy, in duplicate.

iv) **DISPATCH OF DOCUMENTS**:-The bank negotiates these documents to the importer's bank in the manner as specified in the L/C. before negotiating documents, the exporter's bank scrutinizes them in order to ensure that all formalities have been complied with and all documents are in order. The bank then sends the bank certificate and attested copies of commercial invoice to the exporter.

v) **ACCEPTANCE OF THE BILL OF EXCHANGE**: Bill of exchange accompanied by the above documents is known as the documentary bill of exchange. The types of documentary collections and each relates to a buyer option for payment for the documents at presentation. This include the following:

a) **DOCUMENTS AGAINST PAYMENT (D/P)** :- In D/P terms, the collecting bank releases the documents to the buyer only upon full and immediate cash payment. D/P terms most closely resemble a traditional cash –on-delivery transaction.

b) **DOCUMENTS AGAINST ACCEPTANCE (D/A**):-In D/A terms, the collecting bank is permitted to release the documents to the buyer against acceptance (signing) of a bill of exchange or signing of a time draft at the bank promising to pay at a later date (usually 30,60 or 90 days). The completed draft is held by the collecting bank and presented to the buyer for payment at maturity, after which the collecting bank sends the funds to the remitting bank, which in turn sends them to the principal/seller.

c) **LETTER OF INDEMNITY**:- The exporter can get immediate payment from his bank on the submission of documents by signing a letter of indemnity. By signing the letter of indemnity the exporter undertakes to indemnity the bank in the event of non-receipt of payment from the importer along with accrued interests.

d) **REALISATION OF EXPORT PROCEEDS** :- On receiving the documentary bill of exchange, the importer releases payment in case of sight draft or accepts the usance draft undertaking to pay on maturity of the bill of exchange. The exporter's bank receives the payment through importer's bank and is credited to exporter's account.

vi) **PROCESSING OF GR FORM**:- On receiving the export proceeds, the exporter's bank intimates the same to the RBI by recording the fact on the duplicate copy of GR. The RBI verifies the details in duplicate copy of GR with, the, original copy of GR received from the customs.

vii) **REALISATION OF EXPORT INCENTIVES**:-If the exporter is eligible for export incentives, then he should submit claim for the same accompanied by the bank certificate to the appropriate authority.

EXPORT DOCUMENTATION

Export documentation is a tedious but necessary process that all exporters must pay close attention to as documentation requirements vary considerably by country commodity and situation. Although exporters must fill out and submit many different forms for each international shipment most require similar data elements and can be duplicated precisely from one document to the next.
The except documentation required for exporting goods from the one country depends on the goods in question as well as the country to which the goods are being exported. However the most common export documents required may be classified into following in general.

- Principal documents related to exporting and
- Auxiliary documents related to exporting

PRINCIPAL DOCUMENTS IN EXPORTS

The documents classified under principal documents for exports are explained below.

1. **CERTIFICATE OF ORIGIN**: As the very name indicates certificate of origin is a ce4rtificate that specifies the name of the country where goods are produced. This is absolutely necessary where the importing country has banned the entry of goods of certain countries to ensure that the goods from those countries are not allowed to enter in. at the time of arrival of the goods in the importer's country this certificate is necessary for the customs to permit preference tariff.

2. **BILL OF LADING:** bill of lading is a document which is issued by the shipping company or his agent acknowledges the receipt of cargo on board. This is an undertaking to deliver the goods in the same order and condition as received to the consignee or his agent on receipt of freight the shipping company is entered is entitled to. It is a very important document to the exporte4r is it constitutes documents of title to the goods.

3. **CONSULAR INVOICE**: certain nations require a consular invoice which is used to control and identify goods. The invoice must be purchased from the consulate of the country to which the goods are being shipped and usually must be prepared in the language of that country. The consulate invoice is generally prepared in thee copies
.

4. **COMMERCIAL INVOICE**: a commercial invoice is the seller's bill for merchandise or goods sold by him. This is the basic document in an export transaction. It contains all the information which is required from the preparation of all other documents. It is thus a document of contents.

5. **BILL OF EXCHANGE**: bill of exchange refers to an unconditional written order prepared by an exporter asking the importer to pay a specified sum of money to a specified person at a specified time. The specified amount is represented by the amount of the invoice; the specified amount is represented by the amount of the invoice the specified person here refers to the banks and the specified time is a matter of negotiation between the exporter and the importer.

6. **LETTER OF CREDIT**: letter of credit refers to a written undertaking given by the importer's bank at the request and instruction of importer to the exporter that the payment shall be made in him against stipulated documents provided that the same appear on their face to be in accordance with the terms and conditional standard banking practice.

7. **PACKINAG LIST AND NOTE**: packing list may be shown on invoice or separately and should contain item by item contents of cases or containers or of a shipment with its weight and description set forth on arrival at the port of destination as well as by the recipient. The information can be reproduced from the master by making information not derived on the packing list.

8. **CERTIFICATE OF INSPECTION**: the certificate is issued by the inspection authority such as the export inspection. This certificate states that the goods have been inspected before shipment and that they conform to accepted quality standards. In India however all exports are subject to compulsory inspection prior to shipment by an authorized agency under the provisions of exports act, 1963.

9. **AR4 AND AR5 FORM**: both AR4 and AR5 forms can be used for export in bond or under rebate of central excise duty. AR4 form is to be used where either finished stage duty is not paid or its rebate is to be claimed later on. It can be elaborated as under.

- Form AR4 is to be used in case of exports in bond of all goods without payment of duty on finished item (not on inputs)
- AR4 form is also used where finished stage duty is paid and rebate thereof is to be claimed after exports.

Form AR5 is used where goods are manufactured without the payment of duty or inputs. It can be elaborated as under,

- AR5 form is used where no duty is paid on production inputs and the finished stage duty is also not paid on the account of their exports being made in bond.
- AR5 form is also used where inputs stage duty is not paid but duty on finished goods is paid and the rebate thereof is to be claimed after export.

10. **GP/GR/PP/VPP/COD/SOFTEX FORMS**: these forms are submitted to the customs authorities in compliance of exchange control regulations. These forms are GP forms, GR forms, PP form, VP/COD form and SOFTEX form.

11. **AIRWAY BILL**: air transport is widely used for moving valuables or urgently required goods. The document of transport used is an airway bill. An airway bill is a non negotiable transport document covering transport of cargo by air from airport to airport. The airway bill is issued by the air carrier (or by freight forwarded or Logistics Company). In some instances the document may be filled out by the exporter/seller/consignor but then signed by an agent of the airline.

12. **SHIPPING BILL**: the shipping bill is the main document on the basis of which the customs permission for export is given. Shipping bill is the principal document required by the customs authorities. It is only after the shipping bill is stamped by the customs that cargo is allowed to be carted to port sheds and docks.

13. **SHIPMENT ADVICE:** The exporter sends shipping advice to the buyer soon after the shipment is made to provide him all the shipment details. This services as an advance intimation of the shipment and allows the importer to arrange for delivery of the same. Shipping advice is a letter or form sent by an exporter to a foreign buyer informing that the shipment of the ordering goods is a way. A copy of the invoice and the packing slip may also be attached.

14. **INSURANCE CERTIFICATE**: for each consignment an insurance certificate is issued cross referencing the policy. An insurance certificate is a document issued to the insured certifying that the insurance has been affected. It contains the same details as an insurance policy except that version of provisions is abbreviated. If a documentary credit requires an insurance policy issuing bank will refuse an insurance certificate for payment.

<u>AUXILIARY DOCUMENTS IN EXPORTS</u>

These documents are as follows.

1. **PROFORMA INVOICE**: proforma invoice is the starting point of an export contract. As and when the exporter receives the trade inquiry from the importer submits the pro forma invoice contains details such as name and address of the exporter name and address of the intending importer nature of goods mode of transportation unit price in terms of internationally accepted quotation name of the country of origin of goods name of the country of final destination period required for executing contract receipt of confirmed order and finally signature of the exporter.

2. **INTIMATION FOR INSPECTION:** there is a prescribed form known as intimation for inspection which is required to be filled in by an exporter. This intimation should be filled in triplicate. In this intimation details of the goods are to be given as per invoice. An exporter is also required to provide the address where the consignment is to be inspected. This is the notice issued in the prescribed form by the export inspection. Agency for the inspection of the export shipment.

3. **SHIPPING INSTRUCTION**: this document includes the information supplied by the shipper/expert/exporter providing detailed instructions pertaining to the shipment (eg., shipper consignee bill to party, commodity pieces weight, cudeb etc.). it is used to send shipping instructions to the shipping company or the shipping agent regarding shipment of export cargo. This facilitates the preparation of bill of lading and other documents by the shipping agent.

4. **DECLARATION OF INSURANCE**: this document should state that the insurance company has a duly qualified and appointed agent or representative in the country giving his name and full address. The exporter who requires insurance makes a declaration relating to the insurance policy on this document.

5. **SHIPPING ORDER**: For booking space, the exporter has to apply to the shipping company either directly or through a freight broker. If the space is available the shipping company will issue to the broker/shipper a document called a shipping order instructing the commanding officer of the ship that the goods from the shipper concerned as per details given should be received on board the vessel.

6. **MATE'S RECEIPT:** a mate's receipt is a receipt issued by/the commanding office of the ship when the cargo is loaded on the ship and contains information about the name of the vessel berth date of shipment description of packages marks and numbers condition of the cargo at the time of receipt on board the ship etc. the mate receipt is first handed over to the port trust authorities so that all the port dues may be paid by the exporter.

7. **DOCK CHALLAN:** also known as port trust copy of the shipping bill in Bombay and export application form in ports other than Calcutta, dock challan is a document prescribed by the port authorities. When the cargo is brought at the dock gate, the shipper has to submit this document along with the vehicle ticket to the gate inspector.

8. **APPLICATION OF THE CERTIFICATE ORIGIN:** in case of the exporter has to obtain certificate of origin from the concerned authorities an application has to be made to the concerned authority with required documents. This application is known as application for certificate of origin.

6. EXPORT ASSISTANCE AND INCENTIVES IN INDIA

INTRODUCTION

- Government of India like almost all other governments has been endeavoring to develop exports. Export development is important to the firm and to the economy as a whole. The government of India has framed several schemes to promote exports and to obtain foreign exchange. These schemes (the import facilitates provided for exporters grant incentive and other benefits).

EXPORT PROMOTION ASSISTANCE

- To provide effective support to the exporters particularly new and small exporters and effective system consisting of several assistances have been instituted. Although the intensity and coverage of these measures have undergone change with the liberalization of policy there does exist a number of schemes for expert production as well as marketing.

Export assistance includes the following.

1. Export production assistance
2. Export marketing assistance

PRODUCTION ASSISTANCE

- Export production assistance is available right from the stage of acquiring land and building procuring plant machinery equipments components spares technical guidance/training to giving finance and credit in time at comparatively cheaper rate. Export production assistance includes following facilities provided to enhance the assistance.

1. **INFRASTRUCTURAL FACILITIES:** besides providing land and building to exporting units special economic zones technology parks export promotion parks industrial estates etc., have been set-up in various parts of the country. There are 8 special economic zones at kandla, (Gujarat), Santa Cruz (Maharashtra), Falta (West Bengal), Noida (U.P), Cochin (Kerala), Chennai (Tami Nadu), Surat (Gujarat), and Visakhapatnam (Andhra Pradesh), which are functional at present.
2. **MANUFACTURE IN BOND**: manufacture in bond facility is available both in the excise as well as customer regulations. Whereas rule 13 of the central excise rules relates to excise regulations section 65 of the customs act provides facilities of manufacture in bond.
3. **AMCHINERY AND EQUIPMENTS**: Besides making available machinery and equipments on lease there is a special facility to import CG at 5% duty under EPCG i.e. export promotion capital goods scheme.
4. **PRODUCTION INPUTS:** raw materials components spare consumables etc., whether indigenous or imparted can be obtained for export production under various schemes. Imported inputs for use in export products are importable duty free under the duty exemption scheme popularly known as advance licensing scheme duty free replenishment certificate and duty entitlement passbook scheme although there are several other schemes covered there under still another scheme known as duty free import entitlement scheme has been introduced for status holder exporters including service providers.
5. **TECHNOLOGY UP GRADATION**: Besides allowing duty free import of technical samples/prototypes and trade samples up to specified value simplified approval mechanism has been introduced for foreign technology agreements. The pilot test house offer special technical support facilities to the industry. SISI s and regional testing laboratories also provide technical support.
6. **PACKAGING CREDIT**: it is also known as pre shipment credit. It is available even if there is no export other in hand. It consists of cash credits and overdraft facilities and given at a concessional rate of interest.

Pre-shipment credit is also available in foreign currency under the PCFC scheme. It is applicable to both the domestic and imported inputs for export goods.

7. **BACK TO BACK LETTER OF CREDIT (L/C**): an inland back to back letter of credit scheme has been instituted which makes sub suppliers of raw materials samples etc. To exporter eligible for export packing credit on the basis of export order or L/C in the name of the export order holder.

MARKETING ASSISTANCE

- A number of steps have been taken to assist the exporters in their marketing effort. These include conducting sponsoring or otherwise assisting market surveys and research collection storage and dissemination of marketing information organization and facilitating participation in international trade fairs and exhibitions credit and insurance facilities release of foreign exchange for export marketing activities assistance in export procedures quality control and pre shipment inspection identifying markets and products with export potential helping buyer seller interaction etc.

Some of the schemes and facilities which assist export marketing are as follows.

1. **MARKETING DEVELOPMENT FUND**: This came into being in 1963-64, the nomenclature was changed to marketing development assistance in 1975. The fund is administered for providing grants/assistance to export promotion councils other export bodies also for special schemes approved for specific export bodies, also for special schemes approved for specific export promotion efforts. Interest on export credit by commercial banks and approved cooperative banks enjoy a subsidy of 105% out of MBA. Most of the MDA expenditure in the past was aborted by the CCS. The CCS helped the exporters to increase the price competitiveness of the Indian products in foreign markets.
2. **CASH COMPENSATORY SUPPORT**: cash assistance for exports which was later termed as cash compensatory support was introduced in 1966. The stated objectives were to enable exporters to meet competition in foreign markets to develop marketing competence and to neutralize disadvantages inherent in the existing stage of development of the economy.
3. **FOREIGN EXCHANGE:** it is released for undertaking approved market development activities such as participation in trade fairs and exhibitions foreign travel for export promotion advertisement abroad, market research procurement of samples and technical information from abroad.
4. **TRADE FAIRS AND EXHIBITIONS:** as trade fairs and exhibition are effective media of promoting products facilities are provided for enabling and encouraging participation of Indian exporters/manufactures in such events. Besides the ITPO some other promotional agencies also organize trade fairs.
5. **EXPORT RISK INSURANCE**: as international business in fraught with different types of risks measures have been taken to provide insurance covers such risks. The exports credit guarantee corporation has policies covering different political and commercial risks associated with export marketing certain types of risks associated with overseas investments and risks arising out of exchange rate fluctuations.
6. **FINANCE:** The export import bank and commercial banks and certain other financial institutions like specified cooperative banks provide pre- shipment also provide suppliers credit including line of credit to promote Indian exports. Exports credits generally carry concessional interest rates.
7. **QUALITY CONTROL AND PRE-SHIPMENT INSPECTION:** a number of sets have been taken by the government to improve the quality of exports and to ensure that only goods of appropriate quality are exported from the country. The export act empowers the government to make necessary regulations in this respect.
8. **INSTITUTIONAL ASSISTANCE**: export marketing is assisted in different ways by a number of organization like the ITPO, EPSC commodity boards export development authorities like the MPEDA and APEDA, IIFT Indian mission abroad etc.

9. **DOLLAR DENOMINATED CREDIT FOR EXPORTERS:** there has been a persistent complaint rightly so from the exporters that he interest rates in India are highest. This consequently is reflected in the cost of the products which makes firms non competitive in quite a few products.

EXPORT INCENTIVES AND SCHEMES

Soon after shipment the exports files claims for getting export incentives. Export incentives are a widely employed strategy of export promotion. It has been common to describe these are incentives.

However as the ABID HUSSAIN committee has observed they are more a compensation for the competitive disadvantages faced by the Indian exporter than incentives. Brief accounts of these incentives which serve the first rational of export promotion to compensate exporters for the high domestic cots are as follows.

DUTY EXEMPTION SCHEMES

The scheme of duty exemptions is designed to avoid the incidence of commodity taxes such as excise duty and customs duties on the exports so as to make the exports more price competitive. This is a worldwide practice and the rationale is straightforward. There are two schemes offered by the government which are as follows.

ADVANCE LICENSE/ADVANCE AUTHORISATION SCHEME: an advance authorization is issued to allow duty free import of inputs which are physically incorporated in export product. However advance authorization for import of raw sugar can be issued either to a manufacturer exporter or merchant exporter tied to supporting manufactures.

Exports can also be made by procurement of white sugar from any other factories.
Advance authorization can be issued either to a manufacturer exporter or merchant exporter tilted to supporting manufactures for.

- Physical exports and/or
- Intermediate supplies and/or
- Supply of goods to the categories mentioned in FTP
- Supply of stores on board of foreign going vessel/aircraft subject to condition that there is specific SION in respect of items supplied.

An advance authorization can also be availed by sub contractor to such project provided name of sub contractors appears in main contract. Such authorization can also be issued for supplies made to United Nations organizations or under aid programme of the United Nations or other multilateral agencies and which are paid for in free foreign exchange.

Advance authorization shall be issued in accordance with policy and procedure in force on authorization issue date.

1. **FREE OF COST SUPPLY BY FOREIGN BUYER:** Facility of advance authorization shall also be available where some or all inputs are supplied free of costs to exporter by foreign buyer. However if all inputs are supplied free of cost exporter shall also have option to follow provision prescribed by DoR.
2. **PROVISION FOR BIFR UNITS**: any firm/company registered with BIFT or any firm/company acquiring a unit which is under BIFR shall be allowed export obligation period extension as per rehabilitation package prepared subject to approval of BIFR or 5 years if not specified without payment of composition fee.
3. **ADVANCE AUTHORISATION FOR ANNUAL REQUIREMENT:** advance authorization can also be issued for annual requirement. Status certificate holder and all other categories of exporters having past export performance shall be entitled for advance authorization for annual requirements. Entitlement in terms of CIF value of imports shall be up to 300% of the FOB value of physical export and/or FOR value of deemed exports in preceding licensing year or 1crore whichever is higher.
4. **ADVANCE RELEASE ORDERS AND INVALIDATION LETTER:** holder of advance authorization advance authorization for annual and requirement diamond impress authorization and duty free import authorization intending to source inputs from indigenous sources/state trading enterprises of direct import has option to source them either against advance release order or invalidation letter denominated in free foreign exchange rupees.
5. **PROHIBITED ITEMS**: prohibited items of imports mentioned in ITC shall not be imported under advance authorization/DFIA. Further items reserved for imports by STEs cannot be imported against advance authorization/DFIA. However those items can be procured from STEs against ARO or invalidation letter. STEs are also allowed to sell goods on high sea sale basis to holders of advance authorization/DFIA holder.
6. **ADMISSIBILITY OF DRAWBACK**: In case of an advance authorization drawback shall be available for any duty paid material whether imported or indigenous used in goods exported as per drawback rate fixed by DoR ministry of finance. Drawback allowed shall be mentioned in authorization.

DUTY FREE IMORT AUTHORISATION SCHEME: DFIA is issued to allow duty free import of inputs fuel oil energy sources catalyst which are required for production of export product. This scheme is in force from 1st may, 2006. This scheme is familiar to the advance authorization scheme with the following difference.

1. **ENTITLEMENT**: Authorizations shall be issued only for products for which standard input and output norms have been notified. In case of post export DFIA a merchant exporter shall be required to mention only names and address of manufacturer of the export products. Applicant is required to file application to concerned RA before effecting experts under DFIA.

2. **VALUE ADDITION**: A minimum 20% value addition shall be required for insurance of such authorization except for items in gems and jewellery sector. Items for which highest value addition is prescribed under advance authorization scheme shall be applicable.

3. **TRANSFERABILITY:** Once export obligation has been fulfilled request for transferability of authorization or inputs imported against it may be made before concerned RA. However for fuel imports entitlement may be transferred only to companies which have been granted authorization to market fuel by ministry of petroleum and natural gas

4. **CENVAT FACILITY**: Cenvat credit facility shall be available for inputs either imported or procured indigenously.

5. **GEMS AND JEWELLERY**: Exporters of gems and jewellary can import/procure duty free inputs for manufacturing.

6. **REPLENISHMENT AUTHORISATIONS**: Exporters may obtain replenishment from replenishment authorizations. Replenishment authorization may also be for consumables.

7. **SCHEMES FOR GOLD**: Exporters of god/silver/platinum jewelry and articles thereof silver/platinum their essential in outs such as gold silver platinum jewelry mountings findings rough gems precious and semi precious stones synthetic stones and unprocessed pearls etc., in accordance with the procedure specified in this behalf.

8. **WASTAGE NORMS**: Wastage or manufacturing loss for gold/silver/platinum jeweler shall be admissible.

9. **EXPORT AGAINST SUPPLY BY FOREIGN BUYER:** Where export orders are placed on nominated agencies/status by holder/exports of three years standing having an annual average turnover of Rs. Five crore during preceding three licensing years foreign buyer may supply in advance and free of charge gold/silver/platinum allows findings and mountings of gold/silver/platinum for manufacturing and export.

10. **EXPORT AGAINST SUPPLY OF FOREIGN BUYERS**: Exporter may obtain gold/silver/platinum as an input for export supply by products from nominated agencies in advance or as replenishment nominated agencies after exports in accordance with specified procedure.

11. **EXPORT AGAINST DUTY FREE ADVANCE AUTHORISATION**: an advance authorization may be granted for duty free import of,

a. Gold of fineness not less than 0.995 and mountings sockets, frames and findings of 8 carats and above.

b. Silver of fineness not less than 0.995 and mountings sockets frames and findings containing more than 50% silver by weight.

c. Platinum of fineness not less than 0.900 and mountings sockets frames and findings containing more than 50% platinum by weight.

Such authorizations shall carry an export obligation to be fulfilled as per procedure specified.

Advance authorization holder may obtain gold/silver/platinum from nominated agencies of direct import.

Title: International Marketing Case Study of PepsiCo

When a company wants to grow its business worldwide and for doing this the company has to do marketing to launch it product internationally and this is known as International Marketing.

According to Keegan (2011) "The international market goes beyond the export market and becomes more involved in the marketing environment in the countries in which it is doing business. "

Task 1: current situational analysis of PepsiCo in International market environment

PepsiCo makes snack foods, beverages. PepsiCo is capable of developing new research taking into account like making substitute of sugar leaving behind soda and sugar. PepsiCo gives priority to healthier foods and concerned about leaving from the norm and taste snack. Improving value chain helps to keep consumers on the right track (Wibowo, 2014)

Strengths:

There is an association which helps Pepsi and Frito-Lay to underpin their product.. PepsiCo got the finest upbeat and approachable employee. PepsiCo reorganizes their organization nay time to achieve something big. PepsiCo. Got product innovation. PepsiCo can incorporate companies to make business, commercial (Paulo Nazario, 2011)

Weakness:

PepsiCo is dependent on Wal-Mart, so any strategic change in Wal-Mart can affect on PepsiCo. As PepsiCo is based on US with 52% revenue, so economic changes in the US market can cause problem for PepsiCo. In 2008 PepsiCo had its productivity, less than other competitor (Friesner, 2014). Other weaknesses are as like: low pricing, brand recognition, net profit is gradually less (Jurevicius, 2013).

Opportunity:

The PepsiCo company sale was increased by 9% in 2007. Significant growth in the beverage sector. Keeping focus on customer's constant research for making healthier food is one of the strategies for PepsiCo (Paulo Nazario, 2011). International expansion in Brazil and Mexico.

Threat:

Potential Negative Impact of Government Regulations, Decline in Carbonated Drink Sales, Intense Competition with Coca-Cola (Friesner, 2014). Healthy food concern, economic crisis, failure of entering into a new market.

Task 2: impact of culture on their international marketing strategies PepsiCo

While expending worldwide PepsiCo has to endure a lot of cultural problems. While advertising inTaiwan, PepsiCo add "come alive with Pepsi" which means in Taiwan that "Pepsi brings your ancestors back from dead" (Khalifa, 2012).According to (Chirkova, 2011)" it also showed that there are lots exceptions which cannot be really explained by cultural characteristics in general, and by using Hofstede's dimensions in particular. PepsiCo's choice concerning web design can be influenced by cultures, but at the same time there are many different issues influencing decision-making like marketing strategy, politics, even personal understanding of the situation" PepsiCo first analyzes the cross cultural situation and then taking some extent into consideration PepsiCo adapt marketing strategies to the international market, according to the local culture (Chirkova, 2011).

Task 3: PepsiCo marketing strategies for international market and marketing mix

Marketing strategy for PepsiCo focus on portfolio analysis of the business. "Performance with a purpose" is the strategy that PepsiCo follows. International marketing, market selection is the key strategy to focus for promoting their product. PepsiCo got a good branding strategy which follows "Power of one". PBG (Somers Pepsi Bottling Group) and Minneapolis, PepsiCo bought. PepsiCo focus on mounting and promising market. Ten PepsiCo focus on effective diversification analysis followed by making customer relationship based on Good for you portfolio (Ryder, 2013).Product: Beverage, savory food, snacks, breakfast, baked snacks Price: Comparatively less to keep hold with the competitor. Excellent pricing strategy Place: Expansion in Brazil and Mexico. Have a hold on the market of Russia.

Promotion: PepsiCo stuff promotion encouraged Gatorade Tiger,"Pepsi Throwback" campaign

. (Friesner, marketingteaceher, 2014)

Task 4: PepsiCo Internet and Digital Marketing

PepsiCo got a huge network in internet marketing. PepsiCo obtains weight according to its posture. According to (Zaleski, 2014) "PepsiCo also works closely with retailers to learn purchasing behavior on a case by case basis. These things all help create a new model of ROI metrics". This PepsiCo brand has integrated its thought with its customers when they hold the product in their hand by giving advice to its agencies for making the market penetration through navigating new digital and internet marketing strategy (Zaleski, 2014)

Task 5: Recommendation

PepsiCo got its market with a very strong strategy. For the time being PepsiCo should focus on international growth by utilizing international marketing. In that case if PepsiCo needs to change the organization structure, management and strategy than they can. The main key marketing strategy should point at retaining innovation and its diversification strategy. Regular marketingresearch, innovation and marketing mix has to be in focus continued. PepsiCo can adopt any marketing strategy for detaining competency in the value chain (Paulo Nazario, 2011).

QUESTIONS:

1) Discuss the role played by export credit guarantees in improving the international trade.
2) Indian GDP is substantially contributed by export services; explain your answer with suitable examples.
3) Export decisions of a firm depend on the EXIM policy of India. Briefly explain the highlights of EXIM policy of India.
4) What are the documents required for export and import in India?
5) Elaborate 'EXIM policy' of India.
6) Explain various elements of export costing and pricing.