

# **BALAJI INSTITUTE OF I.T AND MANAGEMENT KADAPA**

4<sup>TH</sup> SEM

INTERNATIONAL MARKETING  
(1-2.5 Units)

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**MASTER OF BUSINESS ADMINISTRATION**

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**(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.

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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 been 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:**

<b>Difference between International Marketing and Domestic Marketing</b>		
<b>Basis</b>	<b>Domestic Marketing</b>	<b>International Marketing</b>
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:**

<b>DIRECT EXPORTING</b>	<b>INDIRECT EXPORTING</b>
<b>1. Meaning:</b> Export marketing is undertaken directly by the manufacturer.	The manufacturer exporter exports the goods through intermediaries.
<b>2. First Hand information:</b> 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.
<b>3. Control:</b> 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.
<b>4. Reputation:</b> The direct exporter can earn goodwill in international markets.	The manufacturer may not earn reputation in overseas markets. The intermediaries gets the reputation.
<b>5. Risks:</b> 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.
<b>6. Investment:</b> 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.
<b>7. Incentives:</b> 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.
<b>8. Overheads:</b> The manufacturer/exporter has to bear production and distribution overheads.	The manufacturer has .to bear only production overheads.
<b>9. Specialisation:</b> It requires concentration on both marketing and production aspects and as such lacks specialisation.	In indirect marketing, the manufacturer can specialize in manufacturing aspects.
<b>10. Suitability:</b> 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) steel 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, 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 and 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 as 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 an 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 than 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 firm 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 other 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 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 resources at its command than 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 through 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 acquisition 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 from 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.

### **Inadequate Evaluation of Target:**

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).

### **Large Debt Burden:**

- 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.

### **Inability to Achieve Synergy:**

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

### **Too much Diversification:**

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.

### **Too Large:**

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.

### **Others:**

- 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.

#### **Adequate and Easy Terms Working Capital:**

- 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.

#### **Access to Resourceful Management:**

- 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.

#### **Increased Diversification:**

- 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.

#### **Reshaping the Firm's Competitive Scope:**

- 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.

#### **Learning and Developing New Capabilities:**

- 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 McGraw 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.

### **Advantages of Wholly-Owned Manufacturing Subsidiary:**

- 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

**Disadvantages of Wholly-Owned Manufacturing Subsidiary:**

- 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

**Assembly Operation:**

- 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 may not have any equity stake 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

### **TURNKEY CONTRACTS**

- Turnkey 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 COUNTERTRADE**

- 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 severe 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 abroad, 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 abroad.

**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 from 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?



**(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 – 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 developmentll 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