

# Pricing and promotion issues in international business



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To continue growing, Wal-Mart has been forced to look at international markets. The case describes Wal-Mart's entry into the U. K. and Germany. In both cases, Wal-Mart chose to enter using an acquisition strategy.

### Key Points

Wal-Mart entered the U. K. in 1999 by acquiring the Asda retailing chain – which was comprised of over 230 stores.

Asda was a good match for Wal-Mart and Wal-Mart is working to replicate its low-cost logistics system in the U. K.

In 1997, Wal-Mart acquired the 21-store Wertkauf chain in Germany. In Germany, Wal-Mart's friendly approach to its customers contrasts with the less personalized German way of doing business.

Wal-Mart's low prices have upset German regulators who have forced Wal-Mart to raise prices on its “ loss-leaders” (e. g., flour, cooking oil, butter). Regulators feared Wal-Mart was engaging in predatory pricing to drive smaller competitors out of business.

Wal-Mart still needs to expand significantly in Germany before it will achieve the critical mass needed to implement its high-volume, low cost distribution system.

Despite difficulties in Germany, China, and South Korea, Wal-Mart's international sales grew 38 percent in 2002.

## **CHAPTER SUMMARY**

Chapter Sixteen explores the issue of international marketing. It begins with a discussion of basic international marketing strategies, and examines the debate between standardization and customization. Then each component of the marketing mix (product, price, promotion, and distribution) is discussed in depth.

Marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. International marketing is the extension of these activities across national boundaries.

### **Teaching Note:**

Students, particularly those who have traveled to other countries, are usually familiar with some products that are sold around the world such as Coca-Cola and Levi jeans. Instructors may wish to begin the discussion of international marketing by asking students how and why such products are marketed differently in other countries.

Firms involved in international marketing must contend with differing political, cultural, legal, and economic environments. In addition, they must capitalize on the synergies among various national markets, and coordinate marketing activities in those markets.

## **I. INTERNATIONAL MARKETING MANAGEMENT**

International marketing affects and is affected by virtually every other organizational activity. Therefore, it is a critical component of international business success. Discuss Figure 16. 1 here.

### **International Marketing and Business Strategies**

International marketing strategy should support the firm's overall business strategy whether it is differentiation, cost leadership, or focus (see Chapter 11). For example, if a firm is following an overall strategy of differentiation, managers should develop a marketing strategy that differentiates the firm's products or services from those of competitors.

Similarly, if a firm is following an overall cost leadership strategy, marketing managers should focus on keeping prices and distribution costs low. Finally, if a firm is following an overall focus strategy, managers should adjust the marketing mix to target the needs of the various selected segments. The text provides examples of each situation.

### **Pretty Garlic**

This box describes the business of a small Chinese garlic exporter, John Huang. Given his lack of a marketing budget, Huang decided to use the Internet to build worldwide recognition for his company. His web site — [www.prettygarlic.com](http://www.prettygarlic.com) — has allowed Huang to market his product to his small but focused target market.

Decisions about whether and how to enter a particular market must also be consistent with the firm's overall strategy. Chapter 12 discussed the various techniques used to assess the potential of foreign markets.

## **The Marketing Mix**

International marketing managers must address four issues: how to develop the firm's product(s); how to price those products; how to sell those products; and how to distribute those products to the firm's customers. The elements are collectively known as the marketing mix (and are also referred to as the four Ps of marketing). Discuss Figure 16. 2 here.

Compared to their domestic counterparts, international marketing managers face a more complex set of issues and decisions related to the marketing mix. One overriding issue is whether a firm should standardize its offerings or customize its products to each market.

## **Standardization versus Customization**

International marketing managers usually choose among the following approaches when deciding the extent to which to standardize their firm's marketing mix: an ethnocentric approach (market products internationally the same way it does domestically), a polycentric approach (customize the marketing mix to meet the needs of each target market), or a geocentric approach (adopt a standardized marketing mix for all markets based on an analysis of customer needs).

The ethnocentric approach is easy to use; however, it may not be desirable because sales may be lost as a result of failing to consider the needs of

foreign customers. The polycentric approach, while costly, may actually serve to increase a firm's revenues because the needs of local customers are being met. Finally, the geocentric approach, because it involves the standardization of the marketing mix, allows a firm to sell essentially the same product using essentially the same approach in all of its markets. The text provides an example of how Coca-Cola follows this approach.

Most firms fall in the middle of a continuum between standardization and customization, and follow a policy of "think locally, act globally." The text provides an example of how firms in the global appliance industry follow this approach.

Standardization implies a centralized organizational design, while customization implies that a decentralized design should be adopted (see Chapter 14). Various factors can affect the decision to standardize or customize the marketing mix. Discuss Table 16. 1 here.

## **II. PRODUCT POLICY**

Product comprises both the set of tangible factors (the physical product and its packaging) that the consumer can see or touch and numerous intangible factors (such as image, installation, warranties, and credit terms).

### **Standardized Products or Customized Products?**

Firms must decide to what extent they will standardize or customize their product offerings across markets. The text provides an example of Toyota's decision regarding this issue.

There are two broad target groups of customers: industrial users and consumers. Industrial products are more likely to be standardized than consumer products.

## **Legal Forces**

Product policies may be affected by the laws and regulations of host countries. For example, countries may impose labeling requirements, health standards, technical standards, and so forth on consumer products. The text provides several specific examples of how legal forces have affected various companies' product policies.

## **Cultural Influences**

Product policies may have to be adapted to meet the differing cultural needs of a firm's target markets. For example, packaging may need to be changed to reflect the local language, the ingredients of food products may need to be changed to fit local preferences, and quality levels may need to be perfected. The text illustrates this concept with several specific examples.

## **E-Translation**

This e-World box discusses the benefits and drawbacks of using software programs to translate web pages. More than half of U. S. business web sites are still offered only in English – but American firms must reach out to a multicultural customer base or risk losing business to foreign competitors.

## **Economic Factors**

Product policies may be affected by economic factors. For example, a country's level of economic development might affect product feature

decisions; a country's infrastructure might affect the design of some products, and/or product support services available. Various examples of this concept are given in the text.

## **Brand Names**

Firms that are able to standardize brand names may achieve substantial reductions in packaging, design, and advertising production costs. Firms with standardized brand names may also benefit from spillover effects from one market to the next. Various examples of firms with standardized brand names are given in the text.

## **III. PRICING ISSUES AND DECISIONS**

Pricing directly impacts a firm's revenues and helps shape a firm's competitive environment. The task of pricing is complex in international firms because the cost of doing business varies from country to country, as do transportation costs and differences in distribution systems. In addition, pricing can be affected by fluctuating exchange rates. Various examples of how these variables affect prices are given in the text.

### **Pricing Policies**

International firms typically use one of the following pricing policies: standard pricing, two-tiered pricing, or market pricing.

A standard price policy (the same price is charged for products regardless of where they are sold or the nationality of the customer) is usually used by a firm that sells goods that are easily tradable and transportable. Firms selling commodity goods in competitive markets also frequently adopt this strategy.



A two-tiered pricing policy (one price is set for all domestic sales, and a second is set for all international sales) is usually adopted by firms following ethnocentric approaches to marketing. This type of policy is frequently followed by firms that are at the start of the internationalization process and may create a situation whereby the firm is vulnerable to dumping charges.

A market pricing policy (prices are customized on a market-by-market basis) is usually used by firms following a geocentric approach to marketing.

## **Market Pricing**

A firm following a market pricing policy calculates and then charges the profit maximizing price in each market it services. For this practice to be successful, the firm must face different demand and/or cost conditions in each country it serves, and the firm must be able to prevent arbitrage from occurring. Discuss Figure 16. 3 here.

This type of policy can enable firms to capitalize on differing price tolerances across markets and allocate relevant local costs against local sales in each market. However, the strategy requires that decision making be decentralized and it requires a constant monitoring of the firm's situation in each market so that prices can be adjusted when appropriate.

Firms must be aware of three additional risks associated with a market pricing strategy. First, a firm may damage its brand name if it sells a product in the premium category in one market, but in the economy category in another market. Second, a gray market may develop for a firm's products as arbitrageurs capitalize on the difference in prices between markets. A gray market (also known as parallel importing) is a market that results when <https://assignbuster.com/pricing-and-promotion-issues-in-international-business/>

products are imported into a country legally but outside the normal channels of distribution authorized by the manufacturer. The text provides several illustrations of this concept. Third, a firm may encounter consumer resentment against discriminating prices.

#### **IV. PROMOTION ISSUES AND DECISIONS**

Promotion encompasses all efforts by an international firm to enhance the desirability of its products among potential buyers. The promotion mix – advertising, personal selling, sales promotion, and public relations – is used to motivate potential customers to buy the firm's product.

#### **Advertising**

##### **Teaching Note:**

Students generally not only find it amusing to watch videos of advertisements that run in other countries, but also may find them to be a good basis for discussing advertising within the context of customization and adaptation.

A firm must consider three factors when developing its advertising strategy: the message it wants to convey, the media available to convey the message, and the extent to which the firm wants to globalize its advertising effort.

Message. The message of an advertisement refers to the facts or impressions the advertiser wants to convey to potential customers. A product's country of origin may be an important part of an advertising message. The text provides several examples of the messages various companies try to convey via advertising.

Medium. The medium is the communication channel used by the advertiser to convey a message. Media must be adapted to the local, cultural, and legal environment. Media choices may also be affected by a country's level of economic development. The text provides several examples of measures taken by firms to adapt to varying media situations.

Many companies rely on international advertising agencies to handle issues related to message and media.

### **Sailing for Sales**

This Bringing the World into Focus box discusses one of the hottest forms of advertising currently used in Egypt. It involves the felucca, or ancient sailboats that travel up and down the Nile. Coca-Cola started the trend when, frustrated with the other available options, it displayed its trademark on the large, white sails of one of Egypt's largest felucca operators. The new advertising medium quickly caught on as other firms adopted the method. This box fits in well with the discussion of advertising media.

Global versus Local Advertising. The question of customization versus standardization also affects advertising as firms decide whether to use the same message everywhere or adapt it to local markets. The text provides numerous examples of the results of various firms' decisions regarding this matter. The decision is affected not only by differences between markets, but also by the message the firm wants to convey.

## **Personal Selling**

Personal selling involves making sales on the basis of personal contacts.

Firms that are in the early stages of foreign market expansion may subcontract personal selling to local organizations, while firms that are most established in foreign markets may hire local sales representatives.

There are several advantages to personal selling. First, firms that employ local sales representatives can be reasonably certain that cultural gaffes will be reduced. Second, personal selling promotes close personal contact with customers. Third, firms may find it easier to acquire market information from sales representatives than from other sources.

A main disadvantage of personal selling is its high cost.

## **Sales Promotion**

Sales promotion comprises specialized marketing efforts such as coupons, in-store promotions, sampling, direct mail campaigns, cooperative advertising, and trade fair attendance.

Sales promotion activities may be well suited to international firms because they are flexible and can be tailored to meet the special requirements of each market. The text provides examples of how several companies have used sales promotion.

## **Public Relations**

Public Relations consists of efforts aimed at enhancing a firm's reputation and image with the general public, as opposed to touting the specific

advantages of an individual product or service. An effective public relations effort results in the firm being perceived as a good “ corporate citizen.”

Public relations can be particularly important to international companies because as “ foreigners” they may become appealing political targets. Through an effective public relations campaign, MNCs may be able to reduce their perceived “ foreignness.” The text provides an example of how Toyota successfully employed public relations in its effort to appear to be a good corporate citizen.

## **V. DISTRIBUTION ISSUES AND DECISIONS**

Distribution is getting products and services from the firm into the hands of customers. Chapter 17 will discuss the role of distribution in international logistics management.

International firms face two issues regarding distribution. First, the problem of physically transporting goods and services to the various markets in which they are to be sold must be addressed. Second, firms must select the means by which they will merchandise their goods in the markets they want to serve.

### **International Distribution**

A firm must select the mode(s) of transportation for its products from their point of origin to their destination. The choice typically involves a tradeoff between time and money. The text provides an example of how the choice of a particular transportation mode can impact a firm’s inventory expenses.

A firm's international order cycle time – the time between the placement of an order and its receipt by the customer – may also affect transportation mode decisions. Furthermore, a product's shelf life may dictate that a particular transportation mode be used. The text notes, for example, that cut flowers are normally shipped via airfreight because of their relatively short shelf life. Discuss Table 16. 2 here.

## **Channels of Distribution**

Firms must also determine how best to manage the distribution channels used to merchandise the firms' products in the markets they serve. A distribution channel can consist of many parts: the manufacturer or creator of the product; a wholesaler who buys products and services from the manufacturer and then resells them to retailers; the retailer, who buys from wholesalers and then sells to customers; and the actual consumer, who buys the product or service for final consumption. Import agents (see Chapter 11) may also be part of the channel. Discuss Figure 16. 4 here.

Channel length is the number of stages in the distribution channel. A direct sales approach involves selling directly to consumers, bypassing wholesalers and retailers.

A longer channel of distribution involves selling to retailers, who then market the product to the final consumer. The longest channel adds a wholesaler stage to the process. The text provides examples of each type of channel.

International marketing managers must find the optimal distribution channel for the firm, taking into account the firm's strengths, weaknesses,

opportunities, and threats in each of the markets it serves. Most firms use a variety of channels.

A firm's distribution strategy may also be an important component of its promotion strategy. The text provides examples of how several firms have incorporated distribution into their promotions strategy.

In some cases, sales or import agents may be hired to distribute products in other countries. The text provides examples of firms that have followed this approach. However, firms should be cautious in using this type of strategy because a poor distributor may damage the firm's reputation and performance in foreign markets. The text notes that finding an appropriate distributor in China can be a challenging task.

Some companies attempt to transfer to foreign countries the distribution systems developed in their home countries. In other cases, firms will try to adapt their distribution practices to match the local environment. The text provides examples of both situations.

## **CHAPTER REVIEW**

What are the basic factors involved in deciding whether to use standardization or customization?

A firm following a policy of standardization simply markets its products the same way everywhere, while a firm following a policy of customization adapts the marketing mix to meet the needs of each target market.

Standardization is attractive to firms because it permits efficiency in R&D, production economies of scale can be achieved, it promotes lower marketing

costs, it enables a firm to centralize control of the marketing program, and it reflects the trend toward a single world market. Customization, on the other hand, reflects varying conditions of product use, recognizes local differences in laws and regulations as well as differences in buyer behavior, promotes local initiative and motivation in implementing the marketing program, and allows a firm to better meet the needs of individual markets.

How do legal, cultural, and economic factors influence product policy?

Legal, cultural, and economic factors influence product policy in numerous ways. In some countries for example, laws require that firms follow strict labeling and health standards for consumer products. Similarly, a firm may find that it has to adapt its product to meet the needs of particular cultures. Finally, economic factors can also influence a firm's product policy. For example, depending on a country's level of economic development, a firm may need to add additional features to its products or adjust the size of its packaging.

Why are brand names an important marketing tool for international business?

Brand names are an important marketing tool for international businesses because if a product's name can be standardized, a firm can reduce packaging, design, and advertising production costs.

What are the three basic pricing policies?

The three basic pricing strategies are standard pricing, two-tiered pricing, and market pricing. Firms following a standard pricing policy charge the <https://assignbuster.com/pricing-and-promotion-issues-in-international-business/>



same price for their products regardless of where they are sold. Firms using a two-tiered pricing approach set one price for domestic sales, and a second price for all international sales. Finally, firms using market pricing customize prices to each market.

What are the problems that a firm using market pricing might encounter?

A firm using market pricing may damage its brand name if a product is sold as a premium product in one market, but as an economy product in another market. A firm using market pricing may also find that a gray market develops for its products whereby entrepreneurs capitalize on the differences in prices between markets

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What are some of the fundamental issues that must be addressed in international advertising?

Three fundamental issues that must be addressed in international advertising are the message the firm wants to send, the media available to convey the message, and the extent to which the firm wants to globalize its advertising campaign.

What is a distribution channel? What options does an international firm have in developing its channels?

A firm's distribution channel refers to the various stages through which a product passes as it moves from the manufacturer to the consumer. The basic channel options include manufacturer-import agent-customer,

manufacturer-import agent-retailer-customer, and manufacturer-import agent-wholesaler-retailer-customer.

## **QUESTIONS FOR DISCUSSION**

What are the similarities and differences between domestic and international marketing?

International marketing, like domestic marketing, is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives. Thus, international marketing and domestic marketing both revolve around the four Ps of marketing – product, price, promotion, and place. Unlike domestic marketing, however, international marketing is not confined to a single marketplace, rather activities are extended across national boundaries, and as a result the process of marketing becomes more complex as firms encounter different legal, cultural, political, and economic environments.

Identify several products you think could be marketed in a variety of foreign markets with little customization. Identify other products that would clearly require customization.

Students, depending on how they define “ some” and “ little,” will probably find it easier to identify products that would require some customization when sold in foreign countries, as compared to products that could be marketed with little customization. Some products in the former category include automobiles, televisions, electrical appliances, and greeting cards.

Some products in the latter category include Bic pens, Rolex watches, perfume, and scotch.

How do legal, cultural, and economic factors in your home country affect product policy for foreign firms?

For most students, the home country will probably be the United States. They will probably be able to identify several ways legal, cultural, and economic factors in the United States affect product policy for foreign firms. For example, many students may suggest that the new nutrition labeling for food products will affect companies that export food products to the United States. Others may point out that the FDA approval that must be given to all medicines sold in the United States also affects product policy decisions for foreign firms. When considering how cultural factors affect product policy for foreign firms, students may recognize that Chinese restaurants in the United States typically serve more meat and fewer vegetables than they do in China to better suit American palates. Foreign firms that have operations located in the United States, such as banks, will probably find that they must extend their hours of operation to match those of American banks. Finally, students will probably suggest that, when considering economic factors, Americans tend to prefer lots of bells and whistles on products such as cars, computers, and electrical appliances over stripped down models.

What are the pros and cons of trying to use a single brand name in different markets, as opposed to creating unique brand names for various markets?

A standardized brand name offers a firm several benefits. First, firms using a single brand name can reduce their packaging, design, and advertising  
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production costs. Second, firms using a standardized brand name may be able to capture spillover benefits from their advertising messages in one country to another country. However, in some cases a standardized brand name may not be feasible. For example, legal and/or cultural factors may force a firm to alter brand names to better meet the local situation.

What are the advantages and disadvantages of each pricing policy? Why do most international firms use market pricing?

The three types of pricing policy are standard pricing, two-tiered pricing, and market pricing. Standard pricing offers firms the convenience of charging the same price for its goods and services regardless of where they are sold.

However, because it does not recognize differences between markets, it is generally used only for commodity products and for products or services that are highly visible and allow for price comparisons. Two-tiered pricing, because it involves a domestic price and a foreign price, allows firms to cater to differences between the domestic market and all foreign markets.

However, because a firm typically charges a lower price in the home market as compared to its foreign markets, it may be vulnerable to dumping charges. In addition, the system may not be effective in the long run because, since the firm is only trying to cover the marginal costs of selling in foreign markets, it will never develop the international skills, expertise, and outlook necessary to be successful in the international marketplace. Finally, a market pricing policy, because it customizes prices on a market-by-market basis, allows a firm to maximize prices in each market. However, the system is a complex one, and the firm must be able to avoid arbitrage situations and/or the development of gray markets for its goods.

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The ethnocentric approach and the geocentric approach both suggest standardization of the marketing mix. What is the difference between these two approaches, if both lead to standardization?

The ethnocentric approach to marketing involves using the same marketing mix as is used at home. It enables a firm to avoid the costs of developing new marketing techniques to serve foreign customers. The geocentric approach also involves standardization of the marketing mix for domestic and international customers; however, the standardization process takes into consideration the needs and preferences of foreign customers. Firms using the ethnocentric approach ignore these customer differences and assume that all customers are like domestic customers.

What are some basic differences you might expect to see in TV ads broadcast in France, Japan, Saudi Arabia, and the United States?

TV ads for U. S. products broadcast in France and Japan might emphasize the U. S. origins of the products, while ads for Japanese products might emphasize the quality associated with the product. An ad for a motorcycle broadcast in the United States might emphasize the fun of riding, while an ad for a motorcycle broadcast in Saudi Arabia might focus on the reliability and functionalism of the product. In general, one might expect ads in the developed countries to highlight the various features of the product, but center on durability in lesser-developed countries.

## **BUILDING GLOBAL SKILLS**

Essence of the exercise

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This exercise asks students to develop a marketing plan for Ajax Alarms, a mid-sized U. S. company that sells alarm clocks.

Answers to the follow-up questions:

There are no specific follow-up questions to this exercise, rather each student or group of students is asked to devise a marketing plan for Ajax Alarms. The company currently markets and distributes Korean-made clocks throughout the United States and Canada, but wants to expand its operations to include Mexico.

Students, in developing their marketing plans, should consider not only the marketing mix itself, but also how cultural, legal, and economic factors might affect it, and the issues of standardization and customization.

#### Other Applications

This exercise asks students to develop a marketing plan for a company that is interested in expanding its market to include Mexico. It may also be interesting for students, working in the same groups as in past exercises, to utilize their knowledge of other countries to develop marketing plans for the company to go into other new markets. These marketing plans can then be presented by each group to the company's " board of directors" (the rest of the class) for comment and critique.

## **CLOSING CASE**

### **Pillsbury Presses Flour Power in India**

The closing case describes Pillsbury's efforts to market wheat flour in India.

Several obstacles had to be overcome. The case describes several adaptations made by Pillsbury to make their flour attractive to Indian consumers.

#### **Key Points:**

India is a huge potential market for wheat flour. India consumes 69 million tons of wheat a year, compared to the U. S. 26 million tons.

The profit margin on Pillsbury's flour will be very thin. In order to make money, Pillsbury will have to sell huge amounts of flour and use the flour as an entry into Indian households for other Pillsbury products.

The Pillsbury doughboy has adopted Indian demeanor in TV spots, and speaks six regional languages.

Unilever is competing with Pillsbury in the Indian market.

### **Case Questions**

Identify and