International Marketing Management

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I- Introduction

. 1. Course objectives

The objective of this course is to give participants a good perspective of what International Marketing Management is about.
This discipline did evolve a lot over the last years, even each month there are some new trends influencing international exchanges.

Students are supposed to have sufficient knowledge about the fundamentals of Marketing as this course will focus on the specifics of the International Management of marketing activities.

In order to achieve this, the aim is two folded:

a- Thinking process

On the one hand to help students confronted with an international expansion decision in their thinking process; hopefully at the end of this course you will in the future have the reflex of using the following seven steps process:

- Prepare (define objectives!)
- Gather Information
- Analyse
- Decide (one of the most difficult step – you need to choose a path!)
- Implement
- Control
- Adapt (if necessary)

Whether starting a new business or working in a large company all steps above are necessary to be successful in marketing.

The preparation step obliges you to review your objectives carefully, this is key to determine the type of information you need to gather (indeed unclear or wrong objectives will lead you to spend useless time gathering the wrong information).

Once you do have information it is important to take time to step back and review it in its entirety in order to make a decision. This step is sometimes the most difficult one as it leads you on a specific path which will influence you for the rest of the "journey". Many people are scared of taking decisions for this reason.

The decisions of which strategy to follow taken, you make full use of the information gather to implement it.
In order to review the effectiveness of your strategy you do check regularly the results by measuring key indicators (sales, profit, market share etc…).

Based on this control you possibly adapt some of your strategies in order to better meet your objectives.

b- Pragmatic approach

On the other hand, I wish that you can make immediate use of what we will discuss during these hours together.
Therefore, the scope of the course will be valid for the entrepreneur as well as for the large companies.
The cases study will help illustrate what is said and will help you implement what you have learned.

References are made to several internet websites where useful and often free data can be gathered by the international marketer.

. 2. History: get international or die?!

If we define International Marketing Management as the fact of commercializing one company's products or services outside its "home" borders we can say that it has a quite long history.

a- How it all started

Commercial exchanges across borders have been started as back as Phoenicians, Greek, or Roman; without forgetting Spanish and Portuguese in the fifteenth century.
Even if at the time the objective was more to bring back products (like spices etc…).
Indeed the big "discovering" countries where more interested in discovering new products (and lands) than to find new customers.

The most recent exporters have been, in the nineteenth century the English supported by their strong maritime infrastructure – without forgetting a much smaller country but which played a great role in international exchange – The Netherlands – this might explain that Holland is home to some key multinationals like Unilever, Phillips or Royal Dutch.

b- Reasons for last 60 years expansion

Since the end of World War 2, in 1945, the Western Countries have experienced one of the longest periods of peace in World history, this enabled development of

- transports (easier when you can go through partners countries)
- exchange treaties fostering import and export
- understanding of each other, hence possibility to bring your product to them
- exchange of information (key to generate changes as people are more aware of what is happening elsewhere in the world).

Another important change which accelerated international trade (actually stemming from the above) is the move of key countries from pure "centrally planned socialism" to some adaptations of "market capitalism".

This is of course the case for the former Soviet Union countries (even if some of them have not adopted the full capitalism philosophy) and China.
All these countries represent key targets for Western companies.

Finally saturation of local market in so-called "developed" countries combined with the need to reduce costs is also a major drive for companies to find new markets for their products.

In net, a company with a more "ethnocentric" approach, i.e. considering mostly the perspective from its home country faces the challenge of being absorbed (at the best) or eliminated (at the worst) from the market by a more dynamic and visionary competitor.

Cases of companies with drastically different evolution due to their expansion or non-expansion abroad will be discussed during the course.

. 3. Company stages

When looking at the different stages we can identify the following for a company from most local to most international.

Domestic

Export

International

Global

a- A domestic company

is a company which manufactures (if it is its own production or it might import from an outside supplier) and sells its products or services only within the boundaries of its own country.
The best example is the local restaurant or the local dry cleaner for services or the farm selling eggs, milk or cheese for products.

b- An export company

has identified opportunity to sell its products or services outside its home country but does not have the production capacity or the financial means to start its own operation in the foreign market.
It either sells directly to the foreign customer, organising all the necessary paper work for customs and transport or sells through a wholesaler which has the necessary knowledge.
A good example is a traditional chocolate making company, based in Belgium which sells to some selected customers in Sweden, Spain or the United States of America. For the later, as it is outside the European Economic Union, specific legal agreements need be obtained from the Food and Drug Association.

c- An international company

starts opening subsidiaries in key markets where it reaches a minimum level of sales to cover the expenses of own staff and the investment in local offices.
Also it starts manufacturing operations outside its home country (mostly to move the factory to lower wages countries, or to service better and nearer a key outside market).
VF Corporation is a good example with subsidiaries across more than twenty countries and production facilities located mostly outside the United States of America (this due to the

fact that the apparel industry is still a quite labour intensive business, hence high impact of salary of workers on the production costs).

d- A global company

is a more recent term and applies to companies which have achieved a true global awareness of their brands across the world - Coca-Cola and Mc Donald's Restaurants are best example of this.
Usually they do have headquarters in key regions and manufacturing facilities across the globe.

< *Exercise* >

Define in your own environment companies which are at the different stages: domestic, export, international, possibly global and explain why you would consider these at that specific stage.

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II- How to select a country

For some companies, a potential customer is contacting them to import their product, for others they feel the need to expand their production and sales abroad and want to look for an interesting international market.

In both cases there are several steps to undertake prior to starting business outside one's own country in order to avoid loss of time or even part of your investment due to unexpected rules or wrongly assessed markets.

You need first to know whether your home country is included in a Trade Agreement with the countries in consideration, then you need to analyse the macro economical aspects of the country (its economy, population, culture etc…) and then you need to scrutinize the micro economical aspects specific to the market you want to enter (size, specificity in terms of consumer and distribution, competition etc…).

We will review this more in depth below.

. 1. Trade Agreements

a- Depth of the agreement

Since more than two centuries, countries have understood the interest and need to negotiate bilateral agreements in order to facilitate exchange of products, services or even people between each others.
We will see that with time, countries have extended to "plural" agreements.

The different levels towards the highest economic integration are:

Free Trade Area

Customs Union

Common Market

Economic Union

◈ A Free Trade Area (also commonly referred to as FTA) is when one or more countries agree to eliminate tariffs and other barriers in order to facilitate trade between each other. Often the agreement is for a specific group of products, it is therefore important to know which product categories are encompassed or outside the agreement.

◈ The next step after FTA is a Custom Union where members agree to apply common trade tariffs to the countries outside the Union (e.g. Mercosur, see infra).

◈ A Common Market is going to the next step by allowing free movement not only of goods but also of people within the agreeing members (this includes also free flow of capital and information).

◈ <u>The Economic Union</u> is the highest possible integration when after having cancelled barriers between each other, have set common external tariffs and letting people, goods and capital flow freely the members agree to harmonize economic and social policies.
In a way country members agree to decrease their supremacy over some specific elements of the economy to have these ruled by the Union.
Indeed a true Economic Union "*would involve the creation of a unified central bank, the use of a single currency, and common policies on agriculture, social services and welfare, regional development, transport, taxation, competition, and mergers. … The European Union is approaching its target of completing most of the steps required to become a full economic union*". [1]

b- Overview of key agreements across the world

With the need for more markets and new consumers there has been an acceleration of trade agreements either bilateral or between several countries, the World Trade Organization (WTO) mentions more than 150 bilateral agreements signed between countries over the past decade.

This proliferation makes of course the analysis more complex but we will review here the key agreements.

WTO
ASEAN (Association of South-East Asian Nations)
ECOWAS (Economic Co-operation of West African States)
EU (European Union)
MERCOSUR (South American Free Trade Agreement)
NAFTA/FTAA (North American Free Trade Agreement / Free Trade Agreement of the Americas)

◈ **The WTO** was created on January 1, 1995 and is based in Geneva, it is a successor of the General Agreement on Tariffs and Trade (GATT), created after world war two, to foster exchange between countries by abolishing tariffs and barriers amongst member thus enabling free trade. The GATT principles and agreements were adopted by the WTO, which was charged with administering and extending them.
The WTO has 151 members (Vietnam joined early 2007), new members joining regularly.
Some countries have observers at the WTO, most of the observer countries are seeking membership to the WTO.

The WTO has two basic functions, it is a negotiation forum for discussions of new and existing trade rules, and it is dealing with dispute between members.

<u>Negotiations forum</u>
A specific dimension of discussions within the WTO is that they are taken based on consensus. This does not necessarily mean that unanimity is found: only that there should not be a member with fundamental issue with one decision. Voting is only employed as a fall-back mechanism or in special cases.

The advantage of consensus is that it encourages efforts to find the most widely acceptable decision. Main disadvantages include large time requirements and many rounds of negotiation to develop a consensus decision, and the tendency for final agreements to use ambiguous language on contentious points that makes future interpretation of treaties

[1] W.J. Keegan and M.C. Green, "Global Marketing" fourth edition, Prentice Hall International Edition (2005), pp85-86.

difficult. This was proven during the failure of the latest rounds of discussions respectively in Seattle (1999) and Doha (2001). Although talks are under way to restart the Doha negotiations.

Dispute resolution

As far as dispute resolution is concerned the WTO has no significant power to enforce the decisions it makes when a member brings a complaint against another. If decisions of its Dispute Settlement Body are not complied with, it may authorize "retaliatory measures" on the part of the complaining member, but no other enforcement action is available. This means that economically powerful members may decide to ignore the WTO rules without much fear of consequences.

www.wto.org

◈ **The Association of Southeast Asian Nations** or **ASEAN** was established in 1967 by the five original Member Countries - Indonesia, Malaysia, Philippines, Singapore, and Thailand succeeding to a former alliance between the same countries, named Maphinlindo. Brunei joined in 1984, Vietnam in 1995, Laos and Myanmar in 1997, and Cambodia in 1999. The ASEAN region has a population of 558 million, a combined Gross National Income (GNI) of US$968 billion.

On one extreme, Singapore has a $29,323 GNI per capita with Cambodia at the other end at a $481 level; notwithstanding the political differences between for instance Philippines and Vietnam....

Source: www.wikipedia.com

The objective of the ASEAN association is to accelerate economic growth, social progress and cultural development in the region whilst promoting regional peace and stability.
This goal should be reached through economic and political cooperation. Trade and investment liberalisation is promoted by the ASEAN Free Trade Area or AFTA, the objective of which is to increase the ASEAN region's competitive advantage as a single production unit as well as attracting foreign investment. The elimination of tariff and non-tariff barriers among the member countries is expected to promote greater economic efficiency, productivity, and competitiveness, as it opens to the outside company one market of more than 500 millions people.
Member states are free to set their own tariff levels against non-member countries.

Over the course of the several years, the initial program of tariff reductions was broadened and accelerated and other activities were initiated. This includes efforts to eliminate non-tariff barriers, harmonization of customs nomenclature, valuation, and procedures and development of common product certification standards among others.

www.aseansec.org

◈ **The Economic Community of West African States (ECOWAS)** is made up of the 15 member states of West Africa namely: Benin, Burkina Faso, Cape Verde, Cote D'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo. It was founded on May 28, 1975.
The agreement gathers a total of 276 million people totalling a gross national income of $160 billion.
GNI per head is more even with Cape Verde at $2,133 and Liberia at $139 (the average being at a $577 level).
In 2002 Mauritania left the agreement.

Source: www.ecowas.info

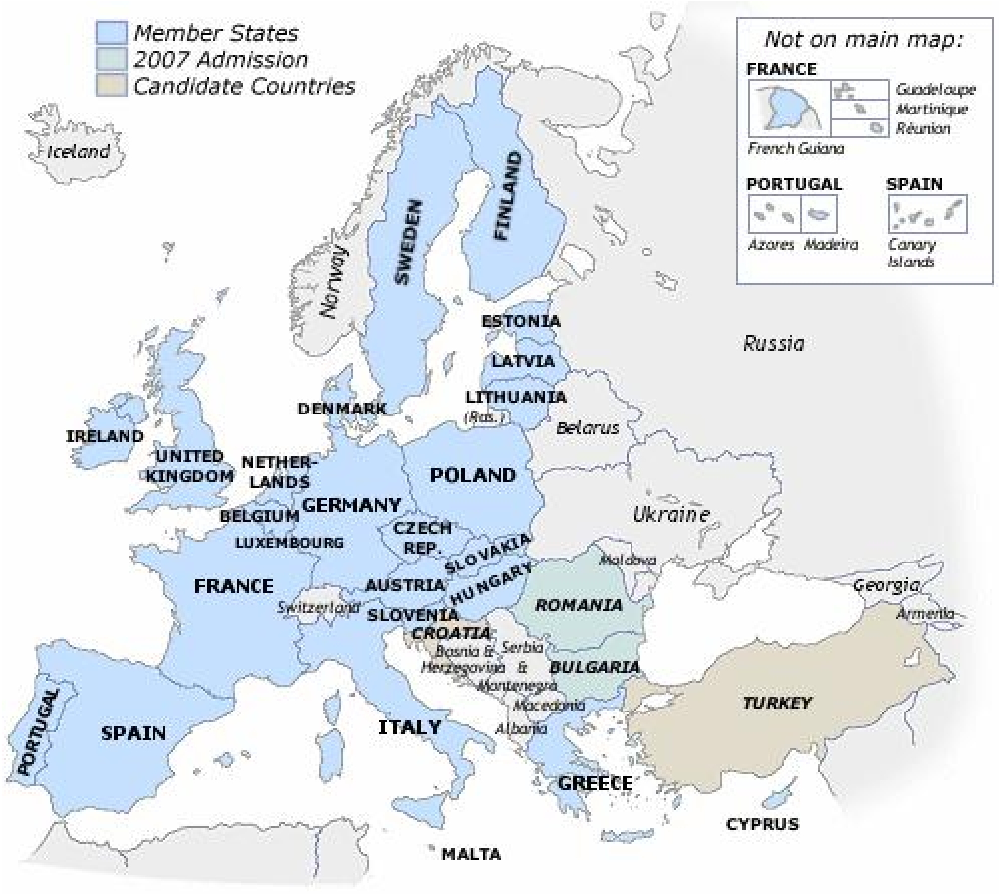
The treaty establishing ECOWAS was signed in Lagos, Nigeria on May 28, 1975 with the aim of promoting co-operation and integration, leading to the establishment of an economic union in West Africa, in order to raise the living standards of its people. ECOWAS is intended to maintain and enhance economic stability, foster relations among member states and contribute to the progress and development of the African continent.

The treaty involves three groups of products: unprocessed goods, traditional handicraft products and industrial products.
The initial objective of the treaty was to get an economical cooperation between countries up to the level of a Common Market (see supra); it also includes provision to preserve the environment and natural resources of the countries involved.
The very slow progress towards this aim meant that the treaty was revised towards a looser collaboration.

www.ecowas.info

◈ **The European Union** or EU is a supranational union of 27. It represents a market of about 490 million people with a total Gross National income of $14,653 billion.
There are two sub blocks in term of GNI per head with the 15 initial countries (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Portugal, Spain, Sweden, The Netherlands and the United Kingdom) at an average of $35,634 (Luxembourg - $76,045 and Portugal – $18,095) and the ten new ones since 2004 (Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia) at an average of $9,767 (Slovenia - $18,884 and Lithuania - $7,870).

The 2007 new accession countries, Romania and Bulgaria have similar lower GNI per capita (respectively $4,846 and $3,992).



Source: www.wikipedia.com

The union was first established in the Treaty of Rome in 1957 and has been revised four times: in 1987 (the Single Act), in 1992 (the 'Maastricht' Treaty on European Union), in 1997 (Treaty of Amsterdam) and in Nice in 2000. In terms of internal and external trade, the Single Act is crucial.

The single European market was established in 1993 when the Single European Act of 1987 came into force.
The European Union's activities cover all areas of public policy, from health and economic policy to foreign affairs and defense.
The scope of its powers is not equal in all areas. It is more important on monetary affairs, agricultural, trade and environmental policy. Then follow social and economic policy, consumer protection, home affairs. Implication is minimal in foreign affairs (the best example is the very different attitudes of the member states toward the Unites Sates during the second war against Iraq in 2003).
This integration is vital to facilitate actual circulation of people for instance; indeed a key area of integration lately has been the harmonization of higher level education in order to reach equivalent systems enabling students to move from one university in Italy to another one in France or UK.
Another important aspect for outside business people is the full integration in terms of intellectual property with possibility to register trademark or patent for the 27 countries with one form (see chapter on intellectual property infra).

A key activity of the EU is the establishment and administration of a common single market, consisting of a customs union, a single currency (adopted by 15 of the 27 member states – the Euro), a Common Agricultural Policy and a Common Fisheries Policy.

Several institutions have been set up to ensure the effective functioning of the European Union. Of these the most important are the Council of the European Union, the European Commission, the European Parliament and the European Court of Justice.

http://europa.eu/

◈ **Mercosur** or **Mercosul** is a trading zone among Brazil, Argentina, Uruguay and Paraguay, founded in 1991 by the Treaty of Asunción, which was later amended and updated by the 1995 Treaty of Ouro Preto. Its purpose is to promote free trade and movement of goods and peoples, skills and money, between these countries.
Chile is an associate member that participates in the free trade area only.
MERCOSUR is a block of 237 million inhabitants with a gross domestic product of $1,120 billion. The GNI distribution is relatively even with Uruguay at $5,311 and Paraguay at $1,396 around an average of $4,724.

Source: www.wikipedia.com

Mercosur was an answer to the strong presence of the United States in the region, either in the form of the Free Trade Area of the Americas (FTAA) or in the form of bilateral treaties. But Mercosur was significantly weakened by the collapse of the Argentinean economy in 2002, and indeed some critics believe the refusal of the Bush administration to bail out Argentina was based on its desire to undermine Mercosur, which could be a threat for maintaining their influence over the economies of Latin America.

In December 2004 it merged with the Andean Community trade bloc (CAN) to form the South American Community of Nations, patterned after the European Union.
The Andean Group formed in 1969 includes Bolivia, Colombia, Ecuador, Peru and Venezuela representing 124 million people and a GNI of $420 billion. GNI per head is also well balanced with at the high end Venezuela with $6,069 and at the other end Bolivia at $1,101, the average being $3,397.

The name Mercosur is formed from the Spanish phrase Mercado Común del Sur which means "Southern Common Market".

www.mercosur.org.uy

◈ **The North American Free Trade Agreement** or **NAFTA** links Canada, the United States, and Mexico in a free trade sphere. NAFTA went into effect on January 1, 1994. It is a trade block of 436 million people with a Gross National Income of $15,444 billion, and a quite unbalanced GNI per head with the US at $44,972 and Mexico at $7,871.

NAFTA called for immediately eliminating duties on half of all U.S. goods shipped to Mexico and gradually phasing out other tariffs over a period of about 14 years. Restrictions were to be removed from many categories, including motor vehicles and automotive parts, computers, textiles, and agriculture. The treaty also protected intellectual property rights (patents, copyrights, and trademarks) and outlined the removal of restrictions on investment among the three countries. Provisions regarding worker and environmental protection were added later as a result of supplemental agreements signed in 1993.

This agreement was an expansion of the earlier Canada-U.S. Free Trade Agreement of 1989. Unlike the European Union, NAFTA does not create a set of supranational governmental bodies, nor does it create a body of law which is superior to national law.

Another matter that is particularly controversial is "Chapter 11", which allows corporations to sue federal governments in the NAFTA region if they feel a regulation or government decision adversely affects their investment. It is argued this provision scares the government from passing environmental regulation because of possible threats from an international business.

Supporters of the agreement in all three countries believe that it does not yet have the necessary provisions to allow North America to effectively compete with the European Union, China and other major economic blocs. The treaty still does not provide free flow of labor and capital, crucial for competitiveness. As a result, Canadians, Mexicans and Americans cannot easily move between and find work in the three NAFTA states without being citizens.
From the perspective of North American consumers, one of the effects of NAFTA has been the significant increase in bilingual or even trilingual labeling on products, for simultaneous distribution through retailers in Canada, the U.S., and Mexico in French, English, and Spanish.

www.nafta-sec-alena.org

◈ **Free Trade Area Agreement** or **FTAA**, started in 1994; The FTAA negotiations were formally launched in April 1998 at the Second Summit of the Americas in Santiago, Chile. The FTAA's aim is to unite all 34 countries from the Americas in one single free trade zone, according to the plan a decision on the agreement and its implementation should be taken no later than December 2005, but no agreements were reached yet ... .

www.ftaa-alca.org

◈ **Across oceans agreements:** The Transatlantic Economic Partnership or TEP between the European Union and the United States. The Mediterranean Free Trade Zone or MFTZ between the European Union and 12 non-EU nations of the Mediterranean region. And the Asia-Pacific Economic Cooperation or APEC, a group of 20 Pacific rim countries (Australia, Brunei, Canada, Chile, China, Indonesia, Japan, Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, Philippines, Russia, Singapore, Taiwan, Thailand, USA and Vietnam).
Finally the former Lome Convention (now amended in the light of WTO rules and known as the Cotonou agreement) between the European Union and 71 countries in Africa, Caribbean and the Pacific (APC) giving preferential access to the EU for specific commodities as sugar, banana, rum and rice.

c- Discussion

Next to the enthusiasm of political - and behind the scene economical – leaders to promote free trade across the globe as indicated by the numbers of new countries joining existing trade agreements or by the negotiations of new ones between countries or groups of countries, one has to review the other side of the coin.

Some accuse treaties of favoring multinational corporations and wealthy nations. They also say that for a country not to participate to bilateral or multilateral treaties places it into a "de facto" position of embargo, thus forcing it to enter into trade agreements to survive.

The "big three" countries also referred to as "The Triad" - the United States, the European Union, and Japan - have been accused of using the WTO to exert undue influence over less powerful member states. In addition, some believe that member states have adopted WTO treaties undemocratically or to the detriment of their citizens or ecologies.

Trade agreements have also come under fire on environmental and social issues. When agreements involve countries with significantly different levels of power, influence and development, there are often serious environmental and social impacts. For example, the North American Free Trade Agreement (NAFTA) has been roundly criticised for encouraging the relocation of polluting industries from the USA to Mexico, where environmental standards are lower. There is evidence that these industries are causing major health and environmental problems.

Others give the example of Denmark which introduced a scheme to promote the reuse and recycling of drink bottles; it was challenged by the European Commission on the grounds that it was "...a barrier to trade within the EU's single market and discriminates against non-Danish drinks makers". The scheme subsequently had to be amended.

Labor unions in Canada and the United States have opposed NAFTA for fear that jobs would move out of the country due to lower wage costs in Mexico.
Similar fears have led – partially – to the rejection of the European Union Convention by a referendum in France with citizen fearing competition of lower wage labor force from Poland.

The best way to open the discussion is to quote three different organizations with extreme point of view: The Cato institute on the one hand, strong defender of free trade across the globe and Free Trade Organization and Citizen Organization, on the other hand, two anti-globalization bodies denouncing abuses of free trade.

◈ **Free Trade Organization**

"The world is becoming more globalized; there is no doubt about that. While that sounds promising, the current form of globalization, neoliberalism, free trade and open markets are coming under much criticism. The interests of powerful nations and corporations are shaping the terms of world trade. In democratic countries, they are shaping and affecting the ability of elected leaders to make decisions in the interests of their people. Elsewhere they are promoting narrow political discourse and even supporting dictatorships and the "stability" that it brings for their interests. This is to the detriment of most people in the world, while increasingly fewer people in proportion are prospering.

The western mainstream media, hardly provides much debate, gladly allowing this economic liberalism (a largely, but not only, politically conservative stance) to be confused with the term political liberalism (to do with progressive and liberal social political issues). Margaret Thatcher's slogan of "there is no alternative" rings sharply. Perhaps there is no *alternative for such prosperity for a few, but what about a more equitable and sustainable development for all?*

Today then, neoliberal policies are seeing positives and negatives. Under free enterprise, there have been many innovative products. Growth and development for some have been immense. Unfortunately, for most people in the world there has been an increase in poverty and the innovation and growth has not been designed to meet immediate needs for many of the world's people. Global inequalities on various indicators are sharp. For example:

some 3 billion people - or half of humanity - live on under 2 dollars a day
86 % of the world's resources are consumed by the world's wealthiest 20 %.

Joseph Stiglitz, former World Bank Chief Economist (1997 to 2000), Nobel Laureate in Economics and now strong opponent of the ideology pushed by the IMF and of the current forms of globalization, notes that economic globalization in its current form risks exacerbating poverty and increasing violence if not checked, because it is impossible to separate economic issues from social and political issues.
An analysis of long-term trends shows the distance between the richest and poorest countries was about:

3 to 1 in 1820
11 to 1 in 1913
35 to 1 in 1950
44 to 1 in 1973
72 to 1 in 1992"

Source 1999 Human Development Report, *United Nations Development Programme* [2]

◈ Cato Institute

"The mission of the Cato Institute Center for Trade Policy Studies is to increase public understanding of the benefits of free trade and the costs of protectionism.

Scholars at the Cato Trade Center recognize that open markets mean wider choices and lower prices for businesses and consumers, as well as more vigorous competition that encourages greater productivity. These benefits are available to any country that adopts free trade policies; they are not contingent upon reciprocal policies in other countries. It is a mistake to regard liberalization as a "concession" whose main purpose is to open up export markets abroad; such thinking is simply a variant of the mercantilist outlook that gives rise to protectionism in the first place. Studies by Trade Center scholars have found benefits in the elimination of U.S. trade barriers regardless of what other countries choose to do.

The case for free trade goes beyond economic efficiency. The freedom to trade is a basic human liberty, and its exercise across political borders unites people in peaceful cooperation and mutual prosperity. Accordingly, scholars at the Cato Trade Center closely examine the politicization of trade, whether due to simple protectionism or in furtherance of other policy goals. In particular, they question whether foreign policy trade sanctions lead to the desired changes in other countries' policies, or more often injure the very people we most want to help.

The Cato Trade Center focuses not only on U.S. protectionism, but also on trade barriers around the world. Cato scholars examine how the negotiation of multilateral, regional, and bilateral trade agreements can reduce trade barriers and provide institutional support for open markets. Not all trade agreements, however, lead to genuine liberalization. In this regard, Trade Center studies scrutinize whether purportedly market-opening accords

2 Anup Shah found on www.globalissues.org - 2005

actually seek to dictate marketplace results, or increase bureaucratic interference in the economy as a condition of market access. In addition, Cato scholars investigate whether threats of unilateral trade sanctions, even when they occasionally succeed in reducing trade barriers, may foster a political culture hostile to open markets and therefore should be avoided.

Studies by Cato Trade Center scholars show that the United States is most effective in encouraging open markets abroad when it leads by example. The relative openness and consequent strength of the U.S. economy already lend powerful support to the worldwide trend toward embracing open markets. Consistent adherence by the United States to free trade principles would give this trend even greater momentum. Thus, Cato scholars have found that unilateral liberalization supports rather than undermines productive trade negotiations.

The Cato Trade Center seeks to advance its mission by participating aggressively in the trade policy debate. We publish briefing papers, policy analyses, and books; we hold policy forums and conferences; we actively engage policymakers and opinion leaders. Scholars at the Cato Trade Center aim at nothing less than changing the terms of the trade policy debate: away from the current mercantilist preoccupation with trade balances, and toward a recognition that open markets are their own reward." [3]

◈ Citizen Organization

"Established in 1995, the World Trade Organization (WTO) is a powerful new global commerce agency, which transformed the General Agreement on Tariffs and Trade (GATT) into an enforceable global commerce code. The WTO is one of the main mechanisms of corporate globalization.

Under the WTO system of corporate-managed trade, economic efficiency, reflected in short-run corporate profits, dominates other values. Decisions affecting the economy are to be confined to the private sector, while social and environmental costs are borne by the public.

In November 1999, the World Trade Organization's (WTO) Third Ministerial Meeting in Seattle collapsed in spectacular fashion, in the face of unprecedented protest from people and governments around the world.

The WTO and GATT Uruguay Round Agreements have functioned principally to pry open markets for the benefit of trans-national corporations at the expense of national and local economies; workers, farmers, indigenous peoples, women and other social groups; health and safety; the environment; and animal welfare. In addition, the WTO system, rules and procedures are undemocratic, un-transparent and non-accountable and have operated to marginalize the majority of the world's people." [4]

< Class discussion >

Do you think that free trade development will help decrease poverty across the world? Do you think it is a need for underdeveloped countries? How do you see the effect of free trade agreements in your own country?

[3] Found on www.freetrade.org - 2005
[4] Found on www.citizen.org - 2005

. **2. Macro Economic environment**

A country is shaped by its economic development, its culture, its political environment and of course its geography.
We will briefly review the elements to take into consideration when evaluating the potential of a country for possible market extension.

a- Socio-cultural environment

The social-cultural environment of a country can be subdivided into two main forces shaping it: culture and demography.

◈ Culture

Nothing is more important to shape one person’s behaviour and therefore the consumer behaviour than culture. But it is also one of the most subtle and difficult to apprehend elements of a country.

Definition and basis:

When looking for a definition of culture we see a wide range of possibilities, the one I feel best encompasses the concept comes from a UNESCO document in 2002 which states that culture is the *"set of distinctive spiritual, material, intellectual and emotional features of society or a social group and that it encompasses, in addition to art and literature, lifestyles, ways of living together, value systems, traditions and beliefs".* [5]

Culture is what defines a group of people, a "society", what holds them together and unfortunately what makes them reject other groups (when one’s culture competes with another, or does not accept one).

Culture is acquired from one generation to the other but can also be learned by people open and curious about others.

The quality of an international marketing manager or any person wanting to do business abroad is this openness of mind towards other habits, values, behaviours and is detrimental to the success of international business.

But culture is not a frozen concept, it evolves over time whether due to endogenous or exogenous reasons; the later were accelerated by television (showing how other nations are living) and more recently internet (where you can chat with people across the globe).

Three pillars form the basis of culture:

- *Values:* ideas about what is important in life, also associated with norms i.e. set of unwritten rules to be respected, telling what is "right" and what is not
- *Beliefs:* is what one holds for being true, without discussion, it is the certainties of life, often linked with/ fuelled by religion
- *Artefacts:* also called material culture (architecture, machinery, tools) also linked with aesthetics.

[5] http://portal.unesco.org

Elements of culture impacting international marketing management:

The following elements are to be considered when wanting to understand another country's culture with implication not only to type of products sold but also to packaging and communication:

Religion: how important and strong is the influence of religion on people's attitude and every day life? Most extreme example is the Islamist countries, like Iran where religious and political powers are interrelated.
Important is also to know which religion is key in one country in order to avoid chocking people's beliefs.

Family and Education: the importance of the family cell varies from one country to the other, some countries like the Mediterranean or African one's still give a high importance and respect to the older members of the family, others – like the Northern European one's or even the US - "evacuate" the elderly in specialized "homes" (are they afraid of looking at old age?!).

The level of education reached by most of the population also influences the type of products one can offer on a market.

Whether the education is provided by the family or by outside schools in the first years of childhood also shapes differently the attitude of people.

Language: one should not forget this important barrier which is often influencing the choice of a country of exportation. Even today when English is becoming a global language not every one does speak a second language (this is mostly true for large countries) hence the limitation in terms of selecting a country.
Language is also shaping one's person mind as will be highlighted in subsequent chapters.

Linked with the unspoken language are the notion of high context cultures (where much is said by the body attitude – like Asian) or low context culture were most of the meaning is within the said word, therefore more straightforward (typical of German and American).

Attitudes towards key element of life. Best example is time management (the famous Swiss punctuality versus the so-called Mediterranean "mañana" or "tomorrow"). Also the attitude towards wealth (the typical openness of American towards their salary or their proud ness to win a lot of money versus the protestant defiance towards money leading not to speak about it).

Aesthetics: also associated with taste (good and bad one); despite the globalization through the fame of some top models, what is considered beautiful in one country is not specifically the case in another this has for instance impact on television commercial in the casting of models used to promote one company's products.

Food: although also influenced by the geography (you eat want can grow or the fauna that live in your region) it is also closely linked with culture not only in terms of what you eat (Muslim cannot eat pork) but how you eat (the fast food culture of Americans opposed to the ritual of eating as cherished by French people). You do not offer the same type of food products to these cultures.

Material culture: these are the tools and building specific to one country and not always related to the geography (wooden houses where forests abound) or climate (concrete houses to protect against the cold). Building is strongly linked with aesthetics but also how the population perceives the need to protect itself – or not – from the outside world. It is also linked to the type of machinery used.

Also linked to culture is the openness of a population to foreign people or product; xenophobia or defiance towards other cultures is specific of Asian people and even more so in Japan, on the other hand African from central Africa are very open to any foreign people.

◈ Demography

The structure of the population is also influencing the type of products or services that can be effectively rendered to a population, the following should be looked at:

Size of the population: this is quite trivial but is one of the main motor for firms to invest in a country. For example, in Europe key countries where foreign companies do invest are Germany (82 millions inhabitants), France (60), UK (60); and Italy (57); it is also not a coincidence that most multinational – since the opening of the market – are looking closely at China and its 1.3 billion large population.

Age distribution: age groups are not evenly distributed across all countries.
Traditionally, developed countries, with a very low birth rate (influenced by culture!) tend to have an increasing over 50 year's old population. As highlighted by the less than 15% importance of the below 15 years old group in Germany and Italy compared with about 27% in Brazil and 30% in Turkey.
This has generated the proliferation of specific products and services addressed to this more mature part of the population. On the other hand the decrease of the younger population is also giving a less attractive potential for products specifically addressed to a younger audience.

Geographic spread: this tells us where the population is based: more into towns or more into rural areas. It is important to know as this influences behaviours (citizen will go more outside for eating for instance) and type of products needed.

b- Economic and technological level

The economic level of a country is important in the decision to invest, not for a "yes or no" decision but in order to assess the potential of a specific product.
Also the technological advance of a country will possibly limit distribution of a product in a country (you will not sell a high volume of electric appliances in countries with few electric supply).
On the other hand the stage of economic development might be an indication for product saturation.

◈ Stage of economic development

A "quick and dirty" way to have an initial measure of the potential of a country is to look at its stage of market development through the ranking published by the World Bank (www.worldbank.org).

Each year, in July - start of its new fiscal year - the World Bank publishes data on more than 200 countries with population size, gross national income and per capita income as well as other economic indicators (trade in goods, capital flows, foreign direct investment, external debts etc...).

The World Bank's main criterion for classifying economies is gross national income (GNI) per capita. GNI takes into account all production in the domestic economy (i.e., Gross Domestic Product or GDP) plus the net flows of factor income (such as rents, profits, and labour income) from abroad. Based on its GNI per capita, every economy is classified as low income, middle income (subdivided into lower middle and upper middle), or high income.

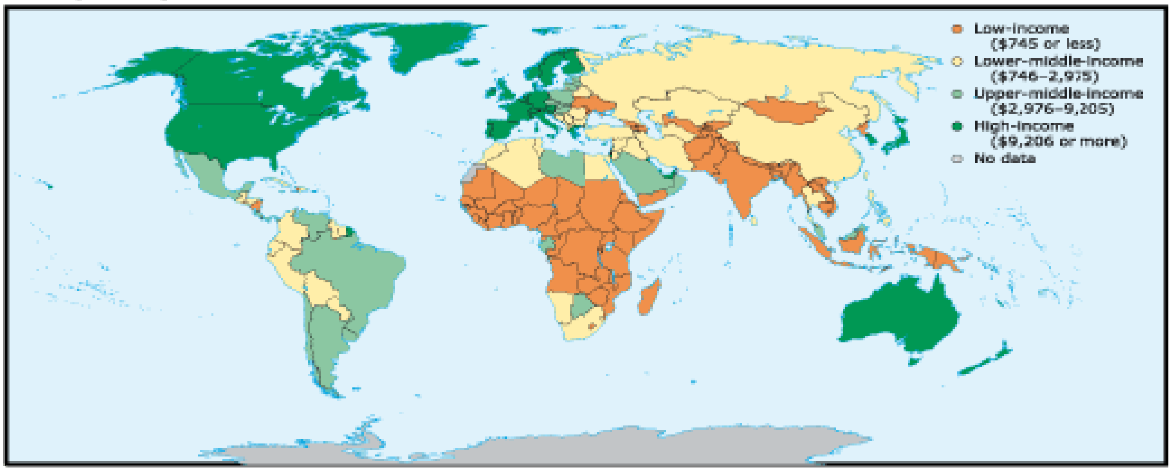
There are usually a number of common characteristics between the countries within each group enabling a first attempt at market segmentation.

Purchasing power parity (PPP) conversion factors take into account differences in the relative prices of goods and services and therefore provide a better overall measure of the real value of output produced by an economy compared to other economies. PPP GNI is measured in current international dollars which, in principal, have the same purchasing power as a dollar spent on GNI in the U.S. economy.

For 2006, income groups are defined as follows:
- low income, $905 or less;
- lower middle income, $906 - $3,595;
- upper middle income, $3,596 - $11,115;
- high income, $11,116 or more.

The dispersion across the globe is best shown in the map below:

GNI per capita, 2001



Source: www.worldbank.org

In terms of population and income distribution the picture of course opens endless discussions on the fact that about 16% of the population owns close to 80% of the world's wealth....

2006	Population (000)	%	Total GNI (000 000 $)	%
low income	2,403,283	36.9%	1,562,312	3.2%
lower middle	2,275,898	34.9%	4,635,180	9.6%
upper middle	810,045	12.4%	4,789,669	9.9%
high income	1,028,534	15.8%	37,528,912	77.4%
Total	**6,517,760**		**48,481,838**	

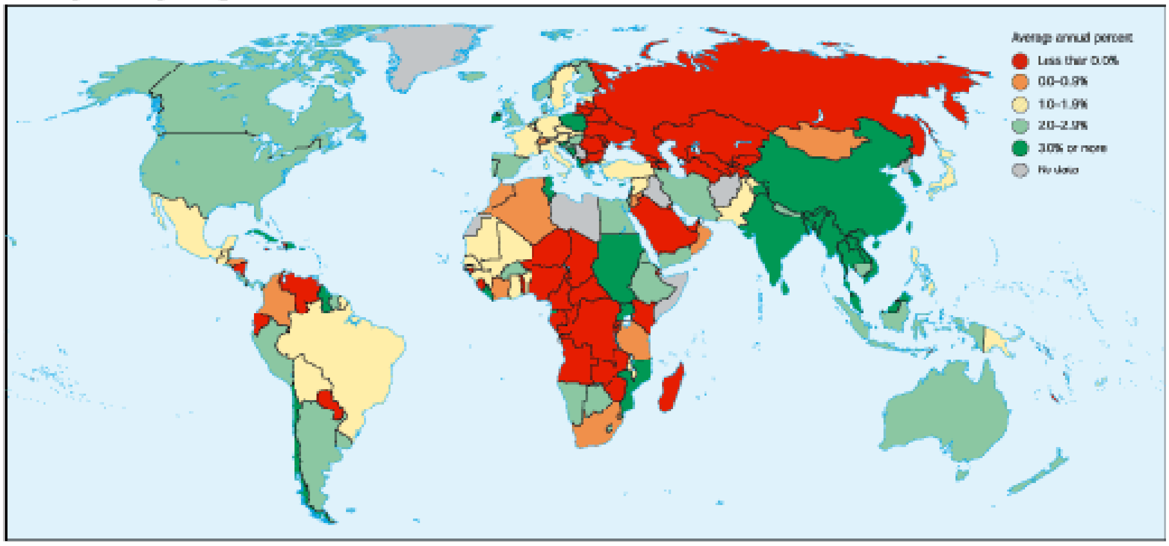
Source: www.worldbank.org

Low-income and middle-income economies are sometimes referred to as developing economies as opposed to industrialised or post industrialised countries, also named developed countries.

◈ Emerging markets

Each group however has its leader with rapid growth and high potential for the marketers; these are referred to as emerging markets.
These are best shown in the below table highlighting the GDP per capita growth over the last decade:

GDP per capita growth, 1990-2001



Source: www.worldbank.org

Consequently, countries are also grouped as mature, growing and emerging markets.

However these stages are often different from one type of products to the others as will be indicated in the micro economic analysis.

◈ Currency strength – the Big Mac Index

The official exchange rate of a currency versus the dollar or the Euro is supposed to even the price of a product as bought in another country.
However, this is true for items which can easily be imported or exported but many products or services cannot be easily purchased across borders, additionally trade barriers, transport costs and differences in taxes drive a wedge between prices in different countries.

This is clearly and dramatically shown by the "Big Mac Index" developed by The Economist.

"More important, the $5.05 charged for a Swiss Big Mac helps to pay for the retail space in which it is served, and for the labour that serves it. Neither of these two crucial ingredients can be easily traded across borders. David Parsley, of Vanderbilt University, and Shang-Jin Wei, of the International Monetary Fund, estimate that non-traded inputs, such as labour, rent and electricity, account for between 55% and 64% of the price of a Big Mac." [6]

Below is the list of countries reviewed in February 2007

[6] The Economist.com - August 2005

Table 1: The Big Mac Index

A feast of burgernomics

The Big Mac index

	Big Mac prices		Implied PPP* of the dollar	Actual dollar exchange rate Jan 31st	Under (-)/over (+) valuation against the dollar, %
	In local currency	in dollars			
United States†	$3.22	3.22			
Argentina	Peso 8.25	2.65	2.56	3.11	-18
Australia	A$3.45	2.67	1.07	1.29	-17
Brazil	Real 6.4	3.01	1.99	2.13	-6
Britain	£1.99	3.90	1.62‡	1.96‡	+21
Canada	C$3.63	3.08	1.13	1.18	-4
Chile	Peso 1,670	3.07	519	544	-5
China	Yuan 11.0	1.41	3.42	7.77	-56
Colombia	Peso 6,900	3.06	2,143	2,254	-5
Costa Rica	Colones 1,130	2.18	351	519	-32
Czech Republic	Koruna 52.1	2.41	16.2	21.6	-25
Denmark	DKr27.75	4.84	8.62	5.74	+50
Egypt	Pound 9.09	1.60	2.82	5.70	-50
Estonia	Kroon 30	2.49	9.32	12.0	-23
Euro area§	€2.94	3.82	1.10**	1.30**	+19
Hong Kong	HK$12.0	1.54	3.73	7.81	-52
Hungary	Forint 590	3.00	183	197	-7
Iceland	Kronur 509	7.44	158	68.4	+131
Indonesia	Rupiah 15,900	1.75	4,938	9,100	-46
Japan	¥280	2.31	87.0	121	-28
Latvia	Lats 1.35	2.52	0.42	0.54	-22
Lithuania	Litas 6.50	2.45	2.02	2.66	-24
Malaysia	Ringgit 5.50	1.57	1.71	3.50	-51
Mexico	Peso 29.0	2.66	9.01	10.9	-17
New Zealand	NZ$4.60	3.16	1.43	1.45	-2
Norway	Kroner 41.5	6.63	12.9	6.26	+106
Pakistan	Rupee 140	2.31	43.5	60.7	-28
Paraguay	Guarani 10,000	1.90	3,106	5,250	-41
Peru	New Sol 9.50	2.97	2.95	3.20	-8
Philippines	Peso 85.0	1.74	26.4	48.9	-46
Poland	Zloty 6.90	2.29	2.14	3.01	-29
Russia	Rouble 49.0	1.85	15.2	26.5	-43
Saudi Arabia	Riyal 9.00	2.40	2.80	3.75	-25
Singapore	S$ 3.60	2.34	1.12	1.54	-27
Slovakia	Crown 57.98	2.13	18.0	27.2	-34
South Africa	Rand 15.5	2.14	4.81	7.25	-34
South Korea	Won 2,900	3.08	901	942	-4
Sri Lanka	Rupee 190	1.75	59.0	109	-46
Sweden	SKr32.0	4.59	9.94	6.97	+43
Switzerland	SFr6.30	5.05	1.96	1.25	+57
Taiwan	NT$75.0	2.28	23.3	32.9	-29
Thailand	Baht 62.0	1.78	19.3	34.7	-45
Turkey	Lire 4.55	3.22	1.41	1.41	nil
UAE	Dirhams 10.0	2.72	3.11	3.67	-15
Ukraine	Hryvnia 9.00	1.71	2.80	5.27	-47
Uruguay	Peso 55.0	2.17	17.1	25.3	-33
Venezuela	Bolivar 6,800	1.58	2,112	4,307	-51

Sources: McDonald's; *The Economist*

*Purchasing-power parity: local price divided by price in United States

†Average of New York, Atlanta, Chicago and San Francisco ‡Dollars per pound

§Weighted average of prices in euro area **Dollars per euro

Source: www.economist.com – February 2007

◈ Technology and labour market

Technological development in one country also determines possibility to export to that market.
The potential for electric appliances in a country with few electric supplies is quite low and does not justify important investment.

Also if one company considers foreign direct investment in a country they need to make sure that the required level of skills are available on the labour market (this explains for instance the explosion of executive counsel companies in India with its high proportion of high level education people, still at a very low cost).

◈ Geography

A country’s climate and geography obviously impact on international trade.
In the past, countries isolated by mountains or seas where difficult to reach hence had underdeveloped international trade.
Evolution and development of transportations has changed this but a climate will always influence the success of products. Chocolate bars will have little development in tropical countries where the heat leads more to seek the refreshment of ice creams.

c- Political and legal context

The legal and political environment of a country is closely interrelated as the political framework shapes the laws voted by a country’s government or decisions taking body.
We will look at the different types of governments and their respective philosophy, both impacting strongly the potential and future of a foreign investment.
Not to be overlooked is the political stability.

We will not review here specific to marketing activities regulations – with implications on packaging, labelling, health and safety, promotion and communication – as these will be reviewed during the chapter dealing with the specifics of marketing strategies.

Intellectual Property protection will also be dealt with in a specific chapter.

◈ Type of governments and their philosophy

On one side we do have "democracy" where the government is expected to be representative of the majority of the population therefore taking decisions in line with their needs and beliefs. On the other side, "dictatorship" is specific to government which often took position through power and violence and where decisions are made without taking into consideration the population’s wants and needs.

Monarchy is a survivor of the past where the power is transferred from father to son (or daughter). In some countries it is combined with a democratic structure (like The United Kingdom, Spain, Belgium or Norway) where the King has more a representative role, key however to the unity and continuity of the nation (as governments change but the King remains). In others like Saudi Arabia, monarchy is closer to a dictatorship.

It is obvious that democracy will be more open to free trade and exchange with other countries in order to satisfy the need of the population whilst dictatorship, in line with the fundamental attitude of this regime, will want to rule any trade within its boundaries.

◈ Government's philosophy

Again we have all countries on a line going from "liberal" governments favouring free trade within and outside the country as well as private initiative, the US are the best example of this extreme. On the other hand "socialist" countries are those where governments regulate most of the economic activities of the country, with public ownership of business.

The famous fall of the Berlin wall in 1989 marked the end of the most pure version of the socialist era with the break down of the Soviet Union. The system indeed did not prove successful in the fast changing world, opening each single country to information and consumption.

However currently a lot of economies do have a mixture of liberal philosophy and government regulation of key sector of the business (like water supply, energy, transportation, telecommunication etc...).

International pressure makes it difficult for countries to maintain control of some sectors.

◈ Political stability

Major threat for a foreign company investing in another country is the political risk linked with the change - highest risk if change is rapid – in political environment or government policy. This can have major impact on the business environment, hence on the future of the foreign investment.
The most dramatic and extreme situation is when a sudden government change generates expropriation or nationalisation of a foreign company's assets in the country with often little or even no compensation at all.
Best examples are in 1959 when Castro's government nationalized properties belonging to American sugar producers or in 1961 after the independence of former Congo from the Belgian colonisation, the Zairian government nationalised all Belgian owned property key one being "Union Minière" a copper mining industry.

Foreign investors need to have an idea of the political risk of a country they consider to do business with. One can review the international business press (The Economist, The Financial Times, etc...) which gives an overview of political changes at stake in countries around the globe as well as any risks.
On the other hand business units like banks and financial institutions do publish political indices. Unfortunately this information is not free of charge.

An interesting index is one that was developed by Kaufmann and associates:
"This index is one of six indices developed to measure governance. The authors draw 194 different measures from 17 different sources of subjective governance data constructed by 15 different organizations. These sources include international organizations, political and business risk rating agencies, think tanks, and non-governmental organizations. The Political Stability index measures perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including terrorism. This index captures the idea that the quality of governance in a country is compromised by the likelihood of wrenching changes in government, which not only has a direct effect on the continuity of policies, but also at a deeper level undermines the ability of all citizens to peacefully select and replace those in power. The component indicators are aggregated using an unobserved components model that expresses the observed data in each cluster as a linear function of the unobserved common component of governance, plus a disturbance term capturing perception errors and/or sampling variation in each indicator. The choice of units for governance ensures that the estimates of governance have a mean of zero, a standard deviation of one, and

range from around –2.5 to around 2.5. Higher or positive values indicate greater political stability." [7]

Exhibit 1 shows the detailed list of countries with on one extreme Afghanistan (-2.21) and many Central African countries (Liberia, Côte d'Ivoire, etc...) whilst small Finland and Austria do enjoy amongst the highest ratings.

Indonesia is a good example to highlight how a very stable economy can drop into one of the most unstable and risky country after the Asian crisis of the beginning of this century.

◈ Legal framework

- Common law/Code law systems

The two main legal systems in the world are the Common law and the Code law ones.
Common law, mostly used in countries which were once under British influence (and this includes the US ...!) is based on reliance on past experience and common practice, hence giving a large importance to precedents and jurisprudence, not all aspects of life in society are set within legal framework, the laws are not written to cover all foreseeable situations.
By contrast Code law countries, mostly inspired by the Roman Empire and more recently the Napoleon code's of 1804 which forms the basis of many legal systems in Europe, where all aspects of society are supposed to be dealt with through laws. This led some cynical say "what is not permitted by law is forbidden..."!
Another important difference is that Code law differentiate between commercial, civil and criminal applications, each with different procedures and penalties.

The best example to illustrate the differences between the two systems is related to Intellectual Property and more specifically trademark registration. In Common law, registration of a mark is secured by use of this mark whilst in Code law it is the actual registration with the relevant trademark office which predominates.

The investor has to get a good understanding of the local regulations and taxes which might impact its business.

- Laws and regulations affecting international business

Environment: how one country regulates the impact of economy on the environment is quite important; a good example is the law in Germany.

Labour market: this is probably the most important element when a company decides for a direct foreign investment. The company has to look for labour protection (a good example is the strong protection of employees in Belgium, where employers have to give an important alimony when interrupting the employee's contract).
Some countries also do regulate possible discrimination of gender or ethnic origin in the recruitment process.

Anti-trust laws: this is more important for large multinational companies looking for expansion through acquisition. Many states (amongst which the European Union) do foresee provisions in their regulations in order to avoid monopoly situation. This is mainly to protect the right of the consumer (which would definitely suffer from the lack of competition, if only in terms of pricing).

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[7] Kaufmann, D., A. Kraay, and M. Mastruzzi. 2003. "Governance Matters III: Governance Indicators for 1996–2002". World Bank, World Bank Policy Research Working Paper 3106. Available at: http://www.worldbank.org/wbi/governance/pubs/govmatters2001.htm

International contracts: when drafting international contracts one should be particularly careful at specifying the jurisdiction in case of dispute.

- Taxation

The tax system of a country can also have important implication for the foreign company.

Direct taxes are those perceived at the purchase of the product or service, the best known one is VAT (Value Added Tax), which varies from one category of products to the other depending on the country policy.
Many countries apply lower taxes on basic product (like food) whilst moving to very high percentage (up to 25% at some point in time in Belgium) for luxury goods (like car).
It is important to know which percentage applies to the product or service you want to import in order to have an actual idea of the final price which will be paid by consumer.
Direct taxes added to high duties applied by one country might just put the concerned product totally "out of the picture" on the market.

Corporate taxes are also important revenue for a country and its level often depends on the "government philosophy". Socialist oriented countries do favour this revenue versus direct taxes which usually impact more the end consumer.

Sometime too high corporate taxes lead to use of "black money" in order to avoid the taxation process. This might lead to a parallel economy as was the case twenty years ago in Belgium when taxation close to 50% led small firms to use this artifice and is currently the case in Russia.
Large Corporation go so far as to determine where they do set their legal headquarters (not necessarily linked with the operational one) in order to have their revenue perceived in a low income country or region.
A good example is VF Corporation which based the trademark owning companies from the group (thus perceiving all royalties across the world from all VF operations) in Delaware. The later being a low tax state in the US. Additionally registered offices of VF Europe are based in Luxemburg, another low corporate tax country.

- Subsidies

All countries do not put trade barriers, quotas or regulations to prevent foreign direct investment.
Actually some countries or regions try to attract the foreign investor either through direct subsidies (i.e. a lump sum offered in exchange mainly of employment creation), or lower tax brackets.

However as this might affect the competitiveness of the firm one should not forget local anti-trust regulations preventing any unfair competition activities.

A recent case happened in Europe. Low fair flight company Ryanair, was offered subsidies by the Walloon region of Belgium to base its operations in Charleroi a large city of the region, in bad need of employment opportunities. In return Ryanair would mostly employ local labour forces.
Competitor to Ryanair brought the case to the European Court of Justice arguing of the unfair competition generated by the subsidies.
This resulted in the court ruling Ryanair to reimburse the subsidies, or about 20 million Euros.

In another perspective, some countries wanting to promote their exportation do offer subsidies, mainly to smaller companies, wanting to penetrate other market.
Entrepreneurs need be informed about this as it might be an important help for a successful start.

. 3. Micro economic environment

a- Market size

When considering entering a country the entrepreneur or the large multinational company should assess the actual size of the specific market they want to enter.

Indeed many companies did overestimate the potential market for their respective products by not considering the specificity of the market but only looking at the macro aspects of the country.
A common mistake is to gauge the potential of the country only by the size of its population.
Best example is of course China with it 1.3 billion inhabitants but a middle class of only 200 million people, hence decreasing by one sixth the potential for products addressing this type of consumers.
Another mistake is to look at average. If one only considers the per capita income of a country some countries would seem more interesting than they actually are. Like Kuwait – number 29 in the World Bank rating of July 2007- but this might be due to a very small part of the population concentrating most of the income.

Another possible mistake is to overlook potential market by eliminating for instance low income country but with a strong high income sub-group.

b- The Diffusion of Innovation Theory

An important step in understanding why products (like the Sony Walkman or the Tamagoshi) spread so quickly whilst others took age to reach success was due to Rogers Everett in the publication of "Diffusion of Innovations Theory".

According to this theory, technological innovation is communicated through particular channels, over time, among members of a social system.

◈ Stages of innovation

Technological innovation goes first through awareness (knowing about its existence), interest (forming of a favourable attitude towards it), decision (commitment to its adoption), trial, confirmation or loyalty.
Channels differ from one stage to the other, mass channels being more useful in the awareness process whilst inter-personal channels play a key role in the adoption stage.

◈ Adopters' categories

Depending on the rapidity of their adoption of an innovation, consumers are divided into 5 categories: innovators, early adopters, early majority, late majority, laggards.
The innovators also referred to as "opinion leaders" are very important to the success of a new product and are often the core of the marketing strategy for innovative products.

The importance of each category follows the life cycle of the product.
In western countries, studies have demonstrated that the categories form a normal distribution curve.
Recent theories on the Asian consumer have shown that the adoption process is much faster (Hellmut Schütte, Asian Culture, Financial Times).

c- Opportunistic versus systematic approach

The way a company is expanding abroad is not always following a very professional and thought out path.

◈ Reactive or proactive?

Some companies start exporting because through a fair, connections or even friend they get contacted by a foreign company interested in buying their products or services.
This is more a "reactive" approach when companies wait for the clients to come and is also more specific to smaller business when the management does not have the time or the resources to start strategic thinking about expansion.

◈ Opportunistic approach

A company deciding proactively to expand into another market might also consider the opportunistic way of doing it, this means going to closer markets in terms of:

> *Language*: one cannot underestimate the language barrier for a company to promote and sell its product or service, often a manager feels more comfortable in dealing with same language countries which often means similar cultures.
>
> *Geographic*: transport cost being for some product a key element of costs; companies prefer to expand through neighbour countries, the later usually benefiting from trade agreement with the home country (see above).

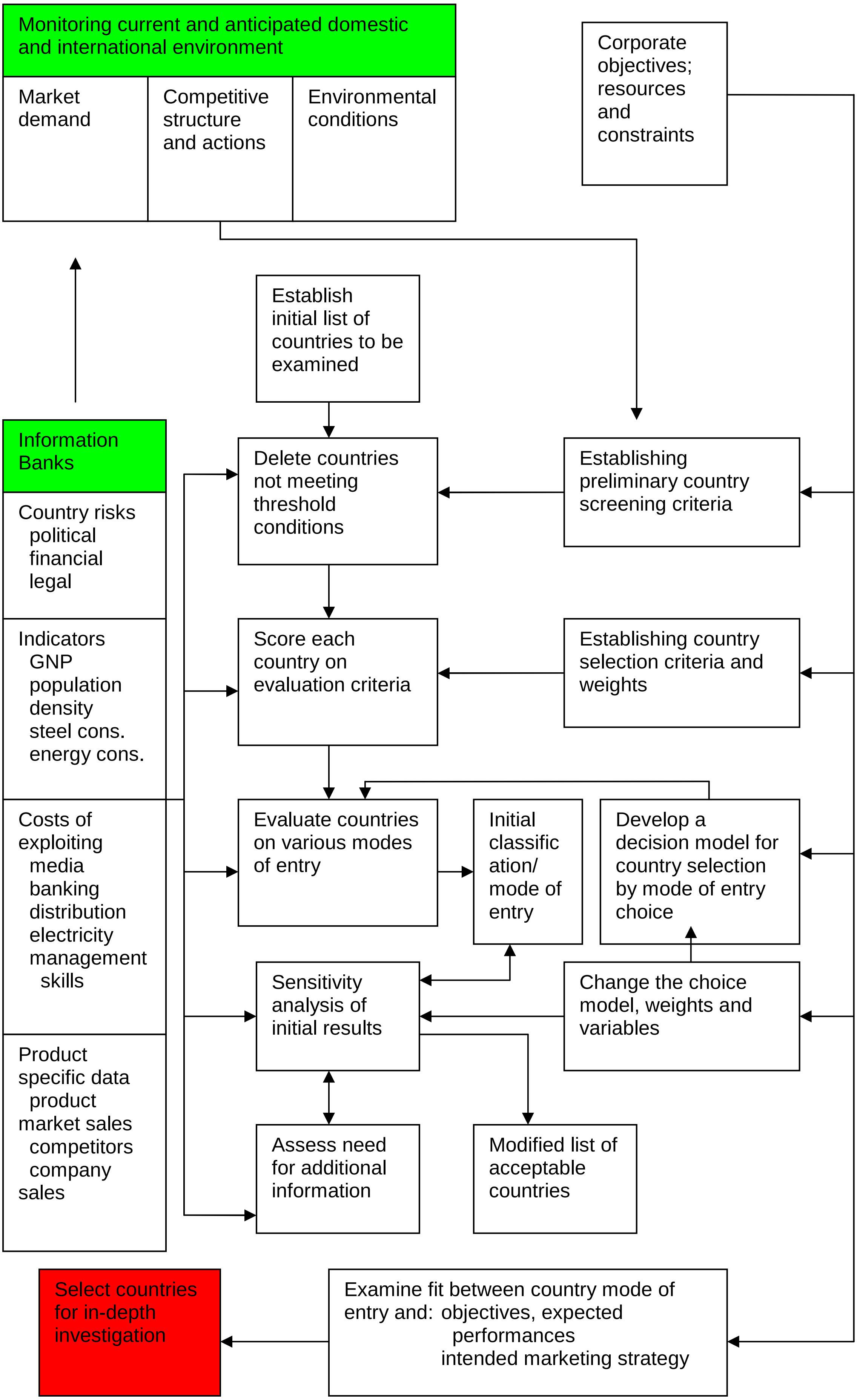
◈ Systematic approach

A systematic approach – usually performed by larger companies with the adequate resources – is a formal way to approach the expansion, best illustrated in the model shown below.
This is actually a good summary of this chapter.

Competitive situation which is a key micro economic aspect will be further discussed in the following chapter.

<u>Model of country selection</u>:

Source: G. Albaum et Al., "International Marketing and Export Management", Prentice Hall (2005). (from Douglas and Craig, 1983):



Monitoring current and anticipated domestic and international environment
Market demand
Competitive structure and actions
Environmental conditions
Corporate objectives; resources and constraints
Establish initial list of countries to be examined
Information Banks
Country risks political financial legal
Indicators GNP population density steel cons. energy cons.
Costs of exploiting media banking distribution electricity management skills
Product specific data product market sales competitors company sales
Delete countries not meeting threshold conditions
Establishing preliminary country screening criteria
Score each country on evaluation criteria
Establishing country selection criteria and weights
Evaluate countries on various modes of entry
Initial classific ation/ mode of entry
Develop a decision model for country selection by mode of entry choice
Sensitivity analysis of initial results
Change the choice model, weights and variables
Assess need for additional information
Modified list of acceptable countries
Select countries for in-depth investigation
Examine fit between country mode of entry and: objectives, expected performances intended marketing strategy

III- Information gathering and market research

The purpose of this course is not to review all existing research techniques as this will be addressed in another course but rather to review the specifics of global marketing research.

. 1. From surveillance mode to search mode

a- Surveillance mode

Marketing people and entrepreneur should not forget the basic market monitoring system which consists on the one hand of going on site, seeing and feeling the market (also commonly referred to as "store check") and on the other hand to be alert to all information about products, trends or competitors.
This is called by Keegan (Global Marketing, 2005), the surveillance mode as opposed to the search mode.

The surveillance mode is a more informal, less structured approach but key to give the relevant feeling about a market.
When visiting a shop in a specific country, the marketing person has a much better feeling of the relevant type of product, the shopper's attitude or the type of packaging used than by reading pages of market research.

Also by reading newspaper, industry journal or watching television one gets a good feeling on the attitudes, the products and also competitors' activities.
We are in the "viewing mode".

The next step is the "monitoring mode" when companies are still watching the press but on a more alerted basis as their interest have been triggered by the outcome of a new situation. An example is the follow up of the political crisis of a country one envisage investing in, or the follow up in the press and in the media of the launch of a competitor's new product or service.

b- Search mode

This is a more structured approach when the company is actively and in a more structured way engaging into information gathering.

The first step is investigation which consists of searching books, articles or websites related to a specific subject.

This time the person is not just reading the newspaper randomly but deliberately looks for specific information.

The last step is market research which will be covered in the next paragraph and encompasses the more formal ways a company or a person seeks out specific information related to a specific subject.

. 2. Primary and secondary research, hard and soft data

a- A list of questions

Before we start into looking at the different types of researches available to the exporter or the international marketing manager the first – and most important – step is the definition of the type of information needed.

A detrimental element of a successful research program is the list of questions to be answered; if the right questions (i.e. enabling to take the appropriate decisions) are not defined even the best research program will not be able to help in addressing the issue.

Indeed, nowadays (and this will be reviewed in the paragraph about sources) everyone is bombarded with an overwhelming amount of information and key is to select:

◈ The relevant information (i.e. answering the list of questions as mentioned above).

◈ The reliable data: a lot of information can be retrieved for free since the development of the World Wide Web but it is important to recognise the reliability of the data either because the source is unknown or doubtful or because the source has an interest in presenting the data in a certain way (this is the case in economic data provided by some countries).

b- Primary versus secondary research

We will start from the more general, secondary research to review the more specific activities covered by primary research.

◈ Secondary research

On one end we have secondary search which are data compiled by someone else usually to address the needs of many.
These are for instance country almanac, gathering data about different aspects of a country or syndicated studies to analyse a market.

Usually they are managed either by political instance (the best example are the country data compiled by the US government), or by private resources mostly consultant or research companies specialised in specific product or service categories or in compiling data about countries. A good example is Euromonitor which sells handbooks about countries or regions, or WGSN (Worth Global Style Network) which is specialised in following trends in the textile and apparel industry.

Another well known type of syndicated research is panel data. The panel is representative of the population monitored and enables to give perspective on market share of products, volume etc... . Nielsen is a world famous retail panel expert, based on actual sales recorder by a sample of representative shops. Consumer panel is based on a sample of people representative of the population and following up their purchase over a period of one week to a month (depending on the purchase cycle of the product or service).

The advantage of secondary research is that it is usually cheaper than primary research and is immediately available.

The disadvantage is that it may not correspond to the company's needs and only partly addresses its specificity.

Secondary search, in larger company where funds are available, is a good start to define the scope of further primary researches.

Obviously high potential market have more coverage of secondary search than smaller ones, obliging companies to rely on primary search only for data needed about the later.

◈ Primary research

Primary research is gathered by the company for its own need and usually its own purpose; it is designed for a specific project or to answer specific questions.

From qualitative to quantitative or hard versus soft data
In country specific market research, the first step to tackle an issue is to use qualitative data: this consists mainly in focus groups where people from the studied target group are gathered under the leading of a research specialist (often someone with psychological background).
There will be no statistical basis to such a research but it will give directions for further quantitative research, i.e. larger scale interviews of the target group.

Usually focus groups enable to avoid the cultural bias between countries (see below), it is also a "quick and dirty" way to give a good feeling about general trends or whether there is a main issue with a brand image or a new product.

Quantitative research
Quantitative research is a research with a sample size which is sufficiently representative of the population being researched, to draw conclusions and analysis with a limited range of variation for the data provided (tables exist giving the relevance interval for data, depending on the size of the sample).

Interviews are done either face to face, or by telephone. Another way to interview target groups nowadays is via the internet, this provides a fast and cheaper interviewing method but with the bias of lack of control by the research specialist (this method replaces the questionnaires that were in the past sent by normal post).

Key bias in international research
The key biases which need to be looked at when managing international research are:

Cultural elements: affecting the way to answer specific subject (like Americans respond quite easily about income whilst Europeans believe this information to be confidential)

Language issues: arising when translating a questionnaire.

Economic elements: whether it is the fact that in one country the coverage of telephone is such that the population cannot be covered adequately (in 2001 telephone ownership in Poland was 70% which made it difficult to get a representative sample of the entire population through telephone interviews); or education and income level which should be adapted in order to have comparable socio-cultural group from one country to the other.

To best summarize, we will quote Keegan: "*The challenge of global marketing research is to recognize and respond to the important national differences that influence the way* *information can be obtained. These include cultural, linguistic, economic, political, religious, historical, and market differences*" [8]

. 3. Sources of information

The difficulty is not only to find the information at the lowest possible cost for small investor with relatively low budget but also to select the most relevant data in the huge availability offered nowadays with the World Wide Web access.

We will review the sources starting with the free access, general one's up to the higher costs specific research.
In this review we will concentrate on the most accessible internet based data.

a- Official sources

Official sources are often for free but the exporter needs to review the possible bias introduced if the source is for instance a country trying to attract investors (data relevancy and accuracy might be questioned as it is probably presenting its best side). It might be interesting, whenever possible, to countercheck the data with another source.

The following are key groups of information:

◈ Governmental data

Local embassy
If you want to invest in a country the best is to start with the embassy of that country in your home country. Bias mentioned above might be encountered but it will help you understand the facet's of the country you want to enter.

Government (Local, regional)
Governments do promote their own country or region. This is an important source for country legislation and possible subsidies.

US statistic/CIA
The US government and the CIA have a wealth of information about practically all countries around the world. Some is of course biased as seen from the point of view of The United States of America's security.
However the example of a country page on the CIA website shows the depth of information covered.

International Institutions
The World Bank is definitely a huge source of statistics about the currently recorder 208 countries in the world (www.worldbank.org).
Other interesting websites to visit are those from: IMF, UN, OECD, and WTO.
The internet address of the above mentioned government bodies are referred to in the internet bibliography.

Even if some books and report from the World Bank for instance are to be paid for most of the above information is free of charge.

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[8] W.J. Keegan and M.C. Green, "Global Marketing" fourth edition, Prentice Hall International Edition (2005), p200.

◈ Trade groups

FITA
FITA is the Federation of International Trade Associations and is a very active association offering both free and paid services. They have profiles of about 90 countries worldwide and links to a lot of internet websites with regard to these countries. A member's directory gives access to a large database of small, medium and large companies across the world.
This is definitely an interesting site for a small company starting a business abroad and looking for contacts and information.
www.fita.org

Local chamber of commerce
Your local Chamber of Commerce is there to help you make contact with potential suppliers or customers. They also help through the administrative process if any. If you have good contact with them they might direct potential buyers to your specific company, a relationship worthwhile nurturing!

Local or international organization/federation
A lot of industries or businesses are organized with associations or federations and depending on the enthusiasm and dynamism of their director or secretary general they usually have a lot of information about their specific products or services and obviously their members.

Banks
Through their key position on the financial markets banks have developed business research centres and knowledge which are either available to the public or their clients. This encompasses both large commercial banks as development banks (IBRD, Asian development bank ...).

Universities are also a pool of research and thinking where information might be obtained.

b- Syndicated research

Syndicated researches are researches for a specific market covering either a country or a region as explained above.
They are usually initiated and managed by commercial research agencies which afterwards or on before hands sell them to the market.

Some examples are Euromonitor, GMI (the country brand index), Taylor Nelson Sofress (TNS), GFK (Growth from Knowledge) and Nielsen.

Depending on the number of potential clients for each survey, cost might be relatively high but might prove less expensive than running primary research.

c- Specific research

Specific research actually refers to primary research (please see section above) and is too vast to be addressed here.

Best source of information to find the relevant research agency to help you in a specific project is to first browse through the international research associations websites.

IMRI: the International Market Research Information was founded in 1994 in collaboration with the Market Research Society.
The aim of IMRI is "to provide details of all the important sources of market research information and expertise, worldwide".

On the one hand the website provides a comprehensive directory of market research agencies, publishers and associations in over 100 countries.

On the other hand there is a database, only accessible to member with over 50,000 abstracts of market research reports.
www.imriresearch.com

Esomar: was founded in 1948 and is a world organization with the aim to promote the value of market and opinion research.
The organization has 4500 members in 100 countries, their details and contacts are available in the Esomar directory.
Esomar also organizes conferences and creates publications on industry-specific subjects.
www.esomar.com

. 4. Competitive Intelligence and Information Technology

a- Competitive Intelligence

Competitors impact the company's success in an international market as much as potential customers or the economic environment.
It is therefore important to review closely the potential competitors in terms of number, size, quality of product and origin.

As Frank Bradley says: "*In general it is more difficult to determine the competitive structure of international markets than it is to obtain information on market opportunities and environmental factors.*" [9]

A first step is of course to review which products compete directly with the ones offered by the company. These might be similar products or even substitutes.
The scope of analyse should not be too broad. Indeed when considering for instance competitors to a new jeans brand for teenagers, one might consider on the one hand the other jeans offering on the market, on the other extreme buying a DVD or a CD is also competing with the purchase of yet another jeans model.
The marketer studying a potential country should mostly remain within the same product category.

The competitive structure might render a potentially attractive market (large size and good customer profile) totally unattractive due to the presence of strong, well installed competition, probably not existing in the company's country of origin.
This might be due to the strong image of the competitor, present since long on the market or to the large size of the later offering strong economies of scale.

b- Porter's 5 forces model

Porter has developed in 1980 a formal industry structure model for competitive analysis.

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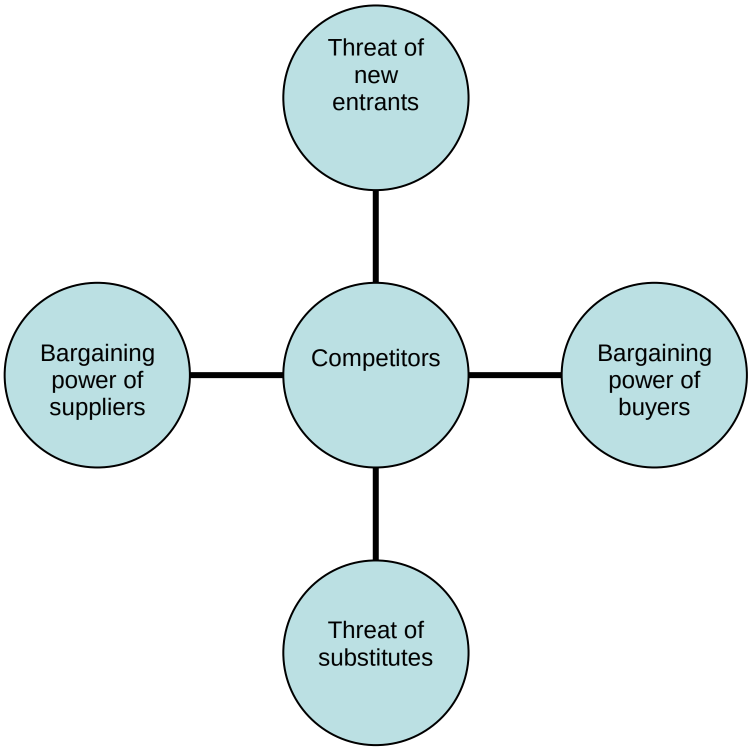
[9] F. Bradley, "International Marketing Strategies", Prentice Hall (1991) p 237.

The model consists of a review of all key industry players, new entrants, suppliers, product or service substitutes, buyers and industry competitors themselves.
The bargaining power of each of the above mentioned players is reviewed to determine the potential success of a company in the studied industry.

Porter's five forces model: [10]



Although rather theoretical it has the advantage of listing all key elements an international marketer needs to review when analysing possible market entry.
The model will be discussed in detail during the class presentation.

c- Key elements to watch

Below is a list of elements to review when analyzing competitors in a potential new market:

> *Size*: size of each competitor/organization within this industry, this will enable to predict how well and strongly they will react to the entry of a new competitor.
>
> *Numbers*: number of firms present in the industry: is it a very fragmented market (therefore the need for a niche strategy has to be considered) or is there room for a new entrant?
>
> *Standardization*: are products or services offered on the market highly standardized (hence economies of scale do play a large role) or are products or services highly differentiated?

[10] M.E. Porter, "Competitive Strategy", The New York Free Press (1980)

Barriers: industry linked: some entry barriers are linked to the structure of the industry: access to the distribution channels, capital requirement to enter the market, potential economies of scale.

competition link: is there a competitor present on the market with a strong, long established image?

Cost structure: is access to raw material important or even difficult within the industry (coffee, chocolate industry for instance), or on the other hand is the distribution and marketing investment more important to enter the market (like cosmetics)?

d- Information Technology

Whilst it is important to gather as much relevant information as possible, this information is useless if not available to the right person, at the right moment and at the right place.

Therefore, spreading the information throughout the organization vertically (i.e. to the relevant department) but also horizontally (i.e. to the relevant country or subsidiary) is detrimental to the success of international marketing management.

The current possibility to develop an intranet or an extranet with different levels of access enables rapid and safe dispersion of the information throughout the company.

* - *

IV- Choose an entry strategy

A company has various ways of bringing its products or services into a foreign market. The possibilities vary mostly in terms of investment and risk taken by the exporter.
They range from low risk, low investment internet sales or export to higher investment, higher risk by establishing foreign direct investment in the form of a branch or even a manufacturing facility.

We will review key choices for a company or entrepreneur wishing to go international and the various implications.

Key to remember is that the entry mode selected varies with the product and the target market. It is not because a Dutch company has been successful in entering for example Germany with the opening of a subsidiary that this entry mode should be kept to enter Russia.

. 1. Exporting: indirect and direct

Since some years export should also include sales via the World Wide Web even if we will not discuss in details this type of channel as it will be covered in another course.

Export is the natural way to expand one's business to foreign markets.
Indeed it implies practically no risk, as no funds are being invest in the foreign market and is low time consuming in terms of management, as once the products or services have left the company the entire logistic and marketing activities abroad are being taken care of, or minimal support activities are needed.

With export, the company does not need to have a deep understanding of the target market as it relies on its local business partner for this.

On the other hand, one can say that with this type of entry the company misses opportunity by not exploiting fully the potential of the market. This is because either they don't know exactly how to best exploit it, or because their partner is not big enough to expand.

We will review briefly the various forms of export, starting with the broader sub division of indirect or direct export, depending on how the flow of products and services is organized between the company and its home country and the targeted foreign market and who is responsible for it.

a- Indirect export

When choosing indirect export, a company selects a home based organization to organize all financial and physical transactions in order to bring the product or service abroad.

◈ Export merchants

An export merchants is taking the ownership of the product to be sold abroad, hence also taking the financial risk.
All aspects of international marketing are handled by this merchant.

The disadvantage is that an export merchant is not available for all market or for all products within a specific market.
Additionally, being the owner of the goods the merchant decides over the entire selling strategy (channels, pricing, etc...) hence leaving limited room to the company for suggestion or recommendation.

At a larger scale, we move to trading company, specific to Japan (Mitsubishi International Corporation, Mitsui & Co) which are huge financial groups with subsequent power in the host countries. They now tend to expand to South America and Europe and are to be considered if a company does not feel strong enough to compete against them directly on the target foreign market.

◈ Home-country based agents

The key difference between the merchant and the agent is that the later is not taking ownership of the product sold abroad.
In consequences, the manufacturer is assuming all financial risks.

Export commission house: they are representative in the home country, of several foreign buyers. They usually function on basis of bids, calling for best offer.
Resident buyer: they are also based in the home country of the company seeking export opportunities but usually have fixed employment relationship with the buyer abroad. This enables creation of a longer term partnership for the manufacturing company.
Broker: they purely act as intermediary, bringing together the buyer and the seller against the payment of a commission. They take no responsibility in the actual physical transaction. They can represent either the buyer or the seller.

For a company with little knowledge of the target market and/or little resources to analyze the opportunities, indirect export is a good way to rapidly build sales.

The drawback is that the merchant or the agent, representing more that one product and company, might not dedicated enough time to a single product in order to fully exploit its potential in the target market.
Additionally, their ultimate goal being profit, they might seek the product which is selling best and easiest and move to a competitor.

b- Direct export

In direct export, the company seeking opportunities abroad directly contacts an entity in the target market. They do sell directly abroad.
This means that the company is fully responsible for bringing the product abroad.

◈ Home based export department

The company has a specialised department which handles all the aspects of export. This department is usually identifying the potential agent/distributor in the target market after primary search of the potential.
Then the department is responsible for organizing all documents in order for the export to take place (but this is outside the scope of this course).
The export department rely on the company's own marketing and product department for support.

This might cause an issue as, by definition, the export department does not represent a strong potential, it might have to fight hard to have its specific requirements (whether in terms of product or marketing support) taken into consideration.
Therefore some larger companies are organizing their export department with a broader structure, sometimes completely isolating these under a single profit unit (best example is the Export Unit of Procter & Gamble based in Geneva, Switzerland and serving Africa and the Middle East).

◈ Company sales person

A company might want to have a direct contact in a country but without the financial cost of renting or owning offices as well as the legal and administrative issues of setting up a branch or a subsidiary. A good way to avoid this is to have a local sales person.
This is necessary when the company feels the needs for a directly controlled person to present the company's products or services, sell them and also perform the necessary follow up actions which might include the set up of promotional activities in order to activate the sell out of the product.
This is important in product or service area where the positioning of the brand plays an important role and an agent or a distributor might not have the correct understanding of it, nor the time to educate the customer.

◈ Foreign based agent or distributor

Contrary to the home based export department, this is a marketing organization which is independent from the exporting company. Often however both structures are used, home based export managers selecting agent or distributor to perform the actual sales within the target market.
The agent is usually paid on a commission basis, does not take ownership of the company's products and act in the name of the company.
The distributor is usually considered as a customer, is paid on the margin it takes on the sold products and takes full ownership of the products to be sold in its markets.
Usually the distributor is a larger organization also providing some marketing support.

An agent or a distributor is the good way to enter a market where expected sales do not generate enough profit to support a foreign based operation.
Often, the development of the sales in that specific country will lead to either the hiring of an own sales agent (company sales person), or even the set up of a foreign based subsidiary. Best example is Lee in Italy where the agent was so successful in developing the brand that its own organization was acquired by Lee Europe and transformed into Lee Italy, with owner becoming the General Manager of the subsidiary.

Many aspects need be considered when selecting an agent or a distributor: knowledge of the target market, financial strength and reliability of the distributor (less important for the agent as it is not taking ownership of the goods), quality of the sales structure and other products in the portfolio.

◈ Legal aspects

Selecting an agent or a distributor for a specific market often involves reciprocity of exclusivity. These relationships should be concluded with a well established contract defining clearly the scope and obligations of each party, the timing and most important the relevant legislation which will govern the agreement (ideally the jurisdiction of the home country of the manufacturer), but this is outside the scope of this course.

. **2. Licensing and Franchising**

In between export and foreign direct investment, licensing (and its sub format – franchising) enables to penetrate a market not well known to the manufacturer.
Usually it precedes the entry with foreign direct investment.

Licensing should not be confused with contracting – where a company- the contractor - manufactures the products on behalf of the owner of the trademark and patent right, the later being responsible for commercialization and marketing of the products.

a- Licensing

◈ Parties

In a licensing agreement, you have on one side the licensor which grants the licensee the possibility to use a specific element of its property, this in a specific geographical area and within specific limits.

This is obtained against the payment of royalties, based on a percent of sales.

Often, there is a minimum level of revenue guaranteed by the licensee to the licensor.

◈ Object

The object of the licensing agreement can be a trademark, a patent, or even a technical or marketing know-how.

◈ License agreement

In view of the long-term relationship established and the procurement of sensitive information, the need of a contract to formalise the agreement is obvious and essential to insure a smooth running of the cooperation between the parties.

The following items are included in the provisions of a typical license agreement:

Definitions: quite important to have key terms defined in order to avoid misunderstanding.
Scope: geographical limitation of agreement.
Aid and Assistance from Licensor to Licensee, including marketing activities.
Trademark related issues: trademark license grant, trademark ownership, reporting and follow up of counterfeit and infringement.
Product and production related issues: approval, quality control and technical information, code of business conduct and contractor terms of engagement, specification of any third party manufacturers.
Compensation from licensee: minimum net sales, royalty fee.
Fair practices: non-competition by licensor, no joint venture, eventual approved competitive brands to be sold by Licensee.
Termination: length of contract, products on hand, relinquishment.
Arbitration and Governing law.
Representative of Licensor: name, function and address.
Representative of Licensee: name, function and address.
Schedules listing the licensed products, the licensed trademarks.

Such an agreement needs of course help of a legal counsel to avoid binding oneself into a useless or worse costly business relationship.

◈ Scope of licensing

Licensing is a very good tool for a manufacturer to enter a foreign market. Indeed it offers the possibility to rapidly expand in the market thanks to the knowledge of the licensee (highlighting the need for careful selection of the later), this with no capital investment. However, the licensor needs to maintain control over the commercialization and marketing of its products or services; hence making sure to maintain consistency across the nations in terms of quality and brand image. This requires close follow up of the licensee's activities from product development up until final commercialization of the products or services.

Often licensing of a trademark is also used as a tool for manufacturer to exploit the strength of a trademark within other product categories.

A good example is the fashion industry where a worldwide known trademark as Levi's is entering peripheral markets through licensing.

Levi's shoes, underwear, bags, eyewear, etc ... are to be found on the market.
But these products are not only manufactured but also commercialized by a third party.
Levi's is supervising the product development, retail channels selection and marketing activities to be in line with the overall brand strategy.

◈ Advantages and disadvantages of licensing

A good overview is to be found in Frank Bradley:

"Advantages of licensing
- *Access to difficult markets*
- *Low capital risk and low commitment of resources*
- *Information on product performances and competitor activities in different markets at little cost*
- *Improved delivery and service levels in local markets*

Disadvantages of licensing
- *Disclosure of accumulated competitive knowledge and experience*
- *Creates possible future competitors*
- *Lack of control over licensee operations*
- *Passive interaction with the market*
- *Exclusion of some exports market*
- *Organizing licensing operations: cost of adaptation, transfer and controlling."*

Source: F. Bradley, "International Marketing strategies" fifth edition, Prentice Hall (2005) p 244 – table 14.1.

To the above we can add as positive element the ability to rapidly exploit a new technology prior to competitors. Indeed capital requirement is low for the parent company; hence several markets can be entered (provided the suitable licensee is found).

Often viewed as a typical mean for small to medium sized company to expand internationally, licensing is actually also a tool often used by larger corporations to enter specific markets, as illustrated in the example of Disney, Levi's or even Coca-Cola.

b- Franchising

Franchising is a form of licensing but which enables a better control of the marketing activities and of product quality.

This concept was initiated in the US in the 60ies but is now expanding into Europe and Japan.

◈ Definition

The franchisor provides the franchisee with a given package of products, commercial and marketing tools and management services. In return the franchisee provides its markets knowledge, the capital and personal investment.

To take the IFA (International Franchise Association) definition:
"*Franchising is a method of distributing products or services. At least two levels of people are involved in a franchise system: (1) the franchisor, who lends his trademark or trade name and a business system; and (2) the franchisee, which pays a royalty and often an initial fee for the right to do business under the franchisor's name and system. Technically, the contract binding the two parties is the "franchise", but that term is often used to mean the actual business that the franchisee operat*es." (www.franchise.org)

Franchising has known a growing success in view of the advantages reviewed for licensing above, but with the addition of tighter control over product quality and marketing activities.

It is a well-known form of internationalization in the fast food industry (Mc Donald's did enter successfully the Eastern European markets, amongst which Russia via franchising).
Mc Donald's is providing the brand name, the architectural design and guidelines for decoration of the restaurant, the packaging element and the requirement in terms of food processing.

To come back to our licensing example in fashion, Levi's has also been expanding rapidly its retail outlet across the world through franchising.
In this case, the product is obviously completely provided by the parent company as well as the design elements for the store.

◈ Facts about Franchising
(From www.franchise.org, the International Franchise Association)

There are an estimated 1,500 franchise companies operating in the U.S. doing business through more than 320,000 retail units.
75 industries use franchising to distribute goods and services to consumers.
Average initial investment level for nearly 8 out of 10 franchises, excluding real estate, is less than $250,000.

Average royalty fees range from 3% to 6% of monthly gross sales.
Most franchise companies have fewer than 100 units.
Average length of franchise contract is 10 years.

◈ Industry where one finds Franchising
(From www.franchise.org, the International Franchise Association)

Top 10 Franchise Industries

Fast Food
Retail
Service
Automotive
Restaurants
Maintenance
Building & Construction
Retail – Food
Business Services
Lodging

Top 10 Franchise Companies (by number of Units)

McDonald's Corp.
7-Eleven Inc.
Subway Sandwiches & Salads
H&R Block, Inc.
Burger King Corp.
Jani-King International Inc.
Taco Bell Corp.
RadioShack
Pizza Hut Inc.
Domino's Pizza LLC

◈ Perspective of franchising

Franchising is expected to further grow and this for the following two main reasons:

- Increase of service oriented activities, like fast-food, dry cleaning etc..., which lend themselves well to franchising as it is a typical type of activity which needs to be expanded geographically.
- Entrepreneurship: the growing popularity of being self employed, initially a specificity of American business is also spreading through Europe and Asia.

3. Foreign direct investment

The next step of company involvement into international implication is foreign direct investment.
This is a much heavier implication as it involves important capital and human investments and therefore risk.
In view of the investment needed, this market entry strategy is more often observed within larger multinational corporations.
Companies investing outside their home countries are also referred to as Trans-national Corporation (TNC).

We will make a difference between investments into sales and marketing subsidiary, eventually involving a storage place and heavier investment into manufacturing facilities.

a- Foreign sales subsidiary

In this course we will not make the subtle difference between foreign sales subsidiary and foreign sales branch (mostly fiscal and legal implications).

For the purpose of this course we will review the steps undertaken by a company investing in offices and human resources to enter a foreign market.

◈ Foreign sales subsidiary or branch

The foreign sales subsidiary is the full representative of the parent company in the selected market.
It will perform all sales, marketing, promotional and financial duties in this market and will be the sole representative of the parent company towards the customers.
This market entry enables full control of all marketing activities in the concerned market.
This type of investment also ensures better knowledge of the market place and more implication and involvement in promoting the products and services of the parent company than would an agent or broker also involved with other products and companies.

Of course, the drawback is the much heavier investment into capital (offices, creation of a company, and understanding of local legislation), human resources (salaries and recruitment) and time. This will prove dramatic if the investment is not done correctly.

For this reason foreign direct investment often follows the relationship with an agent or a licensee.

◈ Reasons for foreign sales subsidiary

Other than a better control of the marketing activities, a better market intelligence and a more in depth exploitation of the potential of the foreign market we also have to mention the local tax implication.

Some companies do create sales subsidiary into other market mostly for tax reasons. Indeed when the home country does apply high tax rates, some companies, present in other countries, with lower tax rate will create in these countries local subsidiaries where the profit will be transferred thanks to higher transfer price of the products.

◈ Distribution Centres

The multiplication and geographical situation of foreign sales subsidiaries might justify the creation of storage or warehousing.

In the past the warehousing facilities were built to serve one specific area whilst currently with the development of automated distribution centre, cost cutting and supply chain management concept one distribution centre serves a wider area.

For example, VF Europe which at the beginning of the nineties had storage facilities in almost all countries where it had subsidiaries, moved to a regional system with warehousing located respectively in Belgium ,Denmark, Germany, Italy, Poland and the United Kingdom.
Today most of the products within Europe are being dispatched from a distribution centre located in Prague, Czech Republic and some from the United Kingdom.

b- Manufacturing facilities

The opening of manufacturing facilities from a company outside its home country stems from three main reasons.

Access to raw material: when the raw material is rare or costly to transport (typical of the oil industry).

Product related: high transport costs, adaptation requirement and assembly (typical of the automotive industry).

Host government policy: import quotas prevent the company to develop its business within the market. The potential sales might justify the set up of a local manufacturing facility.

Recently a new reason has emerged creating important social conflict: labour cost.

Delocalization is the term used for search of lower cost labour. VF will again serve as a good example.
Indeed the apparel and mostly the jeanswear industry is a quite labour intensive industry.
This explained that in the nineties, a jean manufactured in Belgium was costing 50% more than a jean manufactured in Poland.
No surprise to see the two jeanswear giant, Levi's and Lee closing their factories in Belgium to further develop their plant in Poland and Turkey. The later being now threatened by cheap labour costs in Asia.

c- Trends in FDI

The United Nations Conference on Trade and Development (UNCTAD) has published a comprehensive document of foreign direct investment (FDI) evolution over the years.
To quote the introduction of the World Investment Report 2005: "*As the focal point in the United Nations system for investment and technology, and building on 30 years of experience in these areas, UNCTAD, through its Division on Investment, Technology and Enterprise Development (DITE), promotes the understanding, and helps build consensus, on matters related to foreign direct investment (FDI), transfer of technology and development. DITE also assists developing countries to attract and benefit from FDI and in building their productive capacities and international competitiveness. The emphasis is on an integrated policy approach to investment, technological capacity building and enterprise development.*" [11]

This report distinguishes between Greenfield Investments and cross border Mergers and Acquisitions (M&A's) which we will cover later.
Greenfield investment refers to investment in new facilities and the establishment of new entities through entry as well as expansion.

Table 2: Total FDI inflows and outflows worldwide
Billions of dollars – value at current prices

Item	**1982**	**1990**	**2003**	**2004**
FDI inflows	59	208	633	648
FDI outflows	27	239	617	730
M&A [(1)]	NA	151	297	381

[(1)] Cross border M&A's data are only available as from 1987.
Source: UNCAT, World Investment Report (WIR) 2005

[11] UNCTAD – WIR 2005, Translational Corporations and the Internationalization of R&D, United Nations, Switzerland.

FDI investment has experienced an explosive growth mostly since the nineties and particularly during this century due to the strong growth of cross border mergers and acquisitions.

However, looking at the past 20 years data the dramatic events of September 11, 2001 did generate a drastic downturn of FDI worldwide which only recovered in 2004.
The drop is mostly due to a sharp downturn of FDI in developed countries as shown below.

Table 3: FDI inflows to developed countries over past 20 years
Billions dollars current exchange rates and prices

Year	Billions [1]	% change
1984	40,6	23,4
1985	42,5	4,7
1986	70,1	64,9
1987	115,6	64,9
1988	133,6	15,6
1989	163,3	22,2
1990	172,1	5,4
1991	117,1	-32,0
1992	112,6	-3,8
1993	144,0	27,9
1994	151,8	5,4
1995	218,7	44,1
1996	234,9	7,4
1997	284,0	20,9
1998	503,9	77,4
1999	849,1	68,5
2000	1134,3	33,6
2001	596,3	-47,4
2002	547,8	-8,1
2003	442,2	-19,3
2004	380,0	-14,1

[1] FDI inflows to developed countries calculated by converting FDI inflows in national currencies and in current prices into dollar values on the basis of the annual average exchange rate of the respective currencies against the dollar.

Source: UNCTAD, WIR 2005

Table 4: Destination of Greenfield foreign direct investment by countries

Number of projects World	**2002** 100%	**2003** 100%	**2004** 100%
Developed countries	**48**	**41**	**42**
Europe	31	28	29
USA	7	6	6
Japan	2	1	2
Developing countries	**42**	**48**	**49**
Asia	29	36	38
China	*10*	*17*	*16*
India	*4*	*5*	*7*
S-E Asia	*6*	*8*	*7*
Transition economies	**10**	**11**	**9**
CIS	5	7	6

Source: UNCTAD, WIR 2005

When looking at the number of Greenfield FDI it is obvious that the recovery is coming solely from investment into the developing countries and more specifically Asia.

d- Reasons for FDI recovery and perspectives

◈ Macro economic aspects

- following the recovery after the September 11 events, the world registered improved economic growth, with strongly growing economies like China or the new EU countries attracting FDI inflows.
- the weakening of the US dollar consecutive to both the above mentioned events and to the successful introduction of the Euro made investments in the United States and in countries with currency linked with the US dollar less costly.
- with globalization and better control of financial market the country risk declines.

◈ Micro economic aspects

- following the recovery in world economy, company profits improved generating more FDI flows.
- increased pressure in home market made more and more companies aware of the need to move to other countries in order to find outside their borders the growth opportunities.

◈ Institutional aspects

- national policies are moving towards incentives to attract FDI inflows. The UNCTAD is monitoring changes in national laws since 1991. "*In 2004 both the number of national policy measures affecting FDI and TNCs that were introduced and the economies involved in the process increased. A total of 271 new measures were adopted by 102 economies*" (UNCTAD – WIR 2005 p22).

When looking more closely into the policies taken by the countries, they tend to be either liberalization measures, or incentives to attract foreign investors (like reductions in corporate income tax).

International investment agreements have been reviewed when looking at trans-national agreements.

e- Perspectives

◈ Long term evolution of FDI flows

Table 5: FDI inflows by regions and sectors of industry - % of world total

%	1989 - 1991				2001 - 2003		
Sector/ region	Developed	Developing	CIS	World	Developed	Developing	CIS
Primary	72	28		100	66	28	5
Manufacturing	75	25		100	58	41	1
Services	87	13		100	77	22	1
Unspecified	65	35		100	63	33	1
Total	80	20		100	71	28	1

Source: UNCTAD, WIR (2005)

The above clearly indicates that in about ten years, investments have move from developed countries towards developing countries (representing now 28% of total FDI inflows versus 20% at end of the eighties).

The move towards developing countries was more dramatic in the manufacturing industry, clearly showing the above mentioned phenomenon of "delocalization" towards cheaper labour countries.

Table 6: FDI outflows by regions and sectors of industry - % of world total

%	1989 - 1991				2001 - 2003		
Sector/ region	Developed	Developing	CIS	World	Developed	Developing	CIS
Primary	99	1		100	99	1	0
Manufacturing	98	2		100	96	4	0
Services	99	1		100	95	5	0
Unspecified	99	1		100	92	8	0
Total	99	1		100	95	5	0

Source: UNCTAD, WIR (2005)

Interestingly over the past decade, developing countries have also started expanding towards other countries has show by the 5% of FDI outflows.

◈ Evolution by sector of activity

Table 7: FDI inflows by regions and sectors

Millions $, evolution over the past decade (between 2001/2003 and 1989/1991) in %

%	evolution		
Sector/ region	Developed	Developing	World
Primary	259	292	289
Manufacturing	89	309	147
Services	327	760	387
Unspecified	52	50	57
Total	229	427	273

Source: UNCTAD, WIR (2005)

With total FDI inflows about tripled, this investment has quadrupled towards the developing countries.
All sectors do not evolve in the same way with Services exploding, and even more so towards the developing countries.

f- Mergers & Acquisitions

As large companies often find themselves into saturated markets, the only possibility to expand is acquiring a company in a growing segment of the market.
Indeed with the costs and time to start up a new brand in a growing segment, companies often favour the acquisition of a competitor to generate growth.
In this respect, M&A is mostly chosen by large companies (TNCs) generating enough cash for such investment.

Table 2 clearly indicates that mergers and acquisitions do get an increased share of foreign direct investment, particularly since the beginning of this century.
Recent examples of Procter & Gamble acquiring Gillette and Adidas buying competitor Reebok clearly highlight the importance of this trend.
It also shows that the acquired company is getting larger and larger.

* - *

V- Strategic processes and tools

. 1. Segmentation and Positioning

Even before the concept of marketing was professionalized, commercial people were using segmentation as a strategic step to improve the response of consumer to their products or services and therefore to increase sales.
Indeed merchants soon recognised the need to divide the potential groups of buyers into sub-groups with more homogeneous attitudes towards either life in general or specific attitudes and needs related to the product category.
Nowadays the sophisticated research tools enable global marketers to define precisely niche of the population with detailed descriptions of the attitudes, buying habits, media consumption and expectations.

We will review the type of segmentations, relevant to global marketing and then analyse two important steps to put segmentation into practise: targeting and positioning.

a- Types of segmentation

Segmentation can be based on macro economic, micro economic or even psychographic aspects.

◈ Macro economic

The easiest way to segment global consumers is to base oneself on key economic factors.

Population size is of course an easy way to select or not a country explaining why, for instance Germany, UK, France and Italy have been selected first by TNCs to establish their brands in Europe.

This can work for low unit price products (Keegan, p228) like fast moving consumer goods but is misleading for higher investment product as it does not tell much on the purchasing power of the consumers, nor on their habits and needs.

A good example is Lee jeans which indeed selected the four above mentioned countries as key markets to invest in Europe. However over time, Scandinavian markets (Sweden and Denmark, together less than a third of the population of France) generated more sales than France. Because attitude towards fashion in Sweden made consumers more open to jeans than French ones.

We have already mentioned the lemur of China, a market of 1.3 billions people but not with same purchasing power and accessibility tough.

To complete population data, level of income of each country is used but again this is dealing with averages, hence companies might want to select groups of population with similar income level. This leads us to the micro economic data.

Another mistake is to limit oneself to a group of country without wanting to recognise the differences under a surface. Some American companies are still believing that there is a "European" consumer, how is this possible with already more that twenty different languages?!

◈ Micro economic

Age – Gender – Education – Occupation - Ethnic group

Age is definitely a strong way to identify global consumer groups, indeed most authors and marketers now recognise the "Teen" population as one with global attitudes and consumption habits.
One reason for this is probably that the Teens of today have lived the multimedia era as well as the World Wide Web explosion making all products, music and ideas available to all.

Gender, education and occupation are self-explanatory and have been partly covered in the review of cultural aspects.

Ethnic group segmentation is definitely gaining importance in the United States with the strong development and rise of the Hispanic population attracting attention of many companies trying to specifically address them.

◈ Psychographic

In view of the limitations of both macro and micro economic data to shape a strong base for global segmentation of the markets, marketers soon recognised the need to use the behavioural aspects of consumer, also called psychographic.
This segmentation recognises the attitudes, values and lifestyle of the consumers to group them in specific segments of the population.

Some authors identify a fourth type of segmentation under "behavioural", i.e. how often a product is being used or how much etc. We do group these under the psychographic heading as it relates more to the attitude of the consumer.

◈ Summary and example

A good summary of the above mentioned type of segmentation is illustrated by the table below.

Table 8: Bases for export market segmentation

	General market indicators	Specific product indicators
Country market level	Demographic and population characteristics Socio-economic characteristics Political characteristics Cultural characteristics	Economic and legal constraints Market conditions Product-bound culture and life style characteristics
Customer market level	Demographic characteristics: age, gender, life cycle, religion, nationality, etc. Socio-economic characteristics: income, occupation, education, etc. Psychographic characteristics: personality	Behavioural characteristics: consumption and use patterns, attitudes, loyalty patterns, benefit sought, etc.

Source: G. Albaum & Al., "International Marketing and Export Management" fifth edition, Prentice Hall (2005), p 166

Jeans Segment profile

In order to assess which consumer Lee jeans could best address, a segmentation of Europe was done by interviewing jeans wearer in Germany, France, Italy, Spain and the UK. A sample of one thousand people between 15 and 50 were interviewed in each country analysing their general life styles and socio-economic characteristics while also understanding their attitudes and expectations towards fashion.

Four groups emerged from the study as summarized in the table below.

Table 9: European Jeans segmentation

	Affiliation Seekers	**Flattering look Seekers**	**Pragmatic Jeans Purchasers**	**Internally-focussed Jeans Wearers**
Segment potential: Wearers Volume/Value	22% 30%/33%	20% 19%/21%	40% 32%/13%	18% 19%/23%
Demography	Very youthful 50/50 male, female	Average age 20-30	Older men Downscale UK women	More male More 20-24
Clothes/Fashion motivation	Fitting in with peers Looking sexy	Looking stylish and sexy	Largely pragmatic	Looking good to please myself
Involvement in jeans category	Very high	High	Low	High
Level of brand interest	Very high	High	Low	High
Key Jeans Appeals	Brand as badge of affiliation Link with jeans heritage to prove I belong	Fit in service of a flattering look Jeans heritage as part of my style	Fit in service of comfort Value, durability	Fit to produce the look that pleases me
Brand orientation	Strongly Levi's	Open to Lee	Open to Mass brands	Diesel, Miss Sixty

Source: VF Europe ad hoc study.

The above enabled to identify which segments, at European level could be addressed with most success for the positioning of the Lee brand.

GFK – consumer segmentation: Euro Socio Styles®:

Many research companies as well as large advertising agencies have done a lot of analysis to propose their client consumer segmentation to help them better address the markets.

GFK (standing for Growth from Knowledge) is a global research company which started at the beginning of the previous century in Germany.

They do propose a segmentation of European consumers based not only on attitudes and socio-economic aspects but also on media consumption habits, this in order to be able to effectively reach the selected segment.

Eight international segments are identified:

Steady World
Secure World
Crafty World
Cosy Tech World
New World
Authentic World
Standing World
Magic World

The knowledge about the relevant value orientations of the target groups facilitates the decision for the (re-)positioning of a brand**.**

A practical use of this tool will be shown and discussed during the course.

b- Assessment of the potential of the segments

Once the consumer segments have been identified a key step is to assess the viability to address a specific segment.

◈ Size and measurability

Prior to investing in product development and marketing activities, one must assess the size of a specific segment, in terms of potential share, but also in terms of potential profit, including therefore the price at which the company will be able to market the product or service (see infra).
Indeed, one has to see if the investment required to address the identified segment will be covered with enough benefit from resulting sales.

A corollary to assess the size of the segment is the measurability of it. The characteristic used to define the segments might be such that data are not available to evaluate its importance.

◈ Feasibility and accessibility

If the size of the segment is large enough, the company has to make sure the product or service can be served to the consumer. A good example is the rural population of China or even Russia which can be difficult to access.

Also local legal regulations can make it impossible for the product or service to be sold in the specific country or region.

Finally the segment must be such that the marketing programs can be actually developed and implemented towards it.

◈ Competition

Existence of local or foreign competition must be reviewed in terms of number (how much), importance (how big, how well-known), price (high/medium/low) and quality.

This in order to assess the position of the firms' own products or services.

This has been reviewed and developed in a preceding chapter.

c- Targeting

Once the market has been defined by segmenting it and each segment assessed and evaluated; the company needs to decide which segment provides best return on investment.
This is targeting.

Keegan and Green (in "Global Marketing" p248-250) identify three possible global target market strategies:

◈ Standardized Global marketing strategies

These are the strategies where the firms address the largest possible segment. Commonly referred to as "Mass Marketing", products are usually lower priced and with few differentiations. The objective is to achieve high sales in order to further decrease costs, hence profit is achieved through volume rather than value added elements to the product or service.

Best example in terms of distribution services are the Wal*Mart or Carrefour hypermarkets with objective to serve as many customers as possible. This enables to get more leverage on the suppliers to achieve more competitive prices.

◈ Concentrated Global marketing strategies

This is the so called "niche" market strategy where a firm identifies a specific segment which it decides to serve as best as possible. All elements of the marketing mix are tailored to this specific segment.

This is usually the strategy of luxury goods, where economies of scale are more difficult to achieve and profit is achieved through high margin, possible due to the specificity of the product or service characteristics and to the strong image generated via the targeted marketing activities.

Hermès, Louis Vuitton, Dior or Lancôme are best examples of successful niche strategies.

◈ Differentiated Global marketing strategies

In this type of strategy the company wants to address both ends of the market.

VF Corporation is trying this but under different brand umbrellas (from Lee in the upper tier segment to Hero by Wrangler into the lower tier segment with Wrangler addressing the middle tier one). Indeed addressing high end markets and mass markets with the same brand proves difficult as it creates confusion in consumers' mind.
It also affects negatively the global brand perception.

Best example is the attempt of Levi Strauss to reach the mass market with the Levis Signature products sold in hypermarkets.

The sub brand did benefit from the strong image of the mother brand; however the later lost credibility amongst its core consumers. In the end, Levi's did stop the sales of the Levi's Signature brand in Europe.

d- Positioning

Once a segment of the market has been defined and described in terms of its core consumers and the same segment has been evaluated in terms of potential, the company needs to position the brand it wants to propose to this specific segment, in order to justify the choice of this brand by the target consumer.

"*The term positioning is attributed to marketing gurus Al Ries and Jack Trout, who first introduced it in a 1969 article in Industrial Marketing magazine.*
Positioning refers to the act of differentiating a brand in customers' minds over and against competitors in terms of attributes and benefits that the brand does and does not offer." [12]

When speaking about benefits one should not forget the emotional variables, more and more included nowadays in the brand positioning.

When going back to the Jeans segmentation presented in Table 9, the "Flattering Look Seekers" segment was identified as an attractive target for the Lee brand.
Consequently the brand Lee was positioned as:
Lee is the authentic urban American brand for confident men and women (primary in their 20ies) who want great fitting jeans that make them look and feel attractive to the opposite sex.

This enables to picture the brand in such a way that it is differentiated from other competitors.

In a totally different market, washing powders, Procter&Gamble was able to address different segments of the market and avoid direct competition between its brands through positioning.

In Belgium, Dash was champion for washing at high temperatures, whilst Ariel was best performing for 60°C and Dreft was the detergent to use for hand wash and delicate items.
Positioning enables the company to create different use in consumers' mind for its different brands hence optimising the exploitation of the market.

Positioning can be based on different characteristics whether inherent to the brand:

- Quality
- Price
- Attribute
- Benefit

Or not linked to it:

- Aspirational, generating an attitude for the consumer
- Competition comparison
- Use or non use of the product

Another way to differentiate and position a product is to bring upfront its country of origin and build on the positive image of the specific country for a specific product category (like France for perfume, Germany for cars, Scotland for Whiskey, Italy for design or Switzerland for watches).

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[12] W.J. Keegan and M.C. Green, "Global Marketing" fourth edition, Prentice Hall International Edition (2005), p 250.

. **2. Product and service strategies (standardize versus customize)**

Offering the market the right product or service to satisfy the need of the target consumers is vital to a firm's success.

This is true for national marketing but even more so when involved into international or even global marketing.
Indeed in this instance, the complexity is higher as the firm has to include much more factors into the product or service decision process.

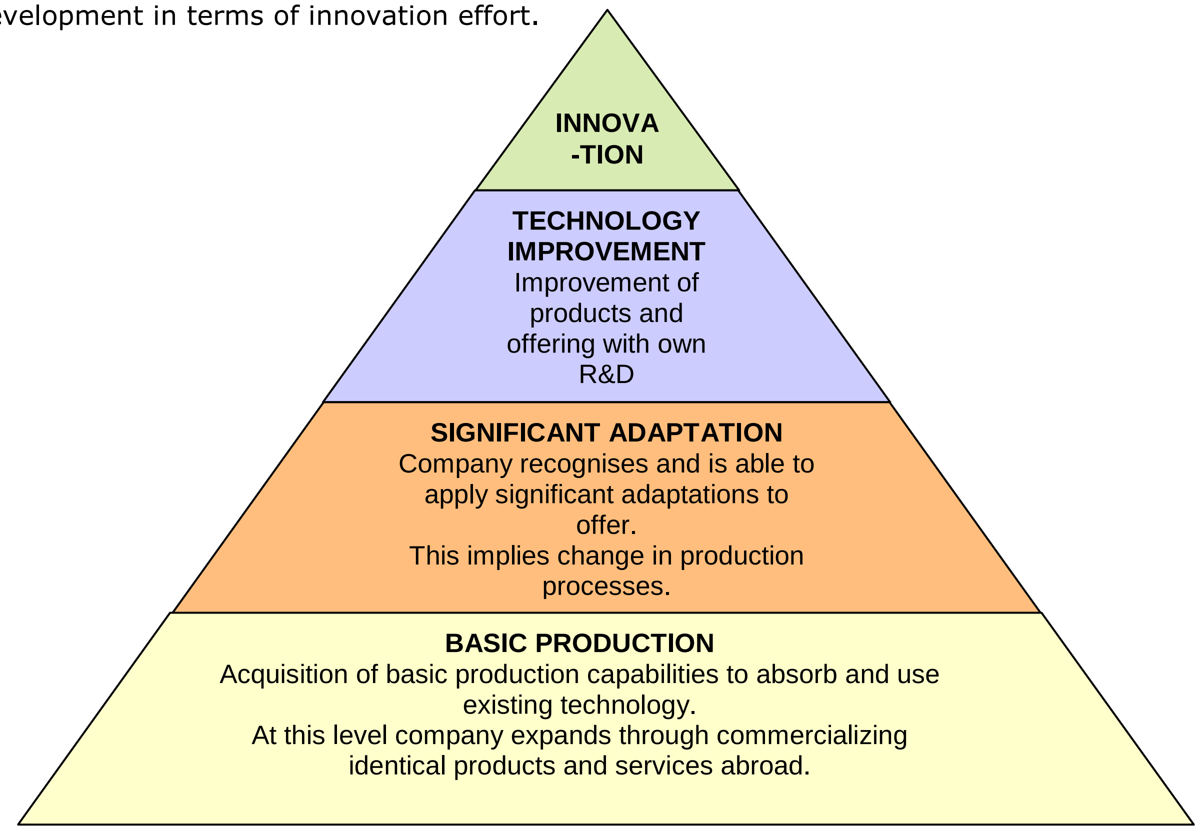
We will review the important product planning phase where the company has to decide between product expansions (i.e. selling the product as such on the host market) or standardization, enabling greater savings and product adaptation in order to better serve the local consumer.

This will lead us in analysing an increasingly important aspect of foreign direct investment, Research and Development (R&D) and why this usually very home linked department is also internationalizing lately.

All aspects of product development from the initial formula to packaging will be looked at.
However, the key branding decision will be covered in the last chapter reviewing intellectual property matters.

a- From product adaptation to product innovation
or the standardization/customization decision

In its World Investment Report 2005, UNCTAD analyses the various stages of technology development in terms of innovation effort.



Source: adapted from UNCTAD, World Investment Report 2005, p102

The pyramid shown above can be adapted to categorize the four different product approaches for a company selling its products or services outside its home country.

At the bottom level, international product offering consists of just shipping over existing products as such (we will discuss packaging and labelling issues below) or offering identical services.

The following step is to adapt slightly the formula or the taste (like Douwe Egbert coffee is offering coffee adapted to the local taste as some countries prefer coffee in a sweeter or more acid taste).

During the next stage firms recognise the need to start monitoring international trends and often invest in international production facilities.

The last stage is when firms do have global Research and Development department which creates new products not at national or international level but with a global perspective in mind (Nokia is probably the best example).

b- Choice between standardization and customization

Deciding for standardization or customization or a solution in between is not an easy choice. There is no "magic formula" to use and it is a case by case analysis, detrimental tough to the success of a firm abroad.
Actually the same company can use different strategies across the globe.

However the following aspects have to be looked at when deciding which product or service to bring on a foreign market:

◈ Size of the company

the above schema clearly indicates that only companies with enough resources and size are able to reach the higher level of the pyramid where other products or services offering can be envisaged. This not only because of production capacity but also because to correctly address the need of a target market the company needs to have the necessary market intelligence units and resources (whether internal or external).

◈ Product category

some categories, linked mostly with culture (as seen in an earlier chapter), do need product adaptation to be accepted by local consumer. Best example is food industry where even global giants like Mc Donald’s or Coca-Cola need to adapt taste of the product in some countries.

◈ Product life cycle

shorter life cycle products traditionally involve less investment into research and development hence enable possibility for more adaptation as the company is used to frequent change of product and the adaptation is less costly.
Also each target market is not necessarily at the same stage of the life of a specific product or service which might call for adaptation.
A good example is the jeans market which in the US has already reached a maturity stage involving lower price level and a more generic approach whilst in Europe jeans as a fashion item is still important. This has implications not only at price level but of course in terms of product offering (more details required in Europe, a wider offer in models, fabric and finishing). Even if since some years Europe’s high fashion jeans designers (Diesel,

Miss Sixty) are bringing back fashionable jeans to the country where the product was born (as a work wear item).

◈ Company strategy in terms of pricing

the decision to customize or to standardize is linked to the right balance between lower production cost (economies of scale offered through higher quantities) and higher sales by best satisfying local consumer needs.
Lower tier, more basic products or services tend to be less adapted as the company wants to lower cost as much as possible (Wall*Mart, the well known low price supermarket is a good example of expansion with few adaptation on the concept).
On the other hand luxury goods have sufficient margin to accept smaller production quantities, hence adapted products or services offering.

◈ Competition

if on a specific market a company is facing a competitor with a better offer, it might have to adapt its product offering in order to survive on this market whether by differentiating its offer or by improving it.

◈ Industrial products

products and services can be categorized between industrial ones, addressed to companies and consumer ones addressed to individuals.
Industrial products, like raw material or planes are more standardized across the globe.

◈ Target consumer

as indicated previously, researcher and business people do recognise the rise of a global "teen" generation showing similar taste (in terms of music or fashion for instance), needs and habits (going to fast food, staying with friends, creating blog's).
Addressing this specific target enables to bring on the markets a more standardized offer.

◈ The product or service use

the way a specific product or service is being used varies from one region to another, depending on the specific culture of the country or on the level of price the product or service is being offered. A good example is Belgian Chocolate, which is viewed as a personal consumption in Belgium and other European countries (one might just go into a shop to buy oneself some "pralines" to enjoy immediately or at home). On the other hand, in Japan praline is considered as a luxury good solely offered as a precious gift (even only by one or two pieces).
This influences types of packaging offered and also appearance of the chocolate.
Another good example mentioned in Albaum, is the bicycle. It is considered as a mean of transportation in Africa or India whilst in Western Europe it is seen as a sport or way of recreation. The different use of the bicycle will generate different characteristics of the product.

There is not one single response
Some companies do have different product approaches, for their different product lines, or even for the same brand. They offer similar products for a specific region (at international level) and adaptation for a specific market worth the extra investment or impossible to enter without the required adaptation (often this is the case for companies wanting to enter China).

c- Internationalization of the research and development department

Marketing and sales have been the first functions to be internationalized by companies, followed by production.
Because of its key strategic role and the need to protect innovation discovery, combined with the fact that development can hardly be divided, R&D is traditionally kept in the home country of most companies.

However, tougher competitive situation coupled with shorter product life cycle and the need to find skilled personnel at an attractive cost is leading more and more companies to locate R&D facilities abroad.

Another key element is the fact that being home country based is often creating the "ethnocentric" effect, with company overlooking important global trends, happening abroad. This type of management philosophy will be discussed further in a following chapter.

◈ Key countries with R&D investment

Despite its internationalization, R&D is still geographically concentrated with the top ten spenders accounting for 87% of the total R&D investment in 2002 as shown in the table below

Table 10: R&D investment ranking by country

Ranking	Country	Total R&D Billions $	% total
1	United States	276.2	40.7
2	Japan	133.0	19.7
3	Germany	50.2	7.4
4	France	32.5	4.8
5	United Kingdom	29.3	4.3
6	China	15.6	2.3
7	Republic of Korea	13.8	2.0
8	Canada	13.8	2.0
9	Italy	13.7	2.0
10	Sweden	9.4	1.5
TOTAL		676.5	100.0

Source: UNCTAD, World investment report 2005

◈ Key companies with R&D investment

The private sector is the leading force in research and development with about two third of total R&D spend. The balance is funded by governments, higher education institutions and non-profit private entities.

The table below highlights the top 20 companies and their respective home country for the year 2002 (in millions dollars).

Table 11: R&D investment ranking by company

Ranking	Company	Home Economy	World R&D Investment
1	Ford Motor	United States	6,841
2	Pfizer	United States	6,504
3	Daimler Chrysler	Germany	6,409
4	Siemens	Germany	6,340
5	Toyota Motor	Japan	5,688
6	General Motor	United States	5,199
7	Matsushita Electric	Japan	4,929
8	Volkswagen	Germany	4,763
9	IBM	United States	4,614
10	Nokia	Finland	4,577
11	GlaxoSmithKline	United Kingdom	4,557
12	Johnson & Johnson	United States	4,272
13	Microsoft	United States	4,249
14	Intel	United States	3,977
15	Sony	Japan	3,771
16	Honda Motor	Japan	3,718
17	Ericsson	Sweden	3,715
18	Roche	Switzerland	3,515
19	Motorola	United States	3,439
20	Novartis	Switzerland	3,426
TOTAL	Private sector		450,000

Source: UNCTAD, World investment report 2005

Interestingly five out of the top 20 leading companies are in the automotive sector, preceding the pharmaceutical business with four companies.
The Electronic and the IT software sectors are next.

A further evolution is shown by Procter & Gamble, traditionally very internally focused for research and development. They decided in 2006 to outsource part of the research and development of the company in order to attain more creativity in innovation.

d- Packaging and labelling

A key element of the product is the packaging.
Indeed, without a way to attract the attention of the consumer at the point of sale, in an overcrowded environment and to inform him about the product benefits and content even a high quality product has few chances to survive.

Additionally the packaging also serves a pure technical role as it protects the content and enables the product to reach the end consumer whilst retaining its characteristics.

Therefore in analysing the possibilities for global marketers we need to review the following aspects of packaging:

- The functional elements

to protect the entity and characteristics. This is mostly a technical element often necessary for the correct conservation and transportation of the product hence few changes are made except if needed due to local regulations (see infra).

◈ The aesthetical elements

to attract the consumer, and differentiate the product at point of sales. This is of course very much linked to taste and therefore varies a lot from one country or region to another. A good example is the signification of colours, where white is a symbol of purity in Western countries (often linked with angels) whilst it is synonymous of bad luck in China.
This element of packaging will require careful consideration and research and probably adaptation.

◈ The labelling

to inform the consumer about use and content, labelling is nowadays strictly controlled by local regulations in order to protect the consumer against false promises or abuse. Hence regulations are mostly about actual product content and formulation information to be given to the consumer.

Some countries also regulate terms used to describe the product, this is mostly in the food sector and a good example is the EU regulations being currently developed to protect consumer in the "Light" segment (when can one product be referred to as light etc.).

Additionally most of the companies wanting to address several markets with one packaging, even with no difference of regulations have to face the issue of languages (there is no less than 9 European languages on the care label of a Lee jeans).
This is probably where internationalization most calls for adaptation.

◈ The metric system

Units in use in the target country are also important; a company cannot commercialize a product in kilograms if the metric system is using pounds.

◈ The ecological aspects

The increasingly worrying ecological issue of our planet is pushing governments to take actions in line with sustainable development.
More and more countries do adopt measures for firms to comply with eco-friendly production processes.

Packaging, with its important waste side effect is closely regulated and need to comply with recyclable characteristics.
A good example, in Belgium is the "eco-tax" which is due on non recyclable plastic bottle for soft drinks and waters.

3. Pricing strategies and tactics

"*The global manager must develop pricing systems and pricing policies that address price floors, price ceilings, and optimum prices in each of the national markets in which his or her company operates*" [13]
We will review the elements and the principles which help taking these decisions.
Finally, specific to export companies, foreign currency issues and billing costs will be considered.

[13] W.J. Keegan and M.C. Green, "Global Marketing" fourth edition, Prentice Hall International Edition (2005), p 365.

An important factor influencing today's global pricing strategies is the internet.
Web site like "shopping.com" recently bought by eBay is an example of a very easy way for consumers to compare price for a specific product or service.
This needs be taken into account when pricing a product or service.
Indeed the company has to carefully analyze how far the product is differentiated from one market to another and the different situations arising from the internationalization (through transport costs, possible local legal constraints and of course inherent product or service's differences).

a- Elements of pricing

The final consumer price is the results of many steps after the wholesale price or so called "price list", each linked to a different approach:

◈ Pricing related

- Temporary Price Reductions: discounts to enable retailer to offer pre-agreed price.

◈ Distribution related

- Listing Fees: for listing in new outlets
- Range Discount: given based on number of SKU's (Stock Keeping Units) listed
- New Opening Agreement: for immediate distribution in all new stores opened
- Brand Listing Discount: based on number of brands listed
- Seasonality: for stocking extra units in a specific season (summer or winter for ice cream).

◈ Marketing related

- Display Discount: for showing the product on displays or gondola's
- Leaflet Discount: for integrating the product in the customer's leaflet or folder
- Shelf Management Agreement: for re-assortment of product on the shelves.

◈ Volume related

- Target Discount: usually this is a year end rebate granted to the client if a specific volume target has been reached.

◈ Cost savers related

- Central Delivery Discount
- Early Payment Discount
- Pick-up Discount

All the above need be considered when making a final price in a specific country.
Indeed it may influence final consumer price with a variance up to 40%.
Some countries (like France) have the cultural use of year end rebate, whilst countries like Belgium do more request distribution related discounts.

b- Bottom-up approach

One strategy used by companies in pricing is the "Bottom-up" approach, also called "price floor"approach.

In this case the manager bases himself on the production costs as a starting element to fix pricing.

However even within this strategy different approaches are possible; we will review those specific to the international business.

◈ Production costs

When companies do have excess capacities, export is often the way to absorb this excess. Consequently, the easiest approach is to base price on the net production costs. This is often the case when companies do not have local subsidiaries which can enlighten them on the local price levels. It is also often more a one shot, short term type of deal.
Lee jeans are for instance using this approach when getting rid of over-runs. Those are sold to markets, not covered usually by the Lee subsidiaries, or by a local distributor.

◈ Production costs including overhead and or export costs

A company might want to cover its overhead costs, and should also take into account export costs as those might be relatively high.
Below are the typical costs which will be incurred by an exporter (the discussion about the terms of sale will be reviewed later).

- export documentation, export licence
- packing goods for export
- ocean/air or road freight and insurance
- customs papers and administration
- import duty

If not carefully analyzed the above can add substantial costs (up to 70%) to the initial production cost.
This might create a dangerous financial situation for the export company, specifically if the company is not a large one with sufficient cash flow to absorb eventual loss.

◈ Production costs with margin

Depending on its financial and marketing strategies, the company is pricing its products or services with a specific mark up taken on the production costs.
The mark up can be the same for all markets ("rigid cost-plus" strategy, as referred to in Keegan, 2005) with the danger of being over or under priced in some markets. Or it might vary taking into account the specificity of each markets ("flexible cost-plus" approach).

c- Top-bottom approach

A radically different strategy is to depart from the consumer and the price he is ready to pay for the product or service.

This requires thorough analysis of the target market and understanding of consumer perceptions of the specific product or service, as well as the "price" culture in the considered market.

The company has to take into account the following elements when using the "price ceiling" approach in different markets:

◈ Perceived value of the product or service

One product or service does not have the same perceived value across countries and can therefore not be price at the same level.

A good example is Belgian chocolate or pralines. They are almost considered as a commodity in Belgium where price for a kilo is around 25 Euros. In France, the price goes up to 50 Euros, to move to 100 Euros in the United States (despite the fact that Godiva, initially a Belgian family owned company was bought by Campbell Soup in the eighties and has a manufacturing facility in the US). The final touch is the price paid in Japan where it is common to find Belgian Chocolate at 250 Euros a kilo; explaining why these are bought per unit (see packaging paragraph); of course shipping costs need be taken into consideration as well as the strong customs control of food items to enter Japan.

Should a manager not take into account these differences, either the company is missing an opportunity (in pricing too low) or is putting itself outside the market.

◈ Brand or company awareness

When entering a foreign market a company or its brand does not always benefit from the reputation and awareness it enjoys at home.
Therefore, and depending on the product or service offered this might influence the pricing downward.

d- Other strategies useful in global pricing policies

◈ Market skimming

The company is pricing the product or service at the highest possible price.
This strategy is either used if a company wants to take advantage of an untapped segment and benefit as quickly as possible from its advantage (as the entry of competitors might force the company to lower price).
This is often the case for innovative products (early life stage of the products) where the company also wants to recuperate its research & development investment.
Market skimming is possible when the segment is relatively small, more of a niche one hence untapped by larger producers looking for economies of scale.
Of course if the company is creating a market at a high price it leaves space for other companies to enter at a lower price point.
Louis Vuitton is the best example of market skimming across the globe.

◈ Market penetration

The company wants to acquire rapid share in the target market and is pricing the product or service at a relatively lower price.
This is often the case when the company wants to achieve high volume rapidly in order to decrease unit costs through economies of scale.

This implies both price elasticity of the demand in the target market and possibility of economies of scale in the production process.
This is more a mass market approach.

◈ Competition

In selecting a global pricing strategy it is obvious that a company needs to take into account the local competition, whether because they are able to achieve lower production costs (if company is exporting from its home country) or because competition has a well established reputation and awareness in the target market.

◈ Pre-emptive strategy

A specific strategy called "pre-emptive" strategy is to price very low in order to avoid potential competition to enter a market.
This requires strong financial situation to possibly price the product or service below production costs.
In this instance the company also has to check for possible local laws prohibiting such practices.

e- Macro economic influences on global pricing strategies

Next to the micro economic aspects influencing the pricing - costs, demand and competition - macro-economic factors also have an impact when determining a pricing in a specific country.

◈ Currency fluctuation

This is one of the most important and less predictable factor influencing pricing and profitability as well as success of a company on a host market.
A devaluated currency in the home market might mean lower price for export and therefore possibility to enter specific market.
On the other hand, strong currency, as is the case of the Euro recently is making export more difficult.
Some companies might want to adapt their pricing in order to reflect currency fluctuation (for instance decreasing prices when currency of home market is not favourable) this might prove successful if currency fluctuation is on the long term.
Otherwise it might be wiser to keep pricing unchanged.

Currency fluctuations can also affect costs and therefore pricing if country is using the "bottom-up" strategy.
A good example is VF Europe which has a key production facility for Europe based in Poland where labour costs are traditionally cheaper.
However, a strong Polish Zloty since early 2005 has increased costs, with little possibility to charge it to consumer.

The right balance has to be found taking into account how long the currency will be under/over evaluated and the impact on the overall company profit.

If the impact will only be on short term, the company is best to adapt its conditions of sales (discount, etc.) rather than tariffs.

Turkish lira devaluation in the early 2000 did generate a lot of parallel imports which will be covered later in this chapter.

Also the Asian crisis of 1997 and 1998 did generate devaluation of most of the Asian currencies, but exporter from these regions could, unfortunately, not benefit from the cheaper price of the products as they could hardly get export licenses in view of the consequential economic crisis.

◈ Inflation rate

Corollary to the first element, inflation rate in the export market might also influence pricing policies.
It is well-known that some years ago Brazil was experiencing inflation rate at about 2000% with price at retail being adapted on shelves several times during the day.

Usually in such extreme circumstances the company has to deal with government regulations (see below).

◈ Legislations and regulations

A company has to take into account the various government controls and subsidies affecting pricing policies in the host market.

<u>Price ceiling</u>

in strategically or essential to the well being of the population products and services, government might want to limit prices (price ceiling).
This is the case in most countries for pharmaceutical products which need be approved by governments in terms of introduction and pricing as it impacts on the population's access to key health products.
A discrepancy might occur if two nations are not applying this principle. This is the case between the United States (where so called "drugs" or pharmaceutical products are on a "free pricing" basis, based on the philosophy that a company should be able to regain research & development costs) and Canada where the government imposes pricing regulations. For the great success of border based drugstores in Canada …!
An important change in this market is the move to Over the Counter (OTC) product concepts, where pricing is free, but this is outside the scope of this course.

<u>Anti dumping</u>

in order to protect a local economy, government might want to avoid price escalation on this market. Best way of doing this is to avoid foreign companies entering the market with price lower than the home market or even lower than the production costs.
The European Union forbids pricing under production cost within its markets. This is also a way to protect small and medium company, unable to adopt such practises.

<u>Subsidies</u>

another way for government to protect a specific area of the economy is to allocate subsidies to this specific sector. This of course creates artificially lower selling price for the sector.
The best example is the very hot issue of agriculture subsidies both from the US and from Europe generating a lot of claims from developing economies which see unfair competition in this help to the American and European agriculture. Hence preventing them from entering the markets.

Regulations

for key commodities, governments have often protected the consumers either by setting the price (as is the case for bread in Belgium); or by keeping a public hold on the companies responsible for those products and services.
The end of the last century has seen many countries privatising services like telephone, electricity supply and 2005 saw the privatisation of the post office in Belgium.

f- Other international pricing policies related issues

The following are to be taken into considerations when setting up pricing strategies at international level or when making price quotation as an export company.

◈ Gray Market

The phenomenon of Gray market happens when a specific product is being sold at a given price in country A, whilst the same product, from the same brand, is being sold at a higher price in country B.
Temptation is strong for a wholesaler, based in country B to buy the goods in the country where the brand is lower priced and, deduction of transports costs, to still make a margin by selling the product at a lower price than the local market in country B.
This phenomenon, also called parallel import, will be reviewed in detail in the last chapter as this is part of trademark related matters.

◈ Trade terms

In doing a price quotation, the exporter has the choice between several possibilities, from the least expensive, with least responsibilities, till the most expensive one; below we review the key international trade terms and their implications.
Ex Work: once leaving the factory of the exporter, the goods are under the responsibility of the buyer in terms of insurance, shipping costs and customs clearance.
FOB: Free On Board, this means the goods will be carried, at the expenses and under responsibility of the exporter until the shipping point. This might be a cargo if transport is made by sea or air or a central delivery point or a railway station.
CIF: Cost Insurance and Freight, the exporter is taking care of costs up until arrival at destination (whether a port of the destination country or even the warehouse of the customer).

It is obvious that for a small exporter with little knowledge of the export country, Ex Work is the best option as it does not have the contacts to obtain the customs clearance nor the ability to evaluate freight and insurance costs.
It is of course a question of negotiations between the seller and the buyer.

◈ Transfer pricing

Transfer pricing is the price charged within the same company. It is the price charged by the headquarters, or the manufacturing unit of the company to the respective affiliates for the goods ordered and received.
Transfer price is not actually a marketing matter but more a financial or even a fiscal one.

Indeed, transfer price determines the margin the subsidiary is doing on the goods, hence its performances.

Also, transfer price is affecting the global company profits through taxes. Depending where the company wants to allocate profit transfer price might vary, but this is another story.

. 4. Distribution channels strategies

Distribution channels are one of the most cultural linked factors in marketing, explaining the huge discrepancies between countries as shown further in this paragraph.

However, the marketer cannot underestimate the globalization of retailers with direct implication on the marketing strategies.
A good example is the internationalization of the well known Wal*Mart supermarkets chains which is now requesting international account handling (at VF, by brands, an international account manager has been named for handling the Wal*Mart customer), at European level the development of Carrefour Hypermarkets also called for the selection of one person to handle this key customer on an international basis.

The different entry modes have been reviewed in a previous chapter, hence this subject will not be covered, and we will concentrate on the distribution channels offering direct contact with the end consumer.
Wholesaler is also an option for an exporter but then the final channel decision is part of the wholesaler's own marketing policies.

We will first review the key possible channels, with example across countries.
We will then highlight the differences between countries and review the best possible distribution strategies to be taken by international marketers.

a- Key distribution channels

This review concentrates on consumer goods. Indeed industrial goods either do have similar channels (if addressed to smaller buyer like plumber's material) or mostly rely on direct sales, through own sales people like aircrafts.

We will also only review channels which are bringing the products or services from the manufacturers to the final consumers.

The final purpose of a distribution channel is indeed to bring the products and services from the manufacturer to the end consumer.
Differences between channels are the level of service added to this physical distribution whether in terms of:

Information (about the different products or services, or about use of them)
Sphere (space and atmosphere the retail channels is offering to the retail environment)
Proximity (how far is the retail channels from the end consumer's home)
Breadth and length (number of references offered by the channels in terms of type of products and services but also different products and services within the same category)

◈ Home sales / Door to door

This is the closest way to sell a product or service. The sales person goes to the home of the end consumer whether following an appointment made by phone or directly (which is more aggressive).

Another aspect is the "home selling parties" made famous by Tupperware where a person invites friends or relatives to present them products and hopefully sell them.

Avon and Mary Kay, in the cosmetic area are also well known international companies using this channel.

The difference from one country to the other is the protection of the consumers.

Some countries like Europe do forbid aggressive door to door sales and only allow them under very specific circumstances in order to avoid crooks taking advantage of naïve persons.

Also in China, pyramid type of sales (like used by Tupperware, Avon and Mary Kay) were forbidden from 1998 till 2006, which led to the opening of Avon shops in China.

◈ Mail order / ecommerce

Mail order is very convenient for the end consumers as they can select the product or service based on a catalogue and place their order with either the items selected sent to their home or to a selected place for retrieval (usually a supermarket).

Of course the disadvantage is that, in case of physical products, the consumer is not in direct contact with the end product and has no chance of touching, feeling and trying prior to buying the product.

With the development of the World Wide Web as a vehicle to sell new or second hand products or services, mail order is the first channel suffering from this development.

On an international level, the differences in development are of course linked for mail order with the level of education of the population as well as the development of the postal system.

Ecommerce is also limited to countries with high use of the internet but spreading fast, although payment security still needs to be tightened.

◈ Independent retailers

Independent retailers are amongst the oldest form of distribution channels (under a specific format called market stall or street market which we will review below).

Independent retailers can be specialized in clothing, pharmaceutical products, laundry cleaning, etc. Or they offer a larger amount of goods like a grocery shop.

It is often a family handled shop with brothers, sons or family relatives helping to serve the clients.
The advantage is the close contacts and ties with the end consumers, the owner of the shop knowing personally most of its clients and often offering credit facilities.

These types of shop are under heavy pressure from large chains, more anonymous but able to buy larger quantities, hence offering broader product ranges at more attractive prices.

Independent retailers are typical from developing countries where competition from global retailers is not yet strong enough to eradicate them.

Average price of an independent retailer is often also higher to compensate for the rent and the wages.

The difference from one country to another apart from the local strength of chains is also the local regulations (like for drugstore in Belgium where sales of pharmaceuticals products are bound to strong controls whilst this is not the case in the United States where access to the profession is open).

Another form of independent retailers, typical from southern and developing countries is

◈ Market stall or Street Markets

Booths of different types of retailers (from food shops to all types of clothing and electrical appliances shops) gather under the same place either temporarily or on a permanent basis.

Space of each booth is rather limited, the advantage for the end consumer being to find several types of goods under the same roof.

Often pricing is low, as this type of distribution, due to its versatile form is often home to counterfeit products.

◈ Chains

Together with hypermarkets, chains are the key phenomenon from the end of the twentieth century. They can be specialized in a specific product category or offer a variety of goods.

More than ten to fifteen shops, under the same label are considered chains.
They range from the local owner, successful in a specific industry to global giant like H&M, C&A or Marks & Spencer.

Specialized chains

They do offer a large choice in a specific category of products (clothing, electric appliances, furniture, etc.).
This category of distribution channels knows the best international expansion with chains like Zara present in more than sixty countries, and now also developing in Japan.

Variety chains

These retailers offer a choice of different product categories. The choice within one product category is not as large as for specialized chains or department stores (see below).
Key international players are C&A or Marks & Spencer.

◈ Department Stores

Created with the famous "Bon Marché" in Paris at the end of the nineteenth century, department store were at the time the temple of consumption selling goods from foods to furniture, including services like restaurant, hairdresser etc.

Most well-known international department stores are Galeries Lafayette, from France, Karstadt from Germany, Macy’s in the United States and Yaohan group in Asia.

Department stores have difficulties getting international as the package of goods offered as well as the sphere created in the store is very much culture linked.

Additionally they have to face strong competition from the global specialized chains, offering similar products at lower price, hence there current partnership with manufacturers to create branded areas, also referred to as shop in shop.

◈ Discounters and Cash & Carry

Discounters are shops which offer products and services at constant lower price across the year.

Mostly they can achieve this through large quantities of items ordered enabling them to getting lower prices from manufacturers.
Hence a more limited choice for the end consumer.

They can be specialized (like Ikea the Swedish furniture retailer) or offer a large variety of items (like global giant Wal*Mart).

Obviously internationalization works best for these retailers as it enables them to generate more volume hence get better prices from manufacturers.

Cash and Carry has the particularity to function as a club. Clients are obliged to have a membership card to access the store.
However everyone is entitled to get the card for free.

◈ Supermarkets and Hypermarkets

Whilst ecommerce is and will be the revolution of the twenty first century, the supermarket, with the concept of self service, was the retail revolution of the twentieth century.

Self service in the beginning enabled to gain on wages which were getting increasingly heavier on the profits of supermarkets in developed countries.

The development of larger surfaces selling large quantities of food (supermarkets) and adding to the offer non food products like clothing, electrical appliances (hypermarkets) was only possible in developing countries were income level was such that households were able to buy large quantities of food at one time, also because they had at home the necessary electrical appliances (like refrigerator) to store perishable food.

Even if nowadays the higher classes from Western Countries do appreciated the service and atmosphere of smaller, more expensive grocery shops, developing countries do see the development of supermarkets at home as a sign of development enabling the population to access a broader range of products.

The main difference between Supermarkets and Hypermarkets is usually the size with Hypermarkets being 5,000 square meters and more, enabling the store to offer broader ranges in the same product category but also non-food items.

b- National differences and global retailers

Strongly linked not only with the culture but also with the economic situation of a country, the distribution channels vary greatly from one country to another.
And this is also true for regions.

◈ The example of the jeans sector in Europe

To illustrate these differences, the table below is showing the respective importance of the key retail channels on the jeans market for Europe in total and specifically for Germany, UK, France, Italy and Spain.

The numbers in table 12 indicate the respective importance of each channel, in volume during the year 2004.

Table 12: European jeans market: key retail channels

2004	**Germany**	**UK**	**France**	**Italy**	**Spain**	**Europe**
INDEPENDENTS	21,4	8,7	9,9	47,4	36,6	23,7
CHAINS	32,4	46,2	36,7	13,4	27,5	32,7
DEPARTMENT STORES	10,3	6,1	2,1	7,1	9,3	6,6
MAIL ORDER	14,6	4,7	7,3	0,1	0,5	6,6
DISCOUNTER + C&C	6,3	20,8	6,2	0,8	0,0	8,3
HYPER/SUPERMARKET	8,2	8,7	26,2	7,0	11,4	11,0
MARKET STALL	0,5	2,2	3,9	20,2	11,9	5,5

Sources: local consumer panels: GFK and TNS

The independents are still very important in more traditional structures like Italy and Spain whilst almost disappearing from France and the United Kingdom.

The later seeing explosion of chains and Hypermarket specifically in France (the well known Carrefour Hypermarkets are coming from France …!).

Finally Street Markets still flourish in Mediterranean countries.

◈ Key global retailers

A look at the top 250 retailers established by Deloitte and Stores, gives a good idea of the importance of globalization in the retail sector.
The list shows that the top 250 retailers – accounting for about 30% of global retail sales – sell in 135 countries.

Additionally the average number of countries where those retailers sell is 5.5 (these excluding the six global retailers like Mc Donald).

Interestingly, and this is highlighted in the top 10 table below, US based retailers, mostly because of the huge size of their home market are less global in comparison to their European or Asian counterpart (like Carrefour, present in more than 30 countries).

Finally, globalization is detrimental to the growth of many retailers.

Table 13: Top 10 retailers worldwide

Rank	Name	Home Country	Sales – Mio $ At retail	Countries of Operation
1	Wal-Mart	US	312,427	Argentina, Brazil, Canada, China, Germany, Japan, Mexico, Puerto Rico, S. Korea, UK, US
2	Carrefour	France	92,778	Argentina, Belgium, Brazil, China, Colombia, Dominican Rep., Egypt, France, Greece, Indonesia, Italy, Malaysia, Oman, Poland, Portugal, Qatar, Romania, Saoudi Arabia, Singapore, Spain, S. Korea, Switzerland, Taiwán, Thailand, Tunisia, Turkey, UAE
3	HomeDepot	US	81,511	Canada, Mexico, Puerto Rico, US
4	Metro	Germany	69,134	Austria, Belgium, Bulgaria, China, Croatia, Czech Rep., Denmark, France, Germany, Greece, Hungary, India, Italy, Japan, Luxembourg, Moldova, Morocco, Netherlands, Poland, Portugal, Romania, Russia, Slovakia, Spain, Switzerland, Turkey, Ukraine, UK, Vietnam
5	Tesco	UK	68,866	China, Czech Rep., Hungary, Japan, Ireland, Malaysia, Poland, S. Korea, Slovakia, Taiwan, Thailand, Turkey, UK
5	Kroger	US	60,533	US
7	Target	US	52,620	US
8	Costco	US	51,862	Canada, Japan, S. Korea, Mexico, Puerto Rico, Taiwan, UK, US
9	Sears	US	49,124	Canada, Guam, Puerto Rico, US
10	Schwarz	Germany	45,891	Austria, Belgium, Croatia, Czech Rep., Denmark, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Luxembourg, Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, UK

Source 2006 retail study from Stores and Deloitte Touch Tohmatsu – January 2007
"STORES" is the magazine of the National Retail Federation, the world's largest retail trade association.

It is interesting to note that most of the global retailers are in the food sector.

c- Perspectives and issues in International channel management

◈ Recognize the differences between countries

When a company wants to enter a new market, it has to carefully analyse the distribution pattern of the host country.

The differences highlighted above, for the jeans market, indicate that the same structure will not necessary be found in the host market.

A thorough analysis has to be made in order to understand how far the existing channels enable optimal distribution of the product or service.

◈ Maintain control of marketing activities at retailers' level

This is probably the most challenging and important issue for a manufacturer.

Indeed, if the company has spent time, money and effort in developing a strategy for a specific brand and has developed a coherent marketing approach to support it, a non consistent approach at retailer's level might ruin all efforts.
A good example is the positioning of a brand in a high priced segment with important retailer cutting down prices on this product or service and consequently damaging the image and positioning of the brand.

◈ Retailers are entering the "branded" area

In the past, product or service sold under the retailer's own label were referred to as "private labels". With the obvious, lower image, sometimes lower quality connotation.
The retailer at the time wanted to have a price entry option for consumers and could achieve interesting margins.

Nowadays, the border between brands and retailer labels are not so obvious any more in consumer's mind.

A very good example is the development and success of the Zara chain, part of the Inditex group.

Inditex is a Spanish based clothing retailer which decided to manufacture its own products under the labels of each of its channels. The first and larger one is Zara, initially addressing young women between 15 and 25 years old, currently targeting women, men and kids.
The success of Zara is of course coming from its "fashion at affordable price" offer, linked with strong rotations in products offering (Zara is changing its windows, and the content of its stores, every two weeks).
The concept is successfully expanding at international level.
And it represents strong competition to established clothing brands.

On the other hand, manufacturers which usually avoided retailer's business now also open owned stores in order to better control the final marketing execution.

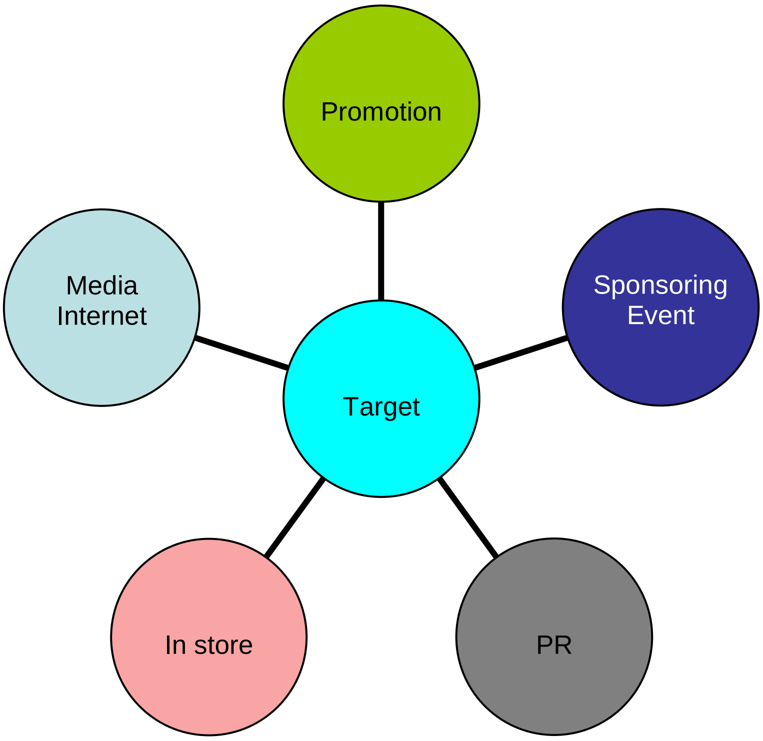
5. International Communication Strategies

Communication over the product or service towards the end consumer is the result of many activities undertaken by the company to promote its product or service.

In the past, key communication tools were considered to be the so called "above the line" advertising message transferred to the end consumer through traditional medium (television, magazine, cinema, outdoor poster, etc.).

Nowadays the process is more complex due to, on the one hand, the increased amount of message reaching the consumers and on the other hand the active attitude of consumers toward the information they get from the companies.

This can best be illustrated by the graph below which shows the different ways to reach consumers:



We will review the different elements above with their specific implication at international level.

a- The advertising message

◈ Global advertising definition

We can refer to Keegan's definition of global advertising: "*Global advertising may be defined as messages whose art, copy, headlines, photographs, tag lines, and other elements have been developed expressly for their worldwide suitability*" [14]

Some companies might use regional campaigns and local campaign when suitable.
We will review below key reasons for a company to decide for global advertising campaigns, main market factors influencing this decision and the subsequent trends in the marketing world.

◈ Key reasons for global advertising messages

The key reasons to use global advertising messages are as follows:

Economies of scales

as for the decision to bring on the markets global products the decision to produce global advertising campaigns is also linked to economical aspects.

[14] W.J. Keegan and M.C. Green, "Global Marketing" fourth edition, Prentice Hall International Edition (2005), p437.

When one knows that the costs of producing a 40' TV spot might be around 1 million US$, one understands that a company prefers to use this advertising in as many markets as possible in order to invest the saved money into media buying for instance.

Coherent global brand image and message

with the rise of a global consumer, due to extensive travel, international broadcasting and access of more and more people to the World Wide Web, consumers are exposed not only to their local advertising message but also to some meant for other countries. A good example is the important penetration in Belgium of a key French television channel, TF1, with consequent "spill out" from advertising French messages into Belgium.
The need for at least a consistent brand message and ideally a global advertising campaign is therefore obvious.

◈ Key factors influencing use of global advertising message
The key factors influencing the possibility to use global advertising:

Advertising budget

the available advertising budget is of course a key factor determining the flexibility of the company, linked to this is the respective size of the company in each market. Procter&Gamble with its huge global size (more than 50 billion US dollars) can afford specific to country advertising whilst VF Europe with about 600 million $ of sales can hardly afford the production of a pan European television advertising.
This is also linked to the "economies of scale" referred to above.

Culture

more and more advertising messages are trying to create a bond with consumers hence building a lot of emotions. But the sources of emotions are often influenced by the local culture.
The best example is the casting of a television commercial or even a magazine visual with people involved. What is considered inspirational or beautiful in the United States is definitely not the same in Senegal or Vietnam.
A good approach to this is presented in Keegan referring to a study of Zandpour and Harich dividing countries between "Think and Feel Country Clusters":

Table 14: "Think and Feel country clusters"

Type of Appeal	**Cultural/Market factors**	**Countries**
Rational/argument	Monochromic cultures Low power distance High uncertainty avoidance Good supply of marketing professionals	Austria, Belgium, Germany, Italy, United States
Rational/lecture	Collectivist culture High power distance High uncertainty avoidance	Belgium, Italy, Mexico
Emotional/psychological	Collectivist cultures High power distance High advertising expenditures Strict government control	Hong Kong, Taiwan, France, United States, South Korea, Spain
Emotional/dramatic	High power distance High advertising expenditures Limited supply of advertising professionals	Hong Kong, France, Japan

Source: W.J. Keegan and M.C. Green, "Global Marketing" fourth edition, Prentice Hall International Edition (2005), p455

Target group

if a company is addressing a global target group (like young adults) it is more apt to develop global advertising for its markets.

Country or region regulations

each individual country has its own regulations with regard to the content of the advertising message. In some countries, like Europe, protection of the consumers is quite high with consequential strong legislation in terms of advertising regulations, to the contrary of the United States with a more liberal approach.
For instance advertising of pharmaceutical products, sold with prescription (in opposition to over the counter (OTC) ones) is forbidden in Europe whilst it is free in the US.
Another example is comparative advertising which is free to use in the United States, whilst use of comparative advertising in Europe is only possible on pricing when the difference indicated is actual and can be proved.

◈ Main trends

The best way to have an overview of how and where global communication is performed is to look at the global marketing spend.

Top 25 global advertisers

Advertising Age's is compiling every year the advertising spend across the world of key marketers and publishes the list of the top 100 global marketers (to be considered global a marketer has to advertise at least across three continents).
Those 100 companies represented in 2006 25% of the world estimate advertising spending; the table below is showing the top 25 of the list.

No surprise to find seven automotive companies amongst them when we know they are amongst the largest trans-national corporations. In the total top 100, automotive represents 22.7% of the total spending

Interestingly, the lower interest of American firms for expanding abroad mentioned earlier on in this course, is also illustrated in the lower percent of spending outside the United States for US based companies.

Japanese companies show there ability to expand abroad with more investments in the United Sates than in their home continent.

Coca-Cola and McDonald's justify their position of actual global brands with investments evenly distributed across the globe.

Table 15: Top 25 global advertisers and their respective spend worldwide

Rank	Company	HQ	Ad spend - Mio$	US %	Asia %	Europe %	Latin America %
1	Procter & Gamble	U.S.	8.522	41,4	20,8	31,3	2,8
2	Unilever	U.K.	4.537	18,7	28,9	42,0	7,3
3	General Motors	U.S.	3.353	65,9	1,7	25,0	2,8
4	L'Oreal	France	3.119	24,1	8,9	61,2	2,2
5	Toyota Motor Corp.	Japan	3.098	38,8	37,8	18,5	1,2
6	Ford Motor Co.	U.S.	2.869	59,3	4,4	29,6	2,6
7	Time Warner	U.S.	2.136	86,0	3,7	8,6	0,1
8	Nestle	Switzerland	2.114	28,6	13,1	50,9	4,9

9	Johnson & Johnson	U.S.	2.025	66,7	11,2	16,8	1,8
10	DaimlerChrysler	U.S./Germany	2.003	71,1	1,6	22,4	1,4
11	Honda Motor Co.	Japan	1.910	46,0	43,6	5,8	0,7
12	Coca-Cola Co.	U.S.	1.893	25,7	23,5	39,4	7,0
13	Walt Disney Co.	U.S.	1.755	81,9	5,1	10,7	0,0
14	GlaxoSmithKline	U.K.	1.754	73,8	5,8	16,0	2,4
15	Nissan Motor Co.	Japan	1.670	56,5	27,2	11,2	1,3
16	Sony Corp.	Japan	1.620	69,0	6,0	19,6	0,1
17	McDonald's Corp.	U.S.	1.611	48,7	18,7	26,8	2,0
18	Volkswagen	Germany	1.609	18,8	2,4	72,8	3,4
19	Reckitt Benckiser	U.K.	1.550	18,5	9,8	66,0	2,2
20	PepsiCo	U.S.	1.530	63,1	11,8	14,2	5,4
21	Kraft Foods	U.S.	1.513	65,8	1,2	28,4	1,4
22	Danone Group	France	1.297	6,4	2,4	83,0	7,4
23	General Electric Co.	U.S.	1.253	87,6	1,2	8,2	0,0
24	Yum Brands	U.S.	1.178	63,6	26,3	5,1	0,8
25	News Corp.	U.S.	1.104	78,9	2,4	16,1	0,0

Source: Advertising Age's issue of November 19, 2007 – 2006 data

Global advertising agencies

Next to the globalization of marketing investments following the globalization of large corporations (and smaller one's), the subsequent trend is of course the globalization of the advertising agencies (and the media buying agencies but this will be covered later).
When looking at the top 20 agency networks, one sees that it actually boils down to 5 huge groups.
Ranked in order of importance with regard to the number of accounts handled: WPP group, Interpublic Groups, Publicis Group, Omnicom Group and Havas.
A worry for advertisers if they do not want to face a monopoly situation.

Table 16: Top 20 agency networks worldwide by number of accounts

Rank	Agency network	Accounts	Parent Company
1	Mc Cann Erickson	61	Interpublic
2	Ogilvy&Mather	54	WPP
3	Grey	44	WPP
4	Euro RSCG	40	Havas
5	Saatchi&Saatchi	33	Publicis
6	BBDO	32	Omnicom
7	Publics	28	Publicis
8	JWT	28	WPP
9	Young&Rubicam	24	WPP
10	Lowe	18	Interpublic
11	DDB	18	Omnicom
12	Dentsu	17	
13	TBWA	17	Omnicom
14	Bartle Bogle Hegarty	15	Publicis (minority)
15	Foote Cone & Belding	15	Interpublic
16	Hakuhodo	14	
17	Leo Burnett	13	Publicis
18	M&C Saatchi	6	
19	Voluntarily United Group	6	WPP
20	Fallon	5	Publicis
Total		493	

Source: Advertising Age's issue of November 14, 2005 – 2004 data

This is even more striking when looking at the revenue ranking of the advertising agencies (revenues include advertising fees and media buying commissions):

Table 17: Top 10 agency networks worldwide by revenue

Rank	Group	Revenue Mio $
1	Omnicom	8,621.4
2	WPP	6,756.1
3	Interpublic	5,863.4
4	Publicis	4,408.9
5	Dentsu	2,545.0
6	Havas	1,877.5
7	Grey	1,307.3
8	Hakuhodo	1,208.1
9	Aegis	1,067.4
10	Asatsu-DK	413.9

Source: Advertising Age's April 2004

b- International media buying

Setting up global media buying goals for an international company is as difficult if not more difficult than creating a global advertising campaign.
Indeed, media is closely linked to the leisure habits of a population which obviously varies greatly from one country to another, influenced by culture but also climate.

Typically Anglo-Saxon countries have a higher habit of reading which explains a higher penetration of magazines (as shown in the table below), whilst TV can hardly be avoided in Mediterranean countries.

Alphabetisation obviously influences those numbers.

Table 18: Medium reading and viewing by countries

Country	Newspapers	Magazines	TV	Radio	Cinema	Outdoor	Internet
Mexico	4.8	3.1	69.3	22.8	0.0	0.0	0.0
Portugal	21.7	10.6	55.8	4.9	0.5	6.5	0.0
Italy	20.3	16.5	53.0	5.0	0.9	2.2	2.2
Poland	16.2	15.0	51.4	8.2	1.5	5.8	1.8
Spain	27.2	9.8	45.3	9.1	0.6	5.7	2.3
Japan	23.2	9.0	44.0	4.0	0.0	11.8	8.0
Hungary	17.8	21.0	42.0	6.6	0.6	12.0	5.1
USA	27.1	9.9	38.4	11.0	0.0	3.3	10.4
Belgium	29.7	12.4	35.3	11.7	1.1	6.7	3.1
Australia	34.9	9.5	32.9	8.9	0.8	3.6	9.3
France	26.0	19.9	32.0	7.6	0.8	10.3	3.5
Canada	32.6	10.7	32.0	12.4	0.0	3.7	8.6
South Korea	43.6	4.2	28.5	3.1	0.0	12.6	8.0
UK	33.5	13.0	27.9	3.4	1.1	6.7	14.4
Germany	42.6	17.7	26.3	4.4	0.8	5.0	3.2
Netherlands	39.1	21.2	21.5	7.0	0.1	4.4	6.6
Sweden	47.6	11.1	21.1	2.8	0.3	4.9	12.2
Switzerland	44.9	18.1	16.4	3.7	1.0	15.9	0.0

Source: National monitoring agencies, WARC – www.warc.com - 2007
Data are limited to countries for which PPP exchange rates are available

Consequently an advertiser whilst setting international media strategies will have to take into considerations local constraints.

We have discussed above the consolidations of advertising networks, this is even stronger at the media buying level with achievement of stronger buying power.

This is of course at the detriment of the advertisers which have less bargaining power when confronted to a close to monopoly situation.

c- Public relations

Public relations are a key driver in the marketing mix but often overlooked and not well known from the marketer.

◈ Therefore it is worthwhile defining it:

"*Public Relations are the conscious organization of communication. The task of Public Relations is to achieve mutual understanding and to establish a beneficial relationship, between the organization and its publics and environment, through two-way communication*." CERP- European Public Relations Confederation – www.cerp.org

Public relations can be divided into four main categories:

◈ Internal communication

This is a key development of the twenty first century, companies realising the benefit of conveying the appropriate and timely message to their associates avoiding frustrations and de-motivation if a news concerning the specific company is learned by its employees from outside sources.
The difficulty of trans-national corporations and companies is to adapt the message to the worldwide employees and not to be focused on the home country personnel.

◈ Financial communication

This is the communication towards the financial communities, the shareholders etc. The target here is more defined and homogeneous; hence companies with international activities have less need to adapt their communication.

◈ Public Affairs

Also commonly referred to as lobbying it is the continuous contact with local, regional or national bodies in order to influence legal or governmental regulations. This requires the help of local contacts having established long term relationship with the targeted person.

◈ Consumer relationship

This is the most traditional form of public relations. It consists of contacting the appropriate journalist to generate his interest in the product or service in order to get reference made in the required medium; whether television, radio or press.
This again requires very good knowledge and ties with the local journalists.

◈ A good example of global public relations management is the "Paris 2012" campaign.
Campaign which Paris ran in 2004 and 2005 for the unfortunate results we know since July 6, 2005.

Despite the results it is a good example of global use of public relations at international level.

On November 15, 2004 five cities were nominated by the IOC (International Olympic Committee), as potential host for the year 2012 Olympic Games.
Everyone knows the honour and economic benefits of hosting the games.
The race started, with very strict guidelines defined by the IOC in terms of advertising message (no direct comparison with other candidate cities) and above all direct contacts with IOC members were forbidden.

Paris first created a logo:

And a slogan: "For the Love of Sport".
The budget was 27 millions Euros.

They knew they had tough times in the international press vis-à-vis cities like London, New York or even Madrid (Moscow was the fifth).

They selected an international public relations network, Weber Shandwick, present in 75 countries to influence their target: the 120 members of the IOC spread in sixty different countries.
The presence in the countries of local agencies enabled them to know which journalist was influent, hence which one to invite and which paper to select (apart from the main international press).
Additionally, each time there was a local Olympic Committee meeting they could also rally the appropriate journalists and bring them to the suitable restaurants...! This is more difficult when you do not have a local antenna.

d- Sponsorship and events organization

◈ Sponsorship evolution

Sponsorship is a fast growing part of the marketing budget with a rise in global investment from an estimated 2 billions $ in 1984 up to over 33 billions $ in 2003 (source: WFA Sponsorship and Media Committee).

However, in view of the difficulty to clearly measure the impact of sponsorship, the tool has not gained the same popularity as for instance media investment.
Indeed marketers do feel uneasy about how to select an event and most of all how to evaluate the Return on Investment (ROI) of the action.

Sponsorship tries to create an emotional link with consumer by associating the brand with its favourite event (festival sponsorship), game (competition sponsorship), team (typical Tour de France cycling team sponsorship) or athletes (individual sponsorship).

Sports is obviously creating the strongest link, no surprises when one looks at the viewing audience of football match or tennis competition, not forgetting the long waited for Olympic Games.

This is best shown in the table below showing the sponsorship spending intentions by category during a survey ran in 2004.

Table 19: Sponsorship spend by category

Activity	SPENDING INTENTION
Sports	76%
Causes	37%
Arts	33%
Community	26%
Entertainment	8%
Business/On line	3%

Source: WFA Sponsorship and Media Committee - 2005

On a global level whilst there are still a high numbers of local events to sponsor, more and more events do cover more than one geographical region, if only through television broadcasting or internet transmission.

◈ Global sponsorship requirements

Global sponsorship both requires local and global implications:

Local implications

to have a maximum return from the activity, local activation must be performed to select the right medium, to have an on site presence maximising impact, to envisage product sampling and to provide hosting facilities for consumers or key customers at the event itself.

Global coordination

for a coherent brand communication, sponsorship efforts should be in line with the global marketing strategy (if a company seeks to position its brand in the upper tier segment of the population an individual country should avoid sponsoring football but could favour golf).
Therefore more and more corporations do request approval of local activities and obviously global one's.
Some companies do offer global toolkits, standardized contracts, expert team for local activation and best practice sharing to help improve efficiency of sponsorship at a global level.

e- Promotion

◈ Consumer related promotions

Promotion is often disregarded by the marketing specialist, as indicated by the "below the line activities" reference.

Promotion has a more immediate effect on sales; however this should not prevent marketers to include it in the overall strategic thinking and positioning of the brand.

A not appropriate promotional tool might jeopardize years of advertising efforts to build a brand's equity.
Due to the traditionally lower strategic implication of promotional activities global companies tend to leave this area of marketing in the hands of the local offices.
Type of promotions

Promotion can be subdivided into the following activities:
Sampling

Price reduction: coupons, free product, buy 3 pay 2, etc.
Contests and Sweepstakes
Premium (free gift at the purchase of the product)

<u>International implications</u>

Legislation: prior to rolling out a pan-regional promotion the company has to check for local legislation, for instance free gift is not allowed in Belgium if the value of the gift exceeds 5% of the purchased product.
Stage of market: the brand might not be at the same market stage in all markets, this should be taken into account (sampling would not be very effective for a mature market)
Country habits: one country might not be familiar with the use of the concerned promotional tool. This can be the case with coupon redemption.

◈ Customer related promotions

The focus of large corporations on consumer related marketing should not make one overlook the importance of customer relationship.

This is particularly true for companies facing large retailer networks (mostly FMCG companies) but it is also true for smaller companies, with lower advertising budget hence more dependent on the retailers for the success of their brand abroad.

<u>Trade fairs</u>

participation to a trade fair, in one's home market or abroad, or even to a pan regional one is often a good way to get in touch with potential customer for a company. Some countries or regions do offer hosting facilities in their own stands to smaller companies (this was covered in a preceding chapter).

A good example of the internationalisation of trade fairs is the Bread&Butter fair which is addressing street wear and casual wear fashion. This fair started at the beginning of the century, located in Berlin and addressing mostly German retailers and German speaking countries.
In 2004 the fair added a show in Barcelona attracting both Mediterranean countries and central and Northern countries from Europe.
The show is now moving to New York...!

<u>Catalogues</u>

catalogue is a key tool to display the available products to the retailer. The issue is to combine the need for a uniform tool across countries, in order to convey a coherent message whilst catering for the local adaptations of the product line.
The best way of doing this for the global marketer is to develop the framework of the catalogue (photo shoot, lay out, etc.) and leave the printing and execution to the local offices.

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VI- Marketing organization and control systems

The difficulties of finding the appropriate marketing structure are well summarized in Keegan et Al. *"The goal in organizing for global marketing is to find a structure that enables the company to respond to relevant market environment differences while ensuring the diffusion of corporate knowledge and experience from national markets throughout the entire corporate system. The pull between the value of centralized knowledge and coordination and the need for individualized response to the local situation creates a constant tension in the global marketing organization. A key issue in global organization is how to achieve balance between autonomy and integration. Subsidiaries need autonomy to adapt to their local environment, but the business as a whole needs integration to implement local strategy."* [15]

Prior to looking at the different structures, we will review the management styles or philosophies affecting the chosen structure.

One important element to remember is that there are no golden rules and most of all that organizations should be evolving. Indeed a company needs to adapt its styles with the degree of internationalization on the one hand and the growth of its business home and abroad on the other.

Additionally, the company should also react to any changes in its environment.

. 1. Global marketing organization

a- Management philosophy

The management philosophy in terms of handling international business is obviously influencing the chosen organizational structure to handle the business abroad.
The first to mention these management types is Howard Perlmutter in 1969 (Columbia Journal of World Business). He is referring to four different management approaches as far as global management is concerned (also called EPRG): Ethnocentric, Polycentric, Regiocentric or Geocentric.

◈ The Ethnocentric attitude is the one where the company believes the home solutions found for the specific product or service are best and applies them with little or no adaptation to the rest of the world.

◈ On the other extreme we find the polycentric management which sees all countries as a specific market with its own needs and nature.

◈ In between are either the regiocentric (considers a region as a whole like Europe or the America's and have an ethnocentric attitude towards the rest of the world) or the geocentric attitude which is assembling countries by their similarities towards the specific product or service.

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[15] W.J. Keegan and M.C. Green, "Global Marketing" fourth edition, Prentice Hall International Edition (2005), p535.

It is obvious that the above will have great implications on the international structure used by the company.
A good example of ethnocentric management are some of the Japanese car manufacturers which in their early stage had all their research and development concentrated in Japan, as well as most of the top management being Japanese.

b- Type of structures

◈ At the beginning of its international expansion the company will probably start with an export division, responsible for monitoring potential sales for existing product, during a subsequent stage the company will have an International Division, still retaining the key strategic decisions at the Headquarters or Corporate level, the international division being more of an execution office.

◈ With a more region-or geocentric approach, when sales are growing abroad, the company might select a Geographical structure with all regions or country groups relatively independent. The drawbacks are possible duplication and loss of cross-market opportunities if the communication flows between the different regional units are not effective.

◈ When a company is diversifying its product ranges (like Philips, or Sara Lee prior to dismantling its business) a Product structure is favoured with each unit having its own sub-regional divisions. This is of course generating huge personnel costs.

◈ The functional structure has been recently used by VF Corporation to add flexibility to a more and more competitive and complex business. In addition to a grouping of the companies by coalition (mostly product oriented), the company has grouped all function in order to foster exchange between regions.

◈ This mixed structure is actually close to the matrix structure where all perspective (geographical, product, functional) and skills are inter-related to optimise achievement of the company's goals. It is therefore detrimental in such a form of organization to have the goals clearly understood and shared across the matrix and at all levels.

Actually the structure depends on the one hand on the size of the company in the local market (the bigger the subsidiary the more it is able to afford local marketing, financial and other competencies) and on the other hand on the type of product or service offered (the more global the service or product the less necessary it is to have large and strong local structure to adapt to the local needs, also true for industrial products). Additionally the management philosophy (see above) will have to be taken into consideration.

. 2. Global marketing planning and controls

We will not review the basics of marketing planning and controls as used in a single country operated company but review the implication of International Marketing on planning and control activities in marketing.
A lot of sophisticated frameworks have been developed lately to respond to the increasing need of organizations to measure the success of their strategies at execution level.
These are the Balanced Scorecard, the Performance Prism, the Performance Pyramid etc...

We will concentrate here on the decisions to be made when operating marketing control at international level.

a- Allocation of fund, budget preparation

◈ Strategies and goals

An important element in International planning is the clear definition of the key marketing strategies and objectives of the company, in order to make sure the countries do work at reaching the same goals.
This should be done once a year during the planning session when central marketing does communicate to the countries the key elements to be followed during the coming year (global volume and profit targets, brand(s) target group and positioning also impacting on local channels, pricing and promotions decisions or even type of advertising medium to prioritise).

◈ Allocation by country

Another difficult decision when preparing the planning for the following year is the allocation of budget by country.
Often the basis used to define a country's budget is a combination of a percentage of the sales forecast and prior years' budget.
However, a more radical approach can be to define each country's budget based on the overall company goals in terms of development in that specific region (which might imply higher percentage of sales in country which the company do consider as key for the future development of the corporation).

b- Control versus "laisser faire": at which level of the marketing process?

Another difficult decision to make is which level of control the headquarter or the central marketing team should have over the development done in a specific country.
It is obvious that in large countries generating sufficient sales to allow for a strong marketing group, the control should be more on the strategic directions and the KPI (see below).
When the size of the subsidiary is such that no one with strategic skills can be hired for the marketing function, the responsibilities should be at execution level with central marketing developing the campaigns and the strategic directions to be followed.
The risk with too much control over the local marketing plans is on the one hand the de-motivation of the local team and on the other hand not to sufficiently take into considerations the local market needs and constraints.
The skill is in finding the right balance between "control" and "laisser faire".

c- Key Performance Indicators (KPI)

The key performance indicators or KPI, help the organization efficiently achieve goals by setting a number of measurable indicators which track the performances of the division or unit.
Those indicators might range from basic sales achievement to more sophisticated qualitative elements.

◈ Measurement of results

It is of course key for the organization to control how each unit or division is performing towards a specific sets of goals, usual ones being sales and profit numbers, down to market share.

◈ Measurement of efficiency and effectiveness

The way the above mentioned KPI's are achieved is also detrimental to the success of a company. A good example is the Lee France performances at the end of the last century. From key quantitative indicators, the company was performing well with good sales numbers, strong profit and a good market share position.
However, when looking at the quality of distribution channels used, management found that the local team was distributing the brand mostly (70% of sales) through hypermarket channels, whilst the major channels for an upper to mid tier brand like Lee were independent retailers or clothing chains. This had long lasting negative effects on the image perception of the Lee brand in France (seen as a cheaper brand by the consumer). This highlights the importance to add qualitative performance achievements to the quantitative set of performance indicators.

Performance measurement is therefore influenced by the size of the total company relative to each subsidiary and by the respective size of each subsidiary (see above).

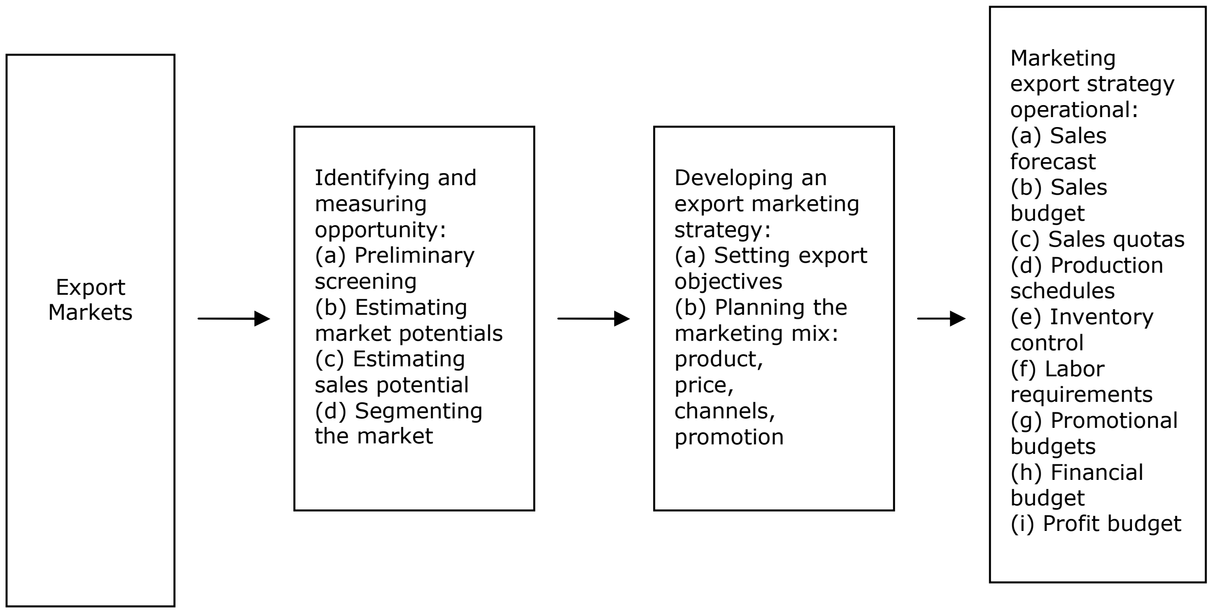
It is also impacted by the possibility to gather relevant data in the respective markets (as an example, market share data might not be available in all countries, some countries do not have established and reliable retail or consumer panel).

Finally, the level of performance measurements depends on how marketing driven the product or service is. The more marketing investment is needed to support the sales; the more performance measurements will be developed to monitor the efficiency and effectiveness of the local marketing plan.

d- Export marketing planning process

The process is best summarized in the figure below. Goal setting, program developing and organization structuring are of course interrelated.

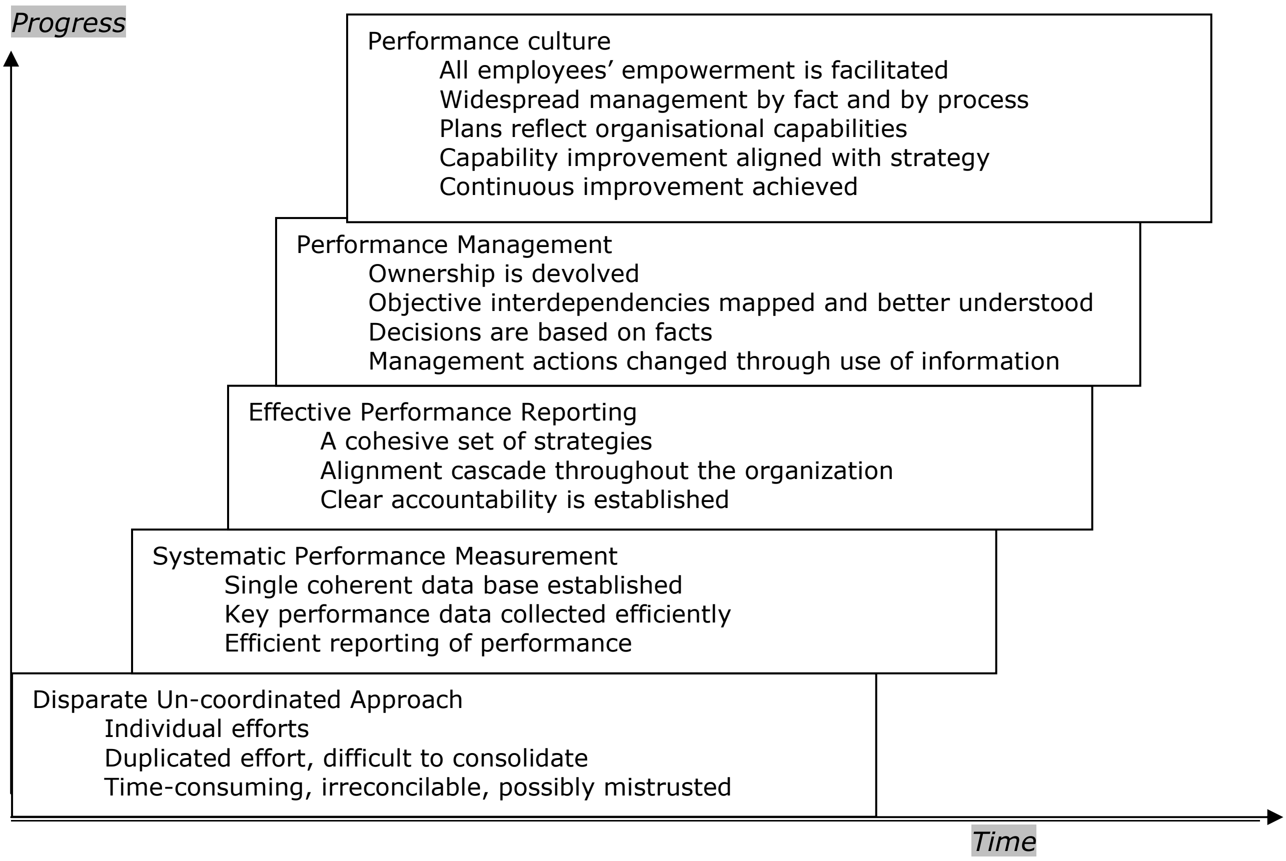
Between "developing an export strategy" and "marketing export strategy operational" there is of course a continuous feedback with the strategies being adapted in line with the performance of the programs and plans execution.



Source: G. Albaum et Al., "International Marketing and Export Management", Prentice Hall (2005), p17

e- Evolution of performance management

A good perspective on how performance management evolves within a company is shown in the graph below developed by Inphase Software Ltd in 2002.



Source: Inphase Software (UK) Limited 2002

VII- International Protection of brands

Intellectual Property is a vast and complex field, too often limited to its legal side whilst its impact on the marketing world and function is important.
But marketers are afraid of two things: numbers and laws…!

. 1. Inventing and creating a brand – what's in a name?!

After the segmentation and the positioning exercise, and in case the new product or service is neither a brand extension nor an adaptation from an existing one a key step is to give a Name to this product or service in order to create its own identity and personality. This will be the element of recognition and differentiation in the consumer's mind.

a- Importance of the brand name

It is now clear to most marketers that a brand name is the intangible element of a product or service which makes it highly desirable and attractive to consumers compared to similar ones.

One only has to look at the value attached to well-known brands (see table 20 below) to realise this importance.
This explains why those companies invest large budgets in the creation, registration and protection of their Trademarks.
As an example, Louis Vuitton's Intellectual Property department is more than 35 people, all highly qualified persons.

Table 20: List of top 10 Brands ranked by value - Business Week

Rank	**Brand**	Value **($ billions)**
1	Coca-Cola	**67**
2	Microsoft	**59**
3	IBM	**53**
4	General Electric	**46**
5	Intel	**35**
6	Nokia	**26**
7	Disney	**26**
8	McDonald's	**26**
9	Toyota	**24**
10	Marlboro	**21**

Source: Business Week August 1, 2005 - www.businessweek.com

Interestingly, Millward Brown, a UK based international research company recently launched a new ranking of global brands, as detailed below.
"A new ranking of the world's most powerful brands was announced today by global marketing research firm Millward Brown. Developed by Millward Brown Optimor, the company's specialist financial and ROI arm, the BRANDZ™ Top 100 Most Powerful Brands study utilised BRANDZ™ data that provides brand equity measures for more than 30,000 brands. The new brand ranking is unique because it is the first to combine consumer research with public financial data to measure the contributions brands make to the

bottom line. Additionally, it is the only ranking to quantify consumer sentiment about a brand's momentum and future prospects, and the first to focus on "market facing" brands as opposed to corporate brands." Millward Brown, April 3, 2006

The ranking is shown in table 21 below

Table 21: List of top 10 Brands ranked by value – Millward Brown

Rank	Brand	**Value ($ billions)**
1	Microsoft	**62.0**
2	General Electric	**55.8**
3	Coca-Cola	**41.4**
4	China Mobile	**39.2**
5	Marlboro	**38.5**
6	Wal-Mart	**37.6**
7	Google	**37.5**
8	IBM	**36.1**
9	Citibank	**31.0**
10	Toyota	**30.2**

Source: Millward Brown, April 2006 - www.millwardbrown.com

b- The process of creating a Brand name

Creating a brand name is often the result of contradictory forces, between the marketing people wanting to have a name as descriptive as possible in order for consumer to quickly relate to the use or function of the product or service and the trademark specialist who understands that the more fanciful a brand name is, the easiest it is to register and protect.

We will not go through the necessary steps of creating a brand name but for the international marketer, we will just highlight the need to recognise soon enough which potential markets will be considered (even long term) for the new brand.

We will also review the important elements to take into consideration when going through the registration process.

◈ Difference of meanings across countries

Indeed the international marketers need to understand that some totally arbitrary names in their home country might have some strange or even negative meanings in others.

Two good "counter" examples are:

- The Chevrolet Nova: a successful car model from General Motors in the US. When the company wanted to roll out this success into South America without enough considerations and analysis for the brand name they ran into trouble. More careful analysis made them realised that "no va" in Spanish means "doesn't function" quite a challenge for a car!
- We do find products bearing the following marks across the world:

Pocari Sweat: is a Japanese sport drink.
Shocking: is a Japanese chewing gum.
Polio: is a Czechoslovakian laundry detergent
Pipi: is a Yugoslavian orangeade

It will definitely be difficult for those companies to expand the products abroad under the same brand name in English speaking countries.

◈ Language differences

With the boom of Asian countries, Western Companies have to take into consideration the issue of spelling and phonetic limitations.

The following three issues can be encountered:

- appearance: quite easy to recognise for any eyes across the globe, although some pure design to the Western eye might have an actual meaning for Asian (Chinese spelling).
- pronunciation: this is getting more difficult. The Western languages are based on letters of the alphabets whilst Japanese for instance is built on diphthongs affecting the way a word is pronounced, hence understood.
  This might lead to J'aime and Shame being considered similar as is the case for Librium and Levelume.
- meaning: again a good knowledge of the local language is needed to avoid potential pitfalls. Who would expect Smartware, for computer software to be rejected for registration in Japan? This because, "smart" in Japan means "thin" and Hosoi, a famous apparel brand in Japan, also stands for the word "thin".

◈ From fanciful to generic

When looking at a scale we can say that the possible brand names vary from Fanciful to Generic, with the following examples:

- Fanciful: is a coined or made-up word or symbol, for example: Kodak for cameras or Pepsi for soft drinks.
- Arbitrary: is an existing word or symbol but the connection to the goods or services is wholly arbitrary, for example: Apple for computers or Diesel for jeans.
- Suggestive: is an existing word or symbol that suggests the characteristic or attribute of the goods or services. However the consumer must use his or her imagination to make the connection between the good and service and the mark; for example: Counteract for a pain relief medication or Beetle for a car.
- Descriptive: is an existing word or symbol that directly describes a characteristic or attribute of the goods or services; for example: Burger King for fast food restaurant services or Mr Clean for an all purposes detergent.
- Generic: is the existing word that is the common name for the goods or services, for example: Jeans for pants.

It is obvious that the more descriptive the brand name the less the company will have to spend in advertising to promote the use of its brand as the consumer will immediately understand its use and will not need any education about it.

On the other hand the more fanciful the brand name, the easiest it is to protect it as a trademark and to differentiate it versus competition.

◈ Global brand – local products/Local brands – global product

We have reviewed earlier the decision to adapt or not a product to a specific market.
The decision is the same when brand name is concerned.

We therefore find global brands (like Douwe Egberts coffee) but with local product adaptation. Indeed coffee taste is very regional even national and need adaptation.

On the other hand a global product formula for all purposes detergents, developed by Procter&Gamble is brought on the French speaking markets under the name "Mr Propre" whilst English speaking housewives do find "Mr Clean" in their supermarkets.

◈ Geographical names

Some countries are well known for specific products (France for wine and perfume, Belgium for chocolate, Germany for beer, "pasta" for Italy, United States for jeans, Scotland for whiskey, etc …), hence the tendency to either directly link a product with a country or to give a connotation which implies the origin from that specific country.

On the other hand, the place of production might have a negative impact on the overall product image (like some years ago "made in Taiwan" or "made in China" were conveying a lower quality, cheaper image for the product).

2. Trademark registration

a- What is a trademark and what is it not?!

A trademark is neither a copyright nor a patent.

A copyright protects original written or printed expression of an idea. Term of copyright is 75 years from publication or 100 years from creation, whichever is less.
It only needs the addition of the copyright symbol with the year of creation or publication next to it and the name of the owner.
No other formalities are needed.

A patent protects useful inventions and gives the holder the exclusive right to making, using or selling the invention.
A patent is valid for a period of 20 years, non-renewable and necessitate a lengthy and heavy procedure to register.

For the purpose of this course we will concentrate on trademark protection.
Patent and design protection is a matter more specific to some sector, like the pharmaceutical one and requires more technological and scientific involvement.

b- Need to register a brand name

In order to illustrate to need to protect a trademark we will give the example of the Belgian Bush beer case.
Belgium is well known abroad for chocolate as mentioned previously but after Germany, Belgians are the second largest beer drinkers in the world.
There are cafés in Brussels which do offer consumer more than one thousand beer specialties.

Amongst those specialties is the Bush beer made by the Dubuisson brewery.
The name actually comes from the literal translation of the owner’s name (Dubuisson).
Created in 1835, the brewery has known a solid success in Belgium and started to expand abroad thirty years ago.
However, they overlooked the need to protect their trademark with registration of the brand name abroad.

As a result, the beer giant Budweiser, owner of Ambusch beer, forced the Dubuisson brewery to cancel use of the Bush trademark in countries outside Belgium.
It is said that when first told about the Budweiser action, the owner did not take it seriously and thought it was a good joke … unfortunately for their expansion abroad this was not the case.

A good example of sales growth and expansion jeopardized due to lack of proper trademark management.

c- Registration process

Registering a trademark, whether brand name or design is a very lengthy process which in some countries might take several years prior to completion.
This is probably one of the reasons why it is not so popular amongst marketers.

However, this highlights the need for getting quite early in the brand name development process the involvement of the trademark specialist.

◈ Search and clearance

Once a name has been found for a specific product (and actually it can be a list of proposals), the trademark specialist will review all existing registrations in the specific product class (see below) and in the countries under consideration (see below) to see all possible conflicts.

This might be a lengthy process as all countries involved do not have a well organised system enabling rapid and easy search.
Additionally one has to look not only for identical names but also for similar ones able to created confusion in consumer's mind.

Therefore the need for a local counsel is important to help understand the local interpretations of the relevant Trade Mark office.

Often at the very start of the brand name selection process a "quick and dirty" search is performed on a list of potential names in order to see if some do need to be eliminated.

From the remaining list, once the strategic marketing decisions have been refined (geography and product range) a more in depth search is performed.

◈ Application and registration

Once the brand name has been selected and cleared for use in the relevant countries and product classes, the company will have to file an application with each individual local trademark offices.
Existing treaties enabling multi-registrations are reviewed later.
The trademark owner either directly or through an outside counsel is filling in an application with the clear description of the trademark eventually a colour design if the mark is not only verbal but also includes design elements.
The applicant has to pay a fee, depending on the number of marks filed and the number of product classes selected.

The application is first reviewed internally by the local trademark office for possible rejection either because the registration is considered generic or not appropriate, or because of a prior identical registration (not all offices do make this analysis tough).

One of the issues at international level is the relative subjectivity of ground for refusal.
Some trademark offices will refuse generic names, on the basis that it is not distinctive enough to provide ground for a registration.

The issue is of course, on an international level, that a generic term in one country is not considered as such in another.

An example of those differences between countries is the brand name Texas.
Wrangler jeans used to name its models after American county or state. Texas became soon a very popular style in Europe. Because in the US this name could not be registered (corresponding to the State name), it was not registered either at international level.
What a surprised when Wrangler Apparel Corporation discovered a Texas trademark with strong protection in Germany owned by another company!

Then the application is published in order for the public to be aware of the so-called "pending" application.
This period ranges from 12 to 18 months usually.

This gives the opportunity to other companies to oppose the new application if they consider it infringes their existing rights.

◈ Opposition and negotiation

As mentioned above the publication period gives the opportunity to other trademark owners or companies, with product in the same or similar categories to oppose the published application.

Whilst a company can handle directly the filing of an application with a trademark office, it often becomes necessary to have the support of an outside counsel if an opposition arises.

The opposition has of course to be justified and documented and it can take months if not years to be settled.

Usually the best course of action is for the companies to negotiate a deal for instance to limit the use of the trademark to a specific type of product category.
Another option, if economically valid, is to buy the rights of the opposing party.
But this goes beyond the purpose of this course.

Once this period of publication is over, the registration of the trademark is confirmed to the company, this for a period of five to ten years, depending on the country.

◈ Use of the "TM" or ® symbols

Once the trademark owners has received the notification of the registration, it is detrimental to use the trademark symbol ® next to its trademark and in most use of the trademark.
None use of this symbol would weaken the position of the company in case of future opposition from another company.

Between the application and the final registration date, the trademark owner uses the symbol "TM" to clearly identify the mark as one within the registration process.

d- Where and what to register

◈ Country and treaty selection

The country where to register a trademark is a vital but quite difficult decision.
Indeed, the more countries are added to the list, the higher the investment and the time spent on the registration process.

Therefore careful selection, of which country might be a potential market for the company, not only short term but also long term, need be performed.

Indeed a company might skip registration in a specific country and when, some years later, the company wants to introduce its brand into that market the existence of a similar or even identical trademark might block it from doing so.

A good example of poor trademark management on a long term basis is the Lee/Lee Cooper gentlemen's agreement settled during the fifties.

Lee was established as a trademark in the United States in 1889.
In 1908 an English man launched a jeans brand combining his and his wife's name: Lee Cooper.

When confronted with the coexistence in the fifties, both company agreed for Lee Cooper to refrain from expanding into the United States and coexisting in Europe.

When Lee wanted to expand in Europe it got into trouble in the markets where Lee Cooper was strong (mainly France, The United Kingdom and Belgium), as Lee was not recognised as a separate brand but as a sub brand or even a model of Lee Cooper.
Hence, any advertising campaign for Lee would benefit Lee Cooper.

A proper protection of Lee in Europe would have prevented this.

Next to the individual, country by country filling which represents an important investment in time and money companies do have two treaties to combined registrations in multiple countries at the same time: the European Community Trademark System (CTM) and the Madrid system.

◈ The European Community Trademark System (CTM)

Started in January 1996 initially with 15 countries, it is now extended to the 27 countries part of the European Union.
The system is administered centrally by the Office for Harmonization in the Internal Market (OHIM – http://oami.europa.eu) located in Alicante, Spain. OHIM is a body of the European Community.

It enables one company to file an application for a registration in all countries part of the system with only one filing.

The only issue is that if the application is refused, based on a refusal from one single country office, the entire application is rejected (which means that it is all or nothing).

The application can be filed by the company itself if it is located in a country member of the CTM system; but statistics show that only 10% of the applications are done so, for all others an agent or a representative is used which of course adds to the costs.

The filing can be done in any of the twenty languages of the European Union but further communication related to opposition, revocation or invalidity will be done in one of the five key languages from OHIM (English, French, German, Italian and Spanish).

Filing can be done electronically.
Registration is valid for ten years and has to be renewed at the end of this period.

According to the OHIM about 20% of the applications are opposed when published but most of them are settled in discussions between parties.

On March 1, 2006 the CTM system had 500,000 registrations which were represented by 100,000 applicants.
Half of the registrations (50%) are originating from three countries: USA, Germany and the United Kingdom.

A CTM registration can also be used as base for the Madrid System.

◈ The Madrid System

The Madrid System for the international registration of marks was established in 1891 and functions under the Madrid Agreement (1891) and the Madrid Protocol (1989).
It is administered by the International Bureau of the World Intellectual Property Organization (WIPO, www.wipo.org) located in Geneva, Switzerland.

Vietnam is part of the Madrid Agreement and of the Madrid Protocol since July 2006.
About seventy countries are part of the Madrid Protocol amongst which China, Japan, the European Union, the Russian Federation and since January 2004, the United States.
India, Canada, South American countries and key African ones are not part of the Madrid System.

Any company based in one of the Madrid System countries or having a registered office in one of the Madrid System countries can extend the registration in that particular country to any country member of the System.
The application for the International Registration has to be done via the office of that specific country.

As for the CTM application, the advantage is one single application for multiple countries.

The issue is that if the application in the country of origin is challenged, all international applications within the System are at stake, this during a period of five years following the application.

The registration is valid for ten years, after which period a renewal is due.

The Madrid System had about 450,000 international registrations in force at the end of 2005, represented by slightly less than 150,000 right holders.
Only in 2005, 33,170 international registrations were recorded.

Germany, France, The United States, Benelux and Italy are the top five major users of the Madrid System.

Since 2005, China is the most designated country within the System.

◈ Product class selection

After selecting in which country to register its mark, a company has to select a product category.

The International (NICE) Classification of Goods and Services for the Purposes of the Registration of Marks serves to determine the scope of protection of trade marks.
The NICE classification is divided into classes of Goods (classes 1 to 34) and Services (classes 35 to 45).
Each class number is represented by a heading giving general information about the type of products or services that belongs to it.

For instance class 25 is for clothing, footwear and headgear and class 18 is for leather goods.

Most of the Trademark Offices around the world do follow the NICE classification; even Japan revised its product classification at the beginning of this century to enter the Madrid Protocol.
Some variations in the product classification exist between countries but this is more the work of trademark specialists and is beyond the scope of this course.

However, the product class selection is a strategic marketing decision.

- Examples:
  A too narrow selection might hinder possible expansion of the brand abroad and protection of the trademark as highlighted by the two examples below:

  * *Wrangler Jeep*: Wrangler, a well known trademark at international level has registrations mainly in clothing but also in other product related classes.
  But Wrangler never envisaged registration in the automotive sector.

  Jeep did register the Wrangler Jeep model.

  In 2004 Wrangler wanted to do a joined promotion with Peugeot. The concept was to create a Peugeot Wrangler motorcycle model in Germany. This obviously led to a potential infringement of the Chrysler trademark.

  Only personal and good contacts with the Daimler Chrysler intellectual property department avoided lengthy and costly litigations.

  * *Maverick perfume*: Maverick is a European trademark of VF Corporation targeting Hypermarket and Discounter channels with jeans and jeans related product.

  When Makro, a well established discounter retailer in Europe was selling Maverick perfume (probably next to the Maverick jeans ...!) not much could be done against this as the VF trademark was only registered in the clothing category and not in the perfume one.

  Only by showing through extensive consumer research the high brand knowledge of the Maverick trademark on the market could VF Corporation possibly act – after long proceedings – against the Maverick perfume.

- Elements to consider:
  The following elements need be taken into considerations when selecting the product classes for registration of a trademark at international level:

* *Brand extension:* does the company intend to extend the use of the trademark in other, related but different product or service categories? Like Lee, initially registered in the clothing category wanting to add belts (leather category) to its product offer.

* *Licensing*: will the company benefit from exploiting the strong image of its trademark into other product categories, necessitating the use of licensor? Like Chanel initially selling into clothing and which moved successfully into the perfume and cosmetic market.

* *Retailing:* Some companies, initially on the manufacturing side, do feel the need to have their own shops (see previous chapter) bearing the trademark name. This needs a specific registration into the class 35.

e- Timing and Cost

◈ Timing

*A*ll the above takes time. The length varies obviously from one country to another (some registrations are granted after more than five years); this however, should not discourage the company to file for a registration as explained above.

It also shows the need to start quite early in the product development process, hence the need for very good communication between the trademark professional (if available within the company) and the marketing people.

◈ Costs

It is impossible to give a single number as it depends on the number of classes and the number of countries involved.

However a single application, for three product classes at CTM level costs Euro 900 and Euro 750 if filed electronically.

For a Madrid Protocol application, the cost is Swiss Franc 653, for three product classes and Swiss Franc 73 for each selected country.

This however does not include all the possible costs involved with handling opposition.

Additionally, individual country registrations will be much more costly.

. 3. Protection and enforcement of Global Brands

Once a company has been granted the registration of its trademark in the requested countries, it has to make sure that no other company infringes its rights.

This is done at three different levels: registration, infringement and counterfeit.

a- Registration

◈ Potential issue

Other companies might want, with good or bad faith, to register a similar trademark.
It is important to react quickly and oppose such a registration to avoid future confusion in consumers' mind which could possibly jeopardize the volume development of the brand.
The issue will of course be in which country or product category the new trademark is being registered.
Some company try to prevent development of competitors abroad by registering the trademark of the competitor in countries where it has not done so yet. And bad faith is difficult to prove with some trademark offices.

◈ Solutions

> * *Opposition*
> as reviewed above when looking at the registration process, during the publication period of a newly registered trademark third parties have the opportunity of opposing a registration if they consider this registration infringes their existing rights. They do have to notify the concerned trademark office.
>
> * Litigation or negotiation
> often the best course of action when opposing a registration is to negotiate a settlement with the company filing the new registration. This will avoid lengthy and costly litigations.

◈ Watch services

Local trademark offices do publish in their respective bulletins the pending applications for newly registered trademarks.

However, for a company wanting to review many countries it will be soon too heavy to follow the publications in the concerned countries.
Watches services are offered by specialized companies which consequently alert their client when they consider a new registration is infringing their client's rights.

b- Infringements

◈ Potential issue

Infringement occurs when a company (usually a competitor) is using all or part of another's trademark consequently benefiting from the awareness of that trademark to attract consumers.

The use might be deliberate or not (usually it is the first option).

A good example is the "Arch" stitching at the back of the Levi's jeans. With the success of the Levi's brand at the end of the previous century, the specific stitching (also protected by a trademark registration) soon became an icon for jeans addicts. Many other jeans companies have tried to confuse consumers by using the same stitching on the back of their jeans even if the brand name was different.

◈ Solutions

** Letter from Trademark owner*
A rapid and soft way of handling a minor infringement is for the trademark owner to send a letter to the head of the company.
The letter will mention where the infringing product or service was found (with copies of purchase receipt) and the registration numbers of the infringed trademark.
This might already lead to the later adapting its product or service to avoid the infringement.

** Letter from outside counsel*
If the infringement is more important, or the company infringing the trademark is not answering the above mentioned letter, a letter from an outside counsel will be needed.
Often at this point a settlement can be reached.

** Litigation*
When no reaction or settlement can be obtained with the above, the matter will have to be brought to the court.
Interestingly, in the case of Levi's as referred above, the company always decided for the court ruling and published in the trade press the court's decision. This in order to show potential infringers and customers how determined they were in protecting their trademarks.

** Compensation*
Because the infringer has benefited from the awareness of the trademark property to a third party, compensation needs be given for the resulting sales.
This is often calculated based on the units sold bearing the infringing trademark multiplied by the lost profit for the owner of the concerned trademark.

◈ Gray Market

Also referred to as parallel import this phenomenon was evoked in the pricing paragraph as it stems from the difference of prices for the same brand between two countries.

The issue in this case is the fact that a company is marketing product or service from a trademark owner in a specific country without prior consent of the trademark owner.

Not all countries do have laws protecting trademark owner against parallel import (referred to as exhaustion of rights).
Additionally, whilst for instance European Union protects the rights of trademark owners against parallel imports from outside the EU, this is not the case if products or services are bought at a lower price in one country and sold in another, also part of the EU.

A good example of parallel import is the Levi's versus Tesco case in 2001.

As indicated earlier Tesco is a large UK supermarket chain. They did buy more than 10,000 pairs of Levi's jeans in Mexico, at very low price to market them in the United Kingdom, this without the consent of Levi's Strauss.

The court ruled against Tesco and made jurisprudence in this field.

◈ Control Mechanism

The best way to identify infringement is usually with the help of the local sales team or local agent.

It is important to train them in giving rapid feedback of any product or service infringing the company's trademarks.

Indeed, they have the contact with the field and are best informed about what is happening on the market.

c- Counterfeit

Counterfeiting is a global threat which is costing about Euro 450 billion yearly as estimated by the World Customs Organization (WCO).

Main products concerned are clothing articles, CD's, videos, perfume, software and watches.

However recent trends indicate that counterfeiting also starts impacting more basic products like detergents and shampoos.

More importantly, seizures have also highlighted counterfeit pharmaceutical products or car spare parts, with consequential health and safety issues.

Below are some numbers indicating the importance of the phenomenon by product categories and countries.

◈ Statistics

Table 22: Top 10 brands counterfeited

Ranking	Brand	% of IP Theft incidents
1	**Microsoft**	4.92%
2	**Louis Vuitton**	4.86%
3	**Nike**	4.43%
4	**Gucci**	2.95%
5	**Adidas**	2.89%
6	**Burberry**	2.15%
7	**Prada**	2.15%
8	**Chanel**	2.03%
9	**Christian Dior**	1.72%
10	**Sony**	1.60%

Source: Gieschen consultancy – www.Goldsec.com

Table 23: Top 10 other crimes linked to counterfeiters

Ranking	Brand	% of incidents
1	**Fraud**	29.4%
2	**Theft**	16.4%
3	**Drug procession & trafficking**	14.5%
4	**Immigration offences**	14.0%
5	**Weapons offences**	8.4%
6	**Identity theft**	8.0%
7	**Terrorism**	2.0%
8	**Murder**	1.3%
9	**Assault**	1.1%
10	**Others**	4.9%

Source: Gieschen consultancy – www.Goldsec.com

Table 24: Top 4 countries traced to counterfeit distribution or manufacturing sources

Ranking	Brand	% of investigation
1	**China**	65.2%
2	**Nigeria**	2.3%
3	**Turkey**	2.0%
4	**Taiwan**	2.0%

Source: Gieschen consultancy – www.Goldsec.com

Table 25: Top 6 (of 119) markets for counterfeit and pirated goods raided

Ranking	Street Market	Country
1	**Barras Market**	UK
2	**Brownhills Market**	UK
3	**Ben Tanh Market**	Vietnam
4	**Burma Bazaar**	India
5	**Petaling Street**	Malaysia
6	**Urdu Bazaar**	Pakistan

Source: Gieschen consultancy – www.Goldsec.com

Potential issues

Because the counterfeit product or service is sold under the same brand name as the offended trademark, more issues arise as for infringement.

* *Brand image*
Because counterfeit product or service does not have the same quality as the genuine one, this has negative impact on the brand image of the genuine brand.

* *Loss of revenue and tax*
Next to the loss of profit for the company of which the products or services are being counterfeited, there is also a loss of revenue for the country where the counterfeited items are sold. Indeed, often the items are sold at a lower price than the genuine, hence lower tax perceived or are smuggled within the country, with no taxes at all perceived.

* *Health and safety*
As indicated earlier, next to the clothing and luxury items, counterfeiters also do bring on the market pharmaceutical products or car spare parts with obvious consequential health and safety issues.

Solutions

Counterfeit has to be treated as it is: a criminal case.
Therefore the help of outside counsel in contact with the local police or customs is needed.
The objective is the destruction of the seized items and ideally the location of the manufacturing facility in order to eradicate the entire chain concerned.

Control mechanism

* *Customs*
Counterfeit items often travel around from the production place to the market were they are sold. The best persons to help identify a shipment are of course customs people.

In many countries it is possible to file a request with the local customs in order for them to control shipments for potential counterfeit of the filed trademark.
The trademark owner needs to give evidences on how to identify counterfeit from genuine.

* *Police*
Police is also regularly doing raid at street markets and it is good to have either within the company or through an outside counsel a contact person who can identify products or services as being counterfeit or genuine.

* *Identification*
Currently counterfeit items are getting better and better and often it is difficult, even for the trademark owner, to identify the fake from the genuine.
Therefore, additional elements are added to the product like holograms or an identification number which is printed on the product at the moment of production.

* - *

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