Estimating Market Potential

- Estimation by analogy
  - comparing data from similar countries
  - problems: geography, culture, tradition and historical reasons
- Income elasticity of demand
  - market's level of development
- Regression Analysis
  - Demand for any product = f(income, price, competition, etc.)

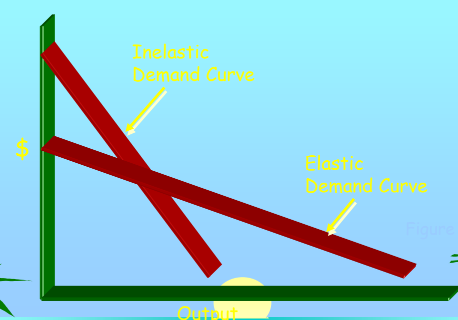
Estimating Market Potential

- Input-output tables
  - provides a summary of the structure of an economy by showing the impact of changes in the demand for one industry's product on other industries product
  - relationship between economic sectors
  - published by UNCTAD/GATT/WTO
  - problems: static, reliability

Determinants of Demand Elasticity

- Income level and competitive conditions determine elasticity.
  - Elasticity (price) tends to be be greater in countries with low income levels.
  - Elasticity (demand) tends to be greater in countries where there are many competitors.

Elastic and Inelastic Demand Curves



Estimating Market Potential

- Gap Analysis
  - difference between total market potential and total sales
  - the difference could be due to
    - product usage gap - increase promotion, advertising, price etc.
    - product line gap - lack of product variation; latent demand
    - distribution gap - lack of appropriate coverage

The globalization of markets and brands

- Important to determine when product standardization is appropriate in an international market
- Firms may need to vary marketing mix in each different country
- Globalization may be the exception rather than the rule in many consumer goods markets and industrial markets

Factors Encouraging Product Standardization

- Economies of scale in production
- Economies in product R & D
- Economies in marketing
- Control of marketing programs
- “Shrinking” of the world marketplace

Market segmentation

- Refers to identifying distinct groups of consumers whose purchasing behavior differs from others in important ways
- Segments can based on:
  - Geography
  - Demography
  - Socio-cultural factors
  - Psychological factors

Market segmentation

- Two main issues relating to segmentation:
  - Extent of differences between countries in the structure of market segments
  - Existence of segments that transcend national borders

Product attributes

- Cultural differences
- Economic development
- Product and technical standards

Factors Encouraging Product Adaptation

- Regional, or Country Characteristics
  - Government regulations
  - Nontariff barriers
  - Customer characteristics, expectations, and preferences
  - Purchase patterns
  - Culture
  - Stage of economic development
  - Climate and geography
  - Competition

Economic Differences

- Consumer behavior is influenced by economic development.
  - Consumers in highly developed countries tend to have extra performance attributes in their products.
  - Consumers in less developed countries tend not to demand these extra performance attributes.
    - Cars: no air-conditioning, power steering, power windows, radios and cassette players.
    - Product reliability is more important.
  - Contrary to Levitt, consumers in the most developed countries are often unwilling to sacrifice preferred attributes for lower prices.

Factors Encouraging Product Adaptation

- Product Characteristics
  - Brand
  - Packaging
  - Functions, attributes, and features
  - Ease of installation
  - Country of origin
  - Durability and quality
  - Service
  - Method of operation of usage

Product and Technical Standards

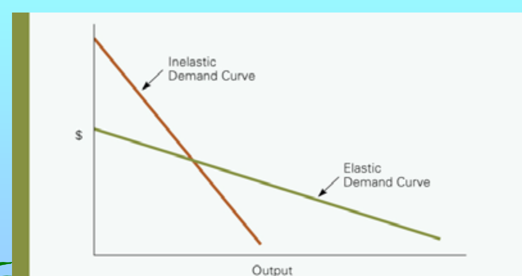
- Government standards can prevent the introduction of global products.
- Different technical standards impede global markets, as well.
  - Come from idiosyncratic decisions made long ago.
    - Video equipment.
    - Television signals.

Price discrimination

- Said to occur when consumers in different countries are charged different prices for the same product
- Two conditions necessary
  - National markets kept separate to prevent arbitrage
    - Capitalization of price differentials by purchasing product in countries where prices are lower and reselling where prices are higher
  - Different price elasticities of demand in different countries
    - Greater in countries with low income levels & highly competitive conditions

Elastic and inelastic demand curves

Fig 17.2



International Pricing

Currency values
- stability of exchange rates
- inflation
- grey markets: refers to brand name imports that enter a market legally but outside regular, authorized distribution channels

Strategic pricing

- Predatory pricing
  - Using price as a competitive weapon to drive weaker competition out of a national market
  - Firms then raise prices to enjoy high profits
  - Firms normally have profitable position in another national market

International Pricing

- Government intervention
  - floor price, min. or max. levels
- Export Pricing: duties, FOB, CIF
- Transfer pricing refers to sales to affiliates
  - can create control and evaluation of subsidiary problems
  - attracts tax authorities in both home and host countries

Strategic pricing

- Multipoint pricing strategy
  - Two or more international firms compete against each other in two or more national markets
  - A firm's pricing strategy in one market may impact a rival in another market.
    - Kodak and Fuji

Strategic pricing

- Experience curve pricing
  - Firms price low worldwide to build market share
  - Incurred losses are made up as company moves down experience curve, making substantial profits
  - Cost advantage over its less-aggressive competitors

Regulatory Influences on Prices

- Antidumping regulations:
  - Selling a product for a price that is less than the cost of producing it.
    - Predatory pricing and experience curve pricing may violate regulations.
  - Antidumping rules place a floor under export prices and limit a firm's ability to pursue strategic pricing.
- Competition Policy:
  - Promote competition.
  - Restrict monopoly practices.
  - Can limit the prices a company can charge in a given country.

Dumping: GATT and the U.S.

- GATT:*Sale of an imported product at 'less than fair value' and causes 'material injury to a domestic industry'.*
- US: *An unfair trade practice that results in injury, destruction, or the prevention of the establishment of an American industry.*

Distribution strategy

- Choice of the optimal channel for delivering a product to the consumer
  - Optimal strategy is determined by the relative costs and benefits of each alternative
  - Depends on differences between countries
    - retail concentration
    - channel length
    - channel exclusivity

Retail concentration

- Concentrated system
  - common in developed countries
  - contributing factors: increase in car ownership, number of households with refrigerators and freezers and two-income households
- Fragmented system
  - common in developing countries
  - contributing factors: great population density with large number of urban centers e.g. Japan
  - uneven or mountainous terrain e.g. Nepal

Channel length

- Refers to number of intermediaries between the producer and the consumer
- Determined by degree to which the retail system is fragmented
  - Long distribution channel
  - Short distribution channel

Channel length

- Long distribution channel
  - Fragmented retail system promotes growth of wholesalers and retailers
  - Firms go through intermediaries such as wholesalers to cut selling costs
- Short distribution channel
  - Concentrated retail system
  - Firms deal directly with retailers

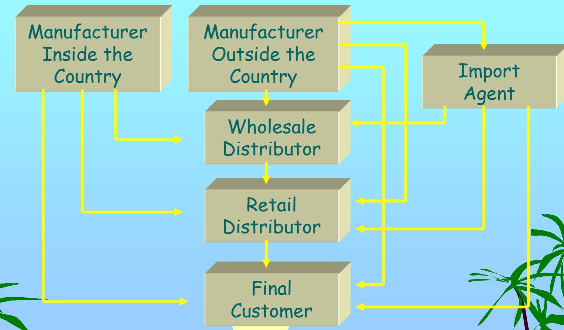
Channel exclusivity

- Degree to which it is difficult for outsiders to access distribution channels
- Varies between countries
  - Japan - exclusive systems because personal relations, often decades old play important role in stocking products
  - Difficult for new firm to get shelf space as compared to an old firm

International Distribution

- Consumer behavior
- Geography: size of land, terrain
- Climate
- Types of middlemen
- Number and size of stores
- Concept of self-service

A Typical Distribution System



Communications Strategy

International communication occurs When a firm uses a marketing Message to sell its products in another country.

Channels
direct selling
sales promotion
direct marketing
advertising

Communications Strategy

- Effectiveness of international communications can be impacted by:
  - Cultural barriers.
    - Need to develop cross-cultural literacy.
  - Source and country of origin effects.
    - Receiver of the message evaluates it based upon the status of the sender.
  - Country of origin effects:
    - Emphasize/de-emphasize foreign origin.
  - Noise levels.
    - Tends to reduce the effectiveness of a message.
    - Developed countries - high.
    - Less developed countries - low.
  - Push versus Pull:
    - Push emphasizes personal selling.
    - Pull depends on mass media advertising.

International Promotion

- Advertising
  - regulations vary by country (content, hours)
  - media availability
  - global vs. regional vs. local outlets
- Push vs. Pull strategy
  - Pull strategy for consumer products
  - Push strategy for industrial products
- Concept of self service
- Depends on type of distribution system

Push versus pull strategy

- Push strategy emphasizes personal selling
  - Requires intense use of a sales force
  - Relatively costly
- Pull strategy depends on mass media advertising
  - Can be cheaper for a large market segment
- Determining factors of type of strategy
  - Product type and consumer sophistication
  - Channel length
  - Media availability

Product type and consumer sophistication

- Pull strategy
  - Consumer goods
  - Large market segment
  - Long distribution channels
  - Mass communication has cost advantages
- Push strategy
  - Industrial products or complex new products
  - Direct selling allows firms to educate users
  - Short distribution channels
  - Used in poorer nations for consumer goods where direct selling only way to reach consumers

Global Advertising

- Standardized:
  - Significant economic advantages.
  - Scarce creative talent.
  - Many global brand names.
- Non-standardized:
  - Messages in one country may fail in another.
  - Advertising regulations can be a restriction.
- Dealing with Country differences
  - Select some features for standardization and others for localization.
  - Saves some costs.


Configuring the Marketing Mix
Competition
Standards
Economy
Distribution
Culture
Gov't Regs
Differences Here
Pricing Strategy
Product Attributes
Distribution Strategy
Communications Strategy
Requires Variation Here