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CONTENTS

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Lesson No.: **1**

INTRODUCTION TO INTERNATIONAL MARKETING– DEFINITION, SCOPE, IMPORTANCE ETC.

STRUCTURE

1.0 OBJECTIVE

After studying this lesson, you will be able to-

- understand the concept of international marketing.
- explain the approaches to international marketing.
- understand the process of internationalization of business.
- know the effects of foreign trade on national economies.

1.1 INTRODUCTION

Broadly, international marketing refers to the exchange process across nations. It has gained prominence with the ever-increasing global trade and linkages. Whether or not a company wants to participate directly in international business, it cannot escape the effect of numerous companies engaged in exports, imports, and/or manufacturing abroad and the multinationals operating in the domestic markets giving direct and indirect competition. The advances in information technology have facilitated the process of marketing across countries. This trend of globalization of the scope of business has made it essential for the corporate managers to understand international marketing operations.

1.2 PRESENTATION OF CONTENTS

1.2.1 Definitions of international marketing

Some of the definitions of international marketing are:

Cateora (1997) defines international marketing as performance of business activities that direct the flow of company's goods and services to consumers in more than one nation for profit.

Jain (1989) refers to international marketing as exchanges across national boundaries for the satisfaction of human needs and wants.

Terpestra (1972) looks upon international marketing as marketing carried on across the national boundaries.

Keegan (1997) comprehends that international marketing as going beyond the export marketing and becoming more involved in the marketing environment in which it is doing business.

1.2.2 International Trade vs International Business

International trade is a term that basically deals with the movement of goods and services between countries distinct from normal corporate transactions involving buyers and sellers in different countries. The international trade primarily reflects macro or aggregate supplies and demand in different countries. The global trade, thus, involves major policy decisions by governments of nations with regards to imports and exports as also national economic development. These days, the trend is towards globalization of trade. This has resulted in regional as well multilateral global agreements. A predominant role has been accorded to WTO while determining trade policy by each nation.

International business may be defined as those business transactions among individuals, firms or corporate entities in private or public sector that result in movement of goods or services across national boundaries. The business activity can take any of the form: import, export of different goods services, the investment of capital; and transactions in intangible assets (e.g. trademarks, patents are the licensing of manufacturing technology).

The field of international business is a broad area of study that covers a wide range of activities. The execution of business activities between sovereign nations takes place within specific environments, and pose challenges with which a firm in international business must deal. Dealing with these problems requires an understanding of the environmental variables that affect international business. These variables are economic, political, legal, socio-cultural, technological and geographic. Although such environmental variables are often beyond control of an individual firm, the consideration and recognition of such factors enables the managers to work more effectively within the constraints posed by these variables. In order to incorporate the probable effects of external environment, a working knowledge of relevant descriptions such as economics, political science, history, geography, law, and anthropology is desirable.

The scope of international business can be divided into two categories-real and financial.

(i) The real or non financial side of the theory of international business studies trade theories, theory of the multinational enterprises including the reasons for choice of entry mode.

(ii) The financial side of the theory covers study of environmental factors affecting the multinational enterprises such as foreign exchange rates, the balance of payments and international marketing systems. It also involves the study of internal decisions affecting the MNE, such as its appropriate cost of capital and the opportunities of international diversification.

Since international business deals across nations , the role of governments and their relationships with MNEs also comes under the scope of study of international business

1.2.3 Comparing domestic and international business.

Though, fundamentally international business operations look like domestic business operations, yet some important distinctions can be perceived following an indepth insight. The firms having an experience of domestic business can probably have an edge while diversifying into international operations. Keeping this in mind, a leading management guru, Micheal E. Porter has observed that firms aspiring to be successful globally must attempt at being successful in the domestic market first. Most firms like IBM, Coca Cola, Unilever, Proctor and Gamble, Suzuki, Sony operating globally infact started initially as domestic companies. As the magnitude of their operations grew, they found it profitable to venture abroad by setting up manufacturing and distribution centres in other countries. Some of the points of difference between international and domestic marketing are:

(i) Process of marketing: The marketing is deemed to involve two processes viz., technical and social. The technical process essentially comprises of non human factors such as product, price, cost, brand. But, the social process takes care of human behaviour, customs, attitudes, values etc. The latter is unique to a national market. Hence, this shows that international marketing is different from domestic marketing. Accordingly, sociological & cultural factors predominate the decision making with regard to marketing mix.

(ii) Marketing environment: The environmental and operational variables also assume a different structure in international business. The environmental factors such as economic, politico legal, geographic, cultural and competition are much more dynamic and uncontrollable in foreign markets as compared to domestic markets. Different countries have different currencies, accounting practices, legislation, interest rates, inflation etc. So, the controllable factors of a firm (marketing mix) have to be redesigned according to the needs of individual countries. The very complexity of exchange transactions across nations makes it significantly different from domestic business operations.

1.2.4 Multinational Corporation

Historically, international trade simply involved export or import of goods across national boundaries. The production took place in the country of exporter. The advent of multinational corporations has led to structural changes in the way business operations take place. The MNCs set up their own production facilities in other countries and cater the domestic markets.

Some of the characteristics of a multinational company are:

1. An MNC operates in a number of countries.
2. An MNC has global orientation in investment and profit making
3. An MNC essentially thrives on managerial, technical and financial resources from more than one country.
4. The top management of an MNC may have a multicultural composition.
5. The MNCs derive synergies from global sourcing of inputs.
6. The MNCs may create oligopolistic competition in particular industries and thus operate as a predominant seller in selected markets.
7. The MNCs have originated in developed and free market economies though a few companies from developing countries have also assumed the MNC status.

8 Historically, MNCs have been engaged in extractive industries involving exploitation of the natural resources and consumer goods. Recently, MNCs are making a dent in tertiary sector also..

9. Instead of being factor driven, the MNCs are predominantly innovation and investment driven enterprises.
10. The MNCs exercise market power by virtue of their enormous size and resources.

11. The MNCs have predominantly concentrated on building strengths around their core businesses. Even where diversification has been practiced, it has been done into the areas where the existing resources can be used.

12. The MNCs have been actively instrumental in the process of liberalization and globalization of world economy, that has relegated the concept of centrally planned economy to a great extent.

1.2.5 Approaches to International Marketing/ International Business

The differences in international orientation and approach can be used to categorize the international marketing into different forms. A domestic company may initially start with ethnically close markets and extend its operations across the world in its final stage.

Domestic marketing extension (Ethno-centric) concept.

Multi domestic market (Poly-centric) concept

Global marketing (Regio-centric) concept

Domestic Marketing Extension (Ethnocentric) concept: The companies guided by this are casual players in overseas markets. For them the overseas markets serve as conduits for directing surplus production. They use overseas markets as a buffer for checking the demand fluctuations in the domestic market. The main focus of the company remains domestic markets. This concept is usually preferred by small companies, or even by large companies operating in a competitive industry. The overseas operations of such companies are usually restricted to exports in certain niches such as approach is also known as ethnocentric in the EPRG schema.

Multi domestic marketing (polycentric) concept: As the overseas operations of the companies grow, they recognize the need for a different approach to international marketing. The operations of companies can acquire forms of overseas joint ventures, licensing agreements, overseas manufacturing and marketing. The subsidiaries operating in overseas markets are recognized as independent business units with autonomy to operate in their markets. Within their respective markets, the subsidiaries behave as domestic companies, deriving only strategic guidelines from their head offices. The companies usually become multinational corporations at this stage. The controls are decentralized to facilitate local operations under the EPRG schema, such firms are classified as polycentric.

Global Marketing (Regiocentric) Concept: As the companies direct their approach to become a global company, they acquire a global perspective in their operations. Such companies look for lucrative business and investment opportunities on global basis. They derive synergy by sourcing the resources from across the globe by selecting those markets which can provide the inputs to business in most cost-effective manner. Such companies do not treat the SBUs operating in different markets as totally independent entities, but as the SBUs which are contributing towards the growth of the company as a whole. Certain degree of the controls and policy matters may extend to all the SBUs, although allowances may be made to accommodate regional diversities. Under the EPRG schema, global companies are often classified as regiocentric or geocentric companies.

1.2.6 Importance of International Marketing

(A) Macro level benefits in national perspective: International trade results in macro-economic effects for each economy. The imports and exports influence the employment, national income and technology. The direct and indirect benefits emanating from international business are listed below:

i) ***Increase in national Income:*** A country's export activity promotes industrial and trade activity that generates employment and income for various sections of society. The multiplier effect of income increases the level of output and growth rate of economy. Especially the export of wage-goods can help a developing country to break the vicious circle of poverty and raise the real income of the country.

ii) ***Efficiency:*** While exporting, the countries try to attain specialization in production of goods. In this process, there is optimum and efficient utilization of the resources. The limited domestic market may act as a deterrent to the growth of industry and a resultant under-utilization of resources. The international trade can help industry grow and achieve scale and experience economies.

iii) ***Employment generation:*** Exports constitute a significant portion of different nations and breed opportunities for more and gainful employment. In addition to reducing direct unemployment, foreign trade reduces underemployment, e.g. exports of Swiss watches engages the farmers in the watch industry during their free time resulting into gainful utilisation of their skills.

iv) ***Increased linkages:*** The staple theory of economic growth recognizes that foreign trade results into increased backward and forward linkages with other sectors of the economy. The industrial and trade linkages cause the development of new industries and enhance efficiency of existing indutries.

v) ***Optimal utilization of resources:*** International business makes possible the utilisation of agricultural resources as the farmers get a greater access to the overseas markets. This transforms even the subsistence sector into monetized sector raising the standards of living of rural populations. The strengths of Indian agriculture are likely to open new vistas of business opportunities in the days to come as the world trade is likely to become more liberalised as a result of WTO provisions.

vi) ***Educative effect:*** Exports and international business exposes the executives to overseas market which develops greater skills in them. This removes a great hindrance, often acknowledged as greater than scarcity of capital goods. The entrepreneurial and management expertise generally helps an economy grow faster, and traditional factors of production can be used more effectively.

vii) ***Promotes Foreign Direct Investment:*** The level of international business of a country often becomes a basis for the flow of foreign direct investment in a country. In today's economic environment, it is difficult to grow in absence of FDI. Several economies have grown following the heavy investments from other parts of the world.

viii) ***Stimulates Competition:*** International business fosters healthy competition and helps in checking inefficient monopolies. It is established that growth of competitive economies is higher than the growth rate of protective economies. In recent times, the nations have realized the benefits of healthy competition. Several developing and erstwhile communist countries are promoting the same. Switching over to market-led growth which invokes substantially international operations in business, services and technology.

ix) ***Technology Sourcing:*** In today's rapidly changing world, it is important to keep pace with the changing technology. This is possible only when there exist linkages with other national economies through international trade and business. The technology-driven industries such as information technology telecommunications, automobiles derive immense synergy by their participation in trade across the world.

(B) Microlevel effects of International Business: An individual firm can reap several benefits by resorting to international marketing and international business.

i) Growth: By all standards, domestic markets have a limitation of growth potential. After a particular level, it is very difficult for a firm to achieve growth. So, it is left with the option of either product innovation or extending operations to other markets. The latter option is a better way of sustaining growth as the product life can increase significantly when it is sold into the world markets.

ii) Fighting Competition: As the protectionist measures by nations are being reduced, firms operating in domestic market only are facing increased levels of competition. Instead of utilizing their resources in fighting competitions, firms continue to look at markets in other countries to cope up with domestic competition. Hence, international business operations provide avenues for both survival and growth.

iii) Increased efficiency: By operating on global scale, a firm can select for its expansion lucrative opportunities. Also, it can reduce its product costs through global sourcing and utilise world level technology and talent for business operations. All this makes the business operations more efficient and as a result it can realise higher return per unit investment. This boosts up shareholder's value and the company image.

iv) Scale economics: Higher level operations on account of international operations produce benefits of scale and thus enhance the profitability of firm.

v) Innovation: By operating in large markets, companies can afford to invest in research and technology development. It is established that compared to traditional and mind set firms, innovation driven firms can compete effectively.

vi) Risk Cover: By operating on global scale, the fluctuations of demand levels in an individual country does not make much difference on the aggregate sales. Consequently, the uncertainties arising out of risk factors on the operations localized to a country are reduced. Even the financial risks, physical risks, politico-legal risks etc. can be managed more effectively by virtue of global operations.

1.2.7 Adverse effects of foreign trade on the National Economies

It has often been argued that international trade has a strong backwash effect as less developed countries i.e. its operations are fundamentally biased in favour of the richer and progressive regions and is in disfavour of less developed countries. It has also been pointed out by the economists that international trade leads to international transfer of income from poor to rich countries. The UN report (1998) on human resource indicators shows a widened gap in the living standards of the people of rich and poor nations. This widening of gap has increased in the last decade ever since globalization of the world economies started. Also, international trade can adversely affect the process of capital formation in underdeveloped countries.

However, there is still a lack of empirical evidence to prove that the development of export sector has been at the cost of domestic sector. Foreign trade has not always stood in the way of domestic investment. The adverse effects seem to have been exaggerated. It may be mentioned that in today's environment, globalization is a reality and it is important to accept it in the right perspective instead of nurturing the old protectionist beliefs.

1.2.8 Global symbiosis

Over a period of time, the mind set for achieving self sufficiency as a national goal has given way to attaining synergies from global interdependence. The countries have realised the benefits accruing from fostering a healthy symbiotic relationship based on mutual gains for both countries. The goal of self sufficiency of yesteryears was right in those times, but with contemporary changes sweeping business and society, an order based on synergies out of mutual benefits is more likely to be accepted. The low levels of national populations along with limited means of communication and transportation encouraged self-sufficiency as a national goal. A faster industrial growth followed by efficient transportation and logistics and the revolution in information technology have resulted in a closely knitted world. Today, all nations depend on each other for capital, technology, markets and supplies. Concomitant with this is a worldwide struggle for markets, fuels and raw material.

The market power of nations has shifted. The West is no longer supremely dominant and the world has acquired a multipolar character in contrast to bipolar character of the yesteryears. Russia has shifted from being a centrally planned economy to a more open market based economy. She continues to derive advantages from the strengths of the factors such as natural resources and a trained manpower. She also continues to be the biggest oil producer . China with population over one billion is getting organized to face the challenges in the emerging world economic order. She has made a conscious transition towards a market based economy. A number of less developed countries are building industry that combine significant technology, low cost labour and cheap resources to produce products and services that are marketed worldwide. In the past five years, their manufactured exports have more than doubled. Taiwan now sells TVs and steel to Japan. And Japan has moved ahead. In the 1980s Japan was making fourth generation computers, the highest of the high technologies. The phenomenal growth of information technology sector in India is an example of how opportunities for India are created as a result of global interdependence.

1.2.9 The process of internationalisation of business.

The studies of corporates expanding as MNCs indicate that firms attain the multinational character over time. Mostly, this process does not occur through conscious design at early stage. Usually it is the unplanned result of a series of corporate responses to a wide-variety of threats and opportunities appearing at random. These responses result into progressively more elaborate and sophisticated strategies leading to internationalization of their business operations. The firms move from a relatively low risk return, export-oriented strategy to a higher risk-higher return strategy emphasizing international production. In effect, the firm is investing in information, learning enough at each stage to significantly improve chances at the next stage.

The firms usually start as domestic firms. As they take decision to go international, exports are the first step. Next in the sequence comes setting up a foreign sales subsidiary and securing licensing agreements. In the wake of sustainable market, a firm could

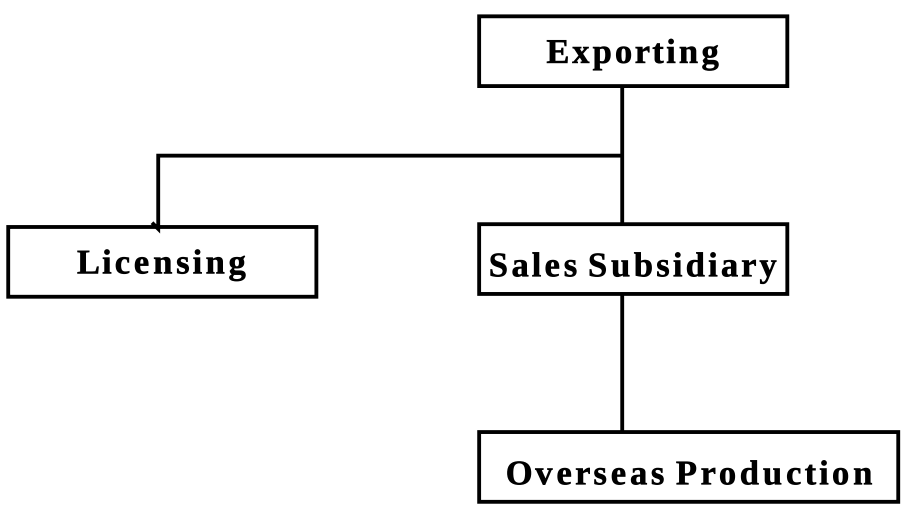

Exhibit 1: Typical Sequence of overseas expansion

eventually establish its own production facility in most markets. The following diagram shows a typical sequence of operations expanding overseas.

Exporting: In view of changing demand and business conditions and competition, a company may look for exporting as an additional outlet for excess production to foreign markets. The exports provide direct benefits of low capital requirement and start up costs. The risk is low in exports and the profits are immediate with almost negligible gestation periods. Exports also provide significant learning opportunities to the managers operating in domestic market. The understanding of demand and other market conditions, competition, channels of distribution, payment conventions and export operation helps the companies to plan their future courses of action. Initially, a small company may start exports through intermediaries and later acquire the control of markets themselves. How companies imbibe export orientation shall be described in the subsequent discussion on export behaviour theories

Licensing: When the companies do not want to make a heavy investment, wait long for returns and take high risks, licensing comes as a viable option to direct investment in production facilities abroad. Often, licensing is a precursor to setting up overseas production facilities. The companies license a local firm in foreign country to manufacture company's products in return for royalties and other forms of payment. This mode of entry is used where host governments restrict FDI, or the volume of operations is not viable to support investment by not achieving economies of scale . The local partner may be able to control the local factors more efficiently than a foreign company. Licensing is a preferred mode of entry in technology-driven businesses such as software, electronic hardware, pharmaceuticals etc.

The disadvantage of licensing is that there might be difficulty of control of foreign operations. The licensee may not adhere to the quality and other operational norms which may damage the credibility of licenser. Also, chances of fraudulence etc. by licensee also exist which may put licenser at losses.

Joint Ventures: The joint ventures are established by MNCs with local partners with the aim of reducing the risks associated with working in foreign markets. The local partners are not MNCs themselves in order to ensure longer stability of partnerships. The MNCs provides inputs that give firms specific advantage e.g. technology, capital, knowledge etc to the operation coupled with the local capabilities of the partner. The levels of investment and risks associated with working in a foreign market are less in joint ventures as compared to overseas production. In certain cases, local government also makes it essential for the MNCs to engage local partners. The disadvantages associated with joint ventures are inadequacy of control and difference in working styles of two partners which can lead to premature termination of partnerships.

Turnkey project: A turnkey project is a package deal in which the MNCs construct a production facility and provide training for the personnel necessary to operate it, such that the facility is ready to begin operations on the competition of the project. Usually, turnkey projects are for production of standardized product. Thus, a turnkey project involves the sale of what will be a fully operational production facility. The MNCs provide a package deal to a host nation, firm or government. On occasions, during the negotiations over a project, the MNCs may decide to be forced to retain a small share of the project.

The turnkey project can be an alternative to exporting or to MNC activity when a host government has imposed restrictions on these modalities. In addition, the host country's market may be too small or the risk of FDI too high to warrant an investment by the MNC. An added benefit of the turnkey project can also expect to license additional managerial or technological expertise to host nation. However, the MNC must give up some control to the host government (which usually owns the facility). For this reason, the MNC risks dissipation of its firm-specific advantage. The MNC must determine whether the plant and personnel involved in the turnkey project can eventually become an international competitor against the MNC before it enters into such a venture..

Overseas Production: Exporting and other techniques may limit a company to release sales potentials for various products. Also in case of exporting, it is difficult to establish brands and have a direct contract with the customers. So, the ultimate aim of all companies aspiring to be multinational corporations is to start overseas production facilities. However, the investment and risks associated with the same are tremendous. The capital requirement in foreign currency is huge and the overseas projects have long gestation periods. The companies have to operate in uncertain business environments of foreign countries. The examples of Cargill salt, Enron and Thermax who started their operations in India show how difficult it is to cope up with national political and economic scenario of overseas operations.

Nevertheless, the overseas production can result in tremendous opportunities and benefits. Once it is over with teething problems, overseas plants become lucrative business profit centres contributing to corporate growth. The operations of Unilevers in India in the form of Hindustan Levers Ltd has been a lucrative profit centre for the parent company. The ROI of HLL is higher even than the parent company Unilevers. Once a company acquires a multinational character, significant proportions of revenue are contributed by overseas production.

1.2.10 Exporting Vs International Marketing

Exporting is often considered as the first step in the process of internationalization of a business. In general, the firms engaged in export operations have to concentrate on managing the 4 p's of marketing mix i.e. product, price, place and promotion. Exporting is primarily a transactional approach to marketing wherein goods are exchanged for value on deal to deal basis. International marketing on the other hand extends from identifying the customer needs to achieving customer satisfaction. Internationals marketing requires greater commitment of the executives' time and resources than exporting.

Exporting is usually a short-term solution to an immediate problem of under-capacity of production or over-capacity of the stocks. However, international marketing is a long-term approach to sustained business from a market. It helps to bridge the information gap between a company and the final consumer of its product. While, exporting may involve agents or intermediaries, the market and marketers are more close in marketing. The differences in exporting and international marketing can be shown in the form of the following table.

Table 1: Differences in Export Sale and International Marketing

Export Sales	International Marketing
To realise Short run (e.g. immediate sales)	To realize long-run goals(e.g. long- term goals (e.g. development of long term market)
No systematic selection of markets	Systematic selection of markets

Minimum resources commitment to gain immediate sales	Sufficient resource commitment get permanent market position
No systematic choice for mode entry	Systematic choice of most appropriate mode of of entry
Development of products for home market	Development of products for both home and foreign markets
Minor product adaptation necessary mandatory legal obligations	Major product adaptation to suit to satisfy foreign buyers
No effort to control channels objectives/goals	Effort to control channels to support of market
Prices based on domestic full cost with some ad hoc adjustments to specific sales situations	Prices fixed in terms of demand conditions, competition and cost.
Promotion mix mainly confined to foreign tours or left to middlemen	Promotion mix includes advertising, sales promotion and foreign tours

1.3 SUMMARY

In today's environment even firms that do not seek to do business outside their national boundaries have no choice but to aware of the international business scene. The Indian economy as is true of the economies of other industrialized nations, is so intricately linked to international economics that even strictly domestic business is affected by what takes place in other countries. Although basic marketing decisions do not change as marketers expand their business from the domestic field to the international field, the environment can be profoundly different. The major aspects of the international marketing environment include the economic, cultural, legal and political environment.

A firm aspiring to enter the international scene may choose from the various entry modes– exporting, contractual agreement, joint venture, strategic alliance, and wholly-owned subsidiary. Each entry mode provides different opportunities and risks. International marketing in particular is required because, of all of the functional areas of a business, marketing problems are the most fundamental and most frequent. Today's thrust for growth in international business comes from MNCs. The leaders of these companies will require an increasing awareness of the needs of host countries in the environment in the future.

1.4 KEYWORDS

International Business: All business transactions involving private companies or governments of two or more countries.

Joint Venture: A direct investment of which two or more companies share the ownership.

Multinational Corporation: A company that has an integrated global philosophy encompassing both domestic and overseas operations, sometimes used synonymously with MNE or transnational corporation.

Polycentrism: Characteristic of an individual or organisation that feels that differences in a foreign country, real and imaginary, great and small, need to be accounted for in management decisions.

Turnkey Operations: An operating facility that is considered under contract and transferred to the owner when the facility is ready to begin operations.

1.5 SELF-ASSESSMENT QUESTIONS

1. Define international marketing. Why is it essential for

a company to master the art of international marketing in the present competitive times?

2. Differentiate between
   (a) International business and international trade
   (b) Exporting and international marketing
3. State whether the following activities are domestic business, international business or international trade:
   a) A trader sells products to another trader in Europe.
   b) A trader sells the products to a 100% export oriented unit.
   c) A trader purchases a product from an importer.
   d) The government receives grant from United Nations.
   e) The government receives loan from IMF
   f) The government purchases ammunition from U.S.
   g) The government receives aid from Japan for flood relief.

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Lesson No.: **2**

INTERNATIONAL TRADE INSTITUTIONS

STRUCTURE

2.0 OBJECTIVES

After studying this lesson, you would be able to-

- understand the functions, membership and structure of World Bank.
- understand the functions, membership and structure of International Monetary Fund.
- know the main purposes of UNCTAD and its role in economic co-operation

- understand the purposes, membership and organisation of World Trade Organisation.

2.1 INTRODUCTION

The International Bank for Reconstruction and development (IBRD) popularly known as the World Bank owes its birth to the deliberations of the United Nations Monetary and Financial Conference which met at Britton Woods, New Hampshire. The World Bank was established on 1 July 1944. The Headquarters of world Bank is in Washingtan D.C.

The global war had completely dislocated the multilateral trade and had caused massive destruction of life and property. While the need for promptly reconstructing the war damaged economies, it was also recognised that stable world peace was threatened from the presence of great disparities in the standards of living between the developed and underdeveloped countries. Thus, the World Bank was established.

2.2 PRESENTATION OF CONTENTS

2.2.1 World Bank/International Bank for Reconstruction and Development (IBRD)

Membership and Structure: Any country is eligible for membership of the World Bank if it subscribes to its charter under the Bank's articles of agreement. Only those countries which are members of the IMF can be considered for membership of the IBRD. The total membership of the World Bank at present is 184. A member can withdraw at anytime its membership however, it is effective upon receipt by the Bank of a written notice from the member to that effect.

The Bank has a Board of Governors, Executive Directors, a president and other staff. All powers of the Bank are vested in the Board of Governors consisting of one governor and one alternate appointed for five years by each member. The Board of Governors meets once every year. The annual meeting deals with matters requiring formal action and informal exchange of views on major International problems.

The executive directors function in continuous session and meet regularly once a month.

Function: The World Bank has one central purpose of promoting economic & social progress in developing countries. The main functions of the World Bank are-

(i) to assist in the reconstruction and development of the territories of its member governments by facilitating investment of capital for productive purposes.

(ii) to promote foreign private investment by guarantees of or through participation in loans and other investments of capital for productive purposes.

(iii) To make loans for productive purposes out of its own resources or out of funds borrowed by it where private capital it not available on reasonable terms.

(iv) To promote the long range growth of International trade and the maintenance of equilibrium in the balance of payments of members.

The World Bank's loans are directed to help the members to build foundation of sound economic growth. Loans made or guaranteed by World Bank are, except in special circumstances for the purpose of specific projects of reconstruction and development.

Activities, Capital and Lending Operations: The fundamental aims underlying the World Bank's activities are-

(i) The Bank is not intended "to provide the external financing required for all meritorious projects of reconstruction and development (but) to provide a catalyst by which production may be generally stimulated. "

(ii) The Bank should encourage necessary action by the member governments to ensure that the Bank's loans will actually prove productive.

(iii) The Bank must play an active role to initiate and develop plans to the end that the Bank's resources are used wisely from the standpoint of the world.

At the time of establishment, the authorised capital of World Bank was $10,000 million which was divided into 1,00,000 shares of $ 1,00,000 cash of this $ 9,400 million was subscribed. A member's total subscription in the capital of the Bank is divided into three parts:-

(a) Two percent of the subscription is payable in gold or U.S. dollars and is freely available for lending.

(b) 18% of the subscription is payable in member's own currency and is available for lending with the consent of the member whose currency in involved.

(c) The remaining 80% of the subscription is not available for lending and is subject to call as and when required to meet the Bank's obligations. In 1997, the authorised capital of IBRD was US 188 billion.

The Bank makes loans to members in any one or more of the following ways-

(i) by granting or participating in direct loans out of its own funds.

(ii) by granting loans out of the funds raised in the market of a member or otherwise borrowed by the bank.

(iii) by guaranteeing in whole or part loans made by private investors.

Before a loan is made or guaranteed, the Bank ensures that the-

(i) project for which the loan is asked has been carefully examined by a competent committee as regards the merits of the proposal.

(ii) Borrower has reasonable prospects for repayment of loan.

(iii) Loan is meant for productive purposes.

(iv) Except in special circumstances the loan is meant to finance the foreign exchange requirements of specific projects of reconstruction and development.

The World Bank normally makes medium and long term loans. The interest rate charged by the Bank on its loans is the estimated Cost to the Bank and is uniform without any distinction being made among the borrowers.

Technical Assistance and other Activities: World Bank also gives technical assistance to members on matters relating to learn operations particularly in regard to-

(i) defining priorities among different projects.

(ii) Modifications in the technical plans for projects designed reduce its cost or make it more efficient.

(iii) Administrative or organisational arrangements for a projects or as to plans for its financing.

The Bank has also provided technical assistance in development programming through various survey missions which make intensive studies of national resources of developing member countries and make recommendations.

IBRD jointly with the IMF has taken initiative in providing relief to the hearty indebted poor countries (HIPC's) by reducing their external debt burden.

World Bank and India: India is a founder member of the bank. India is the biggest single borrower of the bank India received $ 5472 million financial help during the third plan period from the 12-nation Aid India Consortium formed through the Sincere efforts of the bank. It played the role of a mediator in the canal water dispute with Pakistan. The bank's role in India's economic development has been more than substantial and but for the timely loans given to India by the bank, the success of the country's economic development plans would have been considerably delayed.

Conclusion: The World Bank has been largely instrumental in accelerating the pace of economic development in different countries of the world. The purpose of the Bank can be fulfilled only when the rate of interest charged by the bank is low enough for all countries to enable them to take loans from the bank more frequently. The Bank is a nonpolitical institution expected to treat all member equally and not to discriminate among them.

It is hoped that in future the world Bank will be in a stronger positions to sender financial assistance to the member countries with its increased capital resources and the active co-operation of its affiliates i.e. the International Development Association (IDA) and the International Finance Corporation (IFC)

2.2.2 International Monetary Fund (IMF)

Introduction: The United Nations monetary and financial conference of 44 nations was held at Bretton Woods, New Hampshire in the U.S.A. in July 1944. According to the conference, three main economic problems dominated the post was period. Firstly, in order to ensure world economic order and peace, it was necessary to restore stability in the monetary systems of those countries which had been forced by the exigencies to abandon all conventional rules of monetary discipline observed under the gold standard. Secondly, it was necessary to find effective means to reconstruct the war-ravaged economies of the European countries. Thirdly, stable peace was needed in the world which could be achieved by diverting a part of the world resources to the development of the economies of underdeveloped countries.

The conference gave birth to IMF and IBRD, known as the "Bretton Woods Twins". The IMF was established in order to abolish effectively all exchange and trade restrictions and to promote multilateral trading system. IMF intends to promote international monetary cooperation, exchange stability and orderly exchange arrangements, faster economic growth and high levels of employment and to provide temporary financial assistance to countries to help case balance of payments adjustment.

The IMF come into being on December 29, 1945 when 29 countries signed the Fund's Articles of Agreement- IMF's Charter Headquarters of IMF are at Washington D.C.

Membership and structure: All those countries which agree to subscribe to fund's articles of agreement are eligible for fund's membership. At present, IMF has 184 member countries.

Each member's quota in the Fund determines its subscriptions to the fund, its drawing rights, voting power and share of any allocation of special drawing rights (SDR's)

The highest authority of the fund is the Board of Governors, in which each of the member countries is represented by a Governor and an alternate Governor. The Governor normally meet once a year but may meet or vote by mail at other times. The Board of Governors has delegated many of its powers to the Board of executive directors. The Executive Board deals regularly with a wide variety of administrative and policy matters and elects the managing director who is the chairperson of the Executive Board and Chief of the operating staff of the fund.

Functions:- The primary functions of IMF are:-

(i) to promote International Monetary Cooperation through a permanent institution which provides the machinery for consultation and collaboration on International monetary problems.

(ii) to facilitate the expansion and balanced growth of International trade and to contribute to the promotion of high levels of employment and real income.

(iii) to promote exchange stability and to maintain orderly exchange arrangements among members.

(iv) to give confidence to members by making general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustments in their balance of payments.

Use of Fund Resources and special Drawing Rights (SDR's): Fund members may draw on Fund's financial resources to meet their balance of payments needs. In addition, the members have access to three permanent facilities for specific purposes-

(i) the facility for compensatory financing of export fluctuations (available to members facing BOP difficulties due to temporary export shortfall for reasons beyond control).

(ii) The buffer stock financing facility (available for building International buffer stock in order to prevent fluctuations in members export earnings).

(iii) The structural Adjustment facility (SAF) (to provide financial support to low income countries on concessional terms).

Special Drawing Right (SDR) is an International Reserve Asset created by the IMF in 1969 and allocated to its members to supplements existing reserve asset. The SDR is IMF's unit of account. The value of the SDR is determined daily on the basis of five currencies- US dollar, German deutsche mark, French france, Japanese Yen and British Pound sterling. The SDR valuation basket is revised every five years.

Under the new agreement of IMF, the SDR is the unit of account for all purposes of the Fund and members of Fund have pegged their currencies to the SDR, When a member pegs its currency to the SDR, the value of its currency is fixed in terms of the SDR.

Technical Assistance, Liquidity & Other Activities: The technical assistance provided by the fund which constitutes an integral part of its activities is in the nature of regular annual consultations with members.

The IMF provides technical assistance and training to its members in the following areas-

(i) designing and implementing fiscal an monetary policies

(ii) institution building

(iii) collecting and refining statistical data

(iv) drafting and reviewing financial legislation

The IMF and the world Bank launched a joint initiative in providing external debt relief for the heavily indebted poor countries (HIPC's)

IMF and India: India is a founder member of the IMF and has played an important role in the formulation of Fund policies. IMF has been very sympathetic to India and to its problems also. India was the first country to draw Japanese yens from the IMS.

To meet its BOB deficit, India purchased from the IMF Fund $100 million during 1948 and 1949. In 1974, India was granted a stand by credit of $200 million by the Fund to tide over her foreign exchange crisis. Under Oil facility, India purchased a total of SDR 401. 34 million from the fund in 1974-75 and 1975-76.

India has made substantial drawals from the IMF from 1990-91 onwards under different financing facilities.

Conclusion: The IMF was established for promoting International Economic stability by promoting the balanced growth of free International Trade and the multi-convertibility of national currencies. The Fund is a pool of central bank reserves and national currencies which are made available to the fund members. The IMF over the years has been performing its operations of surveillance, financial assistance and technical assistance apart from assisting low income and heavily indebted countries to build their economies and gain entry into the global economy.

2.2.3 United Nations Conference on Trade And Development (UNCTAD)

Introduction: In the present era of mutual understanding and International Cooperation the staggering poverty of millions of people inhabiting world's developing countries had aroused the conscience of the whole world. The proof of this is the birth and growth of many International financial organisations and other International bodies under the United Nations Organisation.

In July 1962, the Cairo conference of the developing countries on the problems of economic development passed the "Cairo Declaration on Developing Countries" calling for the convening of the United Nations Conference on trade and Development i.e. UNCTAD. The United Nations Economic and social council agreed to convene such a conference-the first UNCTAD- and passed resolution on August 3, 1962, which was endorsed by the United Nations General Assembly. The historic decision of the United Nations General Assembly to name 1960-69 as a "development decade" was a further recognition of the deep world-wrote concern with the urgent necessity of raising the luring standards of the people of the developing countries. UNCTAD was established as a permanent organ of the U.N. General Assembly.

Function: The main purpose of creating the UNCTAD was to promote speedy development of the underdeveloped countries (UDC's) by solving the problems of the sluggish expansion of their export trade deficits in the external BOB and excessive burden of foreign debt.

The principal functions of UNCTAD are-

(i) to promote International trade especially with a view to accelerating the economic development of UDC's particularly trade between the countries with different economic and social organisation.

(ii) to make proposals for putting the said principles and policies into effect.

(iii) to formulate the principles and policies of International trade and related problems of economic development.

(iv) To review and facilitate the coordination of activities of other institutions within the United Nations System in the field of International trade and related problems of economic development.

(v) to be available as a centre for harmonising the trade related development policies of governments and regional economic grouping.

UNCTAD I: The first UNCTAD which was held in Geneva in 1964 and was attended by delegates from 120 countries. The important principles laid down and accepted by the conference were-

(i) Economic development and social progress should be the common concern of the whole International Community.

(ii) National and International economic policies should be directed towards the attainment of consistency with the needs and interest of the developing countries in particular and the world as a whole in general.

(iii) Developed countries should extend new preferential concessions both tariff and non-tariff to developing countries. They should reduce restrictions on trade that hinder the trade of the UDC's and should extend the market for the products of developing countries.

(iv) Assistance and aid from the developing countries should not be subject to political consideration. The first UNCTAD succeeded in solving the interest in developed countries regarding the problems of the developing countries but even then actual performance was not very encouraging.

UNCTAD II: The second meeting of UNCTAD took place in 1968 after the four years of first meeting which was held in 1964. The objectives of this meeting were-

(i) to reevaluate the economic conditions and implications for implementation of the recommendations of UNCTAD I.

(ii) Initiating negotiations which would ensure real progress in International cooperation for development.

In UNCTAD II developed countries realised that the reduced export earnings of developing countries would reduce their external purchasing power and importing capacity thereby reducing the export earning of developed countries. The final resolution therefore, stressed the need of an early establishment of a mutually acceptable generalised, non-reciprocal and non discriminatory countries known as generalised system of preference (GSP).

UNCTAD III: The third UNCTAD was held in Santiago in Chile (South America) in 1972 and 99 developing countries forming a group of 77 attended the conference. The only achievement of UNCTAD III was the unanimous decision to adopt special measures for the development of 25 least developed countries designated by the U.N. the "hard core" countries.

UNCTAD IV: The fourth UNCTAD was held at Nairobi, Kenya in 1976 and was attended by more than 170 representatives from 153 countries the major results were-

(i) It was agreed that the integrated commodity programme should ensure stable conditions for commodity trade and development.

(ii) It was recommended to participants at the multilateral trade negotiations in Geneva that barriers to the improvement of export trade from the development countries should be lifted or reduced.

(iii) The world Bank and regional development institutions were invited to consider facilities which would provide export credit refinancing for the developing countries.

UNCTAD V: The fifth UNCTAD was held in Manila, Philippines in 1979 attended by about 150 representatives from members counties and International Organisations.

The results of the conference were-

(i) On debt problems of the developing counties the industrial countries opposed the proposal for the establishment of an Internal Debt Commission as they agreed that the existing machinery of creditor groups could be improved.

(ii) The countries agreed on the desirability of accelerating negotiations on individual commodities.

(iii) The resolution called for continued resistance to protectionist pressures and urge to industrial countries to reduce or eliminate quantitative restrictions on imports and to improve market access.

UNCTAD VI: The sixth UNCTAD was held in Belgrade in 1983. The main issues of the conference were-

(i) to lower the walls of protectionism and to expand the GSP on the part of the developed countries.

(ii) Developing countries raised the issue of their worsening terms of made and accumulated debt.

UNCTAD VII: The seventh UNCTAD was held in Geneva in 1987. It was attended by 150 countries and International agencies. A package of proposals to solve the problem of debt of the developing countries arrest of growing trend of protectionism in International trade and improvement of economic and social conditions of LDC's was adopted.

UNCTAD VIII: The eighth UNCTAD was held in Cartagen de Indias, Columbia in 1992 attended by 170 member countries and International Organisations. The new structure of UNCTAD was envisaged in which the conference meets every four years, the trade and development board (TDB) meets twice a year in regular session, and executive committee of the board which comprises the permanent representatives in Geneva to UNCTAD to meet periodically, special committee and groups on problems of developing countries.

UNCTAD IX: The ninth UNCTAD was held in Midrand Gauteng Province, Republic of South Africa in 1996. It was attended by representatives of 138 member states. Discussions on Globalisation, International trade as an instrument for development in the post-Uruguay round world, enterprise development and future work of UNCTAD in accordance with its mandate.

UNCTAD X: The tenth UNCTAD was held in Bangkok Thailand in 2000. In worked out the developmental strategies in an increasingly interdependent world and how to make globalisation an effective instrument for development. In the context of opportunities created by technological revolution the opening of markets and globalisation, the paramount objectives of UNCTAD have been the promotion of growth and sustainable development, the guest for equity and participation by all, trandating breedly agreed concepts into effective action and effective cooperation and coordination in dealing with global interdependence and development.

UNCTAD XI: The eleventh UNCTAD was held in SAO PAULO in June 2004. The member states of UNCTAD reached a consensus and a declaration was made called the "spirit of Sao Paulo" Negotiations on globalisation continued along with global system of trade preferences (GSTP). The declaration focussed on Integrated treatment of trade and development on the road of its 12th session in 2008.

2.2.4 World Trade Organisation (WTO)

Introduction: Bretton Woods Conference held in 1944 was the starting point for a new world order. It was envisaged that the new world economic order would be organised around three International Organisations i.e. - (i) the International Bank for Reconstruction and Development (IBRD- World Bank) (ii) International Monetary Fund (IMF) (iii) International institutions came into existence the third one view came into existence due to non-ratification of its charter by the U.S. administration in 1950.

Despite the non-adoption of the charter of ITO, the developed nations were keen to ensure reduction of trade barriers. Tariff negotiations were started among 23 nations and as a result of this an extensive set of bilateral trade concessions were then extended to all participants and were incorporated in a General Agreement on Tariffs and Trade (GATT) established in 1947

As per preamble of the GATT the main objectives were to-

(i) raise the standard of living.
(ii) Ensure the full employment and increase the volume of real income and effective demand.
(iii) Ensure better utilisation of the resources of the world.
(iv) Ensure expansion of production and Intentional trade since the establishment of the GATT, eight rounds of negotiations of reduce the tariffs and trade barriers in the trade in goods have been held.

The Geneva Round held in 1947 was attended by 23 countries and resulted in exchange of tariff cuts. The Amnesty Round held in 1949 was held in France followed by Torguey Round held in Britain in 1950-56 in Switzerland.

The Dillon Round of 1960-61 was held in Geneva was the fifth round followed by the Kennedy Round in 1964-67 which was attended by 48 countries including 35 developing countries. This round included a new anti-dumping agreement. The Tokyo Round held in 1973-79 was attended by 102 countries was a continuation of the GATT's efforts to progressively reduce tariffs.

The eighth round i.e. Uruguay Round was held in 1986-93 in which 123 members participated was the most comprehensive round.

The final act was signed in 1994 at Marrakesh (Morocco) and the GATT 1994 finally emerged as WTO in 1995.

Thus, WTO was established on 1 January 1995 as a successor to the GATT. The Headquarters of WTO are in Geneva, Switzerland.

Membership and structure: The original members comprise of the members to the GATT as on the date of entry into force of this agreement.

Besides these, other states may accede to the agreement and the multilateral trade agreements annexed thereto to become other members. At present the membership of the WTO is 14. It is headed by a director general (WHO at present is supachai Panitchpakdi) who is assisted by four deputies from different member states. The director General is appointed by the General Council for a four year term after consultation among member countries.

The structure of WTO consists of the following bodies-

(i) The Ministerial Conference: The ministerial conference (MC) is the Primary body composed of the representations of all the members. It is the executive of the WTO and carries out the functions of the WTO. It meets at least once every two years. It has the authority to take decisions on all matters under any of the multilateral trade agreements on the request of the members.

(ii) The General Council: The General Council handles the day to day work of the WTO and reports to the MC. It comprises of representatives of all the members. It can meet as many times as is appropriate and necessary. It has three functional council working under its supervision and guidance- council for Trade in goods, council for trade in services and council for trade related aspects of Intellectual Property Rights.

(iii) The Dispute Settlement Body: It usually meets truce a month on which all members can sit to hear the complaints of violations of WTO rules and agreements. It sets up expert panels to study disputes.

(iv) The Trade Policy Review Body: It is the forum for the entire membership to review the trade policies of all WTO member countries. Major trading powers trade policies are reviewed every two years while the trade policies of the other individual members are reviewed every four years.

(v) The committee on Trade and Development, the committee on BOP and the committee on budget finance and administration: The committee on trade and development is concerned with issues related to developing and least developed countries. The committee on BOP is responsible for consultations between the WTO members and countries which take trade restrictive measures in order to cope with their BOP difficulties.

The committee on budged, finance and administration deals with issues relating to the WTO's financing and budget

Functions: The main functions of WTO are-

(a) To facilitate and implement action, operation, administration and the promotion of the agreement, the multilateral and plurilateral trade agreements which together make up the WTO

(b) To provide the forum of negotiations among its members in respect of multilateral trade relations.

(c) To administer the rules and procedures governing the settlement of trade disputes among members.

(d) To oversee national trade policies by administering Trade Policy Review Mechanism (TRPM).

(e) To cooperate with the IMF, World Bank and other International institutions involved in global policy making.

WTO in Action

(1) The First Ministerial Conference, 1996 (Singapore)- The conference ended with a declaration dealing with six major areas viz. labour standard, investment, competition policies government procurement, textiles and agriculture.

(2) The second Ministerial Conference, 1998 (Geneva)- The three main features of this conference were celebrations of 50th anniversary of multilateral trading year, a ministerial declaration laying the foundation for next year for a new set of global talks in certain areas such as Trade Related Intellectual Property Rights (TRIPS), Trade Related Investment Measures (TRIMS), Dispute Settlement, Technical Barriers to Trade etc. and the conclusion on an agreement on duty free trade in electronic commerce.

(3) The third Ministerial Conference, 1999 (Seattle)- In this conference, while the US preferred on the agenda of WTO core labour standards, environment protection. Industrial tariffs, e-commerce, transparency in govt. procurement practices; the European Union, Japan and few other industrialised countries wanted comprehensive discussions on all new issues such as investment rules, competition policy, govt. procurement, labour and environmental standards, industrial tariffs; the developing countries including India wanted the future work programme of the WTO confined to the 'built-in' agenda of the existing agreements. The session was ultimately suspended due to protests and demonstrations.

(4) Doha (Qatar) Ministerial Conference (Nov.2001)- A compromise was reached in this conference on Intellectual Property Rights (IPR) which was regarded as one on the contention and difficult implementation issues pertaining to access to medicine and public health concerns in and developing countries, the accords is known as TPIPS.

(5) Cancun Ministerial Conference (Sep. 2003)- The fifth conference was held in Mexico. The main task was to take stock of progress in negotiations and other work under the Doha Development Agents. No consensus was reached on any issue.

WTO and India: India is a signatory to the WTO declaration and has to pay heed to its obligations in shopping its future macroeconomic policies. India has constantly been phasing out Quantitative Restrictions on imports and with the withdrawal of tariffs on imports, India has provided access to cheaper inputs of productions but the producers of domestically produced identical goods are facing tough competition In 19947, the developed and developing countries entered into "historic" accord to remove International barriers to the expansion of banking, insurance and securities. In 1998, India took a proactive stand at the WTO meeting demanding amendments to the TRIPS, improved market access in service and better deal in agriculture. India has also expressed concern on the General Agreement on Trade in service (GATS), environment issues, trade and Investment, trade and competition, trade facilitation and transparency, Intellectual Property Rights and other agreements over the years.

2.3 SUMMARY

The establishment of the WTO as the first major international trade institution in the post-cold war era is an epoch-making event. The biggest gain is the existence and expansion of a trading system based on internationally agreed and enforceable rules and disciplines to both overseas and guarantee progress in the sphere of international trade. The credibility and effectiveness of the new multilateral system based on open, just and undistorted competition rests on the WTO member government full compliance with the rules, disciplines and commitments resulting from the historic Marrakesh agreement.

2.4 KEYWORDS

United Nations Conference on Trade and Development (UNCTAD): A UN body that has been especially active in dealing with relationships between developing and industrialized countries with respect to trade.

World Trade Organisation: A voluntary organisation through which group of countries negotiate trading agreements and which has authority to oversee trade disputes among countries.

Special Drawing Right (SDR): A unit of account issued to countries by the International Monetary Fund to expand their official reserve bases.

Third-World Countries: Developing countries or those not considered socialist or non socialist industrial countries.

International Monetary Fund (IMF): A multi-governmental association organized in 1945 to promote exchange rate stability and to facilitate the international flow of currencies.

2.5 SELF-ASSESSMENT QUESTIONS

1. State the functions of the International Bank for Reconstruction and Development Elaborate the role of world Bank with reference to these functions.
2. Explain the role which the World Bank has played in the economic development of less developed countries. How far has India benefitted from her membership of the Bank?
3. Discuss the role of the International Monetary Fund in solving the problem of international liquidity.

4. Explain the purposes of the International Monetary Fund. Discuss how far it has been successful in achieving these purposes.

5. Discuss the main purposes of the UNCTAD and its role in promoting international economic co-operation.

6. Explain the essential functions of the UNCTAD with special reference to protection of economic interests of less developed countries.

7. Discuss the role and main functions of World Trade Organisation (WTO).

8. Discuss the purposes, membership and organisation of the World Trade Organisation.

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Lesson No.: **3**

BUSINESS ENVIRONMENT FOR GLOBAL COMPANIES

STRUCTURE

3.0 OBJECTIVE

After studying this lesson you should be able to-

- understand the environmental factors faced by global companies.
- know about the recent economic changes
- discuss the role of culture in business.
- understand the technological innovations in recent times.

3.1 INTRODUCTION

In today's multi-polar world, the conditions under which the business functions are much more complex and uncertain than they were before. Whether by choice or by compulsion, the business firms have to go international. Strategy formulation entails establishing a proper firm environment that highlights the critical importance of analysing the international business environment. The essence of any successful business strategy is its environmental orientation. Since, there are some fundamental differences between the business operations in the domestic and the international markets, for a successful strategy, there is a need to understand the complexities of the international markets. It is more than unlikely that a firm can extend its domestic strategies into the foreign markets. Mere understanding of the customer requirements is not enough. A company has to go beyond its internal strategies, understanding customer requirements.

What makes a business strategy successful in one market and a failure in another is because of the difference in the firms' capabilities to understand and respond to the international business environment.

Components of international business environment: As a firm starts its business across its national boundaries, it encounters three different sets of external environments:

- Domestic environment
- Foreign environment
- Global environment

These environmental components can be represented in the form of the following diagram:

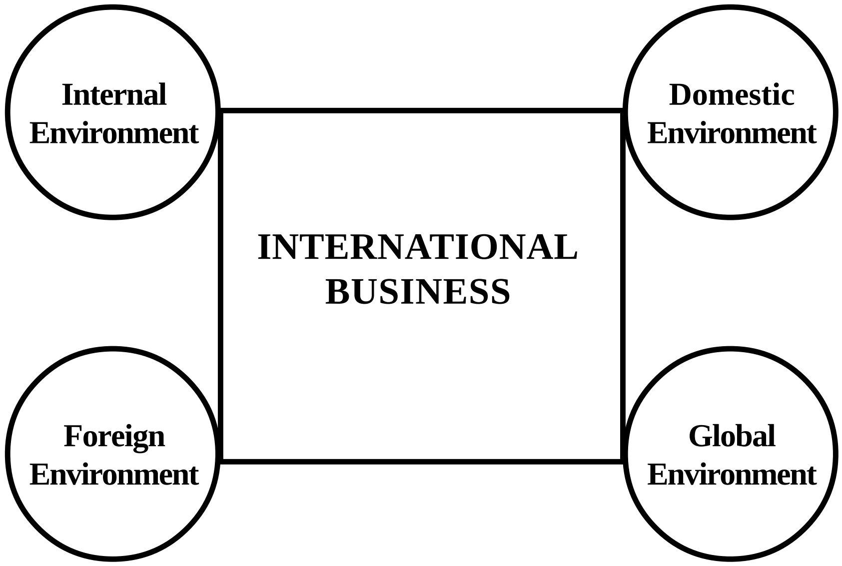

Figure 1: Components of international business environment
(Source: Cherunilam)

3.2 PRESENTATION OF CONTENTS

3.2.1 Internal (Controllable) environment

The internal environment of a firm decides its competence to do business in foreign countries. It is also called as the controllable component of international business environment because the company can control it to a great extent. Some of the components of internal environment are:

Mission: The firm's mission decides the course of action that a firm will follow in order to survive and grow. In the present times, the firms develop a few core competences and develop their entire global business plan on its basis. They do not dissipate their resources by venturing into too many businesses, but concentrate on their core strengths and do not mind outsourcing the rest.

Strategy: The mission translates into more operational paradigm in the form of strategy, which operates at various levels. Firms often develop core competences, but only a few are able to convert it into successful business. The classical case of Cannon vs Xerox is an example. Both the companies started by developing core competence in optical scanning, but over a period of time, Xerox outsmarted the former by its superior strategy. Cannon, at one time, had practically driven Xerox even out of its home country i.e. USA. But, Xerox developed a very comprehensive marketing and customer service strategy and regained its leadership in the photocopier industry.

Operations: The operations refer to the operating competence of a company i.e., how well it is able to undertake the work at the ground level. It is that paradigm of the strategy, which can be implemented. A firm's cost leadership, its marketing strategy, its production efficiency and the nature of its human resources have a significant impact on the success of a company.

Although, the above components are called as the controllable components of business environment, but in a strict sense, they might not remain controllable at all times. The external uncontrollable components can become too powerful and can even influence the strategy of a company. For example, when Coke and Pepsi faced a problem because of the presence of pesticides, their strategies had to be redrafted because of a sudden development in the external environment.

3.2.2 External (Uncontrollable) environment

The external environment, also called as uncontrollable, has been divided into two components, namely foreign and international. The foreign environment comprises of the environmental conditions prevailing in the host country, while the international environment refers to the overall international circumstances, which influence the conduct of business. In practice, such a division is not followed strictly and the external environment is studied as one component. Some of the sub-components of the external environment are:

A. Economic environment

B. Political environment

C. Legal and regulatory environment

D. Cultural environment

E. Demographic environment

A. Economic environment

The economic environment is a major determinant of market potential and opportunity. Since the single most important indicator of market potential is income, the first step in determining the potential of a country or a region is to identify the total, and even more significantly, the per capita income. In general, as peoples' income rises, they spend less on the necessities and more on the discretionary purchases. One of the ways of determining market potential for a product is to evaluate product saturation levels. In general, it is appropriate to compare the saturation levels of countries or of consumer segments with similar income levels. Countries and markets go through typical stages of market development. Although, development is on a continuum, it is possible to identify distinct stages and formulate general estimates about the type of the market that will be found in a country or a market at a particular stage of development. In advanced countries, for example, more than half the GNP is accounted for by the services as opposed to goods. In under-developed countries, the proportion of services is very low.

Some of the typical characteristics of economic environment are:

Changes in world economy: Over the years, several changes have taken place in the world economy, which have changed the very manner of doing business. Keegan has identified the five most significant changes in the world economy, which have occurred in the past decades, and will influence the conduct of business. These changes are:

a) Capital movement rather than trade have become the driving forces of world economy

The capital movement represents the attractiveness of a country for investment. For example, by its favourable pro-business policies, China has attracted the maximum investment. In no time, China is likely to emerge as the manufacturing base for the whole world. Although, many country are ahead of China in terms of trade, but they feel the threat to their economy because of a sudden increase in the economic potential of China, arising because of huge foreign investment.

b) Production has become uncoupled from employment

Although, the Government of India claimed to have touched 8% growth in the GDP, the growth is a jobless growth. The increase in productivity does not translate into more jobs for the people. Such a situation is not good for the economies in the long run because a large section of the society will be siphoned out of the economic activities.

c) Primary products have become uncoupled from the industrial economy

In the industrial economy, focus is more on innovation and value addition and not mere value addition. Michael Porter has stated in his book, "The Competitive Advantage of Nations," that as an economy progresses, it is driven by the factors of production, namely land, labour, capital and management. However, after one stage, it stops getting leverage out of mere factors of production. It becomes a wealth driven economy. Here, wealth begets more wealth.

However, in long run, such a strategy is not going to deliver results. If an economy aspires to grow further, it has to become an innovation driven economy. Thus, primary products cease to the driving forces of the industry. Industry is going in for rapid innovation and thus is aiming at delivering higher value to its customers.

d) The world economy is in control. The macro economics of nation-states no longer control economic outcomes.

Keegan observes a gradual separation between economics and politics, although the shift is very subtle. The economy is in the control of the market forces because more and more governments are opening up and allowing business to work freely.

e) The 75-year contest between capitalism and socialism is over. The clear success of the capitalist system over the communist centrally controlled model has led to the collapse of communism as a model of organization of economic activity and as an ideology

By the above remarks, it is clear that the world economy is heading for a new world economic order. The leftist forces are not as strong as they were on the yesteryears. The world is no longer a bi-polar world, but is now a multi-polar world with many regional economic groupings and powers. The democracy has shown a definite edge over other systems and is likely to persuade more and more countries to allow free play of the market forces.

Economic systems: Although, communism is said to have failed, but a socialistic thought does influence the economic decision-making. People feel that the fruits of economic development must pass on the larger sections of the society. Traditionally, the economic systems are classified as capitalist and communist. However, in the present times, a new blend of the two is emerging, as has been very successfully shown by China. German, the home of Karl Marx does hold the socialist philosophy in high esteem and its ideology can be seen in the regulatory framework of the country. Workers have a participation in the decision making process of the companies.

Stages in market development: Due to unequitable distribution of the wealth, the markets are different stages of development. There are a few (27) countries in the high-income group, while a large number (55 each) lie in the upper middle income group and the lower middle income group countries. There are 42 countries, which have been classified as low-income countries. The extent of economic disparities has increased with the globalisation of trade, as is shown by various reports on human development, released by UNO. The following problems are often encountered as the economic health of a country deteriorates:

- Low industrialization
- High dependence of agriculture
- High birth rates
- Low literacy rates
- Political instability and unrest
- Low education and health levels of people

Such problems influence the purchasing behaviour of people and thus the business prospects in the region.

Balance of payments: Several poor countries face the situation of adverse balance of payments. In such a situation, the government discourages import and encourages export. The balance of payment situation of a country is an indicator of its economic health. If it is too adverse, there is a likelihood of the default of payment by the host country and thus increasing the business risk.

Foreign exchange problem: Some countries like India face a unique problem of adverse foreign exchange rate situation, despite having a favourable balance of payments. A strong rupee is discouraging exports and encouraging imports. Similar situation is faced by many countries, which are strongly tied up with the trade in US Dollar. Governments of these countries intervene and regulate the exchange rates. Such unfavourable exchange rates can influence the investment and marketing strategies of the multinational companies.

(B) Political environment

As a firm ventures abroad, it has to deal with various countries, each having its own political set up. Some of the components of the political environment are:

Types of political systems: By and large, the communist or the socialist form of government is not working in many countries, but the impact of socialism as a philosophy does persist. There are countries like Pakistan, which follow dictatorship style of government, while most countries in Europe and North America follow democracy. Even the democracy has various forms such as the presidential form, as prevalent in USA, or the parliamentary form of government, as in UK and India. Some countries in the Middle East have a typical theist –political set-up, while others are secular countries.

In business, the form of government has a direct impact, because each form of government has its own typical set of policies, programmes and priorities. These have an impact on the regulatory mechanist of the countries and the business has to comply with the laws of the land.

Political instability: Despite diverse political systems, no system is bad if it works in a stable manner. The biggest problem arises when there is political instability. Some of the examples of political instability are:

- In Italy, over 45 governments changed in 50 years
- Last decade has seen rapid changes of governments in

Japan

- India is passing through the ear of coalition governments
- Pakistan had a military coup and then a democracy, controlled by the military dictator
- Afghanistan was under the rule of fundamentalist Taliban and then is heading towards a more democratic set up
- Iraq has seen a change in regime, enforced by America
- There are coups and genocides in Sierra Leone, Ethiopia, Eritrea, Congo and many other African countries

In each of the examples quoted above, we find an element of uncertainty. The forms of government change and so do the nature of doing business with that country. For a firm aspiring to market its products abroad, it has to carefully study the type of the political system and the stability. In countries, which are politically instable, the business takes extra protective measures and restricts its operations to exporting or joint ventures. However, in the countries with high political stability, the business makes direct investments.

China has attracted maximum foreign direct investment because of a stable pro-business attitude of the government. Despite being a socialist state, China has transformed itself to the needs of time and has opened up its economy at a fast rate. On the other hand, the ghost of regulatory set-up of the yesteryears continues to haunt India and we see less investment here.

Even within India, we see lesser investment in the states such as Kerala and West-Bengal because of the leftist parties in power. We find a significant difference in the investment, even within

Punjab and Haryana, partially attributed to favourable government policies.

Political risk: Although, often correlated, political instability and political risk do not go together always. In the first three examples quoted in the above para we find that although the governments changed rapidly in India, Japan and Italy, the basic policies of the government did not change. Business had a sense of security while doing business in these countries. However, the war in Afghanistan and Iraq has had a tremendous impact on the business. Not many companies are taking the initiative of doing business in these countries. They prefer to wait till normalcy returns.

Political risk is more associated with the uncertainty and unpredictability of the political parties in power in a country. Basically, political risk depends on two factors:

(i) The willingness of a government to keep the situation under control.

(ii) The ability of the government to keep the situation under control

The careful analysis of the political system can greatly reduce the associated risks.

Analysis of political risk: Sundaram and Black have summarized the analysis of political risk in the form of the following points:

Step 1

- ❖ Determine the critical economic/business issues relevant to the firm.
- ❖ Assess the relative importance of these issues.

Step 2

- ❖ Determine the relevant political events.

- ❖ Determine the probability of occurring.
- ❖ Determine the cause and effect relationship.
- ❖ Determine the government's ability and willingness to respond.

Step 3

- ❖ Determine the initial impact of the probable scenarios.
- ❖ Determine the possible responses to the initial impacts.
- ❖ Determine the initial and ultimate political risk.

(C) Legal and regulatory environment

The marketers must carefully study the legal and regulatory system prevalent in the countries to avoid the situations that might result in conflict, misunderstanding or outright violation of the laws of the foreign country. Some of the important aspects, worth consideration, in the legal and regulatory environment are:

International Law: International law has existed since the sixteenth century, although, it has undergone a change in the form over the years. The international bodies such as UN, WTO and the regional groupings have been instrumental in developing the international rules and regulations. These international laws are ratified by the participating countries and are binding in nature. Hence, the business must understand them correctly to ensure compliance.

Conflict of laws: While doing business across nations, there can arise situations when the laws of two or more countries can be conflicting. The businessmen must study these laws and take measures to avoid being caught in such a situation. For example, most of the countries of Middle East want that the goods should be dispatched to them only in those ships, which do not go to Israeli ports. They ask for a certificate from the shipping line in this regard. If an exporter ignores this law, he can be in a very difficult situation and can incur heavy losses.

Freedom of contracts: In developed countries and those which have a very sound legal system, the principles of contract are taken for granted and are strictly enforced by law. However, in some countries, government interferes with these principles and can cause a loss to the businessman. One should be vigilant especially while participating in global tenders or the projects of long gestation periods.

Patents and Trademarks: Another important issue for a multinational corporation is the protection of its patents, trademarks and the intellectual property. Most companies invest heavily in research and development. However, unscrupulous manufacturers of some developing countries take the advantage of the difference in the patent laws and manufacture a duplicate of the product, causing a heavy loss to the original manufacturer. The companies, which has invested heavily in R&D must analyse these situations and take protective measures. The issue has been addressed by WTO, which has instituted TRIPS (Trade Related Intellectual Property Rights) mechanism to avoid loss to the original manufacturers.

Conflict resolution: It is very difficult to achieve an ideal situation when there is no conflict between the trading partners. Conflicts do happen, but there has to be a sound system of resolution of the conflicts. There are sets of principles laid down for international arbitration. The businessmen must be aware of these and carefully analyse the devotion of the partners towards implementing them.

Besides arbitration, there are alternative mechanisms of dispute resolution developed by international bodies. Some of the international bodies, which have instituted mechanisms for international arbitration, are:

❖ (ICC) International Chamber of Commerce
❖ (AAA) American Arbitration Association

- ❖ (IACAC) Inter-American Commercial Arbitration Commission
- ❖ (ICSID) International Centre of Settlement of Investment Disputes
- ❖ Swedish Arbitration Institute
- ❖ (UNCITRAL) United Nations Conference on International Trade Law

Recourse: In case of a legal action, the operation of law can be very lengthy and costly procedure in many countries. If a country engages in long legal disputes in a country, it tarnishes its images, besides incurring losses of time, money and efforts.

Tariff mechanism: The tariff and taxation structure of the foreign countries must be clear to the business to avoid complications at a later stage. Although, the tariff structures are being standardized across nations, still there exist differences and these must be carefully studied.

Equity control: Different countries have different laws regarding equity participation of the foreign partner. Some might allow 100% FDI in some sectors, while there might be limits on investment. Some countries make the participation of a domestic partner obligatory. Such different situations must be carefully studied before taking any investment decision.

Documentation and formalities: While most countries are dismantling the tariff barriers, they are yet to make the procedures more easy and user friendly. It is notable that China's economic success story has a lot to do with the ease of doing business there. There is little red-tapism and most of the regulatory requirements are cleared speedily. On the other hand, business has to run from pillar to post to get approvals and the essential registrations for doing business in India. A thorough knowledge of the prevailing system is essential for success in a foreign country.

(D) Cultural environment

Culture is the set of shared values of a society. It encompasses religion, language, customs, traditions and beliefs, tastes and preferences, social stratification, social institutions, buying and consumption habits etc. It has several interfaces where it influences the business. Some of the important interfaces where culture affects business are:

Culture and organizational behaviour: In their book on international management, Hodgetts and Luthans have identified the following points where culture affects organizational behaviour:

(i) Centralized vs decentralized decision-making: In some societies, all-important organizational decisions are made by the top management, while in others, the decisions are diffused throughout the organization. For example, the decision making is highly decentralized in Japanese firms, while it is highly centralized in American firms. There are cultural reasons ascribed to this.

(ii) Safety vs risk: The decision-makers in some organizations are averse to risk, while some take risk and thus make higher gains. The risk bearing behaviour of groups is also a cultural phenomenon. This influences investment decisions at the organizational levels and at the micro level of the consumers, it has its impact on the buying habits. People who take risk buy new and innovative products, while others prefer to stick to tested products.

(iii) Individual vs group reward: In some societies, such as the Japanese, the group reward is valued more than the individual reward, which is the order in he American firms.

(iv) High vs low organizational loyalty: Extrapolating the above point, the societies with strong inter-personal ties have a high degree of organizational loyalty, while those who value individual achievements have low organizational loyalty.

Culture and perception: Culture has a great bearing on how people view themselves and their surroundings, which influences their behaviour. From the perspective of business, the manner in which the people view the following are important:

(i) Views of themselves: People lay varying degree of importance on self-gratification. For example, in the earlier times, people had a high degree of propensity to show off their splendour. Their consumption and spending behaviour was towards extravaganza. Nowdays, people are hard pressed with resources and are driven by value while purchasing. Business needs to study the general trend of buying and take appropriate decisions.

(ii) Views of others: A trend from 'me society' to 'we society' is being shown by the people at large. People feel the pain of others and offer a helping hand to them. The exploitative authoritative manner of business cannot be successful in today's paradigm.

(iii) Views of organizations: Under the pressure of performance and incentive, people as well as organizations have undergone a deep change in their relationship. Employment is no longer for the whole lifetime and the organization is no longer perceived as the bread-giver. Such a shift in the relationship has its impact on the management of human resources in organizations.

Subculture: Within the culture, there exist several sub-cultures, which exhibit a similar influence on the business. A subculture is a variant of the culture. While it shares values and beliefs with the culture, it does modify it according to the specific requirements of the group. For example, although people all over India share common values, celebrate common festivals and profess similar religious beliefs, there are several variations at local levels. Hindus of Punjab would follow different rituals from those in Bengal or Madras. The marketer must understand the subculture as well while adapting to the local conditions.

Culture and business: The culture can have a profound impact on business. The following examples will make this more clear:

(i) Language: Words acquire different meaning when spoken in different languages. So, the marketers have to understand the language of the host country and speak in the words understood by the people there. An offensive marketing campaign can ruin the prospects of selling even the best products. Proper understanding of language can contribute heavily towards the success of any communication and negotiation of business.

(ii) Customs and rituals: The knowledge of customs, rituals, festivals etc. is important because people exhibit typical spending behaviour at different times. For example, hindus go on a shopping spree during the navratras and stop all important purchases during the shradhas. Muslims and Christians make heavy purchases during ramzan and Christmas. A marketer can identify the right marketing opportunities and design the marketing strategy.

(iii) Mannerism and ettiquates: The manners and ettiquettes vary with culture and their knowledge is important while negotiating any deal with the customers.

(iv) Time perspective: People have varying perceptions on time. Some culture are very punctual and work fast and adhere to schedule, while others work with leisure. The time perspective of the target country must be understood and the strategy designed accordingly.

(v) Decision-making: Culture has a profound impact on the decision-making behaviour of the people. While working in the countries where decision making is slow, one must not push for decision and vice versa.

To conclude, understanding of culture is of vital importance for anyone aspiring to be successful in business in foreign lands. Although, the world is becoming global and there is a high degree of cultural diffusion, still, there is a need to adapt to the local environment, of which culture is an important constituent.

(E) Demographic environment

Management gurus have stated this long ago that 'management is men, while marketing is people.' All business activities ultimately revolve around the people. People are the cause of any business. So, any changes in their population has an impact on the business. Some of the important ways in which demographic environment influences business can be stated as under:

Population size: The very size of a population determines the size of the possible business. It represents the potential to which the market can expand.

Age distribution: In India, we are witnessing an increase in the population in the age group of 15-40 years, i.e., the productive people. This means that te economic prosperity of people is likely to increase in the times to come. On the other hand, we find an increasing population of old people in countries like Japan. This is because of very low birth rates and high life expectancy. This can influence the spending habits and business potential significantly.

Migration: The migration of people from villages to cities and from the country to other countries in search of job has a high influence on the business potential. People increase their economic prosperity by movement and thus the business potential grows.

Education and occupation: There is a trend towards higher education and preference for white collar jobs over the blue collar jobs. This also has a tremendous impact on the spending habits of the business.

Technological environment: Probably, technology is the single most important factor, which has influences the business. Particularly the advances made in the field of information technology have revolutionized the manner in which business is conducted. The people of today are much more informed and have the entire information available to them, at the click of a mouse. The business firms have to make use of the opportunity and use technology to its advantage.

3.3 SUMMARY

The business is a part and parcel of the social system and is influenced by several forces. In order to be successful, an understanding of the culture is essential, particularly if a marketer wants to venture out of his national boundaries. There is a sea change in the degree of risk and uncertainty in international business, which is driven primarily by the environmental forces. The business managers must be able to scan the opportunities and identify the threats posed by the environment and make a way for their success. It is noteworthy that there are several tools and techniques for analysing the environment and the student is advised to refer to standard textbooks for the same.

3.4 KEYWORDS

Balance of Payments: Statement that summarises all economic transactions between a country and rest of the world during a given time period.

Foreign Exchange: Checks and other instruments for making payments in another country's currency.

Political Risk: Political changes in political conditions that may cause a company's operating positions to deteriorate.

Patent: A right granted by a sovereign power or state for the protection of an invention or discovery against infringement.

Tariff: A governmental tax levied on goods, usually imports, shipped internationally, the most common type of trade control.

3.5 SELF ASSESSMENT QUESTIONS

1. Define business environment. Why is it necessary to stydy the same?

2. How does the business environment in international business differ from that in domestic business? Explain with examples.

3. What are the recent changes in the economic environment, which have influenced the business?

4. Briefly discuss the role of culture in business.

5. Discuss how the technological innovations in the recent times influence the business.

3.6 REFERENCES/SUGGESTED READINGS

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Lesson No.: **4**

FORMS OF INTERNATIONAL BUSINESS

STRUCTURE

4.0 Objectives
4.1 Introduction
4.2 Presentation of Contents
 4.2.1 Exporting
 4.2.2 Licensing
 4.2.3 Franchising
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 4.2.5 Wholly Owned Subsidiaries
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4.0 OBJECTIVES

When a domestic company decides to enter into international business, it has several options, not necessarily mutually exclusive, depending, however on the nature and degree of involvement the company wishes to have in foreign business. These options result in different forms and structural set-up for the company. The company can open a separate department for international business or it can have joint venture in the foreign countries. These two options result in different shapes and forms for the company. This lesson is focussed on different forms of international business open to different companies. After studying this lesson you should be able:

- ❖ To understand different forms of international business.
- ❖ To understand the advantages and limitations of different forms.

4.1 INTRODUCTION

There are six forms of international business: exporting, turnkey projects, licensing, franchising, joint ventures, and wholly owned subsidiary. Each of these forms has advantages and limitations. Managers, therefore, are advised to consider these carefully when deciding which of the form to use. Let us discuss these forms one by one.

4.2 PRESENTATION OF CONTENTS

4.2.1 Exporting

Many manufacturing firms begin their global expansion as exporters and only later switch to another mode for serving a foreign market. Exporting has two distinct advantages. First, it avoids the costs of establishing manufacturing operations in the host country. Second, exporting may help a firm achieve experience curve and location economies. By manufacturing the product in a centralised location and exporting it to other national markets, the firm may realise substantial scale economies from its global sales volume. This is how Sony came to dominate the global TV market, Matsushita (Panasonic brand) came to dominate VCR market, and Samsung gained market share in computer chips.

Exporting has a number of drawbacks. First, exporting from the firm's home base may not be appropriate if there are lower cost locations for manufacturing the product abroad. Second, high transport costs can make exporting uneconomical, particularly for bulk products. Another drawback is that tariff barriers can make exporting uneconomical. Similarly the threat of tariff barriers by the host country can make it very risky. The threat by USA to impose tariffs on imported Japanese automobiles led many Japanese auto firms to set up manufacturing auto plants in USA. By 1990, 50% of all Japanese cars sold in USA, were manufactured locally, up from 0% in 1985.

Another drawback arises when a firm delegates its marketing in each country where it does business through a local agent. These agents often carry the products of competing firms and so have divided loyalties. In such cases, the foreign agent may not do as good a job as the firm would if it managed its marketing itself.

A company may go for either the occasional exporting or active exporting. Occasional exporting is a passive level of involvement in which the company exports from time to time, either on its own initiative or in response to unsolicited orders from abroad. Active exporting takes place when the company makes a commitment to expand its exports to a particular market. In either case, the company produces its goods in the home country and might or might not adapt them to the foreign market.

Actually, a domestic company can sell its products to foreign buyers directly or indirectly. For direct exports, it establishes direct contact with foreign customers (actual users or importer distributors) and ships the goods as per the customer's orders and requirements.

The exporting firm takes upon itself the entire responsibility concerning packing, documentation, shipment, credit exchanges risks, the government regulations etc. A company can carry direct export in many ways:

***(a) Domestic based export department or division*:** An export sales manager, supporting sales staff, with some clerical assistants carry on actual selling and draw on marketing assistance as needed. It might evolve into a self-contained export department or sales subsidiary carrying out all the activities involved in export and possibly operating as a profit centre.

***(b) Travelling Export Sales Representatives*:** The company can send home-based sales representatives abroad at certain times to find and promote business.

***(c) Foreign based Sales Branch or Subsidiary*:** An overseas sales branch allows the manufacturer to achieve greater presence and programmed control in the foreign market. The sales branch handles sales distribution and may handle warehousing and promotion as well. It also serves as a display and customer service centre.

***(d) Foreign Based Distributor or Agents*:** Foreign based distributor would buy and own the goods. Foreign-based agent would sell the goods on behalf of the company. They may be given exclusive right to represent the company in that country or only general rights.

In the case of indirect exporting, a firm can use a variety of middlemen who operate in the international markets. Companies typically start with indirect exporting because the firm does not have to develop an export department, an overseas sales force, or a set of foreign contacts. It also involves fewer risks because international marketing intermediaries bring know-how and services. Various types of domestic middlemen are available for the company.

***(a) Domestic Based Export Merchant*:** The middlemen buy the manufacturer's product and sell it abroad on his own account.

***(b) Domestic Based Export Agent*:** The agent simply agrees to seek and negotiates with foreign buyers for a commission. He may also render certain services but does not take title to the product. Trading companies are also included in this group.

***(c) Resident Agent/ Representatives of Foreign Buyers*:** Who buys in the exporting country on behalf of importers abroad.

***(d) Co- operative Marketing Organisation*:** A co-operative organization carries on the exporting activities of its members and may be partly under their control. This form is used usually by producers of primary products, fruits, vegetables, nuts, and so on.

***(e) Combination Export Manager*:** Who acts as an overseas selling agent for a number of companies and practically acts as the "Export Department" for the firms it represents.

***(f) Export Management Companies*:** These types of companies manage a company's export activities for a fee.

Whether companies decide to export indirectly or directly, many companies use exporting as a way to 'test the waters' before building a plant and manufacturing a product overseas. One of the best ways to initiate or extend export activities is by exhibiting at an overseas trade show. Companies may also use Internet for this purpose.

4.2.2 Licensing

Licensing arrangement represents signing of an agreement with a foreign-based enterprise. It is an arrangement whereby a licensor grants the rights of intangible property to another party, called licensee, for a specified period, and in return receives a royalty fee. Intangible property includes patents, processing know-how, trade marks, inventions, formulas, copyrights, and designs etc. of the company.

Through this agreement, licenser can enter the foreign market at little risk and the licensee gets the benefits of gaining the manufacturing technology and marketing of a well-known product or brand. Licensing does not involve marketing facilities. If the cost of production is comparatively lower in the licensee's country, the licenser can import the product from the licensee to improve its competitive position in its own market.

Licensing is an alternative entry and expansion strategy with considerable appeal. A company with technology, know how, or a strong brand image can use licensing agreements to supplement its bottom-line profitability with no investment and very limited expenses. The only cost is the cost of signing the agreements and of policing their implementation. Licensing, therefore, is very lucrative for firms lacking the capital to develop operations overseas. In addition, licensing can be attractive when a firm is unwilling to commit substantial financial resources to an unfamiliar or politically volatile foreign market.

Licensing is often used when a firm wishes to participate in a foreign market but is prohibited in doing so by barriers to investment. Finally, licensing is frequently used when a firm posses some intangible property that might have business applications, but it does not want to develop those applications itself. For example, Bell Laboratories at AT&T originally invented the transistor circuit in the 1950s, but AT&T decided it did not want to produce transistors, so it licensed the technology to a number of other companies, such as Texas Instruments. Similarly, Coca-Cola has licensed its famous trademark to clothing manufacturers, which have incorporated the design into their clothing.

Licensing also has some serious drawbacks. First, it does not give a firm the tight control over manufacturing, marketing, and strategy that is required for realising experience curve and location economies. Second, competing in a global market may require a firm to co-ordinate strategic moves across countries by using profits earned in one country to support competitive attacks in another. By its very nature, licensing limits a firm's ability to do this. A licensee is unlikely to allow a multinational firm to use its profits, beyond those due in the form of royalty payments, to support a different licensee operating in another country.

Another problem with licensing is the risk associated with licensing technological know-how to foreign companies. Technological know-how constitutes the basis of many multinational firms' competitive advantage. Most firms wish to maintain control over how their know-how is used, and a firm can quickly lose control over its technology by licensing it. Many firms have made the mistake of thinking they could maintain control over their know-how within the framework of a licensing agreement. RCA Corporation, for example, once licensed its colour TV technology to Japanese firms including Matsushita (Panasonic brand) and Sony. The Japanese firms quickly assimilated the technology, improved on it, and used it to sell their products all over the world. Now these firms have bigger share of TV market than RCA.

There are ways of reducing the risk of this occurring. One way is by entering into a cross-licensing agreement with the foreign firm. Under a cross-licensing agreement, a firm might license some valuable intangible property to a foreign partner, but in addition to a royalty payment, the firm might also request that the foreign partner license some of its valuable know-how to the firm. Such arrangements are believed to reduce the risks associated with licensing technological know-how, since the licensee realises that if it violates the licensing contract, by using the knowledge obtained to compete directly with the licensor, the licensor can do the same to it. Cross-licensing agreements enable firms to hold each other hostage, which reduces the probability that they will behave opportunistically toward each other.

Such cross-licensing agreements are increasingly common in high technology industries. For example, the US biotechnology firm Amgen has licensed one of its key drugs, Nuprogene, to Kirin, the Japanese pharmaceutical company. The license gives Kirin the right to sell Nuprogene in Japan. In return, Amgen gained the right to sell some of Kirin's products in USA.

There are several variations on a licensing agreement. Companies such as Hyatt and Marriot sell management contracts to owners of foreign hotels to manage these businesses for a fee.

The management firm may even be given the option to purchase some share in the managed company within a stated period. Another variation is contract manufacturing, in which the firm hires local manufacturers to produce the product. When Sears opened department stores in Mexico and Spain, it found qualified local manufacturers to produce many of its products.

4.2.3 FRANCHISING

Franchising is similar to licensing, although it tends to involve longer-term commitments than licensing. Franchising is basically a specialised form of licensing in which the franchiser not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business. The franchiser will often assist the franchisee to run the business on an ongoing basis. As with licensing, the franchiser typically receives a royalty payment, which amounts to some percentage of the franchisee's revenues. Whereas licensing is persued primarily by manufacturing firms, franchising is employed by service firms.

McDonald's and KFC are good examples of firms that have grown by using a franchising strategy. McDonald's has strict rules as to how franchisees should operate a restaurant. These rules extend to control over the menu, cooking methods, staffing policies, and design and location of a restaurant. McDonald's also organises the supply chain for its franchisees and provides management training and financial assistance.

The advantages of franchising are very similar to those of licensing. The firm is relieved of many of the costs and risks of opening a foreign market on its own. Instead, the franchisee typically assumes those costs and risks.

The disadvantages are less pronounced than in the case of licensing. Franchising may also hinder the firm's ability to take profits out of one country to support competitive attacks in another. Quality control is also very difficult to achieve the world over.

4.2.4 Joint Ventures

A joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms. The advantages of this strategy include the sharing of risk and the ability to combine different value chain strengths. One company may have in depth knowledge of a local market, and extensive distribution system, or access to low-cost labor or raw materials. Such a company might link up with a foreign partner possessing considerable know-how in the area of technology, manufacturing and process applications.

For example Lenvest is a joint venture between West Germany's Salmander, a shoe manufacturer, and the Proletarian Shoe factory in St. Petersburg Russia. The Russian side brought abundant, low wage labor and plentiful raw materials to the table. The Germans provide machinery and equally important the know-how, management technique, and quality control that are virtually unknown in the former Soviet republic.

The most typical joint venture is a 50/50 venture, in which there are two parties, each of which holds a 50% ownership stake and contributes a team of managers to share operating control. Some firms, however, seek joint ventures in which they have a majority share and thus tighter control.

Joint ventures have a number of advantages. First, a firm benefits from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems. Second, when the development costs and/or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner. Third, in many countries, political considerations make joint ventures the only feasible entry mode.

Despite these advantages, there are major disadvantages with joint ventures. First, a firm that enters into a joint venture risk giving control of its technology to its partner. The second disadvantage is that a joint venture does not give a firm the tight control over subsidiaries that it might need to realise the experience curve or location economies. A third disadvantage with joint ventures is that the shared ownership arrangement can lead to conflicts and battles for control between the investing firms if their goals and objectives change or if they take different views as to what the strategy should be. These conflicts tend to be greater when the venture is between firms of different nationalities, and they often end in the dissolution of the venture.

Consortia are similar to the joint venture and could be classified as such except for two unique characteristics. First, they typically involve a large number of participants; and second, they frequently operate in a country or market in which none of the participants is currently active. Consortia are developed for pooling financial and managerial resources and to lessen risks. Often, huge construction projects are built under a consortium arrangement in which major contractors with different specialties form a separate company specifically to negotiate for and produce one job. One firm usually acts as the lead firm and the newly formed corporation may exist quite independently of its originators.

4.2.5 Wholly Owned Subsidiaries

The most extensive form of participation in global markets is 100% ownership, which may be achieved by start –up from the scratch, called green field strategy or by acquisition. Ownership requires the greatest commitment of capital and managerial effort and offers the fullest means of participating in a market. Companies may move from licensing or joint venture strategies to ownership in order to achieve faster expansion in a market, greater control, or higher profits.

Large-scale direct expansion can be expensive and require a major commitment of managerial time and energy. Alternatively, acquisition is an instant but less expensive approach to market entry. While full ownership can yield the additional advantage of avoiding communication and conflict of interest problems that may arise with a joint venture or co-production partner, acquisitions still present the demanding and challenging task or integrating the acquired company into the worldwide organization and coordinating activities.

When a firm's competitive advantage is based on technological competence, a wholly owned subsidiary will often be preferred because it reduces the risk of losing control over the competence.

Acquisitions have three major points in their favour. First, they are quick to execute. By acquiring an established enterprise, a firm can rapidly build its presence in the target foreign market.

When the German automobile company Daimler Benz decided it needed a bigger presence in the US automobile market, it did not increase that presence by building new factories to serve the US market, a process that would have taken years. Instead, it acquired the number three US automobile company, Chrysler, and merged the two operations to form Daimler/Chrysler.

Second, in many cases firms make acquisitions to preempt their competitors. The need for preemption is particularly great in markets that are rapidly globalising, such as telecommunications, where a combination of deregulation within nations and liberalisation of regulations governing cross-border foreign direct investment has made it much easier for enterprises to enter foreign markets through acquisitions.

Third, managers may believe acquisitions to be less risky than green field ventures. When a firm makes an acquisition, it buys a set of assets that are producing a known revenue and profit stream. In contrast, the revenue and profit stream that a green-field venture might generate is uncertain because it does not yet exist. When a firm makes an acquistion in a foreign market, it not only acquires a set of tangible assets, such as factories, logistics systems, customer service systems, and so on, but it also acquires valuable intangible assets including a local brand name and managers' knowledge of the business environment in that nation. Such knowledge can reduce the risk of mistakes caused by ignorance of the national culture of the country entered.

Despite these arguments, acquisitions often produce disappointing results. For example, a study by Mercer management consulting looked at 150 acquisitions worth more than $500 million each that were undertaken between January 1990 and July 1995 and concluded that 50% of these acquitions ended up eroding shareholder value, while 33% created only marginal returns. Only 17% were judged to be successful.

The big advantage of establishing a green-field venture in a foreign country, however, is that it gives the firm a much greater ability to build the kind of subsidiary company that it wants. For example, it is much easier to build an organisation culture from scratch than it is to change the culture of an acquired unit. Similarly, it is much easier to establish a set of operating routines in a new subsidiary than it is to convert the operating routines of an acquired unit.

For example, when Lincoln Electric, the US manufacturer of arc welding equipment, first ventured overseas in the mid 1980s, it did so by acquisitions, purchasing arc welding equipment companies in Europe. However, Lincoln's competitive advantage in USA was based upon a strong organisational culture and a unique set of incentives that encouraged its employees to do everything possible to increase productivity. Lincoln found through bitter experience that it was almost impossible to transfer its organisational culture and incentives to acquired firms which had their own distinct organisational cultures and incentives, as a result, the firm switched its strategy in the mid 1990s and began to enter foreign countries by establishing green-field ventures, building operations from ground up. While this strategy takes more time to execute, Lincoln has found that it yields greater long-run returns than the acquisition strategy.

4.2.6 Turnkey Projects

In a turnkey project, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. They are more common with the firms that specialise in design and construction and in chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production technologies. At completion of the contract, the foreign client is handed the 'key' of the plant that is ready for full operation, hence, the name turnkey.

The know how required to assemble and run a technologically complex process, such as refining petroleum or steel, is a valuable asset. Turnkey projects are a way of earning great economic returns from that asset. The strategy is particularly useful where FDI (Foreign Direct Investment) is limited by host government's regulations. For example, the governments of many oil rich countries have set out to build their own petroleum refining industries, so they restrict FDI in their oil and refining sectors. Many of these countries lacked petroleum-refining technology, they gained it by entering into turnkey projects with foreign firms that had the technology. A turnkey strategy may also be less risky than FDI.

The firm that enters into a turnkey project with a foreign enterprise may inadvertently create a competitor. For example, many of the Western firms that sold oil refining technology to firms in Saudi Arabia, Kuwait, and other Gulf states now find themselves competing with these firms in the world oil market. Another disadvantage is that, if the firm's process technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential and/or actual competitors.

4.2.7 Strategic Alliances

Strategic alliances refer to co-operative agreements between potential or actual competitors to co-operate out of mutual need and to share risk in achieving common objectives. Strategic alliances run the range from formal joint ventures in which two or more firms have equity stake, like Fuji-Xerox venture for Japan; to short-term contractual agreements, in which two companies agree to cooperate on a particular task such as developing a new product, like Coca-Cola and Nestle joined forces to develop the international market for 'ready to drink' tea and coffee, which currently sell in significant amounts only in Japan.

A strategic alliance implies: (i) that there is a common objective; (ii) that one partner's weakness is offset by the other's strength; (iii) that reaching the objectives alone would be too costly, take too much time, or be too risky; and (iv) together their respective strengths make possible what otherwise would be unattainable. In short, a strategic alliance is a synergistic relationship established to achieve a common goal where both parties benefit.

Firms ally themselves with actual or potential competitors for various strategic purposes. First, it may facilitate entry into foreign market. For example, Motorola initially found it very difficult to gain access to the Japanese cellular telephone market. In the mid 1980s, the firm complained loudly about formal and informal Japanese trade barriers. The turning point for Motorola cam in 1987 when it allied itself with Toshiba to build microprocessors. As part of the deal, Toshiba provided Motorola with marketing help, including some of its best managers. This alliance also helped Motorola in securing government approval to enter the Japanese market.

Strategic alliances also allow firms to share the fixed costs and associated risks of developing new products or processes. Motorola's alliance with Toshiba also was partially motivated by a desire to share high fixed costs of setting up an operation to manufacture microprocessors. The microprocessor business is so capital intensive – Motorola and Toshiba each contributed close to $I billion to set up their facility – that few firms can afford the costs and risks by themselves. Similarly, an alliance between Boeing and a number of Japanese companies to build the 767 was motivated by Boeing's desire to share the estimated $2 billion investment required to develop the aircraft.

An alliance is also a way to bring together complimentary skills and assets that neither company could easily develop on its own. An example is the alliance between France's Thomson and Japan's JVC to manufacture VCRs. JVC and Thomson are trading core competencies. Thomson needs product technology and manufacturing skills, while JVC needs to learn how to succeed in the fragmented European market. Similarly, AT&T struck a deal in 1990 with NEC Corporation of Japan to trade technological skills. AT&T gave NEC some of its computer aided design technology, and NEC gave AT&T access to he technology underlying its advanced logic computer chips. Such trading of core competencies seems to underlie many of the most successful strategic alliances.

4.3 SUMMARY

A firm interested in entering the international market must evaluate the risk and commitment involved with each entry and choose the entry mode that best fits the company's objectives and resources. Entry risk and commitment can be examined by considering the following five factors: (i) Characteristics of the product. (ii) the market's external macroenvironment— particularly economic and political factors, and the demand and buying pattern characteristics of potential customers. (iii) The firm's competitive position— especially the product's life cycle stage as well as various corporate strengths and weaknesses. (iv) Capital budgeting considerations, including resource costs and availabilities. (v) Internal corporate perceptions, which affect corporate selection of information and the psychic distance between a firm's decision makers and its target customers, as well as control and risk-taking preferences.

These five factors combined indicate the risk to be reviewed vis-a-vis a company's resources before determining a mode of entry. It is useful to remember that a company may use different modes of entry in different countries.

4.4 KEYWORDS

Franchising: A specialized form of licencing in which one party (the franchiser) sells to an independent party (the franchisee) the use of a trademark that is essential asset for the franchisee's business and also gives continual assistance in the operation of the business.

Licensing Agreement: Agreement whereby one company gives right to another for the use, usually a fee, of such assets as trademarks, patents, copyrights or other know-how.

Strategic Alliance: An agreement between companies that is of strategic importance to one or both companies' competitive viability.

Subsidiary: A foreign operation that is legally separate from the parent company, even if wholly owned by it.

Exports: Goods or services leaving a country.

4.5 SELF ASSESSMENT QUESTIONS

1. Discuss in brief, various forms of international business.
2. Write short notes on the following:
   (a) Licensing
   (b) Joint Ventures
3. Differentiate between Direct and Indirect export and discuss the advantages and limitations of each one of these.
4. Differentiate between Management contracts, Contract manufacturing, and Turnkey projects citing suitable examples.
5. Discuss the advantages and limitations of Green-field ventures and Acquisitions.
6. Why companies go for strategic alliances with competitors? Explain with suitable examples.

4.6 REFERENCES/SUGGESTED READINGS

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Lesson No.: **5**

FOREIGN TRADE IN INDIA AND EXIM POLICY

STRUCTURE

5.0 OBJECTIVES

After studying this lesson, you should be able to

- understand the developments in foreign trade policy of India.
- Explain direction and composition of exports in India.
- Explain direction and composition of imports in India.
- Make evaluation of current export-import policy of India.

5.1 INTRODUCTION

During the pre-British period, India was quite famous for its foreign trade. The pattern of India's trade was got gradually transformed during the British period. With the decline of Indian handicrafts, India became exporter of raw materials and other primary products and became an importer of British machine-made good. Thus the Britishers imposed a pattern of trade on India that was deliberately designed in its own favour, and against the interest of India. India became an exporter of all primary products like jute, tea and cotton etc. But during the post-independence period, India experienced a thorough change in the composition and direction of foreign trade. At present , a good number of non-traditional commodities are included in the export list of the country. The direction of trade has also changed remarkably.

Since the introduction of planning in the country, India had to depend heavily on the imports of various types of machineries and equipments for the development of various types of industries in the country. Such imports were known as developmental imports. At that stage, India had to import capital goods extensively in order to set up various industries like steel plants, locomotives, hydro-electric projects etc. In the next stage, India had to import a huge quantity of intermediate goods and raw materials in order to utilize the productive capacity, developed in the initial periods. This type of imports were known as maintenance imports. Thus the developmental process of a developing country like India in its initial stages was very much depending on developmental and maintenance imports.

In order to meet its mounting import bill, the country started to export various types of primary products at initial stage. But with the growth of various types of manufacturing and engineering industries, the country started to withdraw these traditional items of export and gradually established a good market for its manufactured and semi-manufactured commodities. Thus foreign trade has been helping the country in the different stages of its economic development.

TABLE 1.1

Value of India's Foreign Trade

Year	Imports Rs. crores	Exports Rs. crores)	Total Rs. Rs. crores)	Balance of Trade Rs. crores)
1991-92	47,851	44,042	91,893	(-)3,809
1992-93	63,375	53,688	117,063	(-)9,687
1993-94	73,101	69,751	142,852	(-)3,350
1994-95	89,971	82,674	172,645	(-)7,297
1995-96	122,678	106,353	2,29,031	(-)16,325
1996-97	138,920	118,817	284,277	(-)20,103
1997-98	154,176	130,101	257,737	(-)24,075
1998-99	178,332	139,752	318,085	(-)38,599
1999-2000	215,236	159,651	374,797	(-)55,675
2000-2001	230,873	203,571	434,444	(-)27,302
2001-2002	181,753	154,445	336,198	(-)27,308

Sources: 1.Economic Survey, 2001-200 p.2 for all other figures.
2. Ministry of Commerce, for 1998-199 and 2001-2002 figures.

Huge Growth in the value of Trade: Total value of trade rose significantly Rs. 91,893 crores in 1991-92 and then to Rs. 117,063 crore in 1992-93 and finally to Rs. 434,444 crore in 2000-2001. The total value of trade recorded an increase of 15.9 per cent over the previous year in 2000-01.

Higher Growth of Import: The factors which were largely responsible for this phenomenal increase in imports include: huge import of industrial inputs, regular import of food grains, rising anti-inflationary imports, liberal imports of non-essential items, periodic hike on oil prices and the initiation of liberal import policy by the Government during 1985-86 to 1991-92. In 2000-01, the value of imports rose significantly at a growth rate of 7.26 percent over the previous year.

Inadequate Growth of Exports: Another very peculiar situation that the country has been facing is a very slow growth in respect of its exports. In 1993-94, the value of exports rose considerably to Rs. 69,751 crore showing a growth of 29.9 percent over the previous year. In 2000-01, the value of exports rose considerably to Rs. 69,751 crore showing a growth rate of 27.5 percent over the previous year.

5.2 PRESENTATION OF CONTENTS

5.2.1 Reasons of Slow Export Growth: Survey Findings

Some of the important factors which were found responsible for reduction in growth of exports form 20 percent to a mere four per cent during the last two years (1996-98) were Government policies, quality of production, tariffs, quality control and management, institutional finance, banks, export procedures and participation in trade fairs. It was also observed that as many as 47 per cent of the exporters would not like to avail the services of personnel trained in export and would manage their operations through family members or others who may not be professionally trained. The study also highlighted an attitudinal disinclination towards professionalism. Thereby, as many as 56 per cent of the respondents were not inclined to sponsor a candidate for training in international marketing.

As per this survey, the most dominant constraints and problems faced by the exporters were lack of export marketing information, inadequate infrastructural facilities, procedural complications, monetary loss due to low export prices and delay in clearance at ports. Therefore, immediate improvement or upgrading is required in port handling facilities, road transportation rail transport and power sectors. Inspite of the constraints and inadequacies faced by the exporters it was heartening to note that the exporting community, as observed by the survey, was optimistic about the future scenario.

5.2.2 Mounting Trade Deficit: Deficit In The Balance Of Trade

In 1992-93 the extent of trade deficit again rose to Rs. 9687 crore due to huge increase in import. But in 1993-94, the extent of trade deficit declined to 'Rs. 3350 crore due to considerable increase in exports. In 2000-2001, the extent of trade deficit again rose to Rs. 27,302 crore.

5.2.3 Composition Of Foreign Trade In India

The composition of foreign trade is an important indicator of the pattern of trade developed by a country. By the term 'composition of trade' we mean the structural analysis involving the various types and the volume of various items of exports and imports of the country. The composition of foreign trade of a country reflects on the diversification and specialization attained in its productive structure along with its rate of progress and structural changes. With the passage of time a country attempts to change the pattern of trade in such a manner so that it can attain a better term of trade for its products by transforming the country from a primary producing one to a producer of finished manufactured products.

5.2.4 Composition Of Imports In India

At the time of independence, the import of India was consisting of grains, pulses, oils, machineries, hardware, chemicals, drugs, dyes, yarns, paper, non-ferrous metals, vehicles etc. With the introduction of planning and with its emphasis on the development of basic capital goods and engineering industries, the country had to import a huge quantity of capital equipment along with its spares known as maintenance imports. The following table shows the changes is the composition of imports in India since1960-61.

Table 1.2

Composition of India's Imports

Commodities		1990-91	1995-96	2000-01
1.	Food and liveanimals chiefly for food of which cereals and cereal preparations	N.A. 182	N.A. 80	N.A. 90
2.	Raw mateials and intermediate manufactures of which	N.A.	N.A.	N.A.
(a)	Edible oils	326	2260	6093
(b)	Petroleum oil & lubricants	10816	25173	71497
(c)	Fertilizers	1766	5628	3034
(d)	Iron and Steel	2113	4838	3569
(e)	Non-ferrous metals	1102	3024	2462
(f)	Pearls and Precious stones	3738	7045	22101
3.	Capital Goods	10466	28289	25281
(a)	manufactures of Metals	302	930	1786
(b)	Non-electrical machines apparatus and appliances*	4240	14371	16915

(c)	electrical machinery apparatus and appliances	1702	1292	2227
(d)	Transport equipment	1670	3697	4353
4.	Other (Unclassified)	N.A.	N.A.	N.A.
	Total	**43193**	**122678**	**230873**

Source:

1. Government of India, economic Survey 2001-2002 P. S-82.
2. Government of India, Publication Division, India 1998.

5.2.5 Composition Of Exports In India

At the time of independence, the export of India was consisting of Jute, tea and cotton textiles, which jointly contributed more than 50 percent of the total exports earning of the country.

Table 1.3

Composition of India's Exports

Commodity		1990-91	1994-95	1995-96	2000-01
1.	Agricultural and allied products of which	6317	9457	21138	28535
(a)	coffee	252	376	1503	1185
(b)	tea & mate	1070	977	1171	1976
(c)	oil cakes	609	1545	2349	2045
(d)	Tobacco	263	474	441	871
(e)	cashew Karnels	447	749	1237	1883
(f)	Raw Cotton	846	182	204	224
(g)	Rice	462	976	4568	2943
(h)	Fish and Fish Preparations	960	1743	3381	6367
(i)	Fruits, Vegetable Pulses	213	366	802	1608
2.	Ores and Minerals of which	1497	1814	3061	4139
(a)	Mica	31	24	27	64
(b)	Iron Ore	1049	1104	1721	1634
3.	Manufactured goods of which	23736	40835	80219	160771
(a)	cotton yarn & fabrics	2100	3911	8619	16030
(b)	Readymade garments	4012	6931	12295	25478
(c)	Jute manufactures etc.	298	355	621	933

(d)	leather &leather Manufactures	2600	3700	5790	8914
(e)	Handicrafts of which	6167	10957	20501	5097
	Gems & Jewellery	5247	8897	17644	33734
(f)	chemical &allied	2544	3991	9849	22850
(g)	Machinery etc.*	3877	7118	14578	31870
4.	Mineral fuels & lubricants	948	1520	1761	8821
5.	Others	55	62	174	1305
	Total	**32553**	**53668**	**106353**	**203571**

Source: Government of India, Economic Survey, 2001-2002; India 1998, Pub. Division.

This export of primary products is always disadvantageous as the terms of trade always toes against the exporter. With the gradual diversification and growth of the industrial sector, India started to export various types of non-traditional products. Accordingly the share of jute, tea and cotton textiles in the total export earning of the country considerably declined to 9.75 per cent in 1999-2000. But the share of machinery and engineering goods in India's total export increased gradually to 9.3 per cent in 2000-2001. The table (15.3) shows the changes in the composition of export India.

5.2.6 Direction Of Imports

Direction of India's imports has changed remarkably in the mean time. The following table shows the changes in the direction of India's imports since 1990-91.

Table 1.4

Direction of India's Imports

Country Block	1990-91		1995-96		2000-01	
A. Block						
(a) OECD	23310	(53)	64254	(52.4)	92090	(39.9)
(B) OPEC	7041	(16.3)	25586	(20.9)	11885	(5.1)
(C) Eastern Europe	7965	(18.4)	22509	(18.3)	40347	(17.5)
(d) Developing countries	3377	(7.8)	4217	(3.4)	2968	(1.3)
(e) others	1500	(3.5)	6112	(5.0)	83583	(36.2)
B. Country						
U.S.A	5245	(12)	12916	(10.5)	13774	(6.0)

Japan	2894	(7)	6415	(5.2)	14472	(6.3)
U.K.	3245	(7.5)	8254	(6.7)	8416	(3.6)
Germany	3473	(8)	10520	(8.6)	8039	(3.5)
Iran	1018		2001	(1.6)	465	(0.2)
Saudi Arabia	2899	(6.9)	6773	(5.5)	2838	(1.2)
Russia*	2548	(6)	2864	(2.3)	2365	(1.0)
France	1304	(3)	2812	(2.3)	2928	(5.7)
Australia	1464	(3.4)	3418	(2.8)	4855	(2.1)
Belgium	2718	(6.3)	5693	(4.6)	13112	(5.7)
Kuwait	363	(0.8)	6590	(5.4)	515	(0.2)
Other Countries	14967	(35)	54422	(44.3)	159094	(78.9)
Total	**43193**	**(100)**	**122678**	**(100.0)**	**230873**	**(100)**

Note: Figures in brackets shows percentage share.

Source: Government of India, Economic Survey, India 2001-02, P.S.89.

In recent years (i.e.2000-2001) other countries which have occupied a good share in India's imports include Germany(3.5 per cent) Japan 3.6 per cent), Saudi Arabia, (1.2 per cent), Belgium (5.7 per cent), France (5.7 per cent)etc.

5.2.7 Direction Of Exports

Direction of India's exports has also recorded a remarkable change during last 4 decades of planning in the country. The table 1.5 shows direction of India's exports since 1990-91.

Table 1.5

Direction of India's Exports

Country Block	**1990-91**		**1995-96**		**2000-01**	
1. OECD	17428	(53.5)	59223	(55.7)	1077241	(52.7)
(a) EEC/EU	8951	(27.5)	28157	(26.5)	46123	(22.7)
Belgium	1259	(3.9)	3748	(3.5)	6718	(3.3)
France	766		2429	(2.3)	4660	(2.3)
Germany	2549	(7.8)a	6614	(6.2)	8718	(4.3)
U.K.	2128	(6.5)	6726	(6.3)	10502	(5.2)
(B) North America	5077	(15.6)	19487	(18.3)	45509	(22.4)
Canada	281		1022	(1.0)	2999	(1.5)
U.S.A.	4797	(14.7)	18466	(17.4)	42510	(20.9)
2. OPEC	1831	(7.6)	10300	(9.7)	22223	(10.9)

Iran	141		541	(0.5)	1037	(0.5)
Saudi Arabia	419		1613	(1.5)	3760	(1.8)
3. Europe Eastern	5819	(17.9)	4092	(3.8)	4964	(2.4)
Russia*	5255	(16.1)	3495	(3.3)	4061	(2.0)
4. Developing Countries	5465	(17)	27324	(25.7)	54282	(26.7)
Asia	4665		22613	(21.3)	43566	(21.4)
Africa	668		3584	(3.4)	6489	(3.2)
5. Other	2010		5414	(5.1)	14861	(7.3)
Total	**32553**	**(100)**	**103653**	**(100.0)**	**203571**	**(100)**

Note: Figures in brackets shows percentage total.

OECD: Organisation for Economic Co-operation and Development

OPEC: Organisation of Petroleum Exporting Countries.

EEC: European Economic Community.

Source: Government of India, Economic Survey, 2001-2002, p.s.88.

In recent years, India has been able to expand its export net to some other countries. The countries which have occupied a good share in India's exports include Japan (4.0 percent), African Countries (3.2 per cent), Belgium (3.3 per cent) Germany (4.3 per cent.) etc.

5.2.8 The Balance Of Payments Position In India

The balance of payments position of the country reflects on its economic health. The balance of payments of any country is a comprehensive and systematic account of all the different transactions occurred between the residents of a country and the rest of the world during a particular period of time. The balance of payments maintains a detailed classified records of different types of receipts against exports of goods, services and all the capital received by its residents on the one hand and also of all the payments made by the residents against imports of goods and service received along with the capital transferred to non-residents and foreigners, on the other hand. Thus the balance of payments in such wider than the balance of trade which refers to only merchandise exports and imports.

The balance of payments is broadly classifieds into (a) current account and (b) capital account. The current account includes: visible exports and import; invisible items relating to receipts and payments for various services like banking, insurance, shipping, travel etc. and other unilateral transfer of payments like donations, grants taxes etc. The capital accounts of balance of payments include all the current economic transactions for the country's international financial position resulting changes in the foreign financial assets and liabilities. The capital transaction includes both private, banking and official transaction.

The balance of payment position of India on current account since Independence.

With the introduction of planning in India, the balance of payments position of the country has been recording a considerable change with the continuous changes in its imports and exports.

Table 1.6

Balance of payments of India on current Account since 1991-92

Year	**Trade Balance**	**Net Invisible**	**Balance of Payments**
Eighth Plan Onwards			
1992-93	-17238	+4474	-12764
1993-94	-12723	+9087	-3636
1994-95	-28420	+17837	-10583
1995-96	-38061	+18454	-19607
1996-97	-52559	+36720	-15839
Ninth Plan			
1997-98	-57806	+36921	-20885
1998-99	-55478	+38690	-16788

1999-2000	-77359	+57028	-20331
2000-01	-65376	+53945	-11431

Source:Report on Currency and Finance (1992-93) and Economic Survey, 2001-2002,

The huge deficit in the balance of payments position during the Eighth Plan period was the result of tremendous rate of growth of imports accompanied by a poor rate of growth of exports. The trade deficits during these three –plans were so heavy that it could not be offset by the flow of funds.

5.2.9 Balance Of Payments Position And New Economic Reforms Of 1991

The second phase of economic reforms started since 1991 and the export promotion strategy have created considerable impact on the balance of payments position of the country. Accordingly serious efforts were undertaken to raise the export-import cover. Side by side, imports were liberalized so as to bring technological upgradation. Moreover, non-debt creating inflows of capital like foreign direct investment as well as portfolio investment were encouraged so as to replace debt creating capital. The following (Table No. 1.7) will clarify it.

TABLE NO.1.7
RATIOS OF SELECTED ITEMS OF THE BALANCE OF PAYMENTS

Item/Year	1980-81	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97
1.Exports/Imprts(%)	51.8	66.2	86.7	81.2	90.5	84.3	78.4	88.2
2. Current account deficit (US$) million)	2804	9680	1178	3526	1158	2634	5434	4860
3. Current account/ GDP(%)	-1.6	-3.2	-0.4	-1.8	-0.5	-.09	-1.7	-1.4
4. ECB/TC (%)	12.6	26.8	30.6	-8.4	6.1	13.6	21.0	N.A
5. NRI deposits/TC (%)	11.3	18.3	6.1	47.0	12.0	10.7	37.6	N.A
6. External assistance/Tc(%)	70.4	26.3	36.9	43.7	19.0	18.9	31.0	N.A

7. External debt (Ens of period) (US$ million)	23500	83801	85285	90023	92695	99008	92199	N.A
8. External Debt/GDP (%)	14.3	30.4	41.0	39.8	35.9	32.7	28.7	N.A
9. Debt service payments as a % of current receipts.	10.2	35.3	30.2	28.6	26.9	27.5	25.7	25.1

Projections: [2]based on DGCI & S trade data for April-December 1996.

Notes:

1. TC: Total capital flows (net).
2. GDP: Gross domestic product at current market prices.
3. ECB: external Commercial Borrowings.
4. NA: Not Available
5. As total capital flows are netted after taking in to account some capital outflows, the ratios against item N.4, 5 and 6 may in some years add up to more that 100 per cent.
6. Data for 1980-81 and 1985-86 against items 7,8 and 9 do not include Defence and shor0term credits related debt service payments and some other owing to the non-availability of data for these years.
7. Rupee equivalents of BOP components are used to arrive at GDP ratios.

Source: Economic Survey, 1996-97, P. 86.

The table No.1.7 reveals that the balance of payments position of the country has been experiencing some remarkable changes. The post-reform scenario presents that the imports has increased considerably by export earnings in 1991-92 and then it was at the peak level at 90.5 per cent in 1993-94 and then finally to 88.2 per cent in 1996-97 in this connection, the Economic survey, 1994-95 rightly observed, “The recent developments in India’s external sector reflect a shift from a foreign exchange control regime to a more open, market-driven and liberalized economy. This has been facilitated by the structural changes in the country's balance of payments which has occurred during the last few years. The most notable feature of this change has been the sharp increase in the coverage of imports by export earnings."[1]

Again the economic survey, 1995-96 observed, "The development in India's trade and payments over the past five years mark in a noticeable structural change towards a more stable and sustainable balance of payments. During the post-liberalization period, there has been a sharp improvement in the ;coverage of import payments through export earnings. The coverage ratio has averaged around 88 percent since 1992-93. There has also been a marked improvement in the flow of invisible receipts. Together, these changes brought about a sharp reduction in the ratio of the current account deficit to GDP, from an unsustainable level of 3.2 per cent in 1990-91 to 0.8 per cent in 1994-95.

Table No. 1.8
Balance of Payments: Key Indicators

		1990-91	1993-94	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01
1.	Exports	18477	22683	32311	34133	34849	34298	37542	44894
2.	Imports	27915	25069	43670	48948	51126	47544	55383	59264
	Of which: POL	6028	5754	7526	10036	8217	6432	12611	15650
3	Trade balance	-9438	-2386	-11359	-14815	-16277	-13246	-17841	-14370
4.	aInv9isibles (net)	-242 980	1228	5460	10321	9804	9204	13143	11791
	Non-factor services	980	535	-186	851	1143	2165	4064	2478
	Investment income	-3752	-3270	-3205	-3307	-3520	-3544	-3559	-3821
	Pvt. Transfers	2069	3595	8506	12367	11830	10280	12256	12798
	Official Grants	461	368	345	410	351	307	382	336
5.	Current Account Balance	-9680	-1158	-5899	-4494	-6473	-4038	-4698	-2579
6.	External assistance (net)	2210	1901	883	1109	890	820	901	427
7.	Commercial borrowings (net)	2249	607	1275	2848	3999	4362	313	4011

8.	IMF (net)	1214	187	-1715	-975	-618	-393	-260	-26
9.	NRI deposits (net)	1536	1205	1103	3350	1125	1752	1540	2317
10.	Rupee debt service	-1193	-1053	-952	-727	-767	-802	-711	-617
11.	Foreign investment of which	102	4235	4604	5838	4993	2312	5117	4588
	(i) FDI	97	586	1943	2526	3165	2380	2093	1828
	(ii) FLLs	0	1665	2009	1926	979	-390	2135	1847
	(iii) Euro-equities and others	5	1984	652	1386	849	322	889	913
12.	Other flows[2]	2284	2940	-2235	-1131	735	-174	3940	-2291
13.	Capital account total (net) (Add 6 to 12)	8402	10022	2963	10312	10366	7867	10840	8409
14.	Foreign Exchange Reserve use (_increase)(5+13)	1278	-8864	2936	-5818	-3893	-3829	-6140	-5830
	Memo items		**As per cent of GDP8.68.3**						
	Exports	6.2	8.8	8.9	8.6	8.3	8.2	8.4	9.8
	Imports	9.4	9.7	12.0	12.3	12.2	11.3	12.4	13.0
	Trade balance	-3.2	-0.9	-3.1	-3.7	-3.9	-3.1	-4.0	-3.1
	Invisibles balance	-0.1	0.5	1.5	2.6	2.3	2.2	3.0	0.5
	Current account balance	-3.2	-0.5	-1.6	-1.1	-1.4	-1.0	-1.1	

(P): Preliminary Actual; QE: Quick Estimates

[1]Figures include receipt on account of India Development Bonds in 1991-92 and related repayments, if any, in the subsequent Year.

[2]Include delayed exports receipts and errors and omissions. For the year 1992-93, it also includes errors and omissions arising out of dual exchange rates applicable under the Liberalised Exchange Rate Management System(LERMS).

Source: Economic Survey, 1998-99, 2001-2002.

5.2.10 Recovery In Balance Of Payments Position In India Since 1991-92

The balance of payments position, which had reached a point of near collapse in June 1991, gradually stabilized during the course of 1991-92. In 1990-91, foreign currency reserves had declined to $

1.1 billion despite heavy borrowing from the IMF. In order to restore international confidence, the Government negotiated a standby arrangement with the IMF in October 1991 for $2.3 billion over a 20 month period, a structural adjustment loan with the World Bank of $500 million and a Hydrocarbon Sector Loan with ADB for $250 million. Alongwith the efforts, the Government also launched India Development Bonds for mobilizing NRI sources of funds. With the assurance of external support through these efforts, the balance of payments position was gradually stabilized in 1991-92 and the foreign exchange reserves were restored to the level of $5.6 billion at the end of March 1992.

After the elimination of import licensing in most capital goods, raw materials, intermediary components and introduction of LERMS in 1992-93 budget, the volume of imports increased significantly in 1992-93, but as the rate of growth of exports could not keep pace with that of imports, the current account deficit in BOP was around $7 billion, reflecting the revival of imports to more than normal levels. This deficit was financed through a combination of traditional financing sources and exceptional financing.

Thus, the balance of payments, position in India showed a steady improvement since 1991-92 with exports covering a larger proportion of imports in the earlier years. The export-import ratio has averaged nearly 90 per cent during 1991-92 to 1993-94 compared to an average of about 65 per cent. The current account deficit has also declined, averaging about 0.7 per cent of GDP for these year (1991-94), compared to an average of about 2.6 per cent of GDP in the preceding three years.

In this connection, Economic Survey, 1995-96 observed, “The development in India’s trade and payments over the past five years mark a noticeable structural change towards a more stable and sustainable balance of payments. During the post- liberalisation period, there has been a sharp improvement in the coverage of import payments through export earnings. The coverage ratio has averaged around 88 percent since 1992-93, compared with only 52.4 per cent at the beginning of the 1980's and about 70 percent at the end of 1980's. There has also been a marked improvement in the flow of invisible receipts. Together, these changes brought about a sharp reduction in the ratio of the current account deficit to GDP, from a an unsustainable level of 3.2 per cent in 1990-91 to 0.8 per cent in 1994-95.

There has been a structural change in the capital account in terms of sharp reduction in debt creating flows as a percentage of total capital flows in the balance of payments. But the ratio declined very sharply in 1994-95. This declining trend is shared by all the major components of debt flows, namely external assistance, commercial borrowing and non-resident deposits. This favorable shift, away form recourse to debt creating flows for financing the current account deficit, has obvious implications for moderating and reducing future debt service liabilities.

Rise in Trade Deficit during 1995-96 and Thereafter

India's trade deficit during 1995-96 swelled to $4.538 billion more than double of the deficit of $2.027 billion in the previous financial year. The country's exports during 1995-96 are now estimated at $31.830 billion signifying growth of 21.38 per cent over the exports during the previous fiscal year valued at $26.223 billion. Against a target of 18 to 20 per cent growth rate for the year 1995-96, the actual achievement has been considerably higher at 21.4 per cent in dollar terms. Imports during 1995-96 are estimated at $36.369 billion against $28,251 billion during the previous fiscal year reflecting a growth of 28.74 per cent. Thus the rise in the trade deficit during 1995-96 has been resulted mostly from sudden spurt in imports, in spite of attaining a considerable higher growth in exports. The balance of payment situation in 1995-96 reflected a renewal of economic growth with an increase in the current account deficit, as proportion of GDP, to 1.7 per cent form 0.9 per cent in the previous year. However, the increased deficit was easily financed by a higher level of capital inflows and a reduction of foreign exchange reserves of US $ 2.9 billion. Developments so far in 1996-97 in the balance of payments point to an easing of pressure in the current account.

1999-2000

India's Balance of payments position in 1999-2000 remained comfortable. The current account deficit in1999-2000 was contained to 0.9 per cent of GDP, despite unfavorable international trade and financial backdrop including a near two-third hike in India's oil import bill. This was made possible because of a strong recovery of exports, and a surge in net inflow of invisible, reflecting sharp increases in software services exports declined to about 0.9 per cent of GDP as against, 1.4 per cent in 1997-98 and 1.0 per cent in 1998-99. Exports (in dollar value terms), however, recorded welcome recovery of 11.6 per cent in its growth as compared to negative growth rate of 3.9 per cents in 1998-99. Total imports, on payment basis expanded sharply by 16.5 per cent during 1999-2000, compared with a decline o 7.1 per cent in 1998-99, largely because of a 36.8 per cent increase in oil import bill, with non-oil customs import growth remaining subdued at 2.1 per cent, reflecting the trends in exports and imports, the deficit on the trade account of BOP widened to US$ 17.10 billion or 3.8 per cent of GDP in 1999-2000 as compared to that of US $ 13.25 billion *3.2 per cent of GDP) in 1998-99.

2000-2001

India's balance of payments (BOP) position in 2000-2001 remained comfortable and the external sector experienced a distinct improvement. There were, however, some pressures on the BOP during the first half of the year on account of significant hardening of international oil prices, the sharp downturn in international equity prices and successive increases in interest rates in the United States and Europe. In a nutshell, the current account deficit in 2000-01 narrowed further to about 0.5 per cent of GDP from 1.1 per cent of GDP in 1999-2000. The improvement in current account deficit was made possible largely because of the dynamism in export performance, a sustained buoyancy in invisible receipts, reflecting sharp increases in software service exports and private transfers, and partly due to the subdued non-oil import demand. Exports on BOP basis , registered strong growth of 19.6 per cent in US dollar terms in 2000-01 as compared to that of 9.5 per cent in the previous year. Again, total imports, on payments basis, recorded only a moderate growth of 7.0 per cent during 2000-01 as compared to that of 16.5 per cent in 1999-2000. reflecting the trends in exports and imports, the deficit on trade account of BOP narrowed to US$ 14.37 billion or 3.1 per cent of GDP in 2000-2001 as compared to that of 4.0 per cent of GDP in 1999-2000.

5.2.11 Foreign Trade Policy Of India

In the pre-independence period, India did not have any clear-cut trade policy but in specific cases adopted only import restriction viz. Discriminating protection since 1923. After independence, the Government adopted a trade policy as a component of policy on economic development of the country.

Main Features: In the initial stage in order to protect Indian industries form foreign competition the Government imposed restriction as a part of protective policy. Accordingly., the Government of India restricted the foreign competition through the system of import licensing, import quotas, import duties and import ban in extreme cases. After the adoption of Mahalnobis Model of development since the Second Plan a clear cut import policy became imperative on the following grounds: (a) Complete or partial ban on the import of consumer goods, (b) extensive control of various items of imports,(c) liberal imports of capital goods for industrialisation, and (d) developing suitable environment for adopting import substitution.

In respect of export, the Government adopted various decisions for promotion of exports through various fiscal and other incentives, and also by setting up some trading institutions. After the second plan, the Government undertook various export promotion measures in order to overcome its foreign exchange crisis and to attain the objective of self reliance.

5.2.12 Export Policy Of India And Export Promotion Measures

The export policy of India as formulated since independence is guided by export promotion measures. At various items, the Government introduced different types of measures for the promotion of exports. All these measures can be broadly classified under the following headings. (a) The duty drawback system, i.e. reimbursing exporters for tariff paid on imported materials and excise duties paid on inputs; (b) Market development assistances, i.e. providing cash compensatory supoort (CCS) to exporters, and providing grant in aid to Export promotion councils and other organisations for exploring new export markets: (c) Fiscal concessions for exports i.e. exempting export earning from income tax partially or fully; (d) import subsidy for exports, i.e. providing imported inputs to export sector at international prices through import entitlement scheme and import replenishment scheme; and (e) Developing Export Processing Zones (EPZ) and 100 per cent Export-Oriented Units(EOUs) for providing necessary open environment for export produciton.

Considering the condition of balance of payments in the country, the Governemnt of India has been adopting certain special measures for the pormotion of exports in our country since the Third Plan period. Various export promotional measures introduced by the Government were mainly related to: (a) providing imported inputs to exports through commodity specialisation and service specialisation ; (b) fostering competitive capacity of Indian exports and making the export business more attractive.

Thus we can now conclude that the export promotion measure introduced by the Government include-various incentive schemes, fiscal relief or tax concessions, relaxation of controls on export restrictions, simplification of procedures, price stabilisaiton of export commoditites, compulsory gradation of commodities, granting of additional inducements and incentives for the export to non-traditional markets, speicial ship and rail facilities, credit arrangements, trade agreements, and finally setting up of favourable export insitititions, viz,. Export-import Council, Export Promotion Council, State Tradiing Corporation, Export Credit and Guarantee Corporation. Trade Development Authority, Export –Import (EXIM) Bank Ltd. etc.

5.2.13 Import Policy Of India

The import policy of India was formulated as a part of foeign trade policy of the country. During the post-independence period, the import policy of the country was formulated at different times in order to attain the following requirements: (a) Limiting the volume of imports to the minimum level in order to conserve foreign exchange, (b) Encouraging import of items required for industrialization of the country and (c) modifying import for exports pormotion.

Thus broadly the import policy of the country has two important consitituents,i.e.(a) import restirctions and (b) import substitution, the country formulated the import policy considering its limited foreign exchange reserve, requirements of capital goods for industrialisation and neccessity for import substitution.

During the first decade of planning, the country adopted a liberal import policy and thus suffered a serious foreign exchange crisis at the end of the second plan. Considering this, the Government reversed its import policy and imposed heavy restrictions on imports.

5.2.14 The New Exim Policy, 2002-07

With a view to achieve 1 per cent share in global exports by 2007, the government announced lifting of export restrictions, incentives to attract investments in Special Economic Zones (SEZs), continuation and simplification of existing duty neutralisation schemes, steps to reduce transaction cost and also provided sops so as to boost agriculture, hardware and gems exports. The policy seeks to diversify markets with new programmes for exports to African and CIS countries and also provides more benefits to industrial sector, cottage industry and handicraft exports and hardware sector.

Highlights: The following are the highlights of the new five-year Exim Policy, 2002-07:

(i.) Removal of all Quantitative Restrictions (QRs) in exports.

(ii.) Massive thrust is given to exports.

(iii.) Transport subsidy is introduced for agricultural exports.

(iv.) Special focus is given on cottage sector handicrafts for increasing its export volume.

(v.) Incentive package for hardware sector is announced.

(vi.) Procedural simplifications are announced so as to reduce transaction costs further. faj Special thrust is given for 106 items and towns of exports excellence.

(vii.) Tenure of export earnings retentions abroad is doubled to 360 days.

(viii.) New eight-digit classification of trade items announced.

(ix.) Same day licensing in all regional centres announced.

(x.) Export obligation norms under EPCG scheme is relaxed.

(xi.) No licensing for second hand plant and projects import announced.

The policy outlined a major thrust for agriculture sector including removal of packaging restrictions and lifting of quantitative restrictions on all agricultural products except onions and jute. As part of agriculture sector package, the new policy announced transport assistance or subsidy for export of fresh and processed fruits, vegetables, poultry, dairy and floricultural products, in addition to wheat and rice products. It is also proposed to work out suitable transport assistance for export and accumulated stocks rice and wheat from FCI. The scheme is expected to result in an outgo of Rs.100 crore during 2002-03.

5.2.15 Evaluation Of The New Policy

The new five-year Exim Policy (2002-07), co-terminous with Tenth Five Year Plan is, indeed, a highly ambitious and timely approach which is seeking to enable Indian farmers, artisans, cottage and small industrialists alongwith the total workforce associated will all sorts of economic activity undertaken in the rural areas to get them acquainted with outward-looking economy and unrestricted market-friendly behaviour of the world trade regime. The policy is comprehensive in its scope as it has included agriculture and allied sector, small scale and cottage industries and handicrafts and thereby has covered more than 80 per cent of the population living in rural areas. Thus, the present policy is highly important especially at a time when India is faced with a low rank in attending global competitiveness, global economic slow-down, domestic recession, poor infrastructural facilities and costly finance and also considering marginalisation of abilities of exporters. Thus, the new Exim Policy has made a fresh attempt to help the exporters to realise the goal of achieving export targets.

5.3 SUMMARY

The series of trade policy reforms in the form of annual Exim Policy announced by the Government during the nineties and thereafter has been able to change the conditions of trade conducive to its growth. Trade policy reforms over the last decade have provided an export friendly environment with simplified procedures conducive to enhancing export performance. The focus of these reforms has been on liberalization, openness, transparency and globalization with basic thrust on outward orientation focussing on export promotion activity moving away from quantitative restrictions and improving competitiveness of Indian industry to meet global market requirements. Over the years, significant changes in the EXIM Policy have helped to strengthen the export production base, remove procedural irritants, facilitate input availability besides focussing on quality and technological upgradation and increasing competitiveness. Steps have also been taken to promote exports through multilateral and bilateral initiatives, identification of thrust areas and focus regions. Thus it can be finally observed that the trade policy introduced in India in the form of annual Exim policies have become successful in bringing the conditions of trade in right directions.

5.4 KEYWORDS

Balance of Trade: The value of a country's exports less the value of its imports ('Trade' can be defined as merchandise trade, services, unilateral transfers, or a combination of these).

Imports: Goods or services entering a country.

Organisation for Economic Cooperation and Development (OECD): A multilateral organisation of industrialized and semi-industrialized countries that helps formulate social and economic policies.

Organisation of Petroleum Exporting Countries: A producers' alliance among 12 petroleum-exporting countries that attempt to agree on oil production and pricing policies.

Current-account Balance: Export minus imports of goods, services, and unilateral transfers.

5.5 SELF ASSESSMENT QUESTIONS

1 Explain the trend of Foreign Trade in India. What are the reasons of slow export growth?

2 Explain in brief the Composition of foreign trade in India.

3 Explain the balance of payment position in India. What are the new economic reforms of 1991.

4 Explain and evaluate the new foreign trade policy of India.

5.6 REFERENCES/SUGGESTED READINGS

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Lesson No.: **6**

INSTITUTIONAL INFRASTRUCTURE FOR EXPORT PROMOTION IN INDIA

STRUCTURE

6.0 OBJECTIVES

After studying this lesson, you should be able to

- describe institutional set-up for export in India
- understand government policies about exports
- understand concepts and developments about Special Economic Zones

6.1 INTRODUCTION

Exports is a specialized economic activity in any country that requires continuous government support at different stages such as selection of export products, identification of overseas markets, identifying market segments, setting up distribution channels, and organizing sales and support services. Therefore, the government policie s and institutions should provide the exporting community with facilitating and motivating environment at domestic as well as international level. This Chapter describes the institutional set-up for export promotion in India.

To facilitate the export activity, strong organizational infrastructure has been built up since independence. These institutions exist at international level, national level and state level having export development as central subject. Javalgi (1997) has concluded that India has much better institutional set-up and systems. The organizations supporting the export activities in India can be grouped into following categories:

- Policy and Decision Making Organizations
- Autonomous Bodies
- Advisory Bodies
- Attached and Subordinate Offices

6.2 PRESENTATION OF CONTENTS

6.2.1 Policy And Decision Making Organizations

Ministry of Commerce, Ministry of Textiles, Ministry of Finance, Ministry of Agriculture and Ministry of Industry play an important role in the policy formulation, development, regulation and export promotion. However, Ministry of Commerce is a nodal agency for developing the country's external trade including commercial relations with other countries, state trading, export promotion measures, and development and regulation of certain export-oriented industries and commodities. The Department of Commerce formulates the policies in the sphere of foreign trade, in particular, the Import Export Policy of the country. It has following eight functional divisions:

(a) Trade Policy Division;
(b) Export Products Division;
(c) Export Services Division;
(d) Economic Division;
(e) Administration and General Division;
(f) Foreign Trade Territorial Division;
(g) Export Industries Division;
(h) Finance Division.

The key functions and responsibilities of each of the above listed divisions are described below.

Trade Policy Division: Trade policy division deals with the broad aspects of country's trade policy in relation to various international bodies such as GATT, UNCTAD, ESCAP, EU, NAFTA, ASEAN, APEC as well as many more regional groupings. It also looks after the generalized system of preferences, tariff and non-tariff barriers. Moreover, the division takes care of International Trade and Commercial Policy and International Commodity Agreements.

Export Products Division: The division is responsible for attending the general problems like generation of surplus for exports and development of markets abroad for different products like agricultural commodities, marine products, chemicals and allied products, sports goods, films, steel, metals, engineering products, minerals and ores, coals, petroleum products etc. In administrative terms, however, the responsibility for these products remains with the concerned ministries.

Export Services Division: It deals with the problems in executing the export assistance programmes including import-replenishment licensing, export credit, market development assistance, quality control, pre-shipment inspection, guidance to Indian entrepreneurs to set up Indian Joint Venture Abroad, capacity creation in export-oriented industries, and assistance to import the capital goods and essential raw-materials.

Economic Division: The division is responsible for working out export development strategies, export planning, periodic appraisal and review of policies. In order to co-ordinate the activities, the division keeps constant contact with other divisions which have been set-up under the Department of Commerce to assist the export drive. Moreover, it monitors the work relating to technical assistance, management services for export, and overseas investment by Indian Companies.

Administrative and General Division: It deals with the problems of general administration and co-ordinates the functioning of various divisions of Ministry of Commerce.

Foreign Trade Territorial Division: This division has been assigned the work relating to the development of trade with different countries and regions of the world. It handles the work connected with state trading, barter deals, organization of trade fairs and commercial publicity. Besides, the division maintains liaison with Indian Trade Missions Abroad and attends to the connected protocol and administrative functions of the Ministry.

Export Industries Divisions: This division deals with the development and regulation of those industries which have been entrusted with the Ministry under the Allocation of Business Rules. In particular, the division looks after the development and expansion of export production of textiles, woollens, handlooms, readymade garments, silk and cellulose fibres, jute and jute products, handicrafts, coir and coir-products.

Finance Division: The division is responsible for financial co-ordination and policy formulation for credit and finance facilities to meet financial requirements of the exporting community in particular.

6.2.2 Autonomous Bodies

Along with various functional divisions, Ministry of Commerce carries out its functions through active co-operation with various autonomous bodies. Following institutions have been set up in order to facilitate export development functions including quality, marketing and financing:

(a) Commodity Boards

(b) Export Inspection Council

(c) Institute of Foreign Trade

(d) Indian Institute of Packaging

(e) Indian Diamond Institute

(f) Export Promotion Councils

(g) Federation of Indian Export Organizations

(h) Indian Trade Promotion Organization

(i) Indian Council of Arbitration

(J) Marine Products Export Development Authority

(h) Agricultural & Processed Food Products Development Authority

(i) Export Credit and Guarantee Corporation of India

(j) Public Sector Undertakings – STC, MMTC.

Commodity Boards: The Government of India has set up eight Commodity Boards. The Boards set up in the country are: Tea Board, Coffee Board (1942), Coir Board (1954), Central Silk Board, All India Handicrafts and Handloom Board, Tobacco Board (1975), Rubber Board (1986) and Spices Board (1986).

Both in terms of constitution and functions, the Commodity Boards are different from the EPCs, though their important function is registration and export development as well. The CBs are statutory bodies responsible for the development of cultivation, increased productivity, processing, research and development and marketing. They also ensure adequate remuneration to growers by encouraging cooperative ventures, up-gradation of quality and marketing the produce through auctions etc. Some of the Boards are also disbursing export marketing assistance, wherever it exists.

Export Inspection Council: The Export Inspection Council is an apex body for controlling the activities of quality control and pre-shipment inspection of various products meant for exports. Under the Export (Quality Control and Inspection) Act, 1963, the Council has been empowered to advise the Central Government regarding the measures for enforcement of quality control and inspection in relation to export products, draw up the quality control programmes, and organize the pre-shipment inspection of notified commodities for exports. With a view to inculcate the quality consciousness among manufacturers and motivate them to adopt quality discipline, the council carries out the training programmes on quality control techniques for the employees at different levels in the industry. In addition, the Council arranges seminars and workshops designed to educate the manufacturers and exporters on the methods of maintaining quality including packaging.

It acts through a network of offices located in all export and industry and trade centres, ports and export points. An important function of the agencies is to issue 'Certificate of Origin' required under Generalized System of Preferences for specific products to be exported to preference giving countries of Europe like, America, Japan etc. The Council has set up a Pilot Test House at Mumbai for prompt, efficient, accurate and comprehensive testing of engineering products particularly from the small-scale sector. It also offers technical support facilities such as assignment of quality parameters of products, assistance in obtaining approval under In-process Quality Control, providing facilities for testing research and development projects for quality up-gradation and tailor-made training programmes for industry. Moreover, Quality Development Centre has been set up in Madras for providing training to the inspection officers of the Council on a regular basis. The Council has evolved procedure for assessment, evaluation and settlement of complaints from foreign buyers by the Regional Standing Committees situated in various export centres in India. As provided under 7 of the Act, the Central Government has also recognized some private and Government inspection agencies to supplement the work of quality certification.

In the WTO regime, as India's trading partners are installing regulatory import controls, EIC has refashioned its role to introduce voluntary certification programmes besides regulatory export control, especially in food sector, and is seeking recognition for EIC's certification by official import control agencies of the trading partners as per provisions of WTO agreements to facilitate easier access to their markets for Indian exports.

Indian Institute of Foreign Trade: Indian Institute of Foreign Trade was set up as an autonomous Institution in 1963 to meet the growing needs of trade and industry for trained export management personnel. The Institute also provides marketing information in relation to products and countries by undertaking market surveys in India and abroad. The Institute has upgraded several educational programmes and currently it is conducting Masters Programme in International Business, Executive Masters Programme in International Trade and Post-graduate Diploma in International Trade. Also, short-term training programmes such as Certificate Course in Export Marketing and Certificate Course in International Business Languages, and organization of specific training programmes are carried out.

The Institute attaches considerable importance to its research and consultancy activities. The Institute has conducted a large number of market surveys covering various products and export markets. The library of the Institute is perhaps the largest of its kind in India and this region of the world. The Library is an invaluable reservoir of latest and technical information useful for trade and industry, training programmes, and extensive research into world markets.

The IIFT has been accorded the "Deemed To Be University" status by the Ministry of Human Resource Development and the University Grants Commission with effect from 20th May, 2002.

Indian Institute of Packaging: The Indian Institute of Packaging, Mumbai, was set up in 1996 under the Ministry of Commerce. It has been entrusted with the responsibility about improvements in the standards of packaging in the country for exports. The Institute has been registered under the Societies Registration Act 1860. The Institute undertakes technical consultancy, testing services on the packaging developments, training and educational programmes and several other important activities. The Institute has its regional branches in Calcutta, Chennai and New Delhi.

The Institute has made concerted efforts to popularize packaging as a subject, promotion of packaging consciousness, propagation of scientific knowledge and up gradation/modernization of packaging industry. The Institute provides technical and economic services relating to packaging techniques and enlightens the packaging industry.

Apart from specific research projects, the intensive training programmes are organized for upgrading human skills in packaging at different centres of the Institute. Short-term training programmes such as executive development programmes, workshops on packaging techniques, in plant training programmes, and in collaboration training programmes are also arranged.

Indian Diamond Institute: The Institute was floated in 1978 under the Registration of Societies Act. The key objective of the Institute is to strengthen and improve the availability of trained manpower for the diamond industry by turning out highly skilled artisans. The Institute is funded by the Government of India, Ministry of Commerce and Gems and Jewellery Export Promotion

Council. The Institute conducts various Diploma/ Post Graduate Diploma level courses in this field.

Export Promotion Councils: Several Export Promotion Councils have been set up with a view to improve the export performance of specific commodities or a group of products. These councils undertake different programmes in order to create export consciousness among the potential exporters. The Councils have been registered under Companies Act as non-profit organizations. The exporters of specific products are entitled to become members of relevant councils. The Government of India provides grants to these councils under Market Development Assistance Programme. However, it is imperative for the exporters to be registered as a member of the relevant Council, if they want to claim export incentives and assistance as per government policy. There are 19 Export Promotion Councils covering items such as Engineering, Leather Products, Sports goods, Basic Chemicals, Pharmaceuticals and Cosmetics, Chemicals and allied products, Gems and Jewellery, Handloom, Synthetic and Rayon, Wool and Wollen items, Readymade Garments, Cotton Textiles, Carpet, Electronic and Computer software. Some of the councils have opened branches or regional offices in places other than their headquarters and overseas offices in selected countries.

The functions of the council include advice to the government, the local authorities and public bodies on the policies to be pursued and the steps to be taken to expand the exports of the commodities grown and/or manufactured in their states. Other promotional functions include study of foreign markets through periodical market surveys and market research, organizing trade delegations abroad, facilitating and subsidizing participation in trade fairs and exhibitions, conducting publicity, disseminating information, administering the export promotion schemes and taking measures to ensure quality control. The EPCs are also expected to promote image of India abroad as a reliable supplier of high quality goods and services.

Federation of Indian Export Organizations: The Federation of Indian Export Organizations is an apex body of various export promotion organizations and institutions. It acts as a primary servicing agency to provide integrated assistance to government recognized Export/Trading Houses and act as a central coordinating agency in respect of export promotion efforts in the field of consultancy services in the country. It serves as a forum for exporters' views on export promotion and commercial policy of the Government of India, and problems faced by them.

Indian Trade Promotion Organization: By merging Trade Fair Authority of India and Trade Development Authority of India, in 1992 Indian Trade Promotion Organization was set up. Its activities include the publicity through the print and the electronic media; the organization of export development programmes; arrangement for buyer-seller meets; organizing trade fairs in India and abroad; integrated marketing programmes for specific products in specific markets and assistance in development of product items for exports. ITPO provides information and market intelligence to the business community in India. Also, it arranges visits of buyers and delegates to industry and trade establishments in India. The ITPO is a prime organization having close and periodical interaction with the trade, industry and government. The organization helps the industry to enter into less developed and non-traditional markets by providing support for participation in fairs and trade related information.

Indian Council of Arbitration: The Indian Council of Arbitration set up under the Registration of Societies Act, promotes the arbitration as a means of settling commercial disputes and popularizes the concept of arbitration among traders particularly those engaged in international trade. The important objectives of the Council are to promote the knowledge and use of arbitration. The Council provides arbitration facilities for amicable and quick settlement of commercial disputes with a view to maintain the smooth flow of trade. The Government of India, important chambers of commerce and trade associations in India including FICCI, Export Promotion Councils, public sector undertakings, companies and firms hold its membership. It maintains panel of arbitrators consisting of judges, advocates, shipping experts, charted engineers, businessmen, foreign nationals and executives. To provide technical knowledge on arbitration laws, the council organizes conferences training programmes, publishes literatures, and provides advisory services to business organizations.

Marine Products Export Development Authority: The authority came into being in 1972. It is concerned with the organization, co-ordination, regulation and growth of exports of marine products with special reference to the quality of the material, processing, packaging, storage, transport, shipment, marketing and attendant investigation. The authority facilitates working of sea-food industry in fishing, processing, and marketing all over the world. The importers and exporters both can obtain information relating to markets and marine products. It has regional offices at major sea-food processing and export centres and a foreign office in Tokyo. The authority is entrusted with the task of ensuring a healthy growth of industry through judicious regulations, conservation and control. MPEDA has been implementing a number of schemes for the improvement of hygienic conditions in the loading centres, pre-processing units and also to improve the overall standard of processing, storage etc. The authority has been conducting training courses for upgrading technical skills of persons in the processing factories. Several workshops, seminars etc. on quality up-gradation are conducted by the Marine Products Export Development Authority.

Agricultural and Processed Food Products Export Development Authority (APEDA): Agricultural and Processed Food Products Export Development Authority came into existence on August 12, 1986. It serves as a focal point for export development of agricultural and horticulture products including the processed foods in value added form. Agricultural and Processed-food Products Export Development Authority is a promotional agency and does not undertake any direct export of products on its own account. However, it makes efforts to promote the new products and open up new markets. Through the efforts of APEDA, several agricultural-based including grapes, mangoes, pomegranates, tomato prepared/ preserved, and canned button mushrooms, frozen/dried mushrooms are being exported successfully from India. Government of India provides financial assistance to eligible exporters for establishment of various facilities for exports of scheduled products of APEDA. Some of the programmes encouraging exports are listed as:

- Scheme for development of infrastructure and services.
- Scheme for export promotion and market development.
- Scheme for packaging development.
- Scheme for assistance to promote quality and quality control.

- ❖ Scheme for up-gradation of meat plants.
- ❖ Scheme for organization building and human resource development and training.

Apart from the above, the APEDA has set up a Vapour Head Treatment Plant at New Delhi with the aid from Japan.

Export Credit and Guarantee Corporation of India: Established in 1957, the Corporation supports the country's exports by providing a range of insurance covers to Indian exporters against the risk of non-realization of export proceeds due to political or commercial reasons. Moreover, it provides guarantees to financial institutions to facilitate grant of credit facilities to exporters on liberal basis. Over the years, the corporation has introduced a number of special schemes to suit the particular needs of exporting community. ECGC is not a lending institution. However, the commercial banks offer the financial credit to exporters on the basis of insurance policies and guarantees issued by ECGC.

Public Sector Agencies: The State Trading Corporation and Mineral and Metals Trading Corporation are public sector undertakings under the administrative control of Ministry of Commerce.

(a) State Trading Corporation of India: Initially set up as a private limited company in 1956, the STC was converted into a public limited company way back in 1959. The STC facilitates the exploration and development of new markets for a range of products. Also, it acts as a canalizing agency for the import of bulk commodities required for industrial and economic development of India. The Corporation has following subsidiaries:

1. The Handicrafts and Handloom Export Corporation of

India Ltd.

2. Projects and Equipment Corporation.
3. Cashew Corporation of India Ltd.
4. Central Cottage Industries Corporation of India Ltd.
5. Tea Trading Corporation of India Ltd.

As part of infrastructure development, the corporation is constructing a warehouse for dry cargo at Kakinada Port. Efforts are also being made for getting allotment of land at other selected ports for development of storage facilities for dry/liquid cargo.

(b) Minerals and Metals Trading Corporation: The Corporation deals with export of canalized items like iron ore, manganese ore, coal etc. and non-canalized items like agro-products, engineering, gem & jewellary and minerals and ores. Canalized imports are restricted only to import of urea while major items under non-canalized imports include non-ferrous metals, fertilizers, gold, silver, rough diamonds and emeralds. In addition, the corporation provides valuable market support to the manufacturers and exporters of various products from the country.

6.2.3 Advisory Bodies

The Government of India has set up a number of advisory bodies in order to tap the collective wisdom of industry and trade. The advisory services thus channelized form a major input for working out key export-import policies and successful implementation of these policies. Important advisory bodies working in the country are:

I) Board of Trade.
II) Export Promotion Board
III) Board of Approval for EOUs/EPZs/SEZs

IV) Zonal Export Import Advisory Committees

V) State Export Advisory Committees

Board of Trade: Board of Trade constituted under the Chairmanship of Minister of Commerce with RBI Governor, Secretaries of Ministries of Commerce, Industry, Finance, Textiles, Special Secretary in the Prime Minister's Office, Presidents of Chambers like FICCI, ASSOCHAM, CII, FIEO, and others provides a forum for continuous dialogue with trade and industry relating to foreign trade. The Board consists of twenty-eight members including representatives from different organizations and individuals with business standing and expertise in the field of commerce. The Board ordinary meets twice a year and tenders advice to the Government on matters relating to export-import policy and programmes, operation of export and import controls, organization and expansion of export-production. The Board carries out a review of export performance of various sectors, identifies the constraints and suggests measures to be taken by the government and industry consistent with the need to maximize export earnings.

Export Promotion Board: There is an Export Promotion Board was constituted in August 1997 under the chairmanship of the Cabinet Secretary to approve policy and infrastructural support through greater coordination among various Ministries/Departments/ Organisations for boosting export growth. All Ministries/ Departments/Organisations requiring inter-Ministerial coordination to give the necessary impetus to exports are represented on the Export Promotion Board.

Board of Approval for EOUs/EPZs/SEZs: A special board for approvals for 100 % EOUs and EPZs/SEZs has been constituted for the consideration of large proposals which cannot be approved by the Development Commissioners of the EPZs/SEZs. Cases involving foreign equity are considered by Foreign Investment Promotion Board.

Zonal Export and Import Advisory Committees: In order to make a detailed study of the export possibilities of commodities exported from different regions and to advise the government and concerning specific problems of exports from these regions. The government has constituted four Regional Export Promotion Advisory Committees namely, (a) Western Zone (Bombay), (b) Southern Zone (Madras), (c) Eastern Zone (Calcutta), (d) Northern Zone (Kanpur). Representatives of different governments, as well as customs and central excise department are included in these committees.

State Export Advisory Committees: State governments have also constituted committees responsible for export promotion. The committee can suggest appropriate policies for the development of exports from the State in consonance with the policies of the central government, and are helpful in solution of problems affecting the exports from these states.

A scheme has been evolved for granting assistance to the States on the basis of their export performance for development of export infrastructure To facilitate an equitable allocation of resources, the amount will be distributed on the basis of absolute export performance and on the basis of an incremental one. It is compulsory to quote code No. of the state of origin of export goods. Moreover, there is a States Cell in the Department of Commerce to act as a nodal agency for interacting with State Governments on matters concerning exports/ imports and providing guidance to State level organizations.

North East Cell is functioning in the Department of Commerce to augment the trade and commerce in North Eastern Region as there is a wide scope of increasing trade with neighbouring countries of the North Eastern Region. These countries have been the traditional markets for a variety of goods and services produced by this region. The North Eastern States have already established a large volume of informal trade with Myanmar and Bangladesh. These States can form important gateways to an expanded trade with the Asian markets.

6.2.4 Attached And Subordinate Offices

Various attached and subordinate offices are working under Ministry of Commerce. Their objectives are to facilitate, promote and regulate the export function. The offices include:

- I) Directorate General of Foreign Trade
- II) Directorate General of Supplies and Disposal
- III) Directorate General of Commercial Intelligence & Statistics
- IV) Export processing Zones (EPZs) / Special Economic Zones (SEZs)

Directorate General of Foreign Trade: Formerly known as Chief Controller of Imports and Exports (CCI & E), DGFT is an important office of the Ministry of Commerce. It plays a key role in formulation of Indian Export-Import Policy and its implementation thereof. It has set up regional offices in almost all states and Union Territories of India. These offices are known as Regional Licensing Authorities and act as Export Facilitation Centres. These centres function as a nodal agency attending the problems and grievances of exporters, and co-ordinate with other departments to resolve all the trade and export related problems faced by exporters. In addition to Licensing Authority, the Directorate has set up Export Promotion Offices in different parts of the country. An export promotion office acts as registering authority and is responsible for granting of Registration-cum-Membership certificate to such exporters whose products do not fall within the jurisdiction of any other registering authority. Moreover, for speedy redresal of genuine grievances of trade and Industry, grievances committees headed by Director General of Foreign Trade at headquarters and at the regional level headed by the Regional Licensing Authority have been constituted in the respective licensing offices. The Grievance Committees include the representatives of FIEO, Commodity Boards, Export Promotion Councils and Relevant Government Department.

Directorate General of Supplies and Disposal (DGS&D): It is the executive arm of the Supply Division of the Department of Commerce for conclusion of the rate for common user items, procurement of stores, shipment and clearance. The Director General of Supplies & Disposal heads the Directorate.

Directorate General, Commercial Intelligence & Statistics: The Directorate acts as a primary government agency for collection, compilation and publication of foreign, inland and ancillary trade statistics and dissemination of various types of commercial information. The Directorate brings out a number of publications particularly on trade statistics, which are needed by industry, government and exporters for policy formulation, formulating trade agreements with foreign countries and monitoring these agreements. The Directorate conducts studies on various topics relating to promotion of trade.

The DGCI&S is the official designated agency for assisting in settlement of trade disputes among exporters and importers. It provides Indian businessmen going abroad with letters of introduction to Indian Commercial Representatives. Moreover, it provides service to visitors seeking information on trade, commerce and other allied matters across the table on a wide range of subjects such as overseas importers, products of their imports and Indian exporters and the products offered by them in the international market.

Export Processing Zones (EPZs)/Special Economic Zones (SEZs): Export Processing Zones are set-up as enclaves separated from domestic tariff areas by physical barriers, are intended to provide a duty free environment for export promotion. Each Zone is headed by a Development Commissioner. A scheme for setting up Special Economic Zones was announced on 31st March, 2000. Units may be set up in SEZs for manufacture, trading, re-conditioning, repair or for the service activity. The units in the zone have to be a net foreign exchange earner but they shall not be subjected to any predetermined value addition or minimum export performance requirements as in case of EPZs. Sales in the Domestic Tariff Area in the SEZ units shall be subject to positive foreign exchange earnings and on payment of full Custom Duty and import policy in force. The Government has since converted all the existing Export Processing Zones into Special Economic zones. These Zones are responsible for administration of Export Oriented Units located within the zones.

6.3 SUMMARY

Worldwide, governments play a vital role in encouraging exports. The Export-Import Bank was created by the Indian

Government to provide low-cost financing to encourage exports. The Trade Policy Division of Ministry of Commerce deals with the broad aspects of country's trade policy in relation to various international bodies such as GATT, UNCTAD, ESCAP, EU, NAFTA, ASEAN, APEC as well as many more regional groupings. Eight Commodity Boards namely Tea Board, Coffee Board, Coir Board, Central Silk Board, All India Handicrafts and Handloom Board, Tobacco Board, Rubber Board, Spices Board has been set up by Government of India. The Export Inspection Council is an apex body for controlling the activities of quality control and pre-shipment inspection of various products meant for exports. Indian Institute of packaging has been entrusted with the responsibility about improvements in the standard of packaging in the country for exports. Director General of Foreign Trade plays a key role in formulation of Indian Export-Import Policy and its implementation thereof. The provision of customs-privileged facilities, via the establishment of EPZs and SEZs is a recent trend that many countries have adopted to encourage and facilitate international trade.

6.4 KEYWORDS

North American Free Trade Agreement (NAFTA): A free-trade agreement involving the USA, Canada and Mexico that went into effect on January 1, 1994 and will be phased in over a period of 15 years.

Association of South East Asian Nations (ASEAN): A free-trade area involving the Asian Countries of Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand.

General Agreement on Tariffs and Trade (GATT): A multilateral arrangement aimed at reducing barriers to trade, both tariff and non-tariff ones, at the signing of the Uruguay round, the GATT was designated to become the World Trade Organisation (WTO).

Generalized System of Preferences (GSP): Preferential import restrictions extended by industrial countries to developing countries.

Non-tariff Barriers: Barriers to imports that are not tariffs; examples include administrative controls, "Buy America" policies and so forth.

6.5 SELF ASSESSMENT QUESTIONS

1. Explain the role of Director General of foreign trade in promoting exports.
2. Discuss the recent developments regarding Special Economic Zones in India.
3. List out various advisory bodies working in India and their specific role.
4. Explain the functions of the following:
   - (a) ECGC
   - (b) APEDA
   - (c) IIP

6.6 REFERENCES/SUGGESTED READINGS

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Lesson No.: **7**

EXPORT PROCEDURE AND DOCUMENTATION

STRUCTURE

7.0 OBJECTIVES

After studying this lesson, you should be able to

- understand entry strategies in foreign markets.
- understand various modes of transport to be used in International Business.
- discuss the documents used in exports.
- classify the packaging and associated problems.

7.1 INTRODUCTION

Since World War II one of the most significant economic development is the increasing internationalization of business. The business dealings have been escalated on a global scale during the last three decades. Some of the leading companies across the world have turned their attention to international business in order to take a competitive edge in today's era of commercialization. The today's global activities can be described as the Second Industrial Revolution. The today's market provides the products of different kinds which is as per the needs and requirements of the customers and at the particular destination where he requires it.

7.2 PRESENTATION OF CONTENTS

7.2.1 Export marketing

Export marketing, though it has certain distinct characteristics, is similar to domestic marketing in terms of certain technical attributes. Marketing can be conceived as an internal part of two processes, viz. technical and social. International marketing and domestic marketing are identical, so far as technical process is concerned. It includes non human factors such as product, price, cost, brands, etc. The basic principles regarding these variables are of universal applicability. But the social aspects of marketing is unique in any given stratum, because it involves human elements, namely, the behaviour pattern of customers and the given characteristics of a society, such as consumers attitude, values, etc. It is obvious that marketing, to the extent, it is visualized as a social process, will be different from domestic marketing.

Export marketing can, be defined as "marketing activities carried on across national boundaries." The Export marketing is different from domestic marketing both in the way of exchange and needs and requirements of international buyers. Therefore the knowledge of, and the ability to perceive basic pattern in consumer behaviour in different environments is particularly vital element in the makeup of the international marketing. The role of Export marketing manager becomes very important in this context. To work successfully in an international environment, the marketing manager must have the ability to seek to understand the environment and way of thinking regarding the consumers, competitors, suppliers or employees in the new country. There must be at least three major dimensions to the skills of the International marketing.

1. Competence in marketing, with a sound grasp of marketing concepts, tools and techniques.

2. Ability to perceive patterns of consumer behaviour in different countries and the ability to evaluate the essential differences and similarities between markets.

3. Management skill to organize, plan, co-ordinate and control an operation of considerability greater complexity particularly in its human relationships—than that involved in the home market.

The skills involved in marketing have been aptly summed up by J.B. Mckitterick of the General Electronic Company as, "the principal task of the marketing function in a management team wedded to the marketing concept is not so much to be skillful in making the customer do what suits the interests of the business as to be skillful, in conceiving and then making the business do what suits the interests of the customer." Therefore it is apparent that the job of International marketing involves an additional dimensions and requires a unique combination of skills.

7.2.2 Entry Strategies

A multinational company can enter into foreign market by following ways:

(1) Exporting: Export trade is a best way to enter in the foreign market. By this way companies are exporting domestically manufactured products to the foreign countries. They are minimizing the risks involved in the International marketing. They are responding to the inquiries and also creating demand for their product by participating in the International trade exhibitions and others. It is evident that many U.S. brand firms are doing their export business on the basis of their pattern.

(2) Contractual Agreements: There can be many contractual agreements, on the basis of which a firm can do its business activities in the foreign marketing. There agreement can be classified as under in brief.

(a) Patent Licensing: It is based on the royalty basis or it can also be based on a fixed fee basis. The managerial training is also included in it.

(b) Management Contracts: This system is widely used in middle-east. The multinational corporations provide skilled personnel to their companies to operate on the basis of fixed fee basis. They provide this expertise to their countries uptill there local people do not get ability to handle the business independently.

(c) Licensing: Licensing is a variable alternative to some contractual agreements. It encompasses variety of contractual agreement, such as patents, technical know-how, trade mark to foreign companies in return for royalties or other fee.

(3) Joint Ventures: It requires various levels of direct investments. Many U.S. based firms joined hand with other companies of East countries as joint venture to accomplish the mutual objectives of the enterprises. Joint venture provide an alternative to domestic as well as foreign companies to share risk, and to join forces. The venture is aimed at making best use of each other's technical and other strengths. An example of a joint venture is General Motors Corporation having partnership with Egypt based Nasan Company to establish a plant for assembling trucks and engines. It can be said that joint ventures are a wave of the future.

(4) Manufacturing: A multinational company can also establish itself in the foreign marketing by direct investments or through its subsidiaries. A firm interested in entering the international marketing must evaluate the risk and commitment involved. It is suggested that MNCs should not start its manufacturing activities in the overseas market until or unless they are not sure with the risk involved in the investments.

7.2.3 Documentation

Documentation is very important to move merchandise as well as cargo to the international marketing. It adds additional cost to the total cost of goods sold. In most of the cases the marketers find it more practical to leave the physical distribution of goods to the technically specialist agency. For example many multinational like IBM is having its business activities in many countries across the world market. The company takes help of the specialized agencies for the distribution of its products throughout the world market. It is for the international direct marketers to make it certain that their channel of distribution is convenient for their customers. For example in the European Union the transportation of the products has become very easy and more efficient. Further the steps at international borders in those countries are limited to checking on legal matters only. It may be to check the illegal immigrations and dug trafficking. Even in some of the counties of European Union, people are free to move within the Union states without showing passports.

Further the different nations in the world market are also working towards automated custom's and minimum or paperless custom procedure in the international market, as to facilitate the frequent cargo movements. The customs co-operation council has also approved a system, which will facilitate the custom administration to work towards electronic data interchange. The main body in this regard is a United Nations supported group called by the name of Electronic Data Interchange for Administration, Commerce and Transport (EDIFACT). The use of latest electronic trading technology will improve the speed and efficiency of world trade and data significantly.

In Export market, a company is to insert the proper identification number to its products so as to fill out the required formalities of documentation. If a product is made of several materials, it should be classified with that material which represents its main characteristics.

There are many types of documentation in the export market. But generally, it can be classified on the basis of two main categories:

(1) Shipping Documents: The shipping documents are prepared to move the shipments. They are prepared as to fill up the customs requirements and also to allow the cargo to be loaded, shipped and finally unloaded. All the requirements for shipping, loading and unloading are to be fulfilled and mentioned upon. There are many types of shipping documents. There can be explained as under:

(i) Export License: An export license is a permission which allow an exporter to export its merchandise. It is needed for all kind of exports. In the United States, there are two types of export license procedure: (i) General License, (ii) validated license.

(ii) General License: A general license is a permit for which no application is required. It is a permit for which no document or any kind of other authorization is granted. It is general kind of permission of export of certain commodities or some kind of other technical data, without applying for a license document. It allows the export of all those kinds of goods published in an authorizations list and also covers the export of those commodities not under restriction or control. Those products which meet the specific parameters can be shipped by putting General License symbol on the shipper's export declaration.

(iii) Validated Export License: It is a formal authorization document, for which an exporter may apply if he fails to qualify for a general license. The United States require this type of licensing for the strategic commodities and for the technical significance. Under such systems of foreign policy controls the restriction are placed on export to certain countries. Further in certain circumstances of short-supply controls, the licenses are given on to keep an eye to prevent the depletion of strategic and scarce resources of the country. The most of the products are exported and shipped under individual validated export license. It authorizes an individual sale of certain commodity to the certain buyers in the certain country, while the Special License permits the sale of a certain rank of products to certain buyers in the certain countries. It is carried out if the exporters satisfy that they have introduced a strict control process.

Further the technical data is also subject to the export control process. The technical information or data can be used in the production, designing, or reconstruction etc. The export of such types of information requires a validated export license. It is pertinent to mention here that the technical data can be exported under one of the two technical data general licenses.

As far as export controls are concerned it can be co-ordinated at the international level frequently. In United States most of the export controls are multilateral controls. They are maintained with the co-operation with other countries.

(2) Shipper's Export Declaration Form: The shipper's export declaration form is to be filed for all shipments. It should be deposited with an exporting carrier. The shipper's export declaration form is a multipurpose document. Generally it serves the following purposes:

(i) It serves as an export control document.

(ii) It is helpful to administer the requirements of the Export Administration Act.

(iii) It assist the Bureau of Census by providing statistical information on export shipments.

(3) Packing List: A packing list is a document which contains all the detail about the merchandise. The packing list consists of following information:

(i) Types and total number of units,

(ii) The contents of the merchandise,

(iii) Weight and measurement of each unit.

(iv) Markup and numbers.

A packing list is helpful to serve following purposes:

(i) It is helpful in custom clearance,

(ii) It is helpful to keep track of inventory of goods.

(iii) It assists in tracing the lost goods.

(iv) It assists in insurance claim by determining the content of lost pieces.

(v) It is helpful in estimating shipping cost prior to the export.

(4) The Shipper's Letter of Instructions: This is a form provided by the shipper to the freight forwarder. It contains all those pertinent information and instruction regarding the shipment and also about its handling. The shipper may authorize the forwarder to issue all necessary documents on behalf of him and to put his signatures accordingly.

(5) Receipt: It is a proof of delivery (POD) for the merchandise received at the dock or warehouse. This document is required for shipments on the parts of united States, Gulf Coasts, etc.

(B) Collection Documents: An exporter is to provide with a number of documents to the buyer as to satisfy him that the shipment has been made as per the agreed terms and conditions. The seller can make the request for the payments accordingly, as per the agreed terms and conditions. On the other hand the buyer do need all these documents to satisfy the rules and regulation of his home country.

(i) Invoices: Invoices are used for the collection of payments. Generally there are two types of invoices used for this purpose:

(1) Proforma Invoice: It is an Invoice which is provided by the supplier prior to the shipment of merchandise. The proforma invoice is provided by the seller for the following purposes:

(a) To inform the buyers for the kinds of goods to be dispatched.

(b) To inform the buyers about the quantity of the goods dispatched. It includes important specifications like weight, size, etc.

(c) To inform the buyers about the value of the goods to be sent. It may help the buyers to make the arrangements for the payments at the earliest.

(d) The proforma invoice is required for the buyers, in order to obtain import license.

(e) The proforma invoice is also required to open letter of credit.

(ii) Commercial Invoice: It is an important document of export business, which provides a list of shipped goods and a detail of other charges. It provides a complete description of the goods dispatched. It can also be said to be a complete record of business transactions between buyers and sellers. The following types of description are included in the commercial invoice.

- quantity of the merchandise,
- price charged for the goods sent,
- shipping terms,
- payment terms.

Further it is pertinent that the commercial invoice should provide the complete breakdown of all the charges. It is required to clear the goods through customs. Therefore the breakdown of the charges, related to inland transportation, loading charges, freight and insurance charges and others should be provided. The commercial invoice must include all other necessary information required by the importer's country government. The necessary information required by the exporter's country should also be satisfied.

(iii) Foreign Custom Invoice: It is an invoice which is required by the custom authorities in certain countries. Some time the custom authorities may not recognize the commercial invoice for their requirement purposes. Therefore a special format invoice is required in lieu of the commercial invoice. The information provided on such types of invoices are similar as in case of the commercial invoice. It may also contain the certification with regards to the value and origin of the shipment.

Consular Invoice: Many countries notably requires legalized documents. In addition to the commercial invoice, these countries require consular invoice. It is a descriptive document prepared by the exporter in the language of buyer's country on an officially prescribed form supplied by the buyer's country government. The main and basic purpose behind such invoice is to monitor merchandise and the flow of the capital. It must have seal, signature and an official stamp affixed on it. The Consulate General takes this responsibility to fulfill all the requirement, who represent on behalf of the government of the importing country. The Consulate General is to verify all the contents of the invoice. He is to certify the authenticity and correctness of the detail of the contents, which should includes the following contents:

- Detail about the total value of invoice
- Detail about the quantity of the invoice.
- Detail about the nature and other contents of the invoice.

Generally a certain fee is charged for this sort of services. The consulate may take his own time for approving the legalized documents and to return the same. Therefore, it is for an exporter to allow sufficient time for the processing of said invoice. It is pertinent to mention here that a consul invoice is a legalized document and any error noted in the later stage require a special consideration. No correction of any kind can be made by the exporters at this stage. Because a consular invoice is a certified document and such type of correction are considered forgery, for which a severe penalty can be imposed. The information contained in the consular invoice are generally same as per the commercial invoice. The difference in both may be of specific information required by the consulate. Therefore it is the best way to talk directly with consulate regarding those specific requirements. The reference manuals like Bureaus of National Affairs (BNA) can also be consulted for this.

(iv) Certification Of Origin A certificate of origin is a document, which is prepared by exporter. It identifies that the particular merchandise is originated in a particular country. It is also an important and necessary document for tariff and control purposes. It is also helpful to prevent unusual import of goods from prohibited countries. The forms of certificate of origin can vary. It may be on shipper's own letterhead to a countersigned certificate by the Chamber of Commerce. In certain circumstances such forms should be legalized by the resident consul of an importing country. The Form can be provided and recommended for this purpose by the United Nation.

(v) Inspection Certificate: This certificate is generally prepared by an independent firm or agency, which is other than the exporter. An inspection certificate is a document, which certify the quality or quantity of goods being shipped. It also certifies that the merchandise was in a good conditions prior to its shipment. Many foreign buyers require a shipper's affidavit or a certificate of an independent inspecting agency, which also certify the quality and quantity of goods strictly as per the order. It also ensure and certify that the goods has been shipped as per the agreed terms and conditions.

Special Purpose Documents: The buyer can request for the special purpose documents as in the case of an inspection certificate. The special purpose documents may includes the following:

(a) Certificate of weight.

(b) Certificate of measurement.

(c) Certificate of analysis as to ensure quality and others.

The certificate of weight and measurement is provided by an independent agency. It ensure that weight and measurement of the merchandise is as per the contract. Further the certificate of analysis contains the report of an expert on the findings of the composition of merchandize shipped. It also ensures that the goods are shipped as per the contract made by an exporter.

Insurance Certificate: An Insurance certificate provide full coverage for the entire shipment. It also describes the transactions and other coverages in brief. Generally a certificate of insurance is issued as an open coverage policy. It provide the coverage to insure all kinds of shipments. It also protects the merchandise from any kind of damage in transportation. The marine insurance policy uses to cover every modes of transportation.

Air Way Bill: Basically it is a bill of lading issued by an air carriers for shipping the merchandize through air way. This is not a negotiable instrument or document. Therefore the merchandize is released to the designated consignee even without having a way bill.

Bill Of Lading: A bill of lading is a document, usually prepared by the shipper on its form issued to record transactions related to the shipment. The bill of lading serves the following purposes:

(a) A Document of Title: It is a document which certify the ownership of a merchandise. It also permit the importer to claim the goods as per description.

(b) A Receipt of Goods: A bill of lading serves the purpose of receipt of goods dispatched. It is also a proof of the freight of carrier's possession. A receipt of goods is issued by the carrier to the shipper for merchandise handed over to the carrier's care for transportation.

(c) A Contract of Carriage: A bill of lading establishes the contractual terms between shipper and the carrier. It also defines the terms and conditions under which the goods are to be dispatched. The responsibility for the delivery of merchandise is also defined by a contract of carriage.

Further a bill of lading can be issued for the following modes of transportations:

(a) Inland modes of transportation.
(b) Ocean modes of transportation.
(c) Air Transport.

When the bill of lading is issued by the railways or roadways modes, it is called an inland bill of lading. It enables the movements of merchandise form the warehouse of the shipper's to the port.

On the other hand in an ocean bill of lading it is issued by ocean modes of transportation or by the steamship lines. Whenever a bill of lading is issued by an air carrier or transport, it is called an air way bill. Nonvessel operator common carrier (NVOCC) is an another type of bill of lading, which consists freight of a container for shipping.

Further, the bill of lading is acceptable in that case, whenever it is marked clean and on board. When there is no evidence of damage to the conditions of the cargo, it is called clean bill of lading. The cargo should be received in good order and conditions without exceptions. On the other hand, whenever there is evidences or indication of damage to this goods received, the bill of lading is foul. Further whenever an on board bill of lading is issued, the cargo should be loaded in abroad, the named vessel on the given date of loading. Further a received for shipment implies that goods are received by the steamship company. It is pertinent to mention here that goods are not yet loaded on board. In a particular vessel, which may end up on another vessel.

A bill of lading can also be straight or negotiable. When the goods are consigned directly to a consignee rather than to consigned it to order it is called a straight bill of lading. A straight bill of lading is non-negotiable document. Therefore, it allows the delivery of the goods to the consignee or to the party mentioned on the bill. It is for the carrier's to ensure that the receiving party is actually the named party. The importer is to show the proof of his identity as to take possession of the shipment.

On the other hand, negotiable bill of lading allow the delivery of goods to the named party or to any one who is designated. The goods are consigned to order. If the document is endorsed, the delivery of the title is allowed to the holder of the documents or to the party to whom it is endorsed.

Further both straight bill of lading or order bill of lading serve the purpose of collection documents. The importer is to pay for the merchandise or he is to meet other required conditions before obtaining the bill of lading. Finally the shipper endorses the bill and put it to the bank for the collection purpose. It is also an evidence of satisfying all the terms and conditions of the contract.

Distribution Channels and Logistics: Distributon is one of the most important component of marketing. The distribution of products is a necessary as well as costly activity. There are certain difficulties in moving products to the overseas market. The congestion at the port, lack of efficient equipments for material handling can come a long delay to reach the product to the ultimate customer. Therefore a multinational company must make an arrangements for transportation and it must pay attention to how the product is packed for shipping. An attempt has been made in this chapter to examine the various issues related to the process of distributing a product to the overseas market. The major transportation modes has been compared.

7.2.4 Modes Of Transportaton

The mode of Transportations is a very important factor, which influences international marketing mix. Generally there are three basic modes of transportations used. These are air transport, water transport and land transport (railways and truck etc.). The air transport and water transports are used generally for exporting products to overseas market. It is useful when boundaries are not connected and buyer is located at considerable distance. On the other hand, whenever the countries are connected by land, it is useful to go for railways or highways to move merchandise from one location to another. For example from the United States to Canada. Another example may be of European market, where railway is considered to be an important mode of transportation, because of availability of a modern efficient and quick railway system. The mode of transportation depends upon the following factors:

(i) Market location,

(ii) Speed consideration,

(iii) Cost consideration.

(i) Market Location: The land transport, such as railways or highway (truck) are used to serve contiguous markets. On the other hand air transportation or water ways are preferred to move merchandise in between the continents.

(ii) Speed Consideration: Speed is another consideration for selecting mode of transportation in international business. The air transport channel of distribution is preferred if the speed is an essential consideration for distributing the merchandise. If the delivery of the goods is promised quickly or the goods are urgently required, the air transport is preferred. For perishable products, air transport preferably a direct flight is selected, because it is helpful to reduce wastage and theft. On the other hand if the speed is not a consideration other modes like road transport or water transport may be preferred.

(iii) Cost Consideration: Cost is another factor, which is considered while selecting mode of transportation for international market. Generally the cost is directly linked with speed of delivery. If the goods are required quickly, it will cost more. If the goods are to be delivered through sea transport, it will increase the cost of packaging in comparison to air transport.

Finally a business firm must understand that no mode of transportation is ideal always. Each channel of distribution do have its own limitations and features as well. Therefore the selection of mode of transportation depends upon the needs and requirements of the customers and it tends to vary accordingly. The different types of mode of transportation can be explained as under:

(1) Land Transport: Land transportation is an important mean of delivering the goods, whether it is domestic or an overseas shipment. Land transportation is also used in moving goods to and from an airport or at seaport. The railways and trucks are used in land transportation mode. If the quantum of merchandise is large and distance is also quite long, the railway mode of transportation can be an economical mode of delivery. Generally it is suitable in Japan and in Europe, because of efficient and developed infrastructure of railways in these countries. On the other hand trucks may be used to take merchandise to and from railway station. If the countries do have joint boundaries, truck or train may be a practical solution. The laws of both countries should be liberal in this regard. The road transport may be advisable in those countries, where the situation is common. The less developed economies tends to rely on road transport.

(2) Air Transport: It is one of the most fast growing mode of transportation and is confined to expensive products. The air transport mode of delivery is quite costly but there are many advantages associated with delivering goods through air transport. The following are the main advantages of selecting air transport channel of delivery.

(1) The air modes of transportation are helpful to speed up delivery and minimize the time in transit.

(2) It is helpful to get flexibility in delivery schedules.

(1) It enables to deliver perishable products in their original form.

(2) It is helpful to respond to the urgent needs and requirements.

(3) It is helpful to control inventory and other hidden costs.

(4) It is helpful to minimize packaging costs and insurance costs.

(5) It is helpful to control damages in transit.

Traditionally it was presumed that air cargo should be confined to high value products. One reason for that determination was that transport cost is a small proportion to such products value. Another reasons was that the amount of capital tied up with these products while in transit is high and should be released as soon as possible. Further the air freight rates are usefully quoted per unit of weight, whereas the sea freight rates are usually quoted per unit of weight or volume whichever is higher. The air freight is considered quite competitive for low density goods as ladies shoes, men's shoes, computers, colour T.V. sets, refrigerators, towels, etc.

(3) Water Transport: It is one of the most practical and efficient means of transportation for bulk shipping in international business. It is considered to be one of the dominant form of international mode of transportation. Its main advantage is its low cost for transportation. Whenever it is to deliver bulk merchandise like industrial raw materials, petroleum and agriculture products to long distances, the water transport mode is always advisable. The quotation for ocean shipping can be obtained from the shipping company. The rates are quoted on the basis of weight and measurements. The goods are weighed and measured. The rates are quoted on the basis of that method which yields a higher freight charge.

The shipping company can be classified on the following categories:

(1) Conference Lines: Whenever the ocean carriers join hand to establish uniform and common rules freight and other terms and conditions for shipping, it is termed as a conference line. Each member in the association charges uniform rates. The dual rate system has also been adopted by the steamship conference as to accommodate contract exporters. A contract exporter agree to ship all or large portion of its cargo on regular basis at lower rates as compared to non contractual shipper.

(2) An Independent Line: It operates and quotes freight rates independently with out using dual-rate system. It accepts bookings from the shippers. However, they may lower their rates, when they are to compete with conference line for non-contractual shippers. Generally they use to provide only limited services and do not offer any specific advantages for contact shippers. The reasons behinds may be of not having any significant price advantage with them.

(3) Tramp Vessel: It does not have a predetermined schedule to operate on a regular route. They operate mainly whenever they get bulk cargo. Sometime certain laws of country restrict a shipper to mandatory use of a particular vessel as to protect country's interest.

In general the rates of United States Conference lines are higher in comparison to the line of other countries. It is because of the subsidies and other support provided by their government.

7.2.5 Cargo Insurance

The exporter should obtain marine insurance as to protect against losses and damages in transit and also to avoid any kind of dispute with overseas buyers. There are number of unavoidable perils found in the water transport carriers. These perils may be of following types:

- ❖ Severely bad weather,
- ❖ Sea water itself,
- ❖ Stranding
- ❖ Fire
- ❖ Collision or any kind of other accidents as shrinking.

The following types of insurance services can be provided, while shipping goods to the overseas market.

(1) Marine Cargo Insurance: It is an insurance that covers loss or all other kind of damages at sea. It is also applied to shipment by mail, air or ship. It has a quite large coverage. The export shipment is protected from any kind of damage or loss in transit. This type of insurance can be obtained by the exporters or transporters. It depends upon term of sale agreed by both parties. The Marine cargo insurance are of two types of coverage:

(a) One time coverage: One time coverage is applied to protect a single and specific shipment. The risks of such types of shipments cannot be distributed or shared with others. Therefore it is relatively an expensive affairs. Such type of insurance solution is practical if the export business is not frequent.

(b) An open coverage: An open policy insurance covers all kind of its shipments as described in the insurance policy within the specified geographic regions. Such type of insurance policy is automatically providing coverage on all types of cargo moving at the exporters risk in open coverage. Independent value of the shipment cannot be known in advance. The insured must declare all the shipments to the underwriter. An open coverage policy is meant for a specified period of time and a single premium is charged for this time period. The shipment is insured at the agreed rates. The contract for insurance has no termination date and it may be cancelled by any of the party.

7.2.6 Packaging

Packaging is an important instrument for distributing the goods in international market. The packaging may be classified on the basis of following criteria:

(i) **Consumer Packaging:** The consumer packaging influences the customers. It is designed for the purpose of influencing sales acceptance by the customers.

(ii) **Industrial Packaging:** Industrial packaging is an important component for shipping the merchandise to the overseas market. The purpose of industrial packaging is to protect merchandise for shipment and storage. It is more critical for foreign shipment because of the longer transit period and number of other kinds of hazards.

Problems Associated with Packaging: The following types of problems are associated with packaging.

(i) Problems of over packaging.

(ii) Problems of breakage.

(iii) Problems of moisture and temperature.

(iv) Problems of pilferage and theft.

7.3 SUMMARY

Export markets provide a unique growth opportunity, but competition in these markets is fierce. Business persons, therefore, should adopt appropriate marketing strategies to conduct export trade profitably. They should be aware of attractive markets, specialize in the export of products where business has a lead, adopt private measures to strengthen their competitive position in relation to foreign competitors, and develop an appropriate orientation for managing export business.

Procedurally, exporting requires locating customers, obtaining an export license from the government (a validated or a general license), collecting export documents (such as bill of lading, commercial invoice, export packing list, insurance certificate), packing and marking products, shipping products abroad; and receiving payment. Methods of receiving payment include cash in advance, open account, consignment sale, draft, and letter of credit. Of these, the latter two are most popular.

7.4 KEYWORDS

Consular Invoice: A document that covers all the usual details of the commercial invoice and packing list, prepared in the language of the foreign country for which goods are destined, on special forms obtainable from the consulate or authorized commercial printers.

Bill of Lading: A document that is issued to a shipper by a carrier, listing the goods received for shipment.

Export License: A document that grants government permission to ship certain products to a specified country

Certificate of Origin: A shipping document that determines the origin of products and is usually validated by an external source, such as chamber of commerce; it helps countries determine the specific tariff schedule for imports.

Distribution: The course— physical path or legal title— that goods take between production and consumption.

7.5 SELF ASSESSMENT QUESTIONS

Q.1 Define export marketing. What are the different modes or entry strategies for export marketing?

Q. 2 Which types of documents are used in export marketing? Explain in brief.

Q. 3 Write short note on:

(1) Market logistics.

(2) Export procedure.

(3) Cargo insurance.

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Lesson No.: **8**

PRODUCT DECISIONS FOR INTERNATIONAL MARKETS

STRUCTURE

8.0 Objectives
8.1 Introduction
8.2 Presentation of Contents
    8.2.1 Product Standardisation v/s Adaptation
    8.2.2 Degree of adaptation and standardisation
    8.2.3 Brand Name
    8.2.4 Packaging
    8.2.5 Auxiliary Services
    8.2.6 Country of origin effect
8.3 Summary
8.4 Keywords
8.5 Self Assessment Questions
8.6 References/Suggested Readings

8.0 OBJECTIVES

This lesson will provide you an opportunity to understand Products related decisions in international context. After studying this lesson, you should be able

- ❖ To understand the standardisation and adaptation approach.
- ❖ To understand the branding and packaging decisions
- ❖ To examine the country of origin effect

8.1 INTRODUCTION

If you travel around the world, you will come across familiar products and brands. You can see Coca-Cola, Xerox, Levi's, Mercedes etc. just about everywhere. These are global products. All products, however, are not available worldwide. These are called local products. Some companies specialise in global products while others develop local products. Let us focus our attention on the decisions managers take to offer products to international markets.

8.2 PRESENTATION OF CONTENTS

8.2.1 Product Standardisation v/s Adaptation

When management does not match products with target markets effectively, a product blunder occurs. Two common reasons are:

- Marketing wrong products to wrong market
- Marketing right product but not adapting the products according to the needs of the target market.

These reasons call for two tasks to be performed by the managers when they formulate product strategies for overseas markets. The first task is to take care in deciding what product to market and the second is to decide whether the company should standardise its products or adapt according to the needs of the market.

Some international firms enjoy strong customer preferences for their products. When these conditions occur, customer adaptation needs are minimal, and companies can follow a global strategy, selling a standardised product on a worldwide basis. IBM, Xerox, Coca-Cola, and Mercedes-Benz are example.

Other firms have to cater to market specific needs to be successful. These firms use product adaptation strategies. Levi's, for example, sells its blue jeans internationally but adjusts to different body types in different countries. McDonalds has also adapted its menu according to Indian customer's tastes and preferences by using cheese instead of ham and pork in its burgers.

(i) Product Standardisation– Many consumer durables such as automobiles, televisions, radios, camera, refrigerators, air-conditioners and so on appeal to similar basic needs in all markets. Generally, their promotional campaigns emphasise reliability, quality, superior performance, and price-quality combinations. In these categories of product, standardisation is better approach. For these products, the same formulas for market success work in most or all markets. The companies using this approach pursue global strategies that entail marketing essentially the same product everywhere and making only mandatory adaptations to secure market acceptance. Unfortunately, such markets are not very easy to find. Coca-Cola and Mercedes-Benz have virtually created such markets. Even Coca-Cola occasionally adapts the sweetness and fizziness of the product. Mercedes-Benz cars are also slightly different only because of local government safety requirements. Some arguments, as given below, advocates the use of product standardisation:

(a) Economies of Scale– Standardisation helps in achieving economies of scale. A standardised product with standardised packaging can be produced in larger, more economic quantities and then distributed to a number of different markets. If a product is particularly complex to manufacture or involves sophisticated technology then the pressure towards standardisating it in all markets might be considerable. The costs and implications of trying to adapt could be just too high.

(b) Mobile customers– International service industries aim to standardise their offerings as far as possible. A hotel chain serving business travelers, for example, will want to create a strong international brand image so that experiencing a stay at a Sheraton hotel in New Delhi is as similar as possible to stay at a Sheraton hotel in London. In this case, although the hotels are located in different countries, the market segment served is not geographically tied and thus the product has to be standardised for consistent positioning in the mobile customer's mind. Other products, targeted at internationally mobile customers, implement a deliberate standardisation strategy. Kodak or Fuji films, for example, have to be immediately recognisable by tourists wherever they are.

(c) Homogeneity of tastes– Underlying the arguments offered by the proponents of standardised products is the premise that global communication and other worldwide socialising forces have fostered a homogenization of tastes, needs, and values in a significant sector of population across all cultures. This has resulted in a large global market with similar needs and wants that demands the same reasonably priced products of good quality and reliability.

(ii) Product adaptation– As companies extend their marketing operations overseas, most find market segments with sets of needs that can't be satisfied by global standards. If these market segments have large enough sales potentials, then MNCs adapt products to fit the localised needs. Most markets possess some unique characteristics that have the potential of rendering a global product unmarketable unless appropriate adaptations are made. For instances, because roads and streets in many old European and Indian cities are narrow and twisting, large US cars such as Cadillac and Lincoln are difficult to maneuver and sometimes impossible to use. Thus large US cars can't be sold in Europe until or unless adapted to consumer needs. Many factors support adaptation:

(a) Technical skill level – If the target country's level of technical skill is low and the product is highly sophisticated or technical, the marketer may develop a simplified version. In many developing countries, for example, TV manufacturers are offering black & white TV sets.

(b) Labour cost– If the target country's labour costs are low, manufacturers may develop a product that is less mechanised and more manual, cutting both manufacturing and operating costs. For example, many washing machine manufacturers offer hand used and semi automatic washing machines while for industrialised countries having high labour costs, they offer fully automatic washing machines.

(c) Level of literacy– Illiteracy is widespread in many parts of the world. In such areas, products must be simplified and carry clear and easy instructions. In some cases, as in Central Africa, instructions are in the form of stick figure drawings rather than in writing.

(d) Income level– Average income is low in Third World markets, and consumer equates product quality with durability. By contrast, in highly industrialised markets, consumers associate quality with how recent the model is. Thus, in low-income markets, manufacturers build more durability into the product, and in higher income markets, manufacturers aim for future sales of repair parts and service.

(e) Climate– Some countries' climates are so demanding that certain products require adjusting in order to function in order to function properly. Sensitive mechanical items, chemical based products, food items and other products must be redesigned.

(f) Product size– Product sizes must conform to the country's measurement system. FPS system of measurement is followed in USA and UK but in most part of the word MKS system is followed.

(g) Energy supply– In USA appliances work on 110 volts but in most of the developing countries appliances are designed to work on 220 volts.

(h) Customer needs– Any organisation has to think carefully about customer needs and wants and the extent to which the product satisfies them. If these needs and wants are different in international markets then adaptation might be necessary. A food product, for example, might have to be flavoured differently, be more or less sweet, be more or less salty, be more or less spicy, be more or less fizzy, contain less fat, have a different smell or be in a different colour to meet the preferences and expectations of the local market. Clothing too might have to be adopted by using different fabrics, colours, and sizes.

(i) Regulations– Organisations might be forced towards adaptation by technical or commercial regulations. Toys imported into EU, for example, have to conform to certain safety standards. Regulations might also cover product labeling relating to weight country of origin, declaration of ingredients, nutritional declarations, and product claims etc.

Adaptation may be in product ingredients, packaging, product features, instructions, and brand names.

❖ ***Adaptation in Packaging–*** Aesthetic changes in packaging improve the product's appeal at the point of purchase. Colour of packaging denotes different things in different parts of the world. The mourning colour in USA and Western Europe is black, but in Asia it is white, and in Latin America it is Purple. Green is associated with sickness in some parts of Asia, and red is not well received in parts of Africa. When management assesses packaging requirements for a market, it considers the factors such as colours denoting joy, pleasure, personnel well being or 'unhappy' colours.

Protective packaging also sometimes requires modifications. For less affluent Mexican consumers, detergents in smaller quantities are put up in plastic packaging, at low prices. In tropical markets, Quaker Oats uses vacuum cans for its cereals.

❖ ***Adaptation in product ingredients–*** Product ingredients are also adapted for many reasons. Local ingredients may be superior, as Cheeseborough-Pond's discovered when it came upon an excellent oil for its nail-polish remover in Central Africa. Levers Brothers uses whatever oils are available in local markets for its food items.

Sometimes, there are mandatory product changes in constituents. McDonald's uses cheese in its burgers instead of Beef and Pork in India as these items are banned due to religious reasons. Searle in France found the use of aspartame blocked by a 19th century law making sugar the only sweetener in candies.

❖ ***Adaptation in instructions–*** Literacy rates and educational levels of a country may require a firm to change a product's instructions. A simple term in one country may be incomprehensible in another. In rural Africa, for example, consumers had trouble understanding that Vaseline Intensive Care lotion is absorbed into the skin. 'Absorbed' was changed to 'soaks into', and the confusion was eliminated.

A complex product needs explaining to buyers whether in developing markets or advanced ones. Even in USA, 7 out of 10 owners do not know how to take full technical advantage of them. Introducing toothpastes into societies where there were none requires special promotional effort. Companies such as Lever Brothers and Colgate-Palmolive use traveling entertainment shows to promote dental care and demonstrate proper usage.

In multilingual markets such as in India, Indonesia, Zaire, and Zimbabwe, instructions appear in several languages. This approach has also been widely adopted for European markets, where product instructions are in several languages like English, French, German, Spanish, and Italian etc. In USA also, manufacturers selling in California, Texas, New Mexico, and Florida include instructions in Spanish for Hispanic market segments.

❖ ***Adaptation and branding*** **–** Brand names are rarely changed, other than translations, if an MNC wants to maintain marketing uniformity worldwide. Particular attention, however, should be given to translations of brand names. Chevrolet's brand name Nova translated 'no-va', meaning 'it doesn't go' in Spanish. Ford tried to sell its Pinto automobile in Brazil, it quickly found out that the car model's name translated to 'tiny male genitals'.

8.2.2 Degree of adaptation and standardisation

The degree of adaptation can be total or partial, or there can be no adaptation at all. If the marketing environment warrants it, adaptation could mean a complete overhaul of all elements of the marketing mix. At he other extreme, it could just mean a standardised product with slight alteration to the labeling on the package to make it conform to local regulations. Warren Keegan, looking at adaptation in terms of products and promotion, came up with five alternative strategies, reflecting differing levels of adaptation. These strategies are described below:

Product

	Same	Adapted	
Promotion: Same	Straight Extension	Product adaptation	New product and promotion/ Product invention
Promotion: Adapted	Promotion adaptation	Dual adaptation	

Strategies by Warren Keegan

(1) Straight extension – Here the same product and promotion is extended to foreign countries. This is product and promotion standardisation. Straight extension has been successful with cameras, consumer electronics, and many machine tools. Straight extension is tempting because it involves no additional R&D expense, manufacturing retooling, or promotional modifications, but it can be costly in the long run. In some cases it may be a failure also. General foods introduced its standard powdered Jell-O in the British market only to find that British consumers prefer cake form. Campbell soup lost an estimated $30 million in introducing its condensed soups in England; consumers saw expensive small-size cans and did not realize that water needed to be added.

(2) Product adaptation – Here the product is adapted according to the needs of the markets but promotion remains same all over the world. McDonald's uses this strategy. They change their burgers and other food items but promotion remains the same. Nokia has also customised its cell phones for Asia by raising the ring volume so that the phone could be heard in crowded Asian streets. In Japan, Mister Donut's coffee cup is smaller and lighter to fit the hand of the average Japanese consumer. Kraft blends different coffees for the British (who drink their coffee with milk), the French (who drink their coffee black0, and Latin Americans (who want a chicory taste).

(3) Promotion adaptation – Here the product remains the same but promotion is adapted in accordance with socio-cultural norms, value system and also media types and availability. Kodak uses this strategy world over.

(4) Dual adaptation/Product and promotion adaptation – Here both the product as well as promotion are adapted according to the needs of local markets.

(5) New product development/Product invention – Here entirely new product is developed for different markets and promotion is also new for this product. Product invention can take two forms, backward and forward invention. Backward invention is reintroducing earlier product forms that are well adapted to a foreign country's needs. Forward invention is creating a new product to meet a need in another country.

8.2.3 Brand Name

A global brand is defined as the worldwide use of a name, term, sign, symbol, design, or combination thereof intended to identify goods and services of one seller and to differentiate them from those of competitors. Much like the experience with global products, there is no single answer to the question of whether or not to establish global brands. There is, however, little question of the importance of a brand name.

A successful brand is the most valuable resource a company has. The brand name encompasses the years of advertising, goodwill, quality evaluation, product experience, and the other beneficial attributes the market associates with the product. Names such as Sony, IBM, Xerox, Philips, Coca-Cola are known everywhere around the world. Such brand familiarity can be, and most often is, an additional product feature. Due to this additional advantage, some products can enter world markets very easily. Consumers in these cases may think that it is a lesser risk to buy such a well-known brand, particularly because they are familiar with it. Additionally, the ownership of some of these brands is a status symbol in many parts of the world. It may give the consumer additional satisfaction through pride of ownership. Building brand equity, therefore, is very essential if a firm decides to go international.

A global brand gives a company a uniform worldwide image that enhances efficiency and cost savings when introducing other products associated with the brand name, but not all companies believe a single global approach is best. Multinationals such as Nestle, P&G, Unilever, and Gillette have some brands that are promoted worldwide and others that are country specific. Even Coca-Cola has some brands like Limca, Thums-Up, and Maaza only for India as it acquired the same from Parle, while Coke and Fanta are global brands.

Actually the companies that already have successful country specific brand names must balance the benefits of a global brand against the risk of losing the benefits of an established brand. The cost of reestablishing the same level of brand preference and market share for the global brand that the local brand has must be offset against the long-term cost savings and benefits of having only one brand name worldwide.

In those markets where the global brand is unknown, many companies are buying local brands that consumers want and after revamping, and repackaging are finally relaunching them with a new image. Unilever bought many products and brands like Hamam, Rexona, Moti and Kissan in India and relaunched them to find its market share zooming.

Another important fact that may be kept in the mind while deciding about global or local brands is that compared to Indians and consumers in other developing countries, US and European consumers are more brand loyal and can clearly distinguish between brands.

8.2.4 Packaging

The packaging of a product is substantially more important in international marketing than in domestic marketing. There are three reasons for this:

- First, products that travel great distances must be specially packaged for protection.
- Second, the package is often the company's first opportunity to communicate with prospective buyers, and it can be internationally effective through pictures or logos on the package.
- Third, in many parts of the world, packaging is recycled because of heightened awareness of preserving the environment.

Packaging frequently requires both discretionary and mandatory changes. For example, some countries require labels to be printed in more than one language, while others forbid the use of any foreign language. Labeling may contain some symbols that convey an unintended meaning and thus must be changed. One company's red-circle trademark was popular in some countries but was rejected in parts of Asia, where it conjured up images of the Japanese flag. Yellow flowers used in another company trademark were rejected in Mexico, where a yellow flower symbolises death or disrespect.

It is easy to forget that in low-literacy countries, pictures and symbols are taken quite literally for instructions and information. A well-known baby food producer that introduced small jars of baby food in Africa complete with labels featuring a picture of a baby experienced the classic example of misinterpreted symbols. The company was absolutely horrified to find that consumers thought the jars contained ground-up babies. In China, although not a problem of literacy, per se, Brugel, a German children's cereal brand which features cartoon drawings of dogs, cats, birds, monkeys, and other animal on the package, was located in the pet foods section of a supermarket. The label had no Chinese written on it, and store personnel were unfamiliar with the product and looking at the pictures placed it in pet section.

Package size and price have an important relationship in poor countries. Companies find that they have to package in small units to bring the price in line with spending norms. Unilever make its Sunsilk brand shampoo affordable in India by packaging it in tiny polythene bags, called sachets, enough for one use.

Labeling laws varies from country to country and does not seem to follow any predictable pattern. Prices are required to be printed on the labels in India, but in Chile it is illegal to put prices on labels or in any way suggest retail prices. Coca-Cola ran into a legal problem in Brazil with its Diet Coke. Brazilian law interprets 'diet' to have medicinal qualities. Under the law, producers must give daily-recommended consumption on the labels of all medicines. Coke had to get special approval to get around this restriction.

8.2.5 Auxiliary Services

Auxiliary or support services component includes repair and maintenance, instructions, installations, warranties, deliveries and availability of spare parts. Many otherwise successful marketing programmes have ultimately failed because little attention was given to this aspect.

If a company decides to foray in foreign markets it has to decide about the supply of spare parts and after sale services. It also has to create awareness on product usage and maintenance. As the product becomes more complex, the service component grows in importance. It is difficult, if not impossible, for any company including Japanese and US multinationals, to sell electronic and other products such as TVs, stereos, VCDs, Cameras, Refrigerators etc. in world markets including India without adequate service support. Automobile companies, in particular, have to build extensive dealer and service network if they decide to enter new country.

In some countries, the concept of routine maintenance or preventive maintenance is not a part of the culture. As a result, products may have to be adjusted to require less frequent maintenance.

8.2.6 Country of origin effect

Identification of a product's country of origin also affects the sale of some products in some countries. Country of origin may have positive or negative affect. Country of origin effect can be defined as any influence that the country of manufacture has on a consumer's perception of a product.

Actually, some countries have good reputations and others have bad reputations for certain products. For example, Japan and Germany have good reputations for producing quality electronics and engineering based products. India has good reputation in software development. French perfumes, Chinese silk, Scotland Whiskies, Italian leather, and Jamaican rum are considered good. Hong-Kong and Taiwan, on the other hand, are known for low quality low price electronic products.

In Russia, for example, the world is divided into two kinds of products, 'ours', and 'imported'. Russians prefer fresh, homegrown food products but imported clothing and manufactured items. Same situation exists in India, any cosmetic, and electronic item produced outside is considered good and sometimes status symbol.

Countries are also stereotyped on the basis of whether they are industrialised or developing. Industrialised countries have the highest quality image, and there is generally a bias against the products from developing countries.

8.3 SUMMARY

Decisions about products involve such issues as what products and product lines to introduce in various countries, to what extent a product should be adapted to local customs and characteristics, whether new products should be introduced, where the R & D effort should be concentrated, whether the firm should diversify into unrelated areas, which products should be eliminated, how products should be packaged, what brand policy to pursue, what after-sale services to offer, and what warranties the company should provide on various products.

Product means a bundle of attributes put together to satisfy a customer need. The product objectives for each country or market should be defined separately and be based on (1) overall corporate objectives and (2) the concerns of the individual national governments.

Product design is a major strategic issue. A company can either offer a standard product worldwide or adapt it to local requirements. Adaptation can be promoted by physical requirements or cultural requirements. The decision to standardize or adapt is dictated by the nature of the product, market development, cost/benefit considerations, legal requirements, competition, support system, physical environment, and market conditions. Generally, companies try to market a standardized product internationally. Although this helps in cost savings, standardization can also lead to missed opportunities.

There are four alternatives for formulating an international brand strategy: using one name worldwide, using one name with adaptations for each market, using different names in different markets, and using the company name as a family name for all brands.

International packaging is influenced by such considerations as customers, distribution channels, shippers, and host governments. The service/warranty component provides a company with an important opportunity to differentiate its product from the competition.

8.4 KEYWORDS

Brand: A name, term, sign, symbol or design, or a combination of these intended to identify the goods or services of one seller or group of sellers and to differentiate them from those of competitors.

Packaging: The activities of designing and producing the container or wrapper for a product.

Product Adaptation: Adapting a product to meet local conditions or wants in foreign markets.

Straight Product Extension: Marketing a product in a foreign market without any change.

Product: Anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need.

8.5 SELF ASSESSMENT QUESTIONS

(i) Discuss some of the product management decisions in international context.

(ii) Compare and contrast product standardisation and adaptation options.

(iii) How can a firm avoid blunders in marketing products internationally?

(iv) Write short notes on the following:

  (a) Branding for international markets

  (b) Country of origin effect

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Lesson No.: **9**

INTERNATIONAL PRICING

STRUCTURE

9.0 OBJECTIVES

Pricing decisions are very important for the success of any organisation. Its relevance increases manifold when an organisation price for international markets. This lesson is devoted to the issues related to international pricing. After studying this lesson, you should be able

- ❖ To understand the factors affecting the prices in international markets.

- ❖ To understand the pricing policies and strategies.
- ❖ To examine the pricing methods that may be used for international markets.
- ❖ To understand the pricing problems in international context.

9.1 INTRODUCTION

Setting the right price for a product can be the key to success or failure. Even when the international marketer produces the right product, promotes it correctly, and uses the proper distribution channel; the efforts fail if the product is not properly priced. Of all the tasks facing the international marketer, determining what price to charge is one of the most difficult and complicated decision specially when the company sells its products to customers in different countries.

Price is the exchange value of a product. It is one element of marketing mix that produces revenue; other elements incur costs. Price revolves around two elements-utility and value. Utility is the generic property of the product to satisfy a need or want of the consumer. Value is the quantitative worth the consumer attaches to the product, for which he is willing to part with a certain quantum of money.

Companies that market their products internationally must decide what prices to charge in the different countries in which they operate. In some cases, a company can set a uniform worldwide price. For example, Boeing sells it aeroplanes at about the same price everywhere, whether in the USA, Europe, or a third world country. However, most companies adjust their prices to reflect local market conditions and cost considerations.

9.2 PRESENTATION OF CONTENTS

9.2.1 Pricing Policies and Strategies

Pricing policies along with pricing strategies guide and provide a framework within which pricing decisions can be made with consistency and with the approval of the organization as a whole. Policies help to specify the role of pricing and its use in context of the Marketing Mix. Such frameworks are especially important in larger organizations where pricing decisions may be delegated to line managers or sales representatives. All such people need sufficient rules to maintain a consistent corporate image in front of the customers without being unduly restricted. Strategies are formed under the policy guidelines to achieve the predefined objectives. Let us discuss some of the pricing strategies that may be used for international markets.

Skimming V/s Penetration Pricing - Two types of pricing strategies, skimming and penetration are especially useful for both domestic and international markets. The decision of which strategy to follow depends on the level of competition, innovativeness of the product, and market characteristics.

(a) Price skimming: In this strategy, first the prices are set high to attract the least price sensitive market segments. It may appeal to people who want to be seen first with any new product regardless of the price, or to those who seek status and see high price as the mark of an exclusive product. The prices are gradually reduced to skim the subsequent layers of income strata in the society. Intel is a prime user of this strategy. This chip manufacturer introduces new microprocessors at high rate for top of the line customers and as sales start slowing down it lowers down prices so that others may also start affording it. Skimming also allows the organization to establish a quality brand image.

A company uses skimming when the objective is to reach a segment of the market that is relatively price insensitive and thus willing to pay a premium price for the value received. If limited supply exists, a company may follow a skimming approach in order to maximise revenue and to match demand and supply. Also, when a company is the only seller of a new or innovative product, a skimming price may be used to maximise profits until competition forces a low price. Skimming often is used in those markets where there are only two income levels, the wealthy and the poor. Costs prohibit setting a price that will be attractive to the lower income market, so the marketer charges a premium price and directs the product to the high income, relatively price inelastic segment.

(b) *Penetration pricing*- A penetration pricing strategy is used to stimulate market growth and capture market share by deliberately offering products at low prices. Rather than setting a high initial price to skim off small but profitable market segments, some companies use penetration pricing. They set a low initial price in order to penetrate the market quickly and deeply, and to attract a large number of buyers quickly to win a large market share. The high sales volume may result in falling costs, allowing the company to cut its prices even further.

Penetration pricing is useful in elastic demand situations where price is a critical factor for the buyer. It is, however, a risky strategy because it could establish a poor-quality brand image. In case it does not work, it would be very difficult to raise the price. However, penetration pricing of a new product, particularly in a market where product differentiation is difficult, reduces the attractiveness of market entry to competitors unless they can be sure that they can produce and market much more efficiently and on a tighter cost base.

Full cost V/s Variable cost pricing– Firms that orient their price thinking around cost must determine whether to use variable cost or full cost in pricing their goods.

(a) Variable cost pricing – In this the firm is concerned only with the marginal or incremental cost of producing goods to be sold in overseas markets. Such firms regard foreign sales as bonus sales and assume that any return over their variable cost makes a contribution to net profit. These firms may be able to price most competitively in foreign markets, but because they are selling products abroad at lower net prices than they are selling them in the domestic markets, they may be subjected to charges of dumping. Nevertheless, variable or marginal cost pricing is a practical approach to pricing when a company has high fixed costs and unused production capacity.

(b) Full cost Pricing – The companies who follow full cost approach insist that no unit of a similar product is different from any other unit in terms of cost and that each unit bears its full share of total fixed and variable cost. This approach is suitable when a company has high variable costs relative to its fixed costs. In such cases, prices are often set on a cost plus basis, that is, total costs plus a profit margin.

Standard worldwide Pricing V/s Dual pricing V/s Market differentiated pricing - Besides skimming and penetration, we have three other basic pricing strategies that may be used in the context of international operations. These are standard worldwide pricing, dual pricing, and market differentiated pricing. The first two are cost oriented while the last one is demand oriented. In *standard worldwide pricing*, we fix the same price for every country in the world. This method is based on average unit costs including the fixed, variable, and export related costs. This method is easy to understand and use.

In *dual pricing*, marketers set different prices for domestic and foreign markets. The export price is often based on marginal cost pricing. *Marketing differentiated pricing* strategy calls for setting different prices for different countries, based on demand.

9.2.2 The pricing process

It consists of six steps. The company first decides what the firm's objectives are and where it wants to position its market offering in order to maximize profits. The second step is determining demand as each price will lead to a different level of demand and thus have a different impact on a company's marketing objectives. It includes taking into consideration price sensitivity, estimating demand curves and price elasticity of demand. The third step is estimation of costs. Whereas demand sets a ceiling on the price the company can charge for its product, costs set the floor. The fourth step is analyzing competitors' costs, prices and offers. Fifth step is selecting a pricing method as per the case. Last step is selecting the final price keeping all the factors in mind.

9.2.3 Basic pricing methods

Let us discuss some of the pricing methods that may be used for international markets.

(1) Cost-based Pricing: The emphasis in cost-based pricing methods is on the organization's production and marketing costs. Analysis of these costs leads to an attempt to set a price that generates a sufficient profit. Several approaches under this method are:

(a) Mark-up: The most elementary pricing method is to add a standard mark-up to the product's cost. Construction companies submit job bids by estimating the total project cost and adding a standard markup for profit. The mark-ups vary depending on the nature of products and markets. Usually, the higher the value of the product the larger the mark-up and vice-versa.

(b) Target Profit Pricing/ Rate of return pricing: In Target Profit Pricing, the firm determines the price that would yield its target rate of return on investment (ROI). This method is used by public utilities, which need to make a fair return on their investment.

(2) Demand-based Pricing: Demand-based pricing looks outwards from the production line and focuses on customers and their responsiveness to different price levels. Demand-based pricing indicates that when demand is strong, the price goes up, and when it is weak, the price goes down. This can be seen in some service industries where demand fluctuates depending on time.

'What the Traffic can bear' pricing: In this the seller takes the maximum price that the customers are willing to pay for the product under the given circumstances. It is not a sophisticated method. It is used more by retail traders than by manufacturing firms. It brings high profits in the short-term but in the long run, it is not a safe concept. Chances of error in judgment are very high, but it can be used where monopoly/oligopoly conditions exist.

(3) Psychological Pricing: Psychological pricing is very much a customer-based pricing method, relying as it does on the consumer's emotive responses, subjective assessments and feelings towards specific purchases. It is particularly applicable to products with a higher involvement focus i.e. those that appeal more to psychological than to practical motives for purchase.

Prestige Pricing: It is used by the consumer as a means of assessing quality. The high price attracts the status-conscious consumer, the discerning customer for whom price is no object.

(4) Geographical Pricing: It helps the company in deciding how to price its products to different customers in different locations and countries. Geographical pricing tries to answer the following two important questions:

- ❖ Should the company risk losing the business of more distant customers by charging them higher prices to cover the higher transportation and shipping costs?
- ❖ Or should the company charge all customers the same prices regardless of location?

Five basic geographical strategies may answer these questions.

(a) Free on board (FOB) pricing – In this pricing strategy, goods are placed free on board a carrier and the customer pays the freight from the factory to the destination. This means factory price for all customers is same but the total price varies according to the transportation cost. Naturally, the customers situated near to the factory have to pay less and distant customers have to pay more because of the higher transportation cost.

(b) Uniform delivered pricing – It is the opposite of FOB pricing. Here, the company charges the same price plus freight to all customers, regardless of their location. The freight charge is set at average freight cost. The advantage of this method is that it is easy to administer and it lets the firm advertise its price nationally.

(c) Zone pricing – It falls between FOB and uniform delivered pricing. The company sets up two or more zones. All customers within a given zone pay a single total price; the more distant the zone, the higher the price.

(d) **Basing point pricing –** In this pricing method, the seller selects a given city as a 'basing point' and charges all customers the freight cost from that city to the customer location, regardless of the city from which the goods are actually shipped. Some companies set up multiple basing points to create more flexibility. They quote freight charges from the basing point city nearest to the customer.

(e) **Freight absorption pricing –** The seller who is anxious to do business with a certain customer or geographical area might use freight absorption pricing. Using this strategy, the seller absorbs all or part of the actual freight charges in order to get the desired business. This pricing is useful for market penetration and to hold on to increasingly competitive markets.

(5) **Competition-based Pricing:** There are two aspects of competition that influence an organization's pricing, structure of the market and the product's perceived value in the market. In other words, the more differentiated an organization's product is from the competition, the more autonomy the organization has in pricing it, because buyers come to value its unique benefits. Three policy methods are available to the firm under this method:

(a) **Premium Pricing:** It means pricing above the level adopted by competitors.

(b) **Discount Pricing:** It means pricing below the level adopted by competitors.

(c) **Parity Pricing/ going rate pricing:** It means matching competitors' pricing.

(6) Product-Line Oriented Pricing: When a firm manufactures large variety of products that can be grouped into a few homogeneous product lines, a special possibility in pricing arises. As the products in a given product line are related to each other, sales of one influence the sales of others and also have interrelated costs of manufacturing and distribution. So, the aim of the firm is not to fix optimal price for each product independent of other products, but to get optimal sales of all the products in the line put together and optimum total profits from the line.

(7) Loss leader pricing: Supermarkets and department stores often drop the price on well-known brands to stimulate additional store traffic. This is called loss leader pricing. Manufacturers of loss-leader brands typically object because this practice can dilute the brand image and bring complaints from retailers.

(8) Transfer Pricing: It is the pricing of goods and services in the intracorporate context. It is the pricing to members of the same corporate family. Increasingly, products are being assembled from materials and parts brought in from several different countries. When these materials and parts are secured from affiliates in different countries, transfer pricing has to be used.

9.2.4 Establishing International Prices

An International firm may either:

1. Price higher in its home market than in its international markets.
2. Price lower its home markets than in its international markets.

1. Prices higher in home Markets: Different implications can result from price being higher in domestic markets than the international prices.

i) Products may be manufactured overseas, where raw materials are more plentiful & labour costs are lower than home market.

ii) Higher prices in home market than overseas is fixed simply to encourage growth in international markets since many overseas markets are small but fast growing. So low-price, i.e., "Penetration pricing" is used to build market share quickly.

iii) An International market may have large potential but low buying power, which is the season that Seiko watches are priced lower in certain African countries than in Japan.

iv) Governments in some home markets may offer special incentives in order to obtain hard currency, encouraging their manufacturers to price lower overseas than at home.

2. Prices lower in the home market: This means using price skimming in international markets. The conditions making for this situation are as below:

i) No significantly large – scale economies exist.

ii) There are no overseas cost advantages to justify lower international prices.

iii) Competition is international market is weak.

iv) International market potentials are unattractive.

v) International markets are rich & buyers can afford to pay high price.

vi) It is possible to gain hard foreign currency by charging high prices.

9.2.5 Global Pricing Approaches

There are three global pricing approaches:

a) Extension / Ethnocentric: This strategy calls for same price all over the world and the importer absorbs freight & import duties. This approach has the advantage of extreme simplicity because no information on competition or market conditions is required for implementation. Disadvantage of this approach is directly tied to its simplicity. Extension pricing does not respond to the competitive and market conditions of each national market and therefore, does not maximize the company's profit in each foreign market.

b) Adaptation/Polycentric: This approach permits subsidiary or affiliate managers to establish whatever price they feel is most desirable in their circumstances. Under such approach there is no control or fixed requirement that prices be coordinated from one country to next. Only constraint on this approach is in setting transfer prices within corporate system. There is also problem that under such a strategy, valuable knowledge & experience within the corporate system concerning effective pricing strategies is not applied to each local pricing problem.

c) Invention/Geocentric: Using this approach a company neither fixes a single price worldwide nor remains aloof from subsidiary pricing decisions but instead strikes an intermediate position. A company pursuing this approach works on the assumption that there are unique local market factors that should be recognized in arriving at a pricing decision. These factors include local costs income level, competition & the local marketing strategy.

9.2.6 Factors affecting international pricing decisions

The marketers have to take into account several factors while fixing prices globally. Some of them are as follows:

a) Production cost: The manufacturer will not sell goods below the production cost. The production cost is further divided into variable cost and total cost. Cost of production differs from country to country. Prices must cover production costs, hence, may vary from country to country.

If the manufacturer's price can be lowered, the effect is felt throughout the chain. One of the important reasons for manufacturing in a third world country is an attempt to reduce manufacturing costs. The impact can be profound if you consider that the hourly cost of skilled labour in India is less than $2 an hour including benefits compared with $10 in the USA.

In comparing the costs of manufacturing microwave ovens in the USA and in Korea, The General Electric Company found substantial difference. A typical microwave oven cost GE $218 to manufacture compared to $155 for Samsung, a Korean manufacturer. A breakdown of costs revealed that assembly labour cost GE $8 per oven, and the Korean firm only 63 cents. Overhead labour supervision, maintenance, and setup were $30 per GE oven and 73 cents for Korean company. The largest area of difference was for line and central management; that came to $20 per oven for GE versus 2 cents for Samsung. Perhaps the most disturbing finding was that Korean labourers delivered more for less cost: GE produced 4 units per person whereas the Korean company produced 9.

(b) Distribution cost: Distribution cost involves costs of taking products from factory to the place of consumers. Prices depend on channel length, marketing patterns, middlemen's margins and markups. The marketer also incur added expenses for warehousing and handling of small shipments, and may have to bear increased financing costs when dealing with underfinanced middlemen.

Exporting also incurs increased transportation costs when moving goods from one country to another. If the goods go over water, there are additional costs for insurance, packing, and handling not generally added to locally produced goods. Such costs add yet another burden because import tariffs in many countries are based on the landed cost that includes transportation, insurance, and shipping charges.

Shorter channels can keep prices under control. Designing a channel that has fewer middlemen may lower distribution costs by reducing or eliminating middlemen markup.

(c) Taxes & Tariffs: The manufacturer & exporter will add the amount of taxes & tariffs to the prices to recoup them from the consumers. If taxes & tariffs are not taken back from the customers, the profits of manufacturer & exporter would decline.

A tariff, or duty, is a special form of taxation. Like other forms of taxes, a tariff may be levied for the purpose of protecting a market or for increasing government revenue. A tariff is a fee charged when goods are brought into a country from another country.

When tariffs account or a large part of price escalation, companies seek to lower the rate. Some products can be reclassified into a different, and lower, customs classification. Actually, how a product is classified is often a judgement call. The difference between an item being classified as jewelry or art means paying no tariff for art or more than 25% for jewelry.

(d) Inflation: The effect of inflation on cost must be taken into account. In the countries with rapid inflation or exchange variation, the selling price must be related to the cost of goods sold and the cost of replacing the items. Marketers have to protect themselves against the inflation. When the payment is likely to be delayed for several months or is worked out on a long-term contract, inflationary factors must be figured into prices. Every exporter must try to charge inflation amount to prices.

Companies use a variety of techniques to inflate the selling price to compensate for inflation pressure and price controls. They may charge for extra services, inflate costs in transfer pricing, break up products into components and price each component separately.

(e) Exchange rate fluctuations: The exporters face fluctuations in exchange rate of various currencies. If the currency rate is stable, the payment would be easy and problem free but the fluctuating atmosphere makes it difficult to decide how much money and at what time would be received by exporters.

At one time, world trade contracts could be easily written and payment was specified in a relatively stable currency. The US dollar was the standard and all transactions could be related to the dollar. Now that all major currencies are floating freely relative to one another, no one is quite sure of the future value of any currency. Increasingly, companies are insisting that transactions be written in terms of vendor company's national currency, and forward hedging is becoming more common. If exchange rates are not carefully considered in long-term contracts, companies may lose 15-20%. The added cost incurred by exchange rate fluctuations on a day to day basis must be taken into account, especially where there is a significant time lapse between signing the order and delivery of the goods.

(f) Demand & Supply: The demand and supply are instrumental to the determination of the prices. Demand and supply conditions set the prices in a country. If the demand is more and supply is less then the company can afford to charge higher prices otherwise not. Similarly demand potential and demand elasticities both play critical roles. Price elasticity is most pronounced in low income countries, where people pay close attention to prices. If prices are high, they buy less, and if prices are low, they buy more.

Prices of competing or substitute products create cross elasticities. If many local substitutes compete with a product of an international company and their prices vary, then their prices influence demand for it. Prices of complimentary products create complimentary elasticities. If, for example, the prices of auto tires and petrol are high in a particular country, a price cut by a multinational automaker may not result in the expected levels of sales increase. A cut in the prices of tires, petrol, and both, however, would have beneficial effects on automobile sales.

(g) Competition: Competition is important factor to influence the pricing. The behaviour of competitors' puts severe constraints on the operating margins and ultimately the prices. More the number of competitors less price a company may be able to charge and vice versa.

Some price competition is indirect, meaning that price competition occurs between the product and its close substitutes. For example, many carmakers compete indirectly with public transport systems.

Non-price competition occurs in many markets. In developed countries, non-price competition takes on a promotional orientation with emphases on better advertising, improved design, and good service more than on price. In developing countries, non-price competition frequently takes the form of appeals of local pride and patriotism.

(h) Free Trade Zones: Some countries have established free trade zones (FTZs) or free ports to facilitate international trade.

There are more than 300 of these facilities in operation throughout the world where imported goods can be stored or processed.

Price escalations resulting from the layers of taxes, duties, surcharges, freight charges, and so forth, can to some extent be controlled by utilizing FTZs. The benefits of free trade zones permit many of these added charges to be avoided, reduced, or deferred and the final price becomes competitive. One of the more important benefits of the FTZ in controlling prices is the exemption from duties on labour and overhead costs incurred in the FTZ in assessing the value of goods. By shipping unassembled goods to an FTZ in an importing country, a marketer can lower costs in a variety of ways:

1. Tariffs may be lower because duties are typically assessed at a lower rate for unassembled goods in comparison to assembled goods.

2. If labour costs are lower in the importing country, substantial savings may be realised in the final product cost.

3. Ocean transportation rates are affected by weight and volume, thus, unassembled goods may qualify for lower freight rates.

4. If local content, such as packaging or component parts, can be used in the final assembly, there may be a further reduction of tariffs.

(i) Leasing: An important manufacturing and selling technique to alleviate high prices and capital shortages for capital equipment in the leasing system. The concept of equipment leasing has become increasingly important as means of selling capital equipment in overseas markets. In fact, it is estimated that $50 billion worth of equipment is on lease in Europe.

The system of leasing used by industrial exporters is similar to the typical lease contracts used in the domestic country. Terms of leases usually run one to five years, with payments made monthly or annually; included in the rental fee are servicing, repairs, and spare parts.

(j) Countertrade: Many buyers pay for goods in cash while others would like to offer other items in lie of the payment, a practice known as countertrade which takes several forms such as:

Barter: The direct exchange of goods, with no money and no third party involved. One of the largest barter deals to date involved Occidental Petroleum Corporation's agreement to ship super phosphoric acid to the former Soviet Union for ammonia, urea, and potash under a two year, $20 billion deal. No money changed hands nor were any third parties involved. Obviously in a barter transaction, the seller must be able to dispose of the goods at a net price equal to expected selling price in a regular, for cash transaction. Further, during the negotiation stage of a barter deal, the seller must know the market and the price for the items offered in trade.

Compensation deal: The seller receives some percentage of the payment in cash and the rest in products. An advantage of a compensation deal over barter is the immediate cash settlement of a portion of the bill; the remainder of the cash is generated after successful sale of the goods received. If the company has a use for he goods received, the process is relatively simple and uncomplicated.

Buyback arrangement: The seller sells a plant, equipment or technology to another country and agrees to accept as partial payment products manufactured with the supplied equipment.

Counterpurchase or Offset: The seller receives full payment in cash but agrees to spend a substantial amount of the money in that country within a stated time period.

(k) Long range commitment: A firm may be internationalised temporarily or permanently, and this decision affects its pricing behaviour. Some enter international markets on a short-term basis because they have surpluses that can be sold or excess capacities that can be utilised by expanding into these international markets. These firms generally price low in order to sell the maximum in minimum time. Once the surplus is depleted or domestic markets recover or expand sufficiently to absorb he excess capacity, the company withdraws from international markets.

Other firms have long term internationalisation commitments and continuously introduce new products. These companies, whenever possible set their international prices globally and at high levels. Of course, as their products move through the product life cycle, their international prices are scaled down gradually.

9.2.7 Pricing problems in International Context

There are many problems in fixing international prices. Some of them are as follows:

(a) Duty & Tariff Constraints: Corporate costs and profits are affected by the import duty rates. The higher the duty rates the more the price. Higher prices hinder company's growth prospects. This way company loses its competitive advantage in comparison to domestic firms. However, a country's customer duties and tax rates do not always create the same pressure due to transfer price.

(b) Government control: Companies doing business in foreign countries encounter a number of different types of government price control. To control prices, governments may establish margins, set prices and floors or ceiling, restrict price changes, compete in the market, grant subsidies, and act as purchasing monopsony or selling monopoly.

Governments of producing and consuming countries seem to play an ever-increasing role in establishment of international prices for certain basic commodities. There is, for example, an international coffee agreement, an international cocoa agreement, and an international sugar agreement. The world prices of wheat have long been at least partially determined by negotiations between national governments.

(c) Dumping: It is selling goods overseas at a price lower than domestic market price, or at a price below the cost of production, or both. There are several types of dumping:

(i) Sporadic Dumping - It occurs when a manufacturer with unsold inventories wants to get rid of distressed & excess merchandise.

(ii) Predatory Dumping – It is more permanent than sporadic dumping. This strategy involves selling at a loss to gain access to a market and perhaps to drive out competition. Once the competition is gone or the market established, the company uses its monopoly position to increase price.

(iii) Persistent Dumping – It is the most permanent type of dumping requiring a consistent selling at lower prices in one market than in others. This practice may be the result of a firm's recognition that markets are different in terms of overhead costs & demand characteristics.

(iv) Reverse Dumping - It is possible, however to have the opposite tactic – reverse dumping. In order to have such a case, the overseas demand must be less elastic, and the market will tolerate a higher price. Any dumping will thus be done in the manufacture's home market by selling locally at a lower price.

(c) Parallel Imports: Besides having to meet price competition country by country and products by products, companies have to guard against competition from within the company and by their own customers. If a large company does not have effective price and distribution controls, it can find its products in competition with its own subsidiaries or branches. Parallel imports develop when importers buy products from distributors in one country and sell them in another to the distributors who are not part of the manufacturer's regular distribution system. This means that products may be available at higher prices through exclusive distributors but at lower prices at other outlets in a country. This practice is lucrative when wide dealer margins exist. Variations in the value of currencies between countries frequently lead to conditions that make parallel imports profitable.

(d) Gray markets: Restrictions brought about by import quotas and high tariffs can lead to illegal imports. The goods illegally imported and without paying the duties become available at lower rates in what are said as gray markets. Companies that foray in foreign markets face this type of problem with some countries. India has a three-tier duty structure on computer parts ranging from 25-80% on imports. As a result, estimates are that as much as 35% of India's domestic computer hardware sales are accounted for by the gray market. Companies that are serious about restricting the gray market may take legal help available to them. Where differences in prices between markets occur, the Internet makes it easy for individuals to participate in the gray market. Music and movie CDs are especially vulnerable.

9.2.8 Administered Pricing and Cartels

Administered pricing relates to attempts to establish prices for an entire market. Such prices may be arranged through the co-operation of competitors, through national, state, or local governments, or by international agreement. The legality of administered pricing arrangements of various kinds differs from country to country and from time to time. A country may condone price fixing for foreign markets but condemn it for the domestic market. However, the end goal of all administered pricing is to reduce the impact of price competition or eliminate it.

Price fixing for business is not viewed as an acceptable practice, at least in the domestic market, but when governments enter the field of price administration, they presume to do it for the general welfare to lessen the effects of destructive competition.

A cartel exists when various companies producing similar products or services work together to control markets for the types of goods and services they produce. The cartel association may use formal agreements to set prices, establish levels of production and sales for participating companies, allocate market territories, and even redistribute profits. In some instances, the cartel organisation itself takes over the entire selling function, sells the goods of all the producers, and distributes the profits.

The economic role of cartels is highly debatable, but their proponents argue that they eliminate cutthroat competition and rationalise business, permitting greater technical progress and lower prices to consumers. However, in the view of most experts, it is doubtful that the consumer benefits very often from cartels.

The organisation of Petroleum Exporting Countries (OPEC) is probably the best known international cartel. Its power in controlling the petroleum prices results from production control it exert on member countries. One important aspect of cartels is their inability to maintain control for indefinite periods. Greed by a cartel member and other problems generally weaken the control of the cartel. OPEC's control began to erode as member nations began violating production quotas, users were taking effective steps for conservation, and new sources of oil production by non-OPEC members were developed.

A lesser-known cartel but one that has a direct impact on international trade is the shipping cartel that exists among the world's shipping companies. Every two weeks about 20 shipping line managers gather for their usual meeting to set rates on tens of billions of dollars of cargo. They do not refer to themselves as a cartel but rather operate under such innocuous names as "The Trans Atlantic Conference Agreement". Regardless of name, they set about 70% cargo rates between USA and Europe, USA and Latin America, and USA and Asia.

9.3 SUMMARY

Prices determine the total revenue and to a large extent the profitability of any business. Because of the crucial importance of pricing, top management often plays a significant role in making pricing decisions. Top management must decide the strategic significance of pricing in the marketing mix. In making any pricing decision, the following factors deserve consideration: pricing objectives, cost, competition, customer, and government regulations. In international marketing, these factors must be examined both at home and in the host country. Each factor comprises a number of components that vary in each nation, both in importance and in interaction. Export pricing is affected by three additional considerations: the price destination, the nature of the product, and the currency used in completing the transaction. Usually companies prepare separate price lists for different overseas markets. The price list contains a profit margin that the price to be adjusted to local market conditions, including competitive price, the government's export incentives in some countries, and the flexibility for competitive reduction of the price.

An important topic in international marketing concerns pricing intracompany transfer of goods and services, that is, prices for goods and services exchanged within the corporate family. When transactions between units of the same enterprise take place across national frontiers, and the units are subject to different environmental factors such as customs duties, tax rates, and currency risks, adjustments in transfer prices can be used to advance various corporate goals and increase overall corporate profits. Two important issues in international pricing are dumping and leasing. Dumping refers to the practice of pricing exports at lower levels than the domestic price for the same goods. As dumping may adversely affect domestic industry, many nations have legislated anti-dumping laws. As an alternative to outright purchase, leasing is slowly emerging in importance in international marketing. While setting leasing prices presents difficulties for various reasons, it nevertheless provides a good entry into markets otherwise inaccessible because of capital shortage.

9.4 KEYWORDS

Price: The amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service.

Freight-absorption Pricing: A geographical pricing strategy in which the seller absorbs all or part of the freight charges in order to get the desired business.

Transfer Pricing: It is the pricing to members of the same corporate family.

Ethnocentric: To have same price all over the world and the importer absorbs freight and import duties.

Market-Penetration Pricing: Setting a low price for a new product in order to attract a large number of buyers and a large market share.

9.5 SELF ASSESSMENT QUESTIONS

(1) Discuss some of the pricing methods that may be used for pricing for the international markets.

(2) What factors will you take into account while setting prices for the international markets?

(3) What do you understand by Geographical pricing? Discuss the methods of geographical pricing citing suitable examples.

(4) Compare and contrast skimming and penetration pricing policies.

(5) Write short notes on the following:

   (a) Transfer pricing.

   (b) Dumping

   (c) Loss leader pricing.

(6) Explain briefly:

   (a) Grey Markets

   (b) Cartels

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Subject: **International Marketing** *Vetter*: **Prof. M.S. Turan**
Lesson No.: **10**

INTERNATIONAL PROMOTION

STRUCTURE

10.0 OBJECTIVES

Promotion of a company's products and services are very important not only for domestic market but also for international markets. International promotion decisions are, however, more complicated and critical. This lesson will provide you an opportunity to understand promotion in international context. After studying this lesson you should be able

- To understand the utility of various promotion tools for international markets.
- To know the challenges a marketer faces while promoting its products overseas.

- To understand the process of deciding promotion mix for international markets.
- To know the methods and process of fixing promotion budget.
- To understand the standardized and adapted approaches of promotion.

10.1 INTRODUCTION

Modern marketing calls for more than developing a good product, pricing it attractively, and making it accessible to target customers. Companies must also communicate with their present and potential customers. What is communicated, however, should not be left to chance. To communicate effectively, companies hire advertising agencies to develop effective ads; sales-promotion specialists to design buying-incentive programs; direct marketing specialists to build databases and interact with customers and prospects by mail and telephone; and public relations firms to supply product publicity and develop the corporate image. They train their salespeople to be friendly and knowledgeable. For most companies, the question is not whether to communicate but rather what to say, to whom, and how often.

Basically, promotion is an attempt to influence. More specifically, promotion is the element in an organisation's marketing mix that serves to inform, persuade, and remind the market of a product and/or the organisation selling it, in hopes of influencing the recipients' feelings, beliefs, or behaviour.

Product promotion decisions become much more difficult and complicated when companies start operating at international level. The global marketer must choose a proper combination of the various promotional tools like advertising, personal selling, publicity, and sales promotion. The choice of promotional mix will naturally depend on the target audience, company objectives, the products or services marketed, the available resources, and the availability of the tool in a particular market.

Promotion is a term taken from Latin promovere, which means moving from one end to another. In marketing, promotion means all those tools that help a marketer to make his product move from the factory to the customer and hence involves advertising, sales promotion, personal selling, and publicity etc. The marketing communications mix (also called the promotion mix) consists of five major tools that are as follows:

(i) ***Advertising*****:** Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

(ii) ***Direct Marketing*****:** Use of mail, telephone, and other non-personal contact tools to communicate with or solicit a response from specific customers and prospects.

(iii) ***Sales Promotion:*** Short-term incentives to encourage trial or purchase of a product or service.

(iv) ***Public Relations and Publicity:*** A variety of programmes designed to promote and/or protect a company's image or its individual products.

(v) ***Personal Selling:*** Face-to-face interaction with one or more prospective purchasers for the purpose of making sales.

10.2 PRESENTATION OF CONTENTS

10.2.1 Deciding on the Promotion Mix for international markets

The basic framework and concepts of international promotion are essentially the same wherever employed. Six steps are involved:

1. Study the target market (s);
2. Determine the extent of worldwide standardization;
3. Determine the promotional mix (the blend of advertising, personal selling, sales promotion, and public relations);
4. Develop the most effective message (s);
5. Select effective media; and
6. Establish the necessary controls to assist in monitoring and achieving worldwide marketing objectives.

Many factors influence the marketer's choice and mix of promotional tools in global context. We will examine these factors in the following paragraphs.

(i) Nature of each promotional tool-Each promotional tool has its own unique characteristics and costs. Marketers have to understand these characteristics in selecting them.

(a) Advertising: As there are many forms and uses of advertising, it is difficult to make all embracing generalizations about its distinctive qualities as a component of the promotional mix. Yet the following qualities can be noticed:

Public Presentation: Advertising is a highly public mode of communication. Its public nature confers a kind of legitimacy on the product and also suggests a standardized offering. Because many persons receive the same message, buyers know that their motives for purchasing the product will be publicly understood.

Pervasiveness: Advertising is a pervasive medium that permits the seller to repeat a message many times. It also allows the buyer to receive and compare the messages of various competitors. Large-scale advertising by a seller says something positive about the seller's size, power, and success.

Amplified Expressiveness: Advertising provides opportunities for dramatizing the company and its products through the artful use of print, sound, and colour. Sometimes, however, the tool's very success at expressiveness may dilute or distract from the message.

Impersonality: Advertising can not be as compelling as a company sales representative can. The audience does not feel obligated to pay attention or respond. Advertising is able to carry on only a monologue, not a dialogue, with the audience.

On the one hand, advertising can be used to build up a long-term image for a product (Coca-Cola ads), and on the other, to trigger quick sales. Advertising is an efficient way to reach numerous geographically dispersed buyers at a low cost per exposure. Certain forms of advertising, such as TV advertising, can require a large budget, while other forms, such s newspaper advertising, can be done on a small budget.

(b) Sales Promotion: Although sales promotion tools – coupons, contests, premiums, and the like – are highly diverse, they have three distinctive characters:

Communications: They gain attention and usually provide information that may lead the consumer to the product.

Incentive: They incorporate some concession, inducement, or contribution that gives value to the consumer.

Invitation: They include a distinct invitation to engage in the transaction now.

Companies use sales-promotion tools to create a stronger and quicker response. Sales promotion can be used to dramatize product offers and to boost sagging sales. Sales-promotion effects are usually short run, however, and not effective in building long-run brand preference.

(c) Direct Marketing: Although direct marketing has several forms – direct mail, telemarketing, electronic marketing, and so on – it has a few distinctive characteristics:

Non-public: The message is normally addressed to a specific person and does not reach others.

Customized: The message can be customized to appeal to the addressed individual.

Up-to-date: A message can be prepared very quickly for delivery to an individual.

(d) Public Relations and Publicity: A significant part of public relations activity focuses on portraying international companies as good citizens of their host markets. Public relations activity includes anticipating and countering criticism. The criticism range from general ones against all multinationals to specific complaints.

The appeal of public relations is based on its three distinctive qualities:

High credibility: News stories and lectures seem more authentic and credible to readers than ads do.

Off guard: Public relations can reach many prospects that might avoid salespeople and advertisements. The message gets to the buyers as news rather than as a sales-directed communication.

Dramatization: Public relation has, like advertising, a potential for dramatizing a company or product.

Marketers tend to under-use public relations or use it as an afterthought. Yet a well-thought-out public relations programme coordinated with the other promotion-mix elements can be extremely effective. In China, where there is limited advertising space, exorbitant rates, and tight government control on ad content, companies are increasingly turning to public relations, particularly sponsorship, to create brand awareness.

(e) Personal Selling: Although advertising is often equated with the promotional effort but in the early stages of globalization of company's operation, marketers rely heavily on personal contact. The marketing of industrial goods, especially of high priced items, requires strong personal selling efforts at global level. in some cases personal selling may be truly global. For example, Boeing salespeople engage in sales efforts around the world. Personal selling is also the most cost-effective tool at the later stages of the buying process, particularly in building up buyers' preference, conviction, and action. The reason is that personal selling, when compared with advertising, has three distinctive qualities:

Personal Confrontation: Personal selling involves an alive, immediate, and interactive relationship between two or more persons. Each party is able to observe each other's needs and characteristics at close hand and make immediate adjustments.

Cultivation: Personal selling permits all kinds of relationships to spring up, ranging from a matter-of-fact selling relationship to a deep personal friendship. Effective sales representatives will normally keep their customers' interests at heart if they want long-run relationship.

Response: Personal selling makes the buyer feel under some obligation for having listened to the sales talk. The buyer has a greater need to attend and response, even if the response is a polite 'thank you.'

These distinctive qualities come at a cost. A sales-force represents a greater long-term cost commitment than advertising. Advertising can be turned on and off, but the size of a sales-force is more difficult to alter. Similarly, for an international company, standardization of personal selling efforts becomes much more complicated, especially if the product offering is standardized.

(ii) Type of Product Market- The rated importance of promotional tools varies between consumer and industrial markets. Consumer goods companies rate advertising, sales promotion, personal selling, and public relations in that order. Industrial goods companies rate personal selling, sales promotion, advertising and public relations in that order. In general, selling is more heavily used with complex, expensive, and risky goods and in markets with fewer and larger sellers.

While advertising is less important than sales calls in industrial markets, it still plays a significant role. Advertising can perform the following functions:

Awareness Building: Prospects who are not aware of the company or product might refuse to see the sales representative. Furthermore the sales representative might have to take a lot of time describing the company and its products.

Comprehension Building: If the product embodies new features, some of the burden of explaining them can be effectively undertaken by advertising.

Efficient Reminding: If prospects know about the product but are not ready to buy, reminder advertising would be more economical than sales calls.

Lead Generation: Advertisements offering brochures and carrying the company's phone number are an effective way to generate leads for sales representatives.

Legitimization: Sales representatives can use tear sheets of the company's ads in leading magazines to legitimize their company and products.

Reassurance: Advertising can remind customers how to use the product and reassure them about their purchase.

Personal selling can make a strong contribution in consumer goods marketing. Some consumer marketers play down the role of the sales-force, using them mainly to collect weekly orders from dealers and to see that sufficient stock is on the shelf. The common feeling is that "salespeople put products on shelves and advertising takes them off." Yet even here an effectively trained sales-force can make three important contributions:

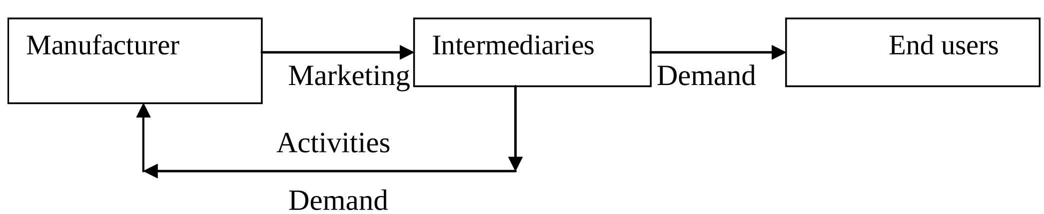
Increased Stock Position: Sales representatives can persuade dealers to take more stock and devote more shelf space to the company's brand.

Enthusiasm Building: Sales representatives can build dealer enthusiasm for a new product by dramatizing the planned advertising and sales-promotion backup.

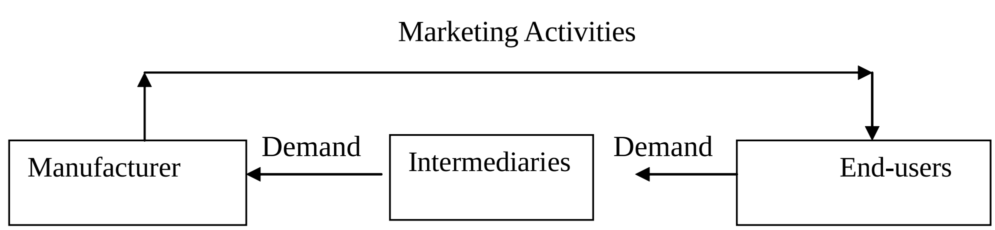
Missionary Selling: Sales representatives can sign up more dealers to carry the company's brands.

(iii) Push Versus Pull Strategy- The promotional mix is heavily influenced by whether the company chooses a push or pull strategy to create sales. A *push strategy* involves manufacturer's marketing activities (primarily sales-force and trade promotion) directed at channel intermediaries to induce them to order and carry the product and promote it to end-users. A *pull strategy* involves marketing activities (primarily advertising and consumer promotion) directed at end users to induce them to ask intermediaries for the product and thus induce the intermediaries to order the product from the manufacturer. Companies in the same industry may differ in their emphasis on push on pull. For example, Lever Brothers relies more heavily on push, and Procter & Gamble on pull.

Push Strategy



Pull Strategy



(iv) Buyer-Readiness Stage- Promotional tools vary in their cost effectiveness at different stages of buyer readiness. Advertising and publicity play the most important roles in the awareness stage, more than by sales promotion. Customer comprehension is primarily affected by advertising and personal selling. Customer conviction is influenced mostly by personal selling and less by advertising and sales promotion. Closing the sale in influenced mostly by personal selling and sales promotion. Reordering is also affected mostly by personal selling and sales promotion, and somewhat by reminder advertising. Clearly, advertising and publicity are most cost effective at the early stages of the buyer decision process, and personal selling and sales promotion are most effective at the later stages.

(v) Product-Life-Cycle Stages - Promotional tools also vary in their cost effectiveness at different stages of the product life cycle. In the introduction stage, advertising and publicity have high cost effectiveness, followed by sales promotion to induce trial and personal selling to gain distribution coverage. In the growth stage, all the tools can be toned down because demand has its own momentum through word-of-mouth. In the maturity stage, sales promotion, advertising, and personal selling all grow more important, in that order.

In the decline stage, sales promotion, advertising and publicity are reduced, and salespeople give the product only minimal attention.

(vi) Company Market Rank - Top ranking brands derive more benefit from advertising than sales promotions. Market leaders and challengers are always benefit from advertising. Similar is the case of marketing nichers. The smaller firms in the industry draw more benefit from sales promotion and personal selling.

***(vi) Media availability and control* –** While many types of mass media exist all over the world, not all of them are available everywhere to marketers. Even where media are commercially available, governments restrict the products that marketers can promote and the advertising messages that can be transmitted. Consider the following:

(a) In Saudi Arab, radio is 100% government controlled.
(b) In Australia, all TV commercials must be filmed locally.
(c) In Spain and India, alcohol and cigarette TV ads are prohibited.
(d) Illiteracy is widespread in many areas in Africa, Asia, and Latin America, making print media of limited use in reaching the masses.
(e) In Scandinavia, where only a few media alternatives exist, direct mail is a viable choice.
(f) Cinema advertising is widely used in India, Afghanistan, Pakistan, and Zambia whereas it is non-existent in USA.
(g) On Turkish government managed TV, only a few select products can be advertised.

(vii) Promotion regulations – Almost every country has some regulation imposed on promotion. These regulations usually have the following purposes:

(a) To protect consumers against misinformation and misleading communication.
(b) To protect smaller businesses, who can't afford high promotion costs, against large corporations.
(c) To maintain traditional values and customs.

Some countries, such as Mexico and France, resist the use of foreign languages. In Muslim countries, the use of foreign themes and illustrations are regulated. However, in general, promotion regulations are focused on certain specific areas, including the following:

(a) Certain product and service categories, including alcoholic beverages and tobacco.

(b) Advertisements targeted towards children and senior citizens.

(c) Comparative advertising.

(d) Puffery and unfounded claims.

(e) Sexism and racism.

10.2.2 Barriers to International Promotion

The effectiveness of a firm's international promotion can be jeopardized by three potentially critical variables: cultural barriers, source effects, and noise levels.

(i) Cultural barriers – Cultural barriers can make it difficult to communicate messages across cultures. A message that mean one thing in one country may mean something quite different in another. For example, when Procter & Gamble promoted its Camay soap in Japan in 1980s it ran into unexpected trouble. In a TV commercial, a Japanese man walked into the bathroom while his wife was bathing. This ad had been very popular in Europe, but it flopped in Japan because it is considered very bad manners there for a man to intrude on his wife.

Benetton, the Italian clothing manufacturer and retailer, is another firm that has run into cultural problems with its advertising. The company launched a worldwide advertising campaign in 1989 with the theme 'United colours of Benetton" that had won awards in France. One of its ads featured a black woman breast feeding a white baby. Benetton was surprised when the ads were attacked by US civil rights groups for promoting white racial domination. Benetton had to withdraw its ad.

The best way for a firm to overcome cultural barriers is to develop cross-cultural literacy. In addition, it should use local input, such as a local advertising agency, in developing its marketing message. If the firm uses direct selling rather than advertising to communicate its message, it should develop a local sales force whenever possible.

(ii) Source and country of origin effects - Source effects occur when the receiver of the message evaluates the message based on the status and image of the sender. Source effects can be damaging for an international business when potential customers in a target country have a bias against foreign firms. For example, "a wave of Japan bashing" swept USA in 1990s. Worried that US consumers might view its products negatively, Honda responded by creating ads that emphasised the US content of its cars to show how 'American' the company had become.

Many international businesses try to counter negative source effects by de-emphasizing their foreign origins. When British petroleum acquired Mobil's extensive network of US gas stations, it changed its name to BP, diverting attention away from the fact that one of the biggest operators of gas stations in the USA is a British firm.

A subset of source effects is referred to as a country of origin effects. It refers to the extent to which the place of manufacturing influences product evaluations. Country of origin is often used as a cue when evaluating a product, particularly if the customer lacks more detailed knowledge of the product. For example, if any electronic product is from Japan we tend to imagine that it must be good in quality and if it is from China we think it is low in price and quality. When a negative country of origin effect exists, an international business may have to work hard to counteract this effect by using promotional messages that stress the positive attributes of their products.

Source effects and country of origin effects are not always negative. French wine, Scotch whiskies, Italian cloths, Japanese electronics, German luxury cars benefit from nearly universal positive source effects.

(iii) Noise levels – Noise tends to reduce the probability of effective communication. Noise refers to the amount of other messages competing for a potential customer's attention, and this too varies from country to country. In developed countries noise level is higher because of clutter of ads on almost every possible media whereas in developing countries noise levels are lower as the clutter is less.

One reason of high noise level is availability of less ad time on media. In some countries only few hours are permitted for advertising whereas in some others media is government controlled hence less time and more cost. Limited time increases the clutter and hence more noise level.

10.2.3 Standardized v/s adapted promotion

Companies can either adopt the same promotion strategy they used in the home market or change it for each local market. Some global companies use a standardized advertising theme around the world. For example, IBM runs virtually identical ads in dozens of countries around the world. Of course, even in highly standardized promotion campaigns, some small change might be required to adjust for language and minor cultural differences. Colours also are changed sometimes to avoid taboos in some countries. Purple is associated with death in most of Latin America. White is bridal dress of Christians but in Japan and India it is a mourning colour. Green is considered favorite of Muslims but it is associated with jungle sickness in Malaysia.

The following arguments support standardization:

(i) Standardized advertising lowers the costs of value creation by spreading the fixed costs of developing the advertisements over many countries. For example Levi-Strauss paid an ad agency $550000 to produce a series of TV commercials. By reusing these ads in many countries, the company saved lot of money.

(ii) There is the concern that creative talent is scarce and so one large effort to develop a campaign will produce better results than 40 or 50 smaller efforts.

(iii) Many brand names are global and with the substantial amount of international travel today and the considerable overlap in media across national borders, many international firms want to project a single brand image to avoid confusion caused by local campaigns.

Other companies follow a strategy of communication adaptation, fully adapting their advertising messages to local markets. Kellogg's ads in USA promote the taste and nutrition of its cereals whereas in India, where many consumers eat heavy, fried breakfast, it convinces the buyers to switch to a lighter, more nutritious breakfast diet.

Media also need to be adapted internationally because media availability varies from country to country. TV advertising time is very limited in Europe, ranging from 4 hours a day in France to none in Scandinavian countries. Advertisers must buy time months in advance and they have little control over airtimes. Magazines also vary in effectiveness. For example, magazines are a major medium in Italy and a minor one in Austria.

There are many arguments against globally standardized promotion and hence go in favour of promotion adaptation.

(i) Cultural differences between nations force adaptation in advertising and other promotions. A message that works in one nation can fail miserably in another. Due to cultural diversity, it is extremely difficult to develop a single advertising theme that is effective worldwide.

(ii) Advertising regulations may also block implementation of standardized advertising. For example, Kellogg could not use a TV commercial it produced in UK to promote its cornflakes in many other European countries. A reference to the iron and vitamin content of its cornflakes was not permissible in the Netherlands, where claims relating to health and medical benefits are outlawed. A child wearing a Kellogg T-shirt had to be edited out of the commercial before it could be used in France, because French law forbids the use of children in product endorsements. The key line, "Kellogg's makes their cornflakes the best they have ever been", was disallowed in Germany because of a prohibition against use of superlative degrees in ads.

(iii) Consumer response patterns are also not homogeneous among different markets. If the difference is more among various classes and segments in a market then responses to ads will also vary.

(iv) If the desired media are not available in a market, a standardized message is not transmittable. In some countries certain kinds of mass media does not exist, like TV does not exist in Guyana.

Some companies are experimenting with capturing some benefits of global standardization while recognising differences in countries' cultural and legal environments. A firm may select some features to include in all its advertising campaigns and localise other features. By doing so, they may be able to save on some costs and build international brand recognition and yet customise its advertisements to different cultures.

10.2.4 Establishing the Total Promotion Budget

One of the most difficult marketing decisions facing companies is how much to spend on promotion. It is not surprising that industries and companies vary considerably in how much they spend on promotion. Promotional expenditures might amount to 30% to 50% of sales in the cosmetics industry and only 10 to 20% in the industrial equipment industry. Within a given industry, low- and high spending companies can be found.

In Asia, the top spenders in 1993-94 were: Marlboro (China); Kao (Hong Kong); Pepsodent (Indonesia); Matsushita (Japan); Malaysian Airline System (Malaysia); Procter & Gamble (the Philippines and Taiwan); McDonald's (Singapore); Samsung Electronics (South Korea); and Lever Brothers (Thailand).

How do companies decide on their promotion budget? We will describe four common methods used to set a promotion budget.

(a) AFFORDABLE METHOD: Many companies set the promotion budget at what they think the company can afford. This method of setting budgets completely ignores the role of promotion as an investment and the immediate impact of promotion on sales volume. It leads to an uncertain annual promotion budget, which makes long-range market communication planning difficult.

(b) PERCENTAGE – OF - SALES METHOD: In Asia, promotion budgets are usually set at a specified percentage of sales (either current or anticipated) or of the sales price. For example, automobile companies typically budget a fixed percentage for promotion based on the planned car price. A number of advantages are claimed for the percentage-of-sales method. First, it means that promotion expenditure would vary with what the company can "afford". This satisfies the financial managers, who feel that expenses should bear a close relation to the movement of corporate sales over the business cycle. Second, it encourages management to think in terms of the relationship between promotion cost, selling price, and profit per unit. Third, it encourages competitive stability to the extent that competing firms spend approximately the same percentage of their sales on promotion.

In spite of these advantages, the percentage-of-sales method has little to justify it. It uses circular reasoning in viewing sales as the cause of promotion rather than as the result. It leads to a budget set by the availability of funds rather than by market opportunities. It discourages experimenting with counter cyclical promotion or aggressive spending. The promotion budget's dependence on year-to-year sales fluctuations interferes with long-range planning. The method does not provide a logical basis for choosing the specific percentage, except what has been done in the past or what competitors are doing. Finally, it does not encourage building up the promotion budget by determining what each product and territory deserves.

(c) COMPETITIVE-PARITY METHOD: Some companies set their promotion budgets to achieve share-of-voice parity with their competitors. Executive believes that by spending the same percentage of his sales on advertising as his competitors, he will maintain his market share.

Two arguments are advanced for this method. One is that the competitors' expenditure represents the collective wisdom of the industry. The other is that maintaining a competitive parity helps prevent promotion wars.

Neither argument is valid. There are no grounds for believing that the competition knows better what should be spent on promotion. Company reputations, resources, opportunities, and objectives differ so much that their promotion budgets are hardly a guide. Furthermore, there is no evidence that budgets based on competitive parity discourage promotional wars from breaking out.

(d) OBJECTIVE – AND – TASK METHOD: The objective-and-task method calls upon marketers to develop their promotion budgets by defining their specific objectives, determining the tasks that must be performed to achieve these objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotional budget.

Ule showed how the objective-and-task method could be used to establish an advertising budget. Suppose a company wants to launch a new woman's antidandruff shampoo. The steps are as follows:

(i) Establish the Market-Share Goal**:** The company estimates that there are 50 million potential users and sets a target of attracting 8% of the market, that is, four million users.

(ii) Determine the Percent of the Market that should be Reached by the new Advertising**:** The advertiser hope to reach 80% (40 million prospects) with the advertising message.

(iii) Determine the Percent of Aware Prospects that should be persuaded to try the Brand**:** The advertiser would be pleased if 25% of aware prospects (10 million) tried the shampoo. This is because they estimate that 40% of all triers, or four million persons, would become loyal users. That is the market goal.

(iv) Determine the Number of Advertising Impressions per 1% Trial Rate**:** The advertiser estimates that 40 advertising impressions (exposures) for every 1% of the population would bring about a 25% trial rate.

(v) Determine the Number of Gross Rating Points that would have to be purchased**:** A gross rating point is one exposure to 1% of the target population. Since the company wants to achieve 40 exposures to 80% of the population, it will want to buy 3,200 gross rating points.

***(vi) Determine the Necessary Advertising Budget on the Basis of the Average Cost of Buying a Gross Rating Point*:** To expose 1% of the target population to one impression costs an average of $3,277. Therefore, 3,200 gross rating points should cost $ 10,486,400(=$3,277 x 3,200) in the introductory year.

10.2.5 The Internet – An alternative promotion tool for future

Though still evolving, the Internet is emerging as a viable medium for promotion and should be included as one of he media in a company's possible media mix. Its use in business to business and business to customers communication and promotion via catalogs and product descriptions is rapidly gaining in popularity.

Although still limited in its penetration of households, especially in developing countries, the Internet is being used by a growing number of companies as a promotion medium for consumer goods. Since a large number of businesses have access to the Internet, it is frequently being used for industrial products and business to business markets. Many consumer goods companies have e-stores and others use the Internet as an advertising medium to stimulate sales.

Companies can use online advertising to build their Internet brands or to attract visitors to their websites. Online ads pop up while Internet users are surfing online services or websites. Such ads include banner ads, pop up windows, banners that move across the screen, and full screen ads, called roadblocks, that users must pass through to get to other screens they wish to view.

A company may also encourage prospects and consumers to send questions, suggestions, and even complaints to the company via e-mail. Customer service representatives can quickly respond to such messages. The company may also develop Internet based electronic mailing lists of customers or prospects. Such lists provide an excellent opportunity to introduce the company and its offerings to new customers and to build ongoing relationships with current ones. Using the lists, marketers can send newsletters, special product or promotion offers to the customers.

Spurting of a number of channels on Television has confused the advertiser about where to advertise? When to advertise? As viewers have a score of channels to watch, their exposure to a particular advertisement has become limited. Now the Internet has emerged as an alternative medium for advertisement. If a net-surfer clicks on to your website, he/she is sure to watch your advertisement. Moreover, a person who can afford to buy a computer and can have an Internet connection too, can become a cyber customer also. So you can directly generate sales through Internet advertising.

Advertisers now have an unprecedented opportunity to tailor their messages more precisely to a more fragmented audience. Amidst the seemingly endless surge towards market maturation, fragmentation, globalization and communication saturation, the Internet allows more precise audience. Today we see 'Context Sensitive Advertising' where the software tracks a visitor's web activities and changes the banner ads accordingly, e.g. if searching for the car sites the banner ads will deliver car ads.

Although the web audience is becoming more mainstream, online users still tend to be more upscale and technically oriented than the general population. This makes Internet marketing ideal for only certain categories of products such as computer hardware and software, electronic products, and financial services etc. It is still less effective in selling mainstream products.

The Internet offers millions of websites and a staggering volume of information. Thus, navigating the Internet can be frustrating, confusing, and time consuming for surfers. In this chaotic and cluttered environment many web ads and sites go unnoticed or unopened. Even when noticed, marketers may find it difficult to hold customer attention.

Use of the Internet is currently experimental. Surrounded by excessive hype and hyperbola the actual utility of the medium has yet to reach senior executives. Once the utility is known, traditional method of print and broadcast advertising, printed material and even sales calls may be minimised as part of the media mix. The internet 's capacity for colour graphics, sound, text and eventually video will provide the basis for on demand marketing and sales The internet may also bring about the end of distribution as it is structured today, combined with rapid delivery systems for goods.

In the nutshell we can say that promotion on Internet offers great promise for future. Its most ardent apostles envision a time when it will replace magazines, newspapers, and even stores as sources of information and buying. Yet despite all the hype and promise, Internet marketing may be years away from realising its full potential.

10.3 SUMMARY

The promotion of goods and services is an important part of the marketing mix. The purpose of promotion is to inform, persuade, and remind the customer that certain goods and services are available. The four ingredients of promotion are advertising, personal selling, sales promotion, and publicity. An important decision for international advertisers to make is whether the advertising campaign should be standardized worldwide or localized. Arguments for standardized advertising are (1) a successful campaign in one country is likely to be effective in another nations as well and (2) standardized advertising is economical. The argument against standardization is that advertising campaigns effective in some countries are not always effective in others, because of differences in cultural traits, language, economic life, and the like. Personal selling is an important ingredient of any marketing program. The three sources of sales personnel are expatriates, natives, and third country nationals. In the realm of international business, most personal selling jobs are handled by the local management. The head office, however, can provide useful support to local management on such aspects as selection, training, supervision, compensation, and evaluation. In ways similar to domestic marketing, sales promotion and public relations are also relevant to international marketing. An appropriate sales promotion program for an overseas market should be geared to the local environment. Public relations provide a justification and an identity for the foreign enterprise in the economic sphere of the host country. It is desirable to hire the program. Publicity programs, which give the firm and its products broad exposure to customers and prospects as well as third-party endorsement by the media, provide a cost-efficient use of a limited promotional budget.

10.4 KEYWORDS

Pull Strategy: A promotion strategy that calls for spending a lot on advertising and consumer promotion to build up consumer demand. If the strategy is successful, consumers will ask their retailers for the product, the retailers will ask the wholesalers, and the wholesalers will ask the producers.

Push Strategy: A promotion strategy that calls for using the sales force and trade promotion to push the product through channels. The producer promotes the product to wholesalers, the wholesalers promote to retailers, and the retailers promote to consumers.

Personal Selling: Personal presentation by the firm's sales force for the purpose of making sales and building customer relationships.

Internet: A vast public web of computer networks, which connects users of all types all around the world to each other and to an amazingly large information repository.

Advertising: Any paid form of non-personal presentation and promotion of ideas, goods, or services by an identified sponsor.

10.5 SELF ASSESSMENT QUESTIONS

(i) Discuss the promotion tools that are available to a marketer who decides to venture in foreign markets?

(ii) Write short notes on the following in global context:

(a) Advertising

(b) Sales Promotion

(c) Personal selling

(iii) As a manager of a company how would you allocate promotion budget among the various promotion tools? What methods of budget allocation are available to you?

(iv) Discuss the latest trends in advertising and sales promotion in international context.

(v) Compare and contrast promotion standardization and adaptation with the help of suitable examples.

(vi) Discuss some of the challenges a marketer face while promoting its products in foreign countries.

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Lesson No.: **11**

DISTRIBUTION AND LOGISTICS FOR INTERNATIONAL MARKETS

STRUCTURE

11.0 OBJECTIVES

After studying this lesson you should be able to

- ❖ Understand the concept of International distribution
- ❖ Understand the concept of distribution channel and logistics
- ❖ Know the different types of channels members and their functions
- ❖ Know the factors that affect the channel selection

- ❖ Examine the selection and management of channel members
- ❖ Enderstand the channels used for consumer and industrial products

11.1 INTRODUCTION

Distribution channels in markets around the world are among the most highly differentiated aspects of marketing systems. If marketing goals are to be achieved, a product must be made accessible to the target market at an affordable price. As in many markets, the biggest constraint to successful marketing is distribution, channel strategy has become one of the most challenging and difficult components of international marketing program. Smaller companies are often blocked by their inability to establish effective channel arrangements. In larger multinational companies, operating via country subsidiaries, channel strategy is the element of the marketing mix that headquarters understands the least. To a large extent, channels are an aspect of the marketing program that is locally led through the discretion of the in-country marketing management group. Nevertheless, it is important for managers responsible for world marketing programs to understand the nature of international distribution channels.

Distribution is an integral part of the total marketing program and must be appropriate to the product design, price, and communications aspects of the total marketing program. Another important reason for placing channel decisions on the agenda of international marketing managers is the number and nature of relationships that must be managed. Channel decisions typically involve long-term legal commitments and obligations to other firms and individuals. Such commitments are often extremely expensive to terminate or change. Even in cases where there is no legal obligation, commitments may be backed by good faith and feelings of obligation, which are equally difficult to manage and painful to adjust.

In every country and in every market, urban or rural, rich or poor, all consumer and industrial products eventually go through a distribution process. The distribution process includes the physical handling and distribution of goods, the passage of ownership (title), and, most important from the point of marketing strategy, the buying and selling negotiations between producers and middlemen and between middlemen and customers.

The American Marketing Association defines channel of distribution as “an organized network of agencies and institutions which, in combination, perform all the activities required to link producers with users to accomplish the marketing task”. Logistics is much bigger term and includes distribution channels also.

When a company begins producing and selling in more than one country and becomes a global player, then comes the time to consider the concept of logistics management. According to Tom Andel, “It is a system approach to management of the distribution process that includes all activities involved in physically moving raw material, in process inventory, and finished goods inventory from the point of origin to the point of use or consumption.”

The international company must take a whole-channel view of the problem of distributing its products to final users. The figure below shows the three major links between the seller and ultimate user.

The first link, seller’s international marketing headquarters, consists of its export department or international division making decisions on channels and other marketing mix elements. The second link, channels between nations, gets the products to the borders of the foreign nation. It consists of decisions on the type of intermediaries (agents, trading companies, etc.), the type of transportation (air, sea, etc.), and the financing and risk arrangements. The third link, channels within foreign nations, gets the products from their foreign entry point to the final buyers and users.

11.2 PRESENTATION OF CONTENTS

11.2.1 Types of international marketing channels

The starting point in selecting the most effective channel is a clear determination of the market target for the company's marketing effort and a determination of the needs and preferences of the target market. Where are the potential customers located? What are their information requirements? What are their preferences for service? How sensitive are they to price? Customer preference must be carefully determined because there is as much danger to the success of a marketing program in creating too much utility as there is in creating too little. Moreover, each market must be analyzed to determine the cost of providing channel services. What is appropriate in one country may be ineffective in another.

International and domestic marketing channels differ along one or more of four dimensions: (1) function, (2) composition, (3) power structure, and (4) number of intermediaries.

(i) Function - It is a mistake to assume that a foreign wholesaler is purely a wholesaler and that a foreign retailer is just a retailer. Functional specialization of this sort is not a reality in many countries. A Turkish wholesaler is quite different from a U.SA.

wholesaler. In Turkey, Kenya, Jamaica, India and other developing countries, the typical retailer simultaneously engages in wholesaling and the typical wholesaler is also a retailer. Moreover, wholesalers in these countries generally perform more tasks than their counterparts in developed countries.

(ii) Composition - The components of marketing channels are manufacturers, intermediaries (including middlemen, wholesalers, and retailers), and consumers. In developing countries, channels are likely to have more middlemen, and they do not have clear-cut functions. For instance, middlemen unspecialized by commodity or function predominate in serving West African markets. Long distances between market centers, antiquated and inefficient communication facilities, and shortages of capital in many (if not most) less-developed economies deter the expansion of markets. The small shops and stalls that comprise the bulk of the retail establishment in West Africa engage in "scrambled" merchandising, and their sources consist of a host of unspecialized middlemen.

Some international marketing channels are highly complex, with complicated networks of intermediaries. Japan's existing marketing channels are complex, reflecting a strong and intricate network among intermediaries. Japan has more retail shops and wholesalers per capita than does any other developed country. Typically, Japanese retail outlets employ no more than two people and almost half of the wholesalers employ not more than four people. Resistance by small shopkeepers (who collectively are politically powerful) has hampered the development and expansion of larger and more efficient retail institutions. As late as the early 1980s, Japanese goods were going through an average of four intermediaries, compared with 1.8 in the United States and West Germany and 1.2 in France.

(iii) Power Structure - All marketing channels have a channel captain who exercises channel leadership. The channel captain influences the composition of the channel, the specific tasks of various middlemen, the performance criteria, the way channel members are rewarded, and the way communication is maintained among them. In North America and Western Europe, most channel captains are manufacturers. Although some retailing giants such as Sears Roebuck occasionally challenge the manufacturer's leadership and sometimes even take the captainship away, the more usual arrangement is that the manufacturer is the channel captain. By contrast, in many developing countries, the channel captain is the wholesaler.

(iv) Length - Most marketing channels in overseas markets, particularly in developing countries, have a longer string of intermediaries than do American Channels. The reason for this is that individual intermediaries are generally small enterprises, have ill-defined functions, and perform a small number of tasks rather than a broad spectrum of tasks.

The structure of a country's marketing channel is affected by that country's economic development, its consumers' disposable income, and the physical-distribution infrastructure. Marketing channel structures are also shaped by other factors, such as tradition, geography, and legal and political systems. In Japan, for instance, even with advanced economic development and high disposable income, the distribution system for the most part remains bound by tradition. The typical Japanese retailer knows all or most of the store's customers because the owners' ancestors have dealt with customers' ancestors for generations. Similarly, networks of intermediaries have been doing business together for decades, if not for generations. The outcome is a complex distribution system difficult for outsiders to penetrate. Under the Japanese system, soap, for instance, may move through three layers of wholesalers and a distributor before it reaches the retailer.

In the People's Republic of China, for instance, most manufacturers sell to, but do not deliver to, retailers. But this practice is changing. Coke and Pepsi have been competing in a distribution duel; both have moved from a situation where retailers bicycled to bottling plants to pick up cases of soda to one in which orders are delivered from the plants direct to retailers. Both companies have invested heavily in fleets of retail delivery vehicles and refrigeration equipment for use by their retail dealers.

Channel orientation: There are three contrasting channel orientations: (1) active versus passive (2) dynamic versus static, and (3) market-oriented versus channel-oriented product decisions.

(i) Active versus Passive Orientation - The basis of the active-passive distinction is whether or not the channel generates further marketing activity on its own and reflects synergetic unity among its members. Many American channels have an active orientation and function synergistically. Individual channel members take the initiative in making changes in the channel's overall performance.

Elsewhere in the world, many marketing channels have passive orientations. These channels perform the tasks they have always performed, but they do not exercise any additional initiative. They are traditional channels whose members have performed their accustomed functions the same way for generations. Most of the small Japanese retailers and their suppliers fall into this mould.

(ii) Dynamic versus Static Orientation - Marketing channels in the United States are dynamic – they change. New channel patterns and new types of marketing intermediaries emerge from time to time. Some of these new intermediaries play new and different roles in the distribution process.

In most developing and less-developed countries, however, channels are static; they remain the same way they have been for centuries.

(iii) Market-Oriented versus Channel-Oriented Product Decisions - American marketing channels are relatively united and are sensitive to market changes and trends, and market needs, providing all channel members with new opportunities. By contrast, most of the traditional marketing channels are composed of intermediaries headed by people who have strong positions in a more traditional society; these intermediaries decide what products are to be distributed and why.

11.2.2 Factors affecting channel selection

In much of the world, channel relationships are long lasting. Generally, once the decision on an international marketing channel is made, it is difficult to change. Selecting a marketing channel that will serve the international firm well results from thorough appraisals of both internal and external factors.

(a) Internal factors: Although diverse internal factors influence specific channel selection situations, the most important are (1) company size, (2) the need for distribution control, (3) required special functions, (4) product characteristics, (5) desired entry speed, and (6) desired penetration.

(i) COMPANY SIZE - International companies of different sizes require different marketing channels. Companies, the size of Sears and IBM, do not enter foreign markets little by little. Companies this large generally need channels capable of delivering substantial volumes of business. Some large companies opt for *direct distribution channels* (that is, for partial or full ownership of the channel). Smaller concerns are much more likely to utilize *indirect distribution channels* through long chains of existing marketing intermediaries.

(ii) NEED FOR DISTRIBUTION CONTROL - A company's need for distribution control stems from different circumstances. Companies with worldwide images related to distribution performance generally desire considerable control.

Developing and maintaining an international reputation necessitates some degree of control over the distribution channel. Inadequacies in Fiat's distribution in the United States, stemming from Fiat's lack of control, were responsible for this popular European car not making much progress in, and ultimately withdrawing from, American auto markets.

Actually manufacturers depend on channel members for multitude of services like financing, physical distribution, warehousing, inventory, promotion, and payment collection etc. The companies, therefore, need to exercise control over these intermediaries. It does so using inventory financing, rebates and commissions, merchandise returns, and promotional support.

(iii) REQUIRED SPECIAL FUNCTIONS - An international company may require the performance of special distribution functions in order to perform well in certain world markets. Automakers opening up markets overseas absolutely require special and adequate services from their distributor-dealer networks. High-tech companies such as IBM and Xerox can only function effectively in world markets when their distribution channels provide competent repair and maintenance facilities and stock adequate suppliers of spare parts.

(iv) PRODUCT CHARACTERISTICS - Some products have special characteristics that influence marketing channel selection. Certain products require a speedy introduction to a market. Fashion items have to be in dealers' salesrooms at the start of new season. Other products (for examples, fruits and vegetables and seafood) are perishable and require special handling (even refrigeration) as well as speedy distribution to points of sale. Moreover, certain chemical products, dairy products, and items such as fresh-cut flowers require special characteristics in the distribution channels.

(iv) DESIRED ENTRY SPEED - Sometimes, international firms have special reasons for wanting to enter certain markets quickly. Companies taking advantage of Western Europe's economic unification in 1992 (for example, Whirlpool) invested early and spent much time and effort putting together Pan-European distribution channels swiftly. If entry speed is a prime concern, this may affect the channel that is chosen; for example, a channel "available now" may be selected over a more desirable channel that is "tied up for the foreseeable future."

(v) DESIRED PENETRATION - Some companies enter international markets only to skim the high end of these markets; other enter from the low end and seek deeper market penetration. The desired degree of penetration affects the channel structure that is sought.

(b) External Factors: Certain external factors also influence the choice of an international marketing channel. Four of these external factors are (1) competition, (2) market characteristics, (3) legal barriers, and (4) availability.

(i) COMPETITION - The intensity of competition varies not only in different world markets but also among different components of marketing channels. If there is keen competition in certain markets, it is highly desirable to have marketing channels capable of handling strong competitors. The multinational firm entering a new market seeks to choose a marketing channel that can compete on an equal basis with local channels. When Japanese carmakers entered the U.S. market, they set up networks of distributors and dealers fully capable of competing head on with the U.S. Automakers' channels.

In choosing a marketing channel, a company must also assess the degrees of competition that exists among wholesalers, other marketing intermediaries, and distributors as well as retailers. A company has to decide where to focus the competitive edge. Should it aim at having competitive edges at all channel levels, or should it concentrate on one or more specific distribution levels?

(ii) MARKET CHARACTERISTICS - Unique market characteristics play a critical role in shaping marketing channels in some countries. If the market is geographically widespread rather than concentrated, for instance, a channel must be capable of serving this kind of market. It must have both the type of marketing intermediaries and the number of intermediaries that a disposal market requires. Other market characteristics also need to be considered. The Japanese market, for example, is controlled by intricate and complex sub distributors. Most multinationals entering the Japanese market find it necessary to work with this existing network".

(iii) LEGAL BARRIERS - In some countries, there are legal and ownership requirements that force multinationals to use indirect marketing systems made up of local institutions.

(iv) AVAILABILITY - Whether certain types of distribution institutions exist or are available also makes a difference. In many overseas markets, both IBM and Xerox were unable to find the types of marketing institutions they desired for their marketing channels. Therefore, market by market, these companies built their own marketing channels from scratch. But if local institutions that are capable of functioning effectively in the internationals marketer's proposed distribution channel exist, the marketer is likely to utilize them.

11.2.3 Channel structure

Channel structures are either direct or indirect.

(a) Direct Channels - A direct international marketing channel is one that is owned and managed by the international firm, which owns and operates all of its intermediary institutions and other facilities. Direct marketing channels can be either vertical or horizontal. A vertical direct marketing channel is one in which the international firm owns all manufacturing, wholesaling, retailing, and other intermediary institutions. Examples include the worldwide distribution systems of IBM and Xerox.

A horizontal direct marketing channel is one in which an international retailer both owns and operates multiple retail outlets in a market. Sears and Benetton provide examples of this type of distribution structure.

(b) Indirect Channels - Indirect marketing channels are distribution systems that are owned not by international marketers but by others, particularly by local people. Vertical indirect marketing channels, for instance, are commonly used by international pharmaceutical companies, all of which typically work closely with local wholesalers and retailers. Among these companies are such well-known firms as Squibb and Merck.

Horizontal indirect marketing channels are used by international marketers desiring access to large numbers of retail establishments scattered throughout the target markets. Indonesian textiles utilize this type of channel structure in their international distribution. Pakistani, Korean, and Turkish textiles are also distributed this way.

The presence of a specific internal or external factor may determine the choice between a direct and indirect structure. Sometimes, an internal factor, such as the company's large size or a strong need for distribution control, causes an international firm to opt for direct marketing channels. At other times, an external factor, such as a legal barrier or a high level of competition, causes an international form to utilize indirect channels.

11.2.4 Management of distribution channel

Four key aspects of channel management are (1) locating and selecting members, (2) coordinating, (3) communicating, and (4) optimizing performance.

(a) Locating and Selecting Members - It is important to find the right channel member. The international company, therefore, is advised to identify specific criteria to use in choosing marketing intermediaries as channel members. These criteria are based on the internal and external factors discussed earlier.

Screening potential candidates for channel members is a four-step process. The first step is to send the candidate firm a letter with detailed product information and representation requirements. This letter must be in the prospective distributor's native tongue. The second step is to direct follow-up correspondence to the most promising respondents requesting detailed information regarding enterprise size, experience, familiarity with the territory, other product lines, and references. The third step is to check the candidate's references for character, credit, and reliability. The fourth step is by far the most important. A representative of the international firm should visit the foreign country and interview key prospective channel members in person. The firm must consider the fact that the Japanese and most other Asians, as well as Turks and Arabs, refuse to do business with those they consider "strangers". Often, exporters suggest that prospective overseas representatives spend significant time together before signing any agreement. A signed agreement should spell out the responsibilities of both parties, and it will usually specify a minimum annual sales volume; failure to meet these responsibilities can be used to terminate the agreement. Local laws should be consulted before the agreement is drafted.

(b) Coordinating - For effective performance, the plans and activities of channel members require coordination. The international marketer must ensure that its plans, promotional activities, strategic decisions, and product changes include all members of the channel team. Similarly, each of the marketing intermediaries in the channel must keep its activities congruent with those of others in the channel. Individual intermediaries must not take actions that offset the actions of others. A particular retailer for instance, unlike other retailers carrying the same product line, may decide to start a different kind of promotion. Unless skillfully coordinated, such a campaign might offset the efforts by other retailers on the marketer's behalf.

(c) Communicating - Communication is essential to coordination; indeed, coordination and communication go hand in-hand. If the marketing channel's performance is to conform to company standards, its members must be kept abreast of progress and problems. The international marketer communicates its plans and its promotion, strategic objectives, and product and service adjustments to all channel members. Information flow among the marketing intermediaries is also important. The intermediaries must keep other channel members informed about market changes and their marketing moves that proved profitable. It is the channel captain's responsibility to make the lead in maintaining communications and coordination among all channel members.

(d) Optimizing Performance - The most critical aspect of managing an international marketing channel is optimizing its overall performance. To optimize total channel performance, four areas need attention; training, motivating, compensating, and evaluating.

(i) TRAINING - Proper training of all dealers, distributors, and other channel members is the responsibility of the international marketer. Appropriate training in service matters, product maintenance and repair, and related activities pay dividends in enriching the channel's 'performance.

(ii) MOTIVATING - The motivation level of channel members has a direct impact on total channel performance. Effective leadership by the channel captain helps in motivating the members.

(iii) COMPENSATING- Offering adequate financial reward to channel members makes it reasonable to expect high performance levels from them. Margins and commissions need to be set at levels sufficiently high to motivate marketing intermediaries to motivate middlemen to turn in good performances and to provide all necessary services. If the international firm does not provide adequate financial rewards to its channel members, they are unlikely to give the product line their full support. In addition, the enlightened international marketer supports its channel members by providing reasonable credit terms, sufficient product information, technical assistance, and product service.

(iv) EVALUATING - In order to evaluate channel members' performances effectively, the firm must establish certain performance criteria. Sales quotas in terms of units of product or market share, actual sales figures, and some measure of customer satisfaction are all needed for this evaluation.

11.2.5 Channels for Consumer Products

A consumer product manufacturer can sell to customers directly (using a door-do-door sales force), through mail order selling (using a catalogue or other printed materials), or through manufacturer-owned stores. Of the three direct alternatives, the mail-order business is the most widely used. Some observers have predicted that the direct-mail distribution will grow considerably in the next few years because time, one of the most valuable resources, has become increasingly scarce. As consumers trade off the time cost of in-store shopping against the time demands of leisure activity, they are increasingly attracted to the time and place utility created by direct-mail marketing.

Door-to-door selling is a relatively expensive form of distribution in the sense that it requires high gross margins and results in higher prices to the customer. In the United States, it is a form of selling that is mature. In such countries as China, Hungary, Czech Republic, and Russia, home direct selling is the perfect channel strategy.

A variation on the door-to-door selling method is the house-party selling arrangement where a representative of a manufacturer arranges an informal, semi-social gathering in the home of a cooperating consumer in order to describe and demonstrate the goods he or she is selling. This form of selling has been particularly effective for manufacturers of cosmetics and kitchenware. Although the house-party method originated in the United States, its viability has also been demonstrated in Europe and Asia.

Another variant of the door-to-door selling method, which has achieved some success in Europe, is the consignment sale of merchandise to part-time salespeople who take orders for the company's product from a circle of acquaintances and friends. A French company established a major market position in the liquid household cleaner market in France by using this distribution method.

A third direct-selling alternative is the manufacturer-owned store. This approach is widely used in Japan in the consumer electronic industry. In other instances, companies choose instead to establish one or two retail outlets for obtaining marketing intelligence rather than as a distribution strategy. In those areas where a manufacturer's product line is sufficient to support a viable retail outlet the possibilities for this form of distribution are much more attractive. The shoe store, for example, is a viable retail unit, and shoe manufacturers typically have established their own direct outlets as a major element in their distribution strategy, both at home and in important world markets. One of the first successful U.S. international companies, Singer, established a worldwide chain of company-owned and operated outlets to sell and service sewing machines.

The other channel structure alternatives for consumer products are various combinations of a manufacturer's sales force and wholesalers calling upon retail outlets, which in turn sell to customers. In a given country at a particular point in time, various product classes will have characteristic distribution patterns associated with them. In Japan, for example, several lawyers of small wholesalers play an important role in the distribution of food.

11.2.6 Channels for Industrial Products

In the case of industrial products, three basic elements are involved: the manufacturer's sales force, distributors or agents, and wholesalers. A manufacturer can reach customers with its own sales force, or a sales force that calls on wholesalers who sell to customers, or a combination of these two arrangements. A manufacturer can sell directly to wholesalers without using a sales force, and wholesalers in turn can supply the goods to the customers. Finally, a distributor or agent can also call on wholesalers or customers for a manufacturer.

11.2.7 International channel innovation

Self-service – the provision for customers to handle and select merchandise themselves in a store with minimal assistance from sales personnel – is a major twentieth-century innovation. Self-service was first introduced internationally into the most highly developed systems. It has spread to the countries at middle and lower stages of development but serves very small segments of the total market in these countries.

The rapid growth of Benetton and McDonald's is a testament to the skill and competence of these firms as well as to the appeal of their product. In some instances channel innovations are improved, refined, and expanded outside the home country. 7-Eleven stores in Japan, for example, are half the size of U.S. stores carry one-third the inventory, yet they ring up twice as much in sales. 7-Eleven Japan boasts a fourth-generation point-of-sale (POS) information system that is more sophisticated than the system used in the United States. Another Japanese shoppers to order imported luxury product from companies like Tiffany's and Cartier.

Internet marketing is also becoming an important distribution method for multinational companies now-a-days. Any company can tap the customers of another country even without physical presence. People can place their orders directly and the company sends the goods by suitable transport modes. Computer hardware and software companies, and books and music retailers are the most experience in using this method of distribution. Cisco System Inc. generated $ 1 billion in sales in 1997 through Internet. Cisco's website appears in 14 languages and has country specific content for 49 nations.

11.3 SUMMARY

Different types of intermediaries are active in the field of international distribution. Essentially, they can be categorized either as domestic agents and merchant intermediaries who provide channels of indirect distribution, or as foreign agents and merchant intermediaries who make it feasible to distribute directly. An essential difference between agents and merchant intermediaries is that the agents do not take title to the goods and operate only on behalf of their principals. The merchant intermediaries take title to the goods and conduct business on their own.

An international marketer should select appropriate channels and make them work. The selection process includes the establishment of channel objectives, feasible alternatives, and the choice of appropriate channels. An international marketer should gain knowledge of the host country's wholesale and retail patterns. Such knowledge will provide insights into the social, economic, political and cultural factors that will affect distribution, wide variations exist in the wholesaling and retailing characteristics of developed and developing countries. Even among the advanced countries, channels differ significantly.

11.4 KEYWORDS

Industrial Product: Product bought by individuals and organisations for further processing or for use in conducting a business.

Distribution Centre: A large, highly automated warehouse designed to receive goods from various plants and suppliers, take orders, fill them efficiently, and deliver goods to customers as quickly as possible.

Channel Conflict: Disagreement among marketing channel members on goals and roles– who would do what and for what rewards.

Direct Channel: A marketing channel that has no intermediary levels.

Consumer Product: Product bought by final consumer for personal consumption.

11.5 SELF ASSESSMENT QUESTIONS

(i) How will you be selecting channels of distribution for international markets?

(ii) What factors influence the channel structures and strategies available to global marketers?

(iii) Compare and contrast the typical channel structures for consumer products and industrial products.

(iv) Write a detailed note on the selection and management of distribution channels for international markets.

11.6 REFERENCES/SUGGESTED READINGS

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