INTERNATIONAL MARKET ENTRY STRATEGIES

Training material

Part 2

INCONEXT PROJECT

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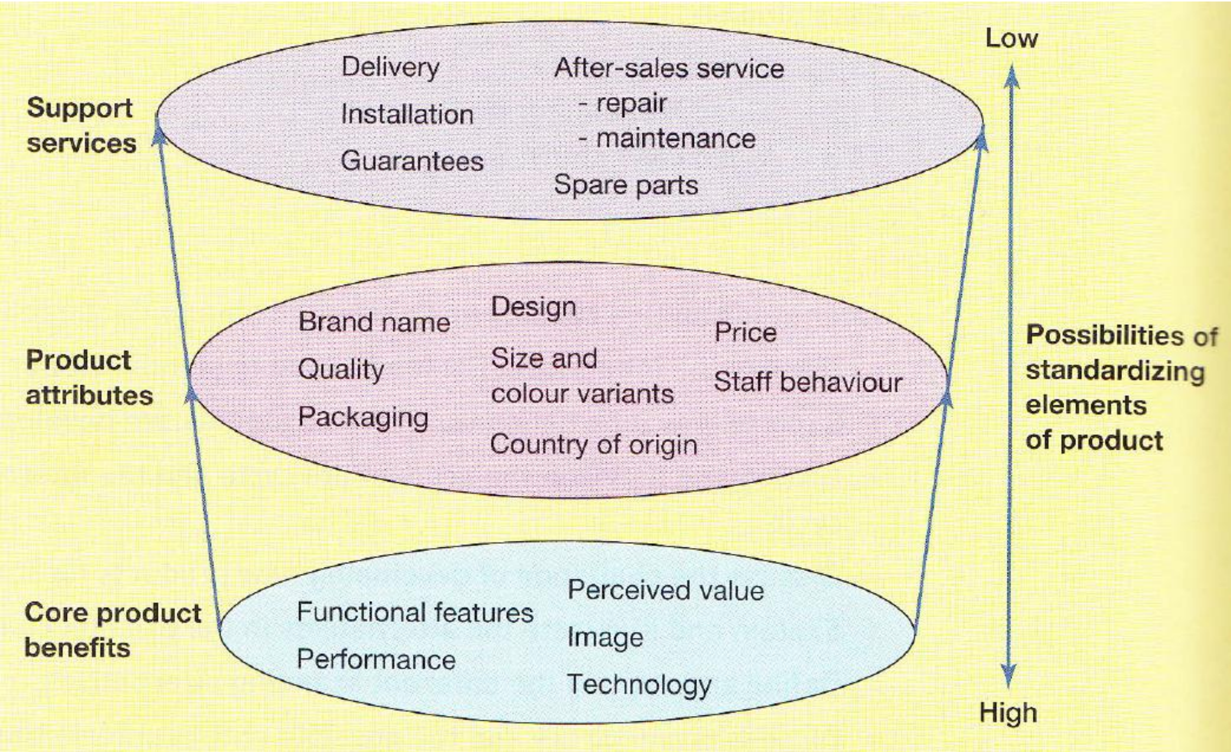
MARKET ENTRY STRATEGIES AND MARKETING MIX

The main decision connected to product performing internationally is: what product levels should be standardised and what levels will be adapted to the local environment. This decision is among the first decisions that should be made in order to develop global marketing mix. Product levels are presented in figure 4.

Figure 4 Levels of product



Source: Hollensen S. (2007), p.422

Arguments for marketing standardization are:

- Globalization of markets
- Globalization of industries
- Globalization of competition

Standardization of marketing programs and marketing mix is concerned with the extent to which individual elements of 4P can be unified. Every decision should be made individual. Main factors favoring standardization versus adaptation are:

Arguments for standardization	Arguments for adaptation
Experience curve effect	Government and regulatory influence (experience curve effect is impossible)
Global competition	Local competition
Homogeneous consumer preferences	Cultural differences determine heterogeneous consumer needs
Centralized management	Decentralized management
Competitor use standardized concept	Competitor use adapted concept
Easier communication, planning, control	Differences in technical standards
Stock cost reduction	

Standardized policy means one product, one message everywhere worldwide. Such strategy guaranties major savings for company and simply management efforts for extension.

Pricing is the second element of marketing mix. Decision regarding price policy can be changed rapidly without huge direct cost implications. Generally used international price strategies:

- Skimming – high price "skims the cream" from top end of the market. This strategy is mostly acceptable for new unique products and big customers segment interested in that uniqueness.
- Market pricing – when similar product exists in the market. It is a reactive pricing decision, which should be revised and compared with costs.
- Penetration price – low price allowed to increase market share and is acceptable for price sensitive market.
- Price changes – when changes occur in all market (in many cases depending on macro changes) or new product launch.
- Experience curve pricing – combine experience curve with typical market price within an industry.

The major problem is how to coordinate price between countries. There are two basic approaches:

- Price standardization – this is low risk position and is preferable when company sales for large customers.
- Price differentiation – it allows match price to local conditions, but is difficult to control pricing process in headquarters.

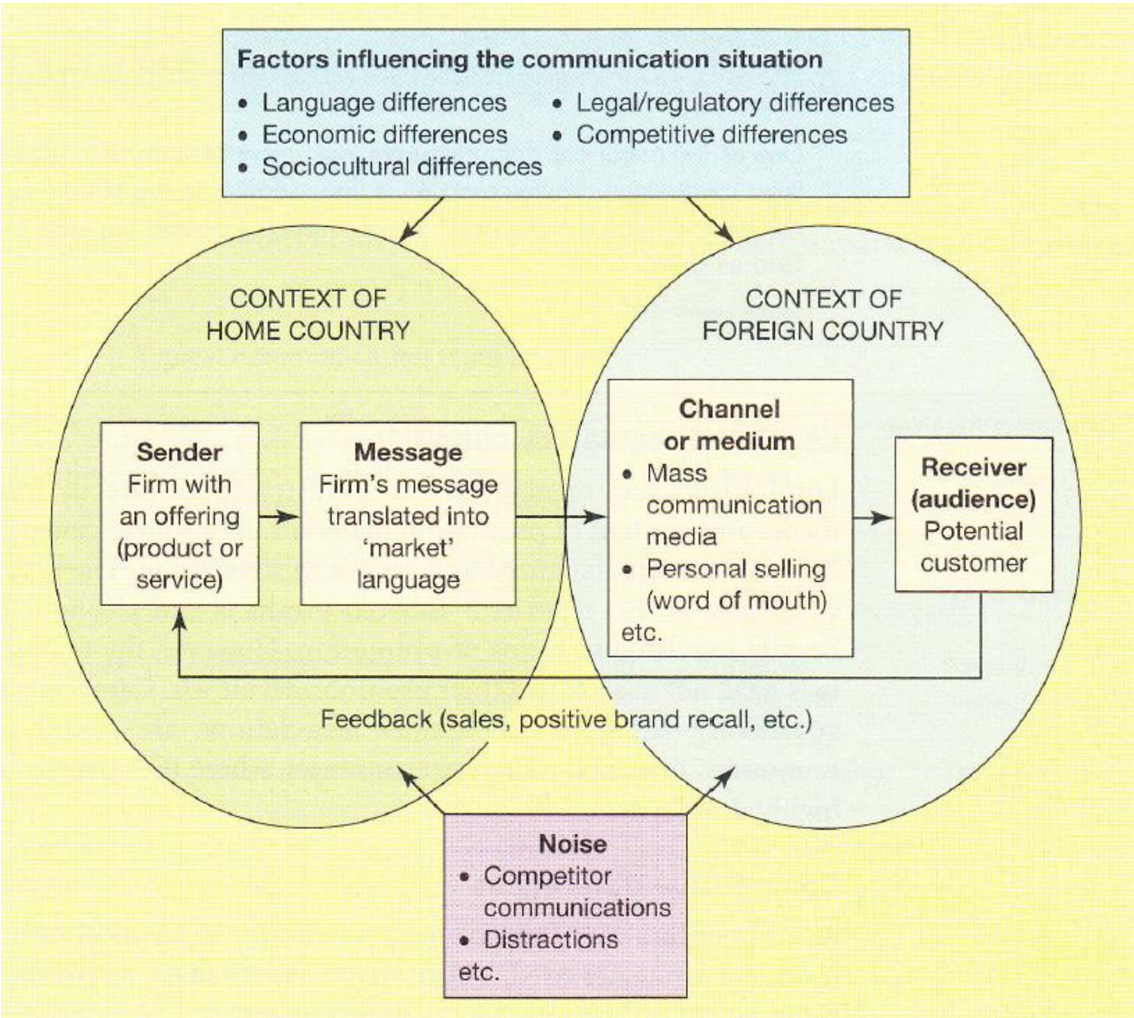
Distribution decision is the third element of marketing mix. Market coverage depends on distribution network development (dealers, distributors and retailers). There are three different approaches of coverage (Figure 2):

- Intensive – product distributing through the largest number of different intermediaries.
- Selective - chosen number of intermediaries for each area.

- Exclusive – just one intermediary in the market.

Communication is the final decision to be made about the global marketing program. Communication process is very important part of this program. There are many examples when communication was not successful because of cultural differences, language barriers, economics differences. Figure 5 shows international communication process structure.

Figure 5 Elements of the international communication process



Source: Hollensen S. (2007), p.543

Every time marketer should answer these questions:

- What communication strategy standardized or localized to choose
- What channels to use
- What message to translate
- Who execute the program

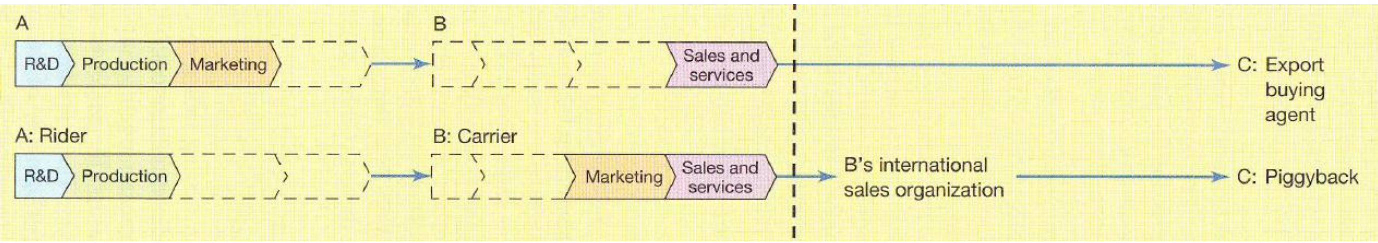
- How to measure results and how these results coincide business results

Five elements of international communication traditionally are used: advertising, public relations, sales promotion, direct marketing, personal selling. Very important communication tool for all these elements is internet, it influenced existing distribution and communication system. Internet provides the possibility to use more attractive tactic decision such as viral marketing.

INDIRECT EXPORT ENTRY MODES

Indirect exporting refers to use agencies in the home country to export product into the foreign market – figure 6.

Figure 6 Indirect export mode



A - are producers in home country; B – independent intermediary in home country; C – customer. Source: Hollensen S. (2007), p.312

There are five main entry modes of indirect exporting:

1. Export buying agent
2. Broker
3. Export management company
4. Trading company
5. Piggy back

Export buying agent – foreign buyer's representative who works in exporter's home country. This type of agent works in the interest of the buyer and pays a commission. In that case payment for producer is guaranteed in the home country and there is not any problems related to the movement of sold products, no necessity to make additional contacts. But producer almost has no control over the global marketing of products. Being far away from buyer producer has no idea about changes in consumer behavior and competition issues.

Broker – this type is an export/import broker who brings buyer and seller together. This type of broker specializes in particular products classes and gets commission from contract amount and may act as the agent for both – seller and buyer.

Export management company – this company represents producers and works as their export department. Representing big amount of producers such companies easy can reduce costs related to sales function and spread producer's goods widely to foreign markets because of their knowledge and experience. Still, this type of export management companies has their own policies of collaboration with foreign markets and not necessarily these policies should be the best for producers for different reasons:

- Producer's business objectives could not coincide with export management company objectives regarding selected markets, made on the basis of what is best for export company rather than for producer.
- Exporters can concentrate upon product with immediate sales potential with aim to be paid by commission in easy way. Products required more marketing efforts could be "forgotten".
- Producer's product could get not enough attention because of too big product ranges in exporter's responsibility.

It means that collaboration with export management company should be carefully monitored after the thoroughly selection work.

Trading company – they play very important role in some parts of world such as Far East and Africa, because of historical reasons and developing countries because of economic reasons. Their role is very important in such particular areas as shipping, warehousing, insurance, consulting, finance, etc. They offer a huge range of financial services: guaranteeing of loans, the financing of both, accounts receivable and payable, major foreign exchange transactions, etc. They manage barter activities, when sales into one market are paid for by taking other products from that market in exchange.

Piggyback – it is about the rider's use of the carrier's international organization. This let the carrier fully to use his established export facilities and foreign distribution. Carrier either buys all products and acts as independent distributor, or is paid by commission and act as an agent.

Advantages and disadvantages of indirect export entry modes:

+	–
Limited commitment and investment required.	No control over marketing mix elements other than the product.
High degree of market diversification is possible as the firm utilizes the internationalization of an experienced exporter.	An additional domestic member in the distribution chain may add costs, leaving smaller profit to the producer.
Minimal risk (market and political).	Lack of contact with market (no market knowledge acquired)
No export experience needed.	Limited product experience (based on commercial selling).