CHAPTER 14
DEVELOPING AND MARKETING PRODUCTS

LEARNING OBJECTIVES:
1. Explain the impact *globalization* is having on international marketing activities.
2. Describe the types of things that managers must consider when developing international *product strategies*.
3. Discuss the factors that influence international *promotional strategies* and the blending of product and promotional strategies.
4. Explain the elements that managers must take into account when designing international *distribution strategies*.
5. Discuss the elements that influence international *pricing strategies*.

CHAPTER OUTLINE:
Introduction
Globalization and Marketing
   Standardization Versus Adaptation
      Influence of National Business Environments
Developing Product Strategies
   Laws and Regulations
   Cultural Differences
   Brand and Product Names
      Selecting International Brand and Product Names
   National Image
   Counterfeit Goods and Black Markets
   Shortened Product Life Cycles
Creating Promotional Strategies
   Push and Pull Strategies
   International Advertising
      Standardizing or Adapting Advertisements
      Case: The Elusive Euro-Consumer
   Blending Product and Promotional Strategies
      Communicating Promotional Messages
      Product/Communications Extension (Dual Extension)<
      Product Extension/Communications Adaptation
      Product Adaptation/Communications Extension
      Product/Communications Adaptation (Dual Adaptation)
      Product Invention
Designing Distribution Strategies
   Designing Distribution Channels
      Degree of Exposure
      Channel Length and Cost
      Influence of Product Characteristics
   Special Distribution Problems
      Lack of Market Understanding
      Theft and Corruption
Developing Pricing Strategies
   Worldwide Pricing
A comprehensive set of specially designed PowerPoint slides (designated ‘PPT’ below) is available for use with Chapter 14. These slides and the lecture outline below form a completely integrated package that simplifies the teaching of this chapter’s material.

**Lecture Outline**

1. **INTRODUCTION**
   Globalization affects international business activities, industries, and products differently. Some companies market an identical product worldwide, whereas others must adjust marketing strategies across national markets.

2. **GLOBALIZATION AND MARKETING**
   Globalization is transforming the way some products are marketed internationally. Some companies implement a global strategy that uses similar promotional messages and themes to market the same product around the world. Others find that their products require physical changes to suit the tastes of consumers abroad. How do managers decide when marketing strategies need modifying?

   **A. Standardization versus Adaptation (PPT #3)**
   1. U.S. researcher Theodore Levitt argued that because the world is becoming standardized and homogeneous, companies should market the same products in the same way in all countries. Technology, claimed Levitt, causes needs and preferences to converge throughout the world.
   2. Companies reduce production and marketing costs by standardizing the physical features of their products and marketing strategies.
   3. Other researchers say that standardization is just one strategy for going international successfully. They say standardization is not always the best strategy and advise smaller companies to adapt to local cultures while exploiting their unique images to gain local market share.
   4. **Influence of National Business Environments**
      a. Consumers in different national markets want products that reflect their tastes; business environments affect consumer preferences and industrial buyers.
      b. Certain products do appeal to practically all cultures.
      c. Product standardization is more likely when nations share the same level of economic development.

3. **DEVELOPING PRODUCT STRATEGIES (PPT #4-6)**
   Factors in many international product strategy issues.
A. Laws and Regulations
1. Companies must adapt their products to satisfy laws and regulations in a target market.
2. The fact that many developing countries have fewer consumer-protection laws creates an ethical issue; lower levels of education and experience mean that consumers need protection.
3. Many governments impose fewer regulations to hold down production costs and consumer prices.

B. Cultural Differences
1. Companies sometimes must adapt their products to suit local buyers’ preferences rooted in culture.
2. Not all companies modify products but find a different cultural need that it satisfies.

C. Brand and Product Names
1. *Brand name* is the name of one or more items in a product line that identifies the source or character of the items. Consumers assign products a certain value based on experiences with a brand.
2. Brand names help consumers select, recommend, or reject products; they also function as legal property that owners can protect from competitors.
3. A consistent worldwide brand image is important as more consumers and businesspeople travel internationally.
4. Companies must review its brand image and update it if needed.
5. Selecting International Brand and Product Names
   a. Products in international markets need carefully selected names whether standardized or localized.
   b. Company and product names are made up of *morphemes*—semantic elements, or language building blocks.
   c. Brand names seldom offend people in international markets, but product names do.

D. National Image
1. Value customers obtain from a product is influenced by the image of the country in which it is designed, manufactured, or assembled.
2. Image can be positive for some products but negative for others.
3. Because it affects buyers’ perceptions of quality and reliability, national image is an important element of product policy.
4. National image can and does change over time.

E. Counterfeit Goods and Black Markets
1. *Counterfeit goods* are imitation products passed off as legitimate trademarks, patents, or copyrighted works.
2. Counterfeit brand name consumer goods, such as watches, perfumes, clothing, movies, music, and computer software are sold to consumers on the *black market*.
3. Topping the list for counterfeits: China, India, Russia, Thailand, and Turkey. Counterfeiting is worth from $50 billion to $80 billion globally.
4. Counterfeit goods can damage buyers’ images of a brand when the counterfeits are of inferior quality to the original. Buyers who purchase a brand expect a level of craftsmanship and satisfaction; when the product
fails to deliver on expectations, the buyer is dissatisfied and the company’s reputation is tarnished.

F. Shortened Product Life Cycles
1. Companies traditionally managed to extend a product’s life by introducing it into different markets consecutively; products were first in industrialized countries and later in developing markets.
2. Advances in telecommunications have alerted consumers around the world to the latest product introductions; consumers in developing and emerging markets demand the latest products.
3. Companies now undertake new product development at a rapid pace and shorten product life cycles.

4. CREATING PROMOTIONAL STRATEGIES
Efforts by companies to reach distribution channels and target customers through communications such as personal selling, advertising, public relations, and direct marketing are called its promotion mix.

A. Push and Pull Strategies (PPT #7-9)
1. Pull strategy: Create buyer demand that will encourage channel members to stock a company’s product. Buyer demand is generated in order to “pull” products through distribution channels to end-users.
2. Push strategy: Pressure channel members to carry a product and promote it to final users. Manufacturers of products sold in department and grocery stores often use a push strategy.
3. The strategy to use depends on the type of distribution system, access to mass media, and the type of product.
   a. Distribution system. Implementing a push strategy is difficult when channel members wield a great deal of power relative to that of producers. It can be ineffective when distribution channels are lengthy: It might be easier to use a pull strategy.
   b. Access to mass media. Developing and emerging markets have fewer forms of mass media, making it difficult to increase consumer awareness and generate product demand. Many consumers cannot afford cable or satellite television, or glossy magazines, so advertisers use billboards and radio.
   c. Type of product. A pull strategy is appropriate when buyers display brand loyalty; brand-loyal buyers know what they want before they buy it. Push strategies are appropriate for inexpensive consumer goods for buyers who are not brand loyal; low brand loyalty means that a buyer purchases one of the brands carried by the retailer.

B. International Advertising
International advertising differs from domestic advertising. Cultural similarities mean that ads are only slightly modified in different nations. Cultural differences may mean that entirely new ads must be created.
1. Standardizing or Adapting Advertisements
   a. Most advertising in any one nation is produced solely for that domestic audience. Companies that advertise in multiple markets
must determine the aspects of the advertising campaign that can be standardized and those that cannot.

b. To pursue a global marketing strategy, a company tries to get the most for its advertising expenditure. An increasingly popular method is marketing over the World Wide Web. Companies that use direct marketing (such as telemarketing or leaflets through the mail) have had mixed results with Web ads.

c. Companies reach a global audience by sponsoring global sporting events, such as the Olympics, World Cup Soccer, and Formula One automobile racing.

2. Case: The Elusive Euro-Consumer

a. The integration of EU nations causes marketers to think they can standardize advertising to appeal to the Euro-consumer. But the Euro-consumer remains a rare, almost mythical, creature who eludes the world’s best advertisers.

b. Well-known international advertising agencies have tried a pan-European advertising approach only to fail due to national differences; Europe’s many languages create translation issues for marketers.

c. Successful pan-European ads contain visuals, few words, and a focus on the product.

C. Blending Product and Promotional Policies (PPT #10-15)

When companies extend marketing to international markets, they develop communication strategies that blend product and promotional policies. A company’s communication strategy for a market considers the nature of the product and the promotion mix. There are five product/promotional methods.

1. Communicating Promotional Messages

a. Marketing communication is the process of sending promotional messages about products to target markets.

b. Marketing internationally often means translating promotional messages from one language to another. Marketers must also be knowledgeable of cultural nuances that affect how buyers interpret a promotional message.

c. Laws that govern promotion in another country can force changes in marketing communication.

d. Marketing communication is typically considered a circular process (Figure 14.1):

i. The company with an idea to communicate is the source.

ii. The idea is encoded (translated into images, words, and symbols) into a promotional message.

iii. The promotional message is sent to the audience (potential buyers) through various media—radio, television, newspapers, magazines, billboards, and direct mailings. The audience receives the message, decodes the message, and interprets its meaning.

iv. Information in the form of feedback (purchase or nonpurchase) flows to the source of the message.

v. The decoding process can be disrupted by the presence of noise—anything that disrupts the audience’s ability to receive and interpret the promotional message.
barriers between the company and potential buyers create noise if a company’s promotional message is incorrectly translated into the local language.

2. Product/Communications Extension (Dual Extension)
   a. Extends the same home-market product and marketing promotion into target markets. Under certain conditions, it can be the simplest and most profitable strategy.
   b. May grow more popular as the information age ties the world together. Best suited for companies that use a global strategy; upscale personal items with global brand names.
   c. Useful to companies who are low-cost leaders in their industries; one product and one promotional message keep costs down.

3. Product Extension, Communications Adaptation
   a. Extends the same product into new target markets, but alters its promotion. Communications require adaptation because the product satisfies a different need, serves a different function, or appeals to a different type of buyer.
   b. Contains costs because the product does not undergo any alterations; developing new promotional campaigns is expensive.
   c. Low economic development can demand that communications be adapted to local conditions. In developing countries, television and radio coverage are limited and the Web is years behind; marketers use door-to-door personal selling and regional product shows or fairs.

4. Product Adaptation, Communications Extension
   a. Requires a company to adapt its product to the international market yet retain the original marketing communication.
   b. Company may adapt its product for reasons such as legal requirements in the local market. Governments can require certain local materials, labor, or other resources in local production process; if the same materials are not available locally, the product may be modified.
   c. Can be costly, especially if the company invests in production facilities to remain close to changing buyer preferences. A firm can implement this strategy successfully if it sells a differentiated product and charges a higher price to offset production costs.

5. Product/Communications Adaptation (Dual Adaptation)
   a. Adapts both the product and its marketing communication to suit the target market. The product itself is adapted to match the needs or preferences of local buyers. The promotional message is adapted to explain how the product meets those needs and preferences.
   b. High cost means few companies employ this strategy; it can be implemented successfully if a large and profitable market segment exists.

6. Product Invention
   a. Requires that an entirely new product be developed for the target market. Product invention is necessary when many differences exist between the domestic and target markets.
b. One reason for invention is that local buyers cannot afford a product because of low purchasing power.
c. Product inventions can arise due to lack of infrastructure.

5. DESIGNING DISTRIBUTION CHANNELS (PPT #16)

- Planning, implementing, and controlling the physical flow of a product from its point of origin to its point of consumption is called **distribution**.
- The physical path that a product follows on its way to customers is called a **distribution channel**. Companies along this channel that work together in delivering products to customers are called **channel members** or **intermediaries**.
- Manufacturers of goods are not the only producers who need distribution channels; service providers such as consulting companies, health-care organizations, and news services need distribution.
- Companies develop their international distribution strategies based on two related decisions: (1) how to get the goods **into** a country and (2) how to distribute goods **within** a country.

A. Designing Distribution Channels (PPT #17)

When managers establish distribution policies, they consider the **market exposure** needed and the **cost** of distribution.

1. **Degree of Exposure**
   a. **Exclusive channel**: Manufacturer grants the right to sell its product to one or a limited number of resellers. Gives control over sales to channel members such as wholesalers and retailers; this helps constrain distributors from selling competing brands.
   b. An exclusive channel creates a barrier that makes it difficult or impossible for outsiders to penetrate the channel.
   c. **Intensive channel**: Producer grants the right to sell its product to many resellers. Provides convenience because of the many outlets through which a product is sold. It does not create strong barriers to channel entry, nor provide control over reseller decisions such as what competing brands to sell.
   d. Obstacle for small companies that choose intensive channels is gaining shelf space. This is exacerbated by the increasing global trend toward retailers developing their own **private label brands**—brands created by retailers themselves.

2. **Channel Length and Cost**
   a. **Channel length** refers to the number of intermediaries between the producer and the buyer.
   b. **Zero-level channel** (called **direct marketing**): producers sell directly to final buyers.
   c. **One-level channel**: One intermediary between producer and buyer. Two intermediaries make up a **two level channel**, etc.
   d. The more intermediaries, the more costly it becomes because each one adds a fee for services.

B. Influence of Product Characteristics (PPT #18)

1. **Value density**: Value of a product relative to its weight and volume; an important variable in formulating distribution policies.
2. As a rule, the lower a product’s value density the more localized the distribution system. Commodities have low value-density ratios—value is low relative to their cost of shipping.

3. Products with high value-density ratios include emeralds, semiconductors, and premium perfumes. Because the cost of transporting these products is small relative to their values, they can be processed or manufactured and then shipped.

C. Special Distribution Problems (PPT #19)
A country’s distribution system develops over time and reflects its unique cultural, political, legal, and economic traditions. The distribution system of each nation has its own unique pros and cons.
1. Lack of Marketing Understanding
   Can create frustration and financial loss.
2. Theft and Corruption
   Presents obstacles to distribution.

6. DEVELOPING PRICING STRATEGIES (PPT #20)
The pricing policy must match a company’s overall international strategy.

A. Worldwide Pricing (PPT #21)
1. Establishes one selling price for all international markets.
2. Difficult to achieve for four reasons:
   a. Production costs differ from one nation to another.
   b. Producing in just one location cannot guarantee the same selling price in international markets because of the different cost of reaching different markets.
   c. Purchasing power of local buyers must be considered.
   d. Fluctuating currency values can raise or lower a product’s price abroad.

B. Dual Pricing (PPT #22)
1. Product has a different selling price (typically higher) in export markets than it has in the home market.
2. When a product has a higher selling price in the target market than it does in the home market, it is called price escalation, which results from exporting costs and currency fluctuations.
3. Product’s export price may be lower than the price in the home market.
4. Some companies decide that domestic sales are to cover expenses for R&D, administration, and overhead; exports cover only additional costs associated with exporting and selling in a target market (e.g., tariffs).
5. To apply dual pricing in international marketing, a company must keep domestic and international buyers separate. If a company cannot keep its buyers separate, they could undermine the policy through arbitrage—buying products at lower prices and reselling them at higher prices.

C. Issues That Affect Pricing Decisions (PPT #23)
Several key factors affect pricing decisions.
1. Transfer Prices
   a. Price charged for products transferred between a company and a subsidiary.
b. Companies enjoyed freedom in setting transfer prices; subsidiaries in countries with high tax rates reduced their taxes by charging a low price for output to subsidiaries. The subsidiary lowered the parent company’s taxes by reducing profits in the high-tax country.

c. Large firms used transfer pricing to manage their global taxes and become more price-competitive.

2. Arm’s-Length Pricing
   a. Free-market price that unrelated parties charge one another.
   b. Although companies had great latitude in assigning transfer prices, many governments are assigning them arm’s-length prices to clamp down on tax evasion. There is also pressure on companies to be good corporate citizens in target markets.
   c. Developing and emerging markets are hurt by lost revenue when international companies manipulate prices to reduce tariffs and corporate taxes. Need revenue for schools, hospitals, and infrastructure. These in turn benefit companies by improving the productivity and efficiency of the local business environment.

3. Price Controls
   a. Upper or lower limits placed on the prices within a country.
   b. Upper-limit price controls provide price stability in an inflationary economy (when prices are rising). Companies that want to raise prices must apply to government authorities.
   c. Lower-limit price controls prohibit the lowering of prices below a certain level.
   d. Governments impose lower-limit prices to help local companies compete against the less expensive imports of international companies or to ward off price wars.

4. Dumping
   a. Price of a good is lower in export markets than in the domestic market.
   b. Accusations of dumping are often made against foreign competitors when inexpensive imports flood a domestic market.
   c. Although charges of dumping normally result from deliberate efforts to undercut the prices of competitors in the domestic market, changes in exchange rates can cause unintentional dumping.
   d. Antidumping tariffs punish producers in the offending nation by increasing the price of their products.

7. A FINAL WORD
   Despite the academic debate over globalization and the extent to which companies should standardize their international marketing activities, many companies continue to adapt to local conditions. Sometimes this takes the form of only slightly modifying promotional campaigns and at other times it can require the creation of an entirely new product. The causes of alterations in promotional aspects of marketing strategy can be cultural, such as language differences. They can also be legal such as requirements to produce locally so as to help ease local unemployment or to spur local industry around the production facility. Other companies are able to reap the rewards of standardization and centralized production that can result from the ability to sell one product worldwide.