Essentials of International Marketing

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LEARNING GOALS

- Count with a consolidated and well-defined body of conceptual, technical and procedural knowledge related with the business internationalization process, as well as the ability to develop the phases of an internationalization program for companies: research on foreign markets, country selection, segmentation and targeting withing markets, foreign entry mode options, and decisions on the degree of standardization or adaptation of marketing mix.
- Understand the process for selecting international markets and handling the main sources of marketing-related information.
- Differentiate a company's different alternatives for accessing foreign markets and their advantages and disadvantages.
- Develop the decision-making process in relation to the variables of the international marketing plan, associating it with the company's international strategy and the limitations imposed by the differences in the various socio-cultural, economic, political/legal and technological environments.
- Define the company products that are most suitable for internationalization and the adaptations required for selling them in foreign markets.
- Identify the variables that affect the setting of international prices and the company's international positioning
- Know the structure of international distribution channels and procedures for management and control of distributors.

- Identify the attributes that impact the international communication decisions and the most-used for small-medium companies.
- Analyze and understand the importance of brand creation to achieve sustainable competitive advantages in the international sphere and for maintaining long-term leadership positions.
- Establish the different alternatives for brand creation in the international sphere.

0. Introduction

The globalization of markets and companies is an irreversible process that accelerates year after year. The determinants of this process are well-known. Among others, we must point out the liberalization of most economies and the adoption of free market policies in more states, the rise of emerging and developing countries, new communication and production technologies, and the reduction or disappearance of sales barriers between countries. Certainly, in the second decade of the 21st century there seems to be a trend towards protectionism in some countries (mainly in the U.S.A – Trump´s Administration). However, we understand it may be a currnet issue, most due to political circumstances than structural economic world changes.

The markets' growing globalization generates an increased intensity of competitiveness worldwide. Currently, domestic trade is global trade. This means that, as a general rule, the entire world is the market, and forces companies to continuously adapt to the pressures of international competition and to pursue business opportunities beyond their borders. In this regard, it is more than necessary for managers and experts in marketing to understand the processes, strategies and techniques to be used in international markets.

If the design and execution of effective marketing programs is already complex when a company operates in a single, homogeneous domestic market, everything will be much more complicated when it operates in several countries with very different economic, political, legal, competitive and cultural structures. This is the complexity of international marketing vs.

domestic marketing. This geographic diversity poses several issues that correspond with the basic strategies of international marketing: Which foreign markets are most favorable? Which is the most appropriate entry mode alternative for the company? How to target and reach customers within the selected markets? Must we standardize the marketing mix policies or adapt any, or all, of them? What branding strategies should be implemented? The goal of this brief book is to respond to these basic questions.

After a brief introduction to the International Marketing Plan, first we will explain the process for selecting foreign markets, based on the information sources the company has available and the development of a three-phase methodology: decision-making on concentration/diversification options, selection of most favorable geographic regions and criteria for selecting those target markets that present the most business opportunities.

Next, we will analyze the main entry modes into foreign markets, classified into four groups: direct exports, indirect exports, cooperation agreements-strategic alliances and foreign direct investments.

Afterward, we will focus on the marketing mix policies (product, price, distribution and communication), pursuing an optimal balance between standardization and adaptation.

Finally, and with the goal of offering a global vision of the company's marketing strategy, we will analyze decisions and strategies in relation to branding, based on the initial premise that competing in international markets requires offering differentiated products and services, and that this differentiation mainly results of innovation and branding.

1. International marketing: concepts, strategies and planning

If we understand that Marketing, in its most generic and simple definition, entails satisfying the customers' needs while bearing in mind the competition, then International Marketing is the same while expanding to a broader environment, mainly to more than one market. Here lies the simple yet major difference that bestows it with extraordinary complexity, given that said environment is not only larger, but also more unknown in being different from that of our country of origin. Given this, International Marketing is required to use a methodology, partly proprietary and partly borrowed from other disciplines, that will enable the company to efficiently address this greater complexity and profit from the opportunities offered by foreign markets.

Another vision of international marketing through a less conceptual and more descriptive perspective of its own functions is to understand it as the performance of business activities, including the definition of prices, promotion (communication) and distribution of products and services, by one organization for consumers or users in more than one country, with the goal of making a profit (Cateora, Gilly and Graham, 2017). This definition refers to the development of the typical marketing mix functions (product, price, promotion and distribution) in an international setting.

Last of all, there is the concept of strategic management, that considers International Marketing as the strategy for taking advantage of the opportunities offered by foreign markets on the basis of the company's

strengths and weaknesses and in the face of international competition. This latter focus is much more operational and will be the grounds for designing the International Marketing Plan at the end of this section. This concept is grounded on strategic planning applied to International Marketing using its tools ad hoc, like the PEST(LE) analysis/foreign market selection/Porter's 5 forces/Value Chain/SWOT matrix, among others, but now applied to a broader, more complex context.

1.1. The different focuses of International Marketing: multidomestic vs. global

Contrary to what we could expect, there is more than one way to view International Marketing. As a result, the multidomestic and global focuses alike are acknowledged and conceptually contrasted by most authors. The distinction between these is displayed in chart 1.1 "Differences in Local vs. International Marketing in its two versions: Multidomestic and Global" which also first includes Local Marketing (also known as Domestic or National) for comparison purposes.

Chart 1.1: Differences in Local vs. International Marketing in its two versions: Multidomestic and Global

MARKETING	Markets (number)	Environment: Homogeneous / Heterogeneous ⇨	Strategy Standardization vs. Adaptation	Businesses / Sectors
Domestic/Local /National	Max.1	Homogeneous	Standardization	SMEs no int'l…
International Multidomestic	Several	Heterogeneous	Adaptation	Housing, personal care, leisure…
International Global	= 1	Homogeneous	Standardization	Technology, Sports, Fast Food, Drinks…
Theodore Levitt (Globalization of Markets 1983)	=>	*"THINK GLOBAL ACT LOCAL"*		

Source: Adapted from Llamazares (2009)

Hereby, on the one hand, Domestic Marketing considers a maximum of one market (national) with a homogeneous environment type (political-legal, economic, sociocultural and technological) that calls for, logically, a standard marketing mix strategy (4 Ps). This type of intervention is followed by local companies, generally SMEs, without a defined international strategy, which does not mean that they do not export occasionally, but that if they do, it is by means of a reactive strategy in response to an external initiative (for instance, a purchasing request by an unexpected foreign customer) instead of a strategic intervention planned ad hoc.

On the other hand, International Marketing, in its two Multidomestic and Global versions, does count with a well-defined internationalization strategy. The multidomestic mode considers the existence of several heterogeneous foreign markets that require an important adaptation of the marketing strategy to each. These are companies in sectors with products affected by an environmental element, mainly differentiated local sociocultural aspects, as is the case with food, household, leisure, personal hygiene products, etc. An example is the detergent named Don Limpio in Spain. The brand name is important in this category. The produc is named Monsieur Prope (France), Meister Proper (Germany), Mister Clean (England and the United States) and even Maestro Limpio in other Spanish-speaking countries, like Mexico. In fact, at first it was named Mister Proper in Spain until the brand realized that this name lacked the intended meaning and was changed to Don Limpio. A name clearly more related to its attributes.

Finally, International Global Marketing considers the existence of a single homogeneous market worldwide (though not identical) for the specific sector and/or product, as is the case with the market segment targeted by the Apple Corporation, with a similar profile around the world. To this end, it defines a single marketing strategy for introducing its products with global product launch announcements in all countries simultaneously. These are companies in sectors that are, in general, technological, luxury, industrial, automotive and transport, fast food, music, beverages and sports, among others, that target segments with specific profiles of global consumers (Yuppies, Generation X, Millennials, Hipsters, etc.).

An issue that has always been controversial is the "pure" nature of an internationalization strategy when it is known that a common 100% global strategy or a completely different multidomestic strategy is not possible. In principle, the degree of differentiation depends on the specific sector/segment

targeted and how it is impacted by the different environments, wherefore it would be convenient to perform a PESTLE analysis of the environment and, if it results to be mostly homogeneous, a global strategy will be preferable, and vice versa. This said, two operational problems arise to confront these issues. The first is how arduous it would be to explore each country individually to analyze its homogeneity compared with the rest. Second, which strategy to opt for in the case of uncertainty between both.

In the initial case, the problem inherent to the challenge of replicating markets, one after the other, is resolved with a PEST(LE) analysis, a fast test of the environment, presented in Table 1.2 of the Multidomestic versus Global Strategy: Quick Test.

Table 1.1: Multidomestic versus Global Strategy: Quick Test

GLOBAL STRATEGY	ENVIRONMENTAL FACTORS (QUICK PEST ANALYSIS)	MULTIDOMESTIC STRATEGY
HOMOGENEOUS	Tastes and needs of customers	HETEROGENEOUS
HIGH	Economies of Scale	LOW
HIGH	Investments in R+D	LOW
LONG	Product Life Cycle	SHORT
SIMILAR	Local norms and legislation	DIFFERENT
EXTENSIVE	Internationalization of communications	INEXTENSIVE
EXTENSIVE	Internationalization of distribution	INEXTENSIVE
HIGH	Economic Integration among countries	LOW
SIMILAR	Marketing facilities in foreign markets	DIFFERENT

This way, if consumer tastes and needs are mostly homogeneous, important economies of scale are possible, investment in R&D is significant, the life cycle is long, standards and regulations are comparable, communications and distribution are broadly extended, economic integration is high (EU, NAFTA, etc.) and marketing infrastructures are similar, then a global strategy is more adequate. Another fast test (to know whether the strategy should be local or multidomestic), contributed by Professors Jeannet

and Hennessey (1998), proposes the following reasoning: if we consistently find, country by country (market by market) the same providers of components for a given sector, for example, personal computers with shared manufacturers of microprocessors, hard drives, screens memories, accessories, etc. as it is the case (Intel, AMC, Seagate, Samsung, IBM, HP, Logitec, etc.), as well as the same competitors (Dell, HP, Apple, Samsung, Lenovo, Asus, etc.) and, furthermore, similar PC customer profiles exists, for example, university students, professionals and home users, then we could consider the sector to be global.

As regards to the second problem of uncertainty in choosing between both strategies, even after performing the fast tests, we can turn to the advice of Professor Theodore Levitt (1983), summarized as the famous phrase "Think Global, Act Local". This is also known as the "Glocal" strategy. Levitt presented this reasoning in his article on the Globalization of Markets, in which he spoke of first identifying commonalities or shared issues that we may find across different markets and adapt ourselves to these, given the major advantages of economies of scale, lower variability, single image, transfer of experiences from one market to another, access to global clients, etc. that are offered by standardization and, subsequently (and not before), when no other solution is available, of implementing the necessary adaptation. The automotive sector is an example of this situation, where a vehicle with 4 wheels and 4/5 seats, front engine, gasoline or diesel, brakes, trunk, etc. is common and valid in all markets. Differentiation is possible subsequently, but not in advance, as is the case with the need for adapting the steering wheel to the right side in the United Kingdom. To the contrary, if the focus of my analysis is to seek differences (the contrary "think local, act global" strategy) between countries, regions, cities or even families, I will find these, and by the thousands, and then it will be difficult, when not unfeasible, to design a proposal. This is the strategy apparently sought by many companies, like Coca Cola, McDonald's, etc. which have global products (Big Mac, French fries, etc.), while they create a few specific products for countries (croissants in France, spicy meals in Mexico, serving beer in Spain, etc.). This strategy foresees that the world is moving toward a greater globalization as a result of the expansion of technologies, education, transport, communications, Internet, English as the lingua franca, etc., though recently some opposing "protectionist" movements have emerged, which are worthy of observation.

1.2. Foreign expansion, Market Orientation and Innovation: Market-Driven vs. Market-Driving Strategies

To date, the predominant corporate philosophy is that of Market Orientation, based on the concept of marketing for satisfying customers' needs in a competitive environment while maintaining long-term profitability, identified by Naver & Slater (1990) almost three decades ago. This vision is manifested in two different ways: either as an orientation driven by the market or as a driver of the market (Jaworski, Kohli & Sahay 2000), which far from being opposing can be perfectly complementary, as is the case with the majority of successful companies, like Google and Starbucks, among others.

The first (market-driven) tries to identify the needs that arise from analyzing market preferences, therefore originating from the market. A few successful examples of the first are mass consumer companies, like Procter & Gamble, Unilever, etc.

The second (market-driving) presents, in general, innovative propositions to potential customers with the intention of generating new markets that were previously inexistent. Some examples of these companies are Apple, Amazon, Tesla, etc. with the launch of their innovations that change the way people live. An example that represents this second vision is the phrase attributed to Henry Ford (SLS, 2018) and later reused by Steve Jobs, which says that if you ask a cowboy what he wants he'll answer "a faster horse" because of his lack of knowledge of other, better types of mobility which, in turn, underestimates market research (Kawasaki, 2014).

The "director of international marketing" or the "international entrepreneur" (international marketer) acquires a critical role as innovator and "change agent"in the quest for expansion and penetration of foreign markets, developing products and/or services that are new to the market. In these cases, these should be considered and managed as innovations, focusing on generating and disseminating knowledge. An example is the case of the franchise 100 Montaditos in its internationalization in markets like the United States, where it presented its proposal as an innovative business model in the restaurant sector. Even if a similar franchise would have already existed, as occurred when McDonald's came to Spain and Burger King was already established there, the new company would also have been a novelty in the market. Last of all, we must highlight that even afterward it must manage less proactive strategies with their origin in the analysis of the North American

market itself, combining both market-driven and market-driving strategies, to achieve even greater success.

1.3. International Marketing & Strategic Planning: The International Marketing Plan (IMP)

1.3.1. The International Marketing Plan

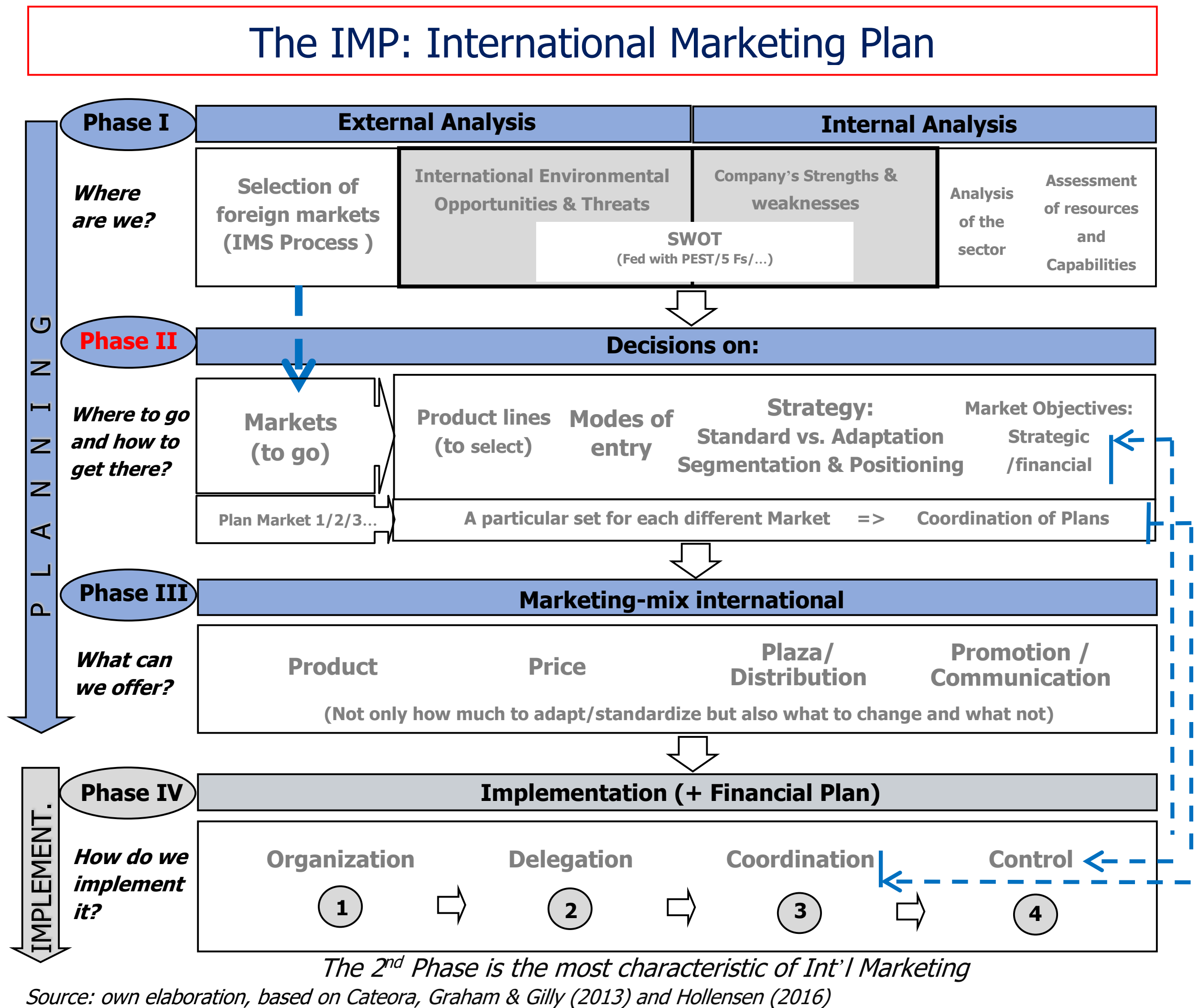
The International Marketing Plan (IMP) is a planning tool that has as its goal a successful strategy of commercial internationalization for a company. A good IMP must define objectives, propose actions and define a timeline for attaining these goals (normally between 3-5 years), ending with a correct analysis of investment requirements and financial projections.

The IMP proposed herein is based on the strategic planning that was developed in the decade of the 70s during the last century. Before that, the most common business planning consisted of extrapolating to each subsequent year (or period) the same strategic plan and actions (i.e., the same promotional campaign), with minor changes, like a slight, proportional increase and in the pursuit of a more realistic adaptation to a well-known reality and stable environment. However, as of the 70s -during an oil crisis and crisis of raw materials that dragged the economy and generated political instability (Vietnam war), new technological innovations (video, PCs,) and trends (with their origin in the revolution of 1968) that erupted in the market-planning became a useless tool in the new context, and strategic planning arose as an alternative (Ansoff & McDonnell, 1990) which continues in effect to date, given the characteristic of ongoing instability of this entire period of almost 50 years (Mintzberg, 2000). Strategic planning becomes indispensable in this new, unstable context and, from the perspective of its application to International Marketing, represents an adjustment between the opportunities and threats posed by foreign markets and the strengths and weaknesses of the company that faces these.

As we have already mentioned, this document will use this strategic concept of International Marketing. In this regard, this strategic planning uses different, proprietary methodologies, like the renown PEST(EL) analysis of the company's macroenvironment, Porter's 5 forces for the microenvironment, the Value Chain for the company's internal environment and the SWOT matrix that brings together all of these.

Figure 1.1 presents the design of a four-phase International Marketing Plan based on strategic planning in its initial phase for generating information that will later serve to aid decision-making during the remaining phases.

Figure 1.1: The International Marketing Plan (IMP)



The 2nd Phase is the most characteristic of Int'l Marketing

Source: own elaboration, based on Cateora, Graham & Gilly (2013) and Hollensen (2016)

Aside from a SWOT matrix fed by the PEST(EL), 5 Forces, Value Chain and other methodologies, this first phase (that answers the question "Where are we?") analyzes the sector in which the company operates and evaluates its resources and capabilities for internationalization that will determine the convenience or inconvenience of adventuring abroad. In addition, the IMS (International Market Selection) process of this initial phase, together with the modes of entry of phase II (that answers the question "Where to go and how can we get there?") and entire phase III of the marketing mix design (that answers the question "What do we offer?") will be analysed in the next following sections.

However, we will now address the rest of phase II as well as the whole phase IV of the IMP implementation just for the ease and convenience of the presentation of this text since the order of the phases must be respected for the correct analysis.

Therefore, starting with phase II, strategic decisions must be made regarding which markets to enter and with which product lines, which may be presented as a product line matrix by markets when we have a variety of these, as a differentiated IMP is required for each, which subsequently will be object of coordination. Then, for each selected market, we must define the type of strategy, whether global, multidomestic or a combination of both (glocal), the target population segment and the positioning, reflecting whether or not these will be the same on the local level. Finally, and also for each market, strategic and financial objectives must be defined for the 3-5-year timeline of this plan. Strategic objectives include sales forecasts (for growing markets) or quotas (for mature markets), number of outlets in the case of retail sector (branches or franchises) and image (brand recognition and reputation). Financial objectives include the expected profits, payback ratio and return on investment (ROI, etc.). Sales forecasts are a priority objective in the majority of cases while, in turn, they also condition the fulfillment of other economic objectives or profitability. Hence the importance of an accurate quantification that must be estimated on the basis of the company's resources, the potential of the given market and the marketing and investment efforts in the country. Common practice presents the sales forecast in three different types of scenarios: optimist, pessimist and realistic.

Finally, phase IV of the IMP follows the satisfactory completion of the three preceding phases. This phase is essential to the success of the entire plan that not only requires good Planning (3 initial phases) but also the correct

implementation by properly applying its management activities and an adequate allocation of resources: monetary and of human resources. To this end, we turn to the general corporate management theory with its four main management functions: organization, delegation, coordination and control, which must be properly designed and managed. Only then can we consider that we've done a good job. Given its singularity, this implementation phase will be addressed separately in the next section.

1.3.2. Organization, Delegation, Coordination and Control of the IMP

These four management functions are established sequentially as described, starting with the organization, continuing with delegation, then coordination and ending with control. This phase may be more complex in large companies and perhaps simpler in smaller companies, given their size and limited resources (human resources, functional areas, etc.). This way, in the case of an SME beginning its internationalization process, this entire system of management functions will be reduced to what is displayed in Figure 1.2, with just five functions: three commercial and two technical, which will be delegated, for example, to two managers, respectively (possibly more) under the supervision of the International Marketing Department Director. The first one would be the Commercial Area Manager (who in turn may be the Department's Director himself) in charge of three sales functions: international market research, design of the IMP and coordination of the international network or organization (agents, distributors, etc.).

Figure 1.2: Organizational Structure in a recently Internationalized SME

Source: Adapted from Llamazares (2009)

Given the limitation to which SMEs are usually bound, it is highly recommended to seek the support of official or private institutions and/or associations in the different countries that promote exports and investments. Furthermore, the main Manager or the second Area Manager will be in charge of the technical functions related to payment administration abroad and international logistics. Whenever possible, this person will be an expert with a Master's degree in the specific fields and fluent in English. For managing payments, this Manager will seek the collaboration of a bank that offers these types of services at highly competitive rates (international factoring, etc.) and for logistical matters related to transport and documentary management for customs authorities this Manager would hire a professional forwarder. In general, during these initial phases of internationalization, it is not recommended to forego these outsourced services and try to assume them ourselves. For example, assuming the tasks of the forwarder could result in problems and delays in obtaining customs certificates, documentation and even theft.

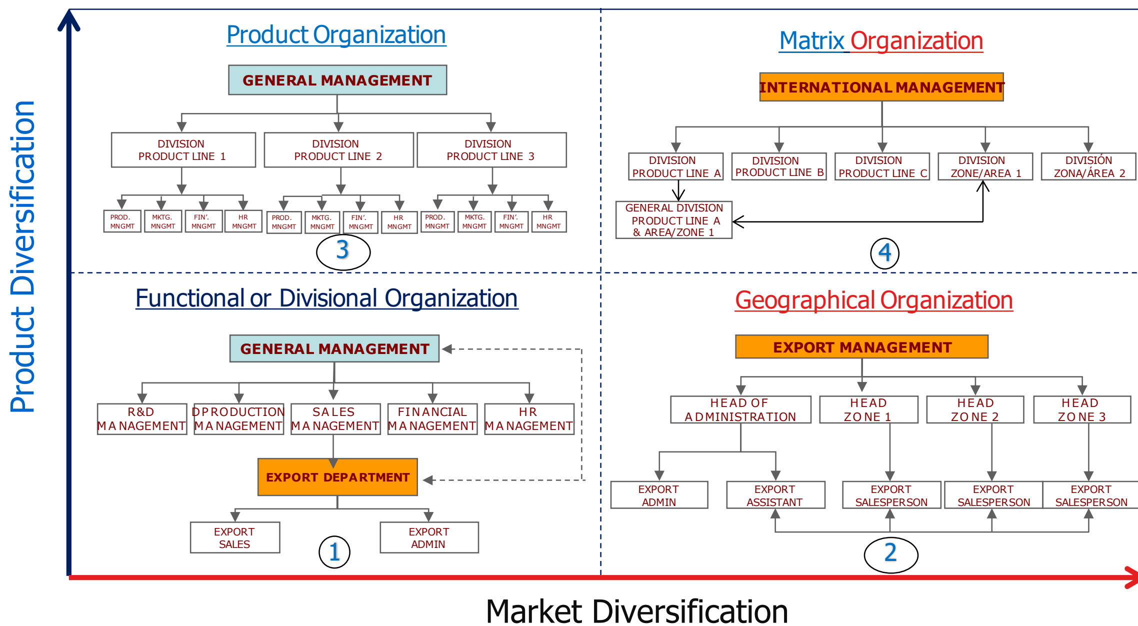
In summary, starting an internationalization process is not necessarily a problem, given that the organization and the delegation, as well as the coordination of tasks would be simple between the two persons comprising the international marketing department. Over time, a greater development of the organization will eventually become more complex, but the company will at that time have more resources and knowledge to address this. Next, we present the case for multinational companies with larger structures and international activities, starting with its organizational methods, continuing with its delegation, then with coordination and finally with control.

As regards their organization, international companies tend to be structured in one of four types: functional/divisional, geographical, by global product and matrix (depending on the level of diversification of the product and the market) as shown in Figure 1.3

Functional or divisional organizations (also known as departmental) are adequate for companies with a low diversification of products and markets, usually SMEs with a low degree of internationalization. Normally, they are organized on the basis of their corporate functions and the international marketing department is usually part of Marketing, as shown in the lower left corner (1) of Figure 1.3. This type of organization, in its simplest form, would be a company with an incipient internationalization process, as presented above in Figure 1.2.

Organizational structures by geographic areas or regions (2) are more suited for companies with relatively few products, in comparison with the high number of markets in which they are present. The regions they encompass are usually markets with a certain degree of homogeneity that allows for addressing them together, like EU, North America, Latin America, etc.

Figure 1.3: International Organizational Structures in terms of Product and Market Diversification



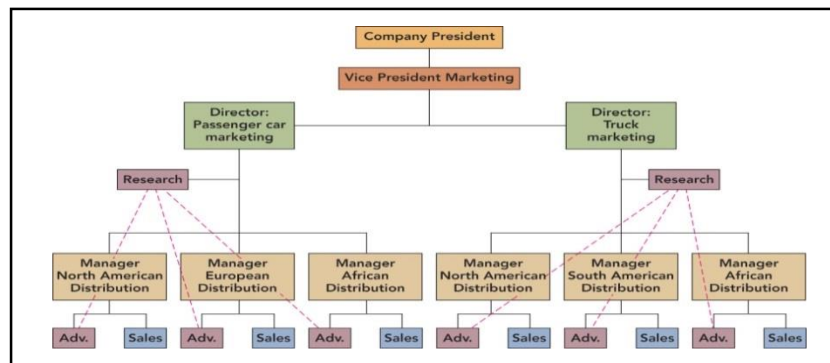
Source: Adapted from Llamazares (2009) and Hollensen (2001)

Organizational structures by product (Global Product Organization) (3) are characteristic of companies with many products, in relation to the markets in which they are present. These prioritize the products, with their Product Managers in charge of all markets, demonstrating a clear global vision.

Finally, matrix organizations (4) are characterized for their diversity of many products and markets. In this structure, the same priority is given to products and markets, wherefore these count with Product Managers and Area Managers with equal responsibilities. The idea behind combining the organizations by products with the areas/markets is to try to make the most advantage of both and, therefore, generate synergies. Therefore, a product-based organization presupposes that the company is quite concerned with

their management, as well as with the areas which, in turn, are object of special attention. However, this perspective clashes with reality when there are two Managers (Product and Area) who propose divergent instructions for a product that is to be standardized worldwide, and the Area Manager wishes to adapt it to its corresponding areas. This disparity results in the fact that many multinationals with this problem opt for shifting toward an organization by products if they have a global orientation, or by areas if they have a multidomestic orientation. This is the case of a renown automotive brand shown in Figure 1.4 on "Combining Product, Geographic, and Functional Approaches" where an organization by product is prioritized, thereby showing a more global -compared with domestic- orientation.

Figure 1.4: Combining Product, Geographic, and Functional Approaches. Priority to Global Product Organization



Source: Cateora, Grahan and Gelly (2013)

Once the organization type is defined, we must focus on the delegation of tasks between the parent company and the subsidiaries in each country. Here, a greater or lesser delegation of functions will depend on the company's centralization vs. decentralization strategy. Here, those companies with a greater decentralization grant their subsidiaries more autonomy for decision-making (on adapting products or services, introducing their own products or services in their markets, implementing their own communication campaigns, etc.) and delegate the most, a typically multidomestic strategy. To the contrary, centralized companies concentrate in their parent company most of the decision-making, and their subsidiaries merely execute these, thereby adhering to a typically global strategy. This the case of Apple, which concentrates all of its decision-making at its headquarters, the subsidiaries of which neither make any decisions nor are aware of the innovations to be introduced until they are announced, normally through a global rollout. Therefore, we could say that

there is a relationship between a global strategy, standardization and centralization on the one hand, and a multidomestic strategy, adaptation and decentralization on the other.

Furthermore, we must mention that not all marketing activities are equally delegable on a local level, with product price and promotion policies the most decentralized, distribution remaining on an intermediate level, while corporate marketing (brand and image promotion) and product-related activities are the most centralized.

Finally, we must highlight that regardless of the degree of decentralization, the parent company must act as the coordinator between the subsidiaries to avoid redundancies (repetition of market studies, etc.) and to disseminate the knowledge acquired across different subsidiaries.

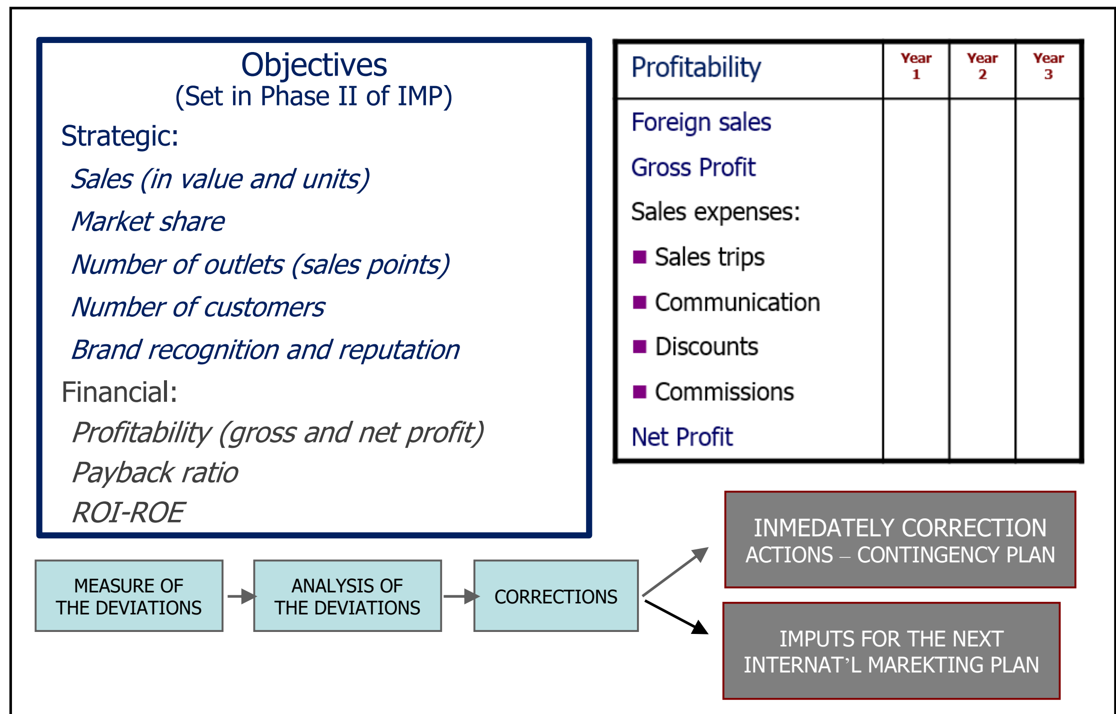
Coordination is the third function when implementing an IMP. It is necessary for the proper operations of the network of subsidiaries and for their collaboration to result in synergies for the entire organization. Coordination is necessary, on an initial level, between the different IMP of the different markets, given that these will not be completely dissimilar, but instead will require something in common, as mentioned in phase II of the Plan, therefore avoiding repetitions, sharing activities and disseminating the knowledge acquired internally. On a second level, it is necessary to establish unifying elements to integrate the different subsidiaries together. These will include scheduling rotations across the subsidiaries of personnel from both senior and middle management to establish an international career development path within the same company.

In this section we must also mention the use of communication technologies (like videoconferences, forums, platforms, etc.) or the scheduling of annual events (meetings, summits, gatherings, cultural immersion workshops, etc.) for presenting the progress of the subsidiaries and for consolidating ties and relationships among the different levels of management.

The last function for proper implementation is that of control which, logically, will be done according to the strategic and financial objectives established during Phase II (see next Figure 1.5). Within the objectives set in the 3-5-year timeline (duration of the IMP) are the strategic goals, sales forecasts and market quota, inauguration of new points of sale, image, number of clients, etc., as well as the financial goals, like gross and net profits, payback

or period for recovering the investment, and the ROI (Return On Investment). The company must properly monitor these variables according to its resources for follow-up purposes, like monthly or quarterly data collection. In the event that deviations occur, if these are minor, a note must be made of these to include adjustments in future planning. If the deviations are more relevant, their importance and reason must be analyzed to implement immediate measures (promotional campaign, price reduction, etc.) and a contingency plan must be implemented.

Figure 1.5: Control based on Strategic and Financial Objectives set at Phase II



Source: Adapted from Llamazares (2009)

In the next sections, a detailed analysis of the rest of the phases of the IMP will be undertaken, starting with the decisions on foreign market selection, continuing with the study of entry mode choices and concluding with the analysis of international mix decisions: Product, Price, Place (Distribution), Promotion (Communication) and Branding. The general overview of the IMP in this section acts as the unifying thread for the remaining contents of this text, which will offer an orderly presentation of the key elements of the IMP.

2. Selection of Foreign Markets

When a company undertakes its international strategic plan, one of the first decisions it must make is to define the foreign markets which it intends to access. Regardless of the company type and sector to which it belongs, it will always be necessary to maximize the resources allocated for internationalization and, therefore, it is necessary to know how to identify those markets that are most appealing for the products the company sells. There are over 100 countries with a significant market potential, among which companies, particularly SMEs, can only approach a few through their international expansion. Herein lies the importance of this decision for its international marketing.

This section explains the process for selecting foreign markets using a methodology that includes a sequential, integrated and iterative process of four phases:

1. Preliminary interregional selection and clustering,
2. Regional selection,
3. Analysis of the national environment,
4. Selection of the transnational (or global) segment.

It is considered sequential for including successive and selective phases, integrated for encompassing the analysis of market groups and consumer segments alike, a vision that is usually absent in the majority of these models, and iterative for implying its own feedback in successive rounds.

This section on international market selection comprises 7 main points. It begins with a general overview introducing the subject, defining concepts such as the meaning of an international market and its relation to a territory or to a segment and the proposal for integrating both. This is followed by a presentation of international market research with their specific sources, characteristics and methodologies. Then, we analyze the issue of strategic selection of international markets with a suggested International Market Selection (IMS) process, explored in depth in the subsequent two sections, differentiating between the initial three phases in one and the fourth and final one in the other. Finally, we present a strategy for market expansion in the long term.

2.1. International Market Selection (IMS)

2.1.1. THE INTERNATIONAL MARKETS

Before establishing a foreign market selection process, it will be useful to clarify the concept of "market", given that it differs, depending on the discipline that refers to it. Therefore, the term could relate to the meeting place of offer and demand (economy), the groups of clients or competitors (corporate strategy), etc. For purposes of international marketing, a market may be considered a "homogeneous environment" which could result of a PEST (Political-Legal, Economic, Sociocultural and Technological) analysis of the environment.

In this sense, Spain could be considered a market for the majority of products or services offered and consumed here, given its homogeneous PESTLE environment. Likewise, on a supranational scale, the EU could be considered a homogeneous environment (though not identical) for the majority of products or services, given its self-definition of European Single Market, with the exception of those goods that are highly affected by the sociocultural environment (those related with deep-rooted customs and local uses), where homogeneity is more difficult to arise. To the contrary, large countries, like the United States, could be considered several markets, in this

case three: east, west and inland (deep America). In general, we could conclude that there are more countries than markets in the world as a result of globalization, wherefore it would be more appropriate to study this within the context as a market instead of as a country.

Furthermore, markets have also been considered territorial bodies, but a second perspective, increasingly used by analysts, is consider them as entities of consumer groups or segments. In this sense, a market of consumers would be comprised of a homogeneous group of consumers at the transnational level. Reference is made to yuppies, DINKS, Generation X, as well as different groups in terms of cultural, professional and sports affinity. Therefore, we could consider markets through a dual perspective: as territorial bodies and as transnational consumer segments.

2.1.2. IMS PROPOSAL INTEGRATING TERRITORIES AND SEGMENTS

Most methods used for International Market Selection (IMS) are mainly based on the consideration of the international market as a country or group of countries. This occurs because of the greater facility for gathering information from the point of view of the political structure, given that statistics are available at this level instead of at the level of the transnational consumer segment or group. However, omitting the consumer group from the analysis also entails renouncing to the establishment of segmentation strategies, selection of consumer targets, and international positioning, which are basic strategies for a company's success (Keegan & Green, 2009).

Hence, as some authors propose (Hollensen, 2001, Keegan & Green, 2009), we present an IMS that integrates the selection process by territories and another related to consumer segments on a transnational level, applicable toward the end of the final phase (four), thereby facilitating the analysis in focusing it upon a more limited number of markets. This process will be presented after reviewing the information sources and research methodologies used in international marketing.

2.2. Information for IMS: International Market Research

As is well known, information is the critical element of any market selection process, acting as the input for decision-making for choosing the most favorable markets. Applying the same criteria used in domestic marketing, information for international marketing may be classified as secondary information (desk research) and primary information (field research). We must

highlight the fact that both sources and not just secondary information with online databases, may be accessed via the Internet, as occurs with online surveys, etc., which have become the main tool for selecting foreign markets.

Next, we present international market research as a methodology for obtaining and evaluating this type of information, analyzing its difficulties as well as differentiating characteristics, as well as its most frequently used methodologies and tools.

2.2.1. INTERNATIONAL MARKET RESEARCH

Market research is traditionally defined as the systematic gathering, data processing and analysis for the purpose of providing useful information for corporate decision-making.

Extrapolating this to the international realm adds three new complications: the information must be communicated across different cultures, different research tools must be applied to different international markets (i.e.: the need for translating questionnaires) and the existence, in principle, of a great number of potential foreign markets with limited information and with a knowledge level that, in general, is lower than well-developed countries (Cateora, Graham & Gilly, 2013).

In conclusion, international market research is presented as a much broader, more complex and costlier task. Yet, the existence of screening tools and the ruling out of markets to focus on those with the most possibilities will increase its viability, as we will show further on, after presenting below the characteristics of international information.

2.2.2. CHARACTERISTICS OF INTERNATIONAL INFORMATION: SECONDARY AND PRIMARY SOURCES

To the traditional characteristics of relevance, measurability and profitability of market research information, we must add another three in the international realm: availability, reliability and homogeneity. All of these qualities must be pursued in secondary and primary information sources alike.

With regards to secondary information, which already exists and is usually available over the Internet, we must mention that many countries lack governmental agencies or institutions that offer statistics and other up-to-date

information. In others, despite their existence, they might not be a trustworthy reflection of reality, due to hidden motives (i.e.: national pride, political decisions). Finally, it is difficult to find updated data that is gathered with sufficient consistency to enable comparisons between countries. Because of this, we must be skeptical with regards to any information and preferably turn to reliable sources, such as large international bodies (United Nations, World Bank, Eurostat, etc.), that offer quality information that fulfill these characteristics. A list of recommended secondary sources, together with their access paths, is included at the end of the Chapter.

As regards primary information sources, or information that is gathered directly for a specific research project, we must keep in mind the availability of censuses or lists from which to obtain samples, as well as the problems associated with each country's culture or idiosyncrasy.

2.2.3. INTERNATIONAL MARKET RESEARCH METHODS

International market research relies on methods and tools for gathering information in the same way national market research does, though the former tends to opt for certain ones in particular. These will be presented from lesser to greater complexity and cost in the following Chart 2.1, which includes a summary of the most common types of studies, differentiating between primary and secondary information, whether the country is origin or destination, the types of tool for gathering the information used, and whether the company itself or a consultant should assume this task.

Chart 2.1

International Marketing Information Research Methods	Country	Type	Tool	Performed by
1. Desk Research	Origin	Secondary	Online, DB, etc.	Company (Official Support)
2. Field Research	Destination	Primary	In-depth Interview	Company (Official Support)
3. Surveys	Destination	Primary	Survey questionnaire	Consultant
4. Focus Groups (Test)	Destination	Primary	Focus Groups	Consultant

Fuente: Elaboración Propia

The first method most frequently used is commonly referred to as desk research; today, it is mainly done using the Internet and refers to secondary information available in online databases, , company websites, international bodies, international consultants and research institutes. It is recommendable for the company itself to carry out this task directly from its country of origin and turning to official institutions that offer support for export activities (institutions that provide support for the internationalization process, Chambers of Commerce, etc. For example, among many others, ICEX in Spain). This information is easy to obtain and at no, or little, cost.

The second method for gathering information, now primary in nature, is called field research and usually takes place after gathering secondary information (desk research) and generally undertaken in the destination markets. Among the most well-known research tools are in-depth interviews, focus groups and surveys.

In-depth interviews are a type of qualitative research based on the use of semi-structure questionnaires with a limited number of open-ended questions posed to the market's "main agents", like trade experts, opinion leaders, distributors, civil servants at the public administrations and even competitors (direct or indirect), if they are willing to participate. With an average duration of half an hour, the main difficulty is in obtaining a reasonable number (between five and fifteen) of quality interviews. To do this,

the company can turn to the services offered by each country's official bodies that promote exports (ICEX or the like), which may help to schedule these interviews. This allows the export manager to obtain first-hand information from a country's main agents for the purpose of getting to know the market.

Interviews are a type of qualitative research by which, normally, brief interviews are conducted with a high number of individuals, whether orally or in writing, using a structured questionnaire and preferably focusing on the company's target client profile. This research is used by large companies with a certain degree of internationalization, wherefore the company does not usually implement these itself, but rather seeks the services of an external consultant (market research agency).

Likewise, other types of research tools also exist, like focus groups, where, under the direction of a moderator, a group debates on a specific issue. Also, product tests of different types (concept, laboratory results, etc.) are generally used before selecting a specific country. These product tests are usually entrusted to specialist market research agencies.

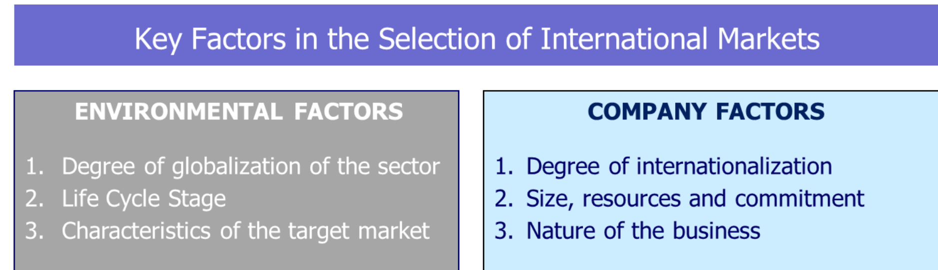
Furthermore, we must mention that a company does not need to apply all of these methodologies, particularly in the case of limited resources. In this sense, it could be enough to perform the initial two, desk research and in-depth interviews (field research), which in addition may count with the support of official bodies that offer financing and assistance (attendance at fairs, research trips, etc.).

2.3. Strategic market selection

2.3.1. DETERMINANTS OF IMS

When opting for one or another type of IMS, a company must bear in mind a series of determinants for its design. These may be subdivided into two groups of factors, environmental and company, as shown in Chart 2.2 below:

Chart 2.2



Source: Own elaboration based on Svend Hollensen (2001), *Global Marketing. A market-responsive approach,* Pearson Education Ltd., England, pp. 189-191.

Environmental factors include: (1) the degree of globalization of the sector; (2) its stage within the life cycle, and (3) the characteristics inherent to the destination market. Sectors like household appliances present a very high degree of internationalization, given their presence in all markets, together with an advanced stage of maturity, in general and, finally, depending on the destination market's characteristics, such as size, physical distance or psychographic variables, which will offer greater potential. In this regard, markets like the United States and the EU show greater potential, while others, like East Timor and Sri Lanka, have a limited potential.

On another hand, company factors include: (1) the degree of internationalization of the company and its international experience; (2) the company's size, resources and managemernt commitment, and (3) the nature of its business activities themselves.

2.3.2. STRATEGIC VS. OPPORTUNISTIC SELECTION

When selecting a foreign market, it is not always necessary to prioritize a strategic action founded upon scientific or systematic grounds, but rather, oftentimes, it responds to specific circumstances based on opportunities that may arise for a company.

As shown in Chart 2.3 below, there are two ways for selecting international markets of opposite nature: reactive and proactive. An opportunistic selection is reactive in nature, and is common in companies that launch their internationalization due to unintentional or unplanned circumstances, as may occur with consultants, providers of components (industrial and automotive sectors) that follow their clients in their internationalization, knowing that if they do not, others will do so, giving way

to a future competitor that may through subsequent actions become a competitor in the market of origin as well. A similar circumstance is that of imitating the selection of a national competitor, particularly if that company is successful in its internationalization, based on the premise that "if that company is capable of transferring its competitive advantage to the new market, then I will also be capable of". A third reactive reason could be a company's specific circumstances, when someone on the management team drives the internationalization to a specific country given his/her in-depth knowledge of the market or the presence of contacts, disregarding all other considerations.

Chart 2.3

Source: Own elaboration

On another hand, strategic selection is proactive and based on scientific decisions that use "criteria variables" that measure the potential, accessibility and risk of the international markets, based upon strategic planning (SWOT matrix) and methods for "screening-ruling out".

Finally, we must mention that the mere fact of being reactive does not mean that a selection is worth disregarding, given that, depending on the sector and the value chain of the specific company, the selection may be correct . This is the case with automotive component suppliers who launch their internationalization mainly to follow their local client, who becomes the leader in the sector's value chain.

2.3.3. DEVELOPMENT OF AN INTEGRATED IMS PROCESS

Figure 2.1 below presents a process for the Sequential, Integrated and Iterative Strategic Selection of International Markets, in four phases that progressively reduce the possible markets, until reaching one, or a few, of interest for the company, where a progressive ruling out and reduction is implemented on the

basis of certain variables and selection tools shown in white text below the title of each phase.

Figure 2.1

Source: Own elaboration

Therefore, in a first phase, we begin with an interregional selection and clustering among geographic areas or regions that are most favorable and which group homogeneous countries, to continue, in a second phase, with the screening of each one which, later, will result in a third phase, of furthering the analysis of the already limited number of chosen markets. A series of screening tools (acceptance/rejection) are applied to these phases using selection criteria variables established ad hoc for choosing the target markets that present the greatest business opportunities. It is specifically in these in which, in the fourth phase, a selection is made of the transnational segment, using that of the country of origin as the point of reference. Finally, subsequent iterations entail the design of a strategy for gradually expanding to new markets.

The following two sections present these phases and their corresponding methodologies in greater detail, applying these to the case of a hypothetical Spanish exporter of wines.

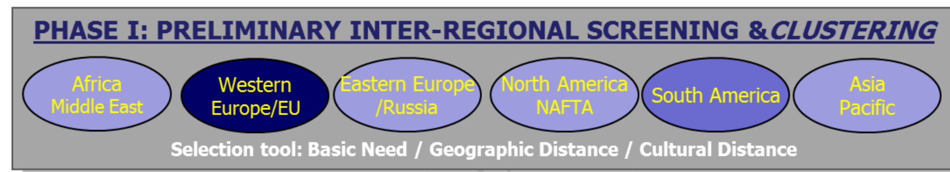
2.4. The International Market Selection Process: Phases I, II and III

This section will offer a detailed presentation of the initial three phases of the international market selection and analysis process. Given its singularity, the fourth phase will be analyzed in a separate section.

2.4.1. PHASE I: PRELIMINARY INTERREGIONAL SELECTION AND CLUSTERING:

Phase I is called the Preliminary Interregional Selection and Clustering phase, where the company faces a broad range of markets where it can internationalize. This is an initial step, which many authors, like Svend Hollensen (2001), refer to as the most common, in which we could consider six large global regions as preliminary markets. These are: Africa and Middle East, Western Europe (EU), Easter Europe and Russia, North America (NAFTA/FTA), South America and Asia-Pacific (See figure 2.2)

Figure 2.2



Source: own elaboration.

These are regions with environments that tend toward homogenization with one another as well as on a global scale. At this level, an initial screening must be implemented on the basis of different selection criteria and ruling out variables, like: basic need, geographic distance and cultural distance. In particular:

- Basic Need (Ball et al., 2006) for the product or service, for example sunscreen where, a priori, all of those cold countries with a greatly reduced potential can be ruled out and, therefore, of little interest. Likewise, we could rule out alcoholic beverages in Arabic countries,

or large boats in countries without seaports. This is generic information, the application of which is based on common sense.

- Countries which survive the above ruling out phase move on to second phase based on Geographic Distance, where the closest geographically will be chosen, the remaining are ruled out (Johanson & Vahlne, 1977).
- Finally, comes Cultural Distance, measured using studies on countries' values and characteristics (López Duarte & Vidal Suárez 2010; Hofstede, 1993) based upon idiomatic aspects, value indexes like the Hofstede´s Major Cultural Dimensions (Hosftede, 1983): individualism/collectivism, high/low power distance, masculinity/femininity and high/low propensity to risk aversion, depending on which the cultural affinity between countries can be classified, resulting in the acceptance of those with the highest affinity and the rejection of the remaining.

Thus, according to these criteria, a Spanish wine producer should reject Islamic countries and turn to either geographically close markets, like European countries, or to culturally close markets, like Ibero-America, and omit the rest. For example, Figure 2.2 above highlights the regions of Western Europe/EU and South America as preferential, and more so in the case of the first. These two regions will move on to the second selection phase on a regional level.

Another approximation within this initial screening would be a study on clustering, where the company would seek those regions that tend toward economic and political integration in major blocks (Cerviño, 2008). Here, two tasks must be completed: an identification of these potential blocks and an estimation of the expected degree of integration to be reached in the long term.

As to the first task, it is not difficult to know, by turning to updated literature on economic integration treaties (CE Memo 12-930, 2012). Here we could identify those in place on the continental level, like Europe (EU, EFTA, EEA), Africa (ECOWAS, ECCAS, SADC), America (NAFTA/FTA, ALADI, MERCOSUR, Andean Community, CACM) and Asia (ASEAN), as well as others on the intercontinental level which have the EU as its protagonist with other countries, like Mexico, Chile, and Turkey (the latter through a Customs Union).

Once those of most interest are identified, we move on to a second research stage on the integration level, which is expected to occur over the long term, in terms of economic and political-legal aspects, as well as cultural. It is useful here to briefly review the theory of economic and political integration and its successive levels, as shown in Chart 2.4 below and using, for example, the EU, as this is the most illustrative case to date.

Chart 2.4.

Forms of Economic and Political Integration: *Clustering*

	Free movement Goods & services	Common Customs	Free movement Labor & Capital	Common Fiscal & Monetary Policy	Rest of policies Common	EXAMPLES
Free Trade Area	X					EEC (1957), EFTA (1960), ASEAN (1967), EU+Mex. (2000), EU+Chile (2002)
Customs Union	X	X				EEC (1958), EU+Turkey (1994), MEERCOSUR (1991)
Common Market	X	X	X			EC (1992), MCCA (1960), EEA (EU+EFTA, 1994)
Economic & Monetary Union	X	X	X	X		EU (1998/2002)
Political Union or Federation	X	X	X	X	X	EE.UU. (1787), Russia (1993), EU (¿?),

Source: Own elaboration

An analysis of the progressive integration processes also enables a company to analyze which types of commercial strategies (global or multidomestic) are the most suitable for each area of integration, depending on their level and expected progress. Therefore, if a greater integration is expected in the future, it is preferable to follow a global and/or pan-regional strategy, which is the case for the EU, which has shifted from a Free-trade zone in its beginning to an Economic and Monetary Union.

If we apply the criteria of clustering within the aforementioned regions, we could observe that our wine company should focus on Western Europe in the EU. As to South America, the Andean Community and Chile could be interesting. Another interesting latin country could be Mexico.

2.4.2. PHASE II: SELECTION ON THE REGIONAL LEVEL

Phase II for selecting the regional level will concentrate on the two regions selected in Phase I, shown in Figure 2.2 below:

Figure 2.2

Source: own elaboration.

This phase will mostly apply the analysis of Llamazares et al., (2013), based on three types of variables for analysis: (1) those that rate each market's potential, (2) those that estimate political and business risk, and (3) those that evaluate accessibility to the market. As the selection tool for this phase we can use the Target Market Weighting Matrix, which entails the joint weighting of the three preceding ones.

Here the analysis reaches a deeper level and degree of measurement. It uses variables extracted from secondary information available in the databases of international bodies that meet the required characteristics mentioned previously of relevance, measurability and profitability, together with those particularly desired for international information on availability, reliability and homogeneity. The goal is to implement a highly rigorous and objective analysis, using criteria that may be applied homogeneously to all markets under evaluation.

Bearing in mind these requirements, a description is given below of 9 variables for selecting foreign markets, defining the information that should be obtained, the sources from which it may be extracted (mainly secondary in the Internet) and how to interpret it.

These criteria are grouped (see Chart 2.5) into two blocks: the market's potential (four criteria) and accessibility and risk (five criteria). In other words, the company must analyze, first of all, if there is a growing demand for its products and, on another hand, whether barriers or risks prevent its access to the market to satisfy that demand.

Chart 2.5 Variables for selecting target markets

MARKET POTENTIAL	ACCESSIBILITY AND RISK
• Country economic growth • Purchasing Power Parity (PPP) • Volume of imports • Growth of imports • Exports from the country of the company	• Trade barriers • Non trade barriers • Commercial risks • Ease of doing business • Transparency and corruption

Source: adapted from Llamazares et al. (2013).

Starting with the variables on the market's potential, we are interested in both its value as well as its progress over the last 5 years:

1. Country's economic growth.

The first data to be analyzed is the growth of the Gross Domestic Product (GDP) as well as its forecast for upcoming years, in each country included in our study. A demand that is growing and sustained (growth of the GDP over 5%) will facilitate sales and future growth in that market. To the contrary, in a situation where the GDP is stalled (around 1%) or in recession, it will be very difficult to introduce ourselves in the country. We must also bear in mind that some products, like construction materials or machinery, are considered cyclical; in other words, the demand for these increases or decreases in a higher proportion than the economic cycle, while other basic products (foodstuff, household products, etc.) have a more estable demand and are less affected by the economic climate. Different information sources offer economic growth forecasts by country. Among the most commonly used ones are the International Monetary Fund (www.imf.org), which publishes the World Economic Outlook quarterly, and reviews and updates the GDP growth forecasts by country.

2. Purchasing power per capita.

Another fact that also directly affects demand is each country's income level, measures by the Purchasing Power Parity (PPP) per capita. This concept includes, in USD, not only a country's per capita income, but also its level of

prices and the evolution of its currency's exchange rate, wherefore it's the best exponent of a country's inhabitants' purchasing capacity. The World Factbook, a CIA publication available online, offers this information.

3. Volume and evolution of imports.

An important fact is the volume of imports of the country in which the company expects to commercialize its products. This figure best reflects a market's potential and, at the same time, is one of the simplest to obtain. A high figure of imports, compared with the size of its economy, together with a positive evolution over recent years, represents a growing market without major entry barriers and scarce national production that does not cover the corresponding demand, wherefore access restrictions are not expected. This is a good moment to access that market. To know each product a country imports and exports, we must first identify the 4-digit (headings) customs code or, preferably, the 6-digit (subheadings) code. This identification can be done through the web of a customs-related institution, or TARIC (the integrated Tariff of the European Union). Once we know the customs code, we can obtain the import-related statistics by countries and products in different databases, such as the United Nations Comtrade or the European Union Eurostat.

4. Exports from the company's country.

This fact has a dual interpretation. First, favorable data indicate that the products from the company's country are increasingly known and have greater acceptance, which will represent a benefit for the company in terms of country image. Second, if the offer from Spain is successful in general, this is because the destination market's environment somehow facilitates transferring the competitive advantage of one to another.

The evolution of each country's exports can also be obtained through several sources, including, as mentioned above, UN Comtrade and EU Eurostat, but other options available in Spain, like ICEX and the Chambers of Commerce, are also quite useful.

5. Tariff barriers.

Tariffs are taxes on the import of products applied at Customs upon entry to a country, wherefore they represent a direct increased over the product's price

and, therefore, a decreased competitiveness of imported products, compared with local products. Normally, these are applied as a percentage over the value of the goods at Customs ("ad valorem" duty). As a general guideline, we could say that for duties to be considered a significant barrier, these must exceed 5% for industrial products and 10% for consumer products.

Updated information on duties applied at the import of products in countries that are not members of the EU may be obtained through the Market Access Database portal managed by the European Commission. Duties applied to EU member states may be found in several websites, like the Export Help Desk portal.

6. Non-Tariff barriers.

In addition to tariff barriers, others affect the import of products. Basically, these are quantitative restrictions that establish a limit on the product quantity a country may import (quotas, licenses), as well as the so-called "technical barriers" associated with approval and certification processes by national agencies. These apply to a broad range of products, whether to verify that their use is not harmful to the health or security of its citizens, or to comply with official standards (for example, the size of paper for writing, DIN-A4). Quantitative customs barriers have undergone a process of elimination thanks to the action of the WTO (World Trade Organization). Paradoxically, this elimination was accompanied by the rise and subsequent proliferation of technical barriers as a means for protecting national consumers (health, security and normalization), though in practice they also protect national products which, in general, best fulfilled their requirements. The sentence of the case "Cassis de Dijon" (Luxembourg Supreme Court, 1979) of mutual recognition put a brake on these restrictions in the European Economic Community by implementing the principle of a "single license for a single market" (Single Market – Single Act), whereby it suffices now to request just one license from a single European country that enables operating in the entire community territory. This principle has also extended to other countries.

During the market selection process, it's important to verify that the countries object of our analysis do not apply these types of barriers or, if they do, that these may be resolved at an accessible cost. With regards to the technical barriers, we must verify which countries are member s to the recognition agreements of the principle of the Cassis de Dijon (like, for example, Mexico), which greatly facilitates trade. Special mention must be made of the United

States, which is extremely strict in terms of technical barriers regulated by agencies like the FDA (Federal Drug Administration) for foodstuff, household and pharmateuticals products, and the EPA (Environmental Protection Agency). The sanction of the latter in the Volkswagen case was based on extremely strict pollution-related requirements for diesel vehicles (mainly European), compared with other highly lax requirements for gasoline vehicles (American and Asian), which concealed a certain type of technical barrier. All of this, without entering into a debate on the German company's unquestionably deceitful and illegal action to comply with technical requirements.

Information on non-tariff barriers is complicated to collect because it is applied on a product-by-product basis, wherefore its casuistries are immense. A useful source for identifying non-tariff barriers is the Global Trade Alert portal, which allows for searching by barrier types and countries.

Other criteria for evaluating these barriers is the documentation required by the Customs authorities when importing products to a given country. This information may be obtained, for example, through the abovementioned portals: Market Access Database, on import documents for countries that are not members of the EU, and Export Help Desk for EU member states.

7. Political and commercial risk.

Other relevant criteria when selecting target countries are the political and commercial risk a company must assume in its international operations. Depending on the selected entry mode, the company must analyze the risks inherent to its transactions (if the company will export) and its investments (if the company is to establish itself in that country). Among the first are delays in payment, risk of non-payment and risks associated with the exchange rate. Among the second are risks of nationalization, expropriation, confiscation, rules on the repatriation of profits and the existence of agreements on the protection of investments and intellectual property (brands and patents).

A source of reference for evaluating international trade risks are credit guarantee and insurance companies and their ratings by risk-country. For example, CESCE in Spain or COFACE in France offer all that information.

8. Ease of doing business.

The economy's current dynamism makes for increasing value to be given to countries with rules and legislations that are favorable for establishment and development of business, while at the same time offering competitive costs for business activities. These criteria are used to evaluate aspects like the necessary times and costs for setting up a company, the ease for obtaining credit, taxes, labor costs, logistical expenses, the degree of fulfillment of contracts and claim-related procedures.

All of these aspects, in addition to many others (up to 50, grouped in 9 categories) are rated in the annual Doing Business classification of countries published by the World Bank, which ranks the countries studied in order from highest to lowest ease of doing business.

9. Transparency and corruption.

Finally, among criteria on accessibility to the country, it is necessary to keep in mind the ethical component of business, which englobes aspects like transparency of information, rules for bidding and tendering processes, hiring practices of public administrations and private companies, bribery level, etc. The most significant methodology for evaluating this criterion in the international realm is perhaps the Corruption Perceptions Index (CPI) published annually by Transparency International since 1995 which ranks countries "*by their perceived levels of public sector corruption, as determined by expert assessments and opinion surveys*.". The CPI generally defines corruption as "*the misuse of public power for private benefit".*

These nine criteria for selecting target countries are based on using "secondary information" (desk research) that may be gathered over the Internet at no, or little, cost. The only difficulty lies in knowing which websites are relevant, wherefore the following Chart 2.6 lists the most frequently used websites in this regard, retrieved from INFOTRADE (www.globalnegotiator.com) and, within these, the search path for accessing the desired information.

Chart 2.6

ONLINE INFORMATION SEARCH TO EVALUATE THE 9 CRITERIA FOR SELECTING TARGET COUNTRIES
Country economic growth *Country information – International Monetary Fund – Projected % change – Real GDP.*
Purchasing power per capita *Country information – CIA Factbook – Select a country – Economy – GDP per capita.*
Volume and evolution of imports *The tariff code of the product must be identified beforehand:* *Customs tariff & trade barriers – TARIC European tariff queries - explore or advanced search (insert words that identify the product) - identify the tariff code (4 or 6 digits) closest to the product.* *To obtain the volume of imports of the product in each country:* *International trade statistics - Comtrade - Data availability - by reporter - choose country - choose year - check "I have read Readme" choose import - in quick filter insert tariff code (4 or 6 digits) - search - choose text HS 2002 - Select - Apply – shows the total import volume in USD and the countries of origin from highest to lowest volume.* *For its evolution through Comtrade and with the same search path as for the import volume. Obtain the available import figures for the last 3 years and calculate average annual growth.*
Exports from the country of origin *International trade statistics - Chamber of Commerce - Customs - select last full year available - Taric code: insert 4 or 6-digit tariff code - group by value - consult - the countries to which Spain exports the product are listed in order of largest to smallest export volume.*
Trade barriers *Customs tariff and trade barriers– Global Trade Alert – On map choose country - see number of protectionist measures* *For the collection of import documents:* *Logistics - Market Access Data Base - Choose country - in search HS insert 4 or 6 digit tariff code - Accept - see specific documents to import the product (Specific Requirements).*
Political and commercial risk *Country information – Trading Safely – select country – See political and business rating*
Ease of doing business *Country information – World Bank Doing Business– Select economy – Doing Business Rank.*
Transparency and corruption *Country information – Transparency International – on map choose country – see ranking and score.*

Source: Llamazares et al. (2013).

2.4.3. Country selection matrix

Once we have obtained all of the information required for evaluating the 9 market selection variables, we must count with a tool that facilitates comparing each country's situation and scores them so that we may use the totals obtained to objectively classify and rank the studied countries

These types of tools, generically referred to as country selection matrices, use weighting coefficients and a scoring scale for each criterion to be analyzed. Here, to particularize each target country, we will call it the "Target Market Weighting Matrix", presented in Chart 2.7.

The purpose of the weighting coefficients is to relativize the criteria's importance, bearing in mind the company's characteristics and the countries analyzed. According to Llamazares et al. (2013), the matrix model shown below establishes four weighting coefficients:

- Coefficient 0: criteria are not applicable. This would be the case for Customs duty barriers when analyzing countries that belong to a same economic zone, for example the European Union, in which tariffs for member states have been removed.
- Coefficient 1: criteria are of lesser importance. For example, for commercial risk criteria when comparing highly developed countries (Australia, Canada, United States or Japan), in which commercial risk is quite low.
- Coefficient 2: criteria are of importance. When the criteria are of special relevance for selecting target countries and presents appreciable differences between the countries analyzed. This could be the case with criteria on economic growth in countries of Central and Eastern Europe (Hungary, Czech Republic, Romania and Poland).
- Coefficient 3: criteria are of greater importance. For those criteria that are realistically decisive at the time of selecting a target country and which, furthermore, tend to reflect the divergence between countries analyzed, as could be the case of criteria on volume and growth of imports.

Once the coefficients for each criterion are determined, the next step is to score these, according to the information obtained. To this end, we need to count with a scoring system for comparing countries. The proposed system uses a scale from 1 to 5, in which 1 indicates highly unfavorable conditions when applying the criteria, and 5 indicated highly favorable conditions (some analysts also use a scale from 1 to 7 or 1 to 9).

- 1: highly unfavorable conditions.
- 2: unfavorable conditions.
- 3: neutral conditions.
- 4: favorable conditions.
- 5: highly favorable conditions.

For the matrix to be efficient as a tool for comparing and selecting countries, different scores, as deemed pertinent, must be assigned to each country, even if the data obtained in the different criteria are similar. Therefore, for example, if we are evaluating the criteria of economic growth in three countries with GDP growth forecasts of 6.8%, 5.1% and 4.5%, respectively, we could assign scores of 5, 4 and 3, respectively. In any case, the application of the coefficients and the scoring of the criteria will depend on each particular situation.

Multiplying the rating of each criteria by the weighting coefficients and adding the score obtained in each criterion will result in the total score, which indicated which country, among those to be analyzed, offers the greatest potential and accessibility, compared with the rest (see Chart 2.7).

Chart 2.7

TARGET MARKET WEIGHTING MATRIX

RATING	CRITERIA	France	Portugal	Colombia	Chile
2	Country economic growth	2-4	3-6	4-8	3-6
2	Purchasing power parity	4-8	3-6	2-4	2-4
5	Volume and evolution of imports	3-15	4-20	4-20	3-15
1	Exports from the country of origin	4-4	4-4	2-2	2-2
2	Trade barriers	5-10	5-10	4-8	4-8
1	Non-trade barriers	5-5	5-5	4-4	4-4
3	Political and commercial risks	5-15	4-12	3-9	3-9
1	Ease of doing business	3-3	2-2	2-2	2-2
2	Transparency and corruption	3-6	3-6	2-4	2-4
	TOTAL	**70**	**71**	**61**	**54**

Source: prepared by the authors based on Llamazares et al. (2013).

In the matrix shown in Chart 2.7 we have chosen, from the preceding phase, two countries for each selected region: Western Europe/EU, France and Portugal and in Latin America, Colombia and Chile, to which we have

applied as an example the "Target Market Weighting Matrix", resulting in quite similar scores, with Portugal and France with higher scores than Colombia and Chile. Here we observe that it would be more logical to select France and Portugal for the next phase, as they are quite similar, and disregard Colombia and Chile.

2.4.4. PHASE III: ANALYSIS OF THE ENVIRONMENT ON A NATIONAL LEVEL

Phase III of the selection process is now on a national level and consists of studying the environment, analyzing demand (consumer), supply (competition) and distribution-price of the markets that result from the screening of the previous phases (in our example, Portugal and France). Then, we will apply a market viability test as the selection tool, as shown in Figure 2.3 below:

Figure 2.3

Source: own elaboration.

The following Chart 2.8 presents the three types of groups of variables for a more in-depth analysis and with an important field research component in the destination country, aside from the traditional desk research using country sheets and company directories, as well as sector-specific studies, if available. It is convenient to complete this information with in-depth interviews with a country's main agents: distributors, experts, opinion leaders, etc. of the sector, especially to obtain first-hand information on profit margins, commercial practices and an analysis of consumers and competition.

Chart. 2.8

ANALYSIS OF THE DOMESTIC ENVIRONMENT
(DESK RESEARCH / COUNTRY FACTSHEETS / IN-DEPTH INTERVIEWS)

- Demand
  1. **Research on sectors, subsectors and geographical areas**
  2. **Consumer segment/niches, analysis of motivations and purchasing habits and importance of made-in**
  3. **Adaptation of product/service to local demand**
- Competition (offer)
  1. **Main local/foreign and direct/indirect manufacturers with their status, image and positioning characteristics**
- Distribution / pricing and commercial margins
  1. **Modes of entry, distribution structure/logistical issues**
  2. **Importance of different channels and types of intermediaries**
  3. **Profile of potential agents/distributors: Solvency and practices**
  4. **Prices, commercial margins and sales terms**
  5. **Price formation (escalation) process**

Source: Created by the authors based on Nieto and Llamazares (2009)

This study is also referred to as a first country analysis, and represents the grounds upon which the final decision-making on the suitability of a market will be based. Here we will research the consumer (demand) by sectors, segments and niches with their motivations and purchasing habits, the importance of the "made in effect" (country image), key factors of success and which elements of the marketing mix must be adapted to the market, and to which extent. This was the case for the company Dunkin Donuts upon its entry to Spain, where it had to implement some changes in its menus, with adaptations mainly in regard to size (coffee) and, especially, in the service and distribution policy. This company discovered that Spaniards, contrary to

Americans, don't eat their breakfast "on the way to work" (take away), but rather seated inside the café even if in a hurried manner, for which it had to foresee larger countertops as well as a greater number of tables for those customers not in a hurry.

As regards the competition, it is necessary to identify the main competitors, both direct and indirect, as well as whether they are locals or foreigners, and briefly study their marketing mix (products, prices, promotion and distribution) policy and market position (sales and market quota) together with their strengths and weaknesses.

As regard to distribution and prices, it is interesting to analyze the most suitable mode of entry and identify the leading distributors, wholesalers and retailers and their profit margins, in order to establish an adequate price quotation procedure from the country of origin (EXW – Ex-works))to the final retail price to the end client and/or customer, and whether our price will be competitive in the foreign market.

Given this initial country analysis (here in greater depth) that we would do with our example for Portugal and France, we would conclude whether or not an interesting market (segment or niche) exists for our product; if the environment is not overly competitive and, therefore, whether it is accessible for the company; and finally, if the product is price-competitive and offers a sufficient profit margin. If these questions result in positive answers, the analysis of the national environment recommends entering this market.

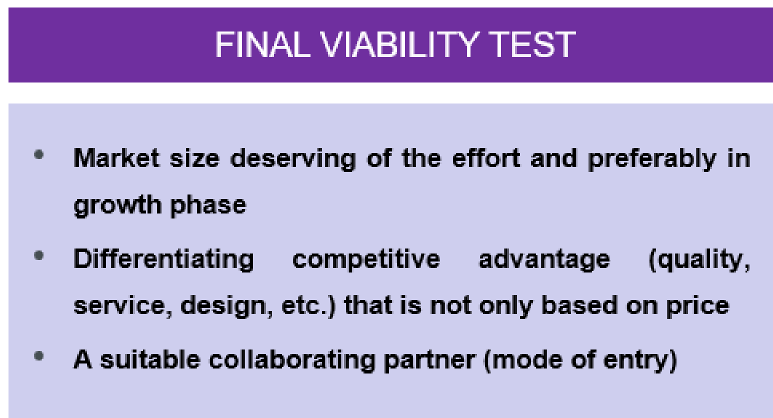
Finally, and before the definitive decision on entering one of these markets, it is advisable to answer the three last questions that comprise the "final viability test" of that market. These three questions, as shown in Chart 2.9, are:

- Is there sufficient market size that makes our efforts worthwhile, and is it undergoing growth? In this case, a very small market would not be worthwhile, as is the case of Portugal, for a specific product, and in this case, we would opt reaching it directly from a closer market (i.e.: Spain) in which we are already present.

- Is it possible for the company to develop a differentiating advantage in that market that is not exclusively based on price, given that this circumstance is not sustainable in the medium and long term? For example, by offering a quality product, design, ease of use, good service, etc.

- Is there an ideal collaborating partner (mode of entry)? If the answer is not, then the company should wait until having one, as this is an indispensable and critical factor for success in the market, unless the company is sufficiently large to venture alone.

Chart 2.9



Source: created by the authors based on Llamazares (1996)

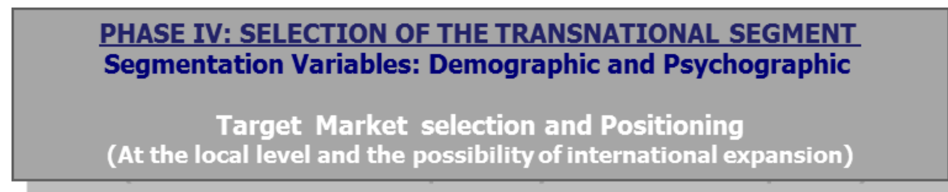
In conclusion, one we have analyzed the environment on a national level according to the variables for analyzing the demand, supply (competition) and distribution-price, and having found a favorable environment in both markets (Portugal and France), we would move on to the final market test comprising the three questions that, if responded to positively (for example, for France), would entail accessing this country, moving on to Phase IV on Segmentation, Target Public and Positioning, decisions that will be analized in the next section.. In the case of Portugal, it could be that we haven't found the ideal partner, wherefore entry to the market is not advisable until one is found.

2.5. The international market selection process: Phase IV

2.5.1. PHASE IV: SELECTION OF THE TRANSNATIONAL SEGMENT

This Phase IV is not one of selecting a country, per se, but rather of choosing the target transnational segment withing the selected country. To this end, we could opt for maintaining the one already existent in the market of origin, with the same target public, or modifying it, on the basis of the previous analysis. The first option, of keeping the same segmentation strategy, presupposes a global focus of international marketing, while the second would be multidomestic.

Figure 2.4



Source: own elaboration.

McDonald's is an example of a mainly global strategy which is reached by extending the segmentation and local positioning. McDonald's segments the market according to "demographic" variables, like age (children, youth, young professionals and parents) and psychographic variables, like the basic benefit obtained (fast food, pleasant environment, American experience). From the cross point between both, McDonald's positions itself as a pleasant place for reasonable (price/quality) dining. Yet, as the global company it is, it strives to maintain similar positioning and target publics worldwide, thereby reinforcing its unique, consolidated image.

2.5.2. SELECTION OF THE TARGET POPULATION AND POSITIONING: POSSIBILITY OF INTERNATIONAL EXPANSION

The case of McDonald's is highly illustrative and could serve as an example for other companies in the restaurant sector, like Telepizza, Pollo Campero, Juan Valdez, 100 montaditos and, of course, our hypothetical Spanish wine exporter. The matter is to define market segments by using segmentation variables and observe whether these may be systematically found in other foreign markets. If so, and if the company is interested in these, then it would be possible to extend the choice of target public and positioning to a global

scale with all of the advantages of economies of scale and global image. To the contrary, the case could be that these segments are not clearly defined in each market which the company systematically intends to enter. A global strategy would not be possible in this case, and a multidomestic one would be more appropiate.

Another example of segmentation, selection of target public and positioning in transnational segments is of the company El Ganso. This company segments the market and selects its transnational target public as young university/global professional, among which it positions itself as seller of a "college hipster" type of fashion, which its founders observed during their travels to England, and thought could be replicated at a more accessible price, thereby facilitating its international expansion. This positioning is even further consolidated with its "Made in Europe" policy, wherefore this company could be considered as "born global", in other words, created from its very beginnings with a focus on a global, transnational segment.

2.6. Strategy for market expansion and subsequent steps

The choice of a strategy for market expansion, or another alternative, is a key decision in a company's internationalization. The fact of opting for one or another may condition its future competitive position in different markets..

Below, we pose its systematic and iterative extension to new potential markets.

2.6.1. ARTICULATING A SEQUENTIAL, INTEGRATED AND ITERATIVE IMS PROCESS

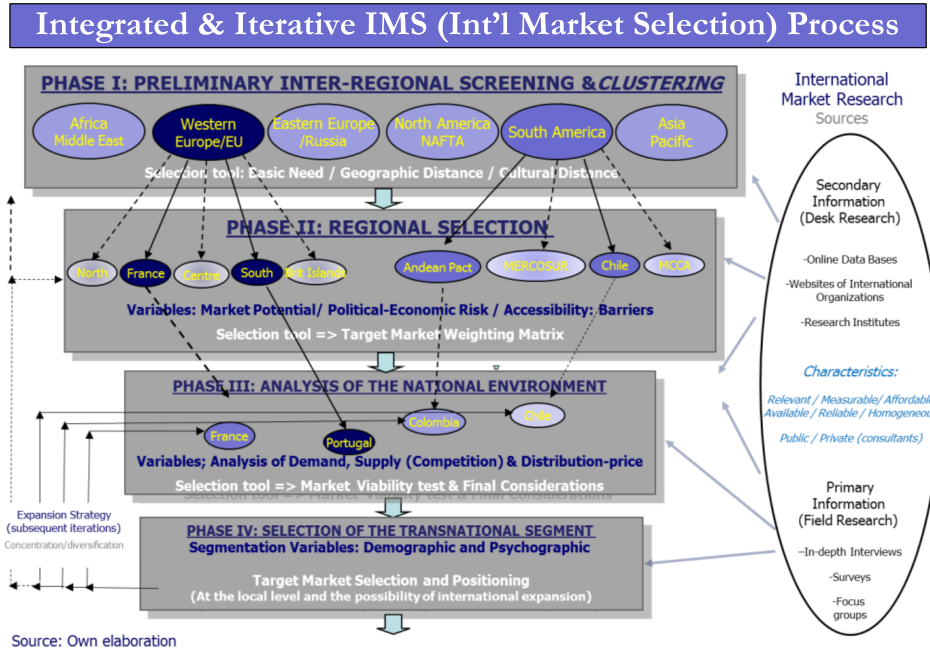
This section will present the culmination of the proposed IMS process. Our tasks do not end with the completion of the final phase of the IMS process. Instead, we must then transform the process into one that becomes "systematic" and does not conclude with the initial iteration, but rather continues with subsequent additions in an organized manner, based on the previous implementations.

Hereby, in our previous example, the first iteration would have concluded with the selection of the first market (France) and leaving as pending the identification of a suitable collaborating partner in the case of Portugal. This would be the second iteration: the search process of that

partner, as shown in Figure 2.5 below "Integrated and Iterative IMS Process" reflected in the arrows shown, and keeping in mind the dual strategic expansion option: incremental (market-by-market) on the one hand, compared with simultaneous (several markets at the same time); and of concentrating on few markets in which to seek greater depth (own consumer products, services for companies) versus diversifying in several markets but with a lesser presence in each (typical of industrial products and commodities). This way, we would articulate an iteration shown through the successive feedback arrows pointing upward which, for the case of our example of a wine product, seem better adapted to an incremental strategy and concentration, boosted by the fact of being an SME with scarce resources and a single consumer product.

Having reached this point, the next natural step of the IMS process within our International Marketing Plan is to decide on the Mode of Entry in the given market, and the subsequent decisions on the international marketing mix. This will be the object of the following sections of this book.

Figure 2.5



Source: Own elaboration

3. MODES OF ENTRY

Once the company has decided which countries it will penetrate, the next step of the international marketing strategy is to decide how to do this, in other words, how to reach clients. We must keep in mind that reaching clients in international markets is more complex than in the domestic market, given our scarcer knowledge in addition to different types of barriers and greater risks. Because of this, there exist a greater number of alternatives given that, on many occasions, it will be necessary to count with the support of intermediaries and partners, while direct contact with clients is easier in the domestic market.

In this section, we will analyze the main entry modes into foreign markets, classified into four groups: indirect exports, direct exports, cooperation agreements and establishment or direct investment abroad.

For each case, we will explain what these comprise, when they must be used, and their main advantages and disadvantages. Finally, we will present some internal and external variables that will help a company decide on the most suitable mode of entry for each of the selected foreign markets.

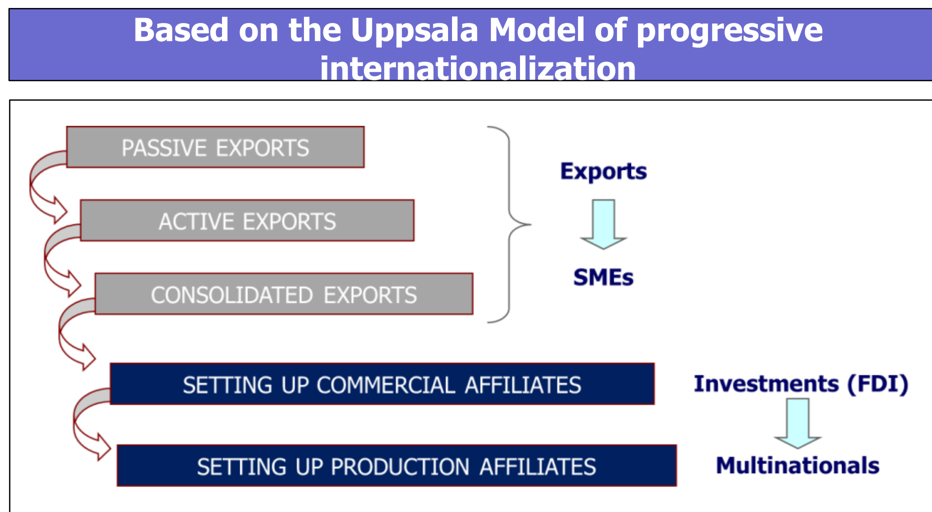
3.1. Introduction to Modes of Entry (ME) abroad

3.1.1. INTERNATIONALIZATION AND MODES OF ENTRY: DIFFERENT THEORIES

Choosing the Mode of Entry (ME) into new markets is one of the most transcendental decisions of the international expansion strategy. The Mode of Entry has direct effects upon the results to be obtained in the different countries, given that the resources allocated, risks assumed, communication channels and control of operations will differ for each option (Llamazares et al., 2013).

Therefore, the resources and capabilities of a company prior to its internationalization will condition its ME in such a way that those companies that are more internationalized usually have commercial or production subsidiaries showing greater investment and commitment into the country, while SMEs are internationalized merely by exporting, whether active, passive or consolidated, entailing a lesser implication. This theory was developed by Professors Johansson & Vahlen (1977) and is known as the Uppsala Model (University), shown in Figure 3.1 below, showing the progressive implication abroad from lesser to greater, according to a company's level of internationalization and resources.

Figure 3.1



Source: Own elaboration based on Johanson & Vahlen (1997, 1990) and Nieto & Llamazares (2009)

A second theory of internationalization with an interesting impact on the ME is Vernon's (1966) International Product Life Cycle with its four phases, which sets forth that a product is created and launched in an initial phase in its market of origin, where local demand begins, and from which it is exported to other developed countries (see Figure 3.2). In a second phase, the competition begins to produce it in other developed countries and sales begin in developing countries. In a third phase, production begins in developing countries, and in the last phase, production ceases in the original countries and instead, the product is exported to these from the developing countries. This theory offers a partial explanation of the ME and the rise of commercialization and production subsidiaries in developing countries. It has its limitations, like its non-applicability to luxury products, the production of which continues in their country of origin due to the "made in" effect.

Figure 3.2

Internationalization of the Company
The International Product Life Cycle (Vernon)

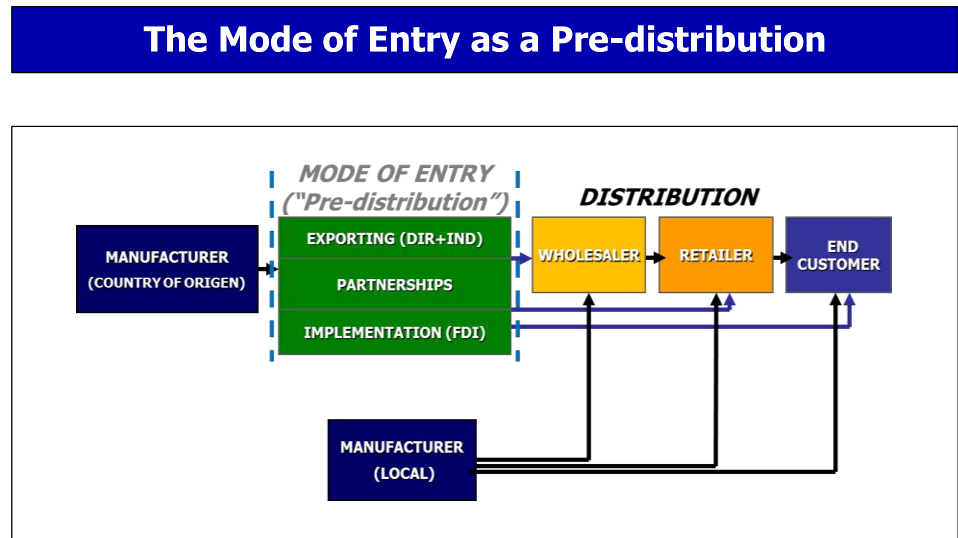
	PRODUCTION & SALES IN COUNTY OF ORIGIN	EXPORTS TO OTHER DEVELOPED COUNTRIES	PRODUCTION IN DEVELOPED COUNTRIES	EXPORTS TO DEVELOPING COUNTRIES	EXPORTS FROM DEVELOPING COUNTRIES
PHASE 1	X				
PHASE 1	X	X			
PHASE 3	X	X	X	X	X
PHASE 4			X	X	X

Source: Own elaboration based on Vernon (1966)

3.2. Mode of entry as predistribution

The ME could be considered like a "predistribution" as it is part of the product's supply chain from the manufacturer in the country of origin to the end client in the destination market. As we can observe in Figure 3.3 below, the main function of the ME process is to connect the manufacturer from the country of origin with distributors and consumers in the host country. Logically, in the case of local manufacturers, no ME is necessary as this manufacturer is already there.

Figure 3.3

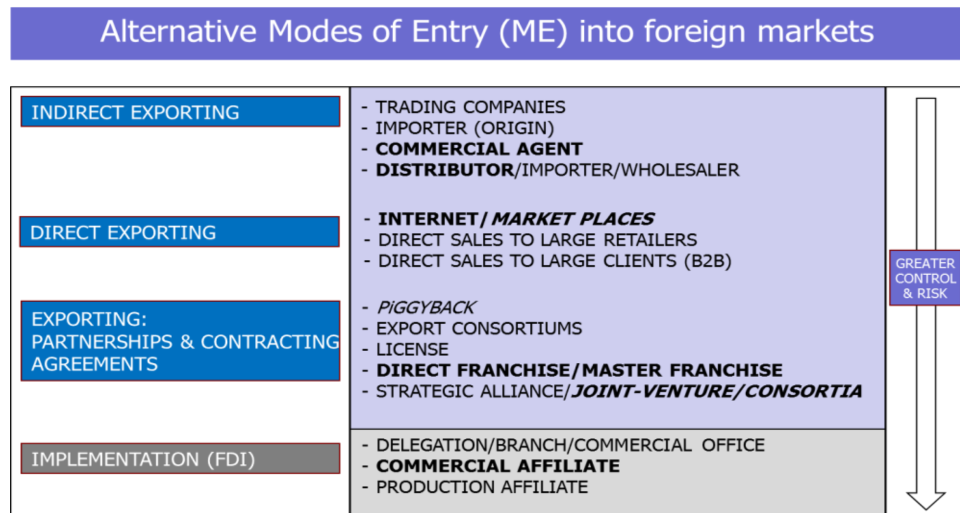


Source: Own elaboration

3.3. Options of modes of entry

Basically, the options for entry to a new foreign market may be classified into four groups, as shown in Figure 3.4 below, with the most common ones shown in bold text and, in general, in order from lower to greater control and risk.

Figure 3.4



Source: Own elaboration based on Llamazares, Cerviño y Arteaga (2013)

3.4. Indirect exports

This comprises certain modes of entry that are most suitable at the start of the internationalization, and entails collaborating with some type of intermediary who resells to retailers or end clients, as occurs with trading companies, an importer at the place of origin, sales agents and distributors. From the perspective of operations, indirect exports comprise contracting the services of an intermediary who becomes the export company's client, to manage the different phases of the international operation and sell the product to other companies. The activities of these intermediaries include: identification and selection of clients, negotiations, physical storage, logistics and distribution of the product, promotion, pre-sales and after-sales services, etc. To perform these activities, the intermediaries – with the exception of commercial agents - usually have an organization that covers a broad geographical area or, even, their own sales networks, branches, warehouses, means of transport, etc. (Llamazares et al., 2013).

3.4.1. TRADING COMPANIES

These are international trade companies with activities in complex and high-risk markets, acting as importers (purchasers) and exporters (sellers) alike, and who may acquire the property of the goods (acting as a trader) or simply serve as an intermediary in the commercial transaction (acting as a broker). They

operate in sectors with commodityproducts, of low cost and high volume in terms of production, such as agriculture, mining, chemical products, generic pharmaceuticals and non-differentiated bazaar goods (textiles, stationery consumables and household goods). Their major strength lies in their great knowledge of logistics and financial arrangements, and customs-related traffic for imports and exports alike.

An example is the case of Japanese companies known as sogo shoshas. They have evolved from their development at the source country as purchaser of raw materials to supply the powerful Japanese industry, and later transforming into exporters toward other countries, taking advantage of their import-related infrastructure and accumulated market knowledge.

3.4.2. SALES TO IMPORTERS AT PLACE OF ORIGIN

The sale to importers in the market of origin, that act as exporters per se, like an export department for local businesses. These comprise a diverse group of import-export brokers or large retail distribution companies, like El Corte Inglés, Carrefour, etc. For instance, El Corte Inglés buys products in Spain and sells them directly in its Department Stores in Portugal and also export them to other third countries. Carrefour buys Spanish sausages (chorizos) under its own retail brand and sells them at their own hypermarkets and supermarkets around the world. Likewise, this function is also performed by large wholesalers and purchasing networks, who position the products across their network of distributors, partners and also brokers specialized in specific product categories.

3.4.3. COMMERCIAL/SALES AGENT

C/S agents are one of the two commercial figures, together with "distributors-importers-wholesalers", most conventional in the beginnings of exports. Given that these entry modes represent dichotomous alternatives, they are going to be compared highlighting the advantages of each, according to the strategy the company wants to implement.

International commercial agents – also called commission agent, commission merchant - are independent physical or legal persons who, in an ongoing way, serve as intermediaries in international commercial operations on behalf of one or more principals (manufacturers, wholesalers, distributors), usually against payment of a percentage of the realized sales revenue as commission, but without assuming the risk of those operations in which they

participate, given the fact that they do not purchase the goods, but rather simply intercede in the operation.

The commercial agent is an independent professional who works for different companies, with complementary products, and performs its tasks autonomously, organizing its work according to its own criteria, without any type of labor obligations in relation to the companies for which it works. For this reason, it receives a commission instead of wages depending on the results obtained and, occasionally, economic compensation for the expenses in which he/she incurs and bonuses for reaching sales targets.

The majority of these agents work through a minimal structure: a small office and the support of a secretary or assistant. The success of this activity resides, especially, in possessing updated commercial, technical and legal information on the markets/products with which they operate. In some countries, like Germany, United Kingdom or United States, some commercial agents with a long tradition and consolidated prestige move a significant volume of imports. In the more developed markets, it is necessary to sign a contract with an agent, while in other markets it is common practice to formalize the relationship between an agent and an export company through a letter of intent or the exchange of emails. Foreign commercial agents are protected under the laws of their home country against unfair termination of the agency agreement.

Hiring a commercial agent poses three major advantages:

1. Reduction of costs: payment is made only as a commission over real sales. The services of an agent are significantly less expensive than selling through own salesmenwho must travel abroad, or opening a delegation or subsidiary in a foreign country.

2. Diversification of risks: through the agent, sales are diversified across different clients. In the case of agents, the company/exporter perfoms the final sales to the end client, getting all necessary information about the client. However, in the case of a distributor, the risk is concentrated entirely in a single company – the distributor - which sells to the different final clients. Moreover, the agent, who is quite familiar with the market, must present financial and solvency-related information on the operations performed.

3. Information on the market: through an agent, advice and information about the market may be obtained, such as trends, competitors' products, legal regulations, sales forecasts.

3.4.4. DISTRIBUTOR, IMPORTER, WHOLESALER

This is another mode of access, increasingly common, during the initial phases of internationalization, especially for companies with products sold in retail outlets or that require after-sales service. The goal in this case is to seek a company dedicated to importing goods to later resell these in its market of influence. A distributor/importer is essentially an independent contractor. In distributor agreements, the company sells its products or services to the distributor, who then sells them on to their customer, adding a margin to cover the distributor's own costs and profit. This activity is known by different names, though its function is the same:

- Distributor: combines the import and distribution of foreign products with locally manufactured products at its own centers/outlets or to final clientes.
- Importer: companies whose basic activity consists of purchases abroad for reselling in its local market, whether through wholesalers, distributors, retailers or end clients.
- Wholesaler: a distributor that sells to retailers, especially in markets with large volumes, as is the case with perishable food items.

Before embarking on its search process, the company must study three essential aspects of its distribution policy that will condition the type of selected distributor:

1. Objectives: Does the company intent to quickly reach a given market quota, compete by volume, or does it prefer to position the product in a high-end segment, seeking profitability?
2. Distribution structure: In the destination countries is distribution concentrated in large chains and purchasing networks or, to the contrary, is distribution atomized with specialized stores and small retailers?
3. Sales outlets: depending on what type of distribution coverage is preferable?: Intensive (A marketing strategy under which a company sells through as many outlets as possible, so that the consumers encounter the product virtually everywhere they go: supermarkets, drug stores, gas

stations, and the like. Soft drinks are generally made available through intensive distribution); Selective (choice of sales points that meet certain requirements); or Exclusive (commitment to distributing the product through a single company for a specific geographical area).

The key factor to the success of a company's internationalization lies in its choice of the proper distributor, its business relationship with it, and its management capacity. Therefore, its selection process must be rigorous, with the support of official bodies, solvency reports issued by financial institutions, and the advice of a local lawyer before signing contracts. The company should not be swept away by good first impressions of a potential distributor (or agent) that is very interested in our brands and/or products. One of the most common mistakes is to act too quickly when choosing a distributor, without sufficient research into its professional background. As a general rule, the best ones are not usually available and "waiting" for anew exporter, but rather already operate with consolidated competitors in the country. We must engage with these ideal distributors by offering them something that interests them, something different that complements their product portfolio and motivating them in order to drive the commercialization of our product instead of merely considering it as a new brand to thicken their product portfolio. This task is time-consuming but yields results with patience and rigor.

Once the ideal distributor has been chosen, the company must negotiate the conditions to which the commercial relationship will be bound: objectives, products, territory, exclusivity, and liability for pre- and after-sales support, as well as the customs-related procedures for the goods, if these are delegated. It is important during the contractual negotiations to analyze all of the difficulties which may arise in the future and propose possible solutions, as it is preferable for the export company to establish a medium and long-term commitment with its distributors.

Chart 3.1 below presents a comparison of the two aforementioned modes of entry, given that these are the most common alternatives during the start of active exports. Their main differences are shown to help the exporter opt for one or another figure, depending on its strategy. The differences between both are significant in terms of activity, company size, risk level, remuneration, control of the market, level of services, etc. Possibly the most important difference for deciding between a commercial agent versus a distributor is the level of services required by the company in the country. If high service levels are necessary in terms of transport, storage, maintenance,

restocking, after-sales services, etc., then the alternative of the distributor will be preferable.

Chart 3.1

DIFFERENCES BETWEEN AGENT AND DISTRIBUTOR		
	AGENT	**DISTRIBUTOR**
Type of activity	Works for the exporter (in the name).	Works on their own account.
Company size	Self-employed without structure.	Commercial company with developed structure.
Risk taking	No risk taking, since they do not buy/acquire the goods.	Bears the risk of operations and commits to acquiring the goods.
Remuneration	Commission on sales made (reimbursement of expenses, in certain cases)	Commercial margin between purchase price and sale price.
Market control	Low. The exporter deals directly with clients.	High. The customers are from the distributor.
Information	Provides detailed information of their market to the exporters they represent.	Keeps the information private.
Services	Does not usually manage trade operations.	Manages trade operations: storage, transport, after-sales, distribution…
Communication	Neither decides nor participates in the communication actions of the exporter.	Actively participates in communication strategies and actions.
Degree of commitment	Low: short-term relationship to test the market and see what possibilities it offers.	High: the aim is to establish a long-term, stable and mutually beneficial relationship.
Contractual relationship (EU Legislation)	Protective legislation for agent (compensation per clientele).	Regulated through the concessionaire contract (exclusivity)

Source: Nieto and Llamazares (2009).

3.5. Direct exports

In direct exports, the company assumes responsibility for selling to the final client/customer located in a foreign market. The difference with indirect exports is that the company assumes the development of the export activity,

without delegating it in others. In other words, the company directly assumes all of the tasks associated with researching the market, dealing with clients, negotiating sales, logistics, processing documentation, after-sales services, etc. To this end, there are three possibilities: sale via the Internet (marketplaces), sale to retailers and direct sales to end clients by its own salesforce.

3.5.1. INTERNET / MARKETPLACES

Sales through the Internet as a channel are undergoing spectacular development in recent years, mainly in developed countries. In this type of sales, product orders and payments take place via the Internet, while delivery is handled by a logistics operator, unless the product is "digitizable" (music, movies, eBooks, software, etc.), in which case delivery is also online.

In its beginnings, it was conceived as a solution targeting the local market, but given its global coverage, has transformed into an important channel for internationalization. Likewise, initially it was thought that the Internet would do away with intermediaries in the distribution process, by using direct sales through a company's website, but this has proven untrue, and new online intermediaries have appeared, the same as in the real world, who act like "online retailers", which the final consumer accesses and is then redirected to an "online wholesaler". Their presence and success are attributable to the fact that they operate the distribution procedure better than the manufacturer itself, offering consumers value-added services, like comparisons, evaluations, better payment and delivery options, and even better product offers. The webs offering these services, the so-called Marketplaces, like iTunes, eBay, App Store, Zalando, Amazon, Alibaba, etc., should be considered partners and, therefore, must be selected strategically, as if they were another distributor. Amazon deserves special mention, with its recent efforts to achieve vertical integration in the sector through its service as a logistics provider, reaching the final consumer with product delivery in highly advantageous conditions, with proposals like Amazon Premium and some futuristic ones, like delivery with drones.

Here we must also add that, despite all of the foregoing, it is not necessary for a company to forego having its own website which, many times, can be quite successful (i.e.: Zara Home) and which, furthermore, has broader functionalities, serving as an element of communication and interaction between the company and its target public.

3.5.2. DIRECT SALES TO LARGE RETAILERS

Direct sales to large retailers have gained major importance in recent decades, given the worldwide expansion of large multinational retailers who directly purchase products to domestic and foreign suppliers and manufacturers.

Thus, a new opportunity to access the market arises through these groups' purchasing departments. We can differentiate between three types of large retailers:

1. *Large scale retailers*. Such as hypermarkets in countries like France (Carrefour, Auchamp), United States (Walmart, Costco), United Kingdom (Tesco, Sainsbury), Germany (Metro AG) or Brazil (Pão de Açúcar); discount stores like Lidl and Aldi in Germany; or *Category Killers* in countries like the United States (Toys R Us), Germany (Media Markt) and France (Decathlon, Leroy Merlin). These multinational retailers sell important product volumes, in many cases with their own brands (known as private labels or distributor labels). These are usually purchased through calls for bids –what in French is called *appel d'offre*– among previously qualified providers.
2. *Large department stores*: Establishments like El Corte Inglés (Spain), Printemps and Galeries Lafayette (France), Harrods and Marks & Spencer (United Kingdom), Filene's and J C Penney (United States) or Palacio del Hierro (Mexico), which acquire consumer products of renown brands. These are large local operators that account for large market quotas, and therefore become potential clients of major importance, especially for exporters of branded products with high differentiation attributes and a *premium* positioning.
3. *Purchasing networks*: groups of companies or retailers that centralize their purchases to save costs or purchase tailor-made products under specific conditions. These are common in countries like Germany and Sweden.

This mode of entry requires counting with large production volumes and competitiveness in terms of prices, or having a differentiated product whether with regards to quality, design, brand, prestige, etc. The main advantage is that important orders are placed and experience is gained quickly that is transferable to countries where the partner-distributor is located. As a disadvantage, commercial margins and delivery and payment conditions tend to be quite demanding.

3.5.3. DIRECT SALES TO LARGE CLIENTS

This is advisable for industrial companies in the B2B sector. The tasks are implemented by the company's own human resources (sales network) in the sales department. It is useful:

- To respond to specific orders obtained by participating in a trade fair, trade mission or sales interview.
- When the potential number of clients in a given country is not very high (for example, lesser than 50) in such a way that the company itself, through its export department, may directly serve them.
- When the average monetary amount of an operation is high, wherefore the costs of travel to the country are compensated by the profitability of the commercial operation.
- When the product is highly technical and cannot be sold through agents, distributors or other channels, as these lack the necessary technical knowledge.

The success of this mode of entry mainly rests upon the selection and motivation of the sales team within the foreign trade department, in particular the export manager. A good professional with commercial experience and technical skills who, furthermore, has information on the leading foreign markets, should be hired. It is important that this person maintain close relationships with the clients and know how to transfer to the company the needs and evolution of international markets.

3.6. Cooperation and contractual agreements (*Partnerships*)

The need for a fast international expansion, together with the greater uncertainty offered by foreign markets and the typical lack of resources of many companies, sharpened by the recent economic crisis, have made cooperation agreements (*partnerships*) the type of entry mode choice that has developed the most in recent years (Cateora, Graham & Gilly, 2013). Hereby, various formats arise by which the business's investment, operations and results are shared by the partners, based on the following principles:

- The existence of synergies between partners. This is the case, for example, when one partner contributes capital, technology and *know-how* for the business (foreign partner) and the other its knowledge of the market, its contacts and its clients (local partner).

- There is usually a link based on shareholders between the partners, who offer the relationship stability when the partnership is larger (in *joint-ventures* more so than in simple strategic alliances) and which, furthermore, establish the power relationships between its members, in terms who holds the majority stake in the joint venture.

- These are an obligatory alternative for difficult markets, and/or those in which there are restrictions for foreign capital at the start of the operations (i.e.: services or strategic sectors in countries like China and India). For instance, the entry mode of Zara in India in 2010 was through a majority joint venture (51%) with Indian conglomerate Tata Group (Tata's subsidiary Trent Limited, which holds 49%), as at that time, Indian legislation did not allow a 100% foreing investment in the retail sector.

- The agreements should be reflected in contracts, which must set forth the members' responsibilities.

- These are dynamic contractual structures by which, if everything runs smoothly, enable larger corporate integrations (mergers or acquisitions) and, if they fail or fulfill their objectives, result in dissolution.

- Another characteristic that adds a certain degree of complexity while also grants flexibility is their capacity for hybridization, which also occurs in other types of modes of entry, but especially in this one. In other words, a company can establish a *joint-venture* as its initial mode of entry and later develop its activity through a subsidiary with its own stores and franchises.

Next, we will present five different types of international trade cooperation agreements that, in general, are shown from lesser to greater control and risk of their operations. These are: *Piggyback*, Export Consortiums, Licenses and Franchises, and Strategic Alliances: *Joint-Ventures and Consortia*.

3.6.1. PIGGYBACK

Piggyback[1]1 is a contractual agreement by which one or several companies sell their products through the network of another that is already established abroad, generally through exclusive distribution agreements. The first companies are called "riders" and the leader that offers the network is called the "carrier". Logically, for this arrangement to be successful, it is necessary that their products are complementary instead of substitute or competitors.

In *piggyback*, a bilateral or reciprocal mode may occur, when one company sells products of another in its market. The economic compensation of the carrier company is a "discount" on the catalog price (around 15%).

The riders may pose three types of risks: low quality of the product, meet required quantity to be produced and punctuality of the deliveries. In these cases, the carrier will implement measures to avoid them including the change of the rider.

Another important issue is the question about the brand and product line to be commercialized. In general, the carrier, or leader, will try to impose a single brand, its own, for the entire line. What happens in this case is that the sales are attribute and link to the brand and if the rider accept the carrier's brand, then it will not be developing a market in the target country, given that the consumer will demand the brand and not the product manufacturer. This grants major power to the brand's owner, who may substitute the rider for another without any problems in relation to the clients and/or customers.

3.6.2. EXPORT CONSORTIUMS

Export consortiums are associations of manufacturers for export. Those companies who become part of these do so, generally, for two main purposes: to develop their international promotion and communication campaings or to establish a distribution network abroad. The former is called "promotion" consortiums, and the latter "distribution" consortiums.

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1 In Spanish, this word is translated as "riding on a horse" ("montar a caballito") or "kangaroo exporting" ("exportación canguro") to express the idea that the local company is "riding" on the distribution network of the international company.

Promotion consortia are more common and revolve around national competing companies of a sector or product. Examples of these in Spain, among others, include the Serrano Ham and the Spanish Chorizo Consortiums, which certify their members using seals affixed to their brands. The purpose is to collaborate in the product's international image, thanks to which the member companies will later benefit in their commercialization. These are especially pertinent for SMEs with an unknown brand, but with a communication policy that can refer to the generic brand of the consortia as a quality guarantee. The effect is similar to that of controlled Designations of Origin (wines, cava, champagne, etc.), in which small producers include the seals together with their brands. Furthermore, these actions count with important support and public aid on all levels of the Public Administration (national, regional, local) and extend beyond the issue of the seal, as the products are promoted in other spheres, like trade-fairs and events with shared *stands*, etc.

On another hand, the distribution consortiums bring together three to four companies with complementary products to share a sales network. An example would be an olive oil company creating a consortium with other companies that produce wine vinager and saffron and other species. These products are complementary and can be sold under a same catalog to the same retail channels and easily managed by one single export manager. These are less common, given the difficulty inherent to maintaining a balance without anyone acting as the leader. .

We must also emphasize the fact that promotion consortiums work well when they are comprised of competitor companies with the share goal of improving a sector's image. To the contrary, distribution consortiums are made up of complementary companies. The combination of both is not feasible in operational terms, because if they are competitors there is no interest in sharing a distribution network, and if they are complementary it is difficult to consolidate a shared image, given their different natures.

3.6.3. LICENSE

Licensing agreements, like franchising, are long-term contractual agreements without equity shareholding between two parties: one company that assigns its intellectual property rights and another that acquires these in the foreign market. This entails the transfer of knowledge and/or intangible assets, but not of capital.

Licensing consists of granting patents, brands, *copyrights*, and/or *know-how* in relation to processes, in exchange for payment of an entry fee and future *royalties* (percentage) over sales. The company that is beneficiary of the right to manufacture and sell a product or service in the assigned territory is referred to as the *licensee*, and the company that grants the right is the *licensor*. It is a mode of entry that's quite popular among large and multinational companies in sectors such as fashion, perfumery and toys (Trademark licensing) or pharmaceuticals, cellular phones technology and industrial products (Patent licensing).

Its advantages are more apparent when resources are scarce and/or the company do not have the means to export the product, important restrictions apply to imports, a country does not view foreign capital positively, or when the need arises for protecting the rights of patents and brands from expiration due to non-use in the market. The risks of licensing arise from choosing an unsuitable partner, low quality production that deteriorates a brand's image, payment-related problems and breach of contract.

Many research studies and authors claim that the main risk assumed is that the licensee, over time, will become a competitor. To avoid this, the licensor must always protect the brand and control the patent registration process in the countries in which the license is granted. Another possibility is to preserve a key element needed for manufacturing the final product (component, substance or core technology) that is sold directly to the licensee. Finally, another prudent action is to refrain from licensing state-of-the-art technology.

Another matter worth highlighting is the fact that licenses are granted for a specified time period (generally five years for treand, in general, for a delimited territory. Likewise, the licenses may be exclusive or non-exclusive. In any case, the licensor company should always exert a certain control over its licensees' operations.

3.6.4. FRANCHISE: MASTER FRANCHISOR AND DIRECT FRANCHISE

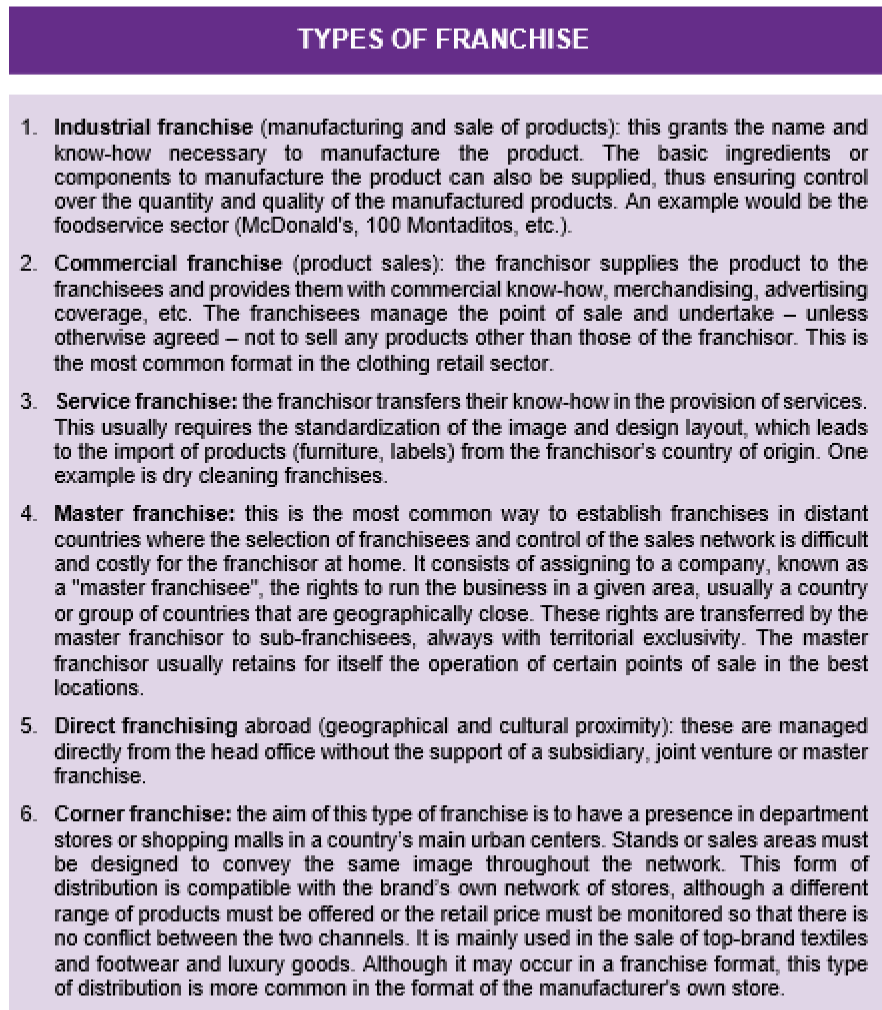
A franchise consists of the complete cession of a business by a *franchisor* to a *franchisee*, who is a businessperson abroad, in exchange for a down payment (entry fee) and royalties or percentages over sales of the products or services, during a defined time period. So far, it is quite similar to a license, but the main difference lies in the *cession level*. What is ceded or granted here? As we have

already mentioned, the operations of the entire business, and not only the intellectual property, including names, patents, brands, *know-how*, commercial management and *marketing*, training, suppliers, agencies and other collaborators. This system enables a reasonable control over the business by the franchisor, without requiring an initial, large investment by the franchisee. In this sense, it is almost as if the franchisee has its own store and/or business. This drives fast expansion at a low cost, and is the format preferred by many governments because it boosts the development of local entrepreneurs and start-up businesses, as is the case with China.

Compared with the franchise in the country of origin, the franchise at the host country will require a larger or lesser degree of adaptations, especially in sectors immersed in the cultural environment of the **host** country. In this case, we must consider whether the franchisee is capable of implementing these with the support and advice of the franchisor. For these adaptations, it is advisable for the franchisor, or his/her representative, to be present in the hostcountry, which will usually assume another mode of entry, whether as a subsidiary or a *joint-venture* or the least common one, a strategic partnership without shareholding. This is the figure of the ***master franchisor***, key for the development of the franchise in its territory. Finally, **the direct franchises** in foreign countries, which are managed by the parent company without the support of a subsidiary, *joint-venture* or master franchise. This is suitable when the physical (geographic proximity) and cultural distance allow for acting as if it were local, as would be the case with franchises in most European countries.

Chart 3.2 below displays the different types of franchising contracts, both locally and internationally, according to product type: restaurants (industrial), fashion (commercial), services, or by site: independent store (the above) or "corner shops" at large department stores and shopping malls.

Chart 3.2 11



TYPES OF FRANCHISE

1. **Industrial franchise** (manufacturing and sale of products): this grants the name and know-how necessary to manufacture the product. The basic ingredients or components to manufacture the product can also be supplied, thus ensuring control over the quantity and quality of the manufactured products. An example would be the foodservice sector (McDonald's, 100 Montaditos, etc.).
2. **Commercial franchise** (product sales): the franchisor supplies the product to the franchisees and provides them with commercial know-how, merchandising, advertising coverage, etc. The franchisees manage the point of sale and undertake – unless otherwise agreed – not to sell any products other than those of the franchisor. This is the most common format in the clothing retail sector.
3. **Service franchise:** the franchisor transfers their know-how in the provision of services. This usually requires the standardization of the image and design layout, which leads to the import of products (furniture, labels) from the franchisor's country of origin. One example is dry cleaning franchises.
4. **Master franchise:** this is the most common way to establish franchises in distant countries where the selection of franchisees and control of the sales network is difficult and costly for the franchisor at home. It consists of assigning to a company, known as a "master franchisee", the rights to run the business in a given area, usually a country or group of countries that are geographically close. These rights are transferred by the master franchisor to sub-franchisees, always with territorial exclusivity. The master franchisor usually retains for itself the operation of certain points of sale in the best locations.
5. **Direct franchising** abroad (geographical and cultural proximity): these are managed directly from the head office without the support of a subsidiary, joint venture or master franchise.
6. **Corner franchise:** the aim of this type of franchise is to have a presence in department stores or shopping malls in a country's main urban centers. Stands or sales areas must be designed to convey the same image throughout the network. This form of distribution is compatible with the brand's own network of stores, although a different range of products must be offered or the retail price must be monitored so that there is no conflict between the two channels. It is mainly used in the sale of top-brand textiles and footwear and luxury goods. Although it may occur in a franchise format, this type of distribution is more common in the format of the manufacturer's own store.

Source: Llamazares et al. (2013).

Next, we will present an international expansion model that is quite suitable for these cases, combining the action of franchises with the manufacturer's own stores, known as *hub* and *spoke network expansion* (see Figure 3.5).

3.6.5. Internationalization through the channel of own stores-franchises: *hub and spoke network expansion*

In today's highly competitive world, where fast growth is a priority, the *hub and spoke network expansion* model that combines the own store and franchises, plays a leading role in allowing for fast growth with an adequate degree of control, as the money required for launching the business is contributed by the franchisee, who is also obligated to strictly adhere to that business's guidelines.

This could be the case of a company within the *fast fashion retail* sector or *low-cost restaurant chains* that pursue a fast international expansion, in general, and, in particular, in certain emerging countries, but does not count with sufficient financial resources to drive the expansion required before a competitor shows up and becomes known.

The procedure is that the company established in the country, usually as a subsidiary, *joint-venture* or with a strategic partner, (master franchisor) is defined by the parent company in the country of origin. Yet, the first store that it opens would not be a franchise, but rather its own store (owned by this subsidiary or *joint-venture*), in a key, emblematic location, close to its target public. This store's initial mission, before starting to franchise, would be to test the business model and to implement any necessary adaptations. This was the previously mentioned example of Dunkin Donuts in Spain, when it discovered that it should install larger counters in its cafeterias, as well as tables, given that compared to North Americans, Spaniards don't eat "on the way to work", but rather in the establishment itself: at the counter if they're in a hurry and seated at a table, if not. Having begun to franchise using the original service model, or requesting a new franchisee to assume the adaptation, would have resulted in failure.

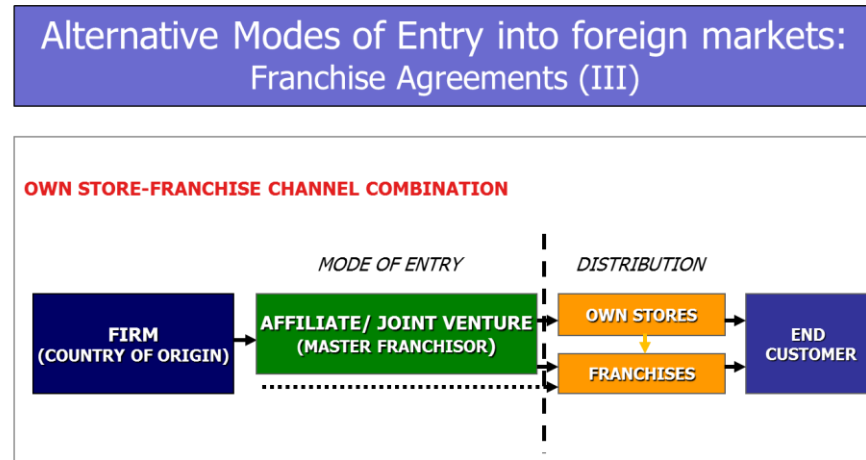
Only when this first store operates well can a company begin to franchise with greater guarantees in the territory nearer the own store, which furthermore acts as a model, safeguards the image and can even be a training center for the franchises in the area. Furthermore, this store usually offers a more polished service and offers the company's complete product range and not only the most profitable products.

Subsequent expansions to other areas would adhere to the same patterns, though adaptation would be minor or even unnecessary, depending on the geographical and cultural distance between both areas within a same market.

After some time, and when the territorial expansion slows down in a more mature market environment, is the moment for the company to acquire some of its franchises, transforming the owner of these (the franchisee) in local managers, but now bound to a greater management discipline.

Figure 3.5 below presents the functioning of the own stores-franchises structure, showing how a subsidiary or *joint-venture* starts with its own stores to later move on to franchises and reach the end consumer in parallel through both channels. Likewise, the dashed lines reflect the action of direct franchising without the figure of the master franchisor acting as the mode of entry. This is a risky operation that is only justified among markets very close to the company at its origin.

Figure 3.5



Furthermore, we must also point out that it is not always necessary to franchise to enable a business's rapid growth. This is the case of Starbucks, which prioritizes opening its own stores instead of franchises by financing these with its own funds from its profits and stock market listing (NASDAQ). Starbucks does this because it wants to have strict control over the business, something not feasible with the franchise model. Therefore, its stores are owned by its subsidiary or *joint-venture*. For instance, the entry in the Spanish

market in 2002 was through a joint venture agreement with two leading retail companies in Madrid and Barcelona: Grupo Vips, the leading Madrid-based restaurant and retail company, and Europastry, S.A., a Barcelona-based company which owns one of Europe's largest bakery businesses.

Later on, in 2016, Grupo Vips took control of 100% of Starbucks Coffee Spain S.L. becoming the Starbucks exclusive licensed partner to operate and develop the brand in Spain and Portugal. Though the normal procedure is the way-around – Startbacks taking control of its local partners – this situation also shows the diverse casuistic of international expansion.

3.6.6. INTERNATIONAL STRATEGIC ALLIANCES, JOINT-VENTURES AND CONSORTIA

An international strategic alliance is a group of businesses established between two or more companies to cooperate by addressing and complementing their needs (see Figure 3.6 above), and sharing the risks in the fulfillment of their objectives.

Companies embark on international strategic partnerships for many reasons, amongst which are: fast international expansion, access to new technologies, acquisition of licenses and permits, reduction of operating and *marketing* costs, and access to specific resources, including capital.

Several types exist, differentiated mainly according to the level of shareholding among the companies which, furthermore, fluctuates over the course of their relationship.

On a smaller scale are the simple strategic alliances with little or no shareholding among its members. This was the case of the partnership between the Rover group and Honda for the latter's entry into the European market during the 90s of the last century. Both companies successfully shared suppliers, technologies and production for years at its factories in the United Kingdom. Unfortunately, the majority shareholders of Rover (British government) decided to dispose of 80% of its stake which, after diverse vicissitudes, ended in the hands of BMW, direct competitor of Honda, and the relationship ended. These are good examples of how well partnerships can work yet, at the same time, how vulnerable they are when barriers for the acquisition of shares are weak.

Given this level of vulnerability, it is not strange that greater stability is sought in these types of partnerships through larger shareholding stakes. This occurs with the strategic alliances of airline companies, the most well-known of which are One World, Sky Team and Star Alliance, where in the first two Iberia and British Airways merged (One World) and in the third Air France and KLM merged (Sky Team).

On another hand is the fact of fluctuations in shareholding stake in the case of Vips with Starbucks in the Spanish, Portuguese and French markets. The Vips group initiated its relationship with Starbucks in the year 2001 through an international *joint-venture* (49% Vips and 51% Starbucks) between both, named Starbucks Coffee España, to operate in this market, which later extended to France (2004) and Portugal (2008). Next, Vips agreed to cede its stake in France to Starbucks and acquired, in exchange, 100% stake in Spain and Portugal, as we have mentioned in a previous paragraph. The emergence of the economic crisis resulted in Starbucks' acquisition, again, of 49% in Spain in 2013 to inject money into the group, which was undergoing reconversion. Finally, Vips repurchased 49% in Spain in October 2016, again owning 100%. As shown, the strategic alliance has experienced diverse phases in its shareholder structure, though it has always remained the same in operational terms in its 80 own coffee shops in Spain and 9 in Portugal. These are owned outlets, not franchises, given that this is what Starbucks wants to maintain greater control.

The **international *joint-venture*** is a cooperation agreement between two or more companies from different countries. In general, with regards to its objective as a mode of entry in a country, it is comprised between a local partner and foreign partner. The local partner contributes its contacts, licenses, permits, capital and market knowledge, while the foreign partner contributes technology, management-related *know-how* and capital. Established this way, the partnership presents many synergies and advantages between both partners, particularly in the short term, but the reality is that *joint-ventures* are difficult to manage and, in the long term, usually the international partner ends up acquiring the local partner's shares, what could be considered a positive evolution.

Joint-ventures offer clear advantages in that they are a means by which to decrease economic and political risk. The economic risk decreases, thanks to the resources (financial and non-financial) that the local partner contributes. The political risk decreases in having a local partner that acts as the company's

ambassador in the host country, helping to overcome legal (limitations on foreign capital) and cultural (knowledge of business habits) barriers. In some specific countries and sectors, these are the alternative in the face of legal limitations for establishing a subsidiary with 100% foreign capital, as the case of Zara entry in India in 2010.

Among its inconveniences are: the need for contributing capital and human resources, the cost of negotiating with the local partner and the risk of discrepancies between the partners with regards to priorities and strategies. As a general rule, the international partner is more proactive, presenting more ambitious objectives in terms of growth and competitiveness, compared with the local partner. An additional difficulty is the criteria used to determine the so-called transfer prices; in other words, the prices for products, technology, services, etc. that the international partner supplies to the local partner.

The *joint-venture* agreement must be formalized in a contract that sets forth: (1) the purpose and objectives of the new organization, (2) the composition, responsibilities and contributions of the partners, and (3) the management and decision-making process.

Finally, it is worth to be mentioned that there must be a balance between responsibilities, contribution and benefits for this partnership to function properly. Despite this, the international partner must try to control the *joint-venture, either through a majority stake* (*at least* 51%), or by controlling the management know-how and intellectual property rights, without thesethe operations and competitiveness of the joint company would be quite limited.

Other types of international strategic partnerships that are very common and different from the abovementioned export consortia (the objectives of which are promotion or distribution) are known as ***Consortia***. These have the purpose of executing major projects and are very similar to *joint-ventures*, but with three differentiating characteristics: (1) they include a greater number of participants, (2) normally operate in a country where neither of the participants is actively present, and (3) they are established for a limited period of time, generally link to the project completion period. Once the project is completed, the Consortia is dissolved.

These consortia are created to unite resources and decrease risks in the implementation of major projects. Oftentimes these are established for large construction projects, like the Mecca-Medina high-speed railway, where a

consortia agreement is signed by which the main contractors from different specializations comprise a separate entity that is conferred powers for purposes of negotiating and entering into contracts. One of the contractors assumes a leadership role, and the new company can exist independently of its founders.

3.7. Establishments abroad

Establishments abroad is a mode of entry entailing the greatest involvement by the company during its internationalization, and is common for large companies with a certain experience abroad and in their final phases of internationalization.

Its main characteristic is that the company transfers part of its resources to the target country, wherefore this mode of entry is also referred to as FDI (*Foreign Direct Investment*). The advantages for the company, in part, are the following:

- *Gain competitive advantages in production-related factors*: mainly with the labor factor, which makes for a significant part of production in labor-intensive sectors, like the garment industry, toy or computer manufacturing, to be transferred to emerging countries with salaries that are much lower than in developed countries, giving rise to the phenomenon known as delocalization. Of course, labor is not the only production-related factor that drives FDI. The search for raw manterials (minerals, oil, commodities, etc.) is also an important driver for FDI.

- *Greater proximity to the client*: in some sectors, delivery of products or provision of services requires an active presence in the country. For example, automotive industry part and component manufacturers, with its clients (automakers) concentrated in a specific geographical area, must be physically near their clients' production centers to apply Just-in-Time and Supply-Chain management procedures

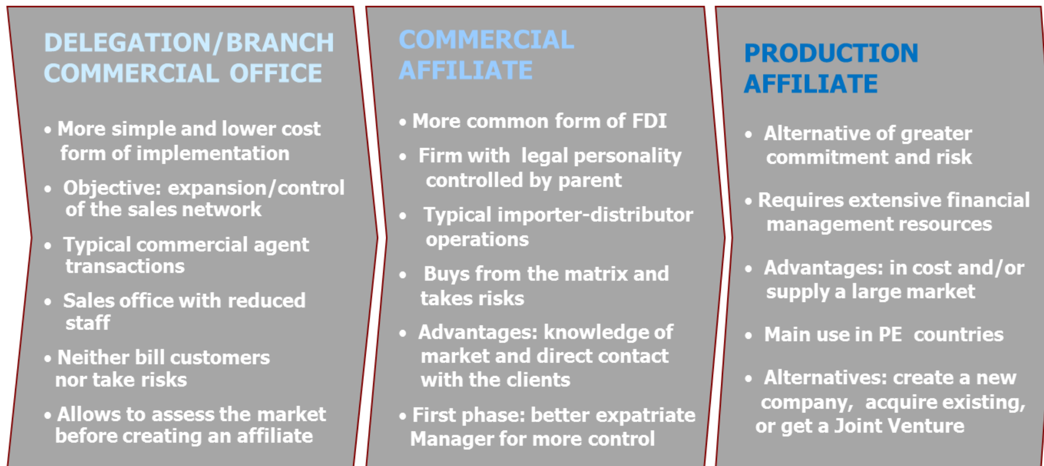
- *Improve delivery conditions*: when orders must be supplied within a short time and the supply chain must be fast. This explains, for example, that construction material manufacturers (tiles, marble) have established commercial delegations or subsidiaries in the United States.

- *Control over the commercial policy*: the application of marketing policies, especially to control clients, sales prices and communication activities, requires market presence, which is key in the consumer goods sector.

- *Take advantage of regional integration agreements*: through its establishment in a country that is part of an economic integration zone, the company can benefit from tariff preferences, approvals, transport systems, freedom of capital, etc., that are common to the entire zone. An example of this are those companies that establish in Mexico to penetrate NAFTA markets[2].

The three options to establish abroad are presented below: sales delegation, commercial subsidiary (aslo called affiliate) and production subsidiary, the main characteristics of which are given in Figure 3.7.

Figure 3.7 ALTERNATIVE MODES OF ENTRY INTO FOREIGN MARKETS



Source: Llamazares et al. (2013).

[2] The NAFTA (North America Free Trade Agreement) is an economic integration agreement between Canada, the United States and Mexico.

3.7.1. SALES DELEGATION / COMMERCIAL OFFICE / BRANCH OFFICE

This is the simplest form of establishment abroad. It comprises of a sales office without legal personality nor the capacity to operate in its own name. The facilities are quite limited –sometimes there is a *showroom* or warehouse– and the staff is limited to just a few people: manager, manager's secretary and administrative staff. From the perspective of sales, the delegation (also known as the commercial office) executes the policy designed by the parent company, in particular concerning control and motivation of the sales network and contacts with potential clients/customers. In some cases, it can also be in charge of usual administrative tasks of a commercial agent, which include transferring orders to the parent company, management of logistics and Customs, local deliveries and monitoring of payments received for operations. The parent company invoices the clients who reside in the host country and, therefore, assumes the risk of operations.

Though, in theory, this substitutes the tasks of a commercial agent, in reality it is much more limited than the agent in terms of acquiring clients, given that the agent already has a client portfolio to which it offers the product. However, the delegation may offer services that an agent can rarely provide and therefore, both could be complementary. This would be the case of establishing a delegation or commercial office downtown that offers market research and promotion services, in addition to contacting with main clients for this purpose. Truly, in this situation, the local commercial agent could imagine that the function of this office is to prepare the company's future arrival in the form of a commercialization or production subsidiary; if this happens, the company would be required to compensate the agent if their agreement is still in effect.

Therefore, many times the delegation is a way to establish a company temporarily to get to know the market *in situ*, consolidate its relationship with existing clients, access new clients and analyze the profitability of a definitive establishment through a commercial subsidiary.

3.7.2. COMMERCIAL SUBSIDIARY / AFFILIATE

The commercial subsidiary is a permanent establishment with a registered address and independent legal personality, 100% controlled by the parent company, though acting in the market in its own behalf and assuming the risk of its operations. The subsidiary purchases products from the parent company for resale in its market.

The main reason for establishing a commercial subsidiary is to benefit from direct knowledge and relationship with the market. In establishing itself as a local company, acceptance by clients/customers will be much greater than in the case of a delegation, given an ongoing integration with the market, demonstrating the company's intention to remain in the country, offering a greater continuity of the service and better adaptation to local regulations and commercial uses.

For a parent company, the establishment of subsidiaries entails simplifying administrative and logistical operations, given that deliveries and billing in the foreign market are done in the name of the subsidiary, which becomes a single client. The subsidiary is in charge of distributing all of its market's purchase orders and selling directly to its clients; in other words, it assumes the activities of a distributor. The operational tasks performed by the subsidiary are broader than those of a delegation and, furthermore, it must also assume duties related to the business's finance, fiscal and legal responsabilities.

The creation of a commercial subsidiary will grant a company a high level of control over distribution in the country, as well as over the price policy and communications. In other words, the company will control the commercialization of its product or service, which is a key factor for success in the market. Furthermore, a subsidiary will enable a forward vertical integration of the business, facilitating, when applicable, the establishment of a network of franchises or own stores, as occurs in the retail sector, that will give the company direct contact with its clients to get to know them better and react immediately to their demands and preferences.

Before opening a commercial subsidiary, a company must analyze the most suitable location (area, city, region…), in line with three types of criteria:

1. *Commercial*: it must seek the closest geographical proximity to its potential clients and most important consumer hubs. In many countries, each industrial sector tends to concentrate its activities in a given state or region; this is where a foreign supplier or manufacturer must set up its commercial subsidiary.

2. *Logistical*: it is necessary to analyze communications, both in terms of goods transport as well as regarding travel of managers between the parent company and the subsidiary. Those companies considering product assembly in their destination market, or that need storage facilities, should study the option of relocating to free zones or customs warehouses given that, in addition to having good logistical infrastructures, these will reduce the tax burden over products when entering the country.

3. *Legal*: regulations on the incorporation of companies, grants, procedures applicable to foreign investments, tax benefits, double taxation agreements, legislation on labor, etc., are also aspects to be born in mind when deciding where to locate a subsidiary, especially if it intends to supply several countries in the same geographic region.

3.7.3. PRODUCTION SUBSIDIARY / AFFILIATE

The production subsidiary is the stage of greatest commitment by a company in its internationalization process. This likewise includes those functions of a commercialization subsidiary presented in the preceding section.

In this last option as a mode of entry to foreign markets, a company establishes its own production center in a country for the integrated manufacture and sale of products, or to produce a given line of products or components for export to other countries where it already counts with a distribution network. This is the form of establishment abroad that requires the greatest commitment. Given its high level of risk and considerable contribution of economic and management-related resources, this strategy is reserved for multinationals with a consolidated position in their domestic market and a broad international experience.

Basically, there are two reasons for establishing a production subsidiary: to seek advantages in terms of cost (raw materials, power supply, labor, etc.) or to supply a large market and, when applicable, markets in proximity. In some countries, like, for example, China, Brazil or Poland, both reasons

converge and this is why a growing number of multinationals set up there. Finally, there are also reasons related with avoiding protectionist barriers and tariffs on imports, which despite being of lesser importance currently that a few decades ago, are still significant in some markets. Two options exist for establishing subsidiaries abroad:

- Creating a new company (green field strategy): this permits adapting the structure exactly to the needs, choosing the most suitable location and progressing in stages in terms investing and hiring human resources. Likewise, local and national governments favor this option because it generates employment and technological transfer. A disadvantage we must mention is the length of time required for establishing the company and the obstacles posed by local competitors.

- Acquisition of an existing company: a company purchases another in the sector that adapts to the profile it seeks in terms of size, market quota and image. The main advantage here is the immediate access to a market quota and client network. However, problems may arise due to parallel activities of the old company, culture clash, freeze on assets or reorganization of personnel. This option is more preferred by multinationals and is common in developed countries.

Any process of establishment abroad, whether through a delegation, commercial subsidiary or production subsidiary, requires implementing the project in stages, with each stage entailing a series of actions, as shown in Chart 3.3 below, describing the process' three phases. The initial project elaboration phase includes the selection of the location, legal personality, partners, and identification of the necessary technical, commercial, and financial-tax resources. In a second phase, operations are launched by the administrative procedures for creating the company, registering patents and brands, opening bank accounts, taking out insurance coverage, rentals and contracting of supplies, hiring of human resources, information systems, website and process development with the headquarters. Last of all is the phase for starting activities with the company's launch and public relations for presenting the subsidiary, including a communications campaign and contacts with leading potential clients and authorities, management of logistics and risks, initial supplies and *reporting* and communication with the parent company.

Chart 3.3

Alternative Modes of Entry into foreign markets:
Implementation Process Abroad

Phase	Steps
PHASE 1: PROJECT DEVELOPMENT	1. Select location (site analysis). 2. Evaluate technical, human and commercial needs. 3. Estimate financial resources and sources of funding. 4. Identify and contact potential partners. 5. Analyze the fiscal impact of operations. 6. Choose the legal form and draft statutes. 7. Identify programs and support institutions (in the country of the parent company, local and multinational organizations).
PHASE 2: LAUNCH OF OPERATIONS	1. Administrative and fiscal procedures to incorporate the company. 2. Opening of bank accounts and insurance contracts. 3. Registration of trademarks and patents. 4. Rental and equipping of offices and premises. 5. Procurement of supplies (telecommunications, electricity, gas, etc.). 6. Selection and hiring of human resources. 7. Implementation of information systems. 8. Creation of your own website or incorporation of the subsidiary's information into the parent page. 9. Organization of product and activity flows between the parent company and the subsidiary.
PHASE 3: OPERATIONS COMMENCE	1. Communication campaign on the implementation of the company (advertising, press releases, mailing to potential customers, presentation event). 2. Contact and customer presentations. 3. Contact with local institutions and authorities. 4. Logistics management. 5. Optimization of cash flows. 6. Risk control. 7. First supply of products or services. 8. Reporting and communication between the subsidiary and the parent company.

Source: Llamazares et al. (2013).

A highly useful tool for companies that decide to establish themselves abroad is the "Costs of Establishment Abroad Simulator", an interactive application available in the website of ICEX Spain Trade and Investment, that reveals the different costs (incorporation, taxation, labor, real estate, etc.) in each market. The data is available in euros, dollars or the country's local currency, and cost comparisons between countries can also be done.

3.8. Selection of the mode of entry

To choose the most suitable mode of entry for each market, it is desirable for the company to analyze a series of internal and external variables, according to Llamazares et al. (2013).

3.8.1. INTERNAL VARIABLES

Among internal variables, perhaps the most important are the following:

- *Available resources*: the goal is to analyze the financial, human, production and management resources for adequately implementing the chosen option. The higher the resources, the greater the possibilities for proposing implementation strategies. Otherwise, for a SME with few resources, indirect export is the less costly alternative.

- *Objectives*: the company may define different objectives –obtention of profits in the short term, increase of competitiveness, market share and positioning in foreign markets, etc.– that will condition the chosen modes of entry.

- *Type of product/service*: the commercialization of consumer goods requires a larger number of intermediaries, while capital goods may be exported directly. On another hand, companies that must offer an after-sales service must establish themselves in those countries where they can obtain a critical mass of business. Likewise, companies who own industrial or intellectual property rights (patents, brands, copyright, *know-how*, etc.) could seek formulas for international cooperation, like licensing or franchising.

- *International experience*: the lack of knowledge on foreign markets entails a risk that a company will reduce by selecting the modes of entry that imply less commitment and risk. As the company gains more experience in relation to the market and its clients, it will use other alternatives for its establishment that will enable it to gain greater control.

3.8.2. EXTERNAL VARIABLES

In addition to internal variables, the company must also analyze and consider some external variables, like:

- *Risk*: for export alternatives an evaluation must be done most importantly of *commercial risk*, while for establishment abroad *risk-country* must be considered.

- *Characteristics of the market*: on one hand, we must bear in mind the size and perspectives of the market, as well as purchasing habits and modes; on another, an analysis must be done of the distribution channels, logistic infrastructures and ease of contacting with clients, intermediaries and partners.

- *Competition*: the level of competition in each market also impacts decision-making on the mode of entry. In highly competitive markets, the only access mode may be through collaborating with companies of the sector through *piggyback or joint-ventures* or by adopting a strategy for establishment abroad, mainly through acquisitions

- *Barriers and incentives*: governments, of the country of the exporting company as well as of the host country, may offer a series of incentives or barriers to trade for products or the movement of capital.

From our analysis so far on the modes of entry (sections 3.1-3.8) we can deduce three major, final considerations on modes of entry, which are:

- These are the most important strategic decisions of a company's internationalization. Opting for one or another will condition the company's future operations in the market, and is a key factor for its success.

- More than one may be combined in the same market. Companies that are members of an export consortia, especially if it is of promotion (i.e.: Serrano Ham), require another mode of entry for their distribution and logistic activities.

- Finally, we must say that the ME is one of the most difficult strategies to standardize in the international real, given the many differences across countries (competitiveness, legislation, etc.) and the different times at which a company considers these. Therefore, a company may have subsidiaries in important markets where it has been established for some time, *joint-ventures* in other markets that are also important but which it has recently accessed with a limited knowledge of the same, and import agents or distributors in less strategic markets.

4. Decisions on the international marketing mix: product and prices

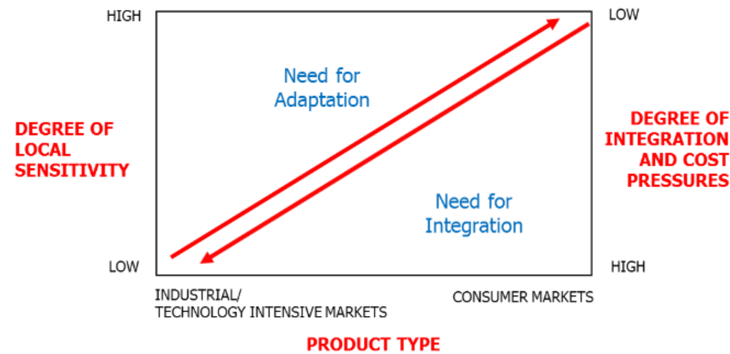
Once the company is present in the new market, it must then decide the extent to which it will standardize and/or adapt the different variables of the marketing mix (product, price, distribution and communication). In an extreme situation, we can find companies that develop identical competitive strategies worldwide, or that use a standard marketing mix in all of their markets. Certainly, the homogeneity of products, brands, advertising, distribution channels and other decisions of the marketing mix entail lower costs, because it is unnecessary to introduce any changes in any market. The opposite situation is represented by the idea of adapting marketing strategies and decisions to each and every market where the company operates, which entails assuming greater costs with the goal of obtaining a greater market share and benefits.

The extent to which a company adapts its marketing policies to foreign markets and formulates its international strategies will depend on its management's attitude and international orientation as well as the company's industry type or sector. If the company and its management have a more multidomestic orientation, they will adapt their marketing programs to each market. Otherwise, with a global orientation, they will standardize these programs to a great degree. On another hand, industrial or high-tech sectors, for example, will tend more toward standardization, while consumer products are usually more sensitive to local needs (see Figure 4.1).

Figure 4.1

International Marketing Mix decisions: The Product

Strategic Adaptation according to the type of Sector/Product



In general, management faces simultaneous pressures with regards to adaptation (better response to local needs and conditions) and standardization (better international coordination and cost efficiency). Ultimately, the company must transform its international presence into a competitive advantage, requiring sensibility to environmental differences (economic, cultural, political, legal and competitive) across the different markets, without losing the advantages derived of the global integration and standardization of its activities. In some areas, companies try to make the most of the advantages of centralization and standardization (for example, Zara in products, brands, design and manufacture); in other areas, companies seek to obtain advantages in terms of decentralization and local sensitivity (in Zara, for example, adaptations of price, promotion and customer service, store employee work methods, etc.). This simultaneous response to the pressures of standardization and adaptation has been defined as the **transnational strategy**. The company must analyze which are its most strategic dimensions and those in which its competitive advantage resides. The entire marketing combination in any country must be structured upon these dimensions, and these decisions must be adapted to the local environment, without losing the efficiency that a global vision contributes to business management.

Once the company has decided on the balance it intends to strike in its international marketing strategy (global, multidomestic or a balance between both - transnational), it must decide the extent to which it must standardize

and/or adapt the different *marketing* variables (*marketing mix*) to local conditions.

In its international process, the company transfers its domestic competitive advantages to foreign markets in its search for new income and benefits. From this perspective, we could argue that in its international process the company will transfer those resources and capacities that sustain its competitive advantage, and this international transferability must be done with a high degree of standardization given that, otherwise, the company would lose part of its competitive advantages. Inversely, it is understood that a global competitive advantage would be grounded on those resources and capacities that could be transferable and accumulated globally. Therefore, for example, if one of the main competitive advantages of Freixenet to date is the global recognition of its product's name, brand and price-quality ratio, then Freixenet would standardize its brand and corporate image in all of its markets, and pursue a competitive positioning in terms of price. However, it will need to adapt its communication, promotion and distribution policies to each market's operating and cultural conditions. The ultimate objective of internationalization should not be to maximize sales, but rather to maximize profitability and minimize risk, and establish sustainable competitive advantages in foreign markets.

In general, the final decision will focus on the search for a balance between costs and benefits. The company must analyze which are its most strategic dimensions and those in which its competitive advantage resides. It must structure its entire *marketing* combination in any country based on these dimensions. So, understanding that the company must find the optimum balance between standardization and adaptation, and that the trend toward globalization of markets is a tangible reality, with the advantage and disadvantages derived of highly standardized plans, this section will examine the decisions companies must make on their marketing mix policies as they penetrate foreign markets.

4.1. Product-related decisions

First of all, the decision on the international policy for products will depend on the company's situation and the breadth of its product portfolio (number of product lines). The case is quite different between whether a company is entering a new market with its already developed products or when it's seeking

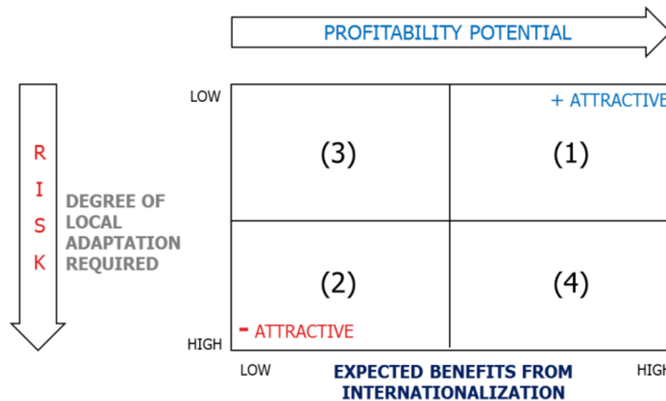
to develop a new product for the international market. In synthesis, the questions it must pose itself are:

- Which product line(s) must be used as a launching pad for its internationalization or entry in new markets?
- What is the required degree of adaptation?
- How will it develop a product for the international market?
- Should the new product launch take place in all markets simultaneously or sequentially?

When a multiproduct company decides to go abroad, the first question it must ask itself is whether it will be more convenient to simultaneously globalize its entire product range, or if it's preferable to use one or a few of its product lines as a launch pad. Oftentimes, the second option is more prudent, given that a global expansion entails high risk for any company accessing the international market for the first time. Evidently, the simultaneous internationalization of its entire product line or range increases this risk exponentially. In this case, the question becomes: which product line(s) must be the protagonists, at first, in the company's globalization?

This product selection must be led by the parallel objectives of maximizing profitability and minimizing risk. Figure 4.2 below offers an analysis framework for identifying the most suitable product lines for internationalization.

Figure 4.2



Source: Adapted from Gupta & Govindarajan (2000)

It is convenient to evaluate each of the company's activity lines in accordance to two dimensions: one related to *potential profitability* (benefits expected of globalization) and the other related to *potential risk* (required degree of local adaptation).

The first dimension represents the benefits derived of globalization. In principle, in choosing among these characteristics, the company will always choose high-profitability, no-risk products; in other words, products that generate high margins and require minimal adaptations for international markets. Companies have many reasons for wanting to sell its products abroad without implementing any changes, for the simple reason that this is the easiest option. Another reason is savings, or risks assumed if products must be adapted. On another hand, there are products which, given their comparative advantages and/or competitive structure of the sector, generate a high profitability and margins.

This way, the ideal product for internationalization will be those with high profitability and low risk. In other words, those that hardly require adapting to the international markets (block 1). This block includes high-tech and luxury products, fashion, and some consumer products, like wine.

In the opposite extreme are those products that require a great deal of adaptation (or even, new product lines) and that, furthermore, do not offer interesting margins or profits for competing abroad (block 2 of Figure 4.2). For success with these types of products, the company needs a strong financial muscle to create an international brand and develop highly innovative products and/or products adapted to local tastes and needs. An example in this group would be crackers or biscuits. Third, are highly standardized products in the international realm that comprise standard categories, though their potential benefits in terms of profitability are quite limited, unless the brands are well-recognized in the international realm (block 3). Examples could be consumer products, pasta, chocolate, milk, and *corn-flakes*. Also, *commodities* (rice, corn, wheat, certain minerals, etc.). As occurs with crackers or biscuits, there are local operators of these products in almost all markets, thereby increasing competition and pushing prices down. These sectors, furthermore, have very few entry barriers. Of course, these are quite standardized and hardly require adaptations, though given such low prices and margins their internationalization is not easy, unless they count with a brand that enables a differentiated positioning and, therefore, generating a greater added value (for example, Kellogg's corn flakes or Buitoni pasta).

Finally, the most complex decision would be that which requires major adaptations to products for their export or internationalization and, therefore, the higher the level of local adaptation required, the greater the risk assumed in financial and market terms. Yet, given their innovative characteristics and adaptation to the market, these products can also generate significant benefits (block 4 of Figure 4.2). For example, in the ceramics and sanitary equipment sector, the differences between countries in product design and characteristics are notorious. The Roca company, for example, develops many product lines adapted to characteristics of different countries. This situation is also typical in industrial, technological and the services sectors, where products are usually designed ad hoc for each client, adapted to each project's needs, and including technical services with the product, like after-sales, maintenance or monitoring services in that country.

A company could apply this analysis model when it launches its decision to go abroad and analyzes its current product portfolio. Certainly, for a single-product company (for example, a winery), this model is usually not necessary, because its activity focuses on a single product. Yet, for companies that are diversified in different product lines, this decision might even precede its market selection process.

4.1.1. Voluntary and mandatory adaptations in the product policy

In addition, even when a company selects products with minimal local adaptation, there may always exist factors that require adapting certain characteristics or dimensions of the product. In this regard, we must differentiate voluntary and obligatory adaptations. Based on its market studies and the characteristics of the demand, a company may decide to what extent it will modify its products to better adapt them to the market's characteristics and, therefore, gain competitiveness. In this case, we refer to voluntary vs. discretionary adaptation-related decisions. Cultural or economic factors are important here.

Companies with highly global brands, like Häagen Dazs or Chupa Chups, usually undergo a high level of standardization of their marketing variables, excepting those related with the product, which are adapted to each local market's tastes. For example, in China both brands sell *green tea* flavored products which would be difficult to sell in Western countries. These cases are frequent in most consumer products. Brands with broad international experience tend to adapt their products to each market's specific needs. Even business concepts as standardized as McDonald´s, for example, must show sensitivity toward domestic tastes and habits. The "McIbérica" is only sold in the Spanish market. It's a typical hamburger, but contains ingredients that better represent the tastes of Spanish consumers (fresh tomatoes, lettuce, Iberian ham, Manchego cheese, olive oil and rustic bread).

Sometimes, we may have a great global brand, but if the product is not adapted to the target market or fails to fit in, little or nothing can be done for the brand's development in that market. Certain adaptations are highly important, like those derived of religious aspects, for example with Halal products (prepared according to that set forth in the Islamic Sharia law) or Kosher products (those that fulfill the precepts of Jewish religion). In addition, cultural adaptations not only impact *Fast Moving Consumer Goods* with a high rotation, but also durable or industrial consumer goods (ceramics, sanitary equipment, furniture, construction, etc.).

Another important factor, aside from the cultural one, is economic, particularly a country's level of development and the different income levels of respective markets (mainly related to purchasing power). In general, in low-income countries more austere product versions are sold, compared to well developed countries, with state-of-the-art versions. For example, Unilever produces smaller product sizes, with cheaper formulas and minimal *packaging*

for emerging countries, thereby adapting the retail price to the market's purchasing capacity.

Obligatory-compulsory adaptations refer to situations in which a company adapts its products because a given aspect of the foreign market requires to do so. These situations mainly derive of each country's legislative conditions, technical regulations and approval procedures. Many of these obligatory adaptations are framed within the concept of "neoprotectionism" that some countries establish to protect themselves from foreign competition. Well-known examples of these are the strict rules of the FDA (*Food and Drug Administration*) for food, cosmetics or pharmaceutical products with regards to approved ingredients, labelling standards and required certifications.

Other factors, sometimes, are weather-related or religious in nature. Automobiles exported to northern countries undergo a special anti-corrosion process, given that the streets and roads there are covered with salt many months of the year. The opposite occurs for the export of vehicles to countries of the Maghreb, which require adapting their ventilation systems to counteract high temperature and dusty winds. We have also mentioned the cultural adaptation of the religious factor. Sometimes religious certification is a mandatory requirement for selling products in Arabic countries or in Israel (Halal and Kosher certificates, respectively). The famous Barbie doll cannot be sold in Arabic countries as it is in Western countries; "Fulla" is the Barbie of the Arabic world, where it has attained great commercial success. She has Arabic features, wears a veil, has her own carpet for prayer, does not have a boyfriend, and has a variety of dresses, depending on the country where she is sold: for the more religious countries, the doll wears the traditional black Arab dress with a hijab (Islamic veil that covers a woman's hair, ear, and neck) in the same color. However, in other countries, like Syria and Lebanon, with more open societies, Fulla can be found with a white headscarf and clothes in lighter tones. Therefore, the religious fact can be voluntary or mandatory, depending on the occasion.

4.1.2. Product development and dissemination for the international market

Another situation for an internationalized company is its product development for its international markets. The case may also be that, during its initial internationalization stages, a company does not have product lines that are feasible for export, and that a major adaptation of its current lines is insufficient; as a result, it must develop new product lines.

Companies with a highly global vision may already, from the start, establish guidelines so that their new products will be standardized in all markets or, when applicable, will maintain a high level of standardization. For example, portable electronic devices – computers, smartphones, tablets, etc.– already come with an integrated dual voltage and the different television and reproduction systems (NTSC and PAL), given that many users are men and women who travel worldwide for business reasons.

In general, many multinationals already hire transnational teams to design their new products, mainly in the industrial field. The designs have a modular focus, where different components are mixed and combined to deliver the characteristics required by different markets. This philosophy entails a considerable reduction in the number of different types of required components (and suppliers), without substantially affecting the clients' available options.

As regards consumer products, many companies also define highly global considerations when developing their new product lines and formats. Many Spanish multinationals have a highly global orientation as to their new product launches. Zara fashion or Camper shoes are truly products that present the same characteristics worldwide. In fact, there are many companies that have attained success with the same product across all markets, independent of the existing local preferences. Companies like Kellogg's have succeeded in changing consumer patterns. Breakfast cereals were unknown in France or Spain 25 years ago. Today, cereals are a basic and common part of breakfast in many homes. Kellogg's ignored the research studies that concluded that its cereal would sell neither in France nor Spain. More recently, Starbucks has globalized even coffee in countries that traditionally consumed tea, like the United Kingdom, Japan or China.

Finally, a more global orientation in product development also entails their simultaneous launch in all of the markets in which the company is present. Clearly, companies define different launch strategies for their different product categories. A global dissemination of products and the timing of their market launches will depend on certain criteria and, mainly on the product type, the current life cycle of the given country and, even, that country's consumer segments (highly adopters and innovative consumers vs late or laggards in adapting the product). An initial criterion is whether consumers purchase the product separately, or if it is a component of another product or service. A second criteria will be the amount of information

required for the product to "take off". Some researchers suggest that a simultaneous launch is more probable in the case of "intermediate" products-services purchased by organizations and companies, at least in countries in the same developmental stage. Evidence is less conclusive with regards to consumer products, and it might be more probable for companies to adopt a sequential focus. However, it is also true that within the sequential focus, differences in times become shorter between countries. In terms of prices, the higher the new product's price –for example, the new 4K TVs and Smart TVs – the higher the probability that the launch will not be simultaneous across all markets of developed economies. It is more likely for the population segments of innovators or early adopters to purchase products with high prices, as these consumers are not concerned about price reduction strategies once the product enters the growth or maturity phase. In this sense, the adoption phases of products and innovations are not the same in all countries, even in the cluster of developed countries, wherefore this analysis is important for establishing a product's international launch. However, other cases like the new Apple´s iPhone 11, was launched worldwide almost simultaneously at the end of 2019, but the first countries it was available were US, UK and Australia.

4.1.3 The decision on the brand

In the international sphere, the decision on establishing local brands versus implementing global brands could be of critical importance. Within the corporate globalization process, the brand has become a strategic variable of growing importance within the company's strategic decisions for internationalization. That the competitiveness of companies lies in its intangibles is an increasingly undisputed fact, and within these, the brand is decisive.

Despite the fact that the globalization of markets is leading toward a consolidated implementation of brands that become more internationalized, cultural, legal and political barriers that limit their development still exist. The decision regarding global or local brands is complex, as it depends on the company's internal factors (attitude, orientation and international strategy) and external factors (cultural, legal, competitive and political environments, mainly) alike. Section 6 addresses these policies and decisions on brands in depth. Ultimately, the final strategy of the *marketing mix* will be to create a notorious, well-positioned brand in all markets, and the decisions of the *mix* in terms of product, price, distribution and communication must be aligned to achieve this objective.

4.2. Decisions on prices

As mentioned above, one of the main competitive advantages of Zara is the global recognition of its brand name and the design of its products. Therefore, it is no surprise that Zara standardizes in all of its markets its brand, corporate identity and most of its product lines. However, it may adapt its price policies to operating cost conditions, competitive positioning and/or the local demand's level of price sensitivity. Prices, on average, are 40% higher in northern Europe than in Spain, and 10% more expensive in the rest of European countries; 70% more expensive in America and 100% more expensive in Japan, while the products are practically identical. This policy has been maintained over the course of the brand's history, even when the price tags were displayed in the different currencies of each country (see Figure 4.3).

Figure 4.3

Standardization vs. adaptation & Coordination (III)

Zara prices around the world: Spain = 100

España	100%
Reino Unido	151%
Dinamarca	153%
Polonia	158%
Chipre	136%
Libano	152%
Kuwait	171%
Arabia Saudita	170%
Bahrain	170%
Quatar	160%
Canadá	178%
EE.UU.	209%
Mexico	164%
Venezuela	147%
Japón	231%

Fuente: Inditex, 2004

Of all of the variables of the *marketing mix*, price is the one that most directly impacts the achievement of the company's objectives, as it is the only one that directly generates income, while the rest represent costs and investments. Price has a clear, measurable impact on sales and a company's profitability. Likewise, it's also the variable that enables a faster and easier response unto the competition, given that changes in prices generates an immediate effect on consumers' purchasing behavior and, therefore, upon sales.

Managers must address diverse issues during their decision-making on prices in the international realm:

- Which factors must be kept in mind when establishing the international price policy?

- What role should the price policy play on the strategy and competitive positioning the company develops on an international level?

- Should the price policy be adapted to the specific characteristics of each market, establishing price differentials between countries, or rather should it be coordinated and standardized across all markets?

- What role can in-house prices between the parent company and its subsidiaries play? The so called *Transfer Pricing;* it relates to the setting of the price for goods and services sold between controlled (or related) legal entities within an enterprise. For example, if a subsidiary company sells goods to a parent company, the cost of those goods paid by the parent to the subsidiary is the transfer price.

In general, three factors are pinpointed as those with a critical impact on establishing international prices: costs, market demand and competition. To these basic factors we can also add others, like the company's objectives, the positioning of its brands, regulations and legal restrictions. Evidently, these are general concepts that also apply to the domestic market, though other important aspects intervene in the international sphere, such as: market entry strategies that may affect price strategies, international coordination of prices between countries, transfer prices between the parent company and its subsidiaries, currencies and inflation differentials between countries and specific tariffs and taxes and exchange rates.

Costs are a factor of major importance because all companies must cover these for survival. Costs corresponding to exports and domestic sales may differ, depending on the products' destination and any adaptations implemented. If a product requires modification to adapt it to the foreign market, then surely its costs will increase. Likewise, if the product to be internationalized is a simplified version of the same product aimed at the domestic market, production costs for export will be lower. Furthermore, it is critical to have a realistic pricing of costs for both domestic and export

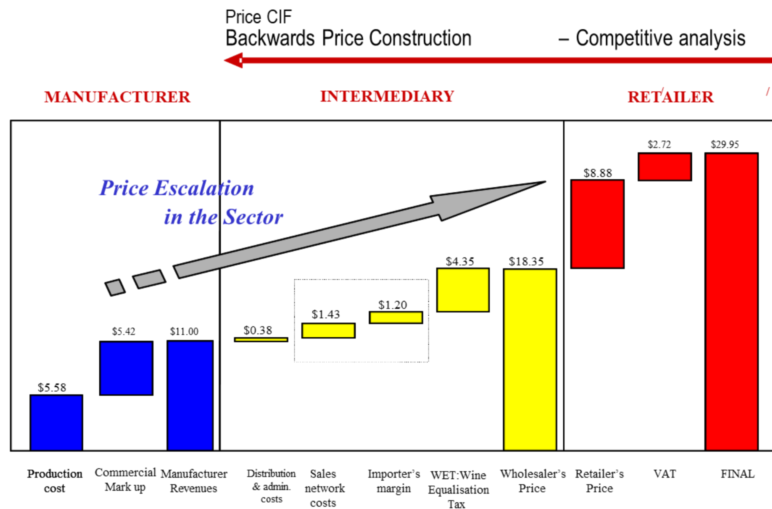
products. For example, most domestic *marketing* expenses are not allocated to exports, in these sense that the latter, in general, do not benefit from this expense. In addition, sales abroad must generate sufficient benefits to cover the export department's operating costs. Normally, to a product's cost must be added logistical costs (transport, logistics and documentation) and product distribution costs (agents' commissions, distributors' and retailers' margins) that must be added to its prices to get a profit from sales. The result is usually a higher price abroad due to this "price escalation".

Another factor that is even more important than costs when establishing prices is what the market can pay and is willing to pay. Demand itself sets a ceiling, a maximum price, above which it will be difficult to sell the product. Likewise, demand, in turn, is determined by the consumers' acceptance of a product, perception of its value and income level. On another hand, consumers from different countries have different price sensibilities, which affects the price elasticity of demand. Based on these criteria, companies must establish prices based on consumer demand and purchasing capacity, which depends on their income. A third important aspect for setting prices is the competition. The number of competitors, their size and strength, and price strategies are different in each market. Some sectors are very sensitive to the prices of the competition. In consumer products, the competitive rivalry is also affected by the concentration of the distribution. In countries with a high degree of development and concentration of the distribution, there is also an important penetration of distributor brands (*Retail brands or Private Label brands*). The concentration of retailers as well as the growing penetration of retail brands are mechanisms that pressure manufacturers, who are obligated to establish more attractive price policies and discounts to maintain their market share.

Setting prices according to the competition requires a thorough knowledge of the margin structures across the different links of the distribution chain. In a field study of the target market, a manager can easily know the retail price of imported products (for example, through a *store-check* in the foreign country), which companies are the importers and even each of their market shares in the country (for example, using Nielsen, Euromonitor or Statista). Reports on prices of different brands and formats in a given category in a specific country can also be requested from consultants and market research companies. Official Export Promotion Agencies, such as ICEX in Spain, also offer this type of service among its personalized services.

What is in reality difficult to know is the prices at which competitors sell products to retailers or importers-distributors, to therefore be able to establish price policies according to the competition. Aggregate analyses of statistics on imports may present the average prices of a given product category from a specific country (for example, a liter of Australian wine in the United Kingdom), but offer nothing more in relation to import prices of different companies and brands. Furthermore, it is highly unlikely for distributors-importers, wholesalers or retailers to offer information on their margins. In this regard, the manager´s experience in a given sector usually counts with data that allows for effectuating "*reverse pricing*" also called "backwards price construction", which is nothing more than inverting the pricing escalation process, but applying it to competitors' products. Figure 4.4 shows an example of pricing by an Australian wine exporter in a given country.

Figure 4.4



We must mention the increasing impact of the Internet for establishing prices, especially in the consumer goods market, as there are many international platforms that publish product offers. In this sense, the Internet is an indispensable reference source for a company, given that currently many consumers check product prices online, even if they later effectuate their

purchase *offline* (known as the ROPO trend: *Research Online, Purchase Offline*). The opposite could also be possible: *Research Offline*, *Purchase Online*.

One example is the portal www.wine-searcher.com (the world's most visited wine website, with over 25 million visits annually), that provides updated info on the retail price of over 3 million wines at 9,000 establishments worldwide. Also, the APP Vivino offers ratings and prices of thousands of wines worldwide. Finally, for companies to develop an *Omnichannel* strategy, it's important to coordinate its *online* and *offline* prices. For example, Zara's online stores in different countries (a total of 85) offer the same prices and the same products as in the physical stores.

Last of all, in addition to costs, demand and competition, other factors affect price setting, like exchange rates, inflation differentials, tariffs and other legal regulations.

4.2.1. Price policy and international competitive positioning

A company can develop an advantage strategy based on costs or on differentiation. A low-cost company generally competes in terms of costs, offering the products at a low cost with the goal of obtaining larger market shares. However, it is difficult to maintain a competitive advantage in the long term based on prices and costs and, particularly, for companies located in developed countries. In this regard, the best option to be competitive in international markets is through a strategy based on product quality and innovation, leveraged on brands with an international dimension. Diverse empirical studies have demonstrated that the most high-impact factor on a company's results in the face of its competitors is not price, but rather the perceived quality of its brands and products.

Here, tangible product criteria, like quality, technology and innovation, are a necessary condition, but in many sectors, are insufficient. Within the current international competitive context, the goal for companies is not going to be manufacturing products at a low price. The idea is to create value, competitive advantages that will be sustainable in the long term, which makes us think more in terms of creating brands than in cost advantages. In these cases, the price policy must be aligned with and reinforce a brand's positioning in terms of quality and prestige. Sectors like fashion, cosmetics and perfumes, fine watchmaking and, in general, luxury brand items, set their global prices in terms of their brands' positioning.

4.2.2. Standardization, adaptation and coordination of the price policy

Given the differentials in terms of costs, competitive factors, distribution structures, and power-related differences in purchasing capacity of countries, the price theory suggests that a company may improve its results by applying a strategy based on price differentiation, which enables it to adapt the price offered in each country to local conditions. Within the debate on standardization or adaptation of the *marketing mix* variables, most empirical studies have shown that price is the marketing variable that is the least standardized. More so, in those geographic areas where economic and monetary integration processes try to eliminate many of these differences, as is the case of the European Union, many of these differences continue to exist and are relevant.

However, one of the dangers of having different prices across countries for a same, standardized product is parallel imports, even more so in the case of international distributors, which are highly concentrated and have an enormous purchasing capacity, which may easily take advantage of arbitrage or centralize their purchases in a country with lower prices. This way, the greater the differentials in terms of prices in different countries, the greater the incentive for specialized distributors, importers or *brokers* to perform parallel imports. These are imports and international movements of products outside of authorized distribution channels "officially" established by a company and that escape the control of the manufacturer. These "unauthorized" importers stock up on products in countries where they are sold at lower prices to later resell these in countries with higher prices.

Then, should the price policy be adapted to the specific characteristics of each market, establishing price differentials between countries, or rather should it be coordinated and standardized across all markets?

As we have mentioned, price policies tend to be adapted, to a great extent, to international markets, though this does not mean that it is unnecessary to harmonize and coordinate the price policy on an international level. The degree of harmonization will depend on the degree of centralization and decentralization of the corporate organization. Also, as the remaining *marketing* variables are globalized, there is usually a greater coordination of price policies to seek coherence with the global image of brands and products.

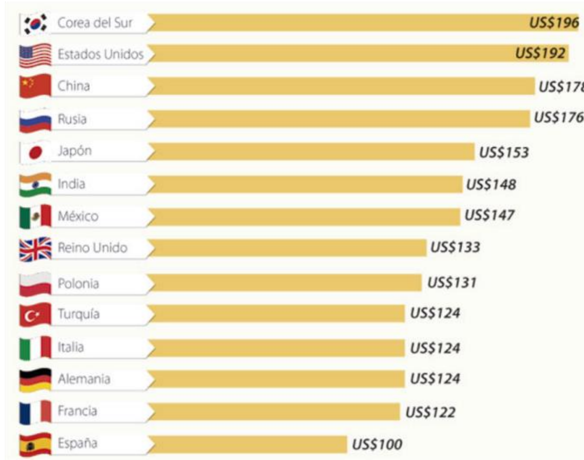
However, despite the fact that the corporate headquarters establishes the general price strategy, the respective subsidiaries are usually allowed to implement the necessary adjustments to adapt to the market's current situation: excesses of stock capacity that require price reductions, circumstantial changes in structures affecting costs, tariffs and taxes, etc. In general, in highly globalized countries, the headquarters sets basic guidelines to which subsidiaries must adhere, with some flexibility within upper and lower limits.

An example of this, as mentioned before, is Zara's worldwide price policy. In general, the chain applies a high degree of standardization in its entire *marketing mix*, from its product lines to its strategy for selecting locations and designing its stores and window shops. Regarding advertising, this dilemma is inexistent, given that the chain hardly implements convention communication campaigns. However, the price differentials for the same Zara product in different countries are obvious. According to a study carried out by the investment bank Morgan Stanley and the consulting firm AlphaWise in 2015, comparing about 7,000 Zara references in 14 markets, it was observed the South Korea and the United States had prices that almost doubled those of Spain. Furthermore, using Spain as the base 100 and observing the exchange rates at the time the study was carried out (the dollar and pound were strong against the euro then), Zara clothes items were between 22% and 24% more expensive in France, Germany and Italy; almost 50% more expensive in England and over 75% more expensive in Russia and China (see Figure 4.5).

Figure 4.5

Standardization vs. adaptation & Coordination (IV)

Zara prices around the world: Spain = 100



Source: Morgan Stanley Research and AlphaWise, April 2015.

For the Inditex Group, the European market is the base reference for setting its price policy. There is a certain discount in Spain and Portugal, and for the remaining cases each country and items are studied when setting prices. To analyze differences, factors taken into account include consumer taxes in each country (the same costs are not incurred when an item is sent from Spain to Andorra or Singapore) and taxes on imports, as well as other issues related to the local population's purchasing capacity and the competition. However, and according to the company itself, these arguments assume a relative relevance when setting prices, given that the price strategy is more related to the positioning sought by the chain in each country than with costs.

In other words, even though prices differ from the same product in each country, we could argue that the price positioning policy is the same worldwide with the exception of Spain and Portugal, where the brand is still positioned as a selective *mass-market*, though its intention is to gradually "*move*" toward the premium segment. Zara's objective is to maintain the same commercial positioning in all markets: "*quality fashion and design at attractive prices*". The idea is for the perception of the brand to be the same, independent of operating costs and taxation on the goods in each country. Said differently,

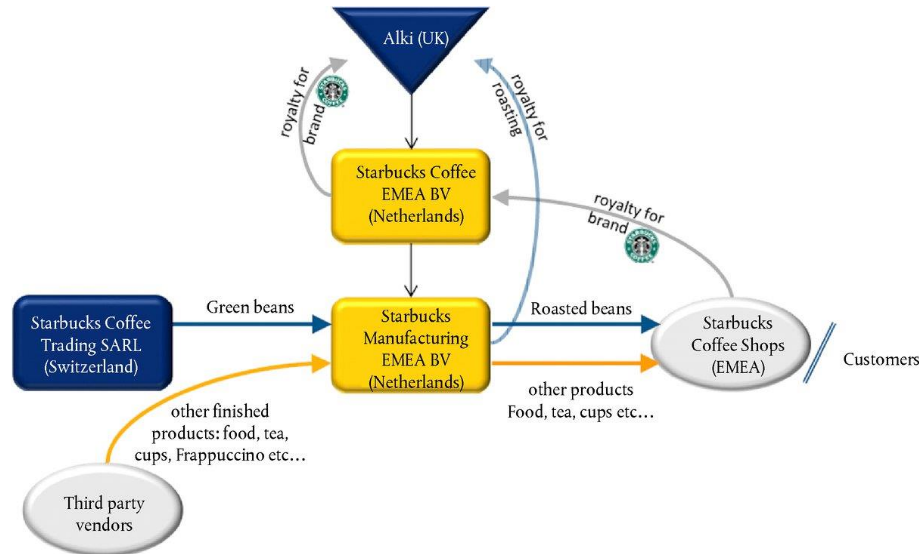
the prices are set according to the brand image sought for each specific country.

Another mechanism for coordinating price decisions are the so-called *internal transfer prices*, which are the prices at which different units or subsidiaries of the same company purchase and resell their products and services. Different options exist for setting transfer prices: basing them on actual costs, standard costs, modified costs, market price, negotiated price, etc. The OECD recommends using the *arm's-length price*. The price should be set on the basis of market conditions, though in practice and as a general rule, transfer prices seek to minimize taxation costs of import-export operations between a parent company and its subsidiaries, and between these subsidiaries themselves.

So, the impact of transfer prices on a company's international competitiveness extends beyond its price policy, given their significant tax implications. First, by determining the payment of taxes and customs tariffs in such a way that an effective transfer price system would minimize all the taxes and tariffs the company must pay. Second, we must point out that transfer prices must also serve to reduce the impact of exchange rate fluctuations, channel investments, repatriate capital and globally manage the company's cash-flow needs. An example of the transfer price mechanism related to intellectual property is shown in Figure 4.6 below. This Figure is based on the description of the transfer pricing report issued by the European Commission in relation to the Decision (EU) 2017/502 of 21 October 2015 in relation to the tax ruling practices in the Netherlands as well as all rulings related to Starbucks Coffee EMEA BV (hereinafter: 'Starbucks Coffee BV') and Starbucks Manufacturing EMEA BV (hereinafter: 'SMBV'), both companies indirectly controlled by Starbucks group.

Figure 4.6

Structure of Starbuck Group in Europe (Starbucks Coffee EMEA BV and Starbucks Manufacturing EMEA BV) for IP - Intellectual Property - Tax Planning Strategies



Fuente: Official Journal of the European Union, L 83/38, 29.3.2017.
Note: Alki (U.K) is a Limited Partnership Company fully controlled by Starbucks group.

When European Union regulators started digging into the tax practices of Starbucks, they asked a lot of questions about a little-known business in London that the American coffee chain had operated for years: Alki LP (U.K).To EU authorities, the business was a mysterious opaque box. Yet the entity, Alki L.P., seemed to serve a vital role: helping Starbucks slash its taxes in the Netherlands simply by collecting payments for a coffee bean roasting recipe. Shortly after regulators publicly aired their concerns late last year, top executives at Starbucks dissolved Alki L.P. On October 2015, the European Commission ordered that Starbucks pay up to 30 million euros, or $34 million, in back taxes to the Dutch government, a ruling with potential implications for thousands of corporate tax structures across the region. The commission accused Dutch authorities of making an illegal fiscal deal that allowed Starbucks to cut its Dutch tax bill, in part by moving large amounts of profit to Alki[3].

[3] The New York Times: "European Inquiry Focuses on a Mysterious Starbucks Business", October 21st, 2015.

5. Decisions on the international marketing mix: distribution and communication

After this analysis of two of the four international *marketing-mix* variables (product and price), we will now analyze the remaining two variables: distribution and communication. In this section, we'll study **distribution**, which is a key decision area in the international *marketing-mix* policy, as well as a suitable **communication** policy, with a role analogous to national activities: to communicate with clients to offer them the information they need to make purchase-related decisions, and to create a good brand image.

5.1. External determinants of the distribution channels

According to Hollensen and Arteaga (2010), five external determining factors affect distribution channels:

1. ***Characteristics of the client.***

The end client or final consumer is the cornerstone of any channel's design. Therefore, decision-making on distribution must take into account volume, geographical distribution, purchasing habits, preferences in relation to the retail premises, and consumer groups' use patterns and habits.

2. ***Type of product.***

The products' characteristics play a key role in determining the distribution strategy. For example, for low-cost, high-rotation convenience products, an intensive distribution network is required, but it is neither necessary nor desirable for the distribution of prestigious products to be

intensive, wherefore the manufacturer may shorten and reduce its channel. Transport and storage costs are also critical distribution factors.

3. ***Nature of the demand and geographic localization.***

Clients' perceptions of specific products may force the modification of distribution channels. These perceptions are influenced by the clients' income and experience with the product, final usage, position in the life cycle and the country's stage of economic development. Furthermore, a country's geographic localization and transport infrastructure development may also impact decision-making on this channel.

4. ***Competition.***

The channels used by competitors' and substitute products are important because the channel's organizations that serve the same market frequently compete against one another. Therefore, consumers may expect to find certain products in specific stores (especially in specialized outlets) or have become accustomed to purchasing certain products in given places. In addition, local and international competitors may have agreements with the main wholesalers of a foreign country in such a way that they create efficient barriers, resulting in the exclusion of the company from key channels. The alternative consists of using a completely different focus in terms of distribution compared with the competition and thereby develop a competitive advantage.

5. ***Local legal regulations and business practices.***

A country may have specific laws that prohibit the use of specific channels or intermediaries. Furthermore, local business practices may interfere with efficiency and productivity, or obligate a manufacturer to turn to a distribution channel that's longer and wider than desired.

5.2. The structure of the distribution channel

To determine the distribution channel's structure, it is necessary to analyze some characteristics that we'll explore below, like market coverage, channel length, selection of intermediaries, distribution agreements, motivation, control/cost ratio and integration level.

5.2.1. Market coverage

The market's coverage offered by a member of the channel is important. The term "coverage" is flexible and refers to the geographic zones or number of commercial premises in a country. Yet, independently of the criteria used to define market coverage, the company must create a distribution network (concessionaries, distributors and retailers) to attain its goals as regards to coverage.

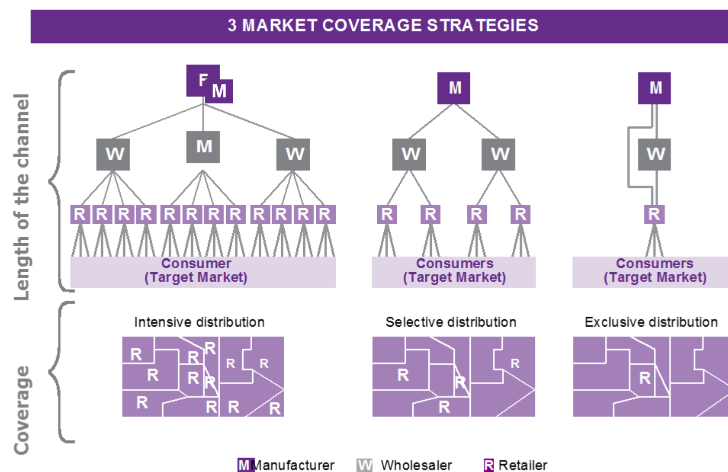
Three different focuses exist, as shown in Figure 5.1:

1. *Intensive coverage*: requires product distribution through the highest possible number of types of intermediaries and the greatest possible number of individual intermediaries within each type.
2. *Selective coverage*: implies the use of a reduced number of intermediaries for each zone to be penetrated.
3. *Exclusive coverage*: implies the selection of a single intermediary in a market.

Figure 5.1

The Structure of the Distribution Channel (I)

3 Strategies of Market Coverage and Channel Length



Source: Hollensen & Arteaga (2010).

A channel's coverage (amplitude) can be identified over the length of a continuum that runs from wide channels (intensive distribution) to narrow channels (exclusive distribution).

5.2.2. Length of the channel

It is determined by the number of levels or different types of intermediaries. The longest channels, those with several intermediaries, tend to be related with mass distribution convenience goods. Figure 5.2 shows the principal determinants of the channel's length or width.

Figure 5.2

The Structure of the Distribution Channel (II)

Factors that influence the coverage of the channel

Factors	Channel Length: Intensive distribution ↔ Selective distribution ↔ Exclusive distribution		
	Intensive distribution	Selective distribution	Exclusive distribution
Product type	Convenience products	↔	Specialties
Product life cycle stage	Mature products	↔	New Products
Price range of the product	Low cost (discount) products	↔	High price products
Brand loyalty	Brand-preferred products[2]	↔	Brand-insisted products[1]
Product purchase frequency	High frequency	↔	Low frequency
Product uniqueness	Regular products	↔	Distinctive products
Sale requirements	Self-service	↔	Personal Attention Products
Technical complexity	Technical products	↔	Non-technical products
Maintenance requirements	Limited maintenance products	↔	Maintenance intensive products

(1) Brand-insisted customers will understand that they are those who buy only their favorite brand, i. e. they will not easily buy a product from another brand (e. g. tobacco or alcohol brands). (2) Conversely, brand-preferred customers are those who tend to buy their favorite brand and will devote some resources (time and money) to buy a particular brand (e. g. daily products or snacks), but only to a limited extent.

Source: Hollensen & Arteaga (2010), p. 584.

5.2.3 Selection of intermediaries

The most important criteria (qualifications) for choosing foreign distributors are grouped into five categories: company's financial situation, product's key factors, marketing capabilities, commitment and facilitating factors, as shown in Chart 5.1.

Chart 5.1

Channel of Distribution Management & Control (III)

Criteria for evaluating Foreign Distributors

Strengths Finance & Business	Factors related to the Product	Marketing Skills	Commitment	Facilitating factors
• Financial strength • Ability to finance initial sales and subsequent growth • Ability to achieve additional funds • Ability to give proper promotion and finance advertising • Experience in the product and market • Ability to maintain inventory • Management team capacity • Reputation among customers • Ability to design and execute MKG. plans	• Quality and sophistication of product lines • Complementarity of the products: synergy or conflict • Familiarity with the product • Technical knowledge • State of physical facilities • Patent security	• Experience and sophistication of marketing • Ability to provide good geographic coverage • Experience with the target customers • Customer Service • Delivery on time • Sales staff • Market share • Participation in trade fairs • Membership of employers associations	• Willingness to invest in the training of sellers • Commitment to achieve goals • Positive attitude towards the product program of the manufacturer • Exclusive attention to the product • Willingness to contribute advertising resources • Willingness to abandon the product lines of the competition • Volatility of the product portfolio • Percentage of business from a single seller • Willingness to maintain sufficient inventory	• Connections with influential people (network) • Experience / labor relations with other fabrics. exporters • History with previous providers • Knowledge of the business in question • Relations with AA.PP. • Knowledge of English

Source: adapted from Hollensen & Arteaga (2010).

After drafting a list of all of the important criteria, it will be necessary to select a few for a more specific evaluation, comparing potential candidates against one another and with regards to determinant factors.

5.2.4. Contracts (distribution agreements)

When the international company has identified a suitable intermediary, it will draft a distribution agreement abroad, though prior to signing the definitive contract, it is advisable to personally visit the potential intermediary. The agreement may be relatively simple, but given the numerous differences between markets/countries, there are certain elements that are critical, as shown in Chart 5.2 below.

Chart 5.2

Channel of Distribution Management & Control (IV)

Elements to be included in an agreement with Distributor

- Names and addresses of both parties
- Date of entry into force of the contract
- Contract period
- Clauses on extension and termination
- Description of the sales territory
- Systems of discounts and/or commissions and payment terms (how and when)
- Clauses to review discounts or commissions
- Resale pricing policy
- Maintenance of adequate service facilities
- Restrictions to prohibit the manufacture and sale of similar and competitive products
- Adjudication of responsibilities for negotiations and / or pricing of patents and trademarks
- Possibility of assignment or transfer of contract responsibilities and any limiting factor
- Designation of the country and state of the jurisdiction of the contract in case of dispute

Source: Llamazares et al (2013).

5.2.5. Termination of the contract

Typical grounds for termination of a contract with a channel's member (distributor) are as follows:

- The international company has created its own sales subsidiary in the country.
- The international company is not satisfied with the results obtained by the intermediary.

In any case, open communications must always take place for the transaction to proceed without obstacles. For example, compensation may be granted to the intermediary for its investments, or visits may be made together to leading clients to assure them that services will continue uninterrupted.

We must also bear in mind that in some countries (the UE, for example) termination of contract prior to its ending date with an inefficient intermediary can be quite costly (payment of compensation) if none of the grounds that justify termination have occurred.

5.2.6. Motivation

The motivation process of the channel's members is impeded by cultural and geographical distances and because these intermediaries do not belong to the company, but instead are independent companies, wherefore they have their own objectives that do not always correspond with the manufacturer's. Therefore, the international company must offer both monetary and psychological rewards, bearing in mind that the product's potential earnings have a high impact on intermediaries. If the sales margins are scarce and achieving sales is difficult, the intermediaries will lose interest in the product and will concentrate on others that provide them greater benefits in return for their sales efforts, given that they obtain sales and profits from their own product portfolio and the services of different companies.

5.2.7. Degree of integration

Control can also be implemented through integration. Integration of the channel is the process of incorporating all channel members within a single system and joining them under a single leadership and shared goals. There are two types of integration:

1. Vertical integration: channel members are controlled on different levels, whether through a contractual relationship (formula used by Mango, for example, with some suppliers and through franchisign), or through ownership (as occurs with Zara, that besides controlling most of its stores, also owns factories). Also, this type of integration can adopt two formats: forward or backward. An example of this is Amazon, which to facilitate its introduction in France and to reduce delivery costs, acquired an important percentage of the courier company Colis Privé.

2. Horizontal integration: the company seeks to control the channel members on the same level; in other words, the competitors. This type of integration frequently occurs in technology companies, for example, the acquisition of the social network Instagram by Facebook. Another example is the British company Just Eat, a global leader in the home food delivery sector, which in 2016 acquired La Nevera Roja, Hellofood Brasil, Hellofood Mexico and PizzaBo, to grow in the markets of Spain, Brazil, Mexico and Portugal, respectively.

Integration may be achieved through acquisitions (ownership) or through relationships based on close cooperation.

The departure point are the conventional marketing channels, in which the channel's composition is given by its independent members and are clearly defined. Figure 5.2 displays an example of vertical integration:

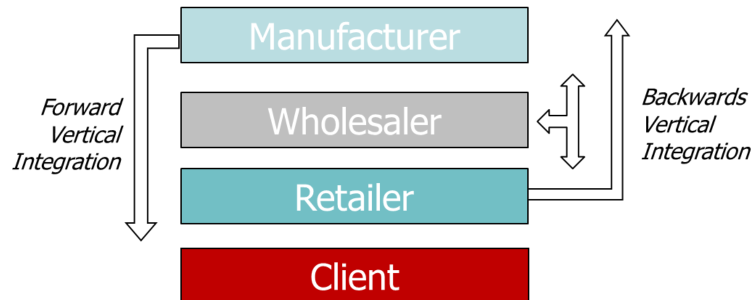
- A manufacturer can be performing forward integration when it seeks to control the companies on the channel's wholesale and retail levels.
- A retailer can be performing backward integration, trying to control business on the wholesaler and manufacturer levels.
- The wholesaler has two possibilities: it can perform both forward and backward integration.

The result of these decisions is a vertical marketing system. In this case, the channel's composition is given by its integrated participants and the channel has high stability thanks to its members' guaranteed loyalty and long-term commitments.

Figure 5.2

The Structure of the Distribution Channel (III)

Degree of Vertical Integration



Source: Hollensen and Arteaga (2010), p. 586.

Source: Hollensen & Arteaga (2010), p. 586.

5.3. Management and control of distribution channels

When a company initially enters a market, it makes a lot of sense to join forces with local distributors, as these are familiar with the market's distinctive characteristics and most clients prefer to do business with local partners.

Arnold (2000) proposes the following guidelines for international manufacturers to properly select their international distributors and foresee and correct possible potential management-related problems:

- Choose the distributors, instead of allowing them to choose the manufacturer.
- Look for distributors that are capable of developing the markets, and not those with merely a few contacts.
- Treat the local distributors like long-term partners and not like temporary vehicles through which to access the market.
- Support the entry to the market by contributing money, management support and proven *marketing* ideas.
- Maintain the strategic control over *marketing* from the start.
- Make sure that the distributors provide detailed data on *marketing* and economic results.
- Establish ties between national distributors as soon as possible.

Problems with control are substantially reduced when carefully choosing the intermediaries, though it is necessary to obtain this control by developing shared goals, which must be agreed to in writing, and that may include some of the following: annual sales volume, market quota growth rate, introduction of new products, fees charged and support in *marketing* communications. Likewise, control must be exerted through periodical on-site meetings.

5.3.1. Control/cost

The control exerted by a member of the vertical distribution channel refers to its capacity to impact decision-making and activities of other channel members. Therefore, it is an important concern for international companies that intend to establish international brands, quality image and coherent services worldwide.

The company must decide the degree of control it wishes to have over each product it markets. The answer is partially determined by the strategic role assigned to each market, but also depends on the types of available channel members, rules and regulations of the distribution activities of each foreign market and, to a certain extent, on the roles traditionally assigned to the different channel members.

Normally, a high level of control is achieved when using the company´s own distribution channel (own stores, franchises, etc.) and own salesforce in international markets, given that turning to third party intermediaries generally provoke a loss of control over the products' marketing strategic decisions.

An intermediary usually assumes certain functions:

- Accumulates inventories.
- Generates demand or sales-related functions.
- Manages logistics and physical distribution.
- Offers after-sales service.
- Provides credit to clients.

To market its products in the end clients' markets, a manufacturer must either assume all of these functions or partially or completely transfer these to intermediaries; in other words, the intermediary may be omitted, but not its functions. A good example is Coca Cola. While it is generally perceived that Coca-Cola runs all its operations globally, the whole process it done through various local channels. The Company manufactures and sells concentrates, beverage bases and syrups to bottling operators. It still however, owns the brand and is responsible for consumer brand marketing initiative. The bottling partners manufacture, package and distribute the final branded beverages to wholesalers, retailers, final clients (for example, bars) and vending partners, who then sell products to consumers.

In most situations, a direct relationship exists between the manufacturer's capacity to control the channel's important functions and the financial resources required to exert this control.

5.3.2. Gray markets

A situation of low control may result in gray markets or parallel imports. These are defined as product import and sales activities through distribution channels in the market that are *not authorized by the manufacturer* and occur when the manufacturers apply significantly different market prices to the same product in different countries. This enables for an unauthorized retailer to purchase the brand's goods, aimed at a market with lower prices, and resell these in another higher-priced market, obtaining a greater profit to the one it could have obtained in the lower-priced market. Gray markets basically exist for high-end products.

For the manufacturer, the specific problem of the gray market is that it results in the loss of motivation of the authorized intermediaries because the gray reseller usually competes only on price and pays little attention to offering *marketing* support and after-sales service, and even sells the products in channels that may damage the brand's image.

Gray markets are fed by many factors of Internet-based business and, perhaps, the most common one occurs between the authorized concessionaries who may obtain benefits or, at least, minimize losses, by selling outside of their assigned area, whether to final consumers or unauthorized concessionaries. In this regard, the Internet makes it possible for companies that operate in a given territory to reach many clients and suppliers, and these may purchase and resell products to unauthorized distributors.

Nevertheless, possible strategies for reducing the gray market could be:

- Seek a legal solution: though the legal option can require much time and be expensive, some companies (for example, the Japanese watch manufacturer Seiko) have opted for filing lawsuits against gray market players.
- Change the *marketing-mix*, which entails three elements:

1. *Product strategy*: consists in moving away from the concept of standardization (same product for all markets) and introducing a differentiated concept with a different product for each major market.

2. *Price strategy*: the manufacturer can alter the factory prices to be paid by channel members to minimize price differentials in different markets. Also, it may reduce the discounts offered for large purchases, thereby reducing the intermediaries' incentive to make larger than necessary orders with the goal of obtaining lower prices and reselling surplus goods in the gray market for obtaining extra benefits.

3. *Warranty strategy*: the manufacturer may reduce or cancel the products' warranty period for products sold in the gray market, in those markets in which this may legally be done. This requires the identification of products over the length of the channel.

5.4. Implications of the Internet on distribution-related decisions

Internet has the capacity to change, in a significant way, the balance of power between clients, retailers, distributors, manufacturers and service providers. This way, some participants in the distribution chain can experiment increased power and profitability, while others suffer the opposite, and they might discover that they have been excluded and lose market share.

Physical distributors and concessionaries (the so called brick-and-mortar retailers) of goods and services that may more conveniently be purchased online are object of growing pressures due to e-commerce.

In this regard, *disintermediation* has been balanced by a force of *reintermediation*, with the evolution of new intermediaries created exclusively for the *online* world. Said differently, that fact that the traditional, physical distributor can be eliminated has resulted in the rise of new types of intermediaries, transforming many companies' value chain.

This disintermediation process, with a growing number of direct sales via the Internet, leads manufacturers to compete against their own resellers, which may cause conflicts in the channel. The relevance of these effects will depend on which of the following four Internet-based distribution strategies the manufacturer will adopt:

- Offering only information on the product via the Internet.
- Handing over the Internet business exclusively to the resellers.
- Leaving the Internet business exclusively in the hands of the manufacturer.
- Opening the Internet business to everyone (manufacturer and resellers).

5.5. New trends in distribution

Diverse aspects must be addressed with regards to new trends in both national and international distribution. Next, we will focus on two of them: *online retail* and smartphones.

- *Online retail. Online* sales are experiencing high growth rates in Europe, the United States and Asia. Worldwide, *online* sales will grow between 10-15% annually over the next five years (Hollensen, 2016) as a result of the ongoing transition of buyers from physical stores to online platforms. To date, consumers feel more assured when making online purchases, in addition to having a greater variety of means by which to access *online* platforms with the surge of portable devices (smartphones, tablets, etc.). Likewise, consumers are expanding the range of products purchased through online platforms, moving from the initial emphasis on items like books or CDs (which may be described with full precision in a web platform) to purchasing fashion goods or gourmet foods, which have "non-digital" attributes and are more related to personal emotions and experiences. In this sense, the *online marketplaces* offer enormous possibilities for distributing products anywhere worldwide.
- *Smartphones*. Together with the generalized adoption of 3G, 4G and 5G technologies, *smartphones* have become an increasingly important tool for the distribution and *marketing* of international brands.

The new mobile *marketing* standard enables programs to run in such a way that consumers can access the same programs and contents in the cloud from any device (PC, laptop, tablet, smartphone or other smart devices), given that the consumer can be using a shared platform. This possibility for working anywhere anytime, regardless of the device used, can change consumers' behavior and drive a transition in the balance of powers of distribution toward its endpoint itself: the final buyer. This fact will generate opportunities for distributing goods and services more directly to the final buyer, likewise presenting growing challenges for the intermediaries positioned between the manufacturers and end buyers. At the end, either manufacturers and retailers need to move toward an omnichannel strategy. For companies, employing the omnichannel model is a necessity to appeal to today's highly connected consumer and target their interest both in-store and across devices.

While today's shoppers are highly connected to mobile devices, they still prefer to shop in-store, which raises a few key points for retailers. The first is that they need to make sure the online experience matches the in-store experience. If a store offers customers the best possible service matched with frequent in-store discounts, the same should go for the online store. There is nothing more frustrating to a consumer than receiving a special promotion that doesn't apply in-store or vice versa. Retailers need to go above and beyond to create an identical experience across a website and a brick and mortar store to achieve a seamless customer experience. Putting customer needs first is crucial

and it's simply unfair to offer an experience that doesn't translate across channels. In this respect, a customer-centric strategy allows companies to understand their audience. For example, it's important for retailers to know where a consumer is based to better target their unique wants and localize their purchases. Furthermore, creating a valuable customer-centric experience requires retailers to communicate key messages and the business value proposition, what will create and reinforce a strong brand identity.

5.6. The communication process

Communication if the fourth and final decision of the international *marketing* program, with a role analogous to national activities: to communicate with clients to offer them the information they need to for decision-making on their purchase. Though the communication *mix* enables offering information of interest for the client and/or customer, in reality it is designed to convince a customer to purchase a product, whether now or in the future.

A diversity of tools exists to communicate with and influence clients. Advertising is usually the most visible element of the communication *mix*, but personal sales, trade fairs, sales promotions, public relations and direct *marketing* (including the Internet and the digital environment) are also part of the possible international communication *mix*.

An important strategic consideration is whether *communications will be standardized on a global scale, or adapted to each country's environment*. Another issue to bear in mind is the availability of media, which vary in different parts of the world.

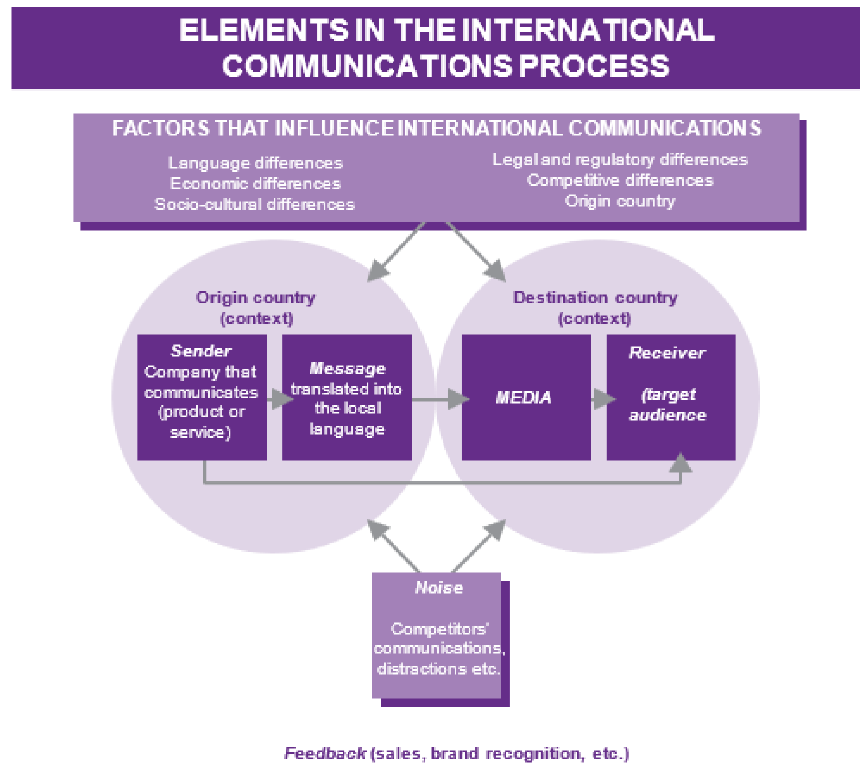
5.6.1. Key attributes for an effective communication strategy

All effective *marketing* communication comprises four elements: a sender, a message, a communication channel and a receiver audience, as shown in Figure 5.3.

For the communication to be effective, the sender must clearly understand the message's objective, the target audience and the interpretation of and response to the message. However, sometimes the audience cannot clearly understand what the sender intends to say about the product because of the noise generated by cultural barriers and competing manufacturers when issuing analogous, yet often contradictory, affirmations, about its products.

Another important point to consider is the level of adjustment between the media and the message. For example, a complex and long message may be better adapted to press than to visual media, like television or film.

Figure 5.3



Source: Hollensen & Arteaga (2010), p. 622.

5.6.2. Other factors that impact communication

In addition to the elements that intervene in the national communication process, in international markets there are many differences that impact the means for communicating, such as:

- *Language differences*. An advertising slogan or text that is effective in one language may mean something completely different in another, even in the same language. Therefore, trade names, sales presentations and ads used by companies in national markets may require adaptations and

translations for use in other markets. There are many examples of poor translations of slogans and brand names, like, for example, that of Vauxhall Nova of General Motors, whose commercial name is perhaps not the most suitable for Spanish-speaking markets because it clearly sounds like "it doesn't work" ("no va" in Spanish), when pronounced. Or, to continue with examples of the automobile industry, two models that required adaptation to Spanish were the Mazda Laputa ("the bitch") or the Nissan Moco ("mucus").

- *Economic differences*. Contrary to what happens in industrialized countries, it is possible that in developing countries there are fewer televisions or lower Internet bandwidth or speed. Furthermore, in countries with low literacy levels, it is possible that written communications will be less effective than visual or verbal communications.

- *Sociocultural differences*. Cultural dimensions (religion, attitudes, social conditions and education, the role of women, the family, etc.) will affect the individuals' perception of their environment and interpretation of signs and symbols. For example, the use of color in advertising is usually sensitive to cultural norms. In many Asian countries, white is associated with death, wherefore the advertising for a detergent that makes clothes whiter requires alterations in its promotional activities in, for example, India.

- *Factors related to rules and legislation*. Local advertising rules and sector-specific codes of ethics impact the choice of media and the contents of promotional materials. Many governments have strict regulations on contents, language and sexism in advertising, and even on the types of products that may be advertised. Products derived of tobacco and alcoholic beverages are subject to the most regulations in terms of their promotion. Despite this, their manufacturers have not given up their promotional efforts in other means of communication such as billboards or magazines.

- *Competitive differences*. Given that the competition varies in each country as to the number of competitors, size, type and promotional strategies used, the company might need to adapt its promotional strategy and timing of its efforts to the local environment.

5.6.3. Communication tools

This section will present an in-depth analysis of different communication tools, like advertising, public relations, sales promotions, direct *marketing* and personal selling (Figure 5.4).

Figure 5.4

Figure 3.22
TYPICAL COMMUNICATIONS TOOLS (MEDIA)

General qualifications / Selection criteria

Advertising	Public relations	Sales promotion	Direct marketing	Personal sale
Newspapers	Annual reports	Rebates and price discounts	Direct mail/ database marketing	Sales presentations
Magazines	Corporate image	Catalogues and brochures	Telemarketing	Salesforce management
Journals	House magazines	Samples, coupons and gifts	Internet marketing	Exhibitions and trade fairs
Directories	Press relations	Competitions and contests	Mobile marketing	
Radio	Public relations		SMS	
Television	Events		Viral marketing	
Cinema	Lobbying		Social media (Facebook, Linkedin, Twitter, etc.)	
Outdoor	Sponsorship (product placement)			
Internet	Ambush marketing			

Source: own elaboration based on Hollensen & Arteaga (2010 and Hollensen (2016).

5.6.4. Advertising

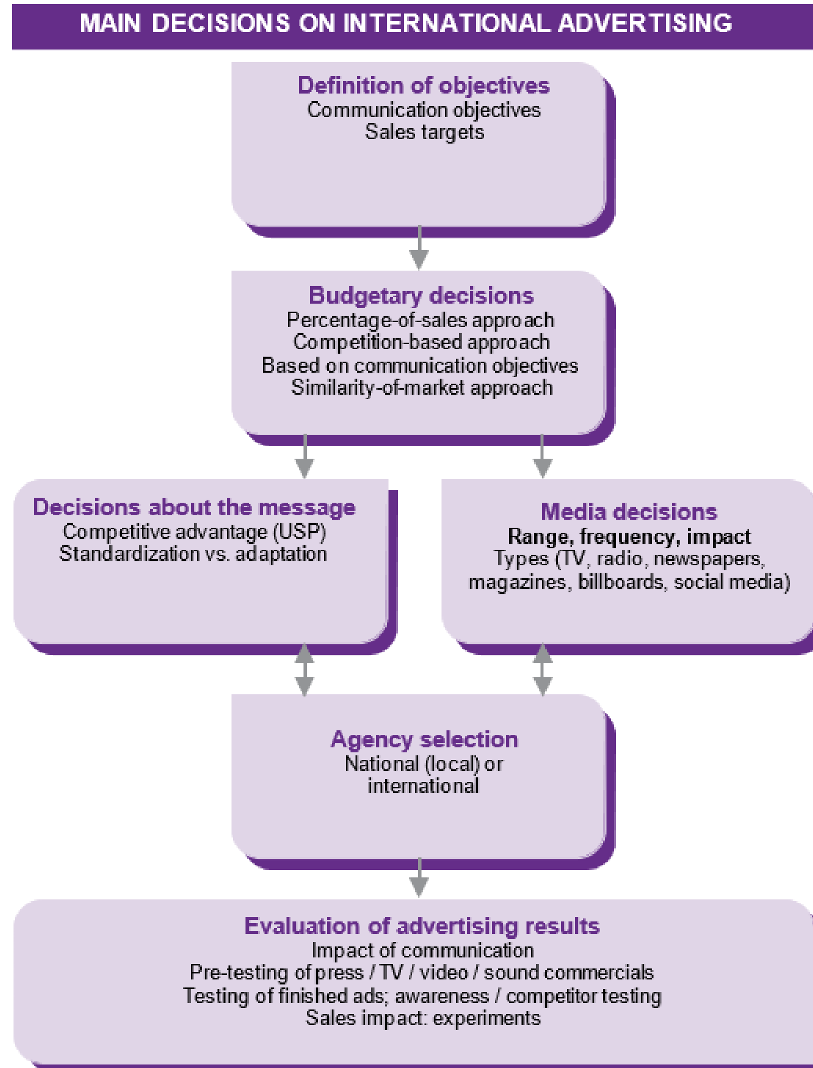
Advertising is one of the most visible forms of communication. Oftentimes, it is the most important element of the communication policy for consumer goods, a market with a great number of low-volume consumers reachable through mass media.

In this regard, we must refer to advertising in both *online and offline* marketing and which should be managed in a coordinated and complementary manner.

The media outlets to be used for advertising campaigns must be selected at the same time as the message is developed. One key issue when selecting the media is whether a mass or a targeted approach will be used. Mass media (television, radio and press) are effective when a significant percentage of the public is comprised of potential clients, though this percentage varies considerably in each country for most products, according to, for example, income distribution.

The choice of media to be used in a specific campaign usually derives of a given idea of the demographic and psychological characteristics of the target market, the regional presence of a product, the seasonality of sales, etc. The chosen media should result from a careful analysis of local advertising goals, the attributes of the media and the characteristics of the target market.

Figure 5.5



Source: Hollensen & Arteaga (2010), p. 625.

With regards to *online* advertisingwe must highlight the following aspects:

- Advertising in search engines (SEM or *Search Engine Marketing*): Internet search engines have revolutionized how users find information online, to such an extent that any company that wants to have digital presence must work hard to appear in the initial results of any relevant search. In Spain, the most-used search engine, with a market penetration exceeding 90%, is Google, but we need not overlook the work that may be done in Yahoo or Bing. Though Google is practically a monopoly in Europe, in China the most-used search engine is Baidu, and in Russia it is Yandex.

Companies must know these details when working on their advertising for search engines. There are two types of positioning strategies that must be kept in mind.

- SEO (*Search Engine Optimization*): Search engines order the results according to the relevance given to a web, depending on search terms. For this reason, any company must be careful with its contents and apply different SEO strategies to position itself organically in a search engine. This means appearing in the initial results displayed that are unpaid.
- PPC (*Pay Per Click*): Most search engines offer an advertisement service, for those companies willing to pay to appear in highlighted positions (and displayed as advertising) when a user's search may be relevant for a company.

- *Display* publicity: Its use and effectiveness have declined in recent years. Advertising banners were like road billboards in the Internet. Their effectivity has resurrected with the arrival of *remarketing* and the use of cookies in web browsers. When a client visits a web that works *retargeting*, a cookie is installed in the user's browser, and the advertising of the page visited can continue to "haunt" the user for some time, until the *cookie* expires or the user deletes it from its browser's cache.
- Social networks: These also serve as a advertising support for companies, and may be used for *branding* campaigns or direct sales. For example, HBO, one of the most popular cable television channels, launched at the end of the year 2016 and start of the year 2017 an aggressive advertising campaign through social networks so that the maximum possible users would know of its arrival to Spain and its *streaming* service for series and movies.

- Member networks and *influencers*. Though it might seem that these don't have much to do with each other, members and *influencers* work in similar ways. Inserting advertising in a sector's relevant websites may be an ideal strategy for winning visits with possibilities for conversion. Bloggers or *influencers* use their followers to promote the products of companies that pay them to do so. This is always in a somewhat invasive way. The member or *influencer* may be paid according to conversion (habitual for memberships) or by campaign (the practice of *YouTubers* and bloggers).

5.6.5. Public relations

Mouth-to-mouth publicity is not only inexpensive, but also highly effective. Public relations try to consolidate a company's image by achieving and promoting favorable treatment in media. The function of public relations is that of communication in *marketing* that designs programs to obtain the acceptance and understanding of the public and must be considered an integral part of its international *marketing* efforts (Hollensen, 2016).

Public relations activities imply both internal and external communications, considering that communication is important to create a suitable corporate culture and reputation.

In a more market-oriented way, public relations target an influential target audience, though relatively small, of editors and journalists that work for newspapers and magazines or the broadcasting industry aimed at clients and other fields of interest for the company. The power of this tool is easily appreciable in the world of wine, where experts count with a very powerful pull. A clear example of this is the effect on the retail price of wines of wine reviews published by the wine critic Robert M. Parker, one of the most acclaimed in the world of winemaking, An upward climb of a wine in his scale of 100, especially when it enters the range >90, results in the immediate increase of its retail price. As an example, in the 2015 edition, the Angelus 2005 wine obtained 100 points, which in a two-month period translated into a price increase that reached 39%. In the same sense, and in the world of wine, we can also highlight the *Peñín Guide*.

According to Hollensen (2016), when the target public is small, it can be relatively inexpensive to reach it. Several public relations methods may be use, among which we can point out:

- Contribution of prizes in different events.
- Sponsorship of events (sports, cultural, etc.).
- Press releases with news about products, factories and employees of the company.
- Announcements of the company's promotional campaigns.
- Exerting pressure on the government and/or official institutions (*lobbying*).

In recent years, the figure of the *influencer* has come into play, which enables, through public relations, reaching a larger public through its capacity to promote trends among its target public, which may be quite large.

5.6.6. Sales promotion

Sales promotions are those activities that do not directly fit within the category of advertising or personal sale. Sales promotion is related with the so-called BTL (*below the line*) activities, like displays and demonstrations at sales points, brochures, free trials, contests and awards, as well promotions like "2 for 1" (two for the price of one).

Sales promotions are short-term efforts that basically target the consumer and/or retailer to achieve specific objectives:

- That a consumer tries the product or purchases it immediately.
- Attract the consumer to the store.
- Encourage retailers to use displays at the product's point of purchase.
- Promote the product's offer in stores.

The success of the sales promotion depends on the adaptation to local legislation, which may impose significant restrictions and perhaps even restrict the awarding of prizes or gifts. Laws in some countries control the amount of discount that may be offered in the retail sector; other countries require permits for all sales promotions. Given that it is impossible to know the specific legislation of all countries worldwide, international companies must consult local legal advisors and authorities prior to launching a promotional campaign.

5.6.7. Direct marketing

Direct marketing englobes all activities that offer products or services to market segments in one or more media for informational purposes or to obtain a direct response of current or potential clients by mail (traditional and digital), *smartphones* or *mobile marketing*, or through a personal visit.

Direct *marketing* includes direct mail (database *marketing*), telephone sales and *marketing* over the Internet, in a broad sense, applications and portable devices. A series of factors have promoted the fast expansion of direct *marketing* in international markets, such as:

- Technological developments for sending messages via email, which have reduced the costs of distribution of advertisement through direct mail.
- Increase of the costs of other types of advertising and sales promotions.
- Growing availability of good databases and lists of potential clients and/or customers.
- The emerging but growing availability in the entire developed world of interactive television systems.
- Developments of information technology (especially, technology for databases and self-publishing capabilities), which enable smaller companies to generate their own, high-quality direct *marketing* materials.

In this regard, it becomes increasingly important for any company, regardless of its size, to count with an updated, structured and quality database for its direct *marketing* activities, through whichever channel it deems most pertinent. When operating in several countries, the field "language" and "country" of the clients are indispensable for direct *marketing* activities. The difference between a campaign's success and failure may depend on addressing our clients correctly in their language (and when in the same language, adapted to any linguistic diversity).

As regards *Email Marketing*, though years ago it may have seemed that advertisement via email was destined to failure, mainly due to the growth of SPAM (unsolicited or undesired messages), email *marketing* is one of the most profitable direct *marketing* techniques. Its costs are quite low and enable for

"attacking" the customers in the company's database. It is important for any company to consider designing a structured database that allows for basing upon it highly segmented campaigns, and therefore be able to reach any client in any country in his or her language.

With regards to *Mobile Marketing*: the penetration of smartphones in the global population has allowed *marketing* professionals to take advantage of this technology to reach potential customer through new media, from SMS messages to *push* notifications in the smartphone when a client approaches a store or a particular establishment, to alert him or her of an offer, thanks to geolocalization.

5.6.8. Personal selling

Certainly, advertising is a one-way communication process that makes relatively more noise, while the personal sale is a two-way communication process with immediate feedback and relatively less noise. The personal selling is the most effective, yet more expensive, method for selling products. For this reason, it is mainly used to sell to members of the distribution channel and in the business-to-business (B2B) market. However, it is also used in some consumer markets; for example, for automobiles and durable consumer goods. In some countries where labor costs are low, this media is used more often than in countries with high labor costs.

5.6.9. Trade fairs

Within personal sales, we must also mention participation in trade fairs and exhibitions. As concentrated events at which manufacturers, distributors and other suppliers exhibit their products and/or describe their services to current and potential clients and suppliers, other corporate partners and the press, this enables a company to reach, in just a few days, a concentrated group of interested parties, which would normally require months to contact in other ways. Potential buyers may analyze and compare products of competing companies at the same place, and in a very brief time, see the latest advances and make immediate contacts with suppliers and manufacturers.

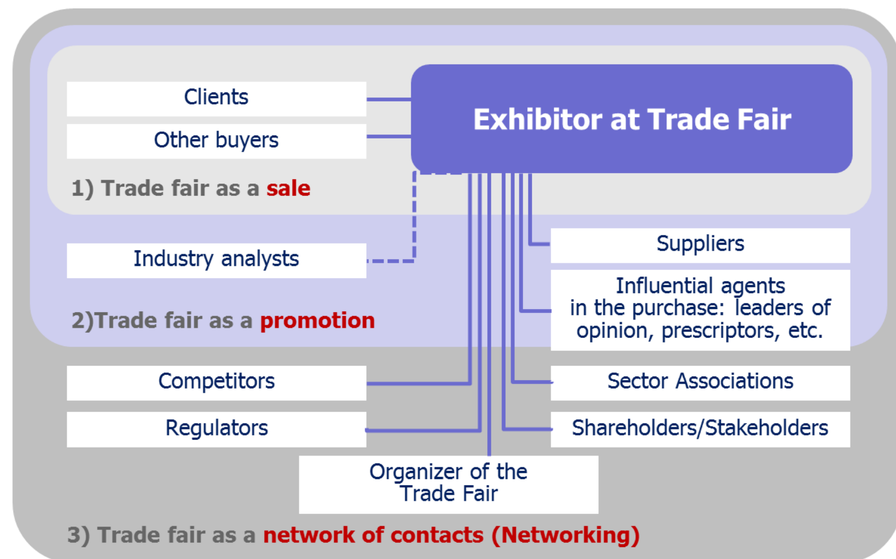
Trade fairs also offer international companies the opportunity to gather information quickly, simply and inexpensively. A company may easily obtain information on the competitiveness of a market which it intends to enter by attending a fair, when it would have been more complicated (and, especially,

more expensive) to obtain it from other sources (secondary information, for example).

The need for participating in trade fairs will to a large extent depend on the type of business relationship intended with a given country. A company that seeks occasional or short-term sales might not consider participating in the fair a worthwhile investment, while in the case of a company that seeks long-term investments, the cost will be assumable.

Figure 5.6 clearly shows that trade fairs are events with many goals that may englobe many interactions between exhibitors and visitors.

Figure 5.6



Source: Hollensen & Arteaga (2010), p. 643.

5.6.10. Communication through the Internet

As to the international communication strategy, the Internet has also changed communications with foreign markets. Thanks to the Internet, it's simpler than ever to communicate a message to a large number of persons, at a

reduced cost, though in more cases it is more difficult for the target public to hear the message above the surrounding noise. A variety of online *marketing* strategies have been developed in recent years, from the most common (web links) to the more expensive (advertising in *banners*) and the most offensive (spam mails, notifications and messages via email or mobile devices). We can expect that, as the Internet evolves, that new strategies and new virtual communication formats will appear.

In the physical market, different communication tools are used during the clients' purchase process. Traditional tools in mass media (advertising in the press, television and radio) may disseminate information on products, and raise awareness, which may result in the consumers' identification of new needs. Other communication elements may be turned to as well, like direct *marketing* and promotions at points of sale. Contrary to *marketing* in the physical market, e-commerce englobes the entire purchase process. In reality, online markets also use traditional mass media for capturing potential clients for the online purchase process.

Internet has radically changed the concept of mouth-to-mouth communication, to such an extent that the risk capital investor Steve Jurvetson coined the phrase "viral *marketing*" in 1997. The term was mainly used to describe the practice of emails via Hotmail that comprised the insertion of Hotmail's own advertising in users' outgoing messages. In this case, each sent email included the additional message "Obtain your private, free Hotmail email address at www.hotmail.com".

Even though it is possible that the initial catalyzer was email, the rise of smartphones, tablets, social networks, *on-line* communities, *chat*rooms, etc., offer the possibility for distributing information at an exponentially faster speed than ever. While mouth-to-mouth *marketing* may require weeks or months to reach 1,000 persons, viral *marketing* may reach hundreds of thousands or even a million persons in just days or hours.

Therefore, viral *marketing* or online advertising are terms used to refer to *marketing* techniques that pretend to exploit social networks and other electronic media to produce exponential growths in "renaming" or brand awareness through viral "self-replication" processes analogous to the spread of a computer virus or an epidemic. It is usually based on mouth-to-mouth with electronic means (eWOM – electronic world of mouth), through Internet-based social networks and the modern services of smartphones to

quickly reach a large number of persons. From the perspective of *marketing*, the process motivates individuals to resend attractive or favorable *marketing* information that they receive by chance.

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6 International branding and strategy

6.1. Introduction

In the current corporate globalization process, the brand appears as a strategic variable of growing importance within the company's strategic decisions for internationalization. That the competitiveness of companies lies in its intangibles is an increasingly undisputed fact, and within these, the brand is decisive (Cerviño, 2002). Numerous reasons justify this affirmation, but these may be summarized into one idea: the only effective antidote against the virus of indifference lies in the rational and emotional attraction between a company and its target publics, which is, specifically, the basic requirement for creating a powerful brand.

As pointed out by Hector Laing, Executive Director of United Biscuits plc, one of the world's largest consumer product companies, and owner of an important portfolio of renown brands: "*Buildings age and become dilapidated. Machines wear out. People die. But what live on are brands*". A powerful argument. It is the true corporate reality of our times.

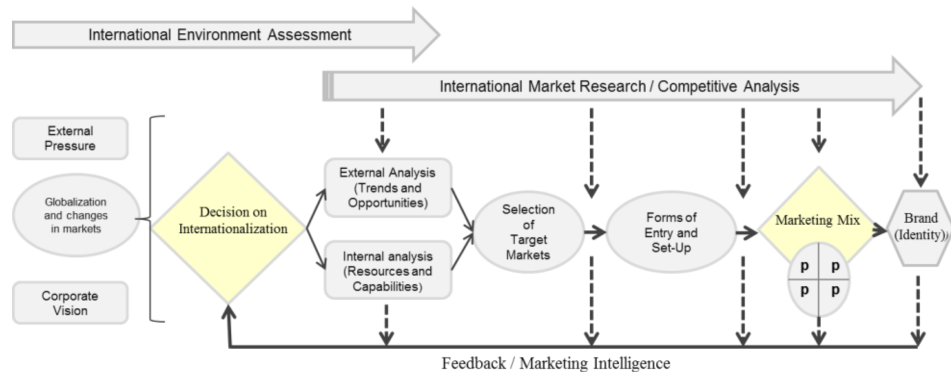
To the question, what is a brand? Chuck Pettis of the American Management Association, answered: *"The sensory, emotive and cultural proprietary image surrounding a company or product….a significant source of competitive advantage….an enhancement of perceived value and satisfaction" and "arguably the company´s most important asset".*

In this sense, decisions on brands and trademarks in the international sphere have acquired a growing important due to the conviction of the market value of international brands, the strategic significance of brand-related decisions, the globalization of markets and communications, as well as their identification as elements that are susceptible of providing a company a sustainable competitive advantage in the international scenario. Today, brands are the vehicle of communication between the company and the market (consumers, suppliers and investors), the most-spoken international language, and in which an organization's competitive advantages is, to a great extent, condensed.

Therefore, once decisions on the international *marketing mix* are established and developed, the ultimate goal, in medium and/or long terms, will be the successful creation of an international brand (see Figure 6.1).

Figure 6.1

Internationalization Decision Making and Value Creation in the International Domain



Source: Cerviño (2008)

From the perspective of the brand as a strategic asset for a company, it is understood, then, that decisions on the brand's international strategy and policy are a core issue for the multinational company as well as those just embarking on their internationalization processes.

Traditionally, literature on brands' international policy has developed upon the basis of a contingency, more than a strategic, approach. Therefore, literature mostly focuses on the problems brands face once they are transferred to international markets, mainly analyzing the coordination and management of brands between parent companies and their subsidiaries, and the cultural and legal problems derived of different local environments (the standardization versus adaptation dilemma). The decisions on local brand names, as opposed to the development of a global brand, are also contextualized within the framework of pressures of different national environments, more so than from the perspective of creating assets with a global value. Furthermore, the reasons for globalizing brands presented in the literature on international *marketing* mainly showcase the advantages of economies of scale and of *marketing*, instead of the standardization of the brand name and other elements generated by its policy. However, other more strategic reasons, like creating a global identity, global positioning, internal coherence and/or transfer of distinctive competencies englobed by a brand are much more important in the actual economic context.

Thus, within this context, this Chapter analyzes the brand's policy and strategy from a strategic and operational perspective, mainly focused on decisions about brand names and the decision to develop, or not, global brand strategies. It is argued that changes in the current competitive pressures, as well as a greater globalization of markets, competitors and consumers, favor, to a greater extent, the development of global brand strategies versus local brands, and how these changes have configured an environment where global brands are revealed as highly strategic assets for companies.

6.2. International brand policy

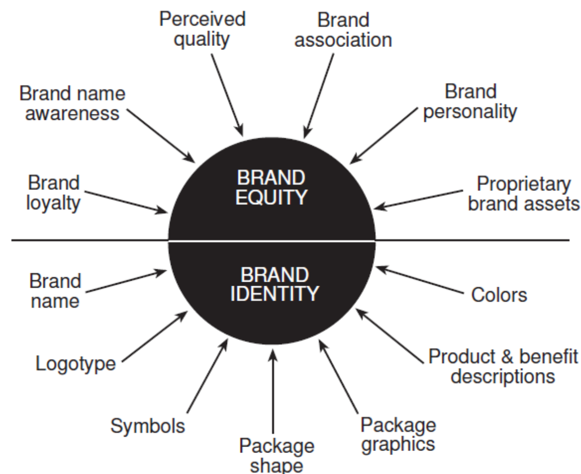
Brand policy is interpreted as a series of activities and functions which, in an interrelated way, create a valuable identity for a brand name, transforming it into a valuable asset for the company and for its clients. This definition, therefore, makes for brand management to have to consider not only those areas related to the brand name and other distinctive graphic signs, like logo, symbols, characters, etc., but also other elements that impact the asset's value. Thus, the brand policy concept may be understood from a broad perspective, or from another more specific one. A broad vision leads us to analyze the extended concept of the brand and to manage its mix. Here, the brand concept extends beyond the product, and the management of the brand policy encompasses diverse decision-making areas, from choosing the brand's name

and logo, to the product's communication campaign and quality, decisions on positioning and prices, and *below-the-line* activities, among others.

In other words, the broad brand concept, and specifically the "brand identity" (Aaker, 1995), englobes and relates with the company's entire *marketing mix* and its strategic decisions on positioning (see figure 6.2). From a more specific perspective, the brand policy refers to decision-making on the brand names and, in particular, on whether branding the products or not, with one or several brands, and their brand types. As we will see, the concept of brand policy is of a far-reaching scope, even if it is concentrated, ultimately, in the *brand name and its graphic symbols (visual identity)*, wherefore in our study we will mainly focus on this aspect of the brand policy concept: brand name and its graphic symbols.

Figure 6.2

Brand Identity as the foundation of Brand Equity

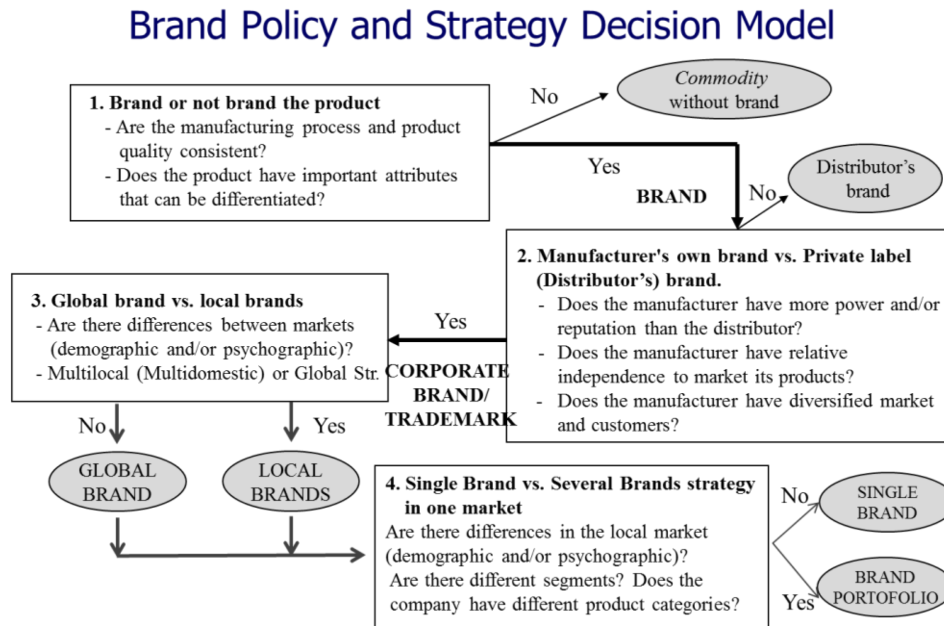


Source: H.M. Meyers and M.J. Lubliner (1998), *The Marketer's Guide to Successful Package Design*, American Marketing Association, NTC, Chicago: Business Books, p. 25.

In line with the model proposed by Onkvisit and Shaw (1993), a company counts with different options in the international realm when making decisions on its brand policy. Once the management-related factors (the company's international vision and orientation), as well as the environmental pressures (competitive, legal and cultural) have been considered, the company may opt for

a product policy without a brand (generic products or private labels), the sale of products with distributor labels, the use of one or several brands for the same market, or the creation and development of local or global brands in the international realm (see Figure 6.3).

Figure 6.3



Source: Own elaboration based on Onkvisit and Shaw (1993)

Though the objective of this section is to analyze the brand policy as a source of competitive advantage for a company, based mainly on product differentiation and keeping in mind that a non-branded product or a distributor brand do not fulfill this purpose, it is important to take a look, even if briefly, at the characteristics of these brand strategies in the international sphere, given that as we will see later on, this may comprise the platform from which to launch a penetration strategy in international markets and develop a globalization process.

6.3. Private label or distributor label policy

The option to sell products non-branded, or to use distributor brands (whether distributor brands, private labels or white labels), as occurs in the domestic market, is also available to a company in the international realm. A

company may sell its non-branded products (understood here as using a *trademark*). A non-branded product reduces both legal and *marketing* costs in addition to production costs, in that it introduces some flexibility in the products' quality controls, enabling a more competitive price. However, a non-branded product becomes a generic product, susceptible, in any case, to price competition against other products, both domestic and international.

The main disadvantage of this strategy is that the product is completely anonymous, wherefore the powers of negotiation with distributors will be quite reduced and its "contract" with consumers practically nonexistent. The decision on whether or not to brand a product will depend on whether the specific product is a "*commodity*" or not. In any case, a *commodity* or raw material may be transformed into a product (branded) if it fulfills the following prerequisites: is consistent in both quality and quantity, offers the possibility of differentiating the product according to a given attribute, and the level of importance that consumers assign to that attribute. Here, we can observe that the first prerequisite is production, while the latter two are associated with consumers' perceptions and communication and promotional strategies. A notorious example on the international level is the creation of the brand "*Coffee from Colombia*" by the National Federation of Coffee Growers of Colombia for a product that until that moment was purely a *commodity*.

A distributor brand strategy (*private label*, for example, Hacendado; or distributor/retail brand, for example, Carrefour) consists of labelling products with the brand of another company, which will assume control and management of its marketing. Large distributors increasingly insist on creating their own brands. There are several reasons for this. In part, this phenomenon derives of the growing market power of large distributors and their acknowledgement of their need to position themselves in the market in a differentiated way, in relation to their competitors. Therefore, distributor brands play a significantly important role within these companies' strategies in terms of designing differentiation and customer loyalty strategies. At the same time, this is a defensive strategy used by distributors to increase their powers of negotiation and their independence in the face of the manufacturers' brands.

A company can export abroad its products with a distributor or retailer brand. This option is expanding, especially in the export of high-volume consumer goods to markets with a high level of development and concentration in their distribution system, especially in the retail sector, such

as the United States, Japan and Western Europe. The advantages of this policy include cost savings of local brand promotion (usually unknown) in the international market, the registration of international brands, as well as the speed in obtaining benefits and penetration of an already existent distributor or retailer brand. In summary, this type of strategy can be used to quickly penetrate international markets with these products with a minimal implication of resources. Another reason for developing this policy resides in that fact that if the manufacturer's brand is going to be subject to the competition between distributor brands, then, as an option, it will be preferable for that brand to be cannibalized by a distributor brand that the manufacturer itself produces.

Despite these advantages, especially in the short term, they are also clear disadvantages for the exporting company that seeks to establish and position itself in the international market. The manufacturer of the distributor's brand is entirely in the hands of the decisions made by the brand's owner (the retailer), wherefore decision-making power on the brand and the product are on the distributor's side, who capitalizes the product's added value. The company assumes no control whatsoever over local *marketing*. A direct relationship with consumers is inexistent and, therefore, neither is there the feedback needed from consumers to redefine and adapt the international *marketing* strategy. The company, despite having its own products positioned in foreign markets, fails to have its own brand identity that differentiates it, wherefore a more important potential problem arises: "*the possibility that the distributor will renounce to that product to choose another supplier, and here the exporting company will automatically lose that market presence*" (Cerviño, 2002).

However, and despite the serious inconveniences of the distributor brand policy as a company's internationalization strategy, it may be possible that if it is englobed *within a medium- and long-term strategy* and combines the cost advantages with the required investment to create an advantage based on differentiation, it may be effective for establishing a "*beachhead*" in a given market. Several authors analyzed how Korean consumer electronics manufacturers, like Samsung and Lucky Goldstar (LG), initially entered international markets manufacturing for private brands of large North American distributors, like Sears and J. C. Penney. As they began gaining experience in distributing in these large markets and accumulated enough resources, they also began selling under their own corporate brands, and today are the world's leading manufacturers of microwaves and TV sets, for major global brands and distributor brands alike.

In Spain, many sectors, both industrial and consumer, export with distributor brands. For example, the footwear industry is characterized for both producing and exporting its own and foreign brands of international renown prestige and famous retailers (for example, brands of major European or North American department stores). The winemaking and olive oil sectors also export with brands of European or North American distributors and retailers.

An important point to highlight in these types of exports is *with whom the distributor brand's contract is formalized*. The case is very different between whether the Spanish company directly contracts a large foreign distributor to package its products with its private label (distributor´s own brand), to contracting a *broker* or intermediary to package with distributor brands. The main difference, in the first case, is that there is direct access to the large distributor's purchasing department or agents and the company is directly known by those, which enables the establishment of direct commercial relationships, knowing more closely the product-related needs and objectives and, therefore, expanding the possibilities for selling products that are better adapted, new products or other company products to these distributors, whether with the manufacturer's or the distributor's brand. In the second case, there is no direct contact, as the *broker* or the commercial intermediary controls the operation.

6.4. Brand policy as a differentiation strategy: global vs. local brands

A core decision in the brand's international policy is the creation and development of local brands versus global brands in the international realm. Traditionally, this decision has been analyzed within the general dilemma of standardization versus adaptation in terms of the product policy.

The literature on international management of brands presents opposing views with regards to suitability, advantages and benefits of a standardization strategy of a brand name in the international framework. From a merely conceptual perspective, the reasons for standardization of the brand policy are based on changes that have occurred in the international economic environment (globalization, corporate concentration, opening of markets, increase of international travel, global communications, development of the Internet), the homogeneity of consumer tastes and the economies of scale in production and *marketing* derived of this standardization. Furthermore, and implicit in many economies and advantages that favor standardization, we must mention the

greater facilities for launching, implementing, coordinating and controlling a global brand program compared with diverse local brand programs, greater dissemination of products and ideas in the international realm, better use and global profitability of unique *marketing* concepts and ideas developed by any of a company's subsidiaries, as well as a greater degree of coherence with regards to customer relationships, even more so when, to date, a growing percentage of these are multinational clients and consumers, and a stronger position for negotiating, in relation to the brands of large distributors.

In the international realm, the benefits of developing international brands are evident. Among these, we must highlight as the most important, and among many others, a better perception of quality and prestige of these products in their respective markets; greater capability for attracting employees, managers and investors; higher efficiency of coordination and communication and promotional costs, and more ease for entering distribution channels. In addition, the growing international mobility of consumers and clients, the growing globalization of international distributors (Walmart, Carrefour, Metro Group, Alhold, Aldi, Lidl, etc.) and greater access to macroregional and global media, have also acted as drivers of the growing interest in developing global brands.

Globalization has always been something that the advertising industry has struggled with. In the past, the main role of a global agency has been to manage execution across borders. Today the significant opportunity in brand building is to maximize one idea across the globe, to create an inspirational rallying cry for a global consumer movement under the philosophy "think globally act locally". Furthermore, and since the Internet overtook our lives, this 'global against local' way of advertising is becoming increasingly difficult for brands. Like never before, people are communicating and engaging with the entire world. Borders and boundaries have ceased to exist as people tweet, blog and chat online in real-time, 24 hours a day, seven days a week with just about every country on the planet. Facebook, Google, Apple, technology, the web — the frontier is opening up for global brand building. If you can build brands that understand this new media landscape, you'll have the whole world in your hands.

As Goodson described in Forbes Maganize, the opportunity for global brands is new markets where consumer demand is exploding such as Brazil, Dubai, Indonesia, Nigeria, Russia, Vietnam and all points in between is really great nowadays. "*The global brand hits the ground faster and makes an impact harder*

because it's figured out its global idea before it enters markets. And more often than not, the local consumers have already heard or seen the brand idea on YouTube". As marketers see more brands globalizing and as economics pushes companies to think about brand building in a smarter, more efficient and more universal way– global brand building will rise in importance[4].

However, despite the aforementioned benefits and advantages, other authors highlight the impossibility and/or difficulty of a standardized brand name policy due to consumers' differences in behavior, tastes and needs, legal barriers, different levels of competition between markets and the competitive reactions of immediate competitors. Some authors focus their analysis on different categories of goods and their suitability for developing standardized brand policies, arguing that some products, like high-tech items (computers, cameras, smartphones, electronics) or products associated with image and emotions (luxury products, perfumes, design or fashion) allow for a high degree of standardization of their brand policies, compared with the greater adaptation of brand names of other types of products that are more sensitive to cultural factors, like food products (Jain, 1989). However, the facts demonstrate that even in these sectors it is possible to create leading global brands (Nesquik, Kellogg's, Nescafé, Buitoni, Häagen-Dazs).

Chart 6.1 below displays the main advantages and disadvantages of global brands (these disadvantages are, in general, the advantages of local brands).

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[4] Forbes Maganize, "What The World Needs Now: Global Brands For The Global Generation", By Scott Goodson, August 2nd, 2011.

CHART 6.1

CHART 3.16 GLOBAL BRANDS	
Advantages	**Disadvantages**
Economies of scale.	Lack of local identity.
Global and universal identity.	Lack of local adaptation.
Use of international media (more possibilities).	Possible opposition from local consumers and nationalistic governments.
Association of prestige and status.	Legal complications
Elimination of communication costs for the creation of local brands.	Problems with "parallel" channels.
Lower promotion and communication costs.	Brand name second best choice due to inability to register in every country.
Easy identification and recognition by international travelers.	Need for long periods of time to achieve reputation and recognition.
Consistent corporate and product image in the international arena.	Possible negative effects of the "made-in" of the origin country.
Complements the standardization of the other elements of the international marketing mix	Need to maintain consistent and identical product quality internationally.
Prevents confusion with other brands.	
Greater coordination of marketing operations abroad.	
Efficient use of international communications (television channels, magazines, sponsorship of international events, etc.).	
Source: Adapted from Cerviño (2008), Nieto and Llamazares (1995) and Toyne and Walters (1993).	

Yet, despite these disadvantages and possible limitations in international markets, more recent studies in this field clearly show a trend toward the globalization of brands, emphasizing the strategic superiority of global brands, compared with local brands.

As marketers see more brands globalizing and as economics pushes companies to think about brand building in a smarter, more efficient and more universal way– global brand building will rise in importance.

Today, building successful global brands is about thinking globally. It's about understanding a company's core culture and values and communicating that in everything the company does. It's where Movement Marketing comes into play. No longer are we throwing out one-way, localized messages with one global look and feel. Today, the digital revolution is about getting people to love a brand, no matter where they are in the world.

One thing is certain; it's not easy respecting so many different cultures when Facebook, Twiter and Instagram has brought everyone together. But if the company can get it right, it will become one of the elite global brands that everyone wants to buy in to.

From this perspective, a company should develop commercial brand names that may be easily transferred to international markets and that, therefore, minimize mainly those cultural and legal barriers inherent to different settings. If this is not done, we can find brands with negative connotations –mainly cultural in nature– or the impossibility of using the brand because another company has already registered it in the export market.

Without a doubt, the brands that are created at their birth with a global orientation in relation to their name and other distinctive signs, present the greatest possibilities for internationalization. We must also point out, however, that a brand's globalization and a product's standardization do not necessarily go hand in hand; a global or macroregional brand can have products with a high degree of adaptation (for instance, Colgate toothpaste or Ariel detergents), while a highly standardized product may have regional or local brand names (for instance, Unilever´s Magnum or Cornetto icecreams sold with different brand names around the worl). Yet, it is also true that the trend toward globalization of brands –another strategy of positioning and communication– is more patent than the standardization of products.

6.5. Brand portfolio: single vs. several brands

Another important brand-related decision is that of using a single brand or several brands for the company's products *in a specific market*. The literature points out that the number of brands to use in a given market will depend on the degree of heterogeneity within that local market and of the different product types or categories that the company sells. For the same product type or category, the degree of segmentation, possible or desired, in a market, as well as the different positionings sought, will directly impact the number of brands to use. An example of this is the multinational company Roca, which used different brands within its same product category to segment its different markets.

At other times, a multibrand policy may arise from legal reasons, and not of market segmentation. Grupp International, the Spanish company that owns the shoe brand Panama Jack, had to create a new brand (Havana Joe)

for the North American market, as the first one was already registered by a third company in the United States. Therefore, the importance of establishing a legal strategy in parallel with the selection of a brand name.

Moreover, a company can have different brands in the same market temporarily, due to the acquisition of a local company or brand. The medium or long-term decision would be to forego the local brand and absorb its distribution channels and positioning in the market through the global brand, or maintain the local brand if it is highly notorious. The latter case is that of the multinational company Roca, that, in general, uses its Roca corporate brand in international markets, but in others continues to use the brand it acquired, given its local leadership and awareness. Conversely, currently the bank BBVA is immerse in a process of *cobranding* of brands in the United States, to transfer the value and image of the banks it owns in this country (Compass Bank, Valley Bank, Laredo National Bank, Texas State Bank, etc.) to its global brand. For this, it has become the official sponsor of the NBA, with the goal of developing its entire communication and migration process of the regional brands to its global BBVA bank (see Figure 6.4).

Figure 6.4
Brand migration: From local brands to BBVA global brand

Source: Own elaboration based on BBVA data and different press articles

Indeed, the portfolios of brands offer segmentation possibilities (by price and by channel) and a greater market penetration, though they also entail greater management, coordination and control costs. To date, there is a

growing trend toward the international consolidation and rationalization of brand portfolios by multinational companies, partly due to new category management models imposed by the manufacturer-distributor relationships. In other words, though the benefits of a broad portfolio are patent, these also entail significant costs in terms of production, management and coordination. On another hand, the trend toward globalization requires the creation of important international/global brands. These can only be built with important investments and continuity over time, with the goal of thereby configuring their legitimacy and credibility in the market. Due to financial limitations, companies can only invest in a small number of brands, which results in a growing concentration of a limited, yet important, group of brands with an international projection and gradual consolidation of brand portfolios in local and international spheres alike.

6.6. Global brand creation strategies

Given that the market trend is toward the creation of global brands, it would be expected that this new vision and changes in the international environment would be reflected in the companies' brand strategies, whether through the rationalization of its international brand portfolios, their transition from local brands to global brands and/or the creation or launch of new brands with a clearly global identity. This last section will analyze the different options companies have for developing global brands.

Three basic strategies can be established to develop global brands: geographically extending the local brand, acquiring brands in international markets, and establishing alliances with brands. These strategies will be limited and/or affected by another three factors, which will likewise function as evaluation criteria: the speed of penetration and consolidation in the market, the control over the brand and the necessary financial investment. Chart 6.2 below shows the interrelationship between the global brand strategy and the evaluation criteria.

CHART 6.2

Global Brand Development
Strategies

GLOBAL BRAND DEVELOPMENT			
	ASSESSMENT CRITERIA		
Strategy	Speed	Control	Investment
Geographic Expansion (export or investment)	Slow	Mid-High	Mid
Acquire Brands	Fast	Mid	High
Brand Partnership	Fast/Moderate	Mid	Mid/Low

Source: Cerviño (2002)

The geographic extension strategy can take place through the direct export of the company's products and brands to new markets through foreign representatives, distributors and agents, or by establishing one's own distribution channels through commercial delegations or subsidiaries, franchises, *joint-ventures* or direct investments in production. Control over the brand can vary from very low (exports via gents or distributors) to very high (subsidiaries). For many companies, and especially for those who base their competitive advantage on their brands' prestige and image, the decision on control is of vital importance. The necessary investment will depend on the type of market penetration. If the brand extends through active exports, distributors or representatives, investment is low, though control will be low or moderate. Penetration through the company's own distribution channels, or other type of direct investment, consubstantially increases the required investment, yet enables high control of the brand's marketing decisions.

Speed is the main weakness of this strategy. The creation of a brand of international scope is a slow process, unless important financial resources are available that enable the brand to reach fast penetration and awareness. Therefore, geographical expansion is, in general, a time-consuming process, by which the brand positions itself market by market. However, in a market

characterized by a fast and aggressive international competition, many companies, from a tactical perspective, cannot afford to invest the time required to launch a brand in a market, wait for it to position and consolidate itself there, and then later penetrate other markets. The risk companies face is for other competitors to get ahead of them in other markets, and given the competitive advantages of being a pioneer, this is a risk that many companies must minimize.

However, without a doubt this strategy is the most feasible for small and medium companies Furthermore, we must bear in mind that the geographical extension of a brand may always be done as long as it does not have negative connotations (cultural, phonetic, meaning, etc.) and can be legally registered and protected in the respective markets. From here the importance of a brand being born from its very beginnings with an international and/or global orientation. This will minimize the risks of cultural and legal problems that the brand may face during its international process.

The acquisition of other brands enables companies to quickly acquire market positioning, as well as already-established distribution channels. In other words, penetration speed is this strategy's most important characteristic and advantage. If a company wishes to position itself quickly in a sector, the purchase of an already-established brand may be the only option. Nestlé and BSN Danone are two companies that have developed this strategy on a broad scale. Nestlé is acquiring the majority of local Latin American companies in the confectionary-chocolate sector, enabling its implementation of the Nestlé brand, and others from its portfolio, like Kit Kat, in all of these markets. Likewise, we must also mention that this strategy was widely used by large Spanish multinationals in the sectors of banking, telecommunications and *utilities* in general. This strategy entails a medium level of control, in that many acquisitions face management problems when integrating the acquired brands within the company's brand portfolio, or when developing "*dual branding*" programs.

As mentioned above, the medium or long-term decision would be to forego the local brand and absorb its distribution channels and positioning in the market through the global brand, or maintain the local brand if it is highly strong in terms of lidership and awareness. Given the growing rationalization of global brand portfolios, there is a strong tendency to remove the acquired local brands and implement the global brands of the purchasing company, unless the local brand has a solid awareness, or is itself a global brand, as in

the case of maintaining and consolidating the olive oil brand Bertolli by the Spanish Deoleo group. In the consumer goods sector, the current strategy is to enforce the global brand, thereby resolving the conflict between loyalty to a national brand and the pressures of global strategies that favor the latter. In 1995, and as part of a pan European strategy, the confectionary multinational Mars changed in the United Kingdom, overnight, the chocolate bar brand Marathon (one of the category's leading brands), to implement its global brand Snickers. Despite the criticism received by all British newspapers, invoking the historical and emotional ties and childhood memories of Britons with Marathon, Snickers sales grew and moved upward from the fifth position in the market (old Marathon) to the third. Mars also changed that year the brand Raider, used in continental Europe, for the brand Twix, used in the United States and the United Kingdom.

Without a doubt, these brand-changing strategies can be dangerous by creating confusion in the market and risking that many consumers switch to other, competing brands. Alliances between brands, with "*dual- branding*" or "*cobranding*" programs, can be a great aid in minimizing these risks and implementing changes gradually, without losing customer loyalty. This way, alliances between brands appear as a new strategy for developing and creating global brands and to favor a brand's entry in a new market.

Alliances between brands may be used in two ways. The first, already mentioned above, arises when the company purchases a local brand that is already established and intends to withdraw it from the market and introduce one of its global brands. In these situations, the alliances between brands are highly effective to gradually create awareness for the new global brand, and then to be in the proper conditions later to withdraw the purchased local brand from the market. But in adittion, alliances can also be used to position an unknown brand in a new market. Through the alliance, the new brand enters that market together with the other already notorious brand. This was the case of the entry of the global fruit juice brand "Minute Maid", owned by Coca Cola, in the Spanish market. Coca Cola took advantage of Danone to position its brand in the refrigerated product shelves, rallying around Minute Maid with Danone's image of quality and prestige in the category of fresh and refrigerated products. Once the positioning and brand image of Minute Maid were consolidated, the need to use the Danone brand on the packaging was secondary and was subsequently removed from Minute Maid labels.

In the international realm, these alliances are characterized for having a medium level of control (direct control, but shared with another brand) and of investment, and enable a fast or moderate penetration in foreign markets. The financial investment tends to be lower than the option of acquiring and suddenly changing a brand, or directly entering a new market, given that there are fewer communication and *marketing* expenses. The investment for new product launches is also less costly, as it is shared by the partners comprising the alliance. Likewise, penetration tends to be fast due to the fact that each partner (brand) has already made considerable investments in *know-how* and infrastructure in their respective markets, and usually benefit from a certain degree of power and leverage with the distribution channels. These alliances are interesting international penetration options for small and medium companies. To a certain extent, this strategy can be identified as a *Piggyback* type of program, adapted to the brand policy. This way, for example, a Spanish company could position its products and brands abroad, with the support of other already-established brands.

Alliances between brands as an international *marketing* strategy could be one of the most commonly used instruments in the coming years. Very few companies have sufficient resources of their own to extend their brands in international markets. Furthermore, the financial risks of launching new products and entering new market segments are reaching limits that are difficult to withstand, wherefore a greater collaboration between brands is foreseen which, in seeking synergies between each other, may maximize the possibilities of success and, thereby, minimize said risks.

In conclusion of this section, we must mention that counting with a good product or offering a good service is a necessary, though insufficient, prerequisite for success in the market. It is necessary to differentiate oneself from the competition by adding to the physical attributes emotional values that create a sensible and sustainable advantage over the competition. The brand is the most suitable instrument for incorporating to quality products/services those emotional attributes and aspirations that will give them inimitable personality and intrinsic values, and that generate a sustainable market demand.

In recent years, the improved competitiveness of many Spanish companies and brands has been evident, with many of them positioned as global leaders in their industry. This international leadership and growth are also corroborated by the growing presence of Spanish brands among the main

global *rankings*. However, despite this accumulated growth and success, many sectors and Spanish companies still focus on products with scarce differentiation, with a strategy based on costs, low investment in R&D&i, and without a clear orientation toward creating brand value. Focusing on costs and quality is, no doubt, important, but is not, by itself, a strategy that enables a company to compete sustainably in the long term. Furthermore, new challenges arise, like the growth of distributor´s own brands in most developed countries and the development and implementation of international/global brands from Emerging Market Multinationals (eMNCs). Since 2009 eMNCs have continuously increased their presence among leading global brands, (Lenovo, Haier, Samsung, Huawei, Tata, Natura and Havaianas among them), accounting for more than 20% of the top 500 global brands in 2017, compared to 12% only in 2009.

Therefore, innovation in products and processes, associated with a clear strategy for the brand's differentiation and value creation, will be the pillar of the Spanish company's competitiveness, both in the domestic market (and, therefore, to defend its national market share in the face of external competitors), and to increase its share in international markets. In this sense, the company need to set the bases for developing a brand-focused orientation, which will allow for focusing all of the organization's resources on creating brand value, both internally (shareholders and employees) and externally (clients, providers, distributors and other interest groups).

Summary

The process of all internationalization plans culminates in the international *marketing* plan and subsequent analysis of sales forecasts, marketing costs and expenses and economic profitability.

In the international *marketing* area, the company must use a methodology for selecting international markets (IMS: International Market Selection) and designed a sequential, integrated and iterative process. This includes the four stages defined in this book: preliminary inter-regional screening, regional selection, analysis of the national environment and selection of the transnational segment.

In an initial approach to international markets, it is preferable to preselect geographic zones over countries. The global market can be classified into 6 geographic zones (Western Europe, Central and Eastern Europe, OECD countries, Latin America, Asia and Africa). The choice of the most favorable areas for the company must consider three major criteria: geographic/cultural proximity, level of development and economic growth.

Once the geographic zone(s) have been selected, the next step is to select the target country or countries within the region. Two types of criteria are used for this: market potential (economic growth, purchasing power, volume of imports, etc.) and accessibility (tariff and non-tariff barriers, commercial risks, ease of doing business, etc.). Then, an analysis of the national

environment and selection of the transnational segment must be performed to complete the IMS selection process.

For the market selection process and, in general, to design and apply international *marketing* strategies, it is essential for the company to obtain information on the foreign markets to which it wants to expand, and use it for analysis and decision-making. This information may be classified into three types: country-information, sector-information and company-information. Certainly, information on competitors is also relevant.

Choosing the mode of entry into new markets is one of the most transcendental decisions of the international expansion strategy. Four entry modes exist: direct exports, indirect exports, cooperation agreements and foreign direct investment (establishment).

In direct exports, the company sells directly from its market of origin to clients in destination markets. To this end, there are three possibilities: direct sales to end clients by its own salesforce, sale to large retailers and sale via the Internet. Indirect exports entails collaborating with some type of intermediary who resells to retailers or end clients/customers, as occurs with sales agents, distributors and trading companies.

In cooperation agreements through partnerships and contracting agreements, clients and intermediaries are not sought, but rather partners with which to share risks and benefits, beyond the sales margin of the operations. This is the case with agreements of the types *piggyback*, strategic alliances, consortiums *joint-ventures*, consortia, licensing or franchising.

In its implementation, the company does not sell from its own country, but instead is present in the destination market and carries out its commercial activities (delegation, sales subsidiary) or production activities (production subsidiary) in the destination country.

In the example of companies that have several products or product lines, the first decision to be made is on which are the most suitable for internationalization. Two criteria must be used for deciding this: potential profitability (benefits expected of globalization) and potential risk (required degree of local adaptation).

The adaptation of products to international markets can be separated into two levels: mandatory obligations (compliance with legal-administrative norms in the import country) and voluntary adaptations (for economic, cultural, religious or political reasons, etc.).

The price is the variable of the *marketing mix* that is most associated with the economic goals of the international strategic plan. In addition, it is the only variable the directly generates income and that enables fast modifications in the short term; for example, to face the competition.

The three fundamental factors for establishing international prices are: costs, market demand and competition. To these basic factors we can also add others, like the company's objectives, the positioning of its brands, or the evolution of currency exchange rates.

To evaluate each of the possible distribution channels in foreign markets, we must bear in mind four characteristics: market coverage, channel length, control/cost ratio and integration level.

When entering a market for the first time, the most common practice is to team up with local distributors. It is important to select them properly, establish agreements that cover the essential aspects of the relationship and motivate them to put their best efforts into promoting and selling the company's products and brands.

In its international communication policy, the company must bear in mind significant differences between countries (language, culture, media infrastructure and regulations) as well as the actual market competition.

There are many tools for international communication: advertising, public relations, sales promotions, direct *marketing* and personal sales. The company must analyze each one in terms of investment to reach its desired target public and determine which ones are most profitable.

Finally, in relation to the competition, the company must focus on differentiation and value creation through its products and services. In this scenario, brands occupy a vital position. For companies in developed countries, with high labor and operating costs, it is very difficult to compete in prices, wherefore it is necessary to compete in added value, innovation and

branding. Without a brand, it is very difficult to compete in the international market, as there is only room for competition based on costs. The current tendency is to create brands with a true international projection, bearing in mind and minimizing, cultural and legal limitations. In this sense, all of the decisions on the *marketing mix* must be oriented toward achieving this objective: the creation and consolidation of a brand in the international sphere.

Practical cases

Mercadona and its potential internationalization process

Agrolimen in Africa

1. MERCADONA: FOREIGN MARKET SELECTION

Based on the current situation of the company and its previous attempt to expand internationally in 2013 and once the company has taken into consideration its international expansion plans, the case aims to establish the most appropriate criteria for making decisions regarding the selection of potential markets to start the internationalization process, as well as its relationship with the entry strategy and the adaptation of the marketing mix. Mercadona is the leading distributor in Spain, with a turnover of over 21,000 million euros, although it is totally focused on the Spanish domestic market, a mature and highly competitive market.

Questions

1. What may have led Mercadona to consider going abroad? Is internationalization the only growth strategy that the group can develop?

2. With regard to its need for internationalization, everything seemed to indicate that at first Italy was the country of choice, mainly against France and Portugal. Why not France or Portugal? What other countries besides France, Italy, Portugal and Belgium could be interesting in the near future?

3. If you finally enter Italy, and with regard to your marketing mix, do you think that Mercadona should boost its own brands (Handled, Bosque Verde, etc.) or change its product/brand mix model and focus on leading Italian brands? Will you be able to transfer the inter-supplier model to Italy?

4. What reasons, in addition to those put forward by the company, may have had a bearing on the decision to postpone its international expansion plan in 2013?5. The company is currently starting its internationalization project again. Portugal seems to be the country chosen this time, is it the best option? What are the problems and advantages?

2. AGROLIMEN IN AFRICA:
MODE OF ENTRY AND MARKETING-MIX ADAPTATION

The “Gallina Blanca (white hen) cubes” have given rise to a large Spanish food group. Agrolimen is a diversified group in several product lines, from the famous cubes to its restaurant division (Eat Out - Pans and Company), with presence in Spain, Italy, Russia and 25 African countries. Its turnover exceeds 1,000 million euros. Africa is its main market for its star product: white hen cubes, although it faces a major competitor such as Nestlé with its brand Maggi. On the other hand, operations in Africa carry significant financial and management risks, due to the high country and political risk in most African countries. However, these markets present a high business potential and the company has to consolidate the markets in which it is already present and develop new ones, minimizing investment risks.

Questions

1. What options does the company have to efficiently cover the various African markets by minimizing commercial and financial risks?

2. From information on the customs and tastes of African markets, should Agrolimen adapt the products to these markets? Or should it even develop new products?

3. Emerging markets have distribution and communication structures that differ from developed markets, with the informal and local retail market still highly relevant. Which communication instruments would be the most appropriate for these markets?

Glossary

Commercial agent: A physical or legal person who, in an ongoing, stable way, serves as an intermediary in international commercial operations in representation of others (manufacturers, wholesalers, distributors) in exchange for remuneration (usually a commission), but without assuming the risk of those operations in which it participates.

Market coverage: Concept associated with sales distribution, referring to the geographic zones or number of commercial premises in which the company's products are present. Three approaches exist: intensive, selective or exclusive coverage.

***Trading* companies:** Import-export companies specialized in markets that are difficult to access or that entail high risk, who know the needs and purchasing capacity of potential clients. As specialists in foreign trade, they cover all of the international operations, including commercial and financial management and logistics.

***Commodities*:** These are non-differentiated products based on standard quality criteria; for example, raw materials (wheat, coffee, soy, oil and copper, among others). Sometimes this concept also includes semi elaborated products that serve as base of more complex industrial processes. Their competition is based on price.

Market concentration: Market selection strategy that consists of choosing a low number of target markets in which to penetrate and consolidate the company's position.

Distributor: Company that acquires the products of manufacturers to later resell these to other companies or retailers, applying a sales margin and assuming the risk of the operations. Combines the distribution of import products with locally manufactured products.

Market diversification: Market selection strategy that consists of choosing a broad number of countries in which to seek business opportunities, but without reaching a significant market quota in each one.

FOB Pricing: Scheme for calculating export prices based on different factors: production costs (PC), commercialization costs (CC) and export costs (EC) (that depend on the Incoterms used). Once these costs are calculated, mechanisms for stimulating exports must also be taken into account: "incentives" (IN), recoverable taxes (TX) and eventual financial costs (FC) that may arise from recurring to external financing. Last of all, we must include the company's margin (FOB export price = PC + CC + EC + FC + TX - IN +U).

FDA (Food and Drug Administration):
The FDA is a governmental agency of the United States in charge of regulating and certifying for sale in the North American market food products (for humans and animals), food supplements, medications (human and veterinarian), cosmetics, medical devices (human and animal), biological products and blood and blood components.

Primary information (*field research*): Information obtained specifically by the company, usually in the destination country, that is used to design its marketing strategy (competition, product adaptations, commercial margins and prices, etc.).

Secondary information (desk research): Consists of data, statistics, information, market studies, etc., elaborated by different sources which may be accessed by the company, mostly over the Internet.

Horizontal integration: That which seeks to control the distribution channel members on the same level; for example, when a manufacturer acquires a competitor.

Vertical integration: That which intends to control the distribution channel members on different levels; for example, when a manufacturer acquires a distributor.

***International joint-venture*:** A company comprised of two or more companies from different countries, who become partners for the shared development of an activity. Usually these are companies from the same sector, who perform complementary activities.

Channel length: The number of levels (intermediaries) in a distribution channel. The channels may be direct (1 level), short (2 levels) or long (3 levels).

Global brand: The concept of the global brand does not only mean that a brand name is completely standardized. A global brand strategy more so refers to the globalization of the brand identity. In other words, a high degree of consistency of the visual elements in all markets (brand name, logo, colors, *packaging*, slogan, etc.).

Gray markets (parallel imports): These are import and sales activities through distribution channels in the market that are not authorized by the manufacturer. These arise when the manufacturer applies different prices to the same product in the markets of different countries and usually take place in the case of high-end, high-priced products, like, for example, items in vogue and luxury clothes.

Piggyback: A way of entering foreign markets that consists of using, on behalf of the company that wishes to enter the foreign market, the distribution network of another that is already established there. This is an alliance between complementary product manufacturers or service providers that share the same distribution channel.

Transfer prices: Also called "internal transfer prices", which are the prices at which different units or subsidiaries of the same company purchase and resell their products and services. These prices are generally established for

operations between subsidiaries and the parent company or between the subsidiaries themselves.

Trademark registration: Before the commercialization of a brand in a market, the company must ensure it legal ownership of the brand. Trademark registration may be effectuated on a domestic scale (country by country, for example, in Spain, at the SPTO), pan European level (community trademark: EUIPO) or in several countries through a single registration request, through the world intellectual property organization (WIPO).

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c. Links of interest

Doing Business (Banco Mundial): www.doingbusiness.org

Estadísticas de comercio exterior de España: http://aduanas.camaras.org/

Eurostat: Oficina Estadística de la Unión Europea:

http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/

Hofstede, Geert: www.geert-hofstede.com

ICEX España Exportación e Inversiones: www.icex.es

Market Access: base de datos de acceso a mercados extracomunitarios:

http://madb.europa.eu/madb/indexPubli.htm

Naciones Unidas: estadísticas de comercio exterior mundiales:

http://comtrade.un.org/

Red de Oficinas Económicas y Comerciales de España en el exterior:

www.oficinascomerciales.es

d. Videos of interest

Vídeo: Nutrexpa (Cola Cao) en China. El Exportador-ICEX.

Link: https://www.youtube.com/watch?v=IAAv8pcZfvQ

Vídeo: HDL Miguel García, sombreros sevillanos para la comunidad judía

Link: https://www.youtube.com/watch?v=PS-EB3-klZw

Vídeo: Cómo lo hizo... EL GANSO – Universidad International de la Rioja Emprende

Link: http://www.uniremprende.com

Vídeo: Industria Gastronómica Cascajares en Canadá – ICEX

Link: https://www.youtube.com/watch?v=5Z2LA_4Z1cs