

International Marketing
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Lecture – 23
Designing a Global Marketing Program

Hello good afternoon welcome back. This is my Lecture 23 Module 5.

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Changing Price
International Pricing Strategies

- Price is adjusted for the events in the market e.g., New competitive product in the market, policy changes, etc.
- Price is changed inline with the target profit requirements. (if reducing the price, company needs to keep in mind the contribution margins. Also, if maintaining price, given the rise in input cost inflation.)

Here the next one we have discussed about price skim strategy, penetration pricing strategy, market based pricing strategy we all discussed. Now there is a changing price strategy what is that. Price is adjusted for the events in the market, new competitive product, policy change you have a change in the price. You do not change you only change the price when there is a new competitive product has come into the market place you change the price.

Price is changed in line with the target profit requirements if reducing price company needs to keep in mind contribution margin and if maintaining price given the rise of input cost of inflation. So, if the cost has increased you have to change the price. If your input cost has increased, raw material cost has increase you have to change the price so that is also another way of pricing strategy.

So, two things one is internal another is external. Internal is that the company target profit say you have thought that your company should have a 30% gross margin level profit, but as the cost of input has gone up may be the cost of raw material has gone up or certain other cost

has gone up you have to change the price because your **company's** objective is that it should have 30% gross margin level.

But due to the cost increase you are not able to maintain it might have come down to 27%, 26% or something like that then you have to increase the price or change the price into that. So, that is the changing price when you change the price. This is all internal within the company external. Some company has come up with a new product and they came up with a product which is better feature than you or having a price more attractive for the customer than you change the price. So, these are the typically change when you change the price in international market.

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The slide is titled "Experience Curve Pricing" and is part of "International Pricing Strategies". It contains a bulleted list of points and a graph. The graph plots "Cost per unit" on the y-axis and "Cumulative experience" on the x-axis. A red curve starts at a high point labeled "Initial cost" and slopes downward to a lower point labeled "Cost at maturity". A speaker is visible in a circular inset on the right side of the slide, pointing upwards. Logos for IITM and NIPTE are at the bottom right.

Experience Curve Pricing
International Pricing Strategies

- Price is determined by product life cycle.
- Product becomes old, becomes less competitive.
- Less competitive ability leads to more competitive prices.
- Moreover, costs reduce as the accumulated production increases for a product.

Cost per unit

Initial cost

Cumulative experience

Cost at maturity

Experience curve pricing, so price is determined by the product life cycle. So, typically if you have seen the product like apple in the price skimming there that is initially the prices are very high when the product reaches starts growth phase and maturity the price starts decreasing. Price is determined on the product life cycle, product become old becomes less competitive as you have seen that when it reaches the plateau and then we start declining the product is less competitive.

Less competitive ability to lead more competitive prices and moreover cost reduce and the accumulated production increases. So, it is a cumulative experience of that cost per unit goes down at the maturity. So, that is typically how it is gone and then you experience curve pricing based on this product life cycle you can manage your cost. So, this is the another strategy.

So, coming back from right from the skimming to the market based pricing to the previous one the changing price all those are coming now the next one is the experience curve pricing based on the product life cycle pricing. You look at the product life cycle and based on that your initial cost goes down, cost per unit goes down and then you change the pricing based on that.

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The slide is titled "Pricing Across Products (product line pricing)" and is part of "International Pricing Strategies". It lists three pricing strategies:

- Economic version
 - to protect against the competition
 - to gain market share
- Premium version
 - To earn profits
 - To make for loss leader products or fighting brands
- Other similar pricing is captive pricing:
 - Selling core product and accessories e.g. shaving blades, camera rolls, automatic washing machine powders and cleaning scalers.
 - Accessories and consumables give regular revenue.

The slide also features a small video inset of a man speaking and logos for institutions at the bottom.

Pricing across the product so that is on product line pricing. So, to protect against the competition to gain market share for the economic version, you may have two different products for your company. One is the economic version and another is the premium version. The economic version you protect the pricing and gain the market share across the product line you have a same pricing.

For the premium version you have to earn profit and to make for loss leader products and fighting brands other similar pricing is captive pricing. Selling core product like accessories like shaving blades, camera rolls, automatic washing machine powders and cleaning scalers. How do you do that? Say you sell the shaving blades you sell the camera they increase the price of the accessories like in case of a shaving razor the blades or the camera rolls or the detergents in an automatic machine or the cleaning the scalers.

Here you have a captive pricing for that you bundle that pricing along with the equipment pricing and then you have a different pricing structure for that. So, accessories and consumables give you a regular revenue that means you cannot have run that washing

machine without the detergents. So, you can have some pricing together and bundle it with the detergents and though this is not very common in India, but in certain countries where the detergents also you can have them package also.

You can have the detergents also along with the washing machine and then get in case of a printers like various printing companies like Hewlett-Packard and other companies. They bundle the inks also the cartridges also with that. So, here also the moment typically in certain in US if you purchase a printer and you can sign an agreement with the Hewlett-Packard there.

And after certain prints they will monitor that you have already printed remote monitoring of your printer they will do that you have taken already say a 1,000 pages pen you need a ink and then you will automatically get a ink will come to your place through courier and you can put that new cartridge there. So, that is a ownership that you continuously earn through the selling the cartridges also that is shown sort of a bundling pricing. So, that is across the products the premium product line pricing.

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The slide is titled "Product-Service Bundle Pricing" and is part of a presentation on "International Pricing Strategies". It features three bullet points: "Bundling services with the products," "The combination creates superior value," and "Helps company in gain pricing power." In the bottom right corner, there is a circular inset showing a man in a suit and glasses speaking. The slide has a light beige background with a blue and green geometric design on the right side and a dark blue footer containing logos.

Product service bundling so bundling the service with the products. So that means you sell a car with one year standard warranty or two year standard warranty then you give extended warranty of the car and you bundle the whole thing as an one price. This helps for the consumer also for a superior value of the product so that I buy a car standard warranty and then I also bundle my service along with that.

Similarly for washing machine, refrigerator, microwave oven, all consumer durables I can bundle the service pricing along with that and the helps company in gaining the pricing power so that is also another price bundling service. So, in the previous case the consumables also bundle like I have given the examples of Hewlett-Packard in the previous one we have bundled the uses of the cartridge along with the printer.

So that you continuously Hewlett-Packard every print you make Hewlett-Packard gives you a first of all no inconvenience for you, you are never you do not have to really go and order the cartridge suddenly the cartridge you discover the cartridge is absolutely empty there is no ink there then you cannot print that situation will not happen. So, that is bundled with the consumable.

And you can automatically you will get the consumables through they will send you the consumables by courier and you can change the consumables and printer and start printing. There is no disruption there so you start, you do not lose any consumable margins so that is also another way of bundling the consumables bundling the accessories and here you are bundling the services there is a two difference bundling the accessories, the printer accessories.

Here bundling the service if I am giving an Hewlett-Packard printer you can buy two year additional CMC or buy a HP laptop or Dell laptop and take two or three years make business day service or same business day service you cannot opt for that and then pay that additional Rs. 20,000, Rs. 30,000 and get that bundle that product it becomes very attractive. So, that is the way how a product.

And typically you will lot of the car industry, the computer industry all come up with this type of a service bundling and you need to do these to gain the pricing power.

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Pricing across countries
International Pricing Strategies

- Major decision: standardize or differentiate between international markets.
- Two opposing forces for standardize or differentiate decision:
 - Standardization: attain similar positioning by largely standardized prices,
 - Differentiation: adjust prices to adapt various foreign markets and maximize the profit.

The slide features a video inset of a man in a suit speaking. The background has a blue and green geometric design on the right side. At the bottom, there are logos for institutions, including one with a tree and another with a gear.

Pricing across the countries. Major decisions standardize and differentiate between the international market. Two opposing factors for standardized and differential decision as I have explained you standardization versus differentiation in one of the slide. Standardization attains similar positioning by largely standardized product, differentiation adjust prices to adopt foreign market.

In certain market you can have standardized product with a standardized pricing in certain products, certain market you have the various foreign market depending on your profit companies profit directives and others. So, you can have a standardize price. You can think that I will have standardize price for this phone everywhere in the world or I will have a different price for this phone in this country in country x, country y, country z.

So, I will have a differentiate pricing in that. So, either you can have a standardized or differentiate pricing depending on your product, depending on the market, depending on various other factors **which have sold**, economy, competition and so many other factors will come into the place.

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Pricing Across Countries

International Pricing Strategies

- Major decision: standardize or differentiate between international markets.

Standardization:

- Attain similar positioning by largely standardized prices.
- Brings international price consistency.
- Low-risk strategy.
- Appropriate for very large customer base and reach in too many countries.
- Customer is B2B and require same price for all his companies internationally (after adjusting for taxes and forex).

Differentiation:

- Adjust prices to adapt various foreign markets,
- Help maximize the profit,
- Headquarter loses control over pricing as subsidiaries make it.
- Consider for consumer country specific factors.



Pricing across countries standardization what is the advantage you standardize and differentiate at the international market. So, attain similar position by largely standardized price, brings international price consistency that means if I buy a product somewhere in London, I will buy a product somewhere in Paris or in Delhi or in Tokyo the prices will be almost same very near to difference.

Low risk strategy appropriate for very large customer base and reach to too many countries, customer in B2B require same prices for all companies in several companies suppose the company is having an international operation and having manufacturing somewhere in India, somewhere in China, somewhere in Vietnam and the sourcing of the product the raw material or some components are coming from some other countries say from Germany from some other countries coming from China or some other countries.

And then you have the same price should be applicable whether it goes to China plant, it goes to India plant or it goes to Vietnam plant same price should be available there so that is known as standardization. It is there in B2B for the companies typically where it is required for the manufacturing the products international, differentiation, adjust prices to adapt various foreign market.

So, I will have a different pricing for Japan, Louis **Vuitton** is having a different pricing for product in Japan and Louis Vuitton is having a different pricing in India. Here is to maximize the profit so you know depending on the situation, depending on the various other factors which I have decided discussed and you can take a different profit maximization.

Headquarter loses control over pricing as subsidiary making maybe the subsidiary in India will take a decision for the best pricing in India.

Subsidiary in Europe will take a decision what should be the pricing in Europe and consider the consumer country specific factors you have to also look at the what is the consumer country various external factors and the internal factors like competition and market of the place and I take a decision on the pricing. So, the price can be standardized price throughout the world.

It can be differentiate price throughout the world. So, you remember the product we have discussed standardized product throughout the world or a adaption of the product. Similarly, pricing it can have a standardized pricing, it can have a differentiated pricing depending on the situation.

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So, taxonomy of international pricing practices. So, in the x axis you see the multi local markets and the global markets in the x axis and the y axis you see the preparedness for the internationalization so there are four quadrants. The quadrants 1 local price follower. So, what is there? The preparedness for internationalization is very low if you look at the y axis if it is very low and in that multi local market.

It is not going to a global market, it is a multi local market few countries. The limited resources leverage, dependent on local export intermediary, cost oriented standard prices unexposed to global forces. The other one the next one the multiple price setter, the company

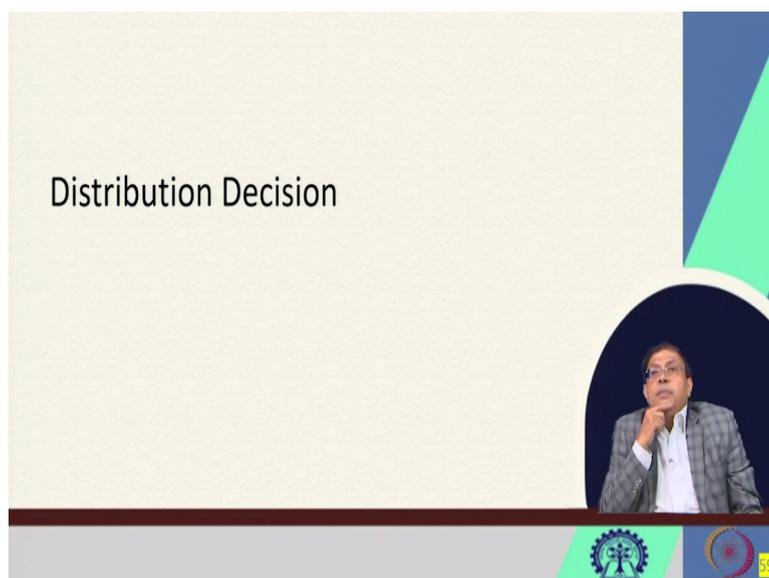
the preparedness to go in the international market is very high, but still in a multi local markets domain local market leaders in selected markets, market oriented adapted prices local competition.

The second one if you look at here it is for the global market, but the penetration of the company is not that high then new comer to the global market. So, these companies are newcomer to the global market, market oriented and standard price, global competition, but local differences and the fourth one is a global price leader the global market in x axis and y axis the penetration of the company of the **internationalization** is also very high in that case global market leaders.

Market and cost oriented global prices, global competition in local differentiation. So, this is a very important slide where you can have a strategy depending on a situation whether you are a local price follower or whether you are a global price follower or you are a multiple local price setter or you are a global price leader depending on the situation of the global market to the highest penetration.

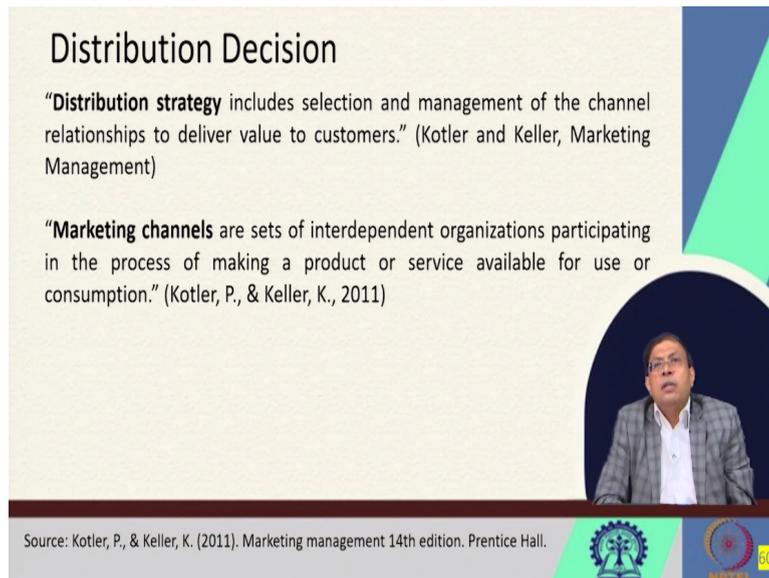
Preparedness for the international market depending on these two situations you can be in any of these quadrant and you can take a decision accordingly.

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Then comes the distribution decisions so now we discussed about the product now we have discussed about the pricing. Now comes the placement or the distribution decision the placement is very, very important the distribution decision.

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Distribution Decision

“**Distribution strategy** includes selection and management of the channel relationships to deliver value to customers.” (Kotler and Keller, Marketing Management)

“**Marketing channels** are sets of interdependent organizations participating in the process of making a product or service available for use or consumption.” (Kotler, P., & Keller, K., 2011)

Source: Kotler, P., & Keller, K. (2011). Marketing management 14th edition. Prentice Hall.

The slide features a light beige background with a blue and green geometric design on the right side. A circular inset in the bottom right shows a man in a grey jacket speaking. At the bottom, there are logos for IIT Bombay and IIT Madras.

So, distribution strategy includes the selection of management of channels relationships to deliver value to the customer, marketing channels are set independent organization participating in the process of making a product and service available for use of the consumption.

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Determinants of Distribution Decision

- **External determinants:**
 - Characteristics of consumers/customers
 - Product's nature
 - Demand's nature
 - Law and regulations
 - Competition
 - Local business practices

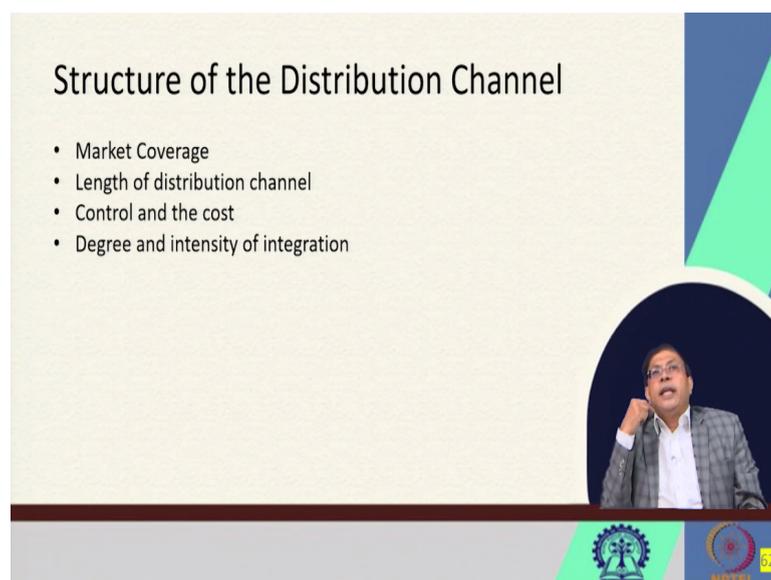
The slide features a light beige background with a blue and green geometric design on the right side. A circular inset in the bottom right shows the same man in a grey jacket speaking. At the bottom, there are logos for IIT Bombay and IIT Madras.

Let us go into little bit in detail. So, the external determinant characteristics of the customers, product nature, demand nature, law regulations, competition you can make it out these are all each one of them is very, very important and what is the characteristics of the consumer where there are consumers are there, where the consumers are located are they located centrally or regionally or spread across that geography.

Product nature can this product is a perishable product or a is a product is very, very sophisticated product which needs to be carried in a very, very packaging should be perfect so many things and then it cannot be stored there it has to be used. So, there are so many product related nature there then demand nature is also very important how frequently the product is in the demand in that particular customer place.

And then law of regulations in the country is also very important, the competition is also important and local business practices also very important whether the people buy from the grocery shop or they go to a shop local grocery shop or they go to the modern states. So, you go the local kirana shops or they go to the modern trade like Big Bazaar spencers to buy the product so that is a local business practice how your distribution channel should be there international market.

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So, structure market coverage, length of the distribution channel, control the cost and degree of intensity of integration.

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Market Coverage

Structure of the Distribution Channel

- **Market Coverage:** refers to the geographical areas, intensity of the outlets.
- 3 approaches to the market coverage:
 - Intensive coverage
 - Selective coverage
 - Exclusive coverage



Market coverage so the geographical areas how you geographically as I said and the intensity of the outlets, intensity selective coverage exclusive coverage so three approaches in that. Intensive coverage, selective coverage so intensive coverage I will intensely cover all the Tier 3 cities in the country I will intensely cover Tier 2 cities in the countries, what is the strategy or I will have selective intensive in Tier 3 selective in Tier 2 or maybe I will have an exclusive coverage so I will come to that little differently I will explain.

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Channel Length

Structure of the Distribution Channel

- **Channel length** refers to the decision over the numbers of the levels or the intermediaries in the distribution channel.
- Longer channels are used for mass distribution and the distribution of the convenient goods.



Channel length describe refers the decision over the number of levels of the intermediaries in the distribution channels so how many there should be one national distributor and then four regional distributors or under regional distributor we will have some state wise distributor and then we have district level distributors all those things is a channel of the length. So, from the factory, from the production how we are sending through the national distributor, from

national distributor to the regional distributor, regional distributor to a maybe distributor at the state level and from distributor at the state level maybe at the district level distributors.

So, how is the channel finally at the end of consumer when it reaches how is the length of the channel which is very important. Longer the channels are used for the mass distribution and distribution of convenient goods as I explained what are the convenient goods? So, here you need a longer chain of distribution. So, for say a car you need a manufacturer and the dealer that is all for a car.

But for detergent you have a say for surf or aerial or any of this detergent you need a master distributor then you need a local distributor a regional distributor and maybe you need a state distributor and then you may have a district level distributor there. So, it all changes the length depending on the type of a product.

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Control/Cost
Structure of the Distribution Channel

- Control decision is associated with the decision about "how much control the firm wants to keep in its hand and how much it wants to give-up to intermediaries.
- Controllability is determined by available of the intermediary, government regulations, negotiation powers of the parties.
- Trade-off between the control and cost of distribution is crucial.

The slide features a speaker inset in the bottom right corner showing a man in a grey jacket and glasses pointing upwards. The slide has a light beige background with a blue and green geometric design on the right side. At the bottom, there are logos for IIT Bombay and IIT Madras.

Control cost, control decision is associated with the decision how much control the firm wants to keep in his hand, how much he want to give up the intermediaries how much control you have. Controllability is determined by available of intermediary, government regulation, negotiation power of the parties if the distributor is very large distributor and national distributor.

He will have large bargaining power to control the pricing. Trade off between the control and cost of distributor is very crucial here.

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Degree of Integration

Structure of the Distribution Channel

- Integration refers to uniting the channel members under the common leadership and the common set goal.
- Integration can be of two types:
 1. Vertical integration,
 2. Horizontal integration.




Degree of integration, integration refers to uniting the channel members under the common leadership and the common set goal. Integration can be in two types vertical integration and horizontal integration.

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Managing the distribution channels

- Careful choice of the intermediaries,
- Choose intermediaries who can develop and grow the market,
- Partnership with the local intermediaries,
- Commitment of resources (man, money, ideas) at the early stage of international entry,
- Do not let intermediaries control your marketing strategy,
- Collect market intelligence from the intermediaries,
- Get in touch with intermediaries with wide (national level) market reach.




Managing the distribution channel. So, careful choice of the intermediaries, choose intermediaries who can develop and grow the market. So, imagine this distribution is so important for you because distribution is finally help the product to reach to the consumer or to the customer or to the consumer. So, distribution the intermediaries are very important. Imagine you have a local grocery shop and you have gone there to buy a certain brand of hair oil there.

And you do not get that hair oil or maybe hair shampoo at that place it is a loss for that company because the product is not available because the intermediary or the distribution channel is not keeping the product and loss of sale is there. So, it is very, very important that you have to carefully choose your intermediaries so that there is when a consumer wants a product it should be available there.

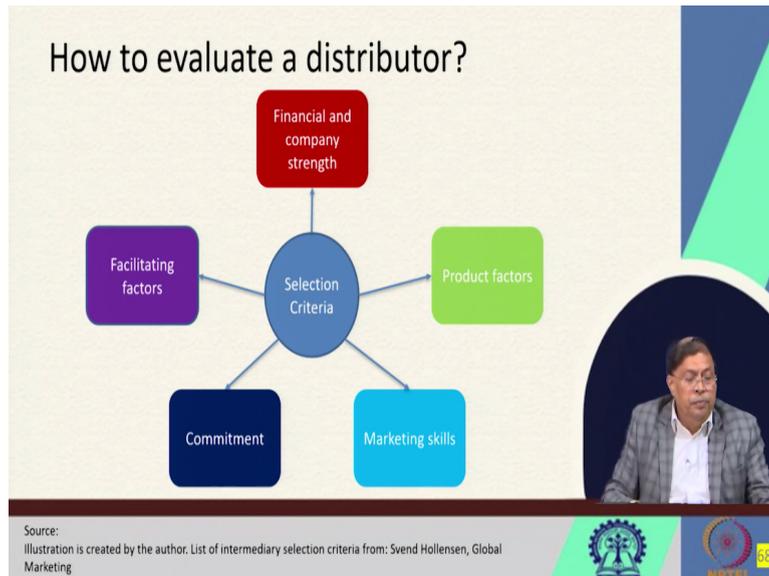
Choose the intermediaries who can develop and grow the market, partnership with local intermediaries and commitment of resources man money ideas at the early stage of international entry. So, when you have a international distribution channel so you have the resources, commitment of the resources that you have the adequate manpower, capital available for development in the international entry.

Do not let intermediaries control your marketing strategy they can give you the input, but they should not give you they should not control your marketing strategy, they should not tell you that this should be the price, they might have some bargaining power in the process, but they should not dictate their marketing your companies marketing strategy, collect market intelligence from intermediaries.

This is you remember I can tell you from my experience these people typically for capital equipments and others these distributors and these dealers they give you lot of market intelligent information and typically from my side when I worked in the large geographies we have seen the intermediaries who are responsible for distributing our companies product give us lot of information about the competitors.

Coming up with a new product, competitor coming up with not only product competitor knew pricing strategy, competitor discount policy, competitor price service bundling strategy all those information they give and so market it is very important for them and getting touch with intermediaries why national level to reach that.

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So, finally how to evaluate, how to evaluate selection criteria. Facilitating factors the product factors, the financial company strength, marketing skills and commitments all these are very important parameters how you select a distributor what are the product factors, what type of distributors I need for this type of product. I need a different set of distributors for selling a capital equipment.

I need a different set of distributors for selling a shampoo or I need a different set of distributor for selling the medicines. So, these are totally depending on the product facilitating factors, commitment of the distributor, what is the commitment of the distributor, what is the marketing skill of the distributors and then financial and company strength of the distributor how do you evaluate.

So, there may be 10 different distributors or 5 different distributors come to you I am sure they are interest to promote or distribute a product and how do you select these are the factors for you.

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Signing an agreement with international intermediary

- Duration of the contract
- Geographic boundaries
- Modes of communication (means)
- Payment section
- Product specifications and conditions of sales

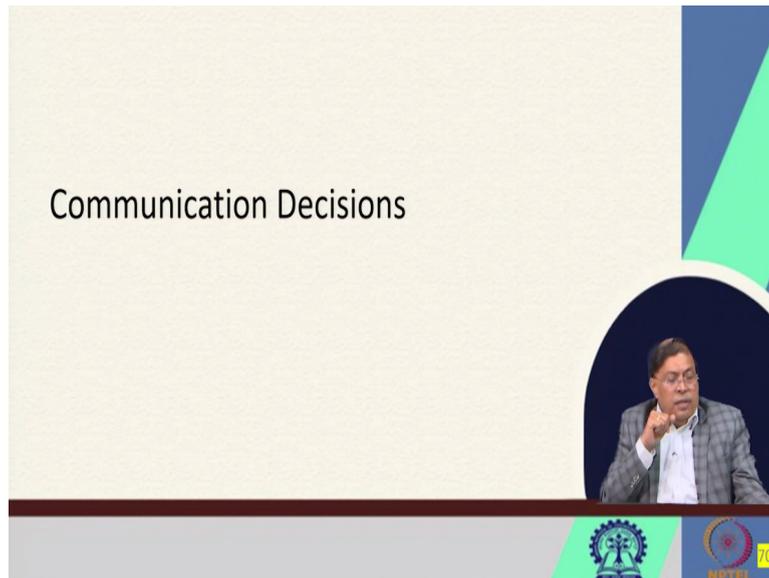


And then signing the agreement which is very important for you as I have said then the signing the contract, duration of the contract very clearly say that what is a geographical boundary be careful geographical boundaries are very, very important in the legal document, which territory they can sell and which segment of the customer they can sell it should have clear cut geographical boundaries.

Modes of communication, payment section what is the payment structure, will they get credit or it will be only through document letter of credit and it has to **be revocable** letter of credit and confirm letter of credit all those terms should be clearly mentioned, how much inventory they should maintain and how much spares they should maintain and what is the production, product specification and what is the condition of sale all those thing should be an intermediate should be very fairly drafted.

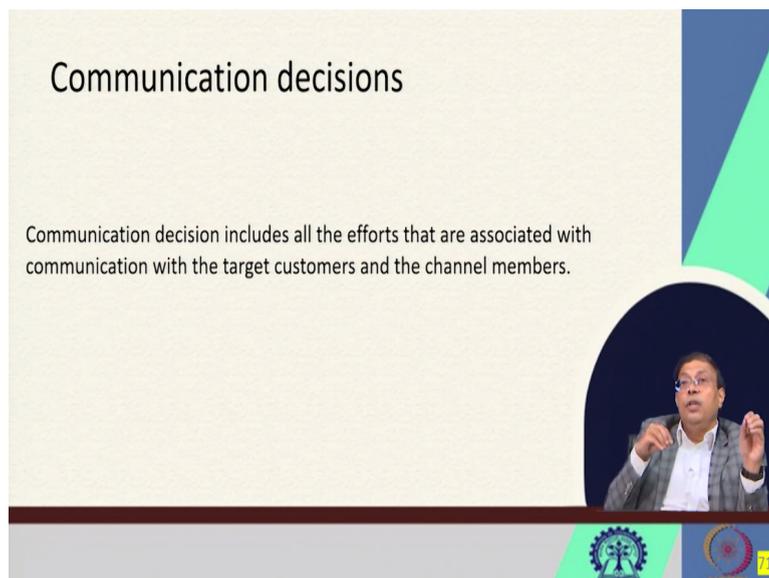
Remember my students international agreement with intermediary or distributor is very, very crucial because you cannot have a direct operation for every country, you cannot have direct sales people in any country it is very difficult and even the largest companies also will have a distributor or a dealer or a franchise network ensure that when you have a dealer network international intermediate it is totally legally drafted thoroughly taking the help of the legal people drafted and all these contents are very clearly specified into that.

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Communication decision now the promotion so the communication as you know we have discussed about the product, we have discussed about the pricing, we have discussed about the placement or the distribution now comes the promotion or the communication strategy.

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So, what are the communication decision includes the efforts that are associated with the communication with the target customer channel members. Now imagine you are an international company. You have to communicate to 10 different countries with your product, what type of a communication you have. You can have a different communication for India, you cannot use the same communication for the customers in Thailand or the customers in Singapore you cannot use.

So, you will have a different communication strategy for different countries and how do you communicate so what are the various ways of communication. As you know fundamentally there are two communication ways one is ATL that is above the line communication another is BTL below the line communication. So, above the line communications are typically the television the communication through the television channels or these are known as above the line communication.

And then there are certain communications which are below the line communications, which are typically the points of sale display or some bill boards and others things which and some **placards** and other things which use there below the line communication. So, what type of communication you will follow that is also very, very crucial decision for you and then communication is also important based on the culture of that country.

As I have said how the whether the communication which you can make in United States or in the advertisement what you can use in United States or the models photograph what you can use in United States maybe the same you cannot use it in India or maybe you cannot use it in some other country in the world. So, the communication ATL and BTL all these communications is very, very crucial strategy for you that is all from my side in the communication. We will take it over the communication in the next presentation. Thanks a lot thank you.