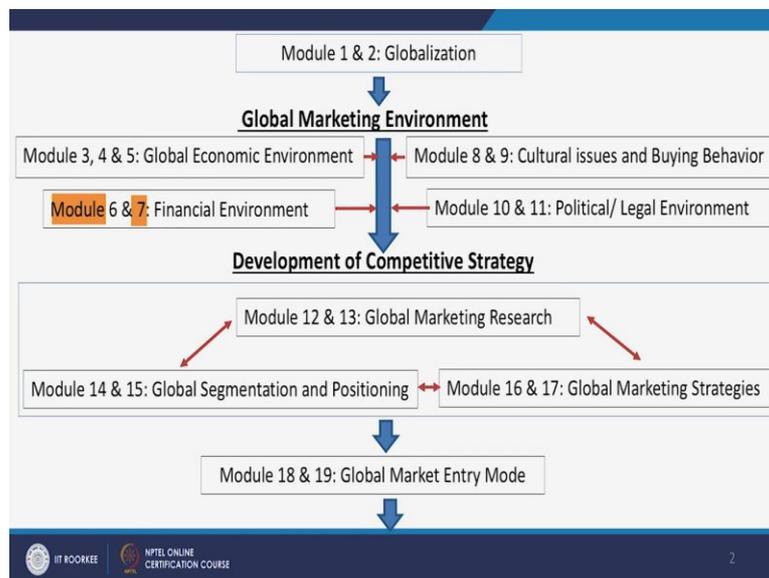


Global Marketing Management
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Module - 2
Lecture - 7
Financial Environment - Part II

Welcome to this course on Global Marketing Management. And we have talked about Global Economic Environment in module 3, 4 and 5.

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The financial environment is spread over 2 models, module 6 and 7. We have talked about module 6 and today we will talk about module 7 in which we will continue to discuss about financial environment.

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Module Overview

1. Introduction
2. Balance of Payments
3. Economic and Financial Turmoil Around the World
4. Marketing in the Euro Area

First, I will give you an introduction to the, to this module. And then, we will talk about balance of payments. Thereafter, I will give a couple of examples on economic and financial turmoil around the world. And then, we will talk about how to go about marketing in the eurozone, European Union or euro area. Now, in the study of international trade, the principal source of information is the balance of payment statement.

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Introduction

- In the study of international trade, the principal source of information is the **balance-of-payments** statement of the trading nations.
- It is officially known as the **Statement of International Transactions**.
- These are summary statements of all trade and financial transactions between one country and all other countries over a period of time.
- Companies monitor the BoP to watch for factors that could lead to currency instability or change in government policy.

So, that is the basic source of information, statement, this balance of payment statement of all the trading nations. Officially or formality, formally it is known as statement of international transactions. This is a summary of all economic and financial transactions that a country have with all other trading countries over a period of time. Now, it is important to monitor balance of payment because it will, it can lead to currency instability or change in government policy.

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Balance of Payments (BoP)

- Record of all economic transactions between the residents of a country and the resident of other countries over a specified time period usually a year.
- Monetary and fiscal policy must take the BoP into account at the national level.
- BoP data may be important:
 - Indicates pressure on exchange rate.
 - Signal imposition/ removal of controls over payments, dividends, interest.
 - Helps forecast country's market potential.

What is balance of payment? It is a record of all economic transactions between the residents of a country and the residents of other countries over a specified time period, usually this specified time period is 1 year. Monetary and fiscal policy must take the balance of payment into account at the national level. And this balance of payment data is important because it indicates the pressure on exchange rate; signals imposition or removal of controls over payments, dividend and interest; and it also helps forecast country's market potential.

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- Three broad categories of account that determine the BoP are:
 - Current Account
 - Capital Account
 - Official Reserves

And it is, it has 3 broad categories that in it. The first category is the current account, the second category is the capital account and the third category is official reserves. We will come back to these 3 in a moment.

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- BoP is a double entry system, similar to that used in accounting.
- Exports, like sales, are outflows of goods, and are entered as credits to merchandise trade (in current account).
- Imports, or inflows of goods, are represented by debits to merchandise trade.
- These exports and imports are most likely offset by an opposite entry to the capital account, reflecting the receipt of cash or the outflow of cash for payment.

Now, just like a company has, company maintain its books of accounts, similarly the situation that every country also maintain the books of accounts. So, this balance of payment is also a double entry system, similar to that used in accounting. Double entry means that for every entry on the credit side, there will be entry on the debit side; for every entry on the left hand side, there will be entry on the right hand side.

Exports like sales are outflow of goods and are entered as credits to merchandise trade. That is in the current account. Imports or inflow of goods are represented by debits to merchandise trade. These exports and imports are most likely offset by an opposite entry to the capital account, reflecting the receipt of cash or the outflow of cash for payment. So, when we exports, we credit to merchandise trade and when we import we debit to merchandise trade. And an equally and a matching entry is done in the capital account.

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Current account

- The Current account consists of:
 - merchandise trade (goods), services and income
 - unilateral transfers. *(no matching entry on the other side)*
- The balance of payments on **goods** (or trade balance) shows trade in currently produced goods.
 - The goods or merchandise account deals with tangibles such as autos, grain, machinery, or equipment.
 - Trade balance is the most frequently used indicator of the health of a country's international trade position.

So, the current account consists of merchandise trade. That is, goods, services and income. And secondly it contains unilateral transfers. Unilateral transfers means that, there is no matching entry on the other side. So, in current account, we have 2 different kind of things. 1 is merchandise trade, services and income; and then there are unilateral transfers. These are called as unilateral transfers because they are not backed by any other entry on the other side.

So, the balance of payment on goods or trade balance shows trade in currently produced goods. The goods or merchandise account deals with tangibles such as automobiles, grains, machinery or equipment. Anything that is tangible. Trade balance is the most frequently used indicator of health of a country's international trade position.

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Current account

- The balance of payments on **services** shows trade in currently transacted services.
- The services account deals with intangibles; examples include
 - dividends or interest on foreign investments, *Capital a/c*
 - royalties on trademarks or patents abroad,
 - food or lodging (travel expenses), and transportation.

The balance of payment on services shows trade in currently transacted services. Service account deals with intangibles. For example, dividends or interest on foreign investments. This foreign investments, they go to the capital account, while dividend or interest on foreign investments, they come under the current account. Royalties on trademarks or patents abroad and fooding or lodging, that are the travel expenses and transportation.

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Current account

- Unilateral transfers are:
 - transactions with no quid pro quo;
 - gifts for charitable, missionary, or educational purposes, and
 - funds wired home by migrant workers to their families in their country of origin.
- Unilateral transfers are done by :
 - private individuals and institutions and
 - government
- The largest unilateral transfers are aid, either in money or in the form of goods and services, from developed to developing countries.

Supporting entry on the other side

Negative current account-trade deficit
Positive current account-trade surplus

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Another thing that is covered under current account is unilateral transfers. Transaction with no quid pro quo, no entry, no supporting entry. So, unilateral transfers are transactions which do not have any supporting entry on the other side; gifts for charitable, missionary or educational purposes and funds that are sent home by migrant workers to their families in their country of origin.

Unilateral transfers are done by private individuals and institutions and also governments. The largest multinational, unilateral transfers are aid, that is, given either in the form of money or in the form of goods and services and they are primarily from developed countries to developing countries. Now, let us look at the capital account. We have talked about the current account, now we will talk about the capital account. The balance of payment in capital account is the mirror image of the balance of payment in the current account.

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Capital account

- The BOP in capital account is the mirror image of the BOP in the current account.
- It summarizes financial transactions and is divided into short -and long-term capital accounts.
- **Long-term** capital includes any financial asset maturing in a period exceeding one year, including equities.
 - Direct Investment; controlled by residents of other nations.
 - Portfolio Investment; do not give the investors effective control over the investment.

It summarizes financial transactions and is divided into short and long-term capital account. So, it summarizes financial transactions, 1. And it has 2 components, the short-term and the long-term capital account. Long-term capital account includes any financial assets maturing in a period exceeding 1 year. So, long-term means exceeding 1 year. So, it includes equities. Direct investments controlled by residents of other nations, and portfolio investment. But, these portfolio investments are such that, they do not give control, give the investors effective control over their investments.

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Capital account

- Direct investment is done in enterprises or properties, whereas portfolio investment typically involve the purchase of stocks and bonds.
- **Short-term** capital includes only those items maturing in less than one year, including cash.

Direct investments done in enterprises or properties where portfolio investments typically involves the purchase of stocks and bonds. So, in direct investments, they are done by enterprises. Whereas portfolio investments are typically done to purchase stocks and bonds. Short-term capital includes only those items maturing in less than 1 year, including cash.

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Official Reserves

- The official reserves account registers the movement of funds to or from central banks.
- There are four major types of reserves available to monetary authorities.
 - Monetary Gold
 - Special Drawing Rights (SDR) → IMF
 - IMF Reserve → Country
 - Foreign Exchange Reserve (with in the country)

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The third entry that is there in the balance of payment are called as official reserves. So, the official reserve account registers the movement of funds to or from central banks. There are 4 major types of reserves available to monetary authorities. First is gold, second is SDRs that are issued by IMF, then IMF reserves, that the IMF keeps for every country. And then, foreign exchange reserves within the country.

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- There are three balances to identify on the BOP statement of a country:
 - Balance of merchandise trade account
 - The current account (including merchandise trade, trade in services, and unilateral transfers)
 - The basic balance (the current account and the long-term capital)

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There are 3 balances to identify on the balance of payment statement of a country. So, balance of merchandise trade account the current account including merchandise trade, trade in services and unilateral transfers. And the third is the basic balance, the current account and the long-term capital account.

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The Internal and External Adjustments

- According to the **theory of international trade and balance of payments**, a surplus or deficit in a country's basic balance should be self-correcting to some extent. *→ zero*
- This self-correction is accomplished through the **internal and external** market adjustments. *-ve deficit | 0 | surplus +ve*
- The market adjustment mechanisms bring a nation's deficit or surplus within the basic balance back into equilibrium.
- This is a natural event where the economy of a nation corrects its prior excesses by moving back toward the middle.



Now, there is a very interesting phenomena. According to the theory of international trade and balance of payment a surplus or deficit in a country's basic balance should be self-correcting. That is, the surplus gets reduced and reaches 0 or deficits also gets reduced and they reaches 0. But this self-correction is only to some extent. This self-correction is accomplished through the internal and adjust an external market adjustments.

So, this surplus or deficits, they move towards 0. That is, the self-correction that happens and it happens through internals and external market adjustments. Now, let us see how this happens. The market adjustment mechanism brings a nation's deficit or surplus within the basic balance back into equilibrium. This is a national event where the economy of a nation corrects itself by moving back towards the middle.

So, this is the negative and this is the positive, 0 in between. So, all, here we have deficits and here we have surpluses. So, up to a certain extent, some of these deficiency, deficits they move towards 0 and some of these surpluses, they move towards 0; because of certain internal and external market adjustments that happen automatically. Now, let us look at an example.

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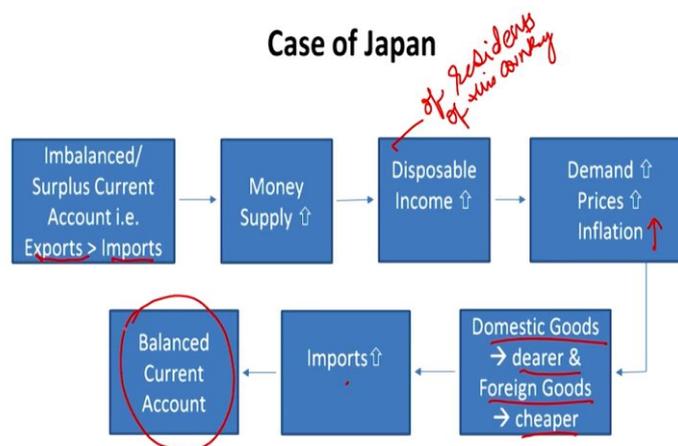
Internal Market Adjustment

- It refers to the movement of prices and incomes in a country.
- **Hypothetical example**- Case of a Current Account surplus country, such as Japan.

Case of current account surplus countries such as Japan. Now you will see that the movement of crisis, how the movement of crisis and income in a country happens.

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Case of Japan



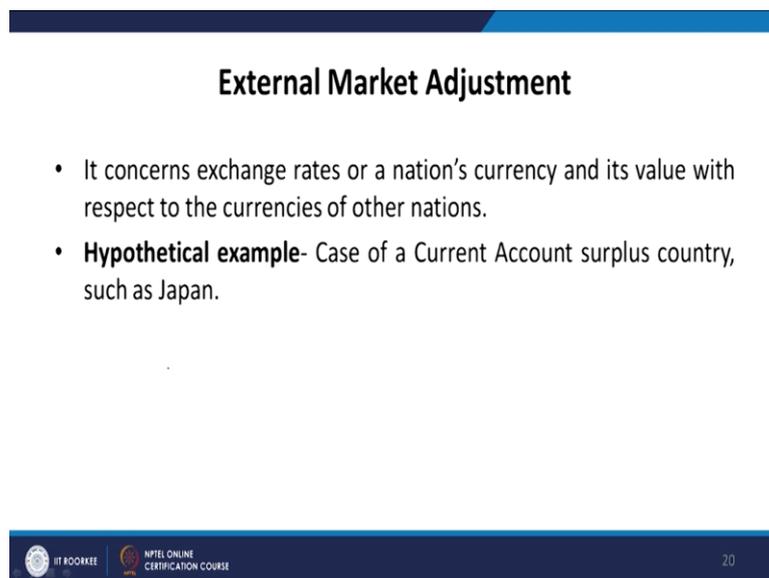
There in the, in Japan, that is a hypothetical example, the balance of payment is imbalanced. There is surplus current account. That is, exports are more than the imports. So, they are exporting more than they are importing. It means that the money supply increases. Money supply increases because they are exporting more, so they are earning more money as compared to what they are importing.

If they import more, then they will be making more payments. If they export more, then they will get more payments. So, when they get more payments, money supply increases. When this money supply increases, obviously the disposable income available to the residents of

this country, it will increase. When the disposable income increases, therefore the demand for goods and services will increase.

When demand exceeds supply, prices increase. And when price, sustained prices increase over a period of time, leads to increased inflation. It means that inflation and sustained increase in prices means that domestic goods become dearer. They become more expensive. While foreign goods, they become cheaper. When your foreign goods become cheaper, people start importing more. And therefore, this current account is balanced.

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The slide is titled "External Market Adjustment" and contains two bullet points. The first bullet point states: "It concerns exchange rates or a nation's currency and its value with respect to the currencies of other nations." The second bullet point is a hypothetical example: "Case of a Current Account surplus country, such as Japan." The slide footer includes the IIT Roorkee logo, the text "NPTEL ONLINE CERTIFICATION COURSE", and the number "20".

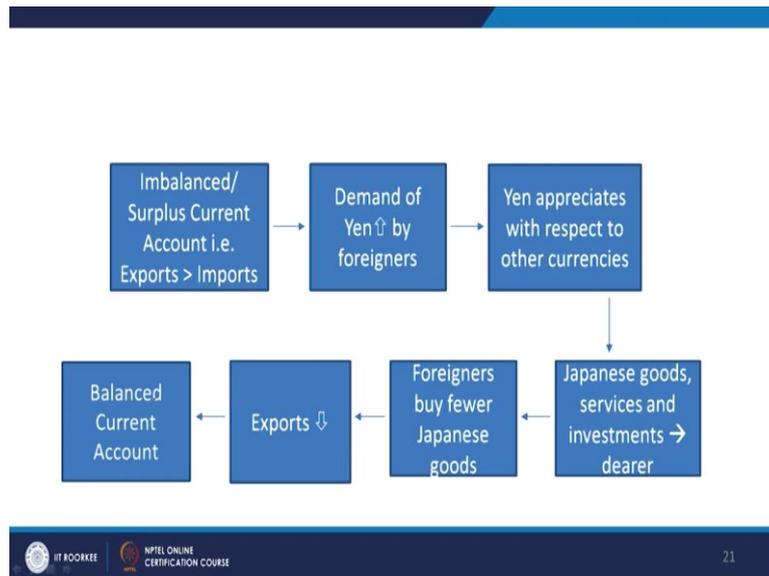
External Market Adjustment

- It concerns exchange rates or a nation's currency and its value with respect to the currencies of other nations.
- **Hypothetical example**- Case of a Current Account surplus country, such as Japan.

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So, this is what internal market adjustment is. Now, let us look at external market adjustments. It concerns exchange rate or a country's currency and its value with respect to currencies of other nations. Again, we will take a hypothetical example of a country like Japan and we will talk about a case of current account surplus country.

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Imbalanced surplus; now, in Japan there is imbalance on balance of payments and the surplus account, on surplus current account, again exports are more than the imports. When exports are more than the imports, then people who are importing, they will require yen in order to make payments for the imports that they do. So, when a Japanese person exports, he will need yen in return for the goods that he has exported.

So, of a person who is importing will need yen to pay to him. That is why the demand for yen by foreigners, by importers those who have bought goods from Japan; that will increase. Yen appreciates with respect to other currencies. Therefore, Japanese goods and services and investments become expensive, become dearer. Because the goods becomes dearer, the foreigners buy fewer Japanese goods. Therefore, the export decreases. And again it reaches 0. So, then we say that there is a balance on current account.

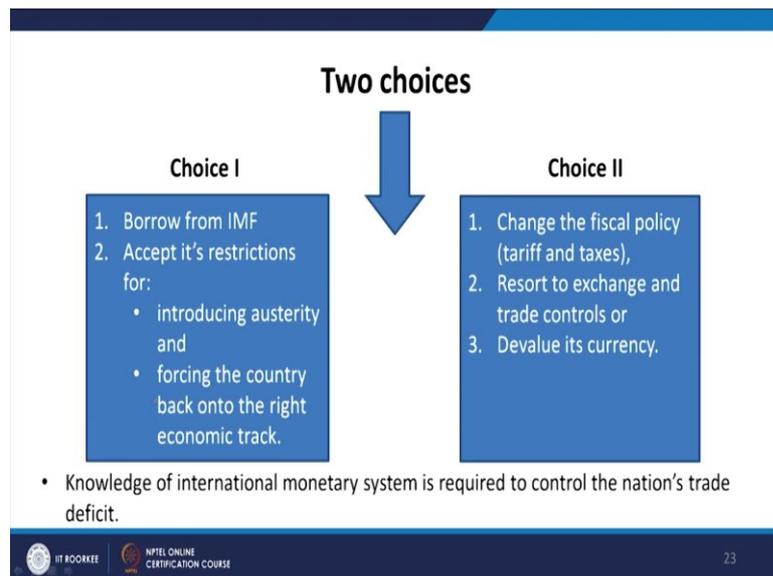
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Analysis

- In the previous example, it is demonstrated that for a nation, surplus or deficit trade balance is self-correcting, to a certain extent.
- **But what happens when there is a persistent trade deficit?**
- Outcome- Nation suffer a depreciating currency and finds it difficult to borrow from international capital market.
- Such a nation has typically two choices.

So, in this example, it is demonstrated that, for a nation, surplus or deficit trade balance is self-correcting to a certain extent. But what happens when there is a persistent trade deficit. Outcome is that the nation suffers a depreciating currency and finds it difficult to borrow from international capital markets and such nation has 2 choices. First choice is that they borrow from IMF.

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And for borrowing from IMF, they will have to accept its restrictions. Restrictions for introducing austerity measures and forcing the country back onto the right economic track. Choice 2 is change the fiscal policy that is related to tariffs and taxes. Resort to exchange and trade controls or devalue its currencies. So, knowledge of international monetary system is required to control the nation's trade deficit.

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ECONOMIC AND FINANCIAL TURMOIL AROUND THE WORLD

Excessive borrowing by companies, households or governments lie at the root of almost every economic crisis of the past two decades.

- Asian financial crisis of 1997–1998,
- U.S. subprime mortgage loan crisis of 2008.

Now, let us look at 2 economic and financial turmoils that have, in recent times that have happened around the world. Excessive borrowing by companies, households or government lie at the root of almost every economic crisis over the past 2 decades. We will look at these 2 financial crisis. That is, Asian financial crisis of 97-98 and U.S. subprime mortgage loan crisis of 2008.

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Asian Financial Crisis (AFC) of 1997–1998

- Chinese currency devaluation made its exports cheaper in Southeast Asia.
- Japan's post-bubble recession also caused its currency to depreciate resulting in two pronged problems for Southeast Asian countries (SACS).
 - i. recession-stricken Japan reduced imports from its Asian neighbors;
 - ii. the depreciated yen helped Japanese companies increase their exports to the rest of Asia.

Let us look at the Asian financial crisis. From now on it will be referred to as AFC of 1997 to 1998. Chinese currency devaluation made its exports cheaper in Southeast Asia. Japan's post-bubble recession also caused its currency to depreciate, resulting into 2 pronged problems for Southeast Asian countries. 1 is recession-stricken Japan reduced imports from its Asian neighbors, because they already did not had money to pay. And the depreciated yen helped Japanese companies increase their exports to the rest of Asia.

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Now, let us look at the mechanism of Asian financial crisis. So, on 1 hand we have China, on the other hand we have Japan. In 1994, renminbi 5.7 were equivalent to per dollar. It devalued to renminbi 8.7 per dollar. And Japanese depreciated depreciation in 94-97, 99.7 yen per dollar depreciated to 126.1 yen per dollar. So, now what happened in Southeast Asian countries, the currency pegged to the US dollar, it lost competitiveness for the Southeast Asian countries. That worsens the balance of payment for South East Asian countries. Therefore the, their currencies depreciated.

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Now, let us again look at how this has happened. In Southeast Asian countries, the trade, the SACS trade deficit with China and Japan, it increased abruptly. The trade deficit were paid by their heavy dollar dominated borrowing from abroad. Since most currency where virtually

pegged to the US dollar, increased trade deficit caused the depreciation of these currencies, because their currency were pegged to the US dollar.

The depreciated currency caused a huge increase in the size of dollar dominated debt when measured in terms of local currencies. And as a result, companies in these countries had to file for bankruptcies.

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Asian Financial Crisis: Effects In and Outside Asia

- **Thai** baht lost almost 60 percent of its purchasing power in dollar terms.
- **Malaysian** ringgit lost some 40 percent of its value.
- **Korean** won similarly depreciated 50 percent against the U.S. dollar in less than two months.
- **Indonesian** rupiah lost a whopping 80 percent of its value in the last quarter of 1997.

Effect, what are, let us look at the effect of the Asian financial crisis in and outside Asia. Thai baht lost almost 60% of its purchasing power in dollar terms. Malaysian ringgit lost some 40% of its value. Korean won similarly depreciated 50% against the US dollar in less than 2 months. And Indonesian rupiah lost 80% of its value in the last quarter of 1997.

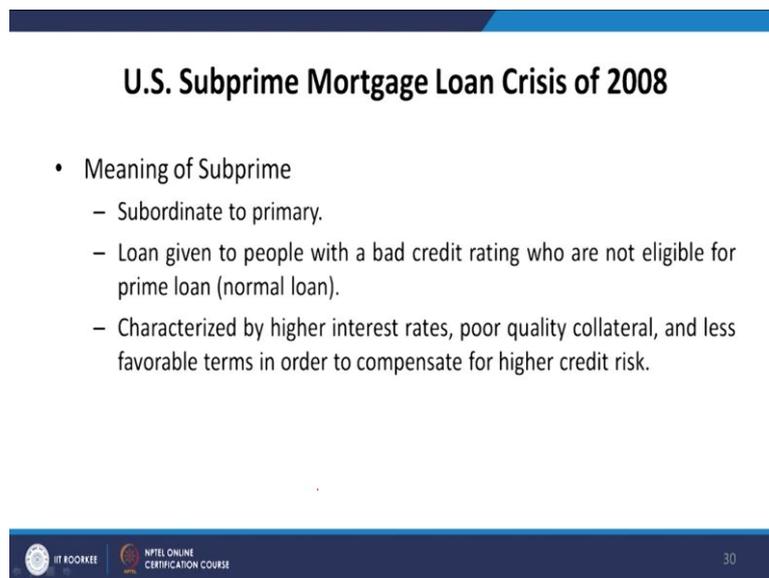
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Asian Financial Crisis: Effects In and Outside Asia

- The impact also spread to other countries.
- In the latter half of the 1990s, the crisis had escalated into the biggest threat to global prosperity since the oil crisis of the 1970s.
- The region's once booming economies were fragile, liquidity problems hurt regional trade, and losses from Asian investments eroded profits for many Japanese companies.
- Among Western companies, quite a few with large investments in Asia reported less than expected earnings.

Because of this, the impact also spread to other countries. In the latter half of 1990s, the crisis had escalated into the biggest threat to global prosperity since the oil crisis of 1970s. The region's once booming economies were fragile, liquidity problem hurt regional trade and losses from Asian investment eroded profits for many Japanese companies. Among Western companies, quite a few with large investments in Asia reported less than expected earnings.

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The slide features a blue header with the title "U.S. Subprime Mortgage Loan Crisis of 2008". Below the title is a bulleted list defining subprime loans. The footer includes the IIT Roorkee and NPTEL Online Certification Course logos, along with the slide number 30.

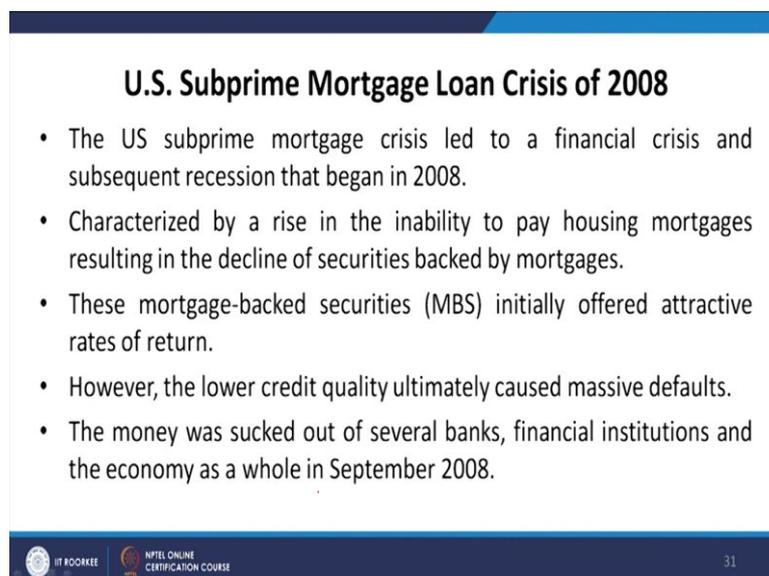
U.S. Subprime Mortgage Loan Crisis of 2008

- Meaning of Subprime
 - Subordinate to primary.
 - Loan given to people with a bad credit rating who are not eligible for prime loan (normal loan).
 - Characterized by higher interest rates, poor quality collateral, and less favorable terms in order to compensate for higher credit risk.

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Look at the another example of economic and financial turmoil. That is the US subprime mortgage loan crisis of 2008. Meaning of subprime: subordinate to primary; loan given to people with a bad credit rating who are not eligible for prime loans, that is the normal loans; characterized by high interest rates, poor quality collaterals and less favorable terms in order to compensate for high credit risk.

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The slide features a blue header with the title "U.S. Subprime Mortgage Loan Crisis of 2008". Below the title is a bulleted list detailing the crisis. The footer includes the IIT Roorkee and NPTEL Online Certification Course logos, along with the slide number 31.

U.S. Subprime Mortgage Loan Crisis of 2008

- The US subprime mortgage crisis led to a financial crisis and subsequent recession that began in 2008.
- Characterized by a rise in the inability to pay housing mortgages resulting in the decline of securities backed by mortgages.
- These mortgage-backed securities (MBS) initially offered attractive rates of return.
- However, the lower credit quality ultimately caused massive defaults.
- The money was sucked out of several banks, financial institutions and the economy as a whole in September 2008.

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The US subprime mortgage crisis led to the financial crisis and subsequent recession that began in 2008. Characterized by the rise in the inability to pay housing mortgages resulted in the decline of securities backed by mortgages. And these mortgage-backed securities initially offered attractive rate of returns. However, the lower credit quality ultimately caused massive defaults. The money was sucked out of several banks, financial institutions and the economy as a whole in September 2008.

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U.S. Subprime Mortgage Loan Crisis of 2008

- Several European and developing countries had invested heavily in American banks, leading to loss of their funds.
- This onslaught of defaults in the subprime mortgage market in the United States snowballed into a global credit crisis, causing the collapse of the securities market around the world.
- The current global recession is the worst of its kind since the Great Depression of 1929–1932.

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Several European and developing countries had invested heavily in American banks, leading to the loss of their funds. And because of this, the subprime mortgage market in the United States snowballed into a global credit crisis causing the collapse of securities around the world. The current global recession is, recession was the worst of its kinds since the great depression of 1929 to 1932.

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Immediate Implications of the Crisis

- As the credit market has dried up, businesses that rely on consumer credit suffered dearly.
- For example, when the credit crisis became evident by the end of 2009, the December sales of cars and light trucks in:
 - the United States fell by 36 percent compared with a year ago.
 - France fell down by 16 percent despite government incentives designed to prop up the market.
 - Spain were off by almost 50 percent.
 - Japan, reduced by 22 percent.



The immediate implication of the crisis were, as the credit market had dried up, businesses had to rely on consumer credit. This, that suffered dearly. For example, when the credit crisis became evident by the end of 2009, the December sales of cars and light trucks in United States fell by 36% compared to a year ago. In France, it fell down to 16% despite government incentives designed to prop up the market. Spain were off by almost 50%. And in Japan, it reduced by almost 22%.

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Responses to the Regional Financial Crises

- Marketers are facing two dire consequences of the crisis:
 - Declining markets and
 - Increased competition from existing competitors.
- Their major task is :
 - Customer retention- figure out how to keep current customers
 - Customer acquisition- gain new ones and
 - Maintain profitability in the long run.



What should marketers do in response to the regional financial crisis? Marketers are facing 2 dire consequences of, because of the crisis. First is, declining markets and increased competition from existing competitors. Now, their major task is to retain customers, figure out how to keep customers, current customers; customer acquisition, how to gain new

customers and maintain profitability in the long-term. So, how did consumer responded to the recession?

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Consumer Responses to the Recession

- Consumers may:
 - become more selective in choosing products and stay away from impulse buying in a recessionary period.
 - begin to spend their money more wisely and emphasize value for the money.
 - consume less of some products but we may even consume more of certain other products.

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Consumers may become more selective in choosing products, because now they have less money. And stay away from impulse buying in the recessionary period. Impulse buying is where you have not come prepared regarding what you will buy. It, they began to spend their money more wisely and emphasize value for money. And they consume less of some product but we may even consume more of certain other products.

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General changes in the Consumption Pattern in an Economic Downturn

- Consumer response to the recession

	Relationship with product category	Relationship with brands
III rd	Negative withdrawal • Stop using certain product categories altogether • Abstain from benefits of certain product categories	Ist Positive adaptation • Use on fewer occasions • Use less quantity • Substitute with different products • Cut down waste
IV th	Negative withdrawal • Use only generic or commodity products • No brand loyalty: respond to daily price or other discounts	IInd Positive adaptation • Become more loyal to favorite brands • Switch loyalty to economy of value brands • Occasionally trade up to "little luxury" brands to compensate for downsizing lifestyle

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Look at the general changes in the consumption pattern of a, in an economic downturn. What are the consumer responses to the recession? So, now we have to axes. On the x-axis we have, whether consumer adopts it or whether they withdraw from this product. On the y-axis

we have, relationship with the product category and relationship with the brand. Now, in this first cell, when the consumer wants positive adaptation and they want continued relationship with the product category.

What happens is, they use on fewer occasions; they use less quantity; but they substitute with different products and cut down waste. When they want to continue with the relationship with the brand that we are talking about this, they become more loyal to favorite brands; switch loyalty to economy of value brand and they occasionally trade up to little luxury brands to compensate for downsizing lifestyles.

Now, look at the left hand side. This is the third cell that we are talking about. They may stop using certain product categories altogether; abstain from benefits of certain product category. In the fourth cell, they use only commodity products. There is no brand loyalty, respond to daily prices or other discounts.

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Corporate Responses to the Recession

- Corporate response to the recession
 - ✓ Pull-out
 - ✓ Emphasize a product's value
 - ✓ Change the product mix
 - ✓ Repackage the goods
 - ✓ Maintain stricter inventory
 - ✓ Look outside the region for expansion opportunities
 - ✓ Increase advertising in the region
 - ✓ Increase local procurement

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How do companies' corporate responses response to the recession? First is that they may pull out of the country. They may emphasize the products value; they may change the product mix; repackage the goods; maintain stricter inventory; look outside the region for expansion opportunities; increased advertising in the region and increased local procurement.

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Corporate Responses to the Recession

- Different companies have reacted differently to the recession, based on their different corporate objectives.
- General orientations in crisis management:
 - **short-term**- maximize year-to-year profit (or minimize loss)
 - **long-term**- tolerate some short-term loss for the benefit of future gains
- A short-term oriented solution is to pull out of the market, at least temporarily as long as the markets remain in a recession.
- A long-term oriented solution is to modify marketing strategies in various ways to address the consumer needs completely changed during the recession.

So, different companies have reacted differently to the recession based on their different corporate objectives. Objectives can be in the short-term and they can be in the long-term. The short-term oriented solutions to pull out of the market at least temporarily as long as the market remains in recession. Long-term oriented solution is to modify the marketing strategies in various ways to address the consumer needs completely changed during the recession.

So, 1 is of plain simple solution that you get out of that market which is in recession, may be temporarily or maybe permanently. And the second, the long-term oriented solution is that you modify your marketing strategies so that you can address consumer needs, the changed consumer needs.

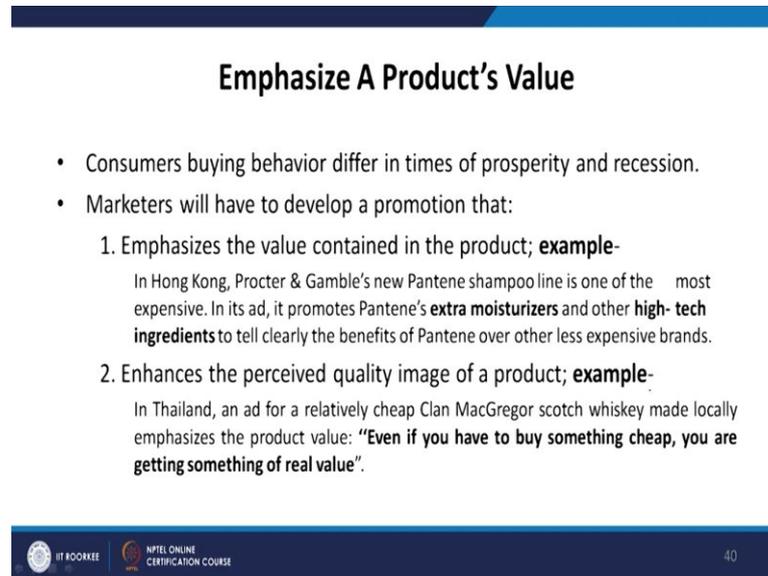
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Pull-out

- Pulling out of the market is an easy way out, at least, financially in the short run.
 - **example**- J.C. Penney and Wal-Mart left Indonesian market after Indonesia's rupiah depreciated by almost 80 percent.
- **Advantage**: Least painful option in the short run.
- **Disadvantage**: Can cause irreparable consequences in the long run in terms of loss of trust and loyal relationships.

The example of pull out is J.C. Penney and Walmart left Indonesian markets after Indonesia's currency rupiah depreciated by almost 80%. The advantage was least painful option in the short-term. But the disadvantage was, it can cause irreparable damage in the long run, because that leads to loss of trust and loyal relationships.

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Emphasize A Product's Value

- Consumers buying behavior differ in times of prosperity and recession.
- Marketers will have to develop a promotion that:
 1. Emphasizes the value contained in the product; **example-**
In Hong Kong, Procter & Gamble's new Pantene shampoo line is one of the most expensive. In its ad, it promotes Pantene's **extra moisturizers** and other **high-tech ingredients** to tell clearly the benefits of Pantene over other less expensive brands.
 2. Enhances the perceived quality image of a product; **example-**
In Thailand, an ad for a relatively cheap Clan MacGregor scotch whiskey made locally emphasizes the product value: **"Even if you have to buy something cheap, you are getting something of real value"**.

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Another option in recession is to emphasize the product value. Consumer buying behavior differs in times of prosperity and recession. Marketers will have to develop a promotion that emphasize the value contained in the product. For example, in Hong Kong, Procter & Gamble, new Pantene shampoo line is one of the most expensive. In its ad, it promotes Pantene's extra moisturizer and other high-tech ingredients, to tell clearly the benefits of Pantene over other less expensive brand.

Or they may emphasize the perceived quality image of a product. For example, in Thailand an ad for a relatively cheap Clan MacGregor scotch whisky made locally emphasize the product value. Even if you have to buy something cheap, you are getting something of real value was the tagline that they used.

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Change the product mix

- Shifting the product mix by pushing relatively inexpensive product lines while de-emphasizing expensive lines.
- This strategy is suited to pass over a slump by generating sufficient cash flow:
 - to cover the fixed costs of business operations
 - to maintain the corporate presence on the market
- **Example-** Burberry's, a British fashion retailer, has replaced its expensive jackets in window displays with relatively inexpensive T-shirts, stressing that everyone still afford some luxury even in hard times.



One more option is to change the product mix during the recession. Let us see what it means. Shifting the product mix by pushing relatively inexpensive products will de-emphasize expensive lines. The strategy suited to pass over a slump by generating sufficient cash flows to cover the fixed cost of business operations and to maintain the corporate presence in the market. For example, Burberry's, a that is a British fashion retailer, has replaced its expensive jacket in the window display with relatively inexpensive t-shirts stressing that everyone still afford some luxury even in hard times.

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Repackage the Goods

- Middle-class consumers want to maintain their lifestyle and quality of life as much as possible.
- They will keep buying what they have been buying but consume less.
- Strategy of repackaging is suitable and followed by many companies.
- **Example-** Unilever:
 - has reduced the size of its Magnum-brand ice-cream packs and made it cheaper,
 - offers giveaways on its Lux soaps (buy six, get one free), and
 - marketing its detergents in smaller and cheaper refillable packs



One more option during available to the companies during recession is to repackage the goods. Middle-class consumers want to maintain their lifestyle and quality of life as much as possible. They will keep buying what they have been buying, but consume less. Study for

repackaging suitable and followed by many companies. And the example that we take here is that of Unilever.

It has reduced the size of its magnum brand ice cream packs and made it cheaper. They offer giveaways on its Lux soap, buy 6 get 1 free. And marketing its detergent is smaller and cheaper refillable packs. Or corporates may maintain stricter inventory during recession.

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Maintain Stricter Inventory

- Just in-time (JIT) inventory management practices reduce unnecessary inventory and improve the product assortment by selling only what customers want at the moment.
- And for companies not practicing JIT, keeping inventory low is beneficial as it is a tied-up capital of unsold merchandise that can be costly to the them.
 - **Example**, the Kuala Lumpur store of Swedish furniture retailer, Ikea, has not restocked certain slow-selling items.

So, just in time inventory management practices that reduce unnecessary inventory and improve the product assortment by selling out only what consumer want at the moment. And for companies not practicing just in time, keeping inventory low is beneficial as it is a tied up capital of unsold merchandise that can be costly to them. For example, the Kuala Lumpur store of Swedish furniture retailer Ikea has not restocked certain low selling items. Another option available during recessions to the company is to look outside the region for expansion opportunities.

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Look Outside the Region for Expansion Opportunities

- This strategy is a part of geographical diversification to spread out the market risk.
- It is an effective way to take advantage of cheaper Asian currencies which translate to lower prices in other foreign countries.
- **Example-** American companies like Hewlett-Packard and Dell Computer, which depend heavily on less-expensive components now made in Asia, have begun to trim the prices of their products.

This strategy is part of a global diversification to spread out the market risk. It is an effective way to take advantage of cheaper Asian currencies which translate to lower prices in other foreign countries. For example, American company like HP and Dell computers have, they depend heavily on less expensive components, now made in Asia, have begun to trim the prices of their products.

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Increase Advertising in the Region

- It may sound somewhat antithetical to the strategy stated above. But there is a strong incentive to introduce new products now.
- Buyer's market for advertising space: Television stations are maintaining advertising rates but giving bonus airtime, effectively cutting advertising costs.
- *As a result, Unilever can better afford to reach the large middle-class market segment in Hong Kong that its SunSilk shampoo targets. American Express is launching the Platinum card for the first time in Malaysia, and it is targeted at the highest-income consumers whose wealth has been cushioned by investment overseas.*

Yet another option is to increase advertising in the region. It may sound somewhat antithetical to the strategy stated above. But there is a strong incentive to introduce new products now. Buyer's market for advertising space: television stations are maintaining advertising rate, but having bonus airtime effectively cutting advertising cost. Because now less number of people are advertising.

So, more cheaper advertising rates are available to the company. As a result, Unilever can better afford to reach the large middle-class market segment in the Hong Kong, that its Sunsilk shampoo targets. American Express is launching the platinum card for the first time in Malaysia and it is targeted at the highest income consumers whose wealth has been cushioned by investments overseas. The companies may increase local procurement.

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Increase Local Procurement

- Many foreign companies operating in Asian countries tend to procure certain crucial components and equipment from their parent companies.
- In recessionary period, these imports become dearer because of the depreciation of the Asian currencies.
- Whereas companies with localized procurement do not get affected easily by fluctuating exchange rates.

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So, many foreign companies operating in Asia tend to procure certain crucial components and equipments from their parent companies. In recessionary period, these imports become dearer, because of the depreciation of the Asian currencies. Whereas, companies with localized procurement do not get affected easily by fluctuating exchange rates.

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Increase Local Procurement

- To save operations from such market risks, companies scurry to speed steps toward making their operations in Asian countries more local.

Example-

- After the yen's sharp appreciation in the mid-1980s, Japanese manufacturers have moved to build an international production system less vulnerable to currency fluctuations by investing in local procurement.

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For example, after the yen's sharp appreciation in the middle 80s, Japanese manufacturers have moved to build an international production system less vulnerable to currency fluctuations by investing in local procurements.

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Marketing in the Euro Area

- The **European Union (EU)** consists of 28 countries. The ten central and eastern European countries are less developed than the others. The Euro zone economies represent 30% of the world's GDP and 20% of overall international trade.
- **The Maastricht Treaty**, signed in 1992, spelled out the guidelines toward European Monetary Union (EMU).
- The European Central Bank is headquartered in Frankfurt, Germany. It sets the monetary policy of the eurozone.



So, the last component of this module is how to market in the euro area. That is for a plain simple reason, because it is a big market and every country, every company would like to start, to keep on selling in that area. So, European Union consists of 28 countries. The 10 central and Eastern European countries are less developed than the others. The eurozone economies represent 30% of the world's GDP and 20% of overall international trade.

The Maastricht Treaty signed in 1992 spelled out the guidelines towards European Monetary Union. And the European Central Bank is headquartered in Frankfurt, Germany. It sets the monetary policy for the whole of the eurozone.

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Eurozone

- On January 1, 2002, the euro notes and coins began to replace the German mark, the Dutch guilder and other European currencies.
- The euro is the common currency in 19 out of 28 EU countries and used by some 338.6 million people every day.



On January 1st 2002, Euro notes and the coins began to replace the German mark and other European currencies. The euro is the common currency in 19 out of 28 EU countries and used by some 338.6 million people every day.

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Eurozone



Source: europa.eu



This is what is eurozone.

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- **Ramifications of the euro for Marketers:**
 - Price transparency
 - Intensified competitive pressure
 - Streamlined supply chains
 - New opportunities for small and medium-sized companies
 - Adaptation of internal Organizational structures
 - EU regulations crossing national boundaries

What are the ramification of euro for marketers? First is price transparency; intensified competitive pressure; streamlined supply chains, new opportunities for small and medium sized companies; adaptation of internal organizational structure; and EU regulations crossing national boundaries.

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Price Transparency

- Retailers in different Eurozone member states display their prices in euro and the price differentials have become clear to the consumer.
- Customers can easily compare prices of goods across countries.

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What does price transparency means? Retailers in different eurozone member states display their prices in euro. And the price differential have become clear to the consumers. Earlier, different countries, they had prices in their own currencies for the same product. So, that, it become difficult to compare the prices across countries. Now, because the prices are given in only in euro, so it becomes easier for consumers to look at which products which brands are cheaper and which are expensive.

Consumers can easily compare prices of goods across countries; intensified competitive pressures; many predictions are that competitive pressure will intensify in scores of industries following the launch of the euro.

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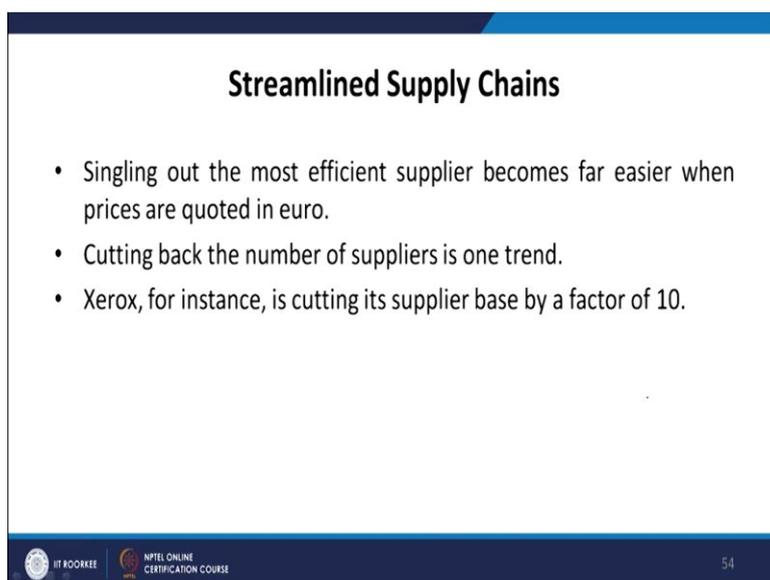
Intensified Competitive Pressure

- Many predictions are that competitive pressure will intensify in scores of industries following the launch of the euro.
- In line with these, several companies have taken measures to lower their costs and the wave of mergers and acquisitions to build up economies of scale is one of them.
- The Dutch supermarket chain Ahold, for example, is scouting opportunities in Britain, France, Germany, and Italy. By building up muscle, Ahold will be able to negotiate better prices with its suppliers.

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In line with these, several companies have taken measures to lower their cost and the wave of merger and acquisitions to build up economies of scale is one of them. The Dutch supermarket chain Ahold, for example is scouting opportunities in Britain, France, Germany and Italy. By building up muscle, Ahold will be able to negotiate better prices with its suppliers. So, the bigger the company, the more power it has to negotiate prices with various suppliers. How to go about streamlining supply chains?

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Streamlined Supply Chains

- Singling out the most efficient supplier becomes far easier when prices are quoted in euro.
- Cutting back the number of suppliers is one trend.
- Xerox, for instance, is cutting its supplier base by a factor of 10.

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Singling out the most efficient supplier becomes far easier when the prices are quoted in the euro. Cutting back the number of suppliers is one trend. Xerox for instance, is cutting its suppliers base by factor of 10. There are newer opportunities for small and medium enterprises. Many small and medium-sized enterprises have limited their operations to their home markets.

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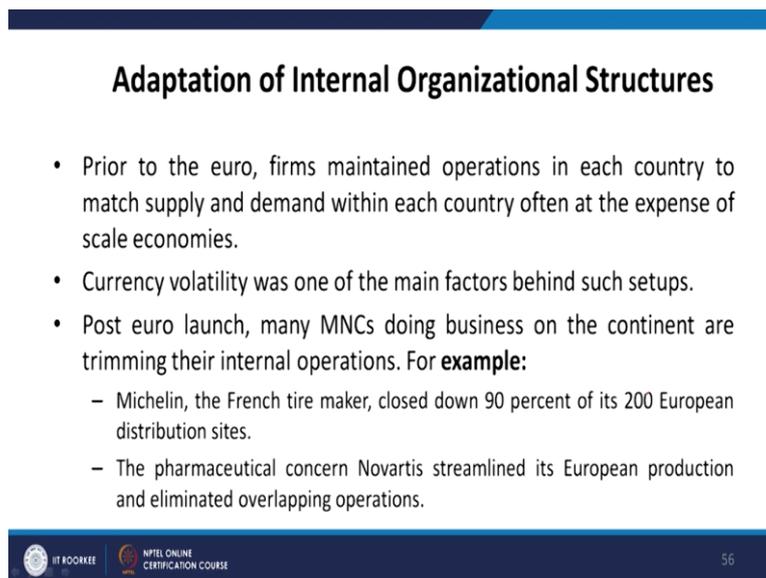
New Opportunities for SME Companies

- Many small and medium-sized enterprises (SMEs) have limited their operations to their home markets.
- One motivation for being provincial has often been the huge costs and hassle of dealing with currency fluctuations.
- The euro is most likely to be a boon for such SMEs as it eliminates the risk of currency volatility.

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One motivation for being provincial has often been the huge cost and hassle of dealing with currency fluctuations. The euro is most likely to be a boom for such SMEs as it eliminates the risk of currency volatility.

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Adaptation of Internal Organizational Structures

- Prior to the euro, firms maintained operations in each country to match supply and demand within each country often at the expense of scale economies.
- Currency volatility was one of the main factors behind such setups.
- Post euro launch, many MNCs doing business on the continent are trimming their internal operations. For **example**:
 - Michelin, the French tire maker, closed down 90 percent of its 200 European distribution sites.
 - The pharmaceutical concern Novartis streamlined its European production and eliminated overlapping operations.

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The companies can adapt to the internal organizational structures. Prior to the euro, firms maintained operations in each country to match supply and demand within each country often

at the expense of economies of scales. And there are 28 countries as you have seen. So, they will have 28 operations to manage the demand and supply. So, that leads to increased cost. Currency volatility was one of the main factor behind such setups.

Post euro launch, many multinational companies doing business on the continent are trimming their internal operations. For example, Michelin, the French tire maker closed down 90% of its 200 European distribution sites. The pharmaceutical concern Novartis streamlined its European production and eliminated overlapping operations.

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EU regulations crossing national boundaries

- For Europeans, EU has increasingly become a force for social regulation that crosses ethnic and national boundaries.
- Its officials are regulating what people can eat, how they can travel, even how they incinerate their trash.
- Companies have been struggling through EU's complex regulatory process.
- Many cases have been filed for national violations of EU farming, fishing, educational, fiscal, consumer, transportation, taxation, and environmental policies.

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European Union regulations across national boundaries. For Europeans, EU has increasingly become a force for social regulations. And that crosses ethnic and national boundaries. Its officials are regulating what people can eat, how they can travel, even how they incinerate their trash. Companies have been struggling through EU's complex regulatory processes. In many cases have been filed for national violation of EU farming, fishing, educational, fiscal, consumer transportation, consumer's transportation, taxation and environmental policies.

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These are some of the references that can be used for understanding these concepts further.
Thank you.