Uttar Pradesh Rajarshi Tandon Open University

Master of Business Administration

MBA-3.43

International Marketing

Block-5 FINANCIAL INSTITUTIONS AND CURRENCY 299-368

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BLOCK

1

INTRODUCTION AN OVERVIEW

UNIT-1

Introduction to International Marketing

UNIT-2

International Marketing Environment

UNIT-3

International Trade Environment

Curriculum Design Committee

Course Preparation Committee

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BLOCK INTRODUCTION

BLOCK-1

In Block-1 you learnt about the International Marketing Introduction, Scope, International Marketing Environment, Political Socio-cultural Environment, Challenges of International Marketing, Trade Theories, and Role of International Theories etc.

Unit-1 discusses about the definition of International Marketing, Customer Values, Management Orientations, and MNCs & TNCs.

Unit-2 discusses about the definition of International Marketing Environment, Environment factors, Political Systems and challenges in International Marketing.

Unit-3 discusses about the definition Trade Environment, Classical and Modern trade theories, Agreements, GATT & WTO.

UNIT-1 INTRODUCTION TO INTERNATIONAL MARKETING

Unit Framework

1.0 PURPOSE

- To understand the concept of International Marketing
- To know the Scope of International Marketing
- To know the differences between the Domestic & International Marketing
- To know the Marketing Orientations
- To know the benefits of International Marketing

1.1 INTRODUCTION

International promoting addresses international problems and describes ideas relevant to any or all international marketers, despite the extent of their international involvement. Not all corporations engaged in overseas promoting have a world perspective, nor do they have to. Some companies' foreign promoting is proscribed to 1 country; others market in a very variety of nations, treating each as a separate market; and still others, the global enterprises, look for market segments with common desires and needs across political and economic boundaries. All however are tormented by competitive activity within the international marketplace. It is with this future of International Marketing is concerned.

Emphasis is on the strategic implications of competition in several country markets. An environmental cultural approach to international promoting permits a really international orientation. The reader's horizons are not limited to any specific nation or to the particular ways of doing business in a single nation. Instead, the book provides an approach and framework for identifying and analyzing the important cultural and environmental uniqueness of any nation or global region. Thus, once measure the tasks of promoting in a very foreign surroundings, the reader will not overlook the impact of crucial cultural issues.

The text is designed to stimulate curiosity about management practices of companies, large and small, seeking market opportunities outside the home country and to raise the reader's consciousness about the importance of viewing international marketing strategies from a global perspective.

1.1.1 DEFINITIONS OF INTERNATIONAL MARKETING

International marketing refers to marketing carried out by companies overseas or across national boundaries. This strategy uses an extension of the techniques employed in the house country of a firm.

According to the American Marketing Association (AMA) "International promoting is that the international method of designing and death penalty the conception rating, promotion and distribution of concepts, goods, and services to form exchanges that satisfy individual and organizational objectives."

1.2 SCOPE OF INTERNATIONAL MARKETING

1.2.1 THE SCOPE OF INTERNATIONAL MARKETING – IMPORTANCE WITHIN THE INTERNATIONAL ARENA

A) International Marketing Leads to Peace among Nations-

All the activities associated with a business like development, production, and marketing, especially in case of high-tech products, involves people from around the world to work together. Moreover, firms as a locality of worker interactions change individuals from all countries to satisfy face-to-face for each recreation and commerce. All this interaction ends up in not simply the mutual gain related to business relationships however conjointly personal relationships and mutual affection. The latter square measures the inspiration of worldwide peace and prosperity and widens the scope of International selling. E.g. Mobile Phone Companies deploy different functions of their business in different parts of the world – say manufacturing in China, R & D in London and sales teams across the globe. In order to figure as a team and drive one agenda, the teams interact with each other frequently and occasionally meet for important agendas.

B) Global Markets Reduce Risk and Open Opportunities-

International selling will increase with international markets gap up for business. At times producing a product in an exceedingly country may be a lot of efficient and also the nation becomes the hub of all exports. E.g. huge portion of all shopper products sold-out globally is factory made in China.

Global brands bring in good portion of their revenues from outside their parent country. Below is that the example of few US-based firms and the way they widened the scope of International selling.

Factors Affecting the Scope of International Marketing :

All the events and trends affecting global business today, four stands out as the most dynamic, and the ones that will influence the shape of international business:

1. The rapid growth of the World Trade Organization and regional free trade areas such as the North American Free Trade Area and the European Union.
2. The trend toward the acceptance of the free market system among developing countries in Latin America, Asia, and Eastern Europe.
3. The burgeoning impact of the Internet, mobile phones, and other global media on the dissolution of national borders.
4. The mandate to manage the resources and global environment properly for the generations to come.

Fig.1.2.2

1.2.2 THE SCOPE OF INTERNATIONAL MARKETING – MAJOR KINDS OF BUSINESSES

A) Imports :

This is the easiest form of International Marketing a company can get into – Importing from one country and selling in the domestic market. This is attainable solely in an exceedingly state of affairs wherever there's demand within the domestic marketplace for the foreign merchandise or services. Companies also localize the imported product depending on the needs of the market.

B) Exports :

Opposite of importation and mercantilism, firms export their finalized product to international markets or on to their different franchises in far flung markets wherever they will sell the product to their localities for generating huge revenues.

C) Contractual Agreements :

Whenever, business moves on the far side their domestic boundaries, its scope of international marketing exposes it to greater chances of doing a lot more business. The market expands, the consumer base expands and even volumes and profits expand. Companies grow exponentially by going in written agreement agreements with many different partners overseas.

D) Joint Venturing :

Two brands will close and enter a possible market. The investments, profit or losses are pre decided in terms of both value and time period. At time it's useful for firms to enter into a squad for raise the scope of international selling as a result of barrier to new entrants in foreign markets. A local partner will sway be vastly helpful for doing business not solely operationally however conjointly from a domestic understanding of the market dynamics.

E) Fully Owned Manufacturing :

Relatively a better level of engagement within the foreign soils, companies can own a fully owned manufacturing in a country. The company will use this facility to sell product at intervals the country or export to close nations. Owning a totally owned producing helps firm’s management quality.

1.3 INTERNATIONAL MARKETING VS. DOMESTIC MARKETING

Though, fundamentally international marketing operations look like domestic marketing operations, yet some important distinctions can be perceived following an in-depth insight. The corporations having AN expertise of domestic business will in all probability have a foothold whereas diversifying into international operations. Keeping this in mind, a leading management guru, Micheal E. Porter has ascertained that corporations desiring to flourish achieve success globally should try at being successful within the domestic market 1st. Most firms like IBM, Coca Cola, Unilever, Proctor and Gamble, Suzuki, Sony operating globally in fact started initially as domestic companies. As the magnitude of their operations grew, they found it profitable to venture abroad by setting up manufacturing and distribution centers in other countries.

1.3.1 SOME OF THE POINTS OF DISTINCTION BETWEEN INTERNATIONAL AND DOMESTIC SELLING ARE

(i) **Method of selling :** The marketing is deemed to involve 2 processes viz., technical and social. The technical method basically includes of non human factors like product, price, cost, and brand. But, the social process takes care of human behavior, customs, attitudes, values etc. The latter is unique to a national market. Hence, this shows that international selling is completely different from domestic selling. Accordingly, sociological & cultural factors predominate the decision making with regard to marketing mix.

(ii) **Selling environment :** The environmental and operational variables conjointly assume a unique structure in international business. The environmental factors such as economic, politico legal, geographic, cultural and competition are much more dynamic and uncontrollable in foreign markets as compared to domestic markets. Different countries have completely different currencies, accounting practices, legislation, interest rates, inflation etc. So, the manageable factors of a firm (marketing mix) have to be compelled to be redesigned in step with the wants of individual countries. The terribly complexness of exchange transactions across nations makes it considerably completely different from domestic business operations.

BASIS FOR COMPARISON	DOMESTIC MARKETING	INTERNATIONAL MARKETING
Meaning	Domestic marketing refers to marketing within the geographical boundaries of the nation.	International marketing means the activities of production, promotion, distribution, advertisement and selling are extend over the geographical limits of the country.
Area served	Small	Large
Government interference	Less	Comparatively high
Business operation	In a single country	More than one country
Use of technology	Limited	Sharing and use of latest technology.
Risk factor	Low	Very high
Capital requirement	Less	Huge

Fig. 1.3

1.4 PRINCIPLES OF INTERNATIONAL MARKETING

For every business marketing is considered as an integral part where it is all about polices and plans that an organization and individual do to reach out to its predefined customers who are potential enough. Even it is defined as a process of planning and execution, promotion, distribution, pricing of services and goods to the desired individuals and organizations. Now the world is becoming a organized global village and the national boundaries are slowly getting vanished and companies are focusing on the global platform leaving the local markets. Marketing is and art of getting the new customers into it fold and retaining the old customers as well. Where ever you do marketing may be in the international level or local level the basic principle remains the same.

1.5 CUSTOMER VALUE AND THE VALUE EQUATION

Value has many different meanings. To some Value means price (what is the value of this car?) to others it means benefit (the value I got from this car). It also means the worth of something. That is why you hear some people saying "value for money" (meaning they are price sensitive); and others who prefer "money for value" (meaning they are willing to pay for what they consider as benefits, as from a brand or a better product, or more convenience etc.)

The dictionary meaning includes: The regard that something is held to deserve; the importance, worth, or usefulness of something. Synonyms are: merit, worth, usefulness, use, utility, practicality, advantage, desirability, benefit, gain, profit, good, service, help, helpfulness, assistance, effectiveness, efficacy, avail, importance, significance, point, sense.

No wonder, the reader is confused about the value word that s/he uses so often. When used in the vernacular it does not matter, but when used as a technical term, like Customer Value, the meaning of Value must be precise, so that everyone understands what it means, as shown below:

"Customer Value is the perception of what a product or service is worth to a Customer versus the possible alternatives. Worth means whether the Customer feels s/he or he got benefits and services over what s/he paid."

In a simplistic equation form, Customer Value is Benefits-Cost *(CV=B-C)*.

What the Customer pays is not only price (cash, cheque, interest, payment during use such as fuel and servicing for a car) but also non-price terms such as time, effort, energy, and inconvenience).

This equation is the most fundamental conscious or subconscious calculation made by a customer when comparing products, or purchasing goods and services.

For a couple of reasons, it also presents a real challenge for marketers:

A. Benefits and costs incorporate both tangible (quantitative) and intangible (qualitative) concerns, and consumers will also base assessments on both rational and emotional needs.

B. Although tangible components may be relatively simple to identify and understand (such as the benefit of a widget or feature versus how much it will cost), intangible components can be much harder to quantify.

1.6 COMPETITIVE AND DIFFERENTIAL ADVANTAGE

1.6.1 COMPETITIVE ADVANTAGE

Competitive advantages are conditions that allow a company or country to produce a good or service of equal value at a lower price or in a more desirable fashion. These conditions allow the productive entity to generate more sales or superior margins compared to its market rivals. Competitive advantages are attributed to a variety of factors including cost structure, branding, and the quality of product offerings, the distribution network, intellectual property and customer service. For example, if a company advertises a product for a price that's lower than a similar product from a competitor, that company is likely to have a competitive advantage. The same is true if the advertised product costs more, but offers unique features that customers are willing to pay for.

In the Eighties, academician Michael Porter from the Harvard graduate school checked out self-made businesses and created a framework for a way leaders may suppose strategically concerning beating the competition. Porter urged that firms analyze 5 necessary criteria, that Porter known as the 5 Forces, to achieve associate understanding for the competitive landscape. Once that had been achieved, he recommended the use of three generic strategies to help leadership make the best choice about which type of competitive advantage they should pursue.

Porter's 5 Forces is associate alternate model to SWOT (Strengths, Weaknesses, Opportunities, Threats) an analysis tool which is credited to Albert Humphrey at the Stanford Research Institute to help companies get a way of their position at intervals a competitive landscape. Porter instructed his students at Harvard concerning SWOT analysis, but felt the tool had limitations because it placed too much focus on individual companies rather than on industries. Porter saw the requirement for a framework that additionally checked out the competitive landscape holistically, in the context of an entire industry. The simple framework that Porter developed for achieving a competitive advantage in the marketplace is still being taught in business schools today.

a) Porter's techniques for analyzing competitors

In his 1980 book, Competitive Strategy: Techniques for Analyzing Industries and Competitors, Porter maintains that the attractiveness of a market segment is determined by five competitive forces:

Threat of recent entrants - however simple is it for a replacement contender to enter the market?

Rivalry among existing competitors - what number competitors provide an identical product at an identical price?

Threat of substitute product or services - what's the chance a client can switch to an identical product?

Power of consumers - however simple is it for consumers to drive costs down? Power of suppliers - however simple it is for suppliers to drive costs up?

The first 3 forces area unit generally said as horizontal competition. Variables in horizontal competition embody the chance of recent competitors getting into the market, the rivalry among existing competitors and the threat posed by substitute products or services. The last 2 forces area unit generally said as vertical competition. Vertical competition depends upon offer chain, the value of raw materials, the price of labor and also the customer's relationship with a product, complete or company.

b) Porter's techniques for creating superior performance

In his 1985 book, Competitive Advantage: Creating and Sustaining Superior Performance, Porter proposed that once the potential for profitability in a market has been established, the next step toward gaining a competitive advantage is to come to a decision whether or not to use a affordable approach or a differentiation approach. And once this too has been decided, a third element that Porter calls focus needs to be nailed down; this part of the framework identifies who the product or service should be marketed to.

c) Cost leadership strategy - ought to the merchandise or service be offered at a lower cost than the competitors'?

d) Differentiation strategy - ought to the merchandise or service have distinctive options or edges that area unit thus appealing that customer’s area unit willing to pay a premium price?

e) Focus strategy - ought to the merchandise or service target niche markets that area unit unmarked or underserved by competitors?

Porter additionally checked out competitive methods from a long, sustainable angle and maintained that creating a sustainable competitive advantage not only helps boost a company's image in the marketplace, it also affects valuation and therefore additionally the potential for future earnings.

1.6.2 DIFFERENTIAL ADVANTAGE

A differential advantage is when a firm's products or services differ from its competitors' offerings and are seen as superior. Advanced technology, patent-protected products or processes, superior personnel and a strong brand identity are all drivers of differential advantage. These factors support wide margins and large market shares.

Samsung is famous for creating innovative products, such as the Series Phone, and supporting their market leadership with savvy marketing campaigns to build an elite brand. Major drug companies can also market branded drugs at high price points because they are protected by patents.

Differential advantage allows firms to charge a premium for its offered products or services as the customer does not only recognizes the advantage but also finds it useful enough to pay extra price for it. It does not necessarily imply better quality and can be observed in any stage of the company-customer relationship like, the ease of ordering products from a particular company may encourage customers to choose it over another company offering products with the same quality but less convenient ordering system.

In the service industry, example of a differential advantage may include firms which involve high level of engagement with their customers and offer customized services thereby ensuring customer loyalty even if a premium is charged for the service. Differential advantage is also sometimes used as an analysis tool in identifying the target market for a particular product based on the benefits a customer can avail by choosing that product.

1.7 MANAGEMENT ORIENTATIONS

The form and substance of a company’s response to global market opportunities depend greatly on management’s assumptions or beliefs both conscious and unconscious about the nature of the world. The worldview of a company’s personnel can be described as ethnocentric, polycentric, egocentric, and geocentric. Management at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism. The orientations are collectively known as the EPRG framework.

MANAGEMENT ORIENTATIONS

Management emphasis	Stage one Domestic	Stage two International	Stage three Multinational	Stage four Global
Focus	Domestic	Ethnocentric	Polycentric	Geocentric
Marketing strategy	Domestic	Extension	Adaption	Extension
Structure	Domestic	International	Worldwide area	Adaption creation matrix/mixed
Management style	Domestic	Centralized top down	Decentralized bottom up	Integrated
Manufacturing stance	Mainly domestic	Mainly domestic	Host country	Lowest cost worldwide
Investment policy	Domestic	Domestic used worldwide	Mainly in each host country	Cross subsidization
Performance evaluation	Domestic market share	Against home country market share	Each host country market share	Worldwide

Fig.1.7

1.7.1 ETHNOCENTRIC ORIENTATION

A person who assumes his or her home country is superior compared to the rest of the world is said to have an ethnocentric orientation. The ethnocentric orientation means company personnel see only similarities in markets and assume the products and practices that succeeded in the home country will, due to their demonstrated superiority, be successful anywhere. At some companies, the ethnocentric orientation means that opportunities outside the home country are ignored. Such companies are sometimes called domestic companies. Ethnocentric companies that do conduct business outside the home country can be described as international companies; they adhere to the notion that the products that succeed in the home country are superior and, therefore, can be sold every where without adaptation.

In the ethnocentric international company, foreign operations are viewed as being secondary or subordinate to domestic ones. An ethnocentric company operates under the assumption that “tried and true” headquarters’ knowledge and organizational capabilities can be applied in other parts of the world. Although this can sometimes work to a company's advantage, valuable managerial knowledge and experience in local markets may go unnoticed. For a manufacturing firm, ethnocentrism means foreign markets are viewed as a means of disposing of surplus domestic production. Plans for overseas markets are developed utilizing policies and procedures identical to those employed at home. No systematic marketing research is conducted outside the home country, and no major modifications are made to products. Even if consumer needs or wants in international markets differ from these in the home country, those differences are ignored at headquarters.

Volvo's ethnocentric orientation was quite apparent during its first few years of exporting cars and trucks to the united state. Designed for mild Japanese winters, the vehicles were difficult to start in many parts of the United States during the cold winter cars. Volvo's assumption was that Americans would do the same thing. Until the 1980s, Eli Lilly and company operated as an ethnocentric company in which activity outside the United States was tightly controlled by headquarters and focused on selling products originally developed for the U.S market.

Fifty years ago, most business enterprise- and specially those located in a large country such as the United States could operate quite successfully with an ethnocentric orientation. Today, however, ethnocentrism is one of the biggest internal threats a company faces.

1.7.2 POLYCENTRIC ORIENTATION

The polycentric orientation is the opposite of ethnocentrism. The term polycentric describes management's often-unconscious belief or assumption that each country in which a company does business is unique. This assumption lays the ground work for each subsidiary to develop its own unique business and marketing strategies in order to subsidiary to develop its own unique business and marketing strategies in order to succeed; the term multinational company is often used to describe such a structure. Until recently, Citicorp's financial services around the world operated on a polycentric basis. James Bailey, a Citicorp executive, offered this description of the company; "we were like a medieval state. There was the king and his court and they were in charge, right? No. It was the land barons went and did their thing. Realizing that the financial services industry is global zing; CEO John Reed is attempting to achieve a higher degree of integration between Citicorp's operating units. Like Jack Welch at GE, Reed is moving to instill a geocentric orientation throughout his company.

1.7.3 REGIOCENTRIC AND GEOCENTRIC ORIENTATIONS

In a company with a Regiocentric orientation, management views regions as unique and seeks to deep an integrated strategy.

For example, a U.S. company that focuses on the countries included in the North American Free Trade Agreement (NAFTA)—the United States, Canada, and Mexico — have a Regiocentric orientation. Similarly, a European company that focuses its attention on the EU or Europe is Regiocentric. A company with a geocentric orientation views the entire world as a potential market and strives to develop integrated world market strategies. A company whose management has a Regiocentric or geocentric orientation is sometimes known as a global or transnational company. The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a "worldview" that sees similarities and differences in markets and countries and seeks to create a global strategy that is fully responsive to local needs and wants.

A regiocentric manager might be said to have a worldview on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two. Jack Welch's quote at the beginning ofthis chapter that "globalization must be taken for granted" implies that at least some company managers must have a geocentric orientation. However, some research suggests that many companies are seeking to strengthen their regional competitiveness rather than moving directly to develop global responses to changes in the competitive environment. The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively. A crucial difference between the orientations is the underlying assumption for each.

The ethnocentric orientation is based on a belief in home country superiority. The underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that it is impossible and futile to attempt to transfer experience across national boundaries.

1.8 MNCS AND TNCS

1.8.1 MEANING OF MULTINATIONAL COMPANIES (MNCS)

A multinational company is one which is incorporated in one country (called the home country); but whose operations extend beyond the home country and which carries on business in other countries (called the host countries) in addition to the home country.

It must be emphasized that the headquarters of a multinational company are located in the home country.

Neil H. Jacoby defines a multinational company as follows:

"A multinational corporation owns and manages business in two or more countries."

A multinational corporation is known by various names such as: global enterprise, international enterprise, world enterprise, transnational corporation etc.

Some popular examples of multinationals are given below:

Foreign Multinational	Indian Affiliate/Subsidiary
Bata Corporation	Bata India
Cadbury	Cadbury India
Coca-Cola Corporation	Coca Cola India
Unilever	Hindustan Lever
Timex	Timex Watches
Colgate Palmolive	Colgate India
Pepsi Corporation	Pepsi India
Philips	Philips India
Sony Corporation	Sony India
Suzuki	Maruti Suzuki
GEC	GEC Alsthom
ABB	ABB India

Fig.1.8.I

Features of MNCs – at a glance

1. Huge assets and turnover
2. International operations through a network of branches
3. Unity of control
4. Mighty economic power
5. Advanced and sophisticated technology
6. Professional management
7. Aggressive advertising and marketing
8. Better quality of products

Fig.1.8.II

1.8.2 TRANSNATIONAL CORPORATIONS (TNCS)

These are large businesses that operate in a number of countries. They often separate their production between various locations, or have their different divisions – Head Office and Administration, Research and Development, Production, Assembly, Sales – separated around a continent or the globe.

Table 4: Aggregate Information for 20 Most Global Indian TNCs (Revenue and assets numbers in rupees billion)

		FY11	FY12	FY13	Growth over FY11	Growth over FY12
Revenue	Total	5,349	6,542	7,244	22%	11%
	India	1,798	2,070	2,047	15%	-1%
	International	3,551	4,472	5,196	26%	16%
	International/Total	66%	68%	72%		
Assets	Total	6,231	7,620	8,777	22%	15%
	India	2,818	3,419	4,107	21%	20%
	International	3,413	4,202	4,670	23%	11%
	International/Total	55%	55%	53%		
Employees	Total	605,489	677,828	722,090	12%	7%
	India	465,683	526,364	559,931	13%	6%
	International	139,806	151,464	162,159	8%	7%
	International/Total	23%	22%	22%		

Source: ISB Transnational Companies Survey 2013-14

Fig. 1.8.2

1.8.2.1 CONCLUSION

Over the last decade, the engagement of Indian corporations with overseas markets has undergone an entire transformation. India has step by step become additional integrated with the worldwide economy and Asian nation corporations square measure rising as necessary players on the worldwide landscape. Indian multinational firms have considerably raised their international plus base also as their international revenues over the past decade.

Despite the final dip in combination overseas FDI in 2013 (globally also as for India), the highest Indian TNCs continuing their aggressive globalization march by showing integer growth in international revenue, assets and employees. We anticipate that the extent of globalization will only increase further as India becomes more integrated with the rest of the global economy and as Indian companies gain more confidence by acquiring experience in overseas markets.

Our study has been the primary and still probably the sole systematic arrange to rank Indian multinational firms supported the TNI. We improved on last year's survey by increasing the quantity of taking part corporations, and hope to continue this over the years. This study facilitates comparison and benchmarking of the highest Indian TNCs among themselves and with the highest TNCs within the world.

1.8.2.2 REASONS FOR GROWTH OF TNCS

- **Global expansion** of a major product with worldwide markets, such as Coca Cola
- **Take-over** of foreign competitor firms, such as BMW
- **Merger** with foreign firms into one large international company, such as GlaxoSmithKline
- **Vertical integration** : acquiring the companies that sell you materials and components, and/or that you sell on to for manufacture, assembly or sales.
- **Horizontal integration** : acquiring the companies that make similar components that, along with yours, will go into the final product.
- **Diversification** : using the profits from one major company to purchase companies dealing with different products in order to spread risks from loss of sales or financial fluctuations.
- **Risk dispersal** : firms may find it advantageous to distribute their plants in a range of countries so that union disputes, government instability, supply disruptions and financial uncertainty in any one country does not disrupt overall production. Production can be switched to alternative plants relatively quickly if need be.
- **Profit maximization** : firms may set up divisions abroad for a range of reasons:
    - Locate in low business-tax countries and ensure their profits are registered there so they pay minimum tax. Ireland has one of the lowest tax regimes in the EU at 12.5% (20% in UK) and attracts many US firms marketing to Europe.
    - Locate to avoid trade tariffs and tax barriers. Some Japanese car firms set up plants inside the EU to avoid import taxes being imposed on cars from Japan.
    - Locate in low production-cost countries where wages are lower. As these are often the single largest cost for a firm, locating production in low-wage economies can maximize profits at a stroke.

- Locate in low-regulation countries where there are fewer laws (or less regulation/enforcement) governing employment rights, trade union rights and environmental protection.

1.9 BENEFITS OF INTERNATIONAL MARKETING

The main benefits of international marketing are discussed below −

1. **Provides higher standard of living :**

   International marketing ensures high standard life style & wealth to citizens of nations participating in international marketing. Goods that cannot be produced in home country due to certain geographical restrictions prevailing in the country are produced by countries which have abundance of raw material required for the production and also have no restrictions imposed towards production.

2. **Ensures rational & optimum utilization of resources :**

   Logical allocation of resource & ensuring their best use at the international level is one of the major advantages of international marketing. It invites all the nations to export whatever is available as surplus. For example, raw material, crude oil, consumer goods & even machinery & services.

3. **Rapid industrial growth :**

   Demand for new goods is created through international market. This leads to growth in industrial economy. Industrial development of a nation is guided by international marketing. For example, new job opportunities, complete utilization of natural resources, etc.

4. **Benefits of comparative cost :**

   International marketing ensures comparative cost benefits to all the participating countries. These countries avail the benefits of division of labor & specialization at the international level through international marketing.

5. **International cooperation and world peace :**

   Trade relations established through international marketing brings all the nations closer to one another and gives them the chance to sort out their differences through mutual understanding. This also encourages countries to work collaboratively with one another. This thereby designs a cycle wherein developed countries help developing countries in their developmental activities and this removes economic disparities and technological gap between the countries.

6. **Facilitates cultural exchange :**

International marketing makes social & cultural exchange possible between different countries of the world. Along with the goods, the current trends and fashion followed in one nation pass to another, thereby developing cultural relation among nations. Thus, cultural integration is achieved at global level.

7. **Better utilization of surplus production :**

Goods produced in surplus in one country are shipped to other countries that have the need for the goods in international marketing. Thus, foreign exchange of products between exporting country & importing countries meets the needs of each other. This is only possible if all the participating countries effectively use surplus goods, service, raw material, etc. In short, the major advantages of international marketing include effective utilization of surplus domestic production, introduction of new varieties of goods, improvement in the quality of production & promotion of mutual co-operation among countries.

8. **Availability of foreign exchange :**

International marketing eases the availability of foreign exchange required for importing capital goods, modern technology & many more. Essential imports of items can be sponsored by the foreign exchange earned due to exports.

9. **Expansion of tertiary sector :**

International marketing promotes exports of goods from one country to another encouraging industrial development. Infrastructure facilities are expanded through international marketing. It indirectly facilitates the use of transport, banking, and insurance in a country ensuring additional benefits to the national economy.

10. **Some other benefits at times of emergency :**

Whenever a rustic faces natural calamities like floods & famines, it's supported by different countries within the international market. The international market provides emergency offer of products and services to fulfill pressing necessities of the country facing the misfortune. This distribution will solely be expedited by a rustic that has surplus imports.

A company mercantilism merchandise to different foreign countries earns substantial profit through export operation as domestic selling is a smaller amount profitable than international selling. The loss an organization suffers in domestic selling will be remunerated from the profit earned through exports in international selling. Foreign exchange will be earned by mercantilism merchandise to foreign countries. Thus, the profit earned will be used for the import of essential merchandise, new machinery, technology, etc. This would further facilitate large-scale export in future.

1.10 SUMMARY

In today's atmosphere even corporations that don't ask for to try and do business outside their national boundaries haven't any selection however to alert to the international business scene. The Indian economy as is true of the economies of different industrialized nations is thus elaborately joined to international political economy that even strictly domestic business is laid low with what takes place in other countries. Although basic promoting selections don't amendment as marketers expand their business from the domestic field to the international field, the environment can be profoundly different. The major aspects of the international promoting atmosphere embody the economic, cultural, legal and political environment.

A firm assuming to enter the international scene could make a choice from the varied entry modes– commercialism, contractual agreement, joint venture, strategic alliance, and wholly-owned subsidiary. Each entry mode provides different opportunities and risks. International promoting specially is needed as a result of, of all of the functional areas of a business, marketing problems are the most fundamental and most frequent. A commitment to international market place is very important for sustained growth and superior profitability.

- Doing business is a creative enterprise. Doing business outside one's own country could be a rather more demanding and complicated enterprise.
- Business environments of countries are different.
- International business necessitates Associate in nursing awareness of the clash of cultural standards among countries.
- In 1950's and 60's international business was a way of capitalizing on new chance, today's changing economic atmosphere has created international business dealings very important for survival.
- North Yankee corporations can take longer to succeed in outer limit than can corporations in Singapore (smaller market with less room to grow).
- Basic nature promoting of selling doesn't modification from domestic to international selling however marketing outside national boundaries poses special problems.

The development of worldwide selling has been led to by variety of variables each exogenous and endogenous. The evolution international of worldwide selling has been in a very series of 4 stages from commerce to really global operations. These stages are termed "domestic" focused to "ethnocentric", "polycentric" and "geocentric". When about to do world selling, variety of "environmental" factors got to be thought of however typically one is trying to find "unifying" or "differentiating" influences which can dictate a "standard or "adapted" planning approach. Finally, a number of concepts and techniques, including the International Product Life Cycle, can give insight and a guide to global planning. The leaders of those firms would force associate degree increasing awareness of the requirements of host countries within the atmosphere within the future.

1.11 SELF ASSESSMENT QUESTIONS

1. Define international marketing. Why is it essential for a company to master the art of international marketing in the present competitive times?
2. State whether the following activities are domestic marketing, international marketing or international trade:
    a) A dealer sells product to a different dealer in Europe.
    b) A dealer sells the product to a 100% export adjusted unit.
    c) A dealer purchases a product from associate degree bourgeois.
    d) The government receives grant from United Nations.
    e) The government receives loan from IMF
    f) The government purchases ammunition from U.S.
    g) The Government receives aid from Japan for flood relief.
3. Explain the scope of international marketing
4. Discuss the different types of markets available in international marketing.
5. Point out the benefits of international marketing.
6. Difference between TNCs and MNCs.
7. Discuss the different orientation available in the management.
8. Define principles of international marketing.
9. What do you understand by customer value?

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UNIT-2 INTERNATIONAL MARKETING ENVIRONMENT

Unit Framework

2.0 PURPOSE

- To understand the International Marketing Environments
- To understand the Types of Environment
- To understand Socio Cultural Environment
- To understand the Challenges in Global Marketing

2.1 INTRODUCTION

Marketing atmosphere is dynamical terribly quickly on the face of globe and competition among completely different corporations increasing with each sequential day. So, all booming corporations recognize the important importance of regularly observation dynamical international business atmosphere. Environment consists of forces. Environment is formed of such manageable and uncontrollable forces. It is the setting that determines favorable or unfavourable conditions, and hence, provides either opportunities or threats and challenges. When we talk about a big extend it depends of marketing environment and ability of the firm to respond effectively. International selling setting covers all the relevant world forces influencing international selling choices.

These forces could also be internal (such as resource ability and management attitudes), could also be domestic (such as government policy toward international business and facilities), and world (such as overall international business atmosphere of relevant a part of the world). However, discussion of worldwide forces is a lot of relevant as they're major issues in international selling.

New changes are literally opportunities for marketers however marketers ought to be updated with them solely then they'll direct and utilize them in line with company's selling strategy in company profit. This is the age of survival of the fittest if a corporation won't adopt the trendy changes of world selling atmosphere that company can before long loose sales and move towards decline.

2.1.1 WE CAN OUTLINE THE WORD 'INTERNATIONAL SELLING SETTING AS UNDER

1. International selling setting may be a set of manageable (internal) and uncontrollable (external) forces or factors that have an effect on international selling. International selling combine is ready in lightweight of this setting.

2. International selling setting consists of worldwide forces, such as economic, social, cultural, legal, and geographical and ecological forces, that affect international marketing decisions.

3. International selling setting for any seller consists of internal, domestic, and global marketing forces affecting international marketing mix.

2.1.2 FACTORS OF INTERNATIONAL MARKETING ENVIRONMENT

Factors or forces concerned within the international selling setting will be classified into 3 classes as explicit within the figure one. Manager handling international selling has got to style his selling combine and selling (mix) ways in accordance with these forces.

He has got to detain mind this them and expected impacts of such forces whereas taking international selling choices. The setting determines the degree of advantageousness for any seller for international marketing; determines level of opportunities and threats.

1. Global Factors :

Such factors are related to the world economy. Broader image of worldwide development affects each choices of international selling.

Main global factors include :

i. Customer-related factors

ii. Political and legal factors

iii. Social factors

iv. Cultural factors

v. Competition

vi. World relations among nations and degree of the worldwide peace.

vii. Geographic/ecological/climate-related factors

viii. Functioning of international organisations like UNO, World Bank, WTO, etc.

ix. Availableness of selling facilities and functioning of international agencies, etc.

2. Domestic Factors :

Domestic factors are associated with the economy of the state. Overall economic, social and cultural, demographic, political and legal, and other domestic aspects constitute domestic environment for international marketing. This setting affects international selling combine in many ways that.

2.1.3 IMPORTANT DOMESTIC FACTORS INCLUDE

i. Political climate/stability/philosophy

ii. Government approach and attitudes toward international trade

iii. Legal system and business ethics

iv. Availability and quality of infrastructural facilities

v. Availability and quality of raw-materials

vi. Functioning of institutions and availability of facilities

vii. Technological factors

viii. Ecological factors, etc.

3. Internal or Organizational Factors :

These are internal and controllable factors. They are associated with internal scenario of the corporate handling international trade. International seller must use, adjust, and organize these factors to satisfy wants and desires of the (international) target markets.

These factors include :

i. Objectives of company

ii. Managerial philosophy of company

iii. Personal factors related to management

iv. Social control attitudes toward alternative nations, customers, financial aid, etc.

v. Company’s policies and rules

vi. Resource ability of company and marketing mix

vii. Form of organization and organizational structure.

viii. Nature and types of employees

ix. Internal relations with other departments

x. Company’s relations with other stakeholders and service providers.

2.2 POLITICAL ENVIRONMENT

Political environments may range from a democratic system to communism with other variations between these ideological extremes. Political Environment is the state, government and its institutions and legislations and the public and private stakeholders who operate and interact with or influence the system. The political atmosphere should be good and very stable for a firm to operate successfully. Political Environment forms the basis of business environment in a country. If the policies of government are stable and better then businesses would get impacted in a positive way and vice versa. In international construction, like in international business, one has to deal with governments as they are presently structured with all their diversity, and even repressiveness.

2.3 POLITICAL SYSTEMS

As a firm ventures abroad, it's to alter varied countries, each having its own political set up. Types of political systems: By and large, the communist or the socialist form of government is not working in many countries, but the impact of socialism as a philosophy does persist. There are countries like Pakistan, which follow dictatorship style of government, whereas most countries in Europe and North America follow democracy. Even the democracy has various forms such as the presidential type, as prevalent in USA, or the parliamentary form of government, as in UK and India. Some countries in the Middle East have a typical theist political set-up, while others are secular countries.

In business, the form of government has a direct impact, because every sort of government has its own typical set of policies, programmes and priorities. These have an impact on the regulatory mechanist of the countries and the business has to comply with the laws of the land.

Political instability: Despite diverse political systems, no system is bad if it works in a stable manner. The biggest problem arises when there is political instability. Some of the examples of political instability are:

- In Italy, over forty five governments modified in fifty years
- Last decade has seen fast changes of governments in Japan
- India is passing through the ear of coalition governments
- Pakistan had a military coup so a democracy, controlled by the military dictator
- Afghanistan was under the rule of fundamentalist Taliban so is heading towards a additional democratic set up
- Asian nation has seen an amendment in regime, enforced by America
- There are unit coups and genocides in African country, Ethiopia, Eritrea, Congo and many other African countries

In each of the examples quoted above, we find an element of uncertainty. The forms of government change and so do the nature of doing business with that country. For a firm aspiring to market its products abroad, it has to carefully study the type of the political system and the stability. In countries, which are politically instable, the business takes extra protective measures and restricts its operations to exporting or joint ventures. However, in the countries with maximum political stand, the businessman makes direct investments.

China has attracted maximum foreign direct investment because of a stable pro-business attitude of the government. Despite being a socialist state, China has transformed itself to the needs of time and has opened its economy at a quick rate. On the other hand, the ghost of regulatory set-up of the yesteryears continues to haunt India and we see less investment here.

Even at intervals Asian country, we see lesser investment in the states such as Kerala and West-Bengal thanks to the leftist parties in power. We find a significant difference in the investment, even within Punjab and Haryana, partially attributed to favorable government policies.

Political risk : Although, often correlated, political in stability and political risk do not go together always. In the first three examples quoted within the on top of Para we discover that though the governments changed rapidly in India, Japan and Italy, the basic policies of the government did not change. Business had a sense of security while doing business in these countries. However, the war in Afghanistan and Iraq has had a tremendous impact on the business.

Not many companies are taking the initiative of doing business in these countries. They prefer to wait till normalcy returns.

Political risk is more associated with the uncertainty and unpredictability of the political parties in power in a country. Basically, political risk depends on two factors:

(i) The willingness of a government to keep the situation under control.

(ii) The ability of the government to keep the situation under control

The careful analysis of the political system can greatly reduce the associated risks.

Analysis of political risk: Sundaram and Black have summarized the analysis of political risk in the form of the following points:

A) Step 1

- Determine the critical economic/business issues relevant to the firm.
- Assess the relative importance of these issues.

B) Step 2

- Determine the relevant political events.
- Determine the probability of occurring.
- Determine the cause and effect relationship.
- Determine the government's ability and willingness to respond.

C) Step 3

- Determine the initial impact of the probable scenarios.
- Determine the possible responses to the initial impacts.
- Determine the initial and ultimate political risk.

2.4 LEGAL AND REGULATORY ENVIRONMENT

The marketers must carefully study the legal and regulatory system prevalent in the countries to avoid the situations that might result in conflict, misunderstanding or outright violation of the laws of the foreign country. Some of the important aspects, worth consideration, in the legal and regulatory environment are:

2.4.1 INTERNATIONAL LAW

International law has existed since the sixteenth century, although, it has undergone a change in the form over the years. The international bodies such as UN, WTO and the regional groupings have been instrumental in developing the international rules and regulations. These international laws are ratified by the participating countries and are binding in nature.

Hence, the business should perceive them properly to confirm compliance.

2.4.2 CONFLICT OF LAWS

Whereas doing business across nations, there can arise situations when the laws of two or more countries can be conflicting. The businessmen must gone through these laws and put measures to avoid being caught in such a scenario. For example, most of the countries of Middle East want that the goods should be dispatched to them solely in those ships, which do not go to Israeli ports. They ask for a certificate from the shipping line in this regard.

If a businessperson ignores this law, he will be in an exceedingly very troublesome scenario and can incur heavy losses.

2.4.3 FREEDOM OF CONTRACTS

In developed countries and those which have a very sound legal system, the principles of contract are taken for granted and are strictly enforced by law. However, in some countries, government interferes with these principles and may cause a loss to the businessman. One should be vigilant especially while participating in global tenders or the projects of long gestation periods.

2.4.5 PATENTS AND TRADEMARKS

Another important issue for a multinational corporation is the protection of its patents, trademarks and the intellectual property. Most companies invest heavily in research and development. However, unscrupulous manufacturers of some developing countries take the advantage of the difference in the patent laws and manufacture a duplicate of the product, causing a heavy loss to the original manufacturer. The companies, which has invested with heavily in R&D should analyze these things and take protective measures. The issue has been addressed by WTO, which has instituted TRIPS (Trade Related Intellectual Property Rights) mechanism to avoid loss to the initial manufacturers.

2.4.6 CONFLICT RESOLUTION

it's terribly troublesome to realize a perfect situation once there's no conflict between the mercantilism partners.

Conflicts can happen, but there has to be a known system of resolution of the conflicts. There are sets of principles laid down for international arbitration. The businessmen must be aware of these and carefully analyze the devotion of the partners towards implementing them.

Besides arbitration, there are alternative mechanisms of dispute resolution developed by international bodies. Some of the international bodies, which have instituted mechanisms for international arbitration, are:

- (ICC) International Chamber of Commerce
- (AAA) American Arbitration Association
- (IACAC) Inter-American Commercial Arbitration Commission
- (ICSID) International Centre of Settlement of Investment Disputes
- Swedish Arbitration Institute
- (UNCITRAL) United Nations Conference on International Trade Law

2.4.7 RECOURSE

In case of a legal action, the operation of law can be terribly long and expensive procedure in several countries. If a country engages in long legal disputes in an exceedingly country, it tarnishes its images, besides incurring losses of time, money and efforts.

2.4.8 TARIFF MECHANISM

The tariff and taxation structure of the foreign countries must be clear to the business to avoid complications at a later stage. Although, the tariff structures are being standardized for all the nations, still the differences exist and these must be carefully studied.

2.4.9 EQUITY CONTROL

Different countries have different laws regarding equity participation of the foreign partner. In few cases might allow 100% FDI in some sectors, where as there might be limits on investment. Some countries make the participation of a domestic partner obligatory. Such different situations must be carefully studied before taking any investment decision.

2.4.10 DOCUMENTATION AND FORMALITIES

While most countries are dismantling the tariff barriers, they are yet to make the procedures more easy and user friendly. It is notable that China's economic success story has a lot to do with the ease of doing business there.

There is little red tapes' and most of the regulatory requirements are cleared speedily. On the other hand, business has to run from pillar to post to get approvals and the essential registrations for doing business in India. A thorough knowledge of the prevailing system is crucial for fulfillment in an exceedingly foreign country.

2.5 SOCIO-CULTURAL ENVIRONMENT

Culture is that the set of shared values of a society. It encompasses religion, language, customs, traditions and beliefs, tastes and preferences, social stratification, social institutions, buying and consumption habits etc. It has several interfaces where it influences the business. Some of the important interfaces where culture affects business are:

Culture and organizational behavior: In their book on international management, Hodges's and Luthans have identified the following points where culture affects organizational behavior:

(i) **Centralized vs. decentralized decision-making :** In some societies, all-important organizational decisions are made by the top management, while in others, the decisions are diffused throughout the organization. For example, the decision making is highly decentralized in Japanese companies, while it is highly centralized in American firms. There are cultural reasons ascribed to this.

(ii) **Safety vs. risk :** The decision-makers in some organizations square measure disinclined to risk, while some take risk and thus make higher gains. The risk bearing behavior of groups is also a cultural phenomenon. This influences investment decisions at the organizational levels and at the micro level of the consumers; it has its impact on the buying habits. People who take risk buy new and innovative product, while others prefer to stick to tested products.

(iii) **Individual vs. cluster reward :** In some societies, such as the Japanese, the reward got by a group is valued more than the individual reward, which is the order in the American firms.

(iv) **High vs. low organizational loyalty :** Extrapolating the above point, the societies with strong inter-personal ties have a high degree of structure loyalty, while those who value individual achievements have low organizational loyalty.

2.5.1 CULTURE AND PERCEPTION

Culture contains a nice touching on how ever people view themselves and their surroundings, which influences their behavior. From the perspective of business, the manners in which the people view the following are important:

(i) **Views of themselves :** individuals lay variable degree of importance on self-gratification. For example, in the earlier times, people had a high degree of propensity to point out off their splendor.

Their consumption and spending behavior was towards extravaganza. Nowadays, people are hard pressed with resources and are driven by value while purchasing. Business needs to study the general trend of buying and take appropriate decisions.

(ii) **Views of others :** A different trend from 'I society' to 'our society's being shown by the people at large. People feel the pain of others and offer a helping hand to them. The exploitative authoritative manner of business cannot be pal my in today's paradigm.

(iii) **Views of organizations :** Under the pressure of performance and other perks, worker as well as organizations has undergone a deep change in their relationship. Employment is no longer for the whole lifetime and the organization is no longer perceived as the bread-giver. Such a shift in the relationship has its clash on the management of human resources in organizations.

2.5.2 SUBCULTURE

Within the culture, there exist several sub cultures, which exhibit a similar influence on the business. A subculture is a variant of the culture. While it shares values and beliefs with the culture, it does modify it according to the specific requirements of the group. For example, although people all over India share common values celebrate common festivals and profess similar non secular beliefs, there are several variations at local levels. Hindus of geographic region would follow completely different rituals from those in geographical area or Madras. The marketer must understand the subculture as well while adapting to the local conditions.

2.5.3 CULTURE AND BUSINESS

The culture can have a profound impact on business. The following examples will make this clearer:

(i) **Language :** Words acquire different meaning when spoken in different languages. So, the marketers have to understand the language of the host country and speak within the words understood by the people there. An offensive marketing campaign can ruin the prospects of selling even the best products. Proper understanding of language will contribute heavily towards the success of any communication and negotiation of business.

(ii) Customs and rituals : The knowledge of customs, rituals, festivals etc. is important because people exhibit typical spending behavior at different times. For example, Hindus go on a shopping's free throughout the navratras and stop all necessary purchases throughout the shradhas. Muslims and Christians make heavy purchases during Ramzan and Christmas. A marketer can identify the right marketing opportunities and design the marketing strategy.

(iii) Mannerism and etiquettes : The manners and etiquettes vary with culture and their information is vital whereas negotiating any deal with the customers.

(iv) Time perspective : People have varying perceptions on time. Some culture square measure terribly punctual and work quick and cling to schedule, while others work with leisure. The time perspective of the target country must be understood and the strategy designed accordingly.

(v) Decision-making : Culture has a profound impact on the decision-making behaviour of the people. While working in the countries wherever deciding is slow, one must not push for decision and vice versa. To arrive at the opinion, understanding of culture is of essential importance for anyone desiring to achieve success in business in foreign lands.

Although, the world is becoming global and there is high degree of cultural diffusion, still, there is a need to adapt to the local environment, of which culture is an important constituent.

2.6 ECONOMIC ENVIRONMENT

The macro dimensions of "the backdrop is economic, social& cultural, political & legal & technological". Each is important, but perhaps the single most immortal characteristic of the worldwide market surroundings is that the economic dimension. With money, all things (well, almost all!) are possible. Without money, several things are not possible for the merchandiser. Luxury products, as an example, cannot be sold to low-income shoppers.

Hypermarkets for food, furniture, or durables require a large base of shoppers with the flexibility to create giant purchases of goods and therefore the ability to run off with those purchases.

Sophisticated industrial products require sophisticated industries as buyers.

Today, in distinction to any previous time within the history of them world, there is global economic growth. For the first time in the history of worldwide selling, markets in each region of the world area unit potential targets for pretty much each company from high tech to low technical school, across the spectrum of product from basic to splendor. In reality, the fastest-growing markets, as we shall see, are in countries at earlier stages of development. The economic dimensions of this world market environment are of vital importance. This chapter examines the characteristics of the world economic environment from a marketing perspective. The global marketer is fortunate in having a substantial body of data offered that charts the character of the surroundings on a country-by-country basis. Each country has national accounts data, indicating estimates of gross national product, gross domestic product, consumption, investment, government expenditures, and price levels. Also available on a global basis are demographic data indicating the number of people, their distribution by age category, and rates of population growth. National accounts and demographic data do not exhaust the types of economic data available.

2.6.1 THE WORLD ECONOMY-AN OVERVIEW

The world economy has modified deeply since war fare maybe the foremost basic modification is that the emergence of global markets; responding to new opportunities, global competitors have steadily displaced local ones. Concurrently, the integration of the world economy has increased significantly.

Economic integration stood at ten % at the start of the twentieth century; nowadays, it is approximately 50 percent. Integration is particularly striking in two regions, the European Union (formerly the European Community) and the North American Free Trade Area.

Within the last few decades, there have been some remarkable changes in "the world economy which hold vital implications for business. The likelihood of business success is much greater once plans and methods area unit supported the new reality of the changed world economy:

- Capital movements instead of trade became the driving force of the world economy.
- Production has become "uncoupled" from employment.
- The world economy dominates the scene. The macroeconomics of individual countries no longer control economic outcomes.

- The expansion of commerce via the net diminishes the importance of national Barriers. The first change: is the increased volume of capital movements. The greenback price of world trade is bigger than ever before. Trade in goods and services is running at roughly $4trillion per year, but the London Eurodollar market turns over$400 billion each working day. That totals to $100 trillion peryear-25 times the dollar value of world trade. In addition, foreign exchange transactions are running at approximately $1trillion per day worldwide, which is $250 trillion per year-40times the amount of world trade merchandise and services. There is an inescapable conclusion in these data: Global capital movements far exceed the amount of worldwide merchandise and services trade. This explains the bizarre combination of U.S. trade deficits and a continually rising dollar during the first half of the1980s. Previously, when a country ran a deficit on its trade accounts, its currency would depreciate in value. Today, it is capital movements and trade that determine currency value.

The second modification: issues the connection between productivity and employment. Although employment in manufacturing remains steady or has declined, productivity continues to grow. The pattern is especially clear in American agriculture, where fewer farm employees' produce more output. In the United States, manufacturing holds a steady 23 to 24percent of gross national product (GNP). This is true of all the other major industrial economies as well. Manufacturing is not in decline-it is employment in producing that's in decline. Countries such as the United Kingdom, which have tried to maintain blue-collar employment in manufacturing, have lost both production and jobs for their efforts.

The third major modification: is that the emergence of the planet economy as the dominant economic unit. Company executives and national leaders WHO acknowledge this have the best probability of success. Those who do not recognize this fact will suffer decline and bankruptcy (in business) or overthrow (in politics).The real secret of the economic success of Federal Republic of Germany and Japan is the indisputable fact that business leaders and policy manufacturers specialize in the world economy and world markets; a prime priority for presidency and business in each Japan and Federal Republic of Germany has been their competitive position in the world. In contrast, many other countries, including the United States, have focused on domestic objectives and priorities to the exclusion of their global competitive position. In the 1990s the greatest economic change was the end of the Cold War. The success of the capitalist market system had caused the overthrow of communism as an economic and political system. The enormous superior performance of the world's market economies has led socialist countries to renounce their ideology. A key policy change in such countries has been the abandonment of futile attempts to manage national economies with a sentential plan. The different types of economic systems are contrasted in the next section.

2.6.2 FOREIGN ECONOMIES

Measuring The Russian Economy In today's Russia, average citizens are not the only ones struggling to keep pace with rapid and revolutionary economic change; government statisticians cannot even keep up. The result is that economic information and statistics coming from Russia are inaccurate, inadequate, distorted, and biased. Russia's main source of economic statistics is an agency called Goskomstat, or the Russian state statistical committee. The inherent problem with the statistics generated by Goskomstat is one of original intent; Historically, Goskomstat measured the state economy of the Soviet Union the purpose of the statistics that are still used for economic measurement today does not exist anymore because of the change form a planned economy to a market economy. Goskomstat continues to collect data and measure production in the least productive sectors, namely, industries that have not been privatized and farms still owned by the state. If those statistics were somewhat balanced by equivalent numbers from the private sector, Russian GNP might not be so severely underestimated. However, Goskomstat is not at all aggressive about counting the growing private sector in the Russian economy. The growth in Russian joint ventures, retail and service trade, and private banking has been well documented in the press but not by Goskomstat.

The problem of gathering data form start up businesses in the emerging private sector is compounded by the fact that those enterprises are reluctant to be included because of potential tax implications. Also, because of inadequate survey techniques, thousands of sole proprietorships, entrepreneurial and barter trade enterprises, as well as informal, black and gray markets are all outside to inflate production numbers to reach goals set by state planners.

Even the data generated from the fading state sector are inadequate because organizations on the government dole are not motivated to report any increased production. That enterprise could stand to lose government subsidies if production goes up. Ironically, in the soviet era, managers of state owned businesses were inclined to inflate production numbers to reach goals set by state planners. So what is the impact of the skewed numbers put forth by Goskomstat? The faulty numbers create a ripple effect worldwide.

Other agencies that rely on this imperfect source for economic data include the world bank, international monetary fund, US. Department of commerce, the central intelligence agency (CIA), plus countless banks and industrial and investment analysis. At the very least, statistics severely understate production, especially in the growing private economy. The estimated amount of underreported production ranges from25 percent to 60 prevent, with most experts estimating a 45prevent undercount to be closest to reality. One consequence for the Russian economy is slowed growth because nervous investors may be reluctant to enter a market depicted by such bleak numbers.

2.6.3 DEGREES OF ECONOMIC COOPERATION

There are four degrees of economic cooperation and integration, as illustrated in table below

1. Free Trade Area :

A free trade area (FTA) is a category of countries who agreed to end all internal barriers to trade among themselves. Countries belong to a free trade area can and do trade policies with third countries. A system of certificates of origin is used to avoid trade diversion in favor of low tariff members. The system discourages importing goods in the member nation with the minimum tariff for shipment to countries within the area with higher external tariffs. Customs inspectors police the borders between members. The European Economic Area is an *FTA* that includes the 15nation European Union and Norway, Liechtenstein, and Iceland. The Canada-U.S. Free Trade Area formally came into existence in 1989. In 1992, representatives from the United States, Canada, and Mexico' concluded negotiations for the North American Free trade Agreement (NAFTA). The agreement approved by both houses of the U.S.

Congress and became effective on January 1, 1994.In the 1960s, the Latin Americans responded to European integration moves by forming regional groupings of their own. In Central America, they formed the Central American Common Market; in South America, they formed the Latin American Free Trade Area; the Andean countries broke away from LAFTA to form the Andean Common Market. Unfortunately, none of these groups has made rapid progress. In the early 1990s, the Southern Cone countries (Argentina, Brazil, Paraguay, and Uruguay) formed .Marcos, which has made rapid progress. It is now the most successful and promising regional grouping apart from the EU. During the Vietnam War, a: number of; Southeast Asian nations formed ASEAN (Association of Southeast Asian Nations). ASEAN had political overtones as well as economic goals, but it made only modest progress at economic integration over the next two decades. In 1998, however, the leaders reaffirmed their commitment to achieve an Asian Free Trade Area (AFT A) by 2003. The Asian troubles may affect this. The United States is a member of two free-trade areas, one with Israel and one with Canada and Mexico in *NAFTA.* NAFTA is very important because it creates a free-trade area of 360 million consumers-as large as the EU-EFTA grouping. As with any regional grouping, NAFTA has encountered some rough spots, but its importance can be seen in the fact that the three member countries are each other's largest customers and suppliers.

There was discussion during the Clinton administration of forming a free trade area of all the Americas, North and South. Though there is interest from most countries in the Americas, it is still just an idea on the location.

Stage of integration	Abolition of Tariffs and Quotas	Common Tariff and Quota System	Removal of Restrictions on Factor Movements	Harmonization of Economic, Social, and Regulatory Policies
Free trade area	Yes	No	No	No
Customer union	Yes	Yes	No	No
Common market	Yes	Yes	Yes	No
Economic union	Yes	Yes	Yes	Yes

2. Customs Union :

Though similar -to a free-trade area in that it has no tariffs on trade among members, a customs union has the more ambitious requirement that members also have a uniform tariff on trade with nonmembers. Thus, a customs union is like a single nation, not only in internal trade, but also in presenting a united front to the rest of the world with its common external tariff. A customs union is more difficult to achieve than a free trade area because each member must yield its sovereignty in commercial policy matters, not just with member nations but also with the whole world. Its advantage lies in making the economic integration stronger and avoiding the administrative problems of a free-trade area. For example; in a free-trade area, imports of a particular good would always enter the member country with the lowest tariff on that good, regardless of the country of destination. To avoid this perversion of trade patterns, special regulations are necessary.

3. Common Market :

A common market goes beyond the removal of internal barriers to trade and the establishment of common external barriers to the important next stage of eliminating the barriers to the flow of factors (labor and capital) within the market. A common area builds on the elimination of the internal tariff barriers and the establishment of common external barriers. It seeks to coordinate economic and social policy within the market to allow free flow of capital and labor from country to country. Thus, a common market creates an open market not only for goods but also for services and capital.

4. European Trade Groups :

The European Union (formerly known as the European Community [EC]) was established by the Treaty of Rome in1958. The six original members were Belgium, France, Holland, Italy, Luxembourg, and West Germany. In 1973, Britain, Denmark, and Ireland were admitted, followed by Greece in1981 and' Spain and Portugal in 1986. The three newest members, Finland, Sweden, and Austria joined in 1995. (In1994, voters in Norway rejected a membership proposal.) Today, the 15 nations of the EU represent 378 million people, a combined GNP of $8.3 trillion, and 28 percent of world GNP.

A) The Lame Convention

The EU maintains an accord with 70 countries in Africa, the Caribbean, and the Pacific (ACP). The Lame Convention was designed to promote trade and provide poor countries with financial assistance from the European Development Fund.

Recently, budget pressures at home have prompted some EU nations to push for cuts in Lame aid.

B) European Economic Area

In 1991, after 14 months of negotiations, the European Economic Community and the seven nation's European free Trade Association (EFTA) reached agreement on the creation of the European Economic Area (EEA) beginning January 1993.

Although the goal was to achieve the free movement of goods, services, capital, and labor between the two groups, the EEA is a free trade area, not a customs union with common external tariffs. With Austria, Finland, and Sweden now members of the EU, Norway, Iceland, and Liechtenstein are the sole remnants of the EFTA that are not EU members (Switzerland voted-not to be part of the EEA). The EEA is the world's largest trading bloc, with 383 million consumers and $8.5trillion combined GNP.)

C) Central European Free Trade Association

The transition in Central and Eastern Europe from command to market economies led

To the demise, in 1991, of the Council for Mutual Economic Assistance. COMECON (or CMEA, -as it was also known) was a group of communist bloc countries allied with the Soviet Union.

Note :-

AFTA (ASEAN Free Trade Area): ASEAN members Andean Group (the Cartagena Agreement): Bolivia, Colombia, Ecuador, Peru, and Venezuela

ANZCERTA (Australia-New Zealand Closer Economic Relations Trade Agreement): Australia and New Zealand

APEC (Asia Pacific Economic Cooperation): Australia, Brunei, Canada, Chile, China, Hong Kong, Indonesia, Japan, Korea, Malaysia; Mexico, New Zealand, Papua New Guinea, the Philippines, Singapore, Chinese Taipei (Taiwan), Thailand, and the United States Arab Middle East Arab Common Market: UAR, Iraq, Jordan, Sudan, Syria, and Yemen

ASEAN (Association of Southeast Asian Nations): Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Benelux Customs Union: Belgium, the Netherlands, and Luxembourg

CAEMC (Central African Economic and Monetary Community): Cameroon, the Central African Republic, Chad, the Congo, Equatorial Guinea, and Gabon

CARICOM (Caribbean Common Market): Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Jamaica, Montserrat, Saint Christopher-Nevis, Saint Lucia, Saint Vincent and the Grenadines, and Trinidad and Tobago Central American Community: Costa Rica, EI Salvador, Guatemala, Honduras, Nicaragua, and Panama.CFA Franc Zone: the Comoros, members of the WAEMU, and members of the CAEMC

CIS (Commonwealth of Independent States): Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kirgizstan, Moldova, Russia, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan East Africa Customs Union: Ethiopia, Kenya, Zimbabwe, Sudan, Tanzania, and Uganda

ECOWAS (Economic Community of West African States): Benin, Cape Verde, Da-homey, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, Togo, and Upper Volta

EU (European Union): Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom

EEA (European Economic Area): Iceland, Norway, and EU members

EFTA (European Free Trade Association): Austria, Finland, Iceland, Liechtenstein, Nor-way, Sweden, and Switzerland Group of Three: Colombia, Mexico, and Venezuela

LAIA (Latin American Integration Association): Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, Paraguay, Peru, Uruguay, and Venezuela Mahgreb Economic Community: Algeria, Libya, Tunisia, and

Morocco Mercosur (Southern Common Market): Argentina, Brazil, Paraguay, and Uruguay NAFTA (North American Free Trade Agreement): Canada, Mexico, and the United States

OECD (Organization for Economic Cooperation and Development): EU members, Australia, Canada, Iceland, Japan, New Zealand, Norway, Switzerland, Turkey, and the United States.

RCD (Regional Cooperation for Development): Iran, Pakistan, and Turkey

SICA: EI Salvador, Guatemala, Honduras, and Nicaragua

WAEMU (West African Economic and Monetary Union): Benin, Burkina Faso, Ivory Coast, Mali, Niger, Senegal, and Togo.

2.7 TECHNOLOGICAL ENVIRONMENT

The technological atmosphere is probably the foremost dramatic force currently shaping our destiny. Technology has free such wonders as antibiotics, organ transplants, computers, and therefore the web. It additionally has free such horrors as nuclear missiles, chemical weapons, and assault rifles. It has free such mixed blessing because the automobile, television, and credit cards.

New technologies create new markets and opportunities. However, every new technology replaces an older technology. Transistors hurt the vacuum-tube trade, picture taking hurt the carbon-paper business, the motorcar hurt the railroads, and compact disks hurt machine records. When previous industries fought or unnoticed new technologies, their businesses declined. Thus, marketers should watch the technological environment closely. Companies that don't carry on with technological amendment before long can notice their merchandise out-of-date. And they can miss new product and market opportunities.

The level of technology in countries differs and is related to their economic development. Most technically advanced nations have research and development (R&D) organisations in many fields in place. Most of the developing nations either resort to buying the advance technology products from the nations possessing them or they buy the technology from them. In India such technology transfers or purchases from different countries have been in vogue for the last 50 years. The problems that firms buying technology face are:

1. Mostly old or outdated technology is sold to avoid direct competition.
2. The manufacturing equipment sold with the technology is usually sold at jacked up prices.
3. At times even used or reconditioned equipment has been sold.
4. There is pressure on the firms buying the technology to purchase completely built units (CBUs) and semi-knocked down (SKD)

units, of the product under technology transfer for a period of time or for a given number of units.

This has resulted in firms going for reverse engineering of the product, where they buy a few pieces of the product from a number of international firms; cannibalize the products to see how they are inside and how they can be assembled locally. For this reason, it has been accepted by most firms owning technology that they cannot hold on to the technology on an exclusive basis in the rapidly changing business environment in the midst of an information blitz.

2.8 THE GLOBAL MARKET CHALLENGES

The Global Market Challenges acknowledge 5 key problems that inhibit growth within the international economy and, if addressed, are important factors to extend equality and opportunities: little Business Reformation, Global Trade Barriers, Education unskillful, Environmental Challenges, and Gender difference. In scripting this, we have a tendency to aim not solely to boost awareness of those crucial problems, however conjointly propose strategic policy recommendations so the international community i.e. private & Public, can focus resources on tangible and actionable initiatives. The following area unit the recommendations reached by North American nation in numerous aspects.

2.8.1 SMALL BUSINESS & COOPERATION

Small and medium enterprises are unit important economic and social levers with the target to higher integrate and develop their potential during a globalized economy; we have a tendency to propose 2 recommendations:

1. Establish programs to support native businesses, with a read not solely to profit however conjointly with the goal of determination social issues. Promote the utilization of native and regional resources to assist the event of communities. Commit to expand on the platform of investment “crowd-funding” to create democratic and wide-reaching access to information and capital.
2. Foster the expansion and development of little and medium enterprise inside countries by providing support for programs like low interest loans, facilitating network building (e.g. centralized services to advise, mentor, and promote SME’s) and economic cluster.

2.8.2 GLOBAL TRADE BARRIERS

In a shot to encourage globalized trade, enhance participation and stimulate economic growth, the committee recognizes the need for increased innovation and decreased trade barriers while still ensuring an equitable playing field.

1. Permit and promote the subsidization of native and non-exporting agricultural producers in developing countries. This would cut back foreign food dependence and permit for the revival of the agriculture sectors to make sure domestic food security.

2. Commit to and enforce the standardization of patent laws in several industries with the ultimate aim of shifting to a lot of open models of material possession rights in a shot to allow more innovation.

2.8.3 EDUCATION

A lack of education is one in all the best challenges to associate integrated international market. Education supports access to the duty market whereas competent employees and also the services provided area unit the engine of economic development.

1. Promote localized E-learning platforms to reinforce the accessibility of education for individuals everywhere the globe, particularly in developing countries
2. Firmly attempt to expand access to the web in developing countries, through the investment in necessary infrastructure, to enhance educational opportunities
3. Produce a typical international certification through the harmonization of the various academic standards that presently exist.
4. Strengthen collaboration among universities and also the non-public sector to reinforce various learning models.
5. Promote cultural quotient and quality in academic establishments.

2.8.4 ENVIRONMENTAL CHALLENGES

Environmental issues area unit at the middle of the considerations of our committee. We aim to extend the world awareness with reference to individual impact and also the want for larger and a lot of strong policy.

1. Focus and increase the cooperation on renewable energy, particularly with regards to the knowledge transfer between developed & developing countries.

2. Implement sturdy restrictive schemes to incentivize property energy development (e.g. global emissions Cap and Trade initiative).

2.8.5 GENDER INEQUALITY

In this Globalized era, gender difference is one in all the foremost pressing problems moving international society.

1. Increase the availability of education for women and girls, particularly sexual education and opportunities for mature women to learn skills to enter or re-enter the workforce.
2. Create global workplace transparency and disclosure (eg. Watchdog/ Ranking system/ hiring process)
3. Expand maternity support networks to facilitate accessible and reasonable service and permit a drum sander transition into the men.

2.9 SUMMARY

The business is a part and parcel of the social system and is influenced by several forces. In order to be successful, an understanding of the culture is essential, particularly if a marketer wants to venture out of his national boundaries. There is a sea change in the degree of risk and uncertainty in international business, which is driven primarily by the environmental forces.

The business managers must be able to scan the opportunities and identify the threats posed by the environment and make a way for their success. It is significant that there are several tools and techniques for analyzing the environment and the student is advised to refer to standard textbooks for the same.

Managers in the host country must be able to focus on the governmental attitude towards foreign companies. They must learn about the tax laws, legal formalities and issues regarding laws governing employment. Managers should have a good knowledge of the local customs, which affect consumer behavior.

Cultures of countries are unique and firms appreciating this uniqueness would do well in the countries they operate in. Technological advances, media avenues, retailing channels should be dovetailed to suit the country. Managers have to learn that, unlike in their own country; the selling action is controlled by various factors, including economic levels, infrastructure facilities, transport, communication problems, which would be new to the outsider.

Technological supremacy can give firms a head start, but firms cannot keep that advantage for long as in no time better *me too* products invade the market. Patents can create problems for firms that copy, but in a host country, the legal tangles can sap profits in no time. Managers have to keep themselves abreast with the latest products to be able to ensure that their own innovative products keep giving them a head start.

2.10 SELF ASSESSMENT QUESTIONS

1. The role of technology in international marketing.
2. Discuss the different types of political risks in international marketing.
3. Discuss how companies can react to the marketing environment.
4. What do you understand by International Marketing Environment?
5. Do you think that legal Environment plays a vital role? Discuss.
6. What do you think about the political environment's impact in market with example?
7. Tell me the scope of Socio Cultural Environment.
8. Explain Economic Environment in global market context.
9. How we can reduce the global market challenges?

2.11 REFERENCE BOOKS/ SUGGESTED READINGS

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UNIT-3 INTERNATIONAL TRADE ENVIRONMENT

Unit Framework

3.0 PURPOSE

- To understand the concept of International Trade Environment
- To know the about the Trade Theories
- To know the GATT & WTO
- To know about the Agreements.
- To know the India's role in Trade Theories

3.1 INTRODUCTION

In today's world, no country remains isola-ted. Various elements of the national econo-my like industries, service sectors, level of financial gain and employment, and living commonplace area unit coupled to the economies of its mercantilism part-ners. This linkage takes the shape of internation-al movements of goods- and services, labour, commercial enterprise, investment, and tech-nology. In truth, national economic policies can-not be developed while not evaluating their prob-able impacts on the economies of alternative coun-tries.

Certain vital developments occurred within the post-Second warfare amount that semiconductor diode to growing reciprocal among nations. Mention could also be created within the context of the for-mation of the EU Community (now referred to as the EU Union) within the Fifties, the growing importance of multinational corporations in the 1960, and therefore the increasing power in world oil mar-kets enjoyed by the Organization of crude commerce Countries (OPEC) within the Seventies. All these developments have resulted within the evolution of the globe community into an advanced sys-tem supported a growing reciprocal among nations.

In the past decade, the world's market-based economies are integrated as ne'er before. Exports and imports as a share of national output have reached unprecedented levels for many industrial nations. But foreign investment and international disposal have swollen quicker than would trade. In spite of this, demands have grownup for defense against imports. For indus-trial nations, advocate pressures are strongest in periods of rising state caused by economic recession.

Moreover, devel-oping countries typically maintain that the supposed liberalized mercantilism system involved by industrial nations works to the disadvantage of developing nations. The main reason for this is often that costs the costs of developing nations exports haven't redoubled the maximum amount because the prices of developing nation imports over the twentieth century as a whole.

Independence among nations conjointly applies within the case of foreign debt. Throughout the Seventies exports of makers redoubled in no time within the middle financial gain developing countries (such as Brazil) that achieved fast real financial gain growth. However, a lot of this success was because of the provision of loans from industrial nations.

On the premise of optimistic expectations concerning export earnings and interest rates, these nations bor-rowed excessively to finance growth. Then, due to adverse effect of global recession on export demand, high interest rates and falling oil prices, countries like Mexico and Argentina were unable to service their external debt.

The annual pay-ments of principal arid interest exceeded their exports of products and services. The reluctance of creditor nations to lend as much as in the past meant that debtor nations were forced to cut imports or expand exports, in spite of a world-wide recession. The failure to repay external debt resulted in international money crisis like the Mexican crisis of 1994 and therefore the Thai currency crisis of 1997.

3.1.1 TRADED IN SERVICES

Besides the exchange of tangible product, such as autos and oil, international trade increasingly has involved an exchange of services. Exports of services such as banking, transportation, motion pictures, tourism, insurance, advertising, engi-neering, construction and computer services are gaining recognition as significant contributors to the foreign sales of many nations.

The rise of the service sector has become a worldwide development. The goods manufacturing sector (manufacturing, mining, agriculture) con-tinues to grow, however is changing into a smaller portion of associate increasing economy. Singapore, for exam-ple, features a leading international airline, and South Korea is a major exporter of engineering and con-struction services. In Jan 1995, world trade in services has been brought under surveillance of General Agreement on Trade in Services (GATS).

GATS could be a part of the globe Trade Organization (WTO). The service sector is labour intensive so capable of generating jobs to the lots of folks. While developed nations have compara-tive advantage relative potency within the capital and technology intensive services, developing countries like Republic of India possess relative advantage in labor-intensive services like pc package, health care, legal counseling, tourism, construc-tion and engineering services.

3.2 CLASSICAL TRADE THEORIES

According to classical writers, differences in cost form the basis of trade. Differences in price are also 2 types:

(i) Absolute price distinction, and

(ii) Comparative cost difference.

In 1776, economic expert argued that absolute price distinction or absolute advantage is that the basis of trade.

But another classical economist, David Ricardo, went a step forward in 1817 to search the basis of trade in terms of com-parative cost difference or comparative advan-tage. Adam Smith argued that a rustic can export that artifact during which it is an absolute advantage & import that commod-ity during which it's an absolute disadvantage.

According to economic expert, a rustic can manufacture and export that artifact during which it's a comparative advantage and can import that artifact during which it's a comparative dis-advantage.

In explaining their trade theory, classicists created the subsequent assumptions:

(i) There are 2 countries, 2 commo-dities and one factor; i.e., a two x two x one model.

(ii) Labour theory of value holds. Classi-cists argued that labour is that the solely pro-ductive input as way because the worth of an artifact cares. Value of an artifact is set by the number of labour embodied in it. Thus, cost is measured in terms of labour prices solely.

(iii) Production function obeys constant re-turns to scale. In alternative words, output per unit of labour is constant over all rel-evant ranges of the assembly perform.

(iv) Inputs, although mobile are domestic and immobile internationally.

(v) Transport cost is zero.

(vi) Free trade policy is pursued.

I. Adam Smith's Absolute Advantage Doctrine

According to economic expert, it is the difference in absolute production cost that causes the emergence of trade. A country has an absolute advantage over another country within the production of a decent if it will manufacture it at a lower price.

It would, thus, be advantageous for the country if it specialises in the produc-tion of the cheapest good. Adam Smith argued that a rustic would manufacture &export that artifact during which it's an absolute advan-tage or lower price and import that commodity during which it has an absolute disadvantage or higher cost.

Following arithmetic example can facilitate justify Smith's absolute price variations. Let us assume that there are unit 2 countries, A and B, that produce two goods, X and Y, which require labour for their production.

Further, suppose that country A takes 1 day's labour to produce 3 units of X and 2 units of Y. Coun-try B produces four units of X and one unit of Y by a similar labour price. Clearly, country A has AN absolute advantage within the production of Y since it will manufacture it at a lower price than country B. While country B has AN absolute advantage within the production of X.

Country A in 1 day's labour produces	3 units of X and 2 units of Y
Country B in 1 day's labour produces	4 units of X and 1 unit of Y

In the absence of trade (i.e., beneath autarchy or no trade) in country A, three units of X can ex-change for two units of Y and in country B four units of X can exchange for one unit of Y. Thus, inter-nal and domestic exchange magnitude relation between two} merchandise of country A is three: 2 and for B is 4:1. Country A will now benefit if it can pro-duce and export good Y to buy more than 2 units of Y.

Similarly, country B can gain a lot of by manufacturing and commerce X from A by buy-ing over four units of X. Clearly, both coun-tries will gain. Anyway, trade is reciprocally ben-eficial since it will increase each production and consumption.

Because of trade, production of each X and Y can increase within the following pattern :

	goods X (unit)	goods Y (unit)
Country A	– 3	+ 2
Country B	+ 4	– 1
Net increase in output	+ 1	+ 1

Thus, international trade is mutually ben-eficial. Global output and consumption of each X and Y have inflated a minimum of one unit in every country.

II. Ricardo’s Comparative Advantage Doctrine:

Ricardo has incontestable that absolute price advantage isn't a necessary condition for 2 countries to realize from trade. Instead, he con-cluded that trade would profit each nations if comparative prices disagree. To him, compara-tive distinction in price may be a adequate condition for trade to emerge. Ricardo’s philosophy states that a rustic can export that trade goods during which it's a comparative advantage and import that product during which it's a compara-tive disadvantage.

The following example suggests that (de-veloped) country A has Associate in Nursing absolute advantage within the production of each merchandise X and Y. Nev-ertheless, country A will gain from trade with the (less developed) country B as a result of it's a price advantage within the production of Y than in X. In distinction, (the poor) country B contains a comparative advantage within the production of X. Pre-trade exchange ratios for A and B square measure one X for two Y (i.e., vi for 3) and one X for four Y. In different words Y is cheaper in a very whereas X is cheaper in B. So, A should export Y while B should ex-port X, each specializing in that commodity in which it has a comparative advantage.

Country A in 1 day's labour produces	6 units of X
	and 3 units of Y
Country B in 1 day's labour produces	4 units of X
	and 1 unit of Y

Before trade, allow us to assume that country A transfers all labour from the assembly of X to the assembly of Y during which its pre-trade cost (1:2) is lower and country B shifts all labour from the assembly of Y to the assembly of X during which its pre-trade cost (1: 4) is lower.

Now see country A enjoys low comparative cost in the production of Y while country B enjoys the same in the production of X. Labour will now be transferred from X-production to Y-production in country A while labour will be trans-ferred from Y-production to X-production in country B. Where production of X will decline in country A by 6 units while production of Y will increase by 3 units.

At an international rate of one: three (lying between 2 domestic exchange rates of one: four and one: two), country A will now export 3 units of Y and import 9 units of X.

Prior trade, the country A consumed 6 units of X and after trade it con-sumes additional (9-6 = 3) units of X. This is called ‘gains from trade.

Likewise, country B gains from trade. As country B transfers labour from Y-production to X-production, Y output declines by 1 unit. Whereas labour is transferred to X-production, X-output rises by 4 units. Country B currently trades with A at rate of one: three by exchanging one unit of X for 4/3 = 1 1/3 units of Y. As a results of trade, country B consumes additional 1/3 units of Y. This is known as ‘gains from trade’.

We have learnt that an internal term of trade is one: two in country A & one four in B. Both countries will now gain from this specialization in trade if exchange rate or post-trade terms of trade lies between two internal or domestic exchange rates, i.e., between 1: 2 and 1:4. Let the international terms of trade be 1:3.

At this new rate, A will specialize in the production of Y. Now, by commercialism Y, it will bring more X. As soon as country A transfers labour from X-production to Y-production and country B from Y-production to X-pro-duction, there occurs complete specialization. This kind of specialization ends up in a lot of glo-bal output.

Thus, Ricardo's comparative value philosophical system demonstrates the premise of trade, direction of trade and gains from trade.

3.2.1 LIMITATIONS

This theory has been criticized on many grounds. Important criticisms against this theory are:

(i) Unrealistic Assumption of Labour Theory of Value :

Firstly, one amongst the basic as-sumptions of the classical trade theory is that the labour theory of import. This theory states that the relative costs of production are determined by the labour cost alone. How-ever, this theory of import had been discarded earlier.

Thus, the belief of the labour theory of import looks to be delusive in ex-plaining the explanation for trade. Modern econo-mists have discarded the labour theory of value and employed opportunity cost theory. Oppor-tunity value theory rescues Ricardo's philosophical system while not neutering its basic conclusion.

(ii) Differences in Comparative Cost are not summaries :

Secondly, David Ricardo couldn't make a case for why comparative prices disagree between coun-tries. Answer to the present question was given by Eli F. Heckscher and B. Ohlin UN agency urged that variations in issue endowments and factor-intensity produce to variations in com-parative prices.

Let us assume that country A uses a lot of capital within the production of a trade goods than country B. If use of capital per unit of labour in country A is higher, then country A is a capital-abundant country. On the opposite hand, let us assume that country B is a labour-rich coun-try. In our example, we've got seen that coun-try A specializes within the production of Y because it has comparative advantage in Y-production.

Since country A could be a capital-intensive coun-try, Y-production here becomes a lot of capital- intensive. Likewise, country B has compara-tive advantage within the production of X. Becoming a labour-rich country, country B's production of X becomes more labour-intensive. Heckscher and Ohlin argue that a rustic can specialize in the assembly and export of products whose production needs a comparatively great amount of the consider that the coun-try is relatively well-endowed (i.e., more abundant factor).

As country A in our case could be a capital-rich country, it specializes in the pro-duction of Y (comparative costs of Y are cheaper). Since country B could be a labour-abundant country, its comparative costs are lower in X-production and, hence, its exports X for Y. Thus, variations in issue endowments and issue intensity make a case for variations in com-parative value. Ricardo merely took with a pinch of salt that labour value ratios disagree.

(iii) Exact Terms of Trade Undetermined :

Thirdly, David Ricardo couldn't verify the ex-act terms of trade or rate at that trade takes place. Ricardo's terms of trade (TOT) would lie between the countries' pre- trade terms of trade; but the exact ratio was left undetermined.

This gap was stuffed by the classical author J. S. Mill by introducing the thought of 'reciprocal demand' in trade theory. Ricardo's model concentrates on the availability (or cost) aspect and, hence, neglects the demand aspect.

(iv) Zero Transport Cost is Inconceivable :

Fourthly, Ricardo neglects transport cost just for simplicity. It is true that transport prices are vital in determinative the rate. Supporters of Ricardo's philosophical system have ad-equately incontestable that transport prices don't have an effect on comparative value philosophical system.

(v) Trade is Multilateral and Multi good :

Fifthly, another restrictive assumption of the classical trade philosophical system is that it used 2 countries, two commodities and one input but for making it simple, Ricardo's model is 2 x 2 x 1 model. If we tend to apply Ricardo's theory just in case of over 2 countries and over 2 commodities, conclusions of the doctrine re-main virtually unaltered.

3.2.2 CONCLUSION

In focusing his trade doctrine, Ricardo started with the unreal world. Some of the writers work this theory within the world while not neutering its elementary con-clusions. Some of his assumptions were ques-tionable. Modern writers removed those as-sumptions and refined this philosophical system. Only the gaps within the Ricardian model are stuffed up by trendy writers. A doctrine propounded at least 180 years ago is even now respected by all, possibly because of its originality.

Extending Ricardo's Doctrine :

(i) Many Commodities but Two Countries :

Ricardo's philosophical system has been criticised on the bottom that the philosophical system is confined solely {to 2 to 2} commodities and two countries. Critics argue that the philosophical system has restricted relevance since today's trade is quadripartite. Fur-ther, variety of listed product isn't 2 however several.

But Ricardo's disciples have success-fully incontestable that comparative value doc-trine will even be applied within the case of over 2 commodities and over 2 countries. Let us see however trade takes place once 2 countries trade with over 2 products.

For making it simple, let us assume that there are two countries A and B which trade seven commodities. These commodities are organized in an exceedingly comparative advantage sequence.

3.3 MODERN TRADE THEORY

The new trade theory began to emerge within the Seventies once variety of economists pointed out that the flexibility of corporations to achieve economies of scale might need necessary implications for international trade. Economies of scale are unit cost reductions associated with a large scale of output. Economies of scale have variety of sources, including the ability to spread fastened prices over an outsized volume, and the ability of large-volume producers to utilize specialized staff and instrumentation that area unit a lot of productive than less specialized staff and equipment. Economies of scale area unit a significant supply of price reductions in several industries, from pc software package to cars, and from pharmaceuticals to aerospace.

For example, Google realizes economies of scale by spreading the fixed costs of developing new versions of its new operating platform, which runs to about $5 billion, over the 250 million approximately systems upon that every new system is ultimately put in. Similarly, automobile corporations notice economies of scale by manufacturing a high volume of automobiles from associate mechanical system wherever every worker contains a specialized task.

New trade theory makes 2 necessary points: initial, through its impact on economies of scale, trade will increase the variability of products on the market to shoppers and reduce the average cost of those goods. Second, in those industries once the output needed to achieve economies of scale represents a big proportion of total world demand, the global market could also be able to support solely a little range of enterprises. Thus, world trade in bound merchandise could also be dominated by countries whose corporations were initial movers in their production.

Imagine first a world without trade. In industries where economies of scale are important, both the range of products that a rustic will manufacture and also the scale of production are limited by the size of the market. If a national market is little, there might not be enough demand to change producers to comprehend economies of scale sure enough product. Accordingly, those products might not be created, thereby limiting the range of product available to consumers. Alternatively, they may be produced, but at such low volumes that unit costs and prices are considerably higher than they might be if economies of scale could be realized.

Now take into account what happens once nations trade with one another. Individual national markets are combined into a larger world market. As the size of the market expands due to trade, individual companies could also be ready to higher attain economies of scale. The implication, according to new trade theory, is that every nation could also be ready to specialize in manufacturing a narrower vary of merchandise than it might within the absence of trade, however by shopping for goods that it doesn't create from different countries, every nation will at the same time increase the variety of goods available to its consumers and lower the costs of those goods thus trade offers a chance for mutual gain even once countries don't disagree in their resource endowments or technology.

Suppose there are two countries, each with an annual market for 1 million automobiles. By trading with each other, these countries can create a combined market for 2 million cars. In this combined market, due to the ability to better realize economies of scale, a lot of varieties (models) of cars may be created, and cars may be created at a lower average cost, than in either market alone. For example, demand for a sports car may be limited to 55,000 units in each national market, while a total output of at least 100,000 per y ear may be required to realize significant scale economies. Similarly, demand for a auto could also be 80,000 units in every national market, and again a total output of at least 100,000 per year may be required to realize significant scale economies.

Faced with limited domestic market demand, firms in each nation may decide not to produce a sports car, since the costs of doing so at such low volume are too great. Although they may manufacture minivans, the cost of doing so will be higher, as will prices, than if important economies of scale had been earned. Once the two countries decide to trade, however, a firm in one nation might specialize in manufacturing sports cars, while a firm in the other nation may produce minivans. The combined demand for 110,000 sports cars and a hundred and 60,000 minivans allows each firm to realize scale economies. Consumers in this case enjoy having access to a product (sports cars) that wasn't on the market before international trade and from the lower price for a product (minivans) that could not be produced at the most efficient scale before international trade. Trade is thus mutually beneficial as a result of it permits for the specialization of production, the realization of measure economies, the production of a high variety of products, and lower prices.

3.3.1 ECONOMIES OF SCALE, FIRST-MOVER ADVANTAGES, AND THE PATTERN OF TRADE

A second theme in new trade theory is that the pattern of trade we observe in the world economy may be the result of economies of scale and first-mover advantages. First mover advantages square measure the economic and strategic benefits that accrue to early entrants into an industry. The ability to capture scale economies ahead of later entrants, and therefore enjoy a lower value structure, is an important first-mover advantage. New trade theory argues that for that merchandise wherever economies of scale square measure important and represent a considerable proportion of world demand, the first movers in an industry can gain a scale-based value advantage that later entrants notice virtually not possible to match.

Thus, the pattern of trade that we observe for such products may reflect first-mover advantages. Countries might dominate within the export of bound product as a result of economies of scale square measure necessary in their production, and because firms located in those countries were the primary to capture scale economies, giving them a first-mover advantage.

3.3.2 IMPLICATIONS OF NEW TRADE THEORY

New trade theory has important implications. The theory suggests that nations may benefit from trade even after they don't disagree in resource endowments or technology. Trade permits a nation to focus on the assembly of sure merchandise, attaining scale economies and lowering the costs of producing those products, while buying products that it does not produce from other nations that specialize in the production of other products. By this mechanism, the variety of products available to consumers in each nation is magnified, while the average costs of those products should fall, as should their price, releasing resources to supply alternative product and services.

The theory conjointly suggests that a rustic might predominate within the export of an honest merely because it absolutely was lucky enough to possess one or additional companies among the primary to supply that good. Because they're able to gain economies of scale, the first movers in an industry may get a lock on the globe market that daunts sequent entry. First movers' ability to profit from increasing returns creates a barrier to entry. In the commercial aircraft business, the fact that Boeing and Airbus are already in the industry and have the benefits of economies of scale discourages new entry and reinforces the dominance of America and Europe in the trade of midsize and large jet aircraft. This dominance is further bolstered as a result of world demand might not be decent to fruitfully support another producer of midsize and large jet aircraft in the industry. So although Japanese firms might be able to compete in the market, they have decided not to enter the industry but to rely themselves as major parts with primary producers (e.g., Mitsubishi Heavy Industries is a major subcontractor for Boeing on the 777 and 787 programs).

New trade theory is at variance with the Heckscher-Ohlin theory, which suggests a country can predominate within the export of a product once it's notably well invested with those factors used intensively in its manufacture. New trade theorists argue that the United States may be a major bourgeois of economic jet craft not as a result of it's higher invested with the factors of production needed to manufacture craft, but because one of the first movers within the business, Boeing, was a U.S. firm. The new trade theory is not at variance with the theory of comparative advantage. Economies of scale increase productivity. Thus, the new trade theory identifies an important source of comparative advantage. This theory is sort of helpful in explaining trade patterns. Empirical studies seem to support the predictions of the theory that trade increases the specialization of production within an industry, increases the variety of products available to consumers, and results in lower average prices. With regard to first-mover advantages and international trade, a study by Harvard business historian Alfred Chandler suggests the existence of first mover advantages is an important factor in explaining the dominance of firms from certain nations in specific industries The number of firms is very limited in many global industries, as well as the industry, the serious construction-equipment business, the heavy truck industry, the tire industry, the consumer electronics industry, the jet engine industry, and the computer software industry.

3.3.3 NATIONAL COMPETITIVE ADVANTAGE : PORTER'S DIAMOND

In 1990 Michael Porter of the Harvard graduate school printed the results of associate degree intensive research effort that tried to see why some nations succeed and others not succeed in international competition. Porter and his team looked at hundred industries in ten nations. Like the work of the new trade theories, work was driven by a belief that existing theories of international trade told solely a part of the story. For Porter, the essential task was to elucidate why a nation achieves international success in a very particular industry. Why will Japan do therefore well within the automobile industry? Why does Switzerland stand out within the production and export of preciseness instruments and pharmaceuticals? Why do Germany and therefore thus do therefore well within the chemical industry? These queries cannot be answered simply by the Heckscher-Ohlin theory, and the theory of comparative advantage offers solely a partial rationalization. The theory of comparative advantage would say that Suisse excels within the production and export of precision instruments as a result of it uses its resources terribly profitably in these industries. Although this could be correct, this doesn't justify why Suisse is additional productive in this business than nice Great Britain, Germany, or Spain. Porter tries to solve this puzzle.

Porter theorizes that four broad attributes of a nation form the setting during which local corporations vie, and these attributes promote or impede the creation of competitive advantage. These attributes are

- issue endowments-a nation's position in factors of production like skillfullabor or the infrastructure necessary to vie in a very given business.

- Demand conditions-the nature of demand (Domestic) for the industry's product or service.

- Relating and supporting industries-the presence or absence of provider industries and related industries that are internationally competitive.

- Firm strategy, structure, and rivalry-the conditions governing however firms are created, organized, and managed and therefore the nature of domestic contention. Porter speaks of those four attributes as constituting the diamond. He argues that firms are presumably to achieve industries or business segments wherever the diamond is most favorable. He conjointly argues that the diamond may be a reciprocally reinforcing system. The effect of one attribute is conditional the state of others. For example, Porter argues favorable demand conditions won't end in competitive advantage unless the state of contention is sufficient to cause firms to respond to them.

Porter maintains that 2 extra variables will influence the national diamond in important ways: chance and government. Chance events, such as major innovations, can reshape trade structure and supply the chance for one nation's companies to follow another's. Government, by its alternative of policies, will cut down from or improve national advantage. As an example,

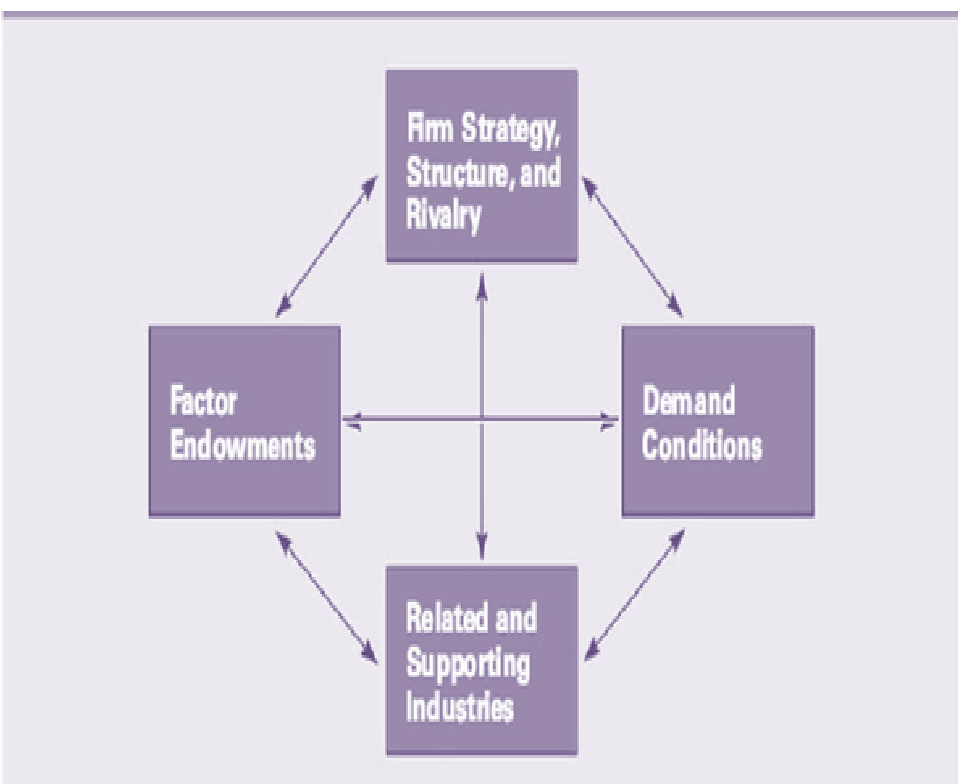

Fig. 3.3.3

Regulation will alter home demand conditions, antitrust policies will influence the intensity of contention among associate degree trade, and government investments in education can change factor endowments.

3.3.4 ENDOWMENT FACTORS

Factor endowments lie at the center of the Heckscher-Ohlin theory. While Porter does not propose anything radically new, he does analyze the characteristics of factors of production. He recognizes hierarchies among factors, distinguishing between basic factors(e.g., natural resources, climate, location, and demographics) and advanced factors (e.g., communication infrastructure, sophisticated and skilled labor, research facilities, and technological know-how). He argues that advanced factors are the most significant for competitive advantage. Unlike the naturally endowed basic factors, advanced factors area product of investment by individuals, companies, and governments. Thus, government investments in basic and higher education, by improving the general skill and knowledge level of the population and by stimulating advanced research at higher education institutions, can upgrade a nation's advanced factors.

3.3.5 DEMAND CONDITIONS

Porter emphasizes the role home demand plays in upgrading competitive advantage. Firms are typically most sensitive to the needs of their closest customers. Thus, the characteristics of home demand are particularly important in shaping the attributes of domestically made products and in creating pressures for innovation and quality. Such consumers pressure local firms to meet high standards of product quality and to produce innovative products. Porter notes that Japan's sophisticated and knowledgeable buyers of cameras helped stimulate the Japanese camera industry to improve product quality and to introduce innovative models. A similar example can be found in the wireless telephone equipment industry, where sophisticated and demanding local customers in Scandinavia helped push Nokia of Finland and Ericsson of Sweden to invest in cellular phone technology long before demand for cellular phones took off in other developed nations. The case of Nokia is reviewed in more depth in the accompanying Management Focus.

3.3.6 RELATED & SUPPORTING INDUSTRIES

The third broad attribute of national advantage in an industry is the presence of suppliers or related industries that are internationally competitive. The benefits of investments in advanced factors of production by related and supporting industries can spill over into an industry, thereby helping it achieve a strong competitive position internationally. Swedish strength in fabricated steel products (e.g., ball bearings and cutting tools) has drawn on strengths in Sweden's specialty steel industry. Technological leadership in the U.S. semiconductor industry provided the basis for U.S.

success in personal computers and several other technically advanced electronic products. Similarly, Switzerland's success in pharmaceuticals is closely related to its previous international success in the technologically related dye industry.

3.3.7 FIRM STRATEGY, STRUCTURE & RIVALRY

The fourth broad attribute of national competitive advantage in Porter's model is the strategy, structure, and rivalry of firms within a nation. Porter makes two important points here. First, different nations are characterized by different management ideologies, which either help them or do not help them to build national competitive advantage. For example, Porter noted the predominance of engineers in top management at German and Japanese firms. He attributed this to these firms' emphasis on improving manufacturing processes and product design. In contrast, Porter noted a predominance of people with finance backgrounds leading many U.S. firms. He linked this to U.S. firms' lack of attention to improving manufacturing processes and product design. He argued that the dominance of finance led to an overemphasis on maximizing short-term financial returns. According to Porter, one consequence of these different management ideologies was a relative loss of U.S. competitiveness in those engineering-based industries where manufacturing processes and product design issues are all-important (e.g., the automobile industry).

3.3.8 EVALUATING PORTER'S THEORY

Porter contends that the degree to which a nation is likely to achieve international success in a certain industry is a function of the combined impact of factor endowments, domestic demand conditions, related and supporting industries, and domestic rivalry. He argues that the presence of all four components is usually required for this diamond to boost competitive performance (although there are exceptions). Porter also contends that government can influence each of the four components of the diamond-either positively or negatively. Factor endowments can be affected by subsidies, policies toward capital markets, policies toward education, and so on. Government can shape domestic demand through local product standards or with regulations that mandate or influence buyer needs. Government policy can influence supporting and related industries through regulation and influence firm rivalry through such devices as capital market regulation, tax policy, and antitrust laws. If Porter is correct, we would expect his model to predict the pattern of international trade that we observe in the real world. Countries should be exporting products from those industries where all four components of the diamond are favorable, while importing in those areas where the components are not favorable. Is he correct? We simply do not know. Porter's theory has not been subjected to detailed empirical testing. Much about the theory rings true, but the same can be said for the new trade theory, the theory of comparative advantage, and the Heckscher-Ohlin theory. It may be that each of these theories, which complement each other, explains something about the pattern of international trade.

3.4 TRADE BARRIERS

Trade barriers are actions taken by government to extend information superhighway export by limiting imports of sure merchandise or services, increasing domestic production, domestic financial gain and employment. The trade barriers can be helpful to domestic companies by giving advantage to them whereas competition with foreign imports but it can be harmful to domestic customers. While domestics companies enjoys with higher sales, less competition, and more profits domestic consumers may experience with higher domestic prices by restricting imports of products. Tariffs, import quotas and non-tariff barriers area unit the foremost common trade barriers in today's economy.

Tariffs area unit essentially taxes additional on foreign products' costs. With tariffs the value of the merchandise can increase and its aim to decrease the demand of that product within the domestic market. Tariffs area unit used most ordinarily as a import barrier, because it is not only increasing the demand on local produces products, but it is also bringing a tax revenue to the government treasury. Tariffs are normally obligatory if domestic producers are able to convert government policy manufacturers to atone for foreign producers WHO below the belt gain a competitive advantage because of minimum wages, dumping practices, or low production costs. However, tariffs are obligatory as a general suggests that of limiting imports. That means that not solely the native makers can enjoy this import barrier however additionally government can have further government income.

Import Quotas with this import barrier movement place a restriction on the quantities merchandise or services being foreign. Quotas will be established merely supported initial return initial serve basis and once the overall allowed amount reached imports of that merchandise won't be allowed. Another alternate thanks to establish the quota is dividing the quota among the foreign producers with some criteria.

Non-tariff barriers mainly include government regulations applied to specific products and services. Regulations like technique utilized in production, safety of the produce, ingredients and other criteria. These laws would mirror the patron selections within the domestic market and can provides a likelihood to domestic producers to be a lot of competitive then foreign producers with distinctive production techniques available only to domestic producers.

That being same non tariff barriers aim to safeguard the domestic shoppers and doing that they will additionally offer advantage to domestic production a lot of competitive. In theory with unrestricted international trade each country could profit by participating in an exceedingly explicit exchange, then why apply trade barriers?

Following are the main reasons for trade barriers,

1) Infant Industries: trade barriers and restrictions are to protect young and undeveloped industries that are not large enough to completive with more mature foreign markets and products. With government's help these industries cannot go enough and get a chance to create recognition, a brand name and develop grove in a healthy economical environment. With Trade barriers young industries are going to be protected against foreign competition whereas they're developing.

2) Domestic Employment: Protection of domestic employment By putting the trade barriers in front of the imported products governments are promoting domestic produced product or services. While demand on domestic merchandise will increase the domestic production and domestic employment will increase on.

3) Unfair Trade: In some cases foreign products may be sold in the domestic economy at a price actually below of its actual cost as a result of foreign governments subsidize their producers. With This follow of merchandising foreign merchandise could take over the domestic market and provides less modification to domestic merchandise contend. That will permit increase of foreign merchandise within the domestic market.

4) National Security: trade barriers additionally required for cover of industries and corporations those turn out vital merchandise to the defense and security of the nations. The aim is to forestall the country from counting on these very important merchandise or services to a different nation.

Trade barriers forestall foreign producers from below the belt gaining a competitive advantage within the domestic economy and facilitate to level the taking part in field. If it'll be used fairly by the governments they might be nice tools for international trade and management the deficit of a rustic.

3.5 A QUOTAS

A quota is a government-imposed trade restriction that limits the number or monetary value of goods that a country can import or export during a particular period. Countries use quotas in international trade to help regulate the volume of trade between them and other countries. Countries sometimes impose them on specific goods to reduce imports and increase domestic production. In theory, quotas boost domestic production by restricting foreign competition.

3.6 IMPLICATIONS OF TARIFFS

International trade will increase the quantity of products that domestic customers will make a choice from, decreases the price of this merchandise through enhanced competition, and permits domestic industries to ship their merchandise abroad. While all of those effects appear helpful, trade is not wide accepted as utterly helpful to any or all parties. In fact, USA's President presidential campaign last fall was vehemently anti-trade. In Gregorian calendar month 2018, President Trump's administration introduced billions of bucks in new tariffs on Chinese imports. China retaliated by announcing tariffs on U.S. imported goods, including steel and pork. In the same month, Trump introduced tariffs on steel and metallic element imports from the eu Union, Mexico and North American nation furthermore. In August, China announced a 25% tariff on $16 billion worth of U.S. goods together with vehicles and crude in return to the U.S. tariffs on $16 billion worth of Chinese goods. "This is tit-for-tat specifically," same Art Hogan, Chief Marketer.

3.7 TYPES OF AGREEMENTS

Agreement types:

- Foreign investment promotion and protection agreements.
- Free trade agreements.
- Mutual recognition agreements/arrangements.
- World Trade Organization agreements.
- Other agreement types.

3.7.1 FOREIGN INVESTMENT PROMOTION AND PROTECTION AGREEMENTS

A Foreign investment promotion and protection agreement (FIPA) is a bilateral agreement designed to protect and promote foreign investment through legally-binding rights and obligations. With some exceptions to protect sensitive policy areas, FIPAs ensure foreign investors are treated just like domestic and other third-party foreign investors. FIPAs prevent governments from seizing investments without providing prompt and adequate compensation. They ensure investors are free to bring their capital and returns home if they wish to do so.

3.7.2 FREE TRADE AGREEMENTS

Canadian Free trade agreements (FTA) are treaties that open markets to Canadian businesses by reducing trade barriers, such as tariffs, quotas or non-tariff barriers. They create more predictable, fair and transparent conditions for businesses operating within foreign countries. Canada's FTAs cover substantially all trade between parties to the agreement. Many of Canada's FTAs also go beyond "traditional" trade issues to cover areas such as services, intellectual property and investment. Some countries use the term economic partnership agreement (EPA) instead of FTA. The two terms, EPA and FTA, mean the same thing.

3.7.3 MUTUAL RECOGNITION AGREEMENTS/ ARRANGEMENTS

Governments use Mutual recognition agreements/arrangements (MRA) to recognize each other's regulatory testing and certification as valid. Agreements are legally binding while arrangements are not.

MRAs simplify trade by allowing governments to accept the results of certifications by foreign regulators. Such certifications may be related to safety or other issues.

3.7.4 PLURAL LATERAL AGREEMENTS

A plural lateral agreement occurs between a limited numbers of countries with a particular interest in a specific subject.

3.7.5 WORLD TRADE ORGANIZATION AGREEMENTS

The World Trade Organization (WTO) is an international forum that establishes the rules of international trade and allows members to deal with trade issues. WTO agreements are negotiated and accepted by WTO members to help producers of goods and services, exporters and importers operate effectively in the international trading system.

WTO agreements can be multilateral, applying to all WTO members once in force, or plural lateral, applying to a subset of WTO members which have accepted an agreement on a specific subject.

3.7.6 OTHER AGREEMENT TYPES

Canada uses a wide variety of tools, both legally and non-legally binding, to open foreign markets to Canadian businesses and create more predictable, fair and transparent conditions for Canadian businesses while operating within the foreign market. These agreements and arrangements include air transport agreements, frameworks for economic cooperation and trade, memorandums of understanding, trade and economic cooperation arrangements and trade and investment cooperation arrangements.

3.8 GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT)

General Agreement on Tariffs and Trade (GATT) was established in 1947. As per preamble of the GATT the most objectives were to-

(i) Raise the standard of living.

(ii) Make sure the financial condition and increase the quantity of real income and effective demand.

(iii) Guarantee higher activity of the resources of the planet.

(iv) Ensure expansion of production and Intentional trade since the institution of the GATT, eight rounds of negotiations of reduce the tariffs and trade barriers in the trade in goods have been held.

The Geneva spherical command in 1947 was attended by twenty three countries and resulted in exchange of tariff cuts. The Amnesty Round held in 1949 was held in France followed by Uruguay Round held in Britain in 1950-56 in Switzerland.

The Dillon Round of 1960-61 was held in Geneva was the fifth round followed by the Kennedy spherical in 1964-67 that was attended by 48 countries including 35 developing countries. This round included a new anti-dumping agreement. The Tokyo Round 102 countries was a continuation of the GATT's efforts to progressively reduce tariffs held in (1973-79).

The eighth round i.e. Uruguay Round was held in 1986-93 in which 123 members participated was the foremost comprehensive spherical.

The final act was signed in 1994 at Marrakech (Morocco) and the GATT 1994 finally emerged as world organization in 1995.

Thus, world organization was established on one January 1995 as a successor to the GATT. The Headquarters of WTO are in Geneva, Switzerland.

At present, the membership of the WTO is fourteen. The Director-General is appointed by the General Council for a four-year term after consultation among member countries.

3.8.1 THE STRUCTURE OF WTO CONSISTS OF THE FOLLOWING BODIES

(i) The Ministerial Conference : The ministerial conference (MC) is that the Primary body composed of the representations of all the members. It is the executive of the WTO and carries out the functions of the WTO. It meets at least once every two years. It has the require choices authority to on all matters beneath any of the multilateral trade agreements on the request of the members.

(ii) The General Council : The General Council handles the day to day work of the WTO and reports to the MC. It comprises of representatives of all the members. They can meet as many times as is appropriate and necessary. It has three functional council working under its superintendence and guidance- council for exchange product, council for exchange services and council for trade connected aspects of Intellectual Property Rights.

(iii) The Dispute Settlement Body : It usually meets truce a month on which all members can sit to hear the complaints of violations of WTO rules and agreements. It sets up expert panels to study disputes.

(iv) The Trade Policy Review Body : It is the forum where the whole membership to review the trade policies of all WTO member countries. Major trading powers trade policies are reviewed every 2 years whereas the trade policies of the opposite individual members are reviewed every four years.

(v) The committee on Trade and Development, the committee on BOP and therefore the committee on budget finance and administration : The committee on trade and development is concerned with problems associated with developing and least developed countries. The committee on BOP is answerable for consultations between the global organization members and countries that take trade restrictive measures so as to address their BOP difficulties. The committee on budged, finance and administration deals with issues relating to the WTO's financing and budget Functions:

3.9 THE MAIN FUNCTIONS & OBJECTIVES OF WTO

(a) To facilitate and implement action, operation, administration and the promotion of the agreement, the multilateral and plural lateral trade agreements which together make up the WTO

(b) To provide the forum of negotiations among its members in respect of multilateral trade relations.

(c) To administer the foundations and procedures governing the settlement of trade disputes among members.

(d) To oversee national trade policies by administering Trade Policy Review Mechanism (TRPM).

(e) To work with the UN agency, UN agency and different International institutions involved in global policy making.

3.10 IMPLICATION OF WTO ON INTERNATIONAL MARKETING

(1) The First Ministerial Conference, 1996 (Singapore)- The conference over with a declaration addressing six major areas viz. labour standard, investment, competition policies government procurement, textiles and agriculture.

(2) The second Ministerial Conference, 1998 (Geneva) - The 3 main options of this conference were celebrations of fiftieth anniversary

of multilateral trading year, a ministerial declaration laying the foundation for next year for a new set of global talks in certain areas like Trade connected holding Rights (TRIPS), Trade Related Investment Measures (TRIMS), Dispute Settlement, Technical Barriers to Trade etc. and the conclusion on an agreement on duty trade in electronic commerce.

(3) The third Ministerial Conference, 1999 (Seattle) - In this conference, while the US preferred on the agenda of WTO core labour standards, environment protection. Industrial tariffs, e-commerce, transparency in govt. procurement practices; the European Union, Japan and few other industrialized countries wanted comprehensive discussions on all new problems like investment rules, competition policy, govt. procurement, labour and environmental standards, industrial tariffs; the developing countries including Bharat wished the longer term work programme of the WTO confined to the 'built-in' agenda of the existing agreements. The session was ultimately suspended due to protests and demonstrations.

(4) Doha (Qatar) Ministerial Conference (Nov.2001)-A compromise was reached during this conference on Intellectual Property Rights (IPR) that was thought to be one on the rivalry and tough implementation problems concerning access to medication and public health considerations in and developing countries, the accords is known as TPIPS.

(5) Cancun Ministerial Conference (Sep. 2003)- The fifth conference was held in Mexico. The main task was to take stock of progress in negotiations and different work beneath the El Beda Development Agents. No consensus was reached on any issue.

3.11 INDIA'S ROLE IN INTERNATIONAL TRADE THEORIES

3.11.1 FOREIGN NATIONAL TRADING POLICY

The Foreign national trading policy (FTP) was introduced by the Government to grow the Indian export of products and services, generating employment and increasing worth addition within the country. The Government, through the implementation of the policy, seeks to develop the producing and repair sectors. This text may be a exposure of the assorted aspects of the policy.

3.11.2 PRIMARY FOCUS AREAS

The Government, through the policy, primarily focuses on adopting a twin strategy of promoting ancient and sunrise sectors of exports together with services. Further, it intends to modify the method of doing business.

3.11.3 DURATION OF THE POLICY

The Foreign national trading policy (FTP) was flagged off within the twelvemonth of 2015-16, and can stay effective till the thirty first of March, 2020. Throughout this era, all the exports and imports of the country are ruled by the policy. The government t strives to form Asian nation a major partner in international trade by 2020.

3.12 SUMMARY

This chapter reviewed a number of theories that explain why it's useful for a rustic to have interaction in international trade and explained the pattern of international trade observed in the world economy. The theories of Smith, Ricardo, and Heckscher-Ohlin all build sturdy cases for unrestricted trade. In contrast, the mercantilist theory & to a lesser extent, the new trade theory can be interpreted to support government intervention to promote exports through subsidies and to limit imports through tariffs and quotas. In explaining the pattern of international trade, this chapter shows that, with the exception of mercantilism, the theory is silent on this issue; the different theories offer largely complementary explanations. Although no one theory may explain the apparent pattern of international trade, taken together, the theory of comparative advantage, the Heckscher-Ohlin theory, the product life-cycle theory, Porter's theory of national competitive advantage & the new trade theory do suggest which factors are important. Comparative advantage tells us that productivity differences are important; Heckscher-Ohlin tells us that factor endowments matter; the product life-cycle theory tells U.S.A. that wherever a replacement product is introduced is important; the new trade theory tells U.S.A. that increasing returns to specialization and first-mover advantages matter; and Porter tells U.S.A. that each one these factors may be vital in so far as they impact the four components of the national diamond. The chapter made the following points:

1. Mercantilists argued that it had been in an exceedingly country's best interests to run a balance-of-trade surplus. They viewed trade as a game, in which one country's gains cause losses for other countries.

2. The speculation of absolute advantage suggests that countries dissent in their ability to supply product with efficiency. The theory suggests that a country should specialize in producing goods in areas where it has an absolute advantage and import goods in areas where other countries have absolute advantages.

3. The theory of comparative advantage suggests that it is sensible for a rustic to specialize in producing those goods that it can produce

most efficiently, while buying goods that it can produce relatively less efficiently from other countries-even if that means buying goods from other countries that it could produce more efficient!

4. The speculation of comparative advantage suggests that unrestricted trade brings concerning enlarged world production, that is, that trade is a positive sum game.

5. The speculation of comparative advantage conjointly suggests that gap a rustic to trade stimulates economic process, which creates dynamic gains from trade. The empirical proof appears to be in keeping with this claim.

6. The Heckscher-Ohlin theory argues that the pattern of international trade is decided by variations in issue endowments. It predicts that countries will export those goods that make intensive use of locally abundant factors and will import goods that make intensive use of factors that are locally scarce.

7. The product life-cycle theory more focuses on trade patterns are influenced by wherever a replacement product is introduced. In associate progressively integrated international economy, the product life-cycle theory seems to be less predictive than it once was.

8. New trade theory states that trade permits a nation to specialize in the production of certain goods, attaining scale economies and lowering the costs of producing those goods, while buying goods that it doesn't manufacture from alternative nations that are similarly specialized. By this mechanism, the variability of products out there to shoppers in every nation is accumulated, whereas the common prices of these merchandise ought to fall.

9. New trade theory additionally states that in those industries where substantial economies of scale imply that the world market will profitably support only a few companies, countries may predominate in the export of certain products simply because they had a firm that was a primary mover in this business.

10. Some new trade theorists have promoted the thought of strategic foreign policy. The argument is that government, by the sophisticated and judicious use of subsidies, might be able to increase the chances of domestic firms becoming first movers in newly emerging industries.

11. Porter's theory of national competitive advantage suggests that the pattern of trade is influenced by four attributes of a nation: (a) issue endowments, (b) domestic demand conditions, (c) relating and supporting industries, and (d) firm strategy, structure, and group action.

3.13 SELF ASSESSMENT QUESTIONS

1. Discuss the role and main functions of World Trade Organization (WTO).
2. Mercantilism is a bankrupt theory that has no place in the modem world. Discuss.
3. What are the potential costs of adopting a free trade regime? Do you think governments should do anything to reduce these costs? What?
4. Is free trade fair? Discuss.
5. Explain the different types of Trade Theories
6. Discuss the objectives of WTO.
7. What do you understand by Tariffs & Quota?
8. What do you understand by Trade Barriers?
9. Explain GATT.
10. India's role in Trade theories.

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2

STRATEGIES AND MARKETING RESEARCH

UNIT-4

International Market Entry Strategies

UNIT-5

International Marketing Research

UNIT-6

International Product Policy and Planning

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BLOCK INTRODUCTION

BLOCK-2

In **Block-2** you have learnt about the management part of international marketing; international market entry strategies; international marketing research and international product policy and planning.

Unit-4 discusses about international market entry strategies introduction, different entry modes and market entry strategies, joint ventures, strategic alliances, direct investment, manufacturing and franchising.

Unit-5 explains international marketing research; introduction, concept of marketing research, need for marketing research, approach to marketing research, scope of international marketing research, international marketing research process, market surveys, and marketing information system.

Unit-6 deals with international product policy and planning introduction, products: national and international, the new product development, international product planning, product adoption and standardization, international market segmentation, influences on marketing plan and budget, international product marketing, and marketing of services.

UNIT-4 INTERNATIONAL MARKET ENTRY STRATEGIES

Unit Framework

4.0 PURPOSE

- To understand the International Marketing Entry Strategies
- To Understand the Entry Modes
- To Understand the Entry Strategies
- To Understand Manufacturing, Franchising etc

4.1 INTRODUCTION

When a national company thinks to enter into international business, its many choices, not essentially reciprocally exclusive, depending, but on the character and degree of involvement the company wishes to have in foreign business. These options result in different forms and structural set-up for the company. The company can open a separate department for international business or it will have joint venture in the foreign countries. There are so many ways during which an organization will realize a route to a foreign market. Here is no single market entry that works for all International markets. For many businesses direct commercialism is also the most effective strategy whereas in another it's going to be appropriate to line up a venture and in another it's going to be effective to license the manufacturing. Many factors can confirm the selection of strategy, including, but not limited to, tariff rates, the degree to which you need to adapt your product, marketing and transportation costs. These factors could increase value to plug however it might be expected that the rise in sales can offset these prices.

4.1.1 INTERNATIONAL MARKET ENTRY STRATEGIES

Market entry strategy could be a planned distribution and delivery technique of products or services to a replacement target market. In the import and export of services, it refers to the creation, institution, and management of contracts in an exceedingly foreign country.

The following Market entry ways will be thought to be the most choices for companies:

1. **Direct Exporting**

   The most common style of commercialism, it's selling directly into the chosen market using your own resources initially. Many firms once they need established a sales programme communicate agents and/or distributors to represent them in this market. Distributors and Agents work closely with the corporate in representing the company's interests and it's vital that abundant time is spent to decide the selection of agent / distributor. A good distributor / agent might remodel probabilities of success in an exceedingly chosen market and contrariwise.

2. **Acquisition of an Overseas Company**

   For some firms operational World Health Organization wish to enter a market the acquisition of Associate in nursing existing business is also the foremost acceptable strategy. This may be as a result of the corporate has massive market share, is also an on the spot contender or thanks to government regulation this is often the sole possibility for the corporate to enter the market. It will be actually pricey to amass a business and determinative the worth of an organization in an exceedingly foreign market would require competent monetary due diligence. The up-side is that this market entry strategy can instantly offer the corporate with the standing of being native an area a neighborhood company and can receive all the advantages of local data, an established client base and be treated by the government as a neighborhood business.

3. **Licensing**

   Licensing is kind of a classy arrangement wherever a firm transfers the rights to the utilization of a product or service to a different company. It's a particularly beneficial if the purchaser of the license has a large share in the market that the company wants to enter. Licensing can be both for marketing or production.

4. Franchising

Very common in North America it's a method for fast market growth however it will be seen to be increasing globally. Franchising works notably well for firms that have an honest complete that has repeatable business. Ex. a food outlet & this can be easily relocated into other markets. Two points of importance square measure needed once considering victimization the franchise strategy. First, is that your business model ought to be distinctive or have a robust complete that may be leveraged internationally. The second is that you just could run the chance of making your future competition in your franchisee.

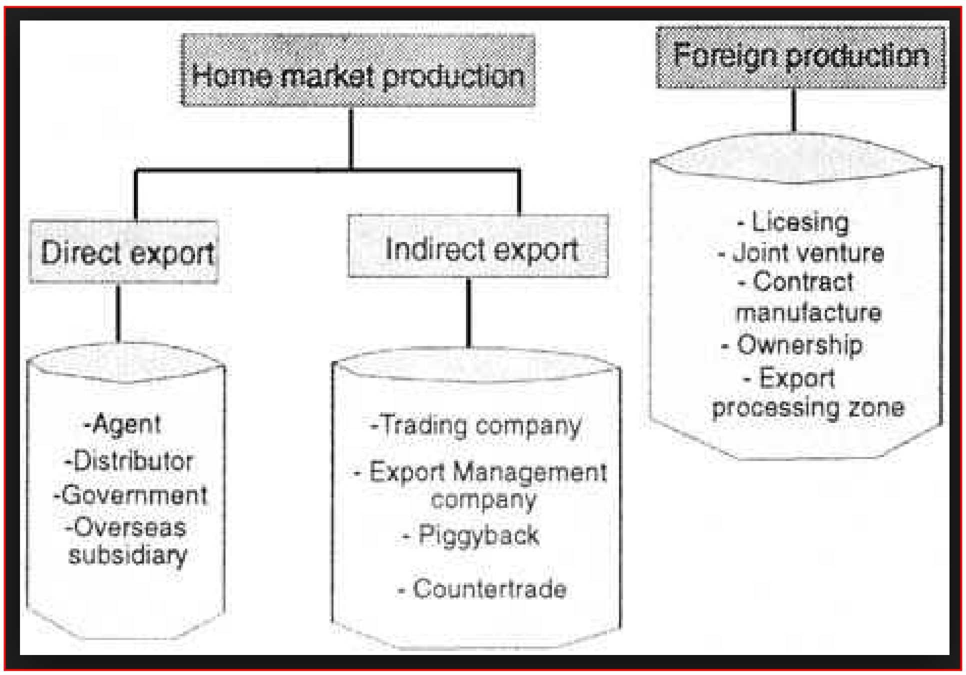

Fig. 4.1

5. Joint Ventures

Joint Ventures square measure a selected style of partnership that involves making a 3rd severally managed company. Two firms comply with work along in an exceedingly explicit market, either geographic or product and make a 3rd company to action this. Risks and profits are normally shared equally. Some sensible samples of a roaring joint ventures square measure Sony/Ericsson the transportable company, Panthera onca Land Rover sealed a venture with Chinese company Chery Automobile marking £1.1bn of investment into China.

6. Partnering

Partnering will be nearly a necessity once firms enter sure foreign markets, for example Asia. Partnering will be a straightforward co-marketing arrangement or a classy strategic alliance for producing.

Partnering can work well in those markets where the culture, both business and social is vastly different that the company's home market. The native partners can bring native market data, contacts and even potential customers.

7. Turnkey Projects

Turnkey comes square measure ordinarily associated to firms that offer services like environmental consulting, architecture, construction and engineering. A peace officer project is wherever the power is constructed from scratch and flipped over to the client and prepared to travel turn the key and also the plant is operational. This can be an honest thanks to enter foreign markets because the client is often a government and infrequently the project is being supported by a global monetary agency such as the planet Bank therefore the risk of not being paid is dramatically reduced.

8. Piggybacking

Piggybacking may be a fairly distinctive methodology of getting into the international marketplace. If an organization encompasses a notably fascinating and distinctive product or service that they sell to massive domestic firms World Health Organization care for foreign markets, it may be worth approaching them to visualize if a product or service will be enclosed in their sales portfolio for international markets. This reduces the chance and prices as a result of you're basically mercantilism domestically and also the larger company is promoting your product or service for the corporate internationally.

9. Greenfield Investments

Greenfield investments need the best involvement in international business. A green field investment is wherever an organization purchases the land, builds the facility and operates the business on an ongoing basis in a foreign market. It's actually the foremost pricey possibility and holds the best risk however some markets could need firms to undertake the value and risk thanks to government laws, transportation costs and the ability to access technology or delicate labour.

4.2 DIFFERENT MARKET ENTRY MODES & MARKET STRATEGIES

4.2.1 EXPORTING

Many manufacturing firms begin their global expansion as exporters and only later switch to another mode for serving a foreign market. Exporting has two distinct advantages. First, it avoids the costs of establishing manufacturing operations in the host country.

Second, exporting may help a firm achieve experience curve and location economies. By manufacturing the product in a centralized location and exporting it to other national markets, the firm may realize substantial scale economies from its global sales volume.

This is how Sony came to dominate the global TV market; Matsushita (Panasonic brand) came to dominate VCR market, and Samsung gained market share in computer chips.

Exporting has a number of drawbacks. First, exporting from the firm's home base may not be appropriate if there are lower cost locations for manufacturing the product abroad. Second, high transport costs can make exporting uneconomical, particularly for bulk products. Another drawback is that tariff barriers can make exporting uneconomical. Similarly the threat of tariff barriers by the host country can make it very risky. The threat by USA to impose tariffs on imported Japanese automobiles led many Japanese auto firms to set up manufacturing auto plants in USA. By 1990, 50% of all Japanese cars sold in USA, were manufactured locally, up from 0% in 1985. Another drawback arises when a firm delegates its marketing in each country where it does business through a local agent. These agents often carry the products of competing firms and so have divided loyalties. In such cases, the foreign agent may not do as good a job as the firm would if it managed its marketing itself.

A company may go for either the occasional exporting or active exporting. Occasional exporting is a passive level of involvement in which the company exports from time to time, either on its own initiative or in response to unsolicited orders from abroad. Active exporting takes place when the company makes a commitment to expand its exports to a particular market. In either case, the company produces its goods in the home country and might or might not adapt them to the foreign market.

Actually, a domestic company can sell its products to foreign buyers directly or indirectly. For direct exports, it establishes direct contact with foreign customers (actual users or importer distributors) and ships the goods as per the customer's orders and requirements.

The exporting firm takes upon itself the entire responsibility concerning packing, documentation, shipment, credit exchanges risks, the government regulations etc. A company can carry direct export in many ways:

(a) Domestic based export department or division: An export sales manager, supporting sales staff, with some clerical assistants carry on actual selling and draw on marketing assistance as needed. It might evolve into a self-contained export department or sales subsidiary carrying out all the activities involved in export and possibly operating as a profit centre.

(b) Travelling Export Sales Representatives: The Company can send home-based sales representatives abroad at certain times to find and promote business.

(c) Foreign based Sales Branch or Subsidiary: An overseas sales branch allows the manufacturer to achieve greater presence and programmed control in the foreign market. The sales branch handles sales distribution and may handle warehousing and promotion as well. It also serves as a display and customer service centre.

(d) Foreign Based Distributor or Agents: Foreign based distributor would buy and own the goods. Foreign-based agent would sell the goods on behalf of the company. They may be given exclusive right to represent the company in that country or only general rights.

In the case of indirect exporting, a firm can use a variety of middlemen who operate in the international markets. Companies typically start with indirect exporting because the firm does not have to develop an export department, an overseas sales force, or a set of foreign contacts. It also involves fewer risks because international marketing intermediaries bring know-how and services. Various types of domestic middlemen are available for the company.

(a) Domestic Based Export Merchant : The middlemen buy the manufacturer's product and sell it abroad on his own account.

(b) Domestic Based Export Agent : The agent simply agrees to seek and negotiates with foreign buyers for a commission. He may also render certain services but does not take title to the product. Trading companies are also included in this group.

(c) Resident Agent/ Representatives of Foreign Buyers : Who buys in the exporting country on behalf of importers abroad?

(d) Co-operative Marketing Organization : A cooperative organization carries on the exporting activities of its members and may be partly under their control. This form is used usually by producers of primary products, fruits, vegetables, nuts, and so on.

(e) Combination Export Manager : Who acts as an overseas selling agent for a number of companies and practically acts as the "Export Department" for the firms it represents.

(f) Export Management Companies : These types of companies manage a company's export activities for a fee. Whether companies decide to export indirectly or directly, many companies use exporting as a way to 'test the waters' before building a plant and manufacturing a product overseas. One of the best ways to initiate or extend export activities is by exhibiting at an overseas trade show. Companies may also use Internet for this purpose.

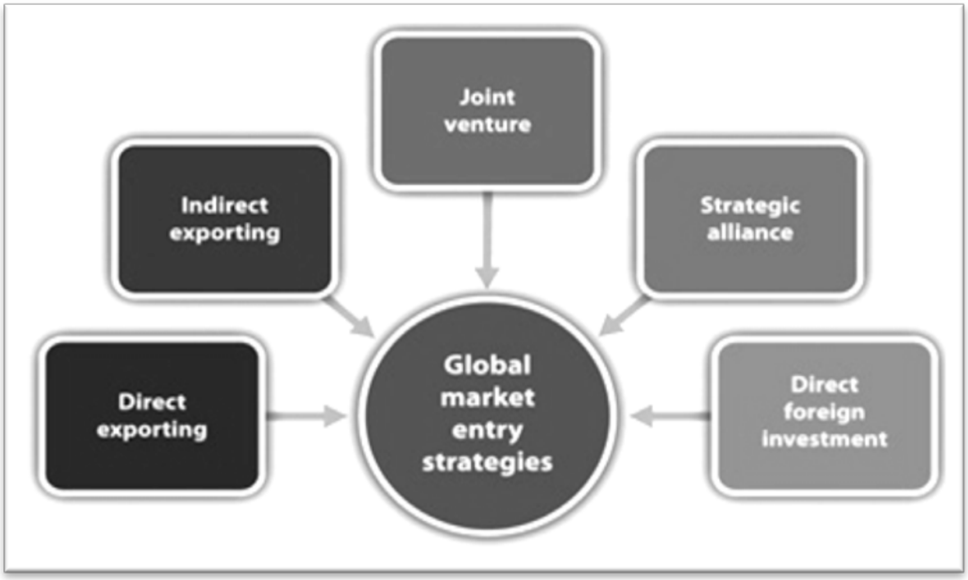

Fig. 4.2

4.2.2 LICENSING

Licensing arrangement represents signing of an agreement with a foreign-based enterprise. It is an arrangement whereby a licensor grants the rights of intangible property to another party, called licensee, for a specified period, and in return receives a royalty fee. Intangible property includes patents, processing know-how, trademarks, inventions, formulas, copyrights, and designs etc. of the company.

Through this agreement, licenser can enter the foreign market at little risk and the licensee gets the benefits of gaining the manufacturing technology and marketing of a well-known product or brand. Licensing does not involve marketing facilities. If the cost of production is comparatively lower in the licensee’s country, the licenser can import the product from the licensee to improve its competitive position in its own market.

Licensing is an alternative entry and expansion strategy with considerable appeal. A company with technology knows how, or a strong brand image can use licensing agreements to supplement its bottom-line profitability with no investment and very limited expenses. The only cost is the cost of signing the agreements and of policing their implementation. Licensing, therefore, is very lucrative for firms lacking the capital to develop operations overseas. In addition, licensing can be attractive when a firm is unwilling to commit substantial financial resources to an unfamiliar or politically volatile foreign market.

Licensing is often used when a firm wishes to participate in a foreign market but is prohibited in doing so by barriers to investment.

Finally, licensing is frequently used when a firm posses some intangible property that might have business applications, but it does not want to develop those applications itself. For example Bell Laboratories at AT&T originally invented the transistor circuit in the 1950s, but AT&T decided it did not want to produce transistors, so it licensed the technology to a number of other companies, such as Texas Instruments. Similarly, Coca-Cola has licensed its famous trademark to clothing manufacturers, which have incorporated the design into their clothing.

Licensing also has some serious drawbacks. First, it does not give a firm the tight control over manufacturing, marketing, and strategy that is required for realizing experience curve and location economies. Second, competing in a global market may require a firm to co-ordinate strategic moves across countries by using profits earned in one country to support competitive attacks in another.

By its very nature, licensing limits a firm's ability to do this. A licensee is unlikely to allow a multinational firm to use its profits, beyond those due in the form of royalty payments, to support a different licensee operating in another country.

Another problem with licensing is the risk associated with licensing technological know-how to foreign companies. Technological know-how constitutes the basis of many multinational firms' competitive advantage. Most firms wish to maintain control over how their know-how is used, and a firm can quickly lose control over its technology by licensing it. Many firms have made the mistake of thinking they could maintain control over their know-how within the framework of a licensing agreement. RCA Corporation, for example, once licensed its color TV technology to Japanese firms including Matsushita (Panasonic brand) and Sony. The Japanese firms quickly assimilated the technology, improved on it, and used it to sell their products all over the world. Now these firms have bigger share of TV market than RCA.

There are ways of reducing the risk of this occurring. One way is by entering into a cross-licensing agreement with the foreign firm. Under a cross-licensing agreement, a firm might license some valuable intangible property to a foreign partner, but in addition to a royalty payment, the firm might also request that the foreign partner license some of its valuable know-how to the firm. Such arrangements are believed to reduce the risks associated with licensing technological know-how, since the licensee realizes that if it violates the licensing contract, by using the knowledge obtained to compete directly with the licensor, the licensor can do the same to it. Cross-licensing agreements enable firms to hold each other hostage, which reduces the probability that they will behave opportunistically toward each other.

Such cross-licensing agreements are increasingly common in high technology industries. For example, the US biotechnology firm Amgen has licensed one of its key drugs, Neutrogena, to Kirin, the Japanese pharmaceutical company. The license gives Kirin the right to sell Neutrogena in Japan. In return, Amgen gained the right to sell some of Kirin's products in USA.

There are several variations on a licensing agreement. Companies such as Hyatt and Marriot sell management contracts to owners of foreign hotels to manage these businesses for a fee.

The management firm may even be given the option to purchase some share in the managed company within a stated period. Another variation is contract manufacturing, in which the firm hires local manufacturers to produce the product. When Sears opened department stores in Mexico and Spain, it found qualified local manufacturers to produce many of its products.

4.2.3 FRANCHISING

Franchising is similar to licensing, although it tends to involve longer-term commitments than licensing. Franchising is basically a specialized form of licensing in which the franchiser not only sells intangible property to the franchisee, but also insists that the franchisee agree to abide by strict rules as to how it does business.

The franchiser will often assist the franchisee to run the business on an ongoing basis. As with licensing, the franchiser typically receives a royalty payment, which amounts to some percentage of the franchisee's revenues. Whereas licensing is perused primarily by manufacturing firms, franchising is employed by service firms.

McDonald's and KFC are good examples of firms that have grown by using a franchising strategy. McDonald's has strict rules as to how franchisees should operate a restaurant. These rules extend to control over the menu, cooking methods, staffing policies, and design and location of a restaurant. McDonald's also organizes the supply chain for its franchisees and provides management training and financial assistance.

The advantages of franchising are very similar to those of licensing. The firm is relieved of many of the costs and risks of opening a foreign market on its own. Instead, the franchisee typically assumes those costs and risks.

The disadvantages are less pronounced than in the case of licensing. Franchising may also hinder the firm's ability to take profits out of one country to support competitive attacks in another. Quality control is also very difficult to achieve the world over.

4.3 JOINT VENTURES

A joint venture entails establishing a firm that is jointly owned by two or more otherwise independent firms. The advantages of this strategy include the sharing of risk and the ability to combine different value chain strengths. One company may have in depth knowledge of a local market, and extensive distribution system, or access to low-cost labor or raw materials. Such a company might link up with a foreign partner possessing considerable know-how in the area of technology, manufacturing and process applications.

For example Lenvest is a joint venture between West Germany's Salmander, a shoe manufacturer, and the Proletarian Shoe factory in St. Petersburg Russia. The Russian side brought abundant, low wage labor and plentiful raw materials to the table.

The Germans provide machinery and equally important the knowhow, management technique, and quality control that are virtually unknown in the former Soviet republic.

The most typical joint venture is a 50/50 venture, in which there are two parties, each of which holds a 50% ownership stake and contributes a team of managers to share operating control. Some firms, however, seek joint ventures in which they have a majority share and thus tighter control.

Joint ventures have a number of advantages. First, a firm benefits from a local partner's knowledge of the host country's competitive conditions, culture, language, political systems, and business systems. Second, when the development costs and/or risks of opening a foreign market are high, a firm might gain by sharing these costs and/or risks with a local partner. Third, in many countries, political considerations make joint ventures the only feasible entry mode. Despite these advantages, there are major disadvantages with joint ventures. First, a firm that enters into a joint venture risk giving control of its technology to its partner. The second disadvantage is that a joint venture does not give a firm the tight control over subsidiaries that it might need to realize the experience curve or location economies. A third disadvantage with joint ventures is that the shared ownership arrangement can lead to conflicts and battles for control between the investing firms if their goals and objectives change or if they take different views as to what the strategy should be. These conflicts tend to be greater when the venture is between firms of different nationalities, and they often end in the dissolution of the venture.

Consortia are similar to the joint venture and could be classified as such except for two unique characteristics. First, they typically involve a large number of participants; and second, they frequently operate in a country or market in which none of the participants is currently active. Consortia are developed for pooling financial and managerial resources and to lessen risks. Often, huge construction projects are built under a consortium arrangement in which major contractors with different specialties form a separate company specifically to negotiate for and produce one job. One firm usually acts as the lead firm and the newly formed corporation may exist quite independently of its originators.

4.3.1 WHOLLY OWNED SUBSIDIARIES

The most extensive form of participation in global markets is 100% ownership, which may be achieved by start –up from the scratch, called green field strategy or by acquisition. Ownership requires the greatest commitment of capital and managerial effort and offers the fullest means of participating in a market. Companies may move from licensing or joint venture strategies to ownership in order to achieve faster expansion in a market, greater control, or higher profits.

Large-scale direct expansion can be expensive and require a major commitment of managerial time and energy. Alternatively, acquisition is an instant but less expensive approach to market entry.

While full ownership can yield the additional advantage of avoiding communication and conflict of interest problems that may arise with a joint venture or co-production partner, acquisitions still present the demanding and challenging task or integrating the acquired company into the worldwide organization and coordinating activities.

When a firm's competitive advantage is based on technological competence, a wholly owned subsidiary will often be preferred because it reduces the risk of losing control over the competence.

Acquisitions have three major points in their favour. First, they are quick to execute. By acquiring an established enterprise, a firm can rapidly build its presence in the target foreign market.

When the German automobile company Daimler Benz decided it needed a bigger presence in the US automobile market, it did not increase that presence by building new factories to serve the US market, a process that would have taken years. Instead, it acquired the number three US automobile company, Chrysler, and merged the two operations to form Daimler/Chrysler. Second, in many cases firms make acquisitions to preempt their competitors. The need for preemption is particularly great in markets that are rapidly globalizing, such as telecommunications, where a combination of deregulation within nations and liberalization of regulations governing cross-border foreign direct investment has made it much easier for enterprises to enter foreign markets through acquisitions. Third, managers may believe acquisitions to be less risky than green field ventures. When a firm makes an acquisition, it buys a set of assets that are producing a known revenue and profit stream.

In contrast, the revenue and profit stream that a green-field venture might generate is uncertain because it does not yet exist. When a firm makes an acquisition in a foreign market, it not only acquires a set of tangible assets, such as factories, logistics systems, customer service systems, and so on, but it also acquires valuable intangible assets including a local brand name and managers' knowledge of the business environment in that nation. Such knowledge can reduce the risk of mistakes caused by ignorance of the national culture of the country entered.

Despite these arguments, acquisitions often produce disappointing results. For example, a study by Mercer management consulting looked at 150 acquisitions worth more than $500 million each that were undertaken between January 1990 and July 1995 and concluded that 50% of these acquit ions ended up eroding shareholder value, while 33% created only marginal returns. Only 17% were judged to be successful. The big advantage of establishing a green-field venture in a foreign country, however, is that it gives the firm a much greater ability to build the kind of subsidiary company that it wants. For example, it is much easier to build an organization culture from scratch than it is to change the culture of an acquired unit. Similarly, it is much easier to establish a set of operating routines in a new subsidiary than it is to convert the operating routines of an acquired unit.

For example, when Lincoln Electric, the US manufacturer of arc welding equipment, first ventured overseas in the mid 1980s, it did so by acquisitions, purchasing arc welding equipment companies in Europe. However, Lincoln's competitive advantage in USA was based upon a strong organizational culture and a unique set of incentives that encouraged its employees to do everything possible to increase productivity. Lincoln found through bitter experience that it was almost impossible to transfer its organizational culture and incentives to acquired firms which had their own distinct organizational cultures and incentives; as a result, the firm switched its strategy in the mid 1990s and began to enter foreign countries by establishing green-field ventures, building operations from ground up. While this strategy takes more time to execute, Lincoln has found that it yields greater long-run returns than the acquisition strategy.

4.3.2 TURNKEY PROJECTS

In a turnkey project, the contractor agrees to handle every detail of the project for a foreign client, including the training of operating personnel. They are more common with the firms that specialize in design and construction and in chemical, pharmaceutical, petroleum refining, and metal refining industries, all of which use complex, expensive production technologies. At completion of the contract, the foreign client is handed the 'key' of the plant that is ready for full operation, hence, the name turnkey.

To know how required assembling and running a technologically complex process, such as refining petroleum or steel, is a valuable asset. Turnkey projects are a way of earning great economic returns from that asset. The strategy is particularly useful where FDI (Foreign Direct Investment) is limited by host government's regulations. For example, the governments of many oil rich countries have set out to build their own petroleum refining industries, so they restrict FDI in their oil and refining sectors. Many of these countries lacked petroleum-refining technology; they gained it by entering into turnkey projects with foreign firms that had the technology. A turnkey strategy may also be less risky than FDI.

The firm that enters into a turnkey project with a foreign enterprise may inadvertently create a competitor. For example, many of the Western firms that sold oil refining technology to firms in Saudi Arabia, Kuwait, and other Gulf states now find themselves competing with these firms in the world oil market. Another disadvantage is that, if the firm's process technology is a source of competitive advantage, then selling this technology through a turnkey project is also selling competitive advantage to potential and/or actual competitors.

4.4 STRATEGIC ALLIANCES

Strategic alliances refer to co-operative agreements between potential or actual competitors to co-operate out of mutual need and to share risk in achieving common objectives. Strategic alliances run the range from formal joint ventures in which two or more firms have equity stake, like Fuji-Xerox venture for Japan; to short-term contractual agreements, in which two companies agree to cooperate on a particular task such as developing a new product, like Coca-Cola and Nestle joined forces to develop the international market for 'ready to drink' tea and coffee, which currently sell in significant amounts only in Japan.

A strategic alliance implies: (i) that there is a common objective; (ii) that one partner's weakness is offset by the other's strength; (iii) that reaching the objectives alone would be too costly, take too much time, or be too risky; and (iv) together their respective strengths make possible what otherwise would be unattainable. In short, a strategic alliance is a synergistic relationship established to achieve a common goal where both parties benefit.

Firms ally themselves with actual or potential competitors for various strategic purposes. First, it may facilitate entry into foreign market. For example, Motorola initially found it very difficult to gain access to the Japanese cellular telephone market. In the mid 1980s, the firm complained loudly about formal and informal Japanese trade barriers.

The turning point for Motorola came in 1987 when it allied itself with Toshiba to build microprocessors. As part of the deal, Toshiba provided Motorola with marketing help, including some of its best managers. This alliance also helped Motorola in securing government approval to enter the Japanese market. Strategic alliances also allow firms to share the fixed costs and associated risks of developing new products or processes. Motorola's alliance with Toshiba also was partially motivated by a desire to share high fixed costs of setting up an operation to manufacture microprocessors. The microprocessor business is so capital intensive Motorola and Toshiba each contributed close to $I billion to set up their facility that few firms can afford the costs and risks by themselves. Similarly, an alliance between Boeing and a number of Japanese companies to build the 767 was motivated by Boeing's desire to share the estimated $2 billion investment required to develop the aircraft.

An alliance is also a way to bring together complimentary skills and assets that neither company could easily develop on its own. An example is the alliance between France's Thomson and Japan's JVC to manufacture VCRs. JVC and Thomson are trading core competencies. Thomson needs product technology and manufacturing skills, while JVC needs to learn how to succeed in the fragmented European market. As same as, AT&T struck deals in 1990 with NEC Corporation of Japan to trade technological skills.

AT&T gave NEC some of its computer aided design technology and NEC gave AT&T access to the technology underlying its advanced logic computer chips. Such trading of core competencies seems to underlie many of the most successful strategic alliances.

1. **Franchising** : A specialized form of licensing in which one party (the franchiser) sells to an independent party (the franchisee) the use of a trademark that is essential asset for the franchisee's business and additionally offers continual help within the operation of the business.

2. **Licensing Agreement :** Agreement whereby one company gives right to another for the use, usually a fee, of such assets as trademarks, patents, copyrights or other know-how.

3. **Strategic Alliance :** An agreement between companies that is of strategic importance to 1 or each companies' competitive viability.

4. **Subsidiary :** A far off operation that's lawfully breaks away the parent company, even if wholly owned by it.

5. **Exports :** Goods or services leaving a country.

4.4.1 VALUE CREATION IN STRATEGIC ALLIANCES

Strategic alliances create value by:

- Improving current operations
- Changing the competitive environment
- Ease of entry and exit
- Current operations are improved due to:
- Economies of scale from successful strategic alliances
- The ability to learn from the other partner(s)
- Risk and cost being shared between partner(s)

- Changing the competitive environment through:

Creating technology standards (for example, Sony and Panasonic proclaimed to figure along to supply a new-generation Television). This would facilitate set a replacement normal within the competitive setting creating tacit collusion.

Easing entry and exit of companies through :

An affordable entry into new industries (A company will kind a strategic partnership to simply enter into a replacement industry).

An affordable exit from industries (A new entrant will kind a strategic alliance with a corporation already within the business and slowly takes over that company, allowing the company that is already in the industry to exit).

4.4.2 CHALLENGES IN A STRATEGIC ALLIANCE

Although strategic alliances produce worth, there are many challenges to consider :

- Partners could misrepresent what they bring about to the table (lie about competencies that they are doing not have).
- Partners could fail to commit resources and capabilities to the opposite partners.
- One partner could commit heavily to the alliance whereas the opposite partner doesn't.
- Partners could fail to use their complementary resources effectively.

4.4.3 REASONS FOR STRATEGIC ALLIANCES

The product life cycle is set by the necessity to initiate & frequently produce new merchandise in a business. For example, the pharmaceutical business operates a slow product lifecycle, whereas the software package business operates in a very quick product lifecycle. For corporations whose product falls in a very totally different product lifecycle, the reasoning for strategic alliances are different:

1. Slow Cycle

In a slow cycle, the company’s competitive blessings are protected for comparatively long periods of your time. The pharmaceutical business operates in a very slow product life cycle because the merchandise doesn’t seem to be developed yearly and patents last an extended time.

Strategic alliances are fashioned to achieve access to a restricted market, maintain market stability (setting product standards), and establishing a franchise in a very new market.

2. Standard Cycles

In a normal cycle, the corporate launches a replacement product each few years and should or might not be ready to maintain their leading position in business.

Strategic alliances are fashioned to achieve market share, attempt to thrust out different corporations, pool resources for giant capital comes, establish economies of scale, and gain access to complementary resources.

3. Fast Cycles

In a quick cycle, the company's competitive blessings don't seem to be protected and firms in operation in a very quick product lifecycle got to perpetually develop new products/services to survive.

Strategic alliances are fashioned to hurry up the event of recent product or services, share R&D expenses, contour penetration, and overcome uncertainty.

4.5 FDI (FOREIGN DIRECT INVESTMENT)

According to the International financial Fund's Balance of Payments Manual, "FDI is an investment that's created to amass a long-lasting interest in associate enterprise operational in associate economy different than that of the capitalist, the investor's purpose being to possess an efficient voice within the management of the enterprise". FDI is totally owned producing subsidiaries square measure considered by international corporations for several reasons. it's in deep trouble effort raw materials, operate at lower producing price, for avoiding tariff barriers and satisfy native content necessities, and for penetrating the native market.

Manufacturing of FDI is incredibly useful for penetration. It helps in native production means that price step-up caused by transport prices; native turnover price custom duty fee is either nullified or is reduced. Usually the resellers' square measure being assured for the supply of the product, minimizing the channel conflicts, is eliminating delays for final consumers. Location of the production could facilitate the country which can cause a lot of uniform quality. There square measure many issues or demerits to FDI in producing, among that the most is that the risk exposure that comes with the resource commitment on the size typically required. Joint ventures square measure also not free from this sort of commitment and risks since most agreements stipulate serious prices for one partner's withdrawal. There's potential downside in overseas producing once country of origin effects square measure robust.

Companies getting into foreign markets ought to elect over the foremost appropriate entry strategy. They conjointly have to be compelled to organize possession either as a completely owned subsidiary during a venture or a lot of recently in strategic alliance.

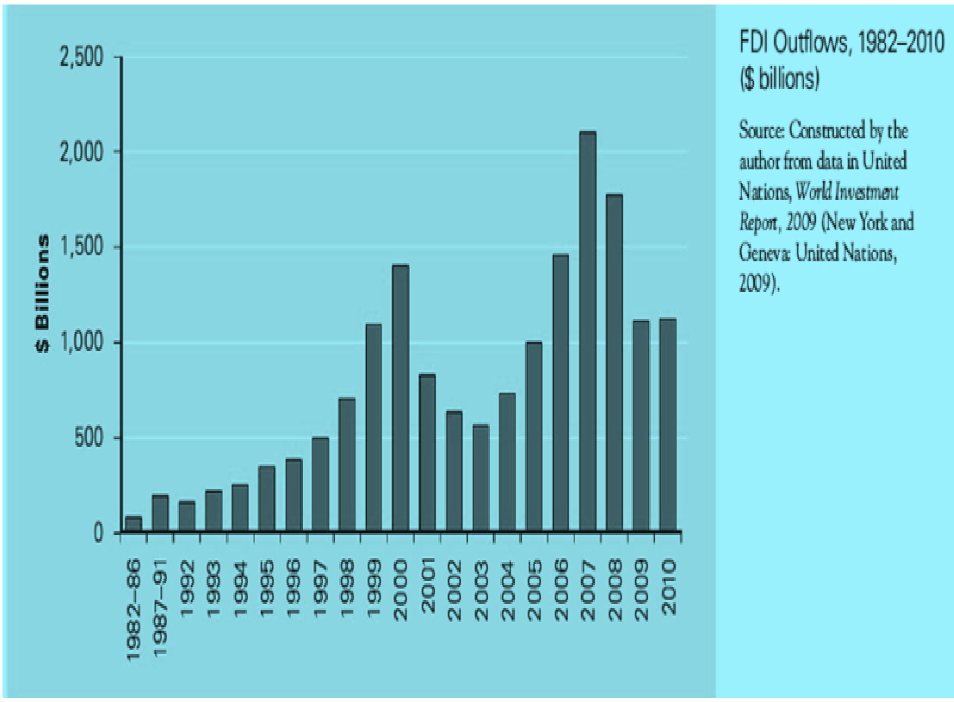

Fig. 4.5.I

4.6 MANUFACTURING

Manufacturing of FDI is extremely helpful for penetration. It helps in native production means that worth increase caused by transport prices, native turnover price custom duty fee are often either invalid or are often reduced. Generally the resellers are being assured for the supply of the merchandise, minimizing the channel conflicts, eliminating delays for final patrons. Location of the assembly could facilitate the country which can cause a lot of uniform quality.

There ar many issues or demerits to FDI in producing, among that the most is that the risk exposure that comes with the resource commitment on the size sometimes required. Joint ventures are not free from this sort of commitment and risks since most agreements stipulate significant prices for one partner’s withdrawal. There is potential downside in overseas producing once country of origin effects are sturdy.

Companies coming into foreign markets need to take quite the foremost appropriate entry strategy. They additionally ought to prepare possession either as a completely closely-held subsidiary during a venture or a lot of recently in strategic alliance.

4.7 FRANCHISING

Franchising is just a way for increasing a business and distributing product and services through a licensing relationship. In franchising, franchisors (a person or company that grants the license to a 3rd party for the conducting of a business beneath their marks) not solely specify the product and services that may be offered by the franchisees (a person or company WHO is granted the license to try to business beneath the trademark and marquee by the franchisor), but conjointly offer them with associate degree OS, complete and support. A brief separate glossary of franchising terms is available on IFA's website at http://www.franchise.org/what-are-common-franchise-terms.

4.7.1 BUSINESS FORMAT FRANCHISING

There are two different types of franchising relationships. Business Format Franchising is that the sort most specifiable to the typical person. In a business format franchise relationship the franchisor provides to the franchisee not simply its marquee, product and services, but an entire system for operating the business. The franchisee usually receives web site choice and development support, operative manuals, training, brand standards, quality control, a marketing strategy and business advisory support from the franchisor. More than one hundred twenty various industries use franchising as their route to promote including:

1. **Traditional or Product Distribution**

   While less known with franchising, ancient or product distribution franchising is really larger in total sales than business format franchising. In a ancient franchise, the main focus isn't on the system of doing business, but mainly on the products manufactured or supplied by the franchisor to the franchisee. In most, however not all told things, the factory-made product usually would like pre- and post-sale service as found within the industry. Examples of ancient or product distribution franchising may be found within the bottling, gasoline, automotive and different makers.

2. **Franchising is About Relationships**

   Many folks, once they think about franchising, focus first on the law. While the law is actually necessary, it's not the central factor to know regarding franchising. How the franchisor supports its franchisees, how the franchisee meets its obligations to deliver the products and services to the system's complete standards and most significantly franchising is regarding the connection that the franchisor has with its franchisees. In a 2014 survey by Franchise Business Review on franchisees' relationship with their franchisors it had been determined:

   - 90 percent enjoy operating their business,

- 88 % of franchisees fancy being a part of their organization,
- 85 % feel positive regarding their affiliation with their franchisor,
- 83 percent respect their franchisor,
- 78 % would advocate their franchise complete to others, and
- 73 % would “Do it everywhere again” if they'd the choice.

3. Franchising is About Brands

A franchisor’s complete is its most useful quality and customers decide that business to buy at and the way usually to frequent that business supported what they understand, or think they know, about the brand. To a definite extent customers extremely don’t care WHO owns the business ciao as their complete expectations area unit met. Most certainly customers will choose to purchase from you because of the standard of your services and therefore the relationship you identify with them. But initial and foremost, they need trust within the complete to fulfill their expectations, and the franchisor and the other franchisees in the system rely upon you to meet those expectations.

4. Franchising is About Systems and Support

Great franchisors offer systems, tools and support so that their franchisees have the ability to live up to the systems brand standards and ensure customer satisfaction. And, franchisors and every one of the opposite franchisees expect that you just can severally manage the day-after-day operation of your businesses so you'll enhance the name of the company in your market area.

When choosing a franchise system to speculate in, you want to evaluate the types of support you will be provided and how well the franchisor is managing the evolution of the product and services so it keeps up with dynamic shopper expectations. Some of the lots of common services that franchisors offer to franchisees include:

- A recognized brand name,
- Site selection and site development assistance,
- Training for you and your management team,
- Research and development of new products and services,
- Headquarters and field support,
- Initial and continuing marketing and advertising.

You want to pick out a franchisor that habitually and effectively enforces system standards. This is necessary to you as social control of name standards by the franchisor is supposed to safeguard franchisees from the attainable dangerous acts of different franchisees that share the brand with them. Since customers see franchise systems as a branded chain of operations, nice product and services delivered by one franchisee advantages the whole system. The opposite is also true.

5. **Franchising is also a Contractual Relationship**

   While from the public's viewpoint, franchises appear as if the other chain of branded businesses, they are very different. In a franchise system, the owner of the brand does not manage and operate the locations that serve consumers their products and services on a day-to-day basis. Serving the patron is that the role and responsibility of the franchisee.

Franchising could be a written agreement relationship between a licensor (franchisor) and a retailer (franchisee) that enables the business owner to use the licensor's complete and methodology of doing business to distribute products or services to consumers. While each franchise could be a license, not each license could be a franchise beneath the law. Sometimes that can be very confusing.

In a franchise could be a specific variety of licensing arrangement outlined by the Federal Trade Commission and conjointly by many states.

4.8 SUMMARY

A firm inquisitive about coming into the international market should evaluate the chance and commitment involved every entry and chooses the entry mode that most closely fits the company's objectives and resources. Entry risk and commitment will be examined by considering the following five factors:

(i) Characteristics of the product.

(ii) The market's external macro environment— particularly economic and political factors, and the demand and buying pattern characteristics of potential customers.

(iii) The firm's competitive position— particularly the product's life cycle stage similarly as varied corporate strengths and weaknesses.

(iv) Capital budgeting concerns, including resource costs and availabilities.

(v) Internal corporate perceptions, which affect corporate selection of information and therefore the psychic distance between a firms' call makers and its customers, as well as control and risk-taking preferences.

These five factors combined indicate the risk to be reviewed vis-a-vis a company's resources before determinative a mode of entry.

It is useful to remember that a company may use different modes of entry in different countries.

Any theory seeking to explain FDI must explain why corporations attend the difficulty of getting or establishing operations abroad, when the alternatives of exporting and licensing are available to them.

High transportation prices or tariffs obligatory on imports facilitate justify why several corporations like FDI or licensing over mercantilism. Firms often prefer FDI to licensing when: (a) a firm has valuable know-how that cannot be adequately protected by a licensing contract; (b) a firm wants tight management over a far off entity in order to maximize its market share and earnings of that country.

Benefits of FDI to a number country arise from resource transfer effects, employment effects, and balance-of-payments effects.

The costs of FDI to a bunch country embody adverse effects on competition and balance of payments and a perceived loss of national sovereignty.

The benefits of FDI to the home (source) country include improvement in the balance of payments as results of the inward flow of foreign earnings, positive employment effects and benefits from a reverse resource-transfer effect. A reverse resource-transfer effect arises when the foreign subsidiary learns valuable skills abroad that may be transferred back to the house country.

The prices of FDI to the house country embody adverse balance-of-payments effects that arise from the initial capital outflow and from the export substitution effects of FDI. Costs also arise when FDI exports jobs abroad. Home countries will adopt policies designed to each encourage and prohibit FDI. Host countries try to attract FDI by giving incentives and take a look at to restrict FDI by dictating ownership restraints and requiring that foreign MNEs meet specific performance requirements.

4.9 SELF ASSESSMENT QUESTION

1. Discuss in brief, various forms of international business.
2. Write short notes on the following:
   (a) Licensing
   (b) Joint Ventures
3. Differentiate between Direct and Indirect export and discuss the advantages and limitations of each one of these.
4. Differentiate between Management contracts, Contract manufacturing, and Turnkey projects citing suitable examples.

5. Explain the International Market Entry Strategies.
6. Discuss the issues and problems of Market entry strategies.
7. Write a note on FDI.
8. Discuss the advantage and disadvantages of Joint Venture.
9. Role of manufacturing in International Market.
10. Short note on Franchising.

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UNIT-5 INTERNATIONAL MARKETING RESEARCH

Unit Framework

5.0 PURPOSE

- To understand the concept of Marketing Research
- To understand the Scope of International Marketing Research
- To understand the Market Surveys
- To understand Marketing Information System

5.1 INTRODUCTION

In general, conducting research could be a crucial activity for profit- and non-profit organizations attempting to touch upon the uncertainties and speedy changes to be found in the modern business arena these days. When expanding (business) operations from the home country toward different countries, the uncertainties become even more prominent and stronger. This may ensue to for example cultural, political, and legal differences. Of explicit interest could also be however such variations in turn translate into completely different shopper habits, preferences, and behavior. As a consequence, international marketing research becomes essential for effective decision making once organizations begin to internationalize toward foreign markets.

The same variations self-addressed on top of build international research quite different from conducting domestic marketing research. A thorough understanding of this distinction is of utmost importance for promoting researchers as well as managers. It is such understanding that this textbook, the assorted articles that are given and mentioned, furthermore because the International research course aim to develop. More specifically, this may done by expressly addressing the precise issues, opportunities, however definitely conjointly the issues to be related to international marketing research. A brief summary of the topics to be mentioned follows next.

International Marketing Research his introductory chapter, combined with the additional literature presented and the lectures/classroom sessions, provides insight into the general complexity of international marketing, mainly caused by the variety and alter of the international setting, and the importance of conducting analysis so as to get info for decision- making in an international marketing context. Such information may include information for international market entry, info for native market designing, and information for global rationalization. When conducting international marketing research it's necessary to acknowledge the quality of analysis styles, difficulties in establishing knowledge comparison and equivalence, coordinate analysis and knowledge assortment across nations, and to remember of the intra-functional nature of international marketing decisions.

- Higher perceive the quality of conducting market research in the global environment.
- Remember of key problems that the international selling investigator desires to deal with.

International Marketing Research Introduced :

International researches are often outlined in many ways in which. Kumar (2000) provided two useful definitions:

1. International research = research conducted either simultaneously or consecutive to facilitate selling choices in additional than one nation;
2. International research = Comparative research, with its principle focus being the systematic detection, identification, classification, measurement and interpretation of similarities and variations among entire national systems.

No matter that of those 2 definitions is employed, international marketing research could be a valid idea in so far as market surveys area unit administrated that have an effect on decisions concerning more than one nation.

International research isn't entirely totally different from domestic marketing research. All identical principles that apply to domestic selling research apply to international marketing research also. The major differences between international research and domestic selling (single nation) research are that:

a) International research involves variations between nations arising apart political, economic, social, cultural, and legal differences;

b) The matter of equivalence of analysis results arises because of these differences.

According to Kumar (2000), the most factors that have an effect on the manner within which people (consumers) from different cultures behave are:

- Cultural differences (e.g. people in Flanders (B) consuming margarine, people in Wallonia (B) intense butter; Japanese giving additional often 'neutral' answers)! Also think about national differences on G. Hofstede's 5 dimensions International Marketing Research (power distance; individualism/ collectivism; masculinity/ femininity; uncertainty avoidance; long-term orientation)

- Racial differences (e.g. hair type);

- Climatic differences (e.g. the French drink additional wine, Brits drink additional beer);

- Economic differences (e.g. low alcohol consumption in No rig thanks to high taxes);

- Religious differences (e.g. alcohol prohibited in Middle Eastern countries);

- Historical differences (e.g. cricket is well-liked in England; game of bowels in France);

- Differences in consumption patterns (e.g. in England one drinks port after a meal; in European country it's consumed before the meal);

- Differences in marketing conditions (e.g. the Japanese are not keen on being contacted over the telephone; individuals in port don't enable strangers into the house).

- Variations in actual and potential target teams (e.g. people in tiny villages can not be given reached given budget constraints). In addition, the international selling man of science can get to modify (Kumar 2000).

- Language differences;

- Variations within the manner merchandise or services are used;
- Variations within the criteria for assessing merchandise or services;
- Differences in marketing research facilities;
- Differences in market research capabilities.

5.2 CONCEPT OF MARKETING RESEARCH

International marketing research: Setting the stage as a place to begin for learning international market research numerous insights to be obtained from many authors and studies appear worthy to consider. These will be shortly presented in the remainder of this chapter and can be any mentioned throughout the course. Conducting international market research within the 21st century According to Craig and pol (2001), as businesses expand later on in international markets, the role of timely and accurate marketing research to guide decision-making becomes increasingly critical. Research to support international selling selections has evolved over the past four decades and should change even additional to support companies within the 21st century.

There are four key areas wherever progress should be created. First, international marketing research efforts have to be compelled to be additional closely aligned with market growth opportunities outside the industrialized nations. Second, researchers must develop the capability to conduct and coordinate analysis that spans numerous analysis environments. Third, international selling researchers have to be compelled to develop new multi dimensional approaches to show the cultural underpinnings of behavior. Finally, technological advances have to be compelled to be incorporated into the analysis method so as to facilitate and expedite research across the globe.

International Marketing Research “Foreseeing” marketing Based on a mirrored image of alternative authors’ contributions to a special issue of the Journal of promoting, Deshpandé (1999) formulates associate degree agenda for increasing marketing knowledge use in the future. Such an agenda will also be of relevance to international selling researchers since they're going to be generating the information to be used by international marketers in the future.

Specifically, Deshpandé (1999) identifies four main foci. First, marketing should clearly follow a cross-disciplinary focus. “Marketers [and marketing researchers as well] should forge their nets wider to contemplate additional disciplines as sources of made constructs, models, and technologies.” Second, a cross-cultural focus in selling should become additional outstanding since “many of the foremost fascinating marketing issues area unit world, not local.” Third, it should be acknowledged that “firms increasingly have developed cross-functional processes, decision-making techniques, and create structures.” Marketers as well as marketing researchers need to be quite aware of these. Finally, marketers should become customer centric or enhance the customer centric focus if already present. As Deshpandé puts it nicely: “Whether marketers [and marketing researchers as well] area unit managing for-profit or not-for-profit organizations, examining selling science or shopper behavior problems, involved with companies or competitions, they are, within the end, engaged in a conversation about the consumer’s position .” Clearly, all four should be reflected when conducting international marketing research as well.

The myth of global strategy Rugman (2001) suggests that globalization may be a story and doesn't exist in terms of one world market with trade. He states that, instead business is unit-based, with companies operating on a national level rather than global. The main conclusion is that because of government regulation of the service sectors, which limits free market movement, businesses have to be compelled to assume native and act regional and forget globalization.

International Marketing Research the main take a ways from Rugman’s paper for managers as well as researchers are:

- Globalization is misunderstood – it doesn't, and has never, existed in terms of a single world market with free trade;
- Triad-based business is that the past, current and future reality;
- International enterprises operate inside triad markets and access alternative triad markets; they have regional, not global, strategies;
- National governments powerfully regulate most service sectors, thereby limiting free market forces; the extent of regulation isn't decreasing;
- Businesses have to be compelled to assume native and act regional; they must forget international.

Foreign market entry modes :

A consecutive embedded call approach one of the foremost elementary queries for organizations that aim at internationalizing their operations is that foreign market entry mode to use.

Genctürk (2003) states that “in order for the analysis on foreign market entry choice to progress each in theory development and in tries to synthesize disparate analysis findings, there's a requirement to grasp the context inside that entry mode call is formed, and above all to recognize explicitly the complex mode of this decision. “The author argues that it is a complex decision” situation that ought to be addressed in an exceedingly structured manner. Carrying adequate information available for doing so seems crucial then. Specifically, a four-level analytical framework reflective the consecutive embedded foreign market entry mode decision is developed. That will depend on the level in the framework; different factors need to be considered by the organization. These include decisions to be made, dominant theoretical explanations, and, terribly significantly, key drivers that should be taken into account. Obviously, the framework provides a useful starting point for crucial that international selling data could also be helpful or even necessary for organizations to effectively base their call on.

5.3 NEED FOR MARKETING RESEARCH

Every productive product or service that we have a tendency to use these days started with in depth analysis concerning customers and competitors. Correct and specific info concerning customers and competitors is that the essential initiative within the development of a promoting arrange.

Brands and tiny businesses finally complete that they have to grasp heaps a lot of concerning their potential purchasers, their market and their main rivals.

That's why once you're launching a product otherwise you attempt to improve your existing service, or if you're simply trying to be a step prior to your competitors, research is that the essential element that'll give you with all the data that you just have to be compelled to build an improved business call.

In spite of the very fact that brands become a lot of conscious of its importance, the method of research will seem too long and too overwhelming within the eyes of tiny business house owners and entrepreneurs.

That's why to clarify, even more, we have a tendency to print for you five things that research will do for you within the method of development & business growth:

1. **Higher understanding of your customers :**

   Who can purchase your product? World Health Organization is your ideal client personas? However usually can they buy? What do they need? What do they need, expect?

   The lot of answers you have got the a lot of understanding you'll get, which is able to end in meeting the customer's wants higher than your competitors.

   Market research can assist you design the complete profile of your ideal client. Data of your customers can assist you confirm the market size and what triggers them to shop for. You'll gain valuable insights like their age, location, gender, which is able to assist you in making effectively tailored promoting and valuation campaigns.

2. Data concerning your competitors, and the way they approach the market :

Who is your competition? Somebody that you just understand of otherwise you don’t, are taking out your customers and win the market. That’s as a result of they’ve done their analysis prior to you, and currently you wish to try to a similar if you would like to remain within the game.

Market research can assist you ascertain World Health Organization is providing the service that you just commit to supply. It’ll assist you ascertain if any new competitors need to enter the market.

Also, with effective research, you'll be able to predict what is going to be your competitor’s reaction once you conceive to enter the market, and the way your customers can understand your product compared to the competitors.

Market research can do the task of finding weaknesses in your competitor’s approach that you just will utilize to achieve a lot of customers, additionally as ascertain what worked for them to assist you think that a lot of innovatively whereas modeling your new strategy.

Knowing the maximum amount as you'll be able to for your competition are crucial to the success of your business.

3. Testing your product before launch :

So your product is at its last, and every one you have got to try to is begin promoting and sales right?

Wrong! You’ll be able to still improve your product/service perform and look supported customers user expertise and testing.

You can ne'er be 100 percent positive that your product can instantly connect along with your potential client. With research, you’ll ascertain what approach you ought to take once promoting the merchandise and notice the key message that resonates with purchasers.

4. You won’t withdraw of business :

“It isn't the strongest or the foremost intelligent World Health Organization can survive however those that will best manage modification.” — Charles Darwin

We’re not precisely positive if Darwin did some research in his free time, however his words area unit thus necessary and still reechoing these days in probably the foremost innovative era within the history of humanity.

We all saw however big brands like now-bankrupt Blockbuster, and Nokia that also struggles to urge back within the mobile game failing in their market predictions and area unit nearly forgotten by shoppers these days.

Netflix and Apple did their research right previous of the other challenger and utilized each open gap out there.

So as keep in business and stay relevant, you ought to not solely anticipate modification; however you wish to be ready to predict modification too. That's however smart your research has to be!

5. **Business growth :**

It takes time to create stable revenue; however as entrepreneurs at some purpose, you'll have to be compelled to take your business to following level. Suddenly, you'll face a lot of competition and lower sales, whereas on the opposite hand a number of your competitors can have fewer issues.

Market research is that the basis that has got to be enclosed in your growth strategy, thus you'll be able to make the most the market opportunities that you'll discover. It'll assist you develop a replacement product, higher valuation arrange. Identifying issues before they happen is crucial if you would like to grow. The effective research can assist you predict a number of the pitfalls that may occur throughout the expansion method and prevent heaps of cash within the method. Your answer could seem like a correct market work, however if it's not the case, you're in massive bother. The method of research itself is meant to cut back the chance and to create the promoting strategy efficient for your business.

In conclusion, research provides North American nation with necessary info to assist North American nation establish and analyze the market wants, our customers, and our competitors.

We hope that this info helped you perceive higher why research helps firms in creating higher choices after they develop and market their merchandise, as additionally achieving business growth.

You want your competitors to "eat dust", thus it's vital to own the insights, to grasp the way to strategically position your business within the marketplace.

Need and Importance of Marketing Research :

The most vital task of a merchant is to urge the proper product at the proper place with the proper value to the proper person. Besides, it had been additionally necessary to travel back and notice whether or not client is obtaining optimum satisfaction, so client remains loyal. These aspects created it imperative for the marketers to conduct market research.

The following points make a case for the necessity for and importance of promoting research

1. **Identifying problem and opportunities in the market :**

   It helps in distinguishing new market opportunities for existing and new product. It provides info on market share, nature of competition, customer satisfaction levels, sales performances and channel of distribution. This helps the firms is solving problems.

2. **Formulating market strategies :**

   Today, markets are no more local. They have become global. Manufactures notice it troublesome to contact customers and management distribution channels. Competition is equally severe. The consumer needs are difficult to predict. Market segmentation may be a compli-cated task in such wide markets. The promoting intelligence provided through market research not solely helps in framing however additionally in implementing the market methods.

3. **Determining consumer needs and wants :**

   Marketing has become customer-centric. However, large-scale production needs intermediaries for mass distribution. There is an information gap. Marketing analysis helps in collection info on customers from structured distribution research and helps in creating promoting client directed.

4. **Effective communication mix :**

   In an era of micro- instead of mass-marketing, communica-tion plays an important role. Marketing analysis uses promotional research to check media combine, adver-tising effectiveness and integrated communication tools. Research on such aspects can facilitate in promoting effectively a company's product within the market.

5. **Improving selling activities :**

   Marketing research is employed to analyze and judge performances of an organization inside a market. It also studies effectiveness of a sales force. It helps in identify-ing sales territories. Such info helps the businesses in distinguishing areas of defect in sales. It additionally examines various strategies for distribution of products.

6. **for sales forecasting :**

   The most difficult task for any production manager is to stay optimum levels of inventory. However, production is undertaken in anticipation of demand. Therefore, scientific forecast of sales is required. Marketing research helps in sales forecasting by using market share method, sales force estimate method and jury method. This can also help in fixing sales quotas and marketing plans.

7. **To revitalize brands :**

   Marketing research is employed to check and conclude the present complete position. It finds out the recall value of brands. It explores the chances (of complete of brand name) extension or prospects of adjusting existing brand names. The main purpose of promoting is to form complete loyalty. Marketing research helps in developing techniques to popularize and retain complete loyalty.

8. **To facilitate smooth introduction of new products :**

   Marketing research helps in testing the new product in one or 2 markets on a little scale. This helps find out client response to new product and develop an appropriate promoting combine. It reveals the issues of the purchasers relating to new product. Thus, it controls the danger concerned in introducing a brand new product.

9. **Determine export potentials :**

   The development in transport and communication has helped in globalization and medical aid of world trade. This has helped in boosting the expansion of international markets. It collects info on promoting environ-ment prevailing in an exceedingly country. By collection information on customers from totally different countries, it indicates export potentials.

10. **Managerial decision-making :**

    Marketing research plays an important role within the decision-making processes by activity relevant, up-to-date and accurate data to the decision-makers. Managers want up-to-date info to access client wants and needs, market scenario, technological modification and extent of competition.

5.4 APPROACHES TO MARKETING RESEARCH

Every company once in a very whereas raise queries like: however will we tend to improve this? What should we do next? Who is our targeted market? What attributes possess our potential customer? This is the times for conducting a research.

5.4.1 THE MARKETING RESEARCH PROCESS

When you as a manager or a business owner return thereto purpose – a degree for creating strategic selections and selecting direction for your company future or its product and services – you must have in mind the subsequent five steps research method for conducting a booming research project:

5.4.2 DEFINING THE PROBLEM

Analyzing the situation

Getting problem specific data

Interpreting the data

Solving the problem

If this five steps area unit followed, the method could cause an answer before the entire steps are completed, or researchers could come back to Associate in nursing earlier step if required. See the picture below:

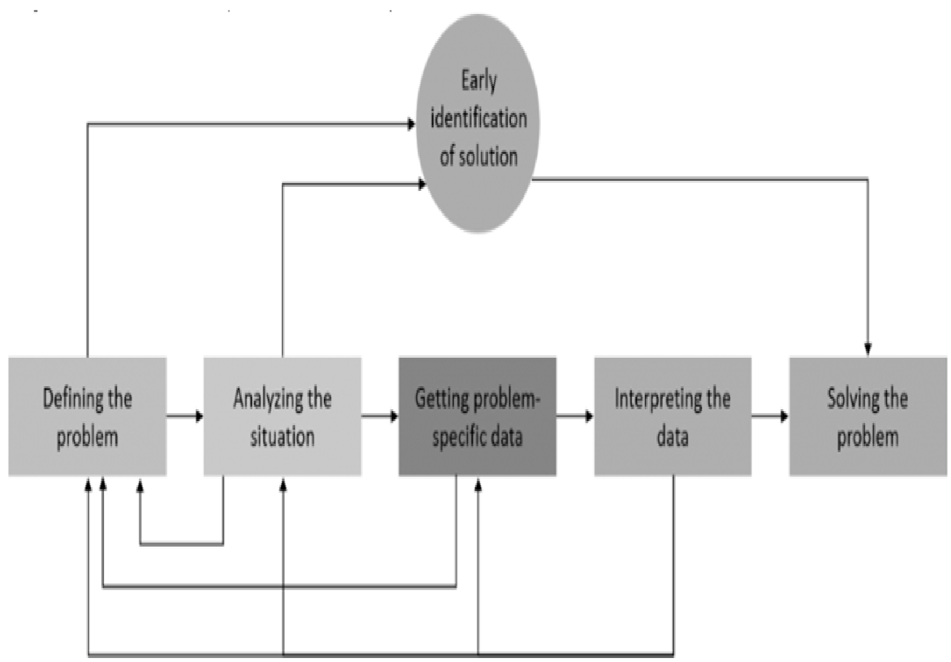

Fig. 5.4

STEP 1 : DEFINING THE PROBLEM

Defining the matter is commonly the foremost troublesome step within the market research method. It is important for the objectives of the analysis to be clearly outlined, as a result of the most effective analysis job on the incorrect drawback could be a wasted effort, time and resources for the company.

Finding the proper drawback level nearly solves the matter :

Let American state share with you one example concerning the importance of understanding the problem-and then attempting to resolve it.

Fab round was a laundry product developed to scrub, soften and scale back static cling beat one step. Marketing managers were positive that pleasing round was progressing to charm to serious users, particularly operating ladies with massive families. Research show that eightieth of this ladies used three totally different laundry merchandise, however they were searching for a lot of convenience. When marketing managers found that other firms were testing similar products, they rushed Fab One Shot into distribution. They have spent numerous cash in advertising however the results were poor. Main reason: the analysis ne'er self-addressed the matter of however the serious user target market would react.

Don’t confuse problems with symptoms :

The problem definition step sound simple- which is that the danger. It is easy to confuse problems with symptoms. Checkers may ignore relevant questions while analyzing unimportant questions in expensive detail. Setting research objectives may require more understanding Companies seldom have enough time and cash to review everything. A manager must narrow the research objectives. One great way is to develop an inventory of analysis queries that features all the potential drawback areas. Then the manager will take into account the things within the list a lot of utterly before narrowing right down to final analysis objectives.

STEP 2 : ANALYZING THE SITUATION

What information do we already have?

A state of affairs analysis is a casual study of what info is already out there within the drawback space. It will facilitate outline the matter and specify what extra info, if any, is needed. Pick the brains around you the situation analysis typically involves informal talks with aware folks. Informed folks are often staff within the company, customers, subcontractors, stakeholders, etc.

1. **Situation analysis helps educate a researcher**

   The situation analysis is particularly necessary if the man of science could be a analysis specialist World Health Organization doesn’t understand abundant concerning the management selections to be created or if the promoting manager is dealing with unfamiliar areas.

2. **Secondary data may provide the answers-or some background**

   Secondary information is info that has been collected or printed already. There square measure various sources of secondary data: company’s files, libraries, associations, government agencies, private research organizations, etc.

   This days the foremost powerful supply for secondary information is that the web. But remember that there square measure numerous info on the net that doesn't necessary square measure true. Therefore always check the source of the data.

3. Situation analysis yields a lot for very little

Situation analysis are often terribly informative however takes a touch time. It is cheap compared with a lot of formal analysis (like survey). It will facilitate focus any analysis or maybe eliminate the requirement of it entirely.

STEP 3 : GETTING PROBLEM-SPECIFIC DATA

1. Gathering primary data

The next step when the secondary information analysis is to set up a proper scientific research and gather primary information. There are different methods for collecting primary data.

Which approach to use depends on the character of the matter and the way abundant time and cash square measure out there? Since most of the first information assortment is conducted to find out one thing concerning the purchasers, there square measure a pair of basic strategies for getting info concerning customers: questioning and perceptive. Questioning will vary from qualitative to quantitative analysis, whereas there square measure several varieties of perceptive.

2. Questioning – Qualitative research

Qualitative questioning seeks in-depth, open-ended responses, not affirmative or no answer. The research worker tries to urge individuals to share their thoughts on a subject while not giving them several directions or pointers concerning what to mention. The real advantage of this approach is depth. Each person will be asked follow-up queries so research worker very understands what that respondent is thinking. The depth of the qualitative approach gets at the main points – albeit the research worker desires a great deal of judgment to summarize it all. Focus groups a good example of qualitative questioning.

3. Questioning – Quantitative research

Qualitative research can provide good ideas-hypotheses. But we'd like alternative approaches supported additional representative samples and objective measures to check the hypotheses.

Quantitative analysis seeks structured responses that may be summarized in numbers, like percentages, averages, or other statistics. For example, promoting research worker may calculate what share of respondents have tried a brand new product then figure a median score for the way happy they were.

Furthermore there square measure many benefits of the quantitative research:

- Structure questioning gives more objective results
- Fixed responses speed up answering and analysis
- We can measure attitudes with quantitative research

It will be conducted in several forms: by mail, phone, in person, via website…

Observing, as a technique of aggregation knowledge, focuses on a well-defined downside. Here we have a tendency to don't seem to be talking concerning the casual observations that will stimulate concepts within the early steps of a look project. With the observation technique, researchers attempt to see or record what the topic will naturally. They don’t want the observing to influence the subject’s behavior.

There are numerous tools to conduct an observing research, for example: video cameras in retail stores and shopping malls, or software for tracking visitors on an online shopping store website.

STEP 4 : INTERPRETING THE DATA

1. What does it really mean?

   After grouping the information, it's to be analyzed to make a decision what it all means that. In quantitative research, this step usually involves statistics.

2. Is your sample really representative?

   It is typically not possible for selling managers to gather all the data they need concerning everybody in an exceedingly population. Therefore, selling investigator usually study solely a sample, a part, of a relevant population. How well a sample represents the whole population affects the results.

3. Research results are not exact

   An estimate usually varies somewhat from the true value for a total population. Managers sometimes forget this. There is a standard rule for the accuracy of the results: The larger the sample size, the greater the accuracy of estimates from a random sample. Validity problems can destroy research

   Even if the sample is rigorously planned, it is also important to evaluate the quality of the research data itself. Managers and analyses ought to take care that the research knowledge very lives what it's presupposed to measure.

Validity issues are necessary in market research, because many people will try to answer even when they don't know what they are talking about. Further, poorly worded question will mean various things to totally different individuals and invalidate the results.

4. Poor interpretation can destroy research

   Marketing manager should contemplate whether or not the analysis of information supports the conclusions drawn within the interpretation step. Sometimes technical specialists choose the proper statistical method, their calculations are actual, however they misinterpret the information as a result of they don't perceive the management drawback. To solve this drawback selling managers and researchers ought to work along.

STEP 5 : SOLVING THE PROBLEM

In this step managers use the analysis results to form selling selections. When the analysis method is finished the selling manager ought to be able to apply the findings in selling strategy coming up with, the selection of a target market or the combo in the 4Ps. If the analysis doesn't offer data to assist guide these selections, the corporate has wasted analysis time and cash. This final step should be anticipated at every of the sooner steps!

5.5 SCOPE OF MARKETING RESEARCH

Clark and Clark outline market research as "The careful and objective study of product style, markets and such transfer activities as physical distribution, reposting advertising and sales management. Thus the scope of promoting analysis lies in its style of applications."

1. Diagnosis this scenario or downside supported careful data.
2. Clearly identifying competitive strengths and weaknesses.
3. Regularly analyzing what is happening in the market place.
4. About to watch company's strengths with market opportunities by outlining objectives for product and market development and production methods and techniques to realize them.
5. Looking at out ceaselessly for threats to the accomplishment of these plans.
6. Monitoring the progress of strategy implementation.
7. Analysis power, at its best, market research develops innovative ways that to resolve issues. The objective of marketing research is to enable manufacturers to make goods acceptable and saleable and to see that they reach the market more easily, quickly, cheaply and profitably without sacrificing consumer interest.

What Marketing Research can do for business?

There are six faithful service-men at the disposal of Market Researchers.

1. What?	What is the product?	Product Research.
2. Who?	Who are the buyers?	Consumer Research.
3. Why?	Why do they buy?	Motivation Research.
4. How?	How do they buy?	Research in buying habits and channels of distribution.
5. When?	When do they buy?	
6. Where?	Where do they buy?	

Fig. 5.5

Market research covers the following items of study:

1. Size of the present and potential market.
2. Consumer needs wants, habits and behaviour.
3. Dealer wants and preferences.
4. Analysis of the market size consistent with age, sex, income, profession, customary of living etc.
5. Geographic location of customers.
6. Analysis of market demand.
7. Knowledge of competitors and their products.
8. Knowing the profitability of different markets.
9. Study the market changes and market conditions.
10. Analysis of various channels of distribution.

5.5.1 OBJECTIVES OF MARKETING RESEARCH

1. To grasp the economic factors poignant the sales volume and their opportunities.
2. To grasp the competitive position of rival product.
3. To gauge the reactions of customers and customers.
4. To study the price trends.

5. To evaluate the system of distribution.
6. To grasp the benefits and limitation of the product.
7. To seek out new strategies of packaging, by comparing other similar packages.
8. To analyze the market size.
9. To know the estimation of demand.
10. To evaluate the profitability of different markets.
11. To study the customer's acceptance of products.
12. To assess the volume of future sales.
13. To check the character of the market, its location and its potentialities.
14. To seek out solutions to issues regarding promoting of products and services.
15. To gauge policies and plans within the right course of action.
16. To know the development of science and technology.
17. To know the complexity of marketing.
18. To measure the effectiveness of advertising.
19. To estimate the potential marketplace for a replacement product.

5.4.2 ADVANTAGES OF MARKETING RESEARCH

Marketing research has several advantages. They are:

1. Market research is employed to live market potential, characteristics and share of markets for a company.
2. Firms will use market research to gauge new product opportunities and merchandise acceptance and to check existing product relative to the competitor's products.
3. It helps to make better advertising decisions.
4. It helps to evaluate the effectiveness of marking activities and draws attention to a potential problem.
5. It helps the manufacturer to regulate his productions in line with the conditions of demand.
6. It helps promoting of products in economical and economical means by eliminating every kind of wastage.
7. It helps a dealer to seek out the most effective means of approaching potential consumers.

8. It helps to seek out defects within the product and take corrective steps to enhance the merchandise.

9. It guides a dealer in coming up with, advertising and promotion effort.

10. It helps to assess the effectiveness.

11. It helps in evaluating the relative potency of various advertising media.

12. It facilitates to evaluate the selling methods.

13. It helps to minimize the risks of uncertainties.

14. It helps in growth of new markets for its products.

15. It guides a firm in creating sales forecasts for product.

16. It helps to explore new uses of existing product.

17. it's quite useful for a firm to launch a replacement product.

18. It helps the firm in knowing general conditions prevailing within the market.

19. It helps in determinative rating policies and rating strategy of competitors.

20. It reveals the causes of client resistance, etc.

5.5.3 PROCEDURE OF MARKETING RESEARCH

Marketing manager should do many roles, however he's not expected to be a professional scientist. He is the user of the findings of the marketing research, but he is not a researcher. At constant time, he ought to grasp the research procedure. To understand the selling drawback in an exceedingly higher means, one should aim at research through that solutions against issues are had. The design and implementation of the research project greatly depend on the ability of the scientist. The exact procedure can't be arranged down for market research, as the procedure may change from firm to firm and from situation to situation.

5.6 THE INTERNATIONAL MARKETING RESEARCH PROCESS

1. Defining the Problem :

In order to hold out the analysis program, the scientist ought to grasp the essential drawback. He should be clear in mind on what's precisely required. The basic drawback i.e., selling drawback is given importance and not the research drawback. A competent scientist won't settle for a pursuit project, till he understands the matter clearly. Thus crystallizing the marketing problem is fundamental.

After characteristic the matter, the scientist formulates an idea once the matter is outlined. The purpose of the project determines the character of the matter and also the ways in which to unravel it. When the scientist gets a transparent plan of the matter, he analyses the situation and understands more about the problem. He analyses the corporate, its markets, its competition etc. The informal investigation or preliminary exploration consists of obtaining background info concerning the matter.

2. Determining the Information Needed :

The scientist should contemplate the data and judge that has relevancy and that is unsuitable to the study. In determinative the type of data required, the objectives of the analysis should be borne in mind. The information should be necessary and relevant. If the on the market knowledge are poor, fresh data have to be collected.

3. Determining the Source of Information :

The supply of data is also classified into primary supply and secondary supply. When the data is obtained directly, especially for the matter, it is known as primary data. When the data is already collected by somebody for a few alternative purposes, and at constant time is useful to the matter obtainable, it is known as secondary data (see collection of data).

4. Deciding Research Methods :

When secondary knowledge is meagerly, the researcher has to be satisfied with the primary sources of data. The sources are also by scientific method, observation method or survey method.

5. Tabulation, Analysis and Interpretation of the Data:

After the gathering of information, they're to be classified and tabulated into applied math report. They may be in proportion, average, ratios etc., so as to give the greatest value in the interpretation work. Interpretation is that the necessary stage within the method of analysis. Correct interpretation of data makes a research meaningful.

The mean or median classifies the character of the common respondent, and the standard deviation shows how far respondents are dispersed around the average. Tests of significance are helpful in menstruation whether or not 2 occurrences are associated with one another. It is necessary, for example, to know whether a price decrease caused an increase in sales, or whether the two events just happened simultaneously.

Correlation and association give a additional subtle methodology of constructing constant reasonably analysis exhausted cross tabulation. One of the foremost helpful of those is multivariate analysis, which allows the researcher to estimate the relationship between a dependent variable and one or more independent variables and to determine whether or not or not one variable causes another.

6. Preparation of the Report:

Draw conclusions from the tabulated summaries. Conclusions, recommendations and suggestions supported by detailed analysis of findings, must be in a written form-report of the researcher.

The language should be clear and properly paragraphed. Generally, a report is also within the following form:

1. Title of research.
2. The name of the organization.
3. The objectives of the research.
4. The methodology used.
5. Organization and the planning of the report.
6. A table of contents, alongside charts and diagrams followed within the report.
7. The main report.
8. Conclusions drawn and recommendations suggested.
9. Appendices.

7. Follow up study:

Follow up can make sure the implementation of recommendations created by the selling researchers. Otherwise, the report may be left unopened.

5.6.1 METHODS OF DATA COLLECTION

There are two sources of data for investigation:

1. Internal sources, and
2. External sources.

The internal sources mean and embody a company's profit and loss account, record, sales figures, sales reports, inventory records, registers, documents etc. A proper analysis of those records can reveal the degree of potency of the business. The collection of data from internal sources is cheap. When info cannot be collected from the interior sources, or once offered info is extraneous and short, then one will have to depend upon the external resources-facts collected from outside the company.

Other sources of information are :

(1) Primary data, and

(2) Secondary data.

1. Primary Data :

Primary information area unit those that area unit collected for the primary time and that they area unit original in character. These are collected by the scientist himself to review a selected drawback.

2. Secondary Data :

The secondary information is those that are already collected by somebody for a few purpose and area unit offered for this study. For instance, the info collected throughout census operations area unit primary information to the department of census and therefore the same data, if used by a research worker for some study, are secondary data.

5.6.2 METHODS OF GATHERING PRIMARY DATA

The following area unit the strategies adopted to get primary data:

1. Experimental method
2. Observation method
3. Survey method

1. Experimental Method:

"This methodology of gathering primary information involves the institution of a scale model or a controlled experiment that stimulates the $64000 market state of affairs the maximum amount as doable. The theory is that the small-scale experiment can furnish valuable data in coming up with a large-scale promoting programme." Under this experimental approach, the producer carries out a small-scale experiment, tries to induce valuable info, which can be of great help in designing large-scale marketing programme.

It seeks to search out the buyer-reaction and may with success apply it in many cases. For instance, a soap manufacturer offers completely different colors to the soaps-white in Kerala, green in Tamil Nadu and pink in Karnataka; except for the colour all the other factors are the same. Now the promoting manager records the sales over a amount of your time and decides the color of the soap, promotion campaigns, fixing right price, products, packages, design etc.

Merits:

1. This methodology is additional realistic and provides best results.

2. This approach is more effective and profitable.

3. Relative efficiency can be measured.

4. It offers area to boost future analysis techniques.

Demerits:

1. This method is expensive.

2. It takes a long time to get the results.

3. Careful planning is needed.

4. The test markets selected for the experiments must possess the same characteristics, which is difficult.

2. Observation Method :

In Observation methodology, the information area unit collected by perceptive some action of the respondent. No questions are asked in data collection. No interview is made. The actions or behaviour of the shoppers are watched in person or automatically. Buyers are also discovered in person by the observer whereas creating purchases. The observer or scientist poses as a client, and observes the promoting things. A purchaser is unaware that he's being ascertained and acts in his usual manner. The observer, posing as a customer, knows the ability of salesmen and the brand that is being pushed through and also the motivating factors of the purchasers.

Merits :

1. It is more accurate.

2. Interviewer's bias is reduced.

3. Inaccuracies in answering questions are eliminated.

4. Actual market behaviour is recorded.

5. It is possible to get additional data.

Demerits :

1. The method is expensive.

2. The field observer's bias may creep in.

3. It consumes more time.

4. This method is less flexible.

3. Survey Method :

A survey consists of gathering information by interviewing a restricted variety of individuals (a sample) designated from a bigger cluster. A survey has the advantage of attending to the initial supply of data. In this methodology, the researcher obtains information from the respondents by interviewing them. This is the foremost common methodology of obtaining primary information. This methodology is more practical than the experimental and observation approach.

In the factual survey, respondents area unit asked to report actual facts, as exemplified by questions such as: What brand of cigar do you smoke? How many persons live in your house? Opinion survey is meant to collect expressions of non-public opinions, to record evaluations of different things or to report thinking on particular matters.

For instance: however does one feel concerning this new conductor electrical shaver? In the informative survey the respondent acts as an interpreter also as a newsman. Interpretative information is gathered by victimization such queries as: Why does one use whole ‘A’ of the merchandise in your house?

The survey can even be conducted in 2 ways: sampling survey and census survey. Under census survey, the merchandiser conducts surveys covering the complete market. The data are collected from each and every person within the market. But below sampling survey, only a part of the whole group will be studied. We could study a sample drawn from the massive cluster and if the sample is sufficiently representative of the cluster, we should always be able to make valid conclusions. As such, sampling survey is widely accepted.

5.6.3 DATA ASSORTMENT BELOW THE SURVEY METHODOLOGY IS OF 3 TYPES

(A) Personal interview,

(B) Mail questionnaire, and

(C) Telephone interview.

5.7 MARKET SURVEY

Market research consists of consistently gathering information regarding individuals or corporations – a market – so analyzing it to higher perceive what that cluster of individual’s desires. The results of research, that are typically summarized in a very report, are then wont to facilitate business homeowners create additional enlightened selections regarding the company’s methods, operations, and potential customer base.

Understanding business shifts, dynamic shopper desires and preferences, and legislative trends, among alternative things, will form wherever a business chooses to focus its efforts and resources. That’s the value of market research.

Meaning, if your analysis told you that scientists had recently created a brand new reasonably material that helped the user thin simply by putt it on, as an example, your retail haberdashery store may need to regulate its shopping for conceive to take a look at styles victimization this new material. Or if you uncovered that shoppers in your area rely heavily on coupons in making a purchase decision, you might decide to test sending your mailing list a promotional coupon.

Market research will facilitate businesses run additional expeditiously and market additional effectively.

5.8 MARKETING INFORMATION SYSTEM

Marketing Information System is a permanent arrangement (system or setup) for provision of regular availability of relevant, reliable, adequate, and timely information for making marketing decisions.

Information is like a life-blood of business. Quality of selections depends on the correct sort of info. The right info implies the correct quality, the correct amount, and therefore the right temporal arrangement of knowledge. Circulation of required info is as necessary because the circulation of blood in creature.

Information keeps the organisation actively functioning, alive, and connected with internal and external selling participants. It could be a valuable plus for a firm because it is a base to manage different valuable assets. The firm fails to manage info (i.e., collecting, analyzing, decoding, storing, and disseminative of information) will certainly fail to achieve goals.

Today’s selling is dynamic, and manager must endure necessary changes to address the pace of adjusting selling setting. Information could be a basic input to understand what's happening and what's attending to happen. Marion instrumentalist has justly asserted: “To manage a business well is to manage its future, and to manage the long run well is to manage the data.”

A company wants info on to find out regarding dynamic wants of shoppers, new competitors’ initiatives, dynamic distribution practices, recent trends in promotion practices, etc., a manager needs the permanent arrangement to induce the needed information on a regular basis. The system or arrangement that deals with providing the information regularly is known as marketing information system.

Marketing Information System has been defined as:

1. Philip Kotler :

   “A selling system could be a continued and interacting system of individuals, equipment’s, and procedures to gather, sort, analyze, evaluate, and distribute the pertinent, timely, and accurate information for use by marketing decision-makers to improve their marketing planning, implementation, and control." Philip Kotler gives alternative definition, such as: "A marketing information system consists of people, equipment's, and procedures to gather, sort, analyze, evaluate, and distribute the required, timely, and correct info to selling call manufacturers."

2. We can say :

   Marketing Information System is a permanent arrangement (system or setup) for provision of regular availability of relevant, reliable, adequate, and timely information for making marketing decisions.

3. Finally, allow us to outline the term a lot of comprehensively :

   MIS concerns with setting and maintaining of a permanent system to avail necessary information on regular basis. The system consists of individuals, equipment's, facilities, and procedures directed to gather, analyze, evaluate, update, distribute, and preserve the information to assist marketing decision-making, i.e., analyzing, planning, implementing, and controlling of marketing activities.

5.8.1 COMPONENTS OF MIS

MIS is formed of components, subparts or subsystems which are called the components. Typically, in line with Kotler, a selling system consists of 4 interconnected elements – Internal Reports (Records) System, market research System, selling Intelligence System, and selling call Support System.

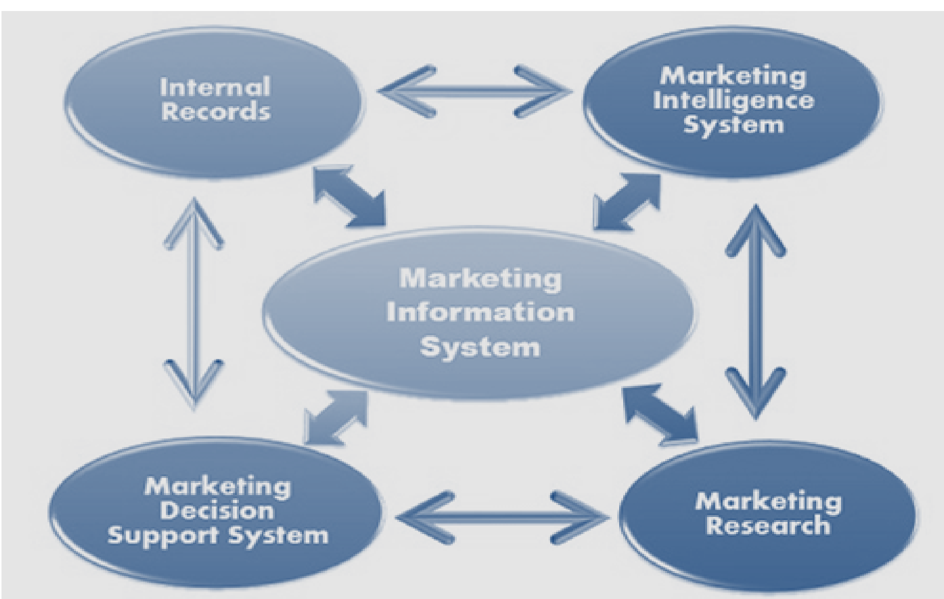

Fig.5.8

Internal coverage systems: All enterprises that are operational for any amount of your time area a wealth of knowledge. However, this data typically remains under-utilized as a result of its compartmental, either within the style of a private bourgeois or within the useful departments of larger businesses. That is, data is typically classified per its nature in order that there are as an example, financial, production, manpower, marketing, stockholding and logistical data. Often the bourgeois, or varied personnel operating within the useful departments holding these items of knowledge, do not see how it could help decision makers in other functional areas. Similarly, call manufacturers will fail to understand however data from alternative useful areas may facilitate them and so don't request it.

The internal records that are of immediate price to promoting selections are: orders received, stockholdings and sales invoices. These are however a couple of the inner records that may be employed by promoting managers, however even this tiny set of records is capable of generating an excellent deal of information. Below, could be a list of a number of the data that may be derived from sales invoices.

- Product kind, size and pack kind by territory
- Product kind, size and pack kind by form of account
- Product kind, size and pack kind by trade
- Product kind, size and pack kind by client
- Average price and/or volume of sale by territory
- Average price and/or volume of sale by form of account
- Average price and/or volume of sale by trade
- Average price and/or volume of sale by sales person

By comparison orders received with invoices associate enterprise will establish the extent to that it's providing an appropriate level of client service. In the same way, comparing stockholding records with orders received helps an enterprise ascertain whether its stocks are in line with current demand patterns.

5.8.2 MARKETING RESEARCH SYSTEMS

The general topic of marketing research has been the prime ' subject of the textbook and only a little more needs to be added here. Marketing research is a proactive search for information. That is, the enterprise that commissions these studies will therefore to resolve a perceived promoting drawback. In several cases, information is collected in exceedingly purposeful thanks to address a well-defined drawback (or a drag which might be outlined and resolved at intervals the course of the study). The other style of research centers not around a selected promoting drawback however is an endeavor to ceaselessly monitor the promoting atmosphere. These observance or chase exercises are continuous research studies, typically involving panels of farmers, consumers or distributors from which the same data is collected at regular intervals. Whilst the unintentional study and continuous research differs within the orientation, yet they are both proactive.

5.8.3 MARKETING INTELLIGENCE SYSTEMS

Whereas research is targeted, market intelligence is not. A promoting intelligence system could be a set of procedures and information sources employed by promoting managers to sift data from the atmosphere that they will use in their higher cognitive process. This scanning of the economic and business atmosphere are often undertaken in an exceedingly form of ways that, including-

- Unfocused scanning

  The manager, by virtue of what he/she reads, hears and watches exposes him/herself to information that may prove useful. Whilst the behavior is unfocused and also the manager has no specific purpose in mind, it's not unintentional

- Semi-focused scanning

  Again, the manager isn't in search of specific items of knowledge that he/she is actively looking however will slim vary of media that's scanned. For instance, the manager might focus a lot of on economic and business publications, broadcasts etc.

- Informal search

  This describes things wherever a reasonably restricted and unstructured try is created to get data for a selected purpose. There would be very little structure to the present search with the manager creating inquiries with traders he/she happens to encounter moreover like alternative unintentional contacts in ministries, international aid agencies, with trade associations, importers/exporters etc.

- Formal search

  This is a purposeful search once data in some systematic approach. The information is needed to handle a selected issue. Whilst this type of activity could seem to share the characteristics of selling analysis it's administrated by the manager him/herself instead of an expert investigator. Moreover, the scope of the search is probably going to be slim in scope and much less intensive than research

Marketing intelligence is that the province of entrepreneurs associated senior managers at intervals an agriculture. It involves them in scanning newspaper trade magazines, business journals and reports, economic forecasts and alternative media. In addition it involves management in speech producers, suppliers and customers, as well as to competitors. Nonetheless, it is a largely informal process of observing and conversing.

Some enterprises can approach promoting intelligence gathering in an exceedingly a lot of deliberate fashion and can train its sales department, after-sales personnel and district/area managers to take cognizance of competitors' actions. Enterprises with vision will encourage intermediaries, such as collectors, retailers, traders and other middlemen to be proactive in conveying market intelligence back to them.

Marketing models: at intervals the MIS there needs to be the means that of deciphering data so as to relinquish direction to call. These models may be computerized or may not. Typical tools are:

- Time series sales modes
- Brand switching models
- Linear programming
- Elasticity models (price, incomes, demand, supply, etc.)
- Regression and correlation models
- Analysis of Variance (ANOVA) models
- Sensitivity analysis
- Discounted cash flow
- Spreadsheet 'what if models

These are similar mathematical, applied math, economic science and money models square measure the analytical scheme of the MIS. A relatively modest investment associate degree exceedingly in a very personal computer is enough to permit an enterprise to automatism the analysis of its knowledge. Some of the models used are stochastic, i.e. those containing a probabilistic part wherever as others square measure settled models where likelihood plays no half. Brand switch models square measure random since these specific complete decisions in possibilities whereas applied mathematics is settled in this the relationships between variables square measure expressed in precise mathematical terms.

5.9 SUMMARY

International market research is that the systematic style, collection, recording, analysis, interpretation, and coverage of knowledge with reference to a specific promoting call facing a corporation in operation internationally. The international market research method has some peculiarities like the national variations between countries arising out of political, legal, economic, social and cultural variations and, the comparison of research results due to these differences.

A company activity the international market research might expertise many issues. Firstly, there's a quality of analysis style thanks to operation during a multi country, school of thought, and multi linguistic atmosphere. Secondly, the supply of secondary information varies wide from country to country. On some markets, particularly rising and unstable, the information is neither offered any reliable. Thirdly, the prices of aggregation primary information are a lot of higher in foreign developing markets as there's the shortage of an applicable market research infrastructure. Fourthly, problems associating with coordinating analysis and information assortment in numerous countries might arise. And finally, there are the difficulties of building the comparison and equivalence of knowledge and analysis conducted in numerous contexts.

Marketing info systems are supposed to support management deciding. Management has 5 distinct functions and every needs support from an MIS. These are: planning, organizing, coordinating, decisions and controlling.

Information systems ought to be designed to fulfill the approach during which managers tend to figure. Research suggests that a manager frequently addresses an outsized style of tasks and is in a position to pay comparatively temporary periods on every of those. Given the character of the work, managers tend to rely upon information that is timely and verbal (because this can be assimilated quickly), even if this is likely to be less correct then a lot of formal and sophisticated data systems.

5.10 SELF ASSESSMENT QUESTIONS

1. According to the literature, what are key challenges to be addressed and dealt with when conducting international marketing research?
2. Why precisely is research in a global market rather morecomplex than in a domestic market?
3. What are the particular informational wants of promoting decision-makers within the following situations?
   a) Deciding whether or not or to not enter international markets through commercialism.
   b) Coming up with native operations in one or additional foreign nations.
   c) Going global with ones business operations.
4. What are the key benefits and downsides of secondary knowledge once compared to primary data?
5. On what quality criteria ought to secondary knowledge be judged?
6. Silent features of International Marketing Research.

7. Explain the process of International Marketing Research.
8. What do you understand by Marketing Information System?
9. Point out the International Marketing Research Need.

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UNIT-6 INTERNATIONAL PRODUCT POLICY AND PLANNING

Unit Framework

6.0 PURPOSE

- To understand about the National & International Products
- To understand the International Product Planning
- To understand the Adoption & Standardization of Product
- To understand International Product Marketing
- To understand Marketing of Services

6.1 INTRODUCTION

The basic selections for booming international selling relates to product policy and planning. It can be argued that product. Decisions are probably the most crucial because the product is that the terribly epitome of selling coming up with. Errors in product selections will embrace the imposition of a world standardized product wherever it is irrelevant and also the plan to sell merchandise into a rustic while not knowing of cultural adaptation needs. An international merchant has the choice of commerce the home market product to foreign markets, adapting the house market product to fulfill the needs of the foreign customers a lot of closely, or developing new merchandise to fulfill the specific desires of the purchasers in foreign markets. The selection process needs a careful analysis of the foreign market desires, appraisal of the market chance and detailed product planning. Decisions regarding the product, price, promotion and distribution channels are selections on the weather of the "marketing mix". Several product decisions come between the two extremes i.e. whether to sell globally standardized or adapted products.

6.1.1 PRODUCT POLICY AND PLANNING

Product policy worries with process the sort, volume and temporal order of product a corporation offers purchasable. The product policies are general rules found out by the management itself in creating product selections. Good product policies are the premise on that the proper products are created and marketed with success.

A product policy generally covers the following :

1. Product Planning and Development
2. Product Line
3. Product Mix
4. Product Branding
5. Product Positioning
6. Product Packaging

A product is a few things that are created by a firm or manufacturing plant or business and sold-out within the market. When it's sold-out simply or mechanically, there's no drawback. But there are thousands of product, many types of a similar product, and many patrons of product actual and potential.

In a market economy system, there's competition among makers to sell their product. So it's imperative on the part of the manufacturer to tell apart his product from that of another. Here arises the problem of product policy.

Product policy defines the type, volume and timing of products a company offers for sale. The product policies are the rules set up by the management itself in making product decisions. Good product policies are on the basis of which the right products are produced and marketed successfully. Product policies are the objectives and guide lines which determine the nature of the product or services to be marketed.

1. PRODUCT PLANNING AND DEVELOPMENT

Product coming up with suggests that an endeavor to determine the merchandise in line with market wants. It is outlined because the act of constructing out and supervision the search, screening, development and commercialization of latest product, the modification of existing lines and the discontinuance of marginal or unprofit-able items. The planning and development of new products, though a vital necessity for all progressive enterprises, constitute a costly process. They involve risks and hazards also.

In order to scale back the chance, many logical steps are followed during a new product coming up with and development. These are as follows:

A) Exploration :

The first step is the generation of ideas. Ideas concerning new product or improvement of previous product or processes could return from:

(a) Internal sources like non-marketing employees, salesmen, middle managers and top management.

(b) External sources like customers, distributors, advertising agencies, laboratories, private research organizations, trade associations, government agencies and the like.

Some techniques have conjointly been developed over the years that area unit helpful in generating concepts. Among them are gap analysis, attribute listing and brain storming, forced relationships, morphological analysis, problem identification and synaptic.

Gap Analysis:

Gap analysis tries to seek out gaps within the market wherever there are existing unhappy client demand and opportunities for a brand new product.

B) Attribute Listing :

Attribute listing involves the preparation of an inventory of the attributes of a product and formulation of ways to switch them so as to envision if a brand new combination of attributes may be evolved for the advance of the merchandise.

C) Brain Storming :

Brain storming in an organized group exercise like a stormy meeting of about six to eight creative personnel specially convened to stimulate new ideas. The chairman of a brain-storming session that usually lasts concerning 1 hour and a half leads speech communication, “Remember now, I want each one of you to come out with an idea of recent product or improvement of recent product. The wilder the thought, the better.” Freewheeling is welcomed, combining and improving ideas is encouraged, quantity is encouraged and criticism is ruled out.

D) Forced Relationships :

Here many objects square measure listed and {every} product is taken into account in reference to every different object.

E) Morphological Analysis:

Morphology means that structure and this technique incorporate distinguishing the structured dimensions of a tangle and examining the connection among them.

F) Need/Problem Identification:

Need or problem identification starts with the consumer. Consumers are asked about needs, problems and ideas. The various issues would be rated for his or her seriousness, incidence and price of remedying to see that product enhancements to form.

6.2 PRODUCTS : NATIONAL AND INTERNATIONAL

- What is a product?

Put simply, a product may be a bundle of utilities. To be more concise, a product can be defined as a group of physical, service and symbolic attributes that yield satisfaction or benefits to a user or buyer. A product is a combination of physical structures like size and shape, and subjective attributes say image or quality. A customer purchases on both dimensions. It is increasingly important that the product fulfills the image that the producer is desire to project. This may involve organisations producing symbolic offerings painted by which means laden merchandise that chase stimulation-loving consumers who seek experience producing situations. So, for instance, selling mineral water may not be enough. It ought to be "Genetic" in supply, and fortified.

This release a wealth of latest selling opportunities for producers.

A product's physical properties square measure characterized identical the planet over. They can be convenience or looking merchandise or durable goods and non-durables; however; one will classify merchandise in step with their degree of potential for international marketing:

a. Local merchandise - seen as solely appropriate in one single market.

b. International merchandise - seen as having extension potential into different markets.

c. Multinational merchandise - merchandise custom-made to the perceived distinctive characteristics of national markets.

d. Global merchandise - merchandise designed to fulfill international segments.

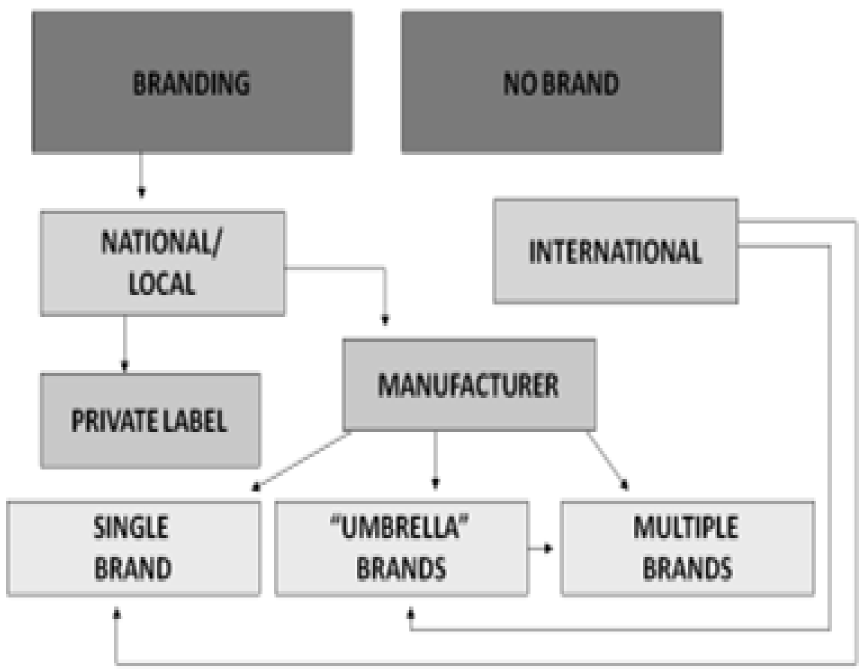

Fig. 6.2

As a requirement to export selling, it's changing into progressively vital to maintain quality merchandise supported the ISO 9000 commonplace.

Consumer beliefs or perceptions additionally have an effect on the "world brand" conception. World brands are supported identical strategic principles, same positioning and same selling combine but there could also be changes in message or different image. The world brand names are to be engineered up over the years with nice investments in selling and production. Few world brands, however, have originated from developing countries like Republic of India. This is hardly shocking given the dearth of resources.

6.2.1 INTERNATIONAL PRODUCT LIFE CYCLE

International product life cycle discusses the consumption pattern of the merchandise in many countries. This concept explains that the merchandise experience many stages of the product life cycle. The, product is innovated in country, typically a developed country, to satisfy the needs of the consumers. The innovator country wants to exploit the technological breakthrough and begin selling the merchandise in foreign country.

Gradually foreign country additionally starts production and becomes economical in manufacturing those commodities. As a result, the originator country starts losing its export market and finds the import of that product advantageous. In this approach, the innovator country becomes the importer of the products. Terpstra and Sarathy have known four phases within the international product life cycle.

1. Export strength is clear by originator country: merchandise square measure commonly innovated within the developed countries as a result of them possess the resources to try to thus. The corporations have the technological knowledge and ample capital to speculate on the research and development activities. The need of adaptation and modification also forces the assembly activities to be settled close to the market to reply quickly to the changes. The customers are affluent in the developed countries that may prefer to buy the new products. Thus, the manufactures are drawn to manufacture the products within the developed country. The goods are marketed in the home country. Once meeting the demand of the house country, the makers begin exploring foreign markets and exporting goods to them. This phase exhibits the introduction and growth stage of the merchandise life cycle.

2. Foreign production starts: The importation corporations within the middle financial gain country realize the demand potential of the merchandise within the home market. The makers conjointly become acquainted in manufacturing the products. The growing demand of the merchandise attracts the eye of the many corporations. They are tempted to start production in their country and bit by bit begin commercialism to the low financial gain countries. The massive production within the middle financial gain country reduces the export from the innovating country. This shows the maturity stage where the assembly activities' begin shifting from innovating country to different countries.

6.3 THE NEW PRODUCT DEVELOPMENT

Product development, additionally known as new product management, could be a series of steps that has the conceptualization, design, development and selling of fresh created or fresh rebranded product or services. The objective of development is to cultivate, maintain and increase a company's market share by satisfying a shopper demand. Not each product can charm to each client or consumer base, so defining the target market for a product is a critical component that must take place early in the product development process. Quantitative marketing research ought to be conducted the least bit phases of the look method, including before the product or service is conceived, while the product is being designed and after the product has been launched.

6.3.1 PRODUCT DEVELOPMENT FRAMEWORKS

Although development is artistic, the discipline requires a systematic approach to guide the processes that are required to get a new product to market. Organizations like the merchandise Development and Management Association (PDMA) and also the development Institute (PDI) offer steering regarding choosing the most effective development framework for a brand new product or service. A framework helps structure the actual product development. Leave it up to the team to choose that order makes most sense for the precise product that's being developed. The five elements of FFE product development are:

1. Identification of standard -- involves group action potential new merchandise. Once a concept has been known as a prospective product, a more formal product development strategy can be applied.
2. Idea analysis - involves a better analysis of the merchandise conception. Market research and conception studies square measure undertaken to see if the concept is possible or among a relevant business context to the corporate or to the patron.
3. Concept genesis -- involves turning associate degree known product chance into a tangible conception.
4. Prototyping -- involves making a speedy epitome for a product conception that has been determined to own business connectedness and price. Prototyping during this front-end context means that a "quick-and-dirty" model is formed, instead of the refined product model which will be tested and marketed shortly.

6.3.2 PRODUCT DEVELOPMENT

involves guaranteeing the conception has passed muster and has been determined to form business sense and have business price.

Other frameworks, like style thinking, have repetitive steps that square measure designed to be followed during a specific order to push power and collaboration. The five components of design thinking are:

1. Empathize -- Learn a lot of regarding the matter from multiple views.
2. Define -- determine the scope and true nature of the matter.
3. Ideate -- Brainstorm solutions to the problem.
4. Prototype -- Weed out unworkable or impractical solutions.
5. Test -- Solicit feedback.

This composite new development (NPD) framework for factory-made product has eight vital components:

Idea generation is that the continuous and systematic seek new product opportunities, together with change or dynamical associate degree existing product.

Idea screening takes the less enticing, impossible and unwanted product ideas out of the running. Unsuitable ideas should be determined through objective consideration.

Concept development and testing is vital. The internal, objective analysis of step 2 is replaced by client opinion during this stage. The idea, or product conception at now, should be tested on a real client base. The testers' reactions will then be leveraged to regulate and more develop the conception consistent with the feedback.

Market strategy/business analysis is comprised of 4 P's, that square measure product, price, promotion and placement.

- Product : The service or smart that is been designed to satisfy the demand of a target market.
- Price : evaluation choices have an effect on everything; profit margins, provide and demand, and market strategy.
- Promotion : The goals of promotion square measure to gift the merchandise to the target market, increasing demand by doing therefore and for example the worth of the merchandise. Promotion includes advertisements, public relations and marketing campaigns.
- Placement : The dealing might not occur on the online, however in today's digital economy, the client is mostly engaged and born-again on the web. Whether the merchandise are provided in bricks-and-mortar or clicks-and-mortar outlets, or out there through associate degree Omni channel approach, the best channel, or channels, for placement should be determined.

Feasibility analysis/study yields data that's crucial to the product's success. It entails organizing personal teams which will check a beta version, or epitome, of the merchandise, then assess the expertise during a check panel. This feedback communicates the target market's level of interest and desired product options, furthermore as determines whether or not the merchandise in development has the potential to be profitable, attainable and viable for the corporate, whereas satisfying a true demand from the target market.

Product technical design/Product development integrates the results of the practicability analyses and feedback from beta tests from stage 5 into the merchandise. This stage consists of turning that epitome or conception into a feasible market offering; ironing out the technicalities of the product; and alerting and organizing the departments involved the product launch, like analysis and development, finance, marketing, production or operations.

Test selling, or market testing, differs from conception or beta testing therein the epitome product and whole projected selling set up, not individual segments, square measure evaluated. The goal of this stage is to validate the complete conception -- from selling angle and message to packaging to advertising to distribution. By testing the complete package before launch, the corporate will vet the reception of the merchandise before a full go-to-market investment is formed.

Market entry/commercialization is that the stage during which the merchandise is introduced to the target market. All the info obtained throughout the previous seven stages of this approach square measure wont to turn out, market and distribute the ultimate product to and thru the acceptable channels.

6.4 INTERNATIONAL PRODUCT PLANNING

Although there are many factors which inhibit successful international marketing, inadequate product planning is one of the more significant contributions to poor international marketing performance. This is because the product is at the heart of the marketing mix which constitutes a supplier's offer, and to which customers and consumers respond. Since trade is about selling products into markets, the product, as the leading edge of the marketing mix, must be as 'right' as possible to avoid becoming another example of products which fail once they move outside their home territory.

The two key questions that need to be answered to enhance the chances of success are:

- Which of its product lines should an organization sell overseas markets?
- Does it need to adapt them for those markets?
- Product Line Choice

In all but the most exceptional cases, overseas markets will already have trade in similar or competing products to those a domestic supplier wishes to introduce. This implies that the overseas market will already support a distribution infrastructure with established trading practices, including exclusivity agreements and networked relationships. In addition, it will imply that there are existing consumer habits and preferences, competitor promotional activities and accepted pricing structures. Choosing a product line for such a market will require the identification of an opportunity derived from a good understanding of these market features. This should include:

- An analysis of potential competitor product performance.

- Market usage patterns and important application requirements.
- The composition of the market in terms of supply chain structures, the major determinants of price, communication channels and the major positioning variables.
- Customer expectations of a product.

The analysis should seek to highlight any trends in the market which will reduce the attractiveness of products currently available and to identify any products from existing suppliers which leave a gap between customer expectations and product performance. Where an organization can identify a product line which has a cost or performance advantage which fit one of the gaps identified in an overseas market, it has an opportunity which it may be possible to exploit.

Before entering the market, however, the business must engage in product trials to ensure that the line has no fundamental weaknesses which will prohibit sales or which will be too costly to adapt. This, in turn, will be a function of market potential, market accessibility and the possible margins available.

6.5 PRODUCT ADOPTION AND STANDARDIZATION

When management does not match products with target markets effectively, a product blunder occurs. Two common reasons are:

1. Marketing wrong products to wrong market
2. Marketing right product but not adapting the products according to the needs of the target market.

These reasons call for two tasks to be performed by the managers when they formulate product strategies for overseas markets. The first task is to take care in deciding what product to market and the second is to decide whether the company should standardize its products or adapt according to the needs of the market.

Some international firms enjoy strong customer preferences for their products. When these conditions occur, customer adaptation needs are minimal, and companies can follow a global strategy, mercantilism a standardized product on a worldwide basis. IBM, Xerox, Coca-Cola, and Mercedes-Benz are example. Other firms have to cater to market specific needs to be successful. These firms use product adaptation strategies. Levi’s, for example, sells its blue jeans internationally but adjusts to different body types in different countries. McDonalds has also adapted its menu according to Indian customer’s tastes and preferences by using cheese instead of ham and pork in its burgers.

(i) Product Standardization– Many consumer durables such as automobiles, televisions, radios, camera, refrigerators, air conditioners and so on appeal to similar basic needs in all markets.

Generally, their promotional campaigns emphasize reliability, quality, superior performance, and price-quality combinations. In these categories of product, standardization is better approach. For these products, the same formulas for market success work in most or all markets. The companies using this approach pursue global strategies that entail marketing essentially the same product everywhere and making only mandatory adaptations to secure market acceptance.

Mercedes-Benz has virtually created such markets. Even Coca-Cola occasionally adapts the sweetness and fuzziness of the product.

Mercedes-Benz cars are also slightly different only because of local government safety requirements. Some arguments, as given below, advocates the use of product standardization:

(a) Economies of Scale– Standardization help in achieving economies of scale. A standardized product with standardized packaging will be created in larger, more economic quantities and then distributed to a number of different markets. If a product is particularly complex to manufacture or involves sophisticated technology then the pressure towards standardizations it in all markets might be considerable. The costs and implications of trying to adapt could be just too high.

(b) Mobile customers– International service industries aim to standardize their offerings as so much as doable. A hotel chain serving business traveler, for example, will want to create a strong international brand image so that experiencing a stay at a Clark hotel in New Delhi is as similar as possible to stay at a Clark hotel in London. In this case, although the hotels are located indifferent countries, the market segment served is not geographically tied and thus the product has to be standardized for consistent positioning in the mobile customer's mind. Other products, targeted at internationally mobile customers, implement a deliberate standardization strategy. Kodak or Fuji films, for example, have to be immediately recognizable by tourists wherever they are.

(c) Homogeneity of tastes– Underlying the arguments offered by the proponents of standardized products is the premise that global communication and other worldwide socializing forces have fostered a homogenization of tastes, needs, and values in a significant sector of population across all cultures. This has resulted in a massive world market with similar desires and desires that demands the same inexpensive merchandise of fine quality and responsibility.

(ii) Product adaptation– As companies extend their operations in foreign, most find market segments with sets of needs that can't be satisfied by global standards. If these market segments have massive enough sales potentials, then MNCs adapt products to fit the localized needs. Most markets possess some unique characteristics that have the potential of rendering a global product unmarketable unless appropriate adaptations are made. For instances, because roads and streets in many old European and Indian cities are narrow and twisting, large US cars such as Cadillac and Lincoln are difficult to maneuver and sometimes impossible to use.

Thus large US cars can't be sold in Europe until or unless adapted to consumer needs. Many factors support adaptation:

(a) Technical skill level – If the target country's level of technical skill is low and the product is highly sophisticated or technical, the marketer may develop a simplified version. In many developing countries, for example, TV manufacturers are offering black & white TV sets.

(b) Labour cost– If the target country's labour costs are low, manufacturers may develop a product that is less mechanized and additional manual, cutting both manufacturing and operating costs. For example, several washer makers supply hand used and semi automatic washing machines while for industrialized countries having high labour prices, they provide absolutely automatic laundry machines.

(c) Level of literacy– Illiteracy is widespread in many parts of the world. In such areas, products must be simplified and carry clear and easy instructions. In some cases, as in Central Africa, instructions are in the form of stick figure drawings rather than in writing.

(d) Income level– Average income is low in Third World markets, and consumer equates product quality with durability. By contrast, in highly industrialized markets, consumers associate quality with how recent the model is. Thus, in low-income markets, manufacturers build more durability into the product, and in higher income markets, manufacturers aim for future sales of repair parts and service.

(e) Climate– Some countries' climates are so demanding that certain products require adjusting in order to function in order to function properly. Sensitive mechanical items, chemical based products, food items and other products must be redesigned.

6.6 INTERNATIONAL MARKET SEGMENTATION

Market segmentation is that the method of distinctive teams or set of potential customers at national or international level WHO exhibit similar shopping for behaviour. International market segmentation, thus, is the process of dividing the total market into one or more parts (submarkets or segments) each of which tends to be homogeneous in all significant aspects. A market section refers to submarkets (a part) of the market that is solid altogether vital aspects.

Market segmentation permits a trafficker to require a heterogeneous market (a market consisting of a customers with various characteristics, needs, wants and behaviour), and carve it up into one or more solid markets (markets created from people or organisations with similar desires, wants and behavioral tendencies). Segmenting helps in coming up with the selling combine as per needs of the client that is useful not solely to the marketers however conjointly to the purchasers.

6.6.1 BASES OF INTERNATIONAL MARKET SEGMENTATION

Markets is also segmental in line with many criteria like geographic, demographic (including national income, size of population), psychographic (values, attitude and lifestyle), behavioural characteristics and benefits sought.

Let us discuss the fundamental criteria for segmenting international markets.

1. Geographic Segmentation – during this form of segmentation, the market is divided into different geographical units such as nation’s, states, regions, provinces and cities. The company will operate in one or few geographical areas or operate altogether however listen to native variations in geographical desires and preferences.

   When an organization will business in additional than one country, there are two approaches to the market. Target market can be identified as:

   i. All consumers within the borders of a country.

   ii. World market segments – all shoppers with a similar desires and needs in teams of country markets.

   Most international marketers have historically viewed every country as one market section distinctive thereto country.

   #this approach has three limitations:

   I. it's supported country variables and not on shopper behaviour patterns.

II. It assumes total homogeneity of the country section.

III. It overlooks the existence of solid shopper segments that exist across national boundaries. Global segmentation identifies cluster of shoppers with similar desires and needs in multiple country markets. These might come back from completely different countries, have different backgrounds, and speak different languages, but they do have commodities – they have similar sets of needs for a product. Consumer in world market section share common characteristics that create them a comparatively solid cluster of consumers.

2. Demographic Segmentation – it's supported measurable characteristics of population like age, gender, income, education and occupation. These variables square measure the foremost in style bases for identifying client teams for segmentation. One of the explanations for such form of segmentation is that the buyer needs, preferences, and usage rates square measure typically related to demographic variables. Further these variables are easier to measure.

   For most shopper and industrial merchandise, national income and per capita income constitute the single most important segmentation variable and indicator of market potential. This enables the businesses to cluster countries into segments of high, middle and low financial gain so target the country that had the specified financial gain level.

3. Psychological Segmentation –buyers are divided into different groups on the basis of attitudes, values, lifestyles or personality. People among a similar demographic cluster will exhibit terribly completely different psychographic profiles.

4. Behaviour Segmentation – Behaviour Segmentation focuses on whether or not or not individuals purchase and use a product additionally as however usually, and the way a lot of they use it. Behavioral variables like occasions, user standing, usage rate, loyalty standing, and buyer readiness stage enables the companies to segment the market accordingly.

   Buyers are often distinguished in line with the occasion that they have to get a product or use a product. Occasion segmentation will facilitate a firm expand product usage. Heavy users square measure typically a really little proportion of the market however account for a high proportion of total consumption.

   Markets may also be segmental into non-users, ex-users, potential users, first time users and regular users of a product. The company's market position also will influence it's focus. Market leaders can specialize in attracting potential users, whereas smaller firms will try to attract current clients of the market leaders.

5. Profit Segmentation – Markets may even be classified in line with the advantages the buyer asks for from a selected product.

6.7 INFLUENCES ON MARKETING PLAN AND BUDGET

6.7.1 FACTORS INFLUENCING YOUR MARKETING PLAN

A promoting arranges is one in every foremost necessary document all businesses ought to have, it's a touch like doing a business arrange. It outlines and explains the general business and promoting goals furthermore because the structure of your promoting strategy. It explains the process of how your business will go about achieving these goals.

Your promoting arranges outlines and identifies your target market, your industry, the best ways to market to these prospects etc. This gives you crucial data and structure that helps you gets the foremost out of your resources and minimizes any waste. It looks at each your short term and long run goals and can assist you change and react to any changes.

As there are numerous promoting choices accessible to businesses today, having a set plan in place ensures there is no confusion. It ought to be versatile to accommodate changes within the market and new choices turning into accessible. In other words, it needs to be responsive. we will go into marketing plans further and explain the different factors that may affect them. There are multiple internal and external factors that may influence a promoting arrange. Therefore, it's essential that you simply stick with it high of any changes and change your plans consequently. This will guarantee your promoting is often responsive and any resources aren't wasted.

6.7.2 EXTERNAL FACTORS

1. Competition

This is one in every of the biggest external influences for businesses and their promoting activities. Regardless of the market you use in you'll beyond any doubt have competitors? These businesses are getting to win similar prospects as you and market their product to do to realize this. Keep track of however they're promoting their products/services, the language they use, the planning etc.

This will offer you crucial insight into however your business will stand out and what promoting ways are going to be more practical to undertake. You can then change your promoting arranges if would like me, so your promoting will be more practical. If your competitors are engaging at higher rates than you, they'll be winning business from you and you suffer as a result.

2. Prospects and Their Preferences

Your customers are the people/companies that inject capital into your business. Therefore, it's essential that they grasp United Nations agency you're, what you sell and the way they'll purchase it. However, preferences change over time. This is for each the product we would like to shop for and the way we would like to receive our promoting. In recent years, digital promoting Medias like social media have big at new rates. Companies have altered their ways to incorporate these newer common mediums.

Therefore, make sure that your business is receptive to changes in your customer's preferences. This will mean you market mistreatment more practical platforms that may end in a lot of interaction and thus, the next come back on Investment.

3. Economic Performance

The economy could be a major influence on business activities, each absolutely and negatively. When the economy is growing, individuals are payment extra money and businesses are ready to invest a lot of back to the corporate. In these instances, it's necessary to extend your promoting. When the economy is growing, your competitors are going to be furthermore. People are payment extra money therefore it presents an excellent chance for your business.

On the opposite hand, throughout times of recession and economic uncertainty, individuals tend to carry back and save a lot of wherever doable. This happens for both consumers and businesses. However, it's essential that you simply still undertake promoting throughout these times. To not market means individuals won't remember of your product. You need cash returning into the business and promoting is an important a part of this method.

4. Data

Data is a highly valuable marketing tool. Depending on United Nations agency you're getting to target, there is also a promoting information list accessible. This list can contain businesses/consumers that are ideal customers for your business. You are ready to arrange a campaign that may be extremely targeted and go specifically to those individuals. Depending on the list in question and also the accessible contact ways, you will notice that you simply are ready to undertake promoting through mediums antecedently untouchable to you. This allows you to vary your promoting commit to accommodate for these enhanced promoting choices.

You will notice that prime quality information performs at terribly high rates, resulting in a lot of booming promoting campaigns. If you've got not used information before, take into account conveyance it on board as we've got seen the advantages it brings our purchasers 1st hand.

6.7.3 INTERNAL FACTORS

1. **Business Objectives**

   What is your business aiming to achieve? Are you trying to increase brand awareness? Or maybe you wish to extend your sales by 15 August 1945 within the next two years? Whatever it's you're making an attempt to realize, you wish to structure your promoting commit to assist you accomplish this. Bear in mind that counting on the goal, the solutions can vary. This will confirm the kinds of selling you undertake, once your market, United Nations agency you market to, however you structure the promoting etc.

   As business objectives can amendment, the promoting arrange also ought to amendment in line with this. Keep it fluid and adaptive to vary so as for your business to examine the best returns doable. This will conjointly assist you stick with it high of external developments like those listed higher than. If trend and preferences amendment among your target market, your business must adapt to fulfill these changes or they'll not purchase from you.

6.8 INTERNATIONAL PRODUCT MARKETING

Global selling methods are literally necessary elements of a worldwide strategy. In order to form a decent world selling strategy, Moreover, a decent world selling strategy incorporates all the countries from all regions of the planet and coordinates their selling efforts consequently. Of course, this strategy doesn't forever cowl all the countries however ought to be applied for specific regions. For example, regions like North America, Latin America, Europe and the Middle East, Asia and the Pacific, and Africa.

Beyond its breakdown per country or region, a world selling strategy nearly always consists of many things: (1) uniform whole names; (2) identical packaging; (3) similar products; (4) standardized advertising messages; (5) synchronic pricing; (6) coordinated product launches; and (7) harmonious sales campaigns.

As a whole, these 2 square measure the foremost documented world selling methods employed by firms increasing internationally:

Create a consistent and strong brand culture. Creating a robust and consistent complete that forever looks acquainted to customers could be a priority for firms growing internationally. With the ever-more rising and increasing web, complete structure has become a lot of of a complete culture. To be a lot of specific, it's become a lot of rife today that the complete you support reflects your culture. It will be damaging if you compromise your complete culture. For example, Google discovered the exhausting means once it launched a self-censored program in China, even if China subjects its new media to government blocks. Google's complete has been celebrated to create the planet access data at anytime. How will Google originated one thing in China against its own culture? As a result, client backlash versus Google was substantial.

Market as if there were no borders. Due to the proliferation of digital platforms, brands cannot forever adopt totally different methods per country. In a way, because of the net, firms ought to adopt a selling approach that's a lot of or less unified.

6.8.1 GLOBAL MARKETING CAMPAIGN DEVELOPMENT

In order to develop your campaign globally, there square measure a couple of stuff you ought to detain mind. You have to understand the market, you have got to form a selling arrange, you ought to tailor suit your approach to selling, and you ought to localize your communications.

6.8.2 KNOW YOUR MARKET

As presently as your company decides to increase your selling worldwide, you have got to know the context of wherever you'll be operating. Every region has various behaviors and norms as it deals with marketing messages; how people would like to be contacted; and what is appropriate for that place, and the like.

You have to create positive that you simply analysis however the market can answer the selling strategy you have got, thus you'll get a lot of leverage from your new market.

6.8.3 CREATE A MARKETING PLAN

Becoming successful worldwide isn't simply sterilization your language. You have to create your world selling arrange according to your native efforts. Yet it still has to be made-to-order, consistent with your regional data. Once you have got associate degree insight of the worldwide surroundings, draft a selling arranges that details your actions.

First, identify your objectives and goals. As presently as that has been established, draw a map that covers the strategy and techniques to realize those objectives.

6.8.4 TAILOR FIT YOUR APPROACH

Keep in mind that what could have worked for your native audience might not translate in addition to your foreign audience. Try to adapt your initiatives to your audience, giving them a tailor work expertise. Definitely, what works for one country might not work for an additional.

6.8.5 LOCALIZE YOUR COMMUNICATIONS

It is not solely relevant to understand the language and cultural hurdles and adjusting your communications for each market, it's additionally crucial to understand all the cultural references and relevant holidays and events. You need to create a more personalized experience.

But check that to not build international selling mistakes once translating your complete message.

Domino's

Domino's positioned menu innovation within the forefront to extend its international awareness and interest. They have consistent things for the pizza pie all told markets like their sauce, bread, and cheese, wherever it works anyplace.

They just update the toppings for every market. If it's Asia, they need fish and food, as an example.

Dunkin' Donuts

Did you recognize that Dunkin' Donuts China has alga and dry pork donuts? With thousands of stores in over thirty countries worldwide, Dunkin' Donuts updated its menus to satisfy its international shoppers.

In Lebanon, they need the Mango Chocolate Donut; in Asian nation, they need the Grapefruit Collette; and in Russia, they need Dun lairs!

H&M

H&M nearly always will increase its store openings by ten to fifteen % every year. One of the secrets of their world growth is increasing their on-line expertise.

6.9 MARKETING OF SERVICES

Marketing isn't solely applicable for physical tangible product. It is equally helpful to intangible offers like services. Marketing fundamentals, like ideas, functions, strategies, processes, etc., can be applied in service sectors to achieve goals. All service suppliers – people, institute, or trade – ought to market their services.

From promoting viewpoint, they will apply all promoting techniques and techniques for higher shopper satisfaction. In the same approach, schools, colleges, coaching institutes, and hospitals having missionary goals also practice marketing fundamentals for better services to the society. Army, political parties, non secular institutes, etc., also follow marketing principles. However, services are different than tangible objects.

Due to perish ability, heterogeneousness, difference in production of services, simultaneous production, distribution and consumption, non-storability, non-transferable ownership, and such other distinguished features of services demand separate marketing strategies.

Here, totally different services, schemes, conveniences, facilities, etc., offered to customers by the relevant sectors can be said as products. In reality, even for tangibles-physical merchandise, customers expect services or utilities. For example, we tend to don't wish simply possession of a motorcycle or a automobile, however its services to travel from one place to a different.

Virtually, all merchandise – tangible or intangible – supply some services or utilities to the consumers. Any supply of vender includes some a part of service. Thus, the service elements will be a minor or major a part of total supply.

So, promoting issues is also same for product still as services. It is obvious that managers WHO grasp promoting fundamentals will do higher for his or her customers or purchasers. However, professionally managed service organisations follow promoting philosophy a lot of intensively.

6.9.1 MARKETING MIX FOR SERVICES

All fundamentals of recent promoting, like ideas, processes, functions, principle, so forth, are equally applicable to service sector. Most service suppliers face competition, and are needed to boost qualities, contents, convenience, and temporal order of their offers to achieve goals with shopper satisfaction.

Service suppliers would like information of promoting to draw in, satisfy, add, and maintain customers. Service marketer, whosoever, is required to design the product (services and facilities), set price for the product (fees, commission, charges), apply market promotion, and to decide on place for rendering services. Thus, promoting combine is applicable to any service supplier.

6.9.2 ELEMENTS OF SERVICE MARKETING MIX

Marketing combine permanently or service, a lot of or less, has same elements; solely contents and reference of every of the weather take issue.

Let’s examine marketing-mix elements for a service:

6.9.3 PRODUCT MIX

Service is an intangible product. Here, service or facility is taken into account as a product. Various services, schemes, plans (for example, telephone and insurance industry), facilities, constancy, so forth are merchandise of service suppliers. Branding, guarantee, and after-sales services are also applicable.

Unlike tangible product, a label cannot be directly hooked up with product. The label, in type of description or rationalization, describes service conditions and qualities. Packing and packaging aren't applied in direct kind.

Regularity, dependableness, consistency, continuity, positive response/behaviour, relation building, responsiveness (attentiveness), assurance, empathy, convenience, presence of physical supporting facilities, so forth are necessary qualities of service product.

6.9.4 PRICE MIX

Charge, fee, commission, or rate that service supplier charges will be referred as worth for the service. Discount, concession, special supply, etc., also are applicable in commission promoting. Pricing objectives, worth setting strategies, factors, valuation policies, etc., are key aspects whereas setting worth for the service.

6.9.5 PROMOTION MIX

Service promotion choices are virtually clone of physical product. Market communication is more crucial in service industry. A firm should style its communication network consistently to assist customer access the services. Most service suppliers have their websites to serve customers higher.

Banking, software, insurance, cell phone, brokerage, travels, hotels, and different service sectors give on-line services. Compared to tangible merchandise, the net is too utilized in industry to push and distribute services.

Advertising, personal commercialism, publicity, and packaging and PR will be applied to industry with or while not very little variation. Service promotion methods are virtually cloned of physical product. Difference lies only in types of offers.

6.9.6 PLACE MIX

Physical distribution and channel of distribution choices ar somewhat totally different in commission trade thanks to absence of physical entity of product. Branches, agents, sales executives, service centers, etc., will be same as middlemen for service promoting.

Company should open the adequate range of branches or offices at many places in order that customers will simply excess services. Logical and systematic physical arrangement of varied counters or tables within the workplace, and preparation of trained workers play crucial role in giving of services handily.

Services are rendered by employees/people. So, a lot of stress is given on achievement, training, behaviour, and motivation of staff. Market supply system will be applied to services, too.

6.9.7 OTHER AREAS OF SERVICE MARKETING

In marketing, product consists of good and/or service. Consumer behaviour in commission promoting, service demand management, shopper purchase call in services, market segmentation for service sector, service positioning, service life cycle and techniques, research in commission marketing, sales department for service sector, international promoting of services, selling of services, client relationship management, etc., are a lot of or less just like that of product promoting. Modern marketing directly or indirectly involves services. All fundamentals of promoting science are equally applicable to product and services.

Brand : a reputation, term, sign, image or style, or a mixture of these supposed to spot the products or services of 1 seller or cluster of traffickers and to differentiate them from those of competitors.

Packaging : The activities of designing and producing the container or wrapper for a product.

Product Adaptation : Adapting a product to meet local conditions or wants in foreign markets.

Straight Product Extension : Marketing a product in a foreign market without any change.

Product : something that may be offered to a marketplace for attention, acquisition, use or consumption that might satisfy a want or need.

6.10 SUMMARY

International product policy coming up with plays an important role within the productive management of international marketing operations. Aimed at seizing the market opportunity, it focuses on the essential call of whether or not to export the domestic standardized product or to adapt or maybe develop a replacement product for the world markets. Though international promoting of the standardized product is a lot of convenient and profitable, however client wants, competitive pressures and legal considerations require the merchandise to be adapted-to even the fresh developed wants.

Implementation of the merchandise policy needs coming up with of the dimension and depth of the product-mix. Branding, labeling, packaging and organization of product warranties and service are the opposite integral components of international product policy and coming up with.

Your promoting arranges is an important document for your business. Above we have a tendency to list variety of various factors, each internal and external that may have an effect on it. However, there are multiple a lot of that we've unlisted. Different businesses and industries all face a range of challenges. It is crucial that you simply often review your promoting arrange and update it. This will guarantee your promoting is usually relevant, acceptable and fascinating for prospects. Impact Marketing is marketing specialists. We perceive a way to style a promoting campaign specifically for you. If you'd like a lot of data regarding our promoting services and what we will do for you, get in reality these days and a member of the team are happy to advise further.

Generally, companies try to market a standardized product internationally. Although this helps in cost savings, standardization can also lead to missed opportunities. There are four alternatives for formulating an international brand strategy: victimization one name worldwide, victimization one name with adaptations for each market, using different names in different markets, and using the company name as a family name for all brands. International packaging is influenced by such considerations as customers, distribution channels, shippers, and host governments.

The service/warranty component provides a company with an important opportunity to differentiate its product from the competition.

6.11 SELF ASSESSMENT QUESTIONS

1. Discuss some of the product management decisions in international context.

2. Compare and contrast product standardization and adaptation options.

3. Write short notes on any three of the following:

   (a) Trends in international trade in services

   (b) Roles of physical evidence

   (c) Importance of customer retention

   (d) extended marketing mix for hotels

   (e) Classification of product support services

4. How can a firm avoid blunders in marketing products internationally?

5. Short note on International Product policies.
6. Explain the different types of International Product.
7. What are the steps involved in a New Product policy.
8. What do you understand by Product Adoption?
9. Explain International Market Segmentation.
10. Right short note on Marketing of services.

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Uttar Pradesh Rajarshi Tandon Open University

Master of Business Administration

MBA-3.43

International Marketing

BLOCK

3

PRICING POLICY AND DISTRIBUTION

UNIT-7

International Pricing Policy

UNIT-8

International Distribution and Logistics Planning

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BLOCK INTRODUCTION

BLOCK-3

In **Block-3** you have learnt about the international marketing; international pricing policy, international distribution and logistics-planning.

UNIT-7 : International Pricing Policy: Introduction, Price and Non-Price Factors, Methods of Pricing, International Pricing Strategies, Dumping and Price Distortion, and Counter Trade.

UNIT-8 : International Distribution and Logistics Planning Introduction, International Logistics Planning, Distribution Definition and Importance, Direct and Indirect Channels, factors Involved in Distribution Systems, Modes of Transportation, and International Packaging.

UNIT-7 INTERNATIONAL PRICING POLICY

Unit Framework

7.0 PURPOSE

- To understand the concept of International Pricing Policy
- To understand the Methods of Pricing
- To understand the Pricing Strategies
- To understand Methods of Pricing
- and International Pricing Strategies
- To understand The Counter Trade

7.1 INTRODUCTION

International valuation policies have, most likely not been analyzed as completely as product policies. For example, several world or international companies tend to use normal mark – ups to sales anyplace within the world. This is too simple attributable to the bigger diversity of foreign markets, the various degrees of presidency intervention, the cost escalation that builds into certain exports due to the tariff and non tariff barriers and also the volatility of currencies.

Moreover the international valuation policies should take into account the price because the essential a part of world promoting strategy.

Therefore the policy should be closely associated with the utilities created by the merchandise, the promotional messages and also the channel structure. The international valuation policy covers export valuation furthermore as transfer valuation. The latter is that the valuation at intervals an MNC world system or between two companies that don't seem to be freelance of every different; however put down dependant of every other.

The international valuation policy covers all sources of funds and safeguarding of monies. The businessperson, here, is assumed to be promoting to an freelance party during a foreign country, Therefore, the exporter‘s pricing policy is depending upon the Demand curve, costs, and also the long term strategy. On one facet is that the case of the terribly elastic demand curve, under the conditions of the intense competitiveness in the global market palace. So, the exports should meet the prevailing world worth. Also the businessperson faces as in elastic demand curve and may use the value and methodology.

The common and a lot of usual case, especially for the branded goods, are to go in between the cost and the price. The demand within the world market place is elastic attributable to profit competition within the world market place. Hence the globe market place costs are usually lowest which the firm may be a worth maker within the domestic market and a worth taker in the world market.

The international valuation policy method starts with the choice of the target market. The next step is determining the market mix. The policy should be according to the companies worldwide objectives like profit maximization.

The global promoting management deals with multiple sets of environmental constrains, market factors and varying foreign exchange and inflation rates. Hence, the prices mark ups and different allowances can get to vary between domestic and foreign and conjointly between many foreign markets. The main question relating to price as a worth determinant is whether or not to utilize full or variable prices. Export sales are planning to be a big proportion of total sales, the firm should recover full price to stay profitable.

7.2 PRICE AND NON-PRICE FACTORS

Definition of price - Price is defined as the amount of money charged for particular product or service in market. It is most flexible element of marketing mix, which is very difficult to be decided because attitudes of consumers are difficult to be changed. It is dynamic element in marketing mix because it is inference by various elements of environment. The basic trouble with price is that, if price is very high, potential customers go away but if price is very low, it is difficult for company to make up profits. So it is difficult thing which has to be decided.

There various factors which influence pricing decision are:

- Internal factors
- External factors

Internal factors related to impact on price are:

- Objectives of company
- Marketing objectives of company
- Marketing has to be done on aggressive basis and products are covered to be larger distances, amount of money invested for this promotion will be large and customers will have to bare price associated with marketing cost.

Marketing mix strategy includes:

- Promotion
- Place
- Product
- Distance covered

The other things associated with promotion of product are:

- Cost of product
- Basis element of raw materials
- Labor
- Normal opportunity cost associated with price of product
- National consideration of their employee and of sector.

Marketing objective that affect marketing decision are shown over here. The marketing decision varies from company to company and also from place of product. The product line has:

- Introductory phase
- growth phase
- Decline phase

The various positions where companies have to decide in which phase the product is surviving.

Survival is important for company and survival depends on low price and variable cost associated with products.

Variable cost is essential and is elated to raw material and pay given to labors.

Fixed cost - associated with company but this can be covered up to gestation period associated with product.

Current profit maximization principle- is important to choose price that produces maximum current profit so as to increase cash flow and return on investment.

Market share leadership is also important, price has to be as low as possible, so that price becomes winning strategy into market and the increasing market share in total concept of market

Product quality leadership- is also important because the high prices are needed to cover quality requirements of customers.

Quality for services- quality for raw material associated has to be covered by price.

Marketing mix strategy consist of four elements

- price
- place
- product
- promotion

These four parameters have to be taken into consideration before you decide product-price for any element in market

- Service
- Product
- Idea or any brand you carry
- Marketing variables affecting pricing decision are shown over here.
- Price must be considerate and must coordinate with product design
- Non-price factors
- Promotion cost
- Distribution channels

These decide marketing mix strategy as we have shown you in this model.

cost affects pricing decision, cost is amount of money invested i.e. cost don’t vary of sales of production aspect but it is things associated with raw material, rental paid, insurance and or variable cost.

Variable costs do very directly with material cost but still at very large scale of production, we have economies of scale where we are able to cover these costs. So the two costs affecting pricing decision are:

- fixed cost is overhead cost
- Variable cost is cost associated with material cost.

So the parameter to cover for whole decision are related to pricing impacts are

- management responsibility
- process
- Social responsibility to charge a reasonable price from customers.

7.2.1 PRICING DECISION

Small companies - It is difficult to manage prices because sales turnover is less but for bigger companies it is easy to manage price because of large economies of scale.

Price is also impacted by external factors.

External factors are determined by

- ➢ Demand
- ➢ Supply equation existing into market.
- ➢ Lower limit of prices
- ➢ Demand
- ➢ Upper limits, so you have to balance this.

The marketers must understand relationship between price and demand for product as we have shown you in this model. External factors do impact cross selling and up selling. This also covers various prices related to promotion through these aspects.

Cross selling is process where company tries to promote and sell or product related to main product. That if you buy main product you are able to buy accessories associated or it is combination of product bundle created i.e. you giving a product with services, which are charged by manufacturers. Up selling occurs by training of sales employees where they try to sell higher end of product. Like if you go out for a dinner in a restaurant, you end up eating a costly ice-cream or a costly coffee. You drink a coffee, so this extra thing which you added with dinner is up selling where sales staff to try to convince customers with courtesy details. The external factors related to consumers perception in prices relate to value they get out of product at end of date; consumer decides what to buy on basis of right mix of price producing promotion. 8

Pricing decisions are buyer oriented – They are consumer oriented goods. Pricing begins with analysis with needs of customers and budget.

Value is what customer wants for return of money which he has invested into product.

- Target market
- selling of product

Analysis with consumers' needs related to that particular segment.

Recognition of differences between sellers and buyers perceptions has to be matched out.

7.2.2 DEMAND & SUPPLY IMPACTING PRICE

This is a basic equation which has to be built up but ultimately price is determined by market mechanism of demand and supply.

If demand is high prices are high and if price is low demand is high

The prices very inversely, if price is low definitely demand is going to up, demand curve for prestigious products is hugely high because products are costly but there are some factors that affect luxury and prestige details where price associated with premium cost is charge for status and prestige value.

7.2.3 DEMAND CURVE

When price changes from P1 to P2, quantity does not changes that means product demand is lasting and change of quantity of products remained is very less for a period of time but when price changes from p1 to P2 and quantity demanded also changes, then this is taken as elastic demand, so when demand of product is influenced by price, we determined ethics related to calculation of price at a very large scale. If demand does not varies with price you can go for quality increase for or parameters associated with product decoration and marketing with product but if product is very much price sensitive you have to look into kinds of details, when you have to control cost of product.

The external factors related to price are also associated with:

- Inflation
- Recession
- Marketing cycles existing into market
- Interest rate
- Advent of new technology
- Or competitive price parameters prevalent into market

These practices and factors impact pricing decision but still the general pricing approaches are cost based pricing- where the products are important element, where cost determines price and price gives the value and this value goes to customers.

Stepwise analysis of parameters which exist in this model

1. Cost based pricing system- is cost as a percentage, add a standard to mark up cost.
2. Mark up cost -is percentage of selling price
3. Breakeven - breakeven is point where company is at no profit no loss stayed i.e. it has covered basic fixed cost and variable cost associated with product. At this stage, cost associated with companies pricing policies have to be covered and after this factor, company will gain profits.
4. Value based pricing approach- use buyer perceptions for value. Setting price to match with consumers is important and considers various prices related to competitor's aspect existing into market.
5. Competitor based pricing -going price rate or price change into market. We have some major competitor working into market and you have to charge price according to whatever markets rates are.

7.3 METHODS OF PRICING

Pricing strategies for new products and prestige products is different. When there are new products, prestige pricing strategy becomes important. In this we are trying to put a high cost to product so as to build status to product.

Marketing skimming price - market price is insensitive, firm will set high price taking advantage of market and get profit at initial stage but market penetration strategy is company setup a low initial price to penetrate market quickly and deeply. This works when product is very price sensitive into market.

Mass appeal product - has to be sold into rural areas and to poor classes also.

Price sensitivity - works on premium products, luxury products like automobile, cars, the advantages of taking prestige pricing policy and marketing skimming policy.

Product bundle pricing - sellers use bundling to combine several products and make an offer to be given at a reduced rate. Like, if you buy something, you get something free, so we buy a combination of things to sell products. This is common practice to use buyers of products who otherwise would not have bought that product. It is like hotels, cruise lines; car rental companies have special attraction when package is given.

The existing pricing policy :

- Price adjustment strategies

- Volume discounts existing into market
- Special rates are given to customers at a particular volume bulk
- Discounts based on time of purchase
- Price reduction when demand is low in market
- off seasonal kinds of discounts like when you buy a hotel room in off season you get discount at least 50 to 20%.
- Existing pricing decisions also relate to pricing adjustment strategies related to discriminatory pricing strategy. This refers to
- Segmentation
- pricing differencing based on price elasticity in a particular segment.
- we have some products and services with two or more different prices and to differentiate product and service according to needs of customers and their paying capacity.

Revenue management strategy - is management strategy in which managing capacity is done by maximizing revenue based on elasticity of demand for selected customers segments. This is system where change in price is according to revenues generated into market.

Last minute pricing system where unsold inventory creates a market for last minute of inventory selling where to clear stock or to clear out sales they have to give discounts and just make recovery of unsold stock goods or piled up goods into system.

Psychological pricing strategy - this considers psychology of prices not economy.

Reference prices - is price at tribute which exists in minds of customers. Popular products often have reference point such as cup of coffee, hamburger and Burger at McDonalds, we use prices related to prestige reference price and we have round figure associated like .99 dollars 1.99 dollars, so this gives a psychological impact to consumers where satisfaction associated with particular range.

Promotional pricing - give discount at special occasions, like fast food restaurants can give discount on valentine day and mother's day. See example in a Casino hotel, main product is actually gambling but they offer rooms at a lower rate where promotion through Casino is covered. So we have various schemes where to promote main product is done by giving discounts at peripheral products.

Value pricing - everyday low prices, offering a price below competitors on permanent basis for regular goods, it is anytime product, anytime services purchased at a price which is lower than competitors. This is for regular and low price items. Value pricing is risky because company does not have ability to change cost significantly, may this can be covered by premium and luxury products.

7.3.1 FACTORS AFFECTING PRICING DECISIONS

- Internal capabilities of company
- External factors

Internal capabilities relate to

- Organizational association with major collaborations
- Market advantages of brand association

External factors relate to

- Demand competition
- Environment
- Government
- Supply chain also puts impacts

Market demand factors – are also affecting pricing decisions. Pricing is different in different types of market. Prices relate to

- Pure competition
- Monopolistic competition
- Oligopolistic competition
- Pure monopoly

Pure competition - when there are many buyers and sellers, who have little impact on price decisions.

Monopolistic competition - when buyers and sellers, who trade over selling price, are associated with one strong buyer. Monopolistic competition exists when there are many buyers and sellers in market but they trade over a price range

Oligopolistic competition - when there are few sellers, who are sensitive to each other's pricing in marketing strategies.

Pure monopolistic condition – there is a single seller into market. So he can control pricing decisions in market. See demand curve, demand curve is price associated and quantity demanded into market.

On Y axis--price

On X Axis -- quantity demanded per period

When price changes from P1 to P2, quantity demanded also changes from Q1 to Q2 i.e. of prices increase in quantity demanded will be less. So you have to associate range what is associated with low price and high price products which impact buyer's impulses to use product at a particular rate.

Cost based pricing systems are most difficult systems.

There is given cost base pricing

There is certainty about cost

Price is simplified and price competition is minimized to give a fair price for buyers and sellers Cost plus pricing- is in approach that adds standard mark up to cost of product

Simple pricing method - ignores price of current demand in competition.

Price is cost plus standard markup of company wants to earn.

Simplification formula - ignores many factors related to promotion and market competition.

Cost based vs. value based pricing decision do impact company sales

Product is a concept which is divided into cost aspects. Cost is decided by price and price gives value and customer's ticket

Value based pricing decisions consider customer first, what is customer wants, what is value you want? And on basis of ire value perception of price is going to be determined and this price will determine cost associated with products and n product will be formed. See we have combinations of perception associated with customer class, so you going to add those features which are wanted by customers. See take example of computer, here we can go for value based pricing suppose we have middle class customers, who want a computer at rate of Rs. 20,000/-, this could be a value which most of Indian consumer would be able to give, so in this we have we have decided price and according to that price we are going to build up cost for product otherwise computer at a cost of Rs.1, 00,000/- was also available

IBM - even those companies have started to work with market forces and come to level that middle class consumers can use products according to their value perceptions.

7.3.2 COMPETITION & PRICING DECISIONS

Competition based pricing systems is also complex and difficult to be studied.

Sale bid method where company sales prices bid on what things those competitors are going to charge or what they will influence systems happening into market.

Going rate system - into market where most of competitors combine and come together to decide for some of rate and the methods of setting of price rate into competitor markets where the routine price fixation or price cartels work into market. The product pricing strategies do very according to company strategy; we have conditions when quality of product is low and high.

Market skimming strategy relates to a high price strategy because product quality and image of company is important, you have to build an image which is decided and built under particular price. Cost cannot be so high that they take advantage of products of consumer's exploitation but you have to in such a way that channel cost in competitor's basic range is covered.

Market penetration strategy which works under conditions, when products are sold to masses, you have to penetrate deep route to larger masses of people where you have lower class associated also, so penetration if not is possible through total price cut, would be cutting product into little-little parts so as to match price to consumers demand, like we have share marketing or we are coming off with smaller packs of product which can cross market premium class of consumers and come to customers, who pay less prices.

Product mix prices strategy where product line is important. In this total line would be some product which would be high price and some products will give low cost, this involves setting of prices between various products in a product line based on cost differences between products according to customers choices, it is customer evaluation of different features associated with product and also competitors price. So this is product mix strategy.

Optional products and capital products associated with, optional products are those products where pricing optional i.e. accessory part sold with main product, you can sell main product at lower cost and you can charge higher price with accessory product. Accessory product would be related like if you selling a camera, accessories would be films and rolls associated with working of camera.

Capital products are pricing products that must be used with main product i.e. this is be camera is bought, this is optional where he wants to buy or he doesn't was to buy depends on customer who is using but capital product would be sold according to optional product. If optional product is bought, obviously you have to buy film and roll associated with product.

Product mix associated - cover cost which cannot be covered with premium brands or you have to take out stock related to waste i.e. associated with company so we try to sell this product at very lower cost. We goes to rural class or to poor class, you have product bundling i.e. combining several combinations of product offering, so that products which are not selling could also be offered with main products.

Count and allowance pricing system - adjust basic prices so as to reword customer for certain responses. The model shows:

- Cash discount
- Quantity discount
- Functional discount
- Seasonal discount
- Trade and allowance
- Promotional allowance.

Segmented pricing system where we sell products at more prices. Even through no differencing cost is like same product is sold at different prices in different markets. We have customer segments on basis of:

- Product forms
- Location pricing
- Time pricing systems.

7.4 INTERNATIONAL PRICING STRATEGIES

International valuation is commonly thought of the foremost crucial and sophisticated issue in international promoting. When talking regarding the value of a product, it's necessary to note that it's a calculation of all financial and non-monetary assets the client has got to pay in order to obtain the benefits it provides. The main valuation selections in international promoting comprise the subsequent (Mühlbacher /Leihs/ Dahringer 2006, pp. 661-662):

- The international valuation strategy determines general rules for setting (basic) costs and mistreatment value reductions, the selection of terms of payment, and the potential use of countertrade.
- The worth setting strategy determines the essential price of a product, the price structure of the product line, and the system of rebates, discounts or refunds the firm offers.
- The terms of payment area unit wrote agreement statements fixing, for example, the point in time and the circumstances of payment for the products to be delivered.

A company's valuation strategy may be a extremely cross-functional method that's supported inputs from finance, accounting, manufacturing, tax and legal issues (Kotabe/Helsen 2014, pp. 358-360), which may be numerous in a global context.

It so isn't adequate to position sole stress on making certain that sales revenue a minimum of covers the price incurred (e.g. cost of production, promoting or distribution); it's vital to require several different factors into thought that will dissent internationally (Doole/Lowe 2012, pp. 361-362).

7.4.1 PENETRATION PRICING

The rate issued for product and services is about by artificial means low so as to earn market share. After achieving, the price is increased. This strategy was 1st employed by France medium and Sky TV. Enterprises have to be compelled to grab the chance to carry on to customers, in order that they offered free telephones or satellite dishes at least rates. And eventually, people signed up for their services.

After obtaining sizable amount of subscribers, rates step by step go up. For example, Tata Sky or any cable or satellite company, once there's a premium film or sporting event rates area unit at their highest. Thus, they shift from penetration strategy to a lot of a skimming or premium valuation strategy.

7.4.2 ECONOMY PRICING

Here, the rates of promoting and advertising a product area unit unbroken as low as potential. Supermarkets usually have economy brands for soups, spaghetti, biscuits, etc.

Budget airlines are fashionable for keeping their overheads as low as potential and so providing the client a comparative lower rate to fill associate craft. The first few seats area unit sold at a awfully low rate virtually a poster rate value and also the middle majority area unit economy seats, with the very best rate being sold for the previous few seats on a flight i.e. in the premium pricing strategy. During times of recession, economy valuation records a lot of purchase.

7.4.3 PRICE SKIMMING

Price skimming sees associate enterprise charge the next rate as a result of it's a considerable competitive profit. However, the profit tends to not be property and cheap. The high price tempts new competitors into the market, and also the rate inevitably decreases thanks to magnified offer.

Producers of smart phones used a skimming strategy. Once alternative producers penetrated into the market and also the good phones were factory-made at a lower unit value, alternative promoting approaches and valuation approaches were dead. New merchandise was launched and also the marketplace for good phones earned a name for innovation.

7.4.4 PSYCHOLOGICAL PRICING SYSTEM

Considers only values in perceptions of customers, consumers use less when can charge higher price because may be quality of product is reduced and product is sold at a lower price, so customer cannot understand that it what is he compromise your giving and what is compromise which is being made into product quality. So these are basic aspects where you take market perception but still you have promotional pricing system which desired into strategy where you have to promote product, where you have special event pricing systems, you have cash rebates low interest financing, longer warrantees given free maintenance given for product and discounts. So this total system of pricing which you shown in this model built up leadership in to market where price takes various forms of strategies and each strategy is applicable for different situation existing into market or adjustment strategies related to pricing of geographical pricing systems and international pricing systems.

According to geographical pricing systems, we price products for customers who are located in different parts of country but n you have zones i.e. we have free economic zones, port zones, metro cities, remote areas.

So everywhere transportation cost is different and on basis of this we will decide products which are consumed in a competitive way or try to gain and a competitive agent to market.

International pricing system associates for existing price related to cost of customers, it is economic conditions of market, competitive situations and international factors related to change in exchange rates also. Initiating prices change, how be initiate changes into market, we have two impacts on Price cuts, Price increases.

Both forces have to be balance, somewhere you have to give and a discount but sometimes your force increase prices because of changes in energy price and or changes into fuel price. Why re are price curst, we do we go for this force, sometimes company starting price because you have access capacity built in to system and you have to sale this product into market.

- failing market share
- Lower market share
- Increase market share.

Price for elasticity of demand i.e. when goods are elastic we have shown you in this equation i.e. EDS in 1+ percentage change in quantity sold upon IN1 + percentage change in size. This is basic IN is logarithm associated i.e. Number lock system and ED is price elasticity of demand.

Profit maximizing price is profit maximizing markup variable cost i.e. 1/1+ED, here 1 is in – that is only negative value using above markup and selling price we will give a formula of price, maximize price i.e. 1+-1/1+ED into variable cost per unit, so this is formula which is in an economic way to calculate system of determine markup percentage into market.

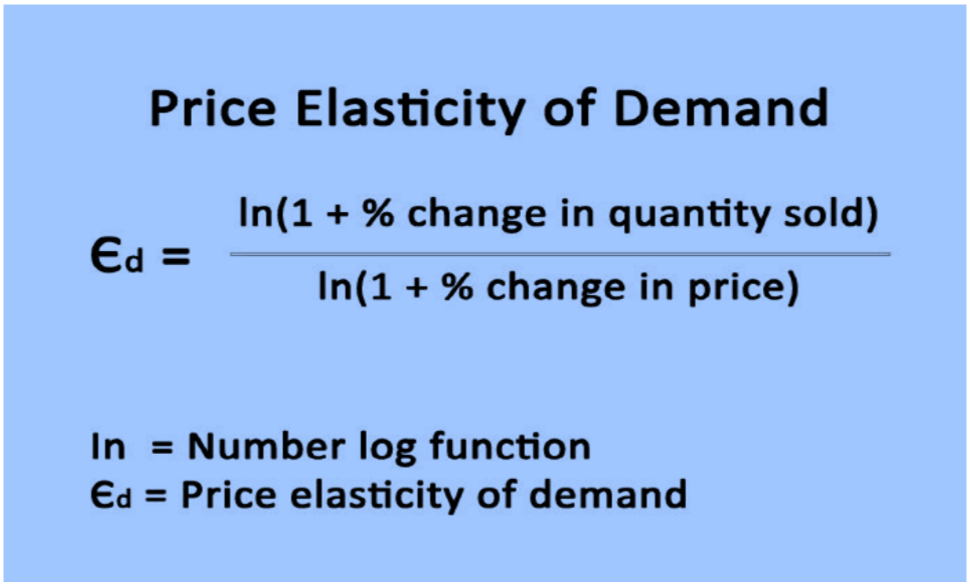

Fig. 7.4

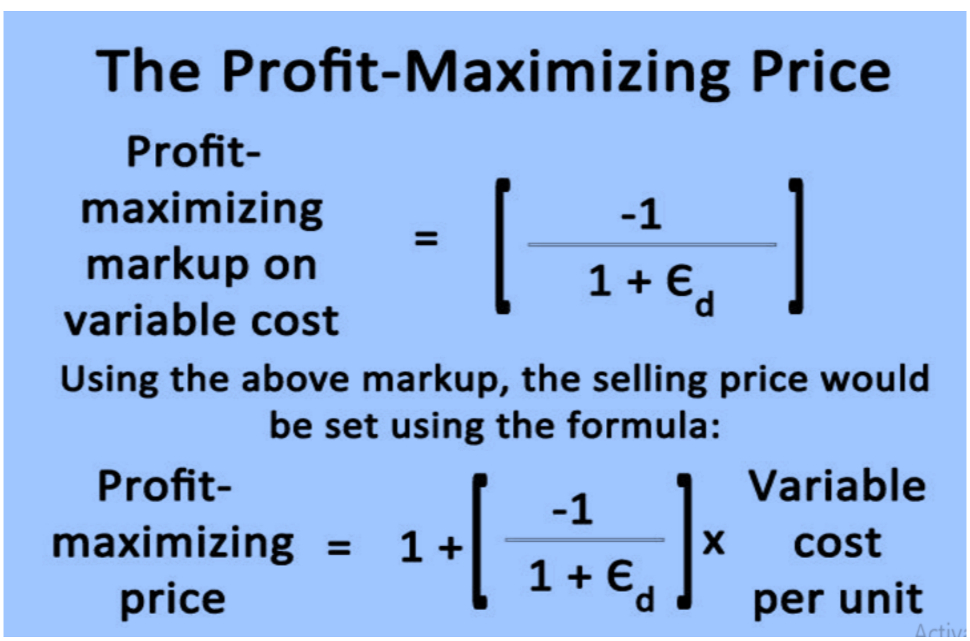

Fig. 7.4.I

Markup percentage is an absorption cost; absorption cost is required ROI i.e. Return on investment, into investment + S into An expenses and unit sales into unit production cost. Where markup cost has to be high enough so as to cover sales and expenses and expenditures done in market. So this is pricing formulas where you try to build a system, where you decide a cost for consumers but it is important that we have to sale products and such a cost with consumers accepted. So value based pricing becomes most important price in putting products into market.

7.5 DUMPING AND PRICE DISTORTION

Dumping is a world value discrimination during which associate degree businessperson firm sells some of its output during a foreign market at a very low value and also the remaining output at a high value within the home market Haberler defines selling as: “The sale of products abroad at a value that is under the damage of a similar goods at a similar time and within the same circumstances reception, taking account of differences in transport costs” Viner’s definition is simple.

According to Viner, “Dumping is the price discrimination between 2 markets among that the unpleasant person sells a number of his created product at an occasional price and thus the remaining half part of at a high value within the domestic market.” Besides, Viner explains two other types of dumping. One, reverse selling during which the foreign value is on top of the domestic value.

This is done to show out foreign competitors from the domestic market. When the merchandise is oversubscribed at a value under the value of production within the domestic market, it is called reverse dumping Two when there is no consumption of the trade goods within the domestic market and it's oversubscribed in 2 completely different foreign market, out of which one market is charged a high price and the other market a low price. But in observe, dumping means selling of the product at a high price in the domestic market and a low price in the foreign market. We shall make a case for value determination beneath selling during this sense.

TYPES OF DUMPING :

Dumping may be classified within the following 3 ways:

1. **Sporadic or Intermittent Dumping :**

   It is adopted beneath exceptional or unforeseen circum-stances once the domestic production of the trade goods is over the target or there are unsold stocks of the trade goods even once sold. In such a state of affairs, the producer sells the unsold stocks at an occasional value within the foreign market while not reducing the domestic value.

This is attainable as long as the foreign demand for his trade goods is elastic and also the producer could be a monopoly within the domestic market. His aim could also be to spot his trade goods in a very new market or to determine himself in a very foreign market to drive out a contender from an overseas market. In this variety of selling, the producer sells his trade goods in a very foreign country at a value that covers his variable prices and a few current mounted prices m order to reduce his loss.

2. **Persistent Dumping :**

When a monopolize unendingly sells some of his trade goods at a high value within the domestic market and also the remaining output at an occasional value within the foreign market, it is called persistent dumping. This is attainable as long as the domestic demand for those trade goods is a smaller amount elastic and also the foreign demand is extremely elastic. When costs fall continuously along with increasing production, the producer does not lower the price of the product more in the domestic market because the home demand is less elastic.

However, he keeps an occasional value within the foreign market as a result of the demand is extremely elastic there. Thus, he earns a lot of profit by commercialism a lot of amount of the trade goods within the foreign market. As a result, the domestic customers additionally enjoy it as a result of the worth they're needed to pay is a smaller amount than within the absence of selling.

4. **Predatory Dumping :**

The predatory selling is one during which a monopolize firm sells its trade goods at a awfully low value or at a loss within the foreign market so as to drive out some competitors. But once the competition ends, it raises the worth of the trade goods m the foreign market. Thus, the firm covers loss and if the demand within the foreign market is a smaller amount elastic, its profit could also be a lot of.

The main objectives of dumping are as follows:

1. **To seek out an area within the Foreign Market :**

A monopolize resorts to selling so as to seek out an area or to continue himself within the foreign market. Due to excellent competition within the foreign market he lowers the worth of his trade goods as compared to the opposite competitors so the demand for his unremarkably might increase. For this, he usually sells his trade goods by acquisition loss within the foreign market.

2. **To Sell Surplus Commodity :**

When there's excessive production of a monopolist’s commod-ity and he's ineffective to sell within the domestic market, he needs to sell the excess at an awfully low price in the foreign market. But it happens occasionally.

3. **Expansion of Industry :**

A monopolize additionally resorts to selling for the enlargement of his indus-try. When he expands it, he receives each internal and external economy that causes the applying of the law of accelerating returns. Consequently, the cost of production of his commodity is reduced and by selling more quantity of his commodity at a lower price in the foreign market, he earns larger profit.

4. **New Trade Relations :**

The monopolist practices selling so as to develop new trade relations abroad. For this, he sells his trade goods at an occasional value within the foreign market, thereby establish-ing new market relations with those countries. As a result, the monopolies will increase his production, lowers his prices and earns a lot of profit.

5. **Price Determination under Dumping :**

Under selling, the worth is decided rather like discriminating monopoly. The only distinction between the 2 is that beneath discriminating monopoly each market are domestic whereas beneath selling one could be a domestic market and also the different could be a foreign market. In dumping, a monopoly sells his commodity at a high value within the domestic market and at an occasional value within the foreign market.

7.5.1 PRICE DISTORTIONS

Price distortions are apparent price-value gaps. Trading methods that are supported such distortions trust less on info advantage than on consistent worth watching, flexibility of commerce, privileged market access, superior money product data and – most of all – rational discipline in turbulent times. Price distortions arise from inefficient flows and prevail as long as a large share of market participants is either unwilling or unable to retort to obvious dislocations. There are several causes of such inefficiencies, including risk management rules, liquidity disruptions, mechanical rebalancing rules and government interventions.

What are price distortions?

In the gift context worth distortions ar outlined as deviations of quoted costs from A level that will clear the market if all participants were commerce for typical risk-return optimization. In short, they live gaps between mark-to-market costs and a plausible vary of economic values of a contract. The prevalence of distortions implies that market costs will deviate from elementary worth and patently thus.

Like info unskillful, price distortions lead to a mispricing of financial contracts relative to their fundamental value. However, this mispricing is not based on ignorance, but on “in efficient flows”. These are transactions in money markets that are driven by objectives apart from come optimization. In observe, one can observe many market flows and transactions that obstruct the alignment of price and value. Common causes or triggers for such “inefficient flows” include: formal and rigid risk management rules across that apply to several establishments, liquidity shocks, i.e. a sudden deterioration of the tradability of assets or the danger thence, mechanical allocation rules, as an example of exchange listed funds, indexed fund and connected structured merchandise, and government intervention and regulation.

7.6 COUNTER TRADE

- Origin of Counter Trade

Countertrade is any commercial arrangement in which sellers or exporters are needed to simply accept in partial or total settlement of their deliveries, a supply of products from the importing country. In essence, it is a nation’s (or firm’s) use of its getting power as leverage to force a non-public firm to purchase or market its marginally undesirable product or actual different concessions in order to finance its imports, or obtain needed hard currency or technology.

Although the style within which the group action is structured might vary, the distinctive feature of such arrangements is the mandatory performance element that is either required by the importer or the importer’s government, or made necessary by competitive considerations (Verzariu, 1985, 1992).

The origins of countertrade can be traced to the ancient times when international trade was supported the free exchange of products. Barter flourished in Northern geographic region as early as 3000 B.C. once inhabitants listed in textiles and metals. The Greeks conjointly profited by the exchange of oil and wine for grain and metals someday before 2000 B.C. (Brinton et al., 1984; Anyane-Ntow and Harvey, 1995).

It is a complex transaction that has the exchange of some currency similarly as product between two or more nations. A countertrade transaction may, for example, specify that merchandiser the vendor} be paid in foreign currency on the condition that seller agrees to seek out markets for nominative merchandise from the buyer’s country.

The betterment of countertrade has typically been related to East-West trade. At the beginning of the Fifties the previous communist countries of Europe round-faced a chronic shortage of onerous (convertible) currency to buy needed imports. In their dealings with Western countries, they insisted that their merchandise be taken in exchange for imports from the latter countries.

This follow conjointly proved quite enticing to several developing nations, which also suffer from a shortage of convertible currency. The use of countertrade has steadily increased and is presently estimated to account for approximately 15-20 % of world trade (Hennart and Anderson, 1993). By the end of 1995, the amount of states mistreatment countertrade exceeded a hundred.

Although there could also be disagreements regarding the present volume of countertrade, the broad consensus is that countertrade constitutes a significant and apace growing portion of world commerce (McVey, 1984; Bost and Yeakel, 1992). A large number of U.S. corporations find it difficult to conduct business with several countries while not hoping on countertrade. For example, regarding simple fraction of foreign purchases of yankee business and military jets area unit obtained with native merchandise rather than money (Bragg, 1998; Angelidis, Parsa, and Ibrahim, 2004). In response to this growing interest, some U.S. banks have established their own countertrade departments.

Example : PepsiCo listed drink concentrate for Basmati rice in Asian nation and for silk and mushrooms in China. The mushrooms are used in PepsiCo's Pizza Hut chain and therefore the silk is unreal, printed, and sold for profit (Welt, 1990).

7.7 SUMMARY

Managers ought to begin setting costs throughout the event stage as a part of strategic valuation to avoid launching product or services that can't sustain profitable costs within the market. This approach to valuation permits corporations to either match prices to costs or scrap product or services that can't be generated cost-effectively. Through systematic valuation policies and methods, corporations will reap bigger profits and increase or defend their market shares. Setting costs is one in all the principal tasks of promoting and finance managers therein the value of a product or service typically plays a major role therein product's or service's success, to not mention in a very company's gain. Generally, valuation policy refers however an organization sets {the prices, the prices} of its product and services supported costs, value, demand, and competition. Pricing strategy, on the opposite hand, refers to however an organization uses valuation to attain its strategic goals, like giving lower costs to extend sales volume or higher prices to decrease backlog. Despite a point of distinction, valuation policy and strategy tend to overlap, and also the totally different policies and methods don't seem to be essentially reciprocally exclusive.

After establishing the bases for his or her costs, managers will begin developing valuation methods by determinant company valuation goals, like increasing short and semipermanent profits, stabilizing costs, increasing cash flow, and warding off competition. Managers additionally should take under consideration current market conditions once developing valuation methods to make sure that the costs they select match market conditions. In addition, effective valuation strategy involves considering customers, costs, competition, and totally different market segments.

Pricing strategy entails over reacting to plug conditions, like reducing valuation as a result of competitors have reduced their costs. Instead, it encompasses additional thorough designing and thought of shoppers, competitors, and company goals. Furthermore, valuation methods tend to vary counting on whether or not an organization could be a new entrant into a market or a longtime firm. New entrants generally supply product at low value to draw in market share, whereas incumbents' reactions vary. Incumbents that concern the new entrant can challenge the incumbents' client base might match costs or go even not up to the new entrant to shield its market share. If incumbents don't read the new entrant as a significant threat, incumbents might merely resort to accrued advertising geared toward enhancing client loyalty; however haven’t any modifications in price in efforts to stay the new entrant from stealing away customers.

It is usually ascertained that anti-dumping measures explained higher than hurt instead of profit the country adopting these measures. The producers of the country ne'er need that com-modities ought to be foreign from abroad. They, therefore, pressurize the govt. to limit the import of higher and low cost imports by line of work them drop commodities.

The reason for this is to misinterpret dumping. According to Article IV of United Nations agency 1984, that currently forms a part of the planet Trade Organisation (WTO), a rustic will adopt anti-dumping measures provided that the drop imports “injure” the industry of the country. An artifact is considered drop that is exported to the opposite country at worth |a price} not up to its traditional value.

7.8 SELF ASSESSMENT QUESTIONS

1. What are the methods of pricing policies?
2. Discuss non pricing factors.
3. Explain dumping and antidumping.
4. Is counter trade is good for the country?
5. Explain International Pricing Policy.
6. What are the factors involved in International Pricing?
7. Short note on Pricing Strategies.
8. Focus on any 2 types of Dumping.
9. Origin of Counter Trade.

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UNIT-8 INTERNATIONAL DISTRIBUTION AND LOGISTICS PLANNING

Unit Framework

8.0 PURPOSE

- To understand the concept of International Distribution & Logistics
- To understand the Logistic planning
- To know about the Importance of Distribution
- To understand the Channels and factors involved in distribution system
- To know about the International packaging

8.1 INTRODUCTION

Companies ought to deliver product to customers each expeditiously and effectively.1 First of all, international supplying, additionally observed as international provide chain management, 2 has vied a critical role within the growth and development of world trade, and within the integration of business operations on a worldwide scale. Its primary objective is to develop a efficient delivery mechanism. In fact, the extent of world change product and, to some extent, services, depends to a major degree on the supply of economical and reliable international transportation services. Decreases in transportation costs and increases in performance dependability expand the scope of business operations and increase the associated level of international trade and competition.3 Second, the use of acceptable distribution channels in international markets will increase the probabilities of success dramatically. Its primary objective is to develop a task-effective delivery mechanism for client satisfaction. Coca-Cola's success depends for the most part on its world distribution arm, Coca-Cola Enterprises, the world's largest bottler group. It helps Coca-Cola market, manufacture and distribute bottled and canned product everywhere the world. The cluster conjointly purchases and distributes sure non-carbonated beverages such as isotonic, teas and juice drinks in finished type from the Coca-Cola Company to satisfy the diverse needs of its consumers. 4 As way back as 1954, Peter Drucker had aforesaid that supplying would stay ‘‘the darkest continent of business’’5—the least well understood space of business—and his prediction tried true till well into the twenty first century. It is not too difficult to demonstrate the importance of the physical handling, moving, storing, and retrieving of material. In nearly each product, more than 50 percent of product cost is material connected, while less than 10 percent is labor. Yet, over the years this reality has not received a lot of attention. In 2006, the whole provision price drawn concerning ten percent of the value, or $1.3 trillion, within us. Among them, transportation costs alone accounted for $635 billion in 2006.6 as of 2006, Europe's logistics cost represented 11 percent of GDP. It was some thirteen P.C of value for Republic of India. For China, the Council of provide Chain Management Professionals puts the figure at around twenty one P.C of GDP—a Fantastic improvement since 1991, when it was around 25 percent.7 Since the Nineteen Nineties, a variety of issues have been driving the increased emphasis on logistics and distribution management. It was epitomized in 1998 by General Motors' lawsuit against Volkswagen over the defection of Jose Ignacio Lopez, the former vice president of buying at General Motors and one amongst the foremost illustrious supplying managers within the industry.8 His expertise is said to have saved General Motors many billion greenbacks from its buying and supply operations, which would directly affect the company's bottom line. The importance of distribution channels is further evidenced by the recent mergers in the auto industry, in which giant multinationals are gobbling up smaller makers with robust whole names, but inadequate world distribution, like Ford's acquisition of Volvo. As companies begin operational on a worldwide basis, logistics managers need to manage the shipping of raw materials, components, and supplies among various manufacturing sites at the most economical and reliable rates. Simultaneously, these firms need to ship finished product to customers in markets round the world at the specified place and time.

The development of intermodal transportation and electronic trailing technology has caused a quantum jump within the potency of the logistical strategies used by companies.

Intermodal transportation refers to the seamless transfer of products from one mode of transport (e.g., craft or ship) to a different (e.g., truck) and the other way around while not the effort of unpacking and repackaging the products to suit the scale of the mode of transport being used. Tracking technology refers to the suggests that for keeping continuous tabs on the exact location of the goods being shipped in the logistic chain—this enables quick reaction to any disruption in the shipments because (a) the shipper knows exactly where the products are in real time and (b) the choice suggests that will be quickly mobilized.

8.2 INTERNATIONAL LOGISTICS PLANNING

Logistics :

Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for the purpose of confirming the customer requirement.

Purchasing Decisions :

What to purchase and where to purchase are also affected by transportation considerations, regardless of whether the firm is a manufacturer, wholesaler, retailer or service organization. The goods concerned are also part components, raw materials, supplies, or finished goods for resale. The transportation characteristics of the goods, the availability, adequacy and cost of transportation have a bearing on the "what and where" decision.

Market and Pricing Decisions :

Because transportation creates time and place utility, both of which are necessary for economic exchanges to take place, its availability, adequacy, and cost have an effect on s pricing and other selections created by a business organization additionally todecisions related to managing the transportation function itself. Customer delivery needs typically need the timeliness which might solely be achieved by the utilization of trucks.

Fig. 8.2.I

Product Decisions :

For those firms that deal in tangible products, one such decision is the product decision, or the decision as to what product or products to produce or to distribute. The transportability of a product in terms of its physical attributes and the cost, availability, and adequacy of transportation enters into any product decision.

Market Area Decision :

Closely associated with the merchandise call for corporations dealing in tangible product is that the call relative to wherever the product(s) ought to be oversubscribed. This decision is affected by the transportation characteristics of the product(s) itself as well as transportation availability, adequacy and cost.

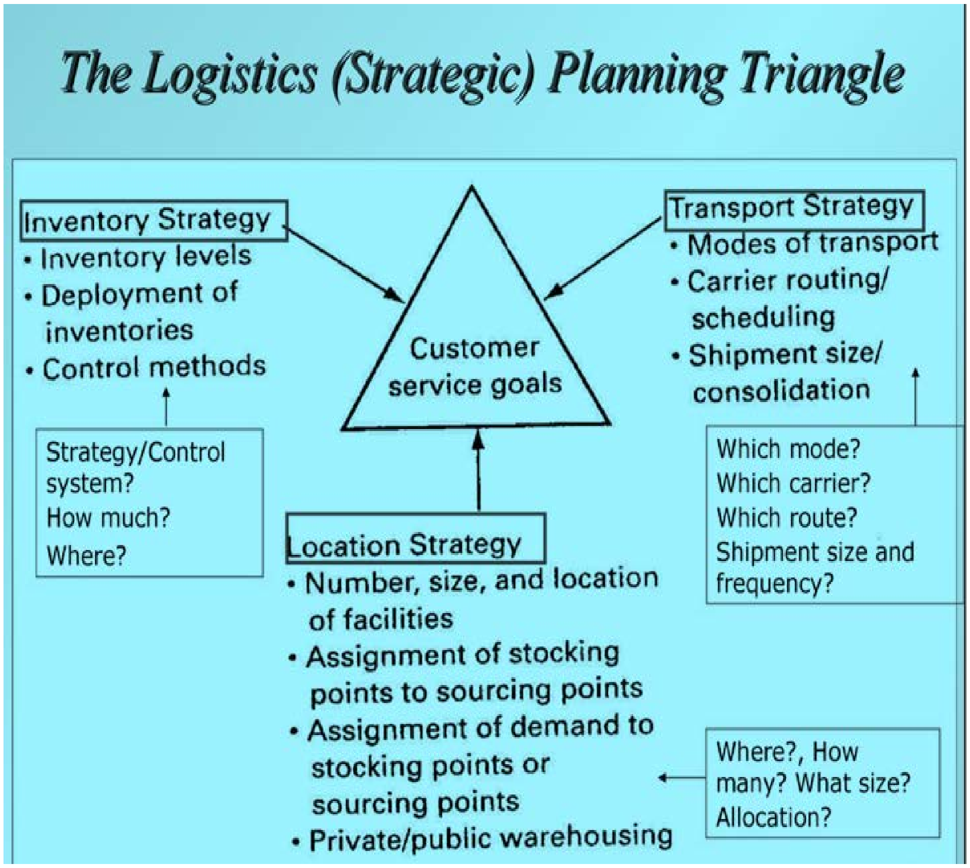

Fig. 8.2.II

Strategic :

- Strategic network optimization, including the number, location, and size of warehouses, distribution centers and facilities.
- Strategic partnership with suppliers, distributors, and customers, creating communication channels for critical information and operational improvements such as cross docking, direct shipping, and third-party logistics.
- Product design coordination, so that new and existing products can be optimally integrated into the supply chain, load management
- Information Technology infrastructure, to support supply chain operations.
- Where to make and what to make or buy decisions
- Align Overall Organizational Strategy with supply strategy

Tactical :

- Sourcing contracts and other purchasing decisions.
- Production decisions, including contracting, locations, scheduling, and planning process definition.

- Inventory decisions, including quantity, location, and quality of inventory.
- Transportation strategy, including frequency, routes, and contracting.
- Benchmarking of all operations against competitors and implementation of best practices throughout the enterprise.
- Milestone Payments

Operational :

- Daily production and distribution planning, including all nodes in the supply chain.
- Production scheduling for each manufacturing facility in the supply chain (minute by minute).
- Demand planning and forecasting, coordinating the demand forecast of all customers and sharing the forecast with all suppliers.
- Sourcing planning, including current inventory and forecast demand, in collaboration with all suppliers.
- Inbound operations, including transportation from suppliers and receiving inventory.
- Production operations, including the consumption of materials and flow of finished goods.
- Outbound operations, including all fulfillment activities and transportation to customers.
- Order promising, accounting for all constraints in the supply chain, including all suppliers, manufacturing facilities, distribution centers, and other customers.
- Performance tracking of all activities.

8.3 DISTRIBUTION – DEFINITION AND IMPORTANCE

Distribution means that to unfold the merchandise throughout the marketplace such an outsized range of individuals can purchase it.

8.3.1 DISTRIBUTION INVOLVES DOING THE FOLLOWING THINGS

1. A decent transport system to require the products into completely different geographical areas.

2. A good chase system so the correct product reaches at the correct time within the right amount.

3. A good packaging, that takes the wear and tear and tear of transport.

4. Tracking the places wherever the merchandise will be placed such there's a most chance to shop for it. 5. It conjointly involves a system to require back product from the trade.

Distribution can make or break a company. A good distribution system quite merely means that the corporate has larger likelihood of mercantilism its merchandise over its competitors. The company that spreads its merchandise wider and quicker into the market place at lower prices than its competitors can create larger margins absorb material value rise higher and last longer in tough market conditions. Distribution is important for any style of business or service. The best value product, promotion and folks come back to zilch if the merchandise isn't offered available at the points at that customers can purchase.

In the FMCG business in Asian nation, specially, firms distribute their low-value, high volume merchandise to over one million shops, or points of sale. The most undefeated FMCG firms have the largest networks, fabricated from factories, stock points, distributors or C&F (Carrying and forwarding agents), wholesalers, retailers and customers. Nowadays, even marketing is taken into account a possible channel.

8.3.2 IMPORTANCE OF DISTRIBUTION CHANNELS

Channels of distribution for a product the route taken by the title to product they're from the producers to the last word customers. It is important as a result of product in one place whereas the consumption scattered in several place. So there's huge gap between producers and therefore the customers. So through channels of distribution will solely fill the gap. A channel of distribution connects a link between the producers and therefore the customers.

The middle man plays a vital role in client orientation demand. The middlemen are specialist in concentration exploit and dispersion; i.e. collects output of various producers sub divide the merchandise in keeping with the requirements of the customers disperse this assortment to the consumers.

The success of channels of distribution [COD] is totally relying upon the middlemen as they produce time and possession utility. The COD helps in creating merchandise offered at right time within the night place and within the right quality.

Marketing is a comprehensive term, which includes distribution also, distribution is a function to distribution or sub divided the producer’s goods to various specific markets which incurred to all ultimate consumers.

8.3.3 ROLE OF CHANNELS OF DISTRIBUTION

Channel of Distribution plays a awfully necessary role in achieving the selling objectives of an organization. Undoubtedly, the manufacturer of product or services produces involves utility however the distribution channels create time and place utilities.

In associate degree ever widening market, notably in commodity market distribution channels have a particular role within the undefeated implementation of selling plans and techniques. These channels activity the subsequent selling functions the machinery of distribution.

Matching goods to requirements of the market (merchandising)

Offering merchandise within the kind of assortments packages of things usable and acceptable by the customers users. Persuading and influencing the possible consumers to favor exact merchandise and its maker (personal mercantilism/sales promotion).

Implementing the valuation method in such a way that may be acceptable to the consumers and guarantee effective distribution functions that participating actively within the creation and institution of marketplace for a brand new product.

8.3.4 OFFERING PRE- AND AFTER SALES SERVICE TO CUSTOMER

Transferring of latest technology to the users at the side of the availability of merchandise and enjoying inexperienced resolution in our country.

8.4 DIRECT & INDIRECT CHANNELS

8.4.1 DIRECT DISTRIBUTION CHANNELS

Direct channels tend to be expensive to establish, sometimes demanding substantial capital investment in warehouses, logistics, transport vehicles, and driving staff. After its components are in place, however, a direct channel is likely to be more economical and efficient in operation than an indirect channel. Direct selling, though in some cases difficult to manage on a large scale, often gives manufacturers better connections to consumer bases than do indirect channels.

Direct marketing channels can be either vertical or horizontal. A vertical direct marketing channel is one in which the international firm owns all manufacturing, wholesaling, retailing, and other intermediary institutions. Examples include the worldwide distribution systems of IBM and Xerox.

A horizontal direct marketing channel is one in which an international retailer both owns and operates multiple retail outlets in a market. Sears and Benetton provide examples of this type of distribution structure.

8.4.2 INDIRECT DISTRIBUTION CHANNELS

The most difficult side of indirect distribution channels are that the necessity to entrust third-party middlemen with product handling and client interaction. The most successful of such intermediary logistics agents, however, are adept at product deliveries in ways that most manufacturers are not. Indirect channels also free manufacturers from delivery system startup costs. In harmonious relationships, they are much simpler and more cost-effective to manage than are direct distribution channels.

Vertical indirect marketing channels, for instance, are commonly used by international pharmaceutical companies, all of which typically work closely with local wholesalers and retailers. Among these companies are such well-known firms as Squibb and Merck.

Horizontal indirect marketing channels are used by international marketers desiring access to large numbers of retail establishments scattered throughout the target markets. Indonesian textiles utilize this type of channel structure in their international distribution. Pakistani, Korean, and Turkish textiles are also distributed this way.

The presence of a specific internal or external factor may determine the choice between a direct and indirect structure. Sometimes, an internal factor, such as the company’s large size or a strong need for distribution control, causes an international firm to opt for direct marketing channels. At other times, an external factor, such as a legal barrier or a high level of competition, causes an international form to utilize indirect channels.

8.5 FACTORS INVOLVED IN DISTRIBUTION SYSTEMS

Important factors affecting the choice of channels of distribution by the manufacturer are:

(A) Considerations Related to Product

When a manufacturer selects some channel of distribution he/she ought to beware of such factors that are associated with the standard and nature of the merchandise. They are as follows:

1. **Unit Value of the Product :**

   When the merchandise is extremely pricey it's best to use little marketing. For example, Industrial Machinery or Gold

Ornaments are terribly pricey products that are why for his or her distribution little marketing is employed. On the opposite hand, for fewer pricey products long marketing is employed.

2. Standardised or Customized Product :

Standardised products are those that are pre-determined and there has no scope for alteration. For example: utensils of MILTON. To sell this long distribution channel is used.

On the opposite hand, custom product are those that are created in line with the discretion of the patron and additionally there's a scope for alteration, for example; furniture. For such product face-to-face interaction between the manufacturer and therefore the client is important. So for these Direct Sales may be a sensible possibility.

3. Perish ability :

A manufacturer ought to select minimum or no middlemen as channel of distribution for such an item or product that is of extremely pursuable nature. On the contrary, a protracted marketing is hand-picked for consumer durables.

4. Technical Nature :

If a product is of a technical nature, then it is better to supply it directly to the consumer. This will facilitate the user to understand the required technicalities of the merchandise.

8.5.1 MARKET CONSIDERATIONS ARE GIVEN BELOW

(B) Considerations Related to Market

1. Number of Buyers :

If the quantity of customer is massive then it's higher to require the services of middlemen for the distribution of the products. On the contrary, the distribution should be done by the manufacturer directly if the number of buyers is less.

2. Types of Buyers :

Buyers are of 2 types: General patrons and Industrial patrons. If the lots of patrons of the merchandise belong to general class then there is a lot of middlemen. But just in case of commercial patrons there is less middlemen.

3. Buying Habits :

A manufacturer ought to take the services of middlemen if his monetary position doesn't allow him to sell merchandise on credit to those customers World Health Organization ar within the habit of purchasing goods on credit.

4. **Buying Quantity :**

   It is helpful for the manufacturer to deem the services of middlemen if the products ar bought in smaller amount.

5. **Size of Market :**

   If the market space of the merchandise is scattered fairly, then the producer must take the help of middlemen.

8.5.2 CONSIDERATIONS RELATED TO MANUFACTURER/COMPANY

Considerations related to manufacturer are given below:

1. **Goodwill :**

   Manufacturer's goodwill additionally affects the choice of channel of distribution. A manufacturer enjoying sensible name needn't rely on the middlemen as he will open his own branches simply.

2. **Desire to control the channel of Distribution :**

   A manufacturer's ambition to regulate the channel of distribution affects its choice. Consumers ought to be approached directly by such sort of manufacturer. For example, electronic goods sector with a motive to control the service levels provided to the customers at the point of sale are resorting to company owned retail counters.

3. **Financial Strength :**

   A company that features a sturdy monetary base will evolve its own channels. On the opposite hand, financially weak companies would have to depend upon middlemen.

8.5.3 CONSIDERATIONS RELATED TO GOVERNMENT

Considerations associated with the govt. additionally have an effect on the choice of channel of distribution. For example, solely a license holder will sell medicines within the market in line with the law of the Government.

In this state of affairs, the manufacturer of medicines should take care that the distribution of his product takes place only through such middlemen who have the relevant license.

8.5.4 OTHERS

1. **Cost :**

   A manufacturer ought to choose such a channel of distribution that is a smaller amount pricey and additionally helpful from different angles.

2. **Availability :**

   Sometimes another channel of distribution is hand-picked if the specified one isn't accessible.

3. **Possibilities of Sales :**

   Such a channel that features a risk of huge sale ought to incline weight age.

8.6 MODES OF TRANSPORTATION

8.6.1 TRANSPORTATION

Transportation is one amongst the foremost visible parts of provision operations. The role of transport in economic system is extremely crucial. Every business firm, regardless ofwhat it produces or distributes, requires the movement of goods from one point to another and, therefore, is involved in transportation. Transportation basically issues the spacial dimension of the business organization. "The spatial dimension refers to geographical relationships and reflects the combination of firms with respect to their materials sources, markets, and competitors, plus the spatial relations of the latter to their sources and markets". The purpose or perform of transportation is to function a connecting link between the spatially separated units inside a firm's own organization (such as between plants and warehouses) and between units of the firm and units of alternative corporations and people (such as suppliers and customers). Good transportation has the result of holding to a minimum the time and value concerned within the special relationships of the firm.

1. **Transportation utility :**

   In theory terms, transportation's function is to create place utility for the goods produced or distributed by the firm. The word "utility" suggests that quality or ability to allow satisfaction. Place utility exists once product square measure within the place wherever they'll be consumed. Goods that don't seem to be within the place wherever they're required have but full price so transportation creates price by making place utility. Along with the need to own product within the right place, the goods must be there at the right time (time utility) and in the right form (form utility) and within the possession or possession of the person(s) World Health Organization desires to consume them (possession utility).

Whether it's delivering product to a warehouse to serve markets, moving goods into storage for future use, or forming an integral part of a Just-In-Time system and delivering goods at the precise purpose in time they're required.

Our current client driven economy is driven by our ability to supply a good alternative of competitor product with wide scale or "intensive" distribution. Without place, time, form, and possession utility, goods have no value to the customer. In a broad sense, the production process is really not complete until all four utilities have been created because until then goods are not capable of giving satisfaction and would not prompt a client to exchange one thing of price for one thing with no value. Thus, transportation is a vital a part of the whole production method that can't be unnoticed.

2. Transportation in production and marketing :

In production, transportation function is looked after by executives of materials management department or general administration department or general department. Undoubtedly a part of the transportation function can be tagged on to purchase of materials, but the total transportation planning concept requires higher in-depth skills and expertise than are contributed by a procurement Government World Health Organization is even otherwise preoccupied with the responsibilities of his complicated purchase perform. Bogged down in routine procedures of purchase, he is unable to plan adequately for transportation of various types of materials, plants and machinery in such a way as to optimize the expenditure of his own efforts and financial resources.

Transport of the finished product is usually left to the promoting manager. However, a marketing manager is oriented more towards marketing of the product and development of market than towards optimization of transportation cost, time or effort. The responsibility for estimates of arrival times at loading and unloading points of machinery, raw materials, etc., is often entrusted to those executives who have no personal knowledge of the subject, however World Health Organization collect second-hand data thereon from completely different sources. Moreover, while construction of a plant may be assigned considerable importance, movement of the finished product, raw materials and project materials may not be adequately provided for in a project report. Problems of transport of the finished product are sought to be attended to only at a later date.

3. Road Transportation :

There square measure several benefits to road transportation, particularly for corporations World Health Organization have confidence quick delivery to retain their customers. If merchandise square measure meant to be transported at once to the Maritimes from Mississauga, for instance, your best bet would be ground shipping transportation. Water transport is notoriously slow, and it will be a problem to book railway transportation.

Maritime shipping to Mississauga and different locations is cheaper than different options; with rail transport, if there isn't a railway that results in your required destination, you'll have to build it, which can be a costly investment. However, there square measure roads that result in just about every place, and square measure designed and acquired by the government; a lot of typically than not, you'll only have to pay a small fee to use them. Roadway transportation to Atlantic North American country from Mississauga may also be cost-efficient since it provides door-to-door or warehouse-to-warehouse service. This allows truck age, likewise and loading and unloading expenses, to be significantly lower compared to other methods.

4. Rail Transportation :

Railway transportation is arguably the foremost dependable methodology of transport to the Maritimes from Toronto and just about anyplace else. Unlike road and marine transport, rail is hardly plagued by atmospheric condition. Transport trains can run in rain, fog, snow, and different conditions that might different wise delay shipments carried by other ways. With mounted schedules that run frequently, railway service is a lot of sure compared to different ways of cargo.

Rail transport conjointly offers carrying capacities, which may grow to suit your desires. Unlike trucks or boats, that have a set regarding of house that can't be exceeded, further wagons will perpetually be supplementary to trains if you would like a lot of area. In addition to all or any the advantages for you and your company, you'll even be giving nice opportunities to encompassing communities. Rail transport will offer employment opportunities to each skilful and unskilled staff, creating it a positive selection for the whole community. The biggest disadvantage, however, is that if there square measure delays within the transportation, it will truly take for much longer to induce your freight delivered than with different ways of transportation. With rail transportation, you would like to schedule instrumentation drop off and obtain at the terminals that might find yourself taking a protracted time.

5. Marine Transportation :

Marine transportation is notoriously slow, however that doesn't matter once a product encompasses a long interval. This is an excellent choice for those wanting to ship large things that aren't in abundant of a rush. Often cheaper than road transport, ships square measure typically the most value that you'll incur—you won't need to worry regarding road tolls and different similar charges.

While route transportation will simply be delayed by rain or different styles of inclement weather, constant conditions might not have an effect on marine transport.

The main disadvantage of marine transport is that it will be troublesome to watch the precise location of the products in transit, which may be a deal-breaker for a few. As you've browse in our past posts, having the ability to trace freight could be a common expectation of customers World Health Organization order things from on-line retailers and may have an effect on their purchase call. While there square measure several benefits to marine transport, the drawback of the shortage of ability to closely track the precise whereabouts of the desired freight will be crucial.

6. Air Transportation :

Air transport is very helpful for several reasons: it`s convenient, fast, and doesn't need to vie with natural barriers. While road transport is that the fastest thanks to deliver merchandise that solely have a brief distance to travel, transportation is that the quickest choice for freight that have a further destination—it's even thought to be the most effective mode of transportation for destructible merchandise for this reason.

In addition, transportation doesn't need the infrastructure investment that railways do; airplanes fly freely, which implies you don't have to be compelled to pay the initial money building a pathway to your destination for it to get there! The lack of barriers conjointly means it's accessible to all or any areas, regardless the obstruction of land. However, one main disadvantage is that planes will simply be plagued by just about any form of inclement weather. Whether it's rain, snow, or high winds, your cargo is probably going to induce delayed if any atmospheric condition becomes extreme.

7. Intermodal Transportation :

As you've in all probability detected through reading this post, every methodology of transport has its benefits and downsides. What if you'll mix the execs of every methodology to form one innovative method? That's exactly what intermodal transportation is.

Intermodal transportation offers the most effective of each world: it combines numerous transportation ways to provide you the quickest shipping time attainable. Not solely is that this methodology time-efficient, it's efficient likewise. More shippers are taking advantage of the choice to reap the advantages of the price savings, environmental advantages, and road safety results. With the lower rates, predictable rating, standardized transit schedules, and suppleness, intermodal transportation is constant to rise in quality.

8.7 INTERNATIONAL PACKAGING

Product Packaging is associate integral part of a product and it plays a crucial role in its salability. Packaging is not any longer a mere outer covering of a product for its protection; it's pretty much a tributary issue for its increasing marketability. A vividly stunning packaging of a product, to some extent, develops a positive image about it in the minds of the consumers. Thus packaging isn't simply used as a way of product's protection throughout transportation and storage however it's conjointly used as a promoting and promotional tool.

Earlier the role of packaging was simply to shield the merchandise from sun and mud and conjointly from harm throughout handling. This has resulted into the importance moreover because the necessity for associate applicable quality and sort of packaging.

Today promoting may be a game of names of brands WHO sell the foremost within the market place. Lee Cooper, Coca-Cola, Pepsi and Reebok are the standing icons for young and recent alike. These brands represent the distinguished and social stature of any persons.

The present era of cut throat competition has enabled the patron to pick out the whole of product to be consumed from amongst a massive range of competitive brands. This availableness of brand name alternative has resulted into a quick wearing of the consumer's loyalty for a specific brand. Consumers don't seem to be resorting to a lot of impulse shopping for and are desirous to attempt new brands. Hence the companies today not just take research and development activities for improving the product quality but also try to add value to their products means of via innovative packaging.

Packaging Functions recently packaging is intended to require care of the convenience for its use and conjointly to differentiate a whole from the others. In case of the many products reusable packaging is additionally wont to attract shoppers for its purchase.

Packaging may be perform of each physical distribution moreover as advertising. Many institutes, together with the Indian Institute of Packaging render helpful recommendation to the marketers on the character of packaging styles and also the materials to be used which might be suitable for a particular product.

Importance of Packaging counting on the product and also the trade, the packaging will have totally different levels of importance. Sometimes packaging becomes the foremost vital means of delivering the great, and its price represents the most important a part of the full price of the merchandise.

Packaging becomes the foremost vital means of delivering the products, and its price represents the most important a part of the full price of the product. Packaging serves variety of utilities that the marketer's need to speak to the patron to draw in him to buy his whole. Through packaging the vital data concerning the merchandise, price, manufacturer and also the consumption precautions etc. can be conveyed to the buyer.

Product packaging decisions are very important and the marketers need to be very careful about it, as packaging is sometimes the key factor of success or failure of a new launch.

Packaging, as a perform, has 2 separate dimensions – the science and technology and also the behavioral side associated with the art of product style which boosts the worth of the contents and passes on the impression to the patron directly or subtly.

Overall it will be complete that packaging is associate integral and a crucial part of the merchandise. It not solely helps in protective the merchandise from being broken throughout its handling however conjointly protects it as a sexy packaging works as a silent salesperson.

Packaging selections Packaging selections are important for the promoting as a result of now-a- days the shoppers pay loads of attention and look after choosing a product. They usually like a product that is sufficiently packaged; the outer cowl contains all the required data concerning the merchandise and therefore the manufacturer and also the tactic of victimization, consuming or operating the product. More so, packaging carries some aesthetic value also. So, within the fashionable days, the promoting managers pay loads of look after creating the packaging selections of the product being marketed by them.

The marketers, within the gift era of cut throat competition, are turning to innovative packaging so as to ascertain a particular edge over the competitor's brands. This is very true within the case of selling of client product, cosmetics, perfumes, toiletries and alternative care product. Marketers attempt to add worth to their brands by thanks to packaging as a tool. Thus they need to die bigger advantages to the shoppers and conceive to increase their brand's worth.

The marketers got to take the packaging selections that ought to meet the dual tasks of keeping the packaging price low and however carry it safely enough up to the client without any damage. It might not invariably be potential to simply scale back the value of packaging while not touching the varied parts of the promoting combine as a result of the packaging selections have an effect on all the four components of the marketing mix. Good and engaging packaging adds to product attraction however not while not adding to its price. It may conjointly raise the convenience of handling and act as a tool of promotion. So, the promoting corporations got to take such selections which can be helpful for all and also the overall equation of price profit analysis is favorable for every.

1. Protects the contents :

The basic perform of packaging is to shield the contents from harm, dust, dirt, leakage, pilferage, evaporation, watering, contamination then on. Packaging helps within the protection of the contents of the merchandise. Seasonal fluctuations in demand could also be smoothened out through packaging. Packaging helps to shield the contents of all the on the market merchandise.

2. Provides product density :

Packaging helps to provide product density. It implies choosing such package materials, design, and shape that helps to use the limited space in the best way. Act as promotional tool:

Good packaging will sell the merchandise additional simply and quickly because it works as a promotional tool.

3. Provides user convenience :

Packaging helps to supply the user convenience. The good packaging does this in a greater degree. Consumers are greatly motor-assisted farewell because the product is in usage. Neat packaging has brought a home reduction in inventory prices, packaging prices, house and time prices.

4. Facilitates product identification :

Packaging helps to facilitate the identification of the merchandise. This method of product differentiation is furthered by effective product identifiers; one is disapproval and another is packaging. The product package identifies the merchandise regardless of wherever you see it, underneath what circumstances you see it, or after you see it. A package is product's personality, its reality. Product identification goes straightforward with distinguished packaging because it adds to its temperament or image.

5. Allows easy product mix :

Product combine relates to the merchandise lines & an assortment of sizes, colors, measures, grades, package varieties etc. offered by the selling house. Changes in product combine are often doable as packaging helps to influence weight, size, and dimensions of the merchandise. Packaging helps to permit the merchandise combine simply for the shoppers.

8.7.1 IMPORTANCE OF PACKAGING

The importances of packaging are as follows:

1. Creation of demand :

Packaging plays a crucial role within the creation of demand by attracting the shoppers. The customers become renowned with the merchandise through advertising. It helps to increase the demand of the customers.

2. **Protection of the product :**

   Packaging helps to shield the merchandise from heat, light, moisture, evaporation, dust etc. during its long passage from the manufactory to the target customers. It protects the merchandise from breakage, leakage spoilage etc.

3. **Transportation :**

   Packaging facilitates transportation of merchandise from one place to a different. It ensures straightforward transportation and higher handling of merchandise in transit.

4. **Guidelines to customers :**

   Packaging helps as a tip for the shoppers. From the informative literature regarding the quality and use of the product, the customers get the guidelines. The customers are ensured concerning the standard of the merchandise.

5. **Better storage :**

   Packaging acts as an improved storage of the merchandise. Goods with good packages can be stored in the retail shop also in lesser price.

6. **Facilitates for carrying :**

   Packaging plays a crucial role in carrying the products in transit and from one place to a different. It is created in several sizes and it facilitates provisions for simple and open carrying.

7. **Identification of product differentiation :**

   Packaging helps to spot the merchandise differentiation simply. It ensures the individuality of the products and one product can be easily differentiated with each other products in the market. The customers will simply establish their product of selection at the time of purchase. This helps the shoppers to stop substitution of products by alternative customers.

8. **Economy :**

   Packaging helps to scale back the price of selling the products by reducing losses from damages. As packaging is useful for advertisement, so it helps to attain economy in the cost structure of the producers and marketers.

8.7.2 TYPES OF PACKAGING

There are varied styles of packaging a number of them are as follow:

1. **Consumer packaging :**

Consumer packaging is one that holds the specified volume of a product for final consumption. It is the means of buying household. In alternative words, the consumer has the option to purchase the pack size which he/she considers adequate for the consumption of his/ her family over a length of time.

2. **Transit packaging :**

   Transit packaging is another type of packaging. It is either for the industrial consumer's use. The consumer package itself fairly often needs an outdoor package during which it's generally named a bulk package or an outer instrumentality.

3. **Industrial packaging :**

   An industrial packaging will either describe a bulk package or the package for sturdy commodity. These are the fundamental package varieties though several subdivisions are often listed which may be generally listed underneath these basic headings.

4. **Dual use packaging :**

   A twin packaging is one that encompasses a secondary quality once its contents are consumed. The samples of twin use packaging area unit Drinking glasses, boxes of jewellery, waste baskets, white goods dishes, etc.

Customer service : Customer service is the sum total of what an organisation does to meet customer expectations and produce customer satisfaction". 64

Efficient Consumer Response (ECR) an initiative whereby elements of a supply chain work together to fulfill customer wishes better, faster and at less cost.

Inbound logistics : The movement of materials from suppliers or vendors in to production process or storage.

Integrated logistics : A comprehensive, system wide- view of the entire supply chain as a single process.

Just in Time : A production approach widely followed in the automotive industry which views production as a system in which all operations, including the delivery of materials needed for production, occur just at the time needed. This effectively eliminates the need for material stock.

Lead time : The time period between the placing of an order for goods or services and the completed delivery of those goods or execution of the service.

Out sourcing : The act of contracting out certain parts of a company's operations to specialist providers.

Pull System : A system where goods and materials are effectively pulled through the supply chain in response to goods being purchased by the consumer.

Push System : A system where goods are produced and pushed into the supply chain in response to demand estimates but in quantities that minimize production costs.

Reverse logistics : Planning and management of the flow of surplus, used, unwanted or non-functioning goods, equipment or packaging back through the supply chain.

Logistics : Logistics is the process of planning, implementing and controlling the efficient, effective flow and storage of goods, services and related information from point of origin to point of consumption for the purpose of confirming the customer requirement.

Supply chain management (SCM) : is the process of planning, implementing, and controlling the operations of the supply chain with the purpose to satisfy customer requirements as efficiently as possible. Supply chain management spans all movement and storage of raw materials, work-in-process inventory, and finished goods from point-of-origin to point-of-consumption

8.8 SUMMARY

Different types of intermediaries are active in the field of international distribution. Essentially, they can be categorized either as domestic agents and merchant intermediaries who provide channels of indirect distribution or as foreign agents and merchant intermediaries who make it feasible to distribute directly. An essential difference between agents and merchant intermediaries is that the agents do not take title to the goods and operate only on behalf of their principals. The merchant intermediaries take title to the goods and conduct business on their own.

An international marketer should select appropriate channels and make them work. The selection process includes the establishment of channel objectives, feasible alternatives, and the choice of appropriate channels. An international marketer should gain knowledge of the host country's wholesale and retail patterns.

Such knowledge will provide insights into the social, economic, political and cultural factors that will affect distribution, wide variations exist in the wholesaling and retailing characteristics of developed and developing countries. Even among the advanced countries, channels differ significantly.

8.9 SELF ASSESSMENT QUESTIONS

1. How will you be selecting channels of distribution for international markets?

2. What factors influence the channel structures and strategies available to global marketers?
3. Compare and contrast the typical channel structures for consumer products and industrial products.
4. Difference between the Direct and Indirect channel.
5. Write a short note on Modes of Transportation.
6. What do you understand by Logistic Planning?
7. Write a detailed note on the selection and management of distribution channels for international markets.
8. What do you understand by International Packaging?
9. Short note on importance of Packaging &Types of Packaging.

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Uttar Pradesh Rajarshi Tandon Open University

Master of Business Administration

MBA-3.43

International Marketing

BLOCK

4

PROMOTIONAL STRATEGIES

UNIT-09

International Promotion Strategies

UNIT-10

Foreign Markets and Export Marketing Process

UNIT-11

Export Marketing Documentation

UNIT-12

Foreign Trade Policy

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BLOCK INTRODUCTION

BLOCK-4

In **Block-4** you have learnt about the international marketing part of international promotional strategies, foreign markets and export marketing process, export marketing documentation, and foreign trade policy.

UNIT-9 discusses about international promotional strategies introduction, communications process, principles of communication, status of promotion, promotion appeals, media selection, personal selling, public relations and publicity, sales promotion, advertising, e-marketing.

UNIT-10 explains foreign markets and export marketing process: introduction, choosing appropriate mode of operations, issues related to exports, processing an export order, entering into export contract, export pricing and costing, export-import (EXIM) policy, 2002-2007.

UNIT-11 deals with export marketing documentation: introduction, significance of export documentation, the statutory control, declaration forms, disposal of export documentation form, major documents.

UNIT-12 deals with foreign trade policy: introduction, export promotion capital goods scheme, duty exemption/remission schemes, gem and jewellery promotion scheme, diamond import license, special economic zones (SEZs), free trade warehousing zones (FTWZ), star export houses, deemed exports, agri-export zones, target plus scheme

UNIT-9 INTERNATIONAL PROMOTIONAL STRATEGIES

Unit Framework

9.0 PURPOSE

- To understand the International Promotional Strategies
- To understand the Communication Process
- To know the Promotion & its Appeals
- To understand the personal Selling
- To understand Public Relations
- To understand about the Sales Promotions
- To know about the E-Marketing

9.1 INTRODUCTION

Promotion of a company's products and services are very important not only for the domestic market but also for international markets. International promotion decisions are, however, more complicated and critical.

Modern promoting incorporates over developing a decent product, valuation it beautifully, and making it accessible to target customers. Companies should additionally communicate with their gift and potential customers. What is communicated, however, mustn't be left to likelihood. To communicate effectively, companies hire advertising agencies to develop effective ads; sales-promotion specialists to design buying-incentive programs; direct marketing specialists to build databases and interact with customers and prospects by mail and telephone; and public relations firms to supply product publicity and develop the corporate image. They train their salespeople to be friendly and knowledgeable. For most companies, the question isn't whether or not to speak however rather what to mention, to whom, and how often.

Basically, promotion is an attempt to influence. More specifically, promotion is the element in an organization's marketing mix that serves to tell, persuade, and remind the market of a product and/or the organization selling it, in hopes of influencing the recipients' feelings, beliefs, or behaviour.

Product promotion decisions become much more difficult and complicated when companies start operating at an international level.

The global marketer must choose a proper combination of the various promotional tools like advertising, personal merchandising, publicity, and advertisement. The choice of promotional mix will naturally depend on the target audience, company objectives, the products or services marketed the available resources, and the availability of the tool in a particular market.

9.2 COMMUNICATIONS PROCESS

Communications might fail for a spread of reasons: A message might not get through owing to media inadequacy, the message could also be received by the supposed audience but not be understood owing to completely different cultural interpretations, or the message might reach the supposed audience and be understood however haven't any result as a result of the vendor did not properly assess the requirements and desires or perhaps the thinking processes nine of the target market.

In the international communications process, each of the seven identify able steps ultimately can affect the accuracy of the process. As illustrated in Fig.9.2, the process consists of the following:

- Information, source an international marketing executive with a product message to communicate.
- Encoding, the message from the supply born-again into effective symbolism for transmission to a receiver.
- A message channel, the sales department and/or advertising media that convey the encoded message to the intended receiver.
- Decoding, the interpretation by the receiver of the symbolism transmitted from the information source.

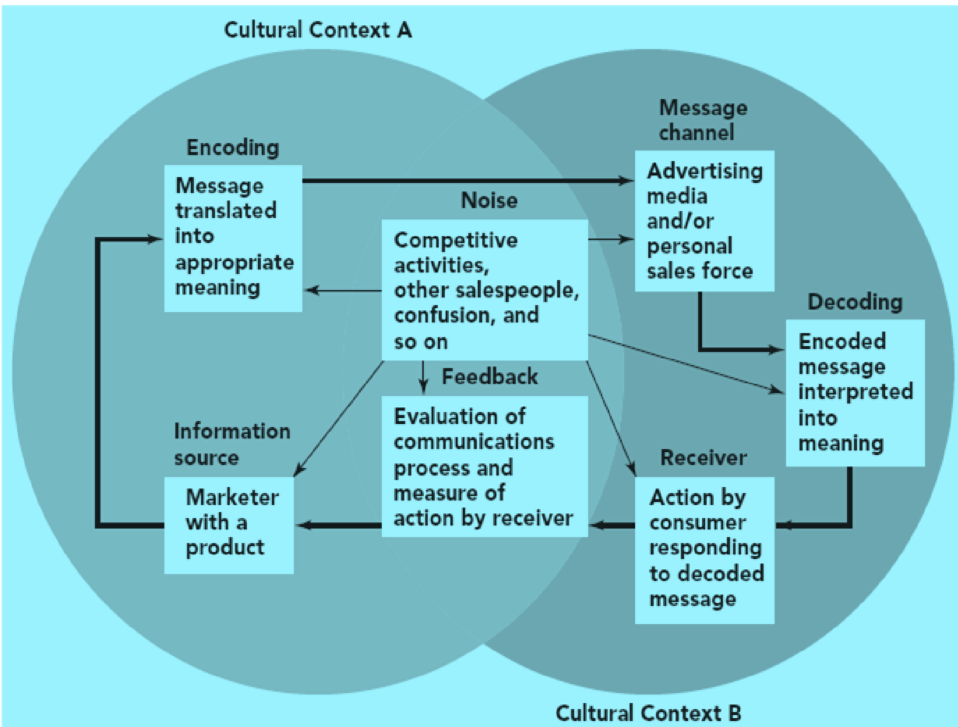

Fig. 9.2

- Receiver, consumer action by those that receive the message and are the target for the thought transmitted.
- Feedback, Information about the effectiveness of the message that flows from the receiver (the supposed target) back to the data supply for analysis of the effectiveness of the process.
- Noise, Uncontrollable and unpredictable influences such as competitive activities and confusion that trim down from the method and have an effect on any or all of the opposite six steps.

Unfortunately, the process is not as simple as just sending a message via a medium to a receiver and being bound that the supposed message sent is that the same one perceived by the receiver. In Fig. 9.2, the communications process steps are encased in Cultural Context A and Cultural Context B to illustrate the influences complicating the process when the message is encoded in one culture and decoded in another. If not properly considered, the different cultural contexts will increase the chance of misunderstandings. Research in the area suggests that effective communication demands the existence of a “psychological overlap” between the sender and therefore the receiver; otherwise, a message falling outside the receiver’s perceptual field may transmit an unintended meaning. It is in this area that even the most experienced companies make blunders.

9.3 PRINCIPLES OF COMMUNICATION

Communications are often outlined as sending, receiving, and process data. The question isn't whether or not to speak however rather what to mention, however and once to mention it, to whom and the way usually. Promoting communications (MC) are the means that by that companies try to inform, persuade and retentive customer’s directly or indirectly regarding the product and brands they sell. Promoting communication may be a collective term for all the assorted styles of planned messages accustomed build a complete advertising, PR, marketing, direct marketing personal marketing, packaging, events and sponsorships, and client services.

Marketing communication mix is that the functions used at a given time as part of a promoting program. During the Nineteen Eighties, several firms began taking a broader perspective of selling communications and seeing the requirement for an additional strategic integration of their promotional tools.

Integrated promoting communication may be a strategic business method accustomed arrange, develop, execute and value coordinated, measurable, persuasive complete communications programs over time with customers, customers, prospects, employees, associates and alternative target relevant external and internal audiences.

These companies began moving toward the method of integrated promoting communications (IMC), which involve coordinating the assorted promotional components and alternative promoting activities that communicate with a firms customers. Integrated promoting communication indicates the integration of all promoting communication tools, avenues and sources inside a company into a seamless program that maximizes the impact on customers and alternative finish users at lowest cost The goal is to get each short term money returns and build long complete and shareholder price. The seeds of the IMC construct initial germinated in 1982 once several companies came to understand the requirement for a strategic integration of their promotional tools, instead of keeping them in separate silos. IMC unifies every communication component to deliver consistent messages with one voice, one theme and one strategy. Promotional combine contains the elements like advertising, marketing, web promoting, marketing, packaging and personal marketing the weather of communication combine are : Personal marketing, Internet, Advertising, Sales promotion marketing, public relation / message, Events, Unconventional tools and Low control messages like worker behavior, viva-voce, systems and processes. The assorted tools of selling communication consists of advertising, spam, purpose of purchase show, trade or client promotion, event support, public relation and message and private selling.

- Know your audience.
- Know your purpose.
- Know your topic.
- Anticipate objections.
- Present a rounded picture.
- Achieve credibility with your audience.
- Follow through on what you say.
- Communicate a little at a time.
- Present information in several ways.
- Develop a practical, useful way to get feedback.
- Use multiple communication techniques.
- Communication is complex.

When paying attention to or reading somebody else's message, we frequently filter what is being aforementioned through a screen of our own opinions. One of the foremost barriers to communication is our own ideas and opinions.

The basic framework and concepts of international promotion are essentially the same wherever employed. Six steps are involved:

1. Study the target market (s);
2. Determine the extent of worldwide standardization;
3. Determine the promotional mix (the blend of advertising, personal selling, sales promotion, and public relations);
4. Develop the most effective message (s);
5. Select effective media; and
6. Establish the mandatory controls to help in watching and achieving worldwide marketing objectives.

(a) Advertising : As there are many forms and uses of advertising, it is difficult to make all embracing generalizations about its distinctive qualities as a component of the promotional mix. Yet the following qualities can be noticed:

1. **Public Presentation :** Advertising is a highly public mode of communication. Its public nature confers a kind of legitimacy on the product and also suggests a standardized offering. Because many persons receive the same message, consumers recognize that their motives for purchasing the product will be publicly understood.

2. **Pervasiveness :** Advertising is a pervasive medium that permits the vendor to repeat a message persistently. It also permits the customer to receive and compare the messages of various competitors. Large-scale advertising by a seller says something positive about the seller's size, power, and success.

3. **Amplified Expressiveness :** Advertising provides opportunities for dramatizing the company and its products through the suave use of print, sound, and colour. Sometimes, however, the tool's very success at expressiveness may dilute or distract from the message.

4. **Impersonality :** Advertising cannot be as compelling as a company sales representative can. The audience does not feel obligated to pay attention or respond.

Advertising is in a position to hold on solely a monologue, not a dialogue, with the audience.

On the one hand, advertising can be used to build up a long term image for a product (Coca-Cola ads), and on the opposite, to trigger quick sales. Advertising is an efficient way to reach numerous geographically distributed consumers at a coffee price per exposure. Certain forms of advertising, such as TV advertising, can require a large budget, whereas different forms, such s newspaper advertising, can be done on a small budget.

(b) Sales Promotion : Although sales promotion tools –coupons, contests, premiums, and also the like – square measure extremely various, they have three distinctive characters:

1. Communications : They gain attention and usually provide information that will lead the buyer to the merchandise.

2. Incentive : They incorporate some concession, inducement, or contribution that gives value to the consumer.

3. Invitation : They embrace a definite invite to have interaction within the transaction now.

Companies use sales-promotion tools to make a stronger and quicker response. Sales promotion can be used to dramatize product offers and to boost sagging sales. Sales-promotion effects are usually short run, however, and not effective in building semi permanent complete preference.

(c) **Direct Marketing :** Although direct marketing has several forms – direct mail, telemarketing, electronic marketing, and so on – it's a number of distinctive characteristics:

1. Non-public: The message is generally self-addressed to a selected person and does not reach others.
2. Customized: The message will be made-to-order to charm to the addressed individual.
3. Up-to-date: A message will be ready terribly quickly for delivery to an individual.

(d) **Public Relations and Publicity:** A significant part of public relations activity focuses on portraying international companies as good citizens of their host markets. Public relations activity includes anticipating and countering criticism. The criticism range from general ones against all multinationals to specific complaints.

The charm of PR relies on its 3 distinctive qualities:

1. **High credibility :** News stories and lectures seem more authentic and credible to readers than ads do.
2. **Off guard :** PR will reach several prospects that might avoid salespeople and advertisements. The message gets to the consumers as news instead of as a sales-directed communication.
3. **Dramatization :** Public relation has, like advertising, a potential for dramatizing a company or product.

   Marketers tend to under-use public relations or use it as an afterthought. Yet a well-thought-out public relations programme coordinated with the opposite promotion-mix parts will be very effective. In China, where there is limited advertising space, exorbitant rates, and tight government control on ad content, companies are increasingly turning to public relations, particularly sponsorship, to create brand awareness.

(e) **Personal Selling :** Although advertising is often equated with the promotional effort but in the early stages of globalization of company's operation, marketers rely heavily on personal contact. The marketing of industrial goods, especially of high priced things, requires strong personal selling efforts at global level. In some cases personal selling may be truly global. For example, Boeing salespeople engage in sales efforts around the world. Personal selling is also the most cost-effective tool at the later stages of the buying process, particularly in building up buyers' preference, conviction, and action. The reason is that personal selling, when compared with advertising, has three distinctive qualities:

1. **Personal Confrontation :** Personal selling involves an alive, immediate, and interactive relationship between two or more persons. Every party is in a position to watch every other's desires and characteristics at close hand and make immediate adjustments.

2. **Cultivation :** Personal selling permits all kinds of relationships to grow, ranging from a matter-of-fact selling relationship to a deep personal friendship. Effective sales representatives will normally keep their customers' interests at bottom if they require end of the day relationship.

3. **Response :** Personal merchandising makes the customer feel underneath some obligation for having listened to the sales talk. The buyer has a greater need to attend and response, even if the response is a polite thanks you.

9.4 STATUS OF PROMOTION

One of the foremost tough selling choices facing firms is how much to spend on promotion. It is not surprising that industries and firms vary significantly in what quantity they pay on promotion. Promotional expenditures might amount to 30% to 50% of sales within the cosmetics business and solely ten to twenty within the industrial equipment industry. Within a given industry, low- and high spending companies can be found.

How do companies decide on their promotion budget? We will describe four common ways accustomed set a promotion budget.

(a) Affordable Method : Many companies set the promotion budget at what they assume the corporate will afford. This method of setting budgets utterly ignores the role of promotion as associate degree investment and therefore the immediate impact of promotion on sales volume. It ends up in associate degree unsure annual promotion budget, which makes long-range market communication planning difficult.

(b) Percentage of Sales Method : In Asia, promotion budgets are usually set at a specified percentage of sales (either current or anticipated) or of the sales worth. For example, automobile companies typically budget a fixed percentage for promotion based on the planned car price. A number of advantages are claimed for the percentage-of-sales method. First, it means that promotion expenditure would vary with what the company can "afford". This satisfies the monetary managers, who feel that expenses should bear an in depth relevance the movement of company sales over the business cycle. Second, it encourages management to think in terms of the link between promotion value, selling price, and profit per unit. Third, it encourages competitive stability to the extent that competing firms spend approximately the same percentage of their sales on promotion.

In spite of these advantages, the percentage-of-sales method has little to justify it. It uses circular reasoning in viewing sales as the reason behind promotion instead of because the result. It leads to a budget set by the supply of funds instead of by market opportunities.

It discourages experimenting with counter cyclical promotion or aggressive spending. The promotion budget’s dependence on year to- year sales fluctuations interferes with long-range planning. The method doesn't offer a logical basis for selecting the particular percentage, except what has been exhausted the past or what competitors are doing. Finally, it does not encourage building up the promotion budget by deciding what every product and territory deserves.

(c) Competitive Parity Method : Some companies set their promotion budgets to achieve share-of-voice parity with their competitors. Executive believes that by spending the same percentage of his sales on advertising as his competitors, he will maintain his market share.

Two arguments are advanced for this method. One is that the competitors’ expenditure represents the collective wisdom of the industry. The opposite is that maintaining a competitive parity helps prevent promotion wars.

Neither argument is valid. There are no grounds for believing that the competition knows better what should be spent on promotion. Company reputations, resources, opportunities, and objectives take issue most that their promotion budgets area unit few guide. Furthermore, there is no evidence that budgets based on competitive parity discourage promotional wars from breaking out.

(d) Objective & Task Method: The objective-and-task method calls upon marketers to develop their promotion budgets by defining their specific objectives, determining the tasks that has to be performed to attain these objectives, and estimating the costs of performing these tasks. The sum of these costs is the proposed promotional budget.

9.5 PROMOTION APPEALS

Appeals to sympathy and sensitivity will produce a way of affiliation and trust between you and also the audience. Since trust affiliations are very important components of having the ability to steer an audience, emotional appeals will be implausibly helpful.

However, emotional appeals may backfire if used incorrectly. If taken too way, an appeal to emotion can seem to be forced. Audiences will tell the distinction between honest emotional attractiveness and a trial is to control however they feel. Audiences abominate feeling manipulated, so an audience that senses inauthentic motives will strongly reject both the appeal and the speaker.

When the emotional attractiveness is each authentic and fittingly used, you can develop a much stronger connection to your audience than by using logic alone. However, to misuse emotional attractiveness is to fully alienate your audience, and even foster negative feelings.

9.5.1 USING DIFFERENT KINDS OF APPEALS

The two primary varieties of appeals are significant and emotional appeals.

1. **Evidential appeal :** a trial to point out the logical affiliation between a group of proof and a consequence. It is also known as logical appeal or logos.

2. **Emotional appeal :** A trial to create the audience feels sure emotions in order that they'll be additional doubtless to be engaged by the speech. It is also known as pathos.

9.5.2 USE DIFFERENT KINDS OF APPEALS

According to philosopher, there are 3 primary kinds of appeals:

- Logos : A logical appeal. It is known as an evidential appeal.
- Pathos : An appeal to the audience's emotions.
- Ethos : Moral expertise and knowledge.

For the needs of this section, we'll explore the 2 broadest and current appeals, logos and pathos.

❖ Logos (Evidential or Logical Appeal)

From a rationalist's purpose of read, significant attractiveness is the sole sort of appeal that actually matter. Evidential appeals area unit shaped by process the proof then explaining however the proof should logically prove that an explicit conclusion should be true. Evidential appeals area unit the sole sort of persuasive speech allowed in an exceedingly court of law; the proof should prove that the suspect has committed the crime so as for that person to be found guilty.

Evidential appeals are the premise for research. Someone should be able to show the affiliation between proof and a conclusion so as for his/her work to be accepted. In persuasive speaking the speaker should initial make a case for the proof in an exceedingly method that's perceivable tothe audience nevertheless complete. Then someone should make a case for however that proof logically ends up in a consequence that supports his/her proposal.

- Pathos (Emotional Appeal)

An emotional attractiveness is meant to cause the audience to feel an explicit method in order that they'll be convinced by the speaker. Emotional appeals will manifest in an exceedingly range of the way. Metaphors, stories, and lusty delivery are all emotional appeals as a result of their effectiveness lies not solely within the words, however within the emotions they evoke within the audience. Ultimately, the effectiveness of emotional attractiveness is set solely by the audience. If the audience doesn't feel the meant emotions, by definition, the attractiveness has unsuccessful.

The idea was that, if you'll establish yourself as credible (ethos), for example, you are more likely to persuade people. Likewise, if you tugged on your audience’s compassionateness (hit their emotions, pathos) or given a reasoning (logos), you could persuade people to act. In different words, you (or your communication) appealed to individuals as results of you were credible, you affected their emotions, or you made logical sense.

Marketing and advertising gurus are mistreatment appeals for as long as promoting and advertising are an issue. Consider celebrity endorsements, which are prime samples of applying attribute, or the credibility/endorsement appeal. If you see a picture with Jennifer Aniston holding a bottle of good Water, you're being appealed to by Aniston’s credibleness (or, at the very least, her notoriety). If it’s ok for her, the advertisers hope you’ll suppose and feel, and then it’s good enough for the consumer who respects and adores her.

But modern advertisers didn’t stop at simply the 3 appeals, as Aristotle did. While credibleness, emotion, and logic in ways in which do summarize the 3 broad ways within which individuals are persuaded, advertisers get way more specific so as to focus on their marketing communications approaches. Understanding the out there appeals in promoting and advertising can place you during a position to be additional artistic, additional persuasive, and ultimately more practical in your promoting and business communications.

9.6 MEDIA SELECTION

Each medium has its merits and its handicaps. The quality and gain of anyone sort varies from manufacturer to manufacturer and should vary for one manufacturer too. Changes are the only rule. The buyers constitute his market; they are to receive his advertising coverage consists of the advertiser’s reaching the maximum number of these buyers include both his current and prospective customers. The publisher must verify what number there are and wherever they're. Then the choice method involves the way to send an efficient advertising message economically to the cluster of consumers, the length of the campaign amount and therefore the value that he can afford-at a figure which can build the advertising effort profitable.

9.6.1 DIFFICULTIES IN SELECTION OF MEDIA TYPES

Audience Measurement :

The media sell circulation or the chance to develop circulation. There is a gross facet to circulation (how several merchandise were bought last month) and a web facet (how several of these purchasers are prospects for the merchandise saw the advertisement in the broadcast media). Measurement of constant isn't very easy as advertisers would assume.

Difficulty of Cost Comparisons :

There is a value per thousand thought in each medium sort like cost per thousand homes or thousand viewers, value per thousand passersby, value per page per thousand copies sold. How does the reaction of a thousand housewives, who read a food advertisement about Magi noodles, compare with that of a different thousand housewives who watch the same on TV?

Reliance on a Particular type of Medium :

How abundant of his promotion effort ought to a manufacturer place in magazines and the way much on TV, however Mach in outside or purpose of purchase? Which should be dominant and which are supplementary? These factors play a key role in choice of a specific form of media. Media prices, the costs of space and time, are the largest single expense item in most advertising budgets. The selection of media types to be used in an undertaking, therefore, deserves and even demands, the very best thought and judgment of on the part of the top management. The points to be considered are:

(i) Availability : Regional markets are also therefore restricted that national circulation of magazines shouldn't be used. A product might have therefore slight a market that a medium like the radio wouldn't be indicated to be used.

(ii) Selectivity : Some concepts demand visual presentation et al. demand address. The radio cannot accommodate stories requiring a physical type, and outdoor advertising cannot accommodate long stories.

(iii) Competition may be a matter that the publisher cannot ignore. A company might choose media sorts not employed by its competitors, based on distinctiveness and domination.

Selection of Individual Media

Selection of individual media to carry advertising requires the consideration of the points like circulation; the quality and quantity of a medium's circulation, Prestige, Influence, Readership, etc.

The Advertising Schedule

What is the optimum schedule? There is no agreement; there's no formula: there's solely judgment. It seems that additional advertisers build the error of victimization too several than the error of victimization too few. The manufacturer's projected advertising plans are consolidated into a schedule that contains the subsequent information:

- List of publications, broadcast stations, markets;
- Dates of appearance of advertisements;
- Size of advertisements (space or time);
- Costs of advertisements.

Duplication

An advertiser must have coverage or else his message will not reach as many buyers as he must reach. As an advertiser adds magazine after magazine to his list to increase his coverage; he finds duplication inevitable. One way of averting duplication is to use only one of the magazines; another is to run a different advertisement. The duplication limits advertiser's coverage. The points in favor of duplication are repetition and frequency.

Frequency

The term frequency refers to the number of advertisements of the same size appearing in an individual medium for a given period such as per day, per week, per month, or per campaign. There is no formula to determine the ideal frequency. The two factors are the size of the advertising fund and the size of the advertisement to be run. If these are known, frequency can be derived. The two other factors are the number of media and the advertising period. As the number of media increases, there is pressure for a lower frequency, or to shorten the advertising period. The other possibilities are to enlarge the fund, or to reduce the size of the advertisement. Manufacturers cannot ignore the fact that what the competitors are doing in respect of frequency. The more often a message is repeated, the greater the proportion of it the consumer remembers.

Size of advertisement

The size of advertisement influences the frequency. The size of an advertisement can be derived if the advertiser:-

- Determines the size of the advertising fund,
- Decides the numbers of individual media to be used, and

- Decides the number of advertisements to appear during the advertising period.

The purpose of the advertisement may be the strongest influence in determining its size; a large space is used to announce, a small space is used to remain. The amount of copy, the number of products included in one advertisement and the illustration needs of the advertisement all help to determine size. Salesmen and dealers may also decide how large advertisements should be.

Colour

Colour is a factor which influences frequency. Colour influences the size of the advertisement and size in turn determines frequency. Colour commands a premium price.

Re-run on Advertisement

Repetition has a considerable effect on advertising costs, and its frequency. Re-run is considered unless it has performed well on its first appearance. It is most common in mail order business and advertising that uses small space. It is not common for large advertisements. Indirect action advertisements should be re-run. The reinforcement of consumer memory is another benefit of a re-run. There are savings on a re-run. New readers are added whenever and advertisement is re-run.

Timing

The crucial questions under timing is when should a campaign start, and when should it shop? For this purpose the seasonal angle and festival seasons should be considered. Advertising can be scheduled heavily just before and during the heavy buying season. Off-season advertising is used profitably during the off-season to level out the. For example, tourists can be motivated through advertising to visit tourist areas during the off-season.

Positioning

It involves the development of a marketing strategy for a particular segment of the market. It is primarily applicable to products that are not leaders in the field. These products are more successful if they concentrate on specific market segments than if they attack dominant brands. It is best accomplished through an advertising strategy, or theme, which positions advertisements in specified market segments.

While many types of mass media exist all over the world, not all of them are available everywhere to marketers. Even where media are commercially available, governments restrict the products that marketers can promote and the advertising messages that can be transmitted.

Consider the following:

(a) In Saudi Arab, radio is 100% government controlled.

(b) In Australia, all TV commercials must be filmed locally.

(c) In Spain and India, alcohol and cigarette TV ads are prohibited.

(d) Illiteracy is widespread in many areas in Africa, Asia, and Latin America, making print media of limited use in reaching the masses.

(e) In Scandinavia, where only a few media alternatives exist, direct mail is a viable choice.

(f) Cinema advertising is widely used in India, Afghanistan, Pakistan, and Zambia whereas it is non-existent in USA.

(g) On Turkish government managed TV, only a few select products can be advertised.

9.7 PERSONAL SELLING

In the trendy selling world, competitive advertising has become thus aggressive that one challenger wouldn't hesitate in defaming the product of others for the sake of building a name for his own product.

A manufacturer, through acquirement will conceive to take away such misconceptions from the minds of prospects (caused by competitive advertising), by creating them offered true facts and deserves of his product through his own salesmen.

Personal marketing is additionally called face-to-face marketing during which one who is that the salesperson tries to persuade the client in shopping for a product. It is a promotional methodology by that the employee uses his or her skills and skills in a trial to form an acquisition.

Description: Personal marketing could be a face-to-face marketing technique by that a salesman uses his or her social skills to influence a client in shopping for a selected product. The employee tries to focus on varied options of the merchandise to persuade the client that it'll solely add price. However, obtaining a client to shop for a product isn't the motive behind personal marketing on every occasion. Often corporations try and follow this approach with customers to form them attentive to a replacement product.

9.8 PUBLIC RELATIONS AND PUBLICITY

Public relation is the management of relationships and communication to determine goodwill and sympathy between a company and its public. Public relations is a lot of wide loco mote than selling that primarily focuses on markets, distribution channels and customers.

Marketers primarily specialize in customers and distributors however wants and interests of alternative teams like those of workers, shareholders, local community, media, government and pressure groups are also important.

By human activity to alternative teams, public relations create an environment in which it is easier to conduct marketing. Public relation activities embody subject matter, corporate advertising, seminars, publications/ lobbying and charitable donations.

A company must perceive the importance of stakeholders apart from its customers, suppliers and channel partners. A company's terribly existences as a business entity are in hazard if these stakeholders don't have positive perceptions of the corporate. Ex. If the company will allow set up its factories and offices, it has antagonized the community in which the business is to be set up. Public and banks wouldn't finance its operation if it lacks quality.

Aggrieved media and pressure teams will chide the corporate to the extent that its suppliers and alternative partners wouldn't need to try and do business with it. And all these stakeholders form customer's opinion to some extent. In sum, an organization would notice it not possible to try and do business if its major stakeholders are aggrieved with it, albeit the corporate encompasses a superb product and marketing program in place.

A company must be deliberate in managing its relationship with its necessary stakeholders. It cannot assume that its sensible practices can guarantee sensible publicity. It has to analysis the interests and expectations of assorted stakeholders and serve them. It will be fatal to equate publicity with sensible company communication.

For maintaining an honest relationship with necessary stakeholders, the corporate must 1st serve their interests and so communicate to them that their interests are being served above all ways that. Focusing solely on communications would build the complete exercise a gimmick and also the stakeholders can see through the facade. Public relations are as real as the other selling activity, i.e. it is supported achieving one thing substantial for the stakeholders.

Public relations may be a growth space as selling has recognized its power and price. Increased advertising price has semiconductor diode to exploration of a lot of price effective communication channels.

9.8.1 WHAT IS PUBLICITY?

A major element of public relations is publicity. It implies communication a couple of product or organization by the putting of stories regarding it within the media while not paying for time and house directly.

Though an organization will manage to induce talked regarding within the media while not doing something that is interesting, it'll not facilitate its cause if the readers or the viewers do not notice the story regarding the corporate stimulating enough to pull a note of it and register it in their minds. A big portion of the subject matter budget is pay on maintaining relations with media with the hope that the media can feature the corporate a lot of oft and conspicuously.

This is wasteful. Instead the corporate ought to expend its resources in staging events, building associations, and doing alternative things relying upon the sort of business the corporate is in, that the general public would be genuinely interested in knowing about.

Savvy firms apprehend the triggering points of public and also the media attention and conduct themselves in a very manner that invitations the eye of the general public and media. Their subject matter finish ever doesn't end with prayer the media. Media, anyway, can carry the stories that its browsers read consider & think about & look at examine users can accustomed read and view.

9.9 SALES PROMOTION

Sales promotion could be a style of Pull selling technique. If you have a product which is new in the market or which is not receiving a lot of attention, then you can promote this product to customers via sales promotions. You can use numerous techniques like giving discounts on the merchandise, giving one + one free schemes, etc.

When a whole desires to extend the sales of its merchandise, it uses Sales promotion. The whole will increase the sales by attracting new customers to their merchandise or by holding the previous customers by numerous suggests that. The company can even inspire the dealers and distributors of their channel to perform higher for his or her whole, and to get their stock moving.

9.9.1 THERE ARE TWO TYPES OF SALES PROMOTIONS

a) Consumer sales promotions

Any advertisement activity that you just do keeping the top shopper in mind is thought as shopper classified ads. Example – if associate E-commerce web site offers 100% discount on its merchandise, then it wants the consumers to make the best of this deal. This is a shopper targeted promotional activity and therefore is known as shopper classified ads.

The objective of shopper classified ads may be numerous. A shopper may be asked to check a sample of a very new fragrance within the market and rate it. An existing client may be asked to use a Scratch card in order that he receives a present.

At the end, the result ought to be associate action from the patron. Either the patron can purchase the merchandise quickly, or he ought to return to understand concerning the merchandise in order that additional awareness is formed for the whole.

b) Trade Sales promotions

If your promotional activities ar targeted on Dealers, distributors or agents, then it's referred to as trade promotions. There is tons of competition in any field & in channel sales, to induce the merchandise moving and to inspire the dealer to perform higher, trade discounts are given.

Example – You are a dealer for Televisions. Now Sony comes and tells you, you'll be five-hitter discount if you cross a procurement of a hundred televisions. Naturally, you'll be terribly motivated as a result of five-hitter in television sales is big. Plus marketing Sony TV’s is simple as a result of it's already a whole. Thus, you divert all potential customers to Sony Televisions in order that you'll reach the target.

Similarly, there are alternative kinds of trade classified ads which may be wont to inspire the dealer and distributor. More such techniques of classified ads are mentioned below.

As the noise of competitors rises, you'll realize a lot of and a lot of corporation’s victimization classified ads techniques. The advantage of advertisement is that they're not too valuable for the corporate compared with ATL advertising mediums like television or newspaper. Hence, even small businesses use it quite effectively.

9.9.2 TYPES OF SALES PROMOTIONS – SALES PROMOTION TECHNIQUES.

Below is a number of the foremost common style of advertisement techniques used across all industries. Some industries, like FMCG, see tons of those techniques being enforced at the same time primarily attributable to the sheer volume of business yet as attributable to the competition in FMCG. Other businesses, like shopper sturdy, piece of furniture etc additionally use a mix of those advertisement techniques.

To increase the sale of any product manufactures or producers adopt completely different measures likesample, gift, bonus, and many more. These are called tools or techniques or strategies of sales promotion allow us to apprehend additional regarding a number of the usually used tools of marketing.

(i) Free samples: you would possibly have received free samples of shampoo, soap powder, coffee powder, etc. while purchasing various items from the market. Sometimes these free samples are also distributed by the market keeper even while not purchasing any item from his search.

These are distributed to draw in shoppers to undertake out a brand new product and thereby produce new customers. Some businessmen distribute samples among designated persons so as to popularize the product. For example, within the case of drugs free samples are distributed among physicians, within the case of textbooks, specimen copies are distributed among teachers.

(ii) Premium or Bonus offer: A milk shaker alongside Nescafe, mug with Bourn vita, toothbrush with five hundred grams of dentifrice, half-kilogram further in an exceedingly pack of 1 metric weight unit are the examples of premium or bonus given free with the acquisition of a product. They are effective in inducing consumers to buy a particular product. This is additionally helpful for encouraging and satisfying existing customers.

(iii) Exchange schemes: It refers to giving exchange of previous product for a brand new product at a price but the first value of the merchandise. This is useful for drawing attention to product improvement. 'Bring your previous mixer-cum-juicer and exchange it for a brand new one simply by paying Rs.500' or 'exchange your black and white TV with a color television' are various popular examples of exchange scheme.

(iv) Price-off provide: beneath this offer, merchandise are sold at a value less than the first value Rs. 4 off on purchase of lifebuoy soap, Rs. 15 off on a pack of 250 grams of mausoleum tea, Rs. 1000 off on cooler' etc. is some of the common schemes. This type of scheme is designed to spice up sales in off-season and typically whereas introducing a brand new product in the market.

(v) Coupons: typically, coupons are issued by makers either within the packet of a product or through a billboard written within the newspaper or magazine or through mail. These coupons may be given to the retail merchant whereas shopping for the merchandise. The holder of the coupon gets the product at a discount. For example, you would possibly have bump into coupons like, 'show this and get Rs. 15 off on purchase of 5 kg. Annapurna Atta'. The reduced price under this theme attracts the eye of the possible customers towards new or improved products.

(vi) Fairs and Exhibitions: Fairs and exhibitions could also be organized at native, regional, national or international level to introduce new merchandise, demonstrate the merchandise and to elucidate special features and usefulness of the products. Goods are displayed and demonstrated and their sale is additionally conducted at an affordable discount. 'International Trade Fair' in New Delhi at Pragati Maidan, that is command from ordinal to twenty seventh November once a year, may be a well known example of Fairs and Exhibitions as a tool of marketing.

(vii) Commercialism stamps: just in case of some specific merchandise commercialism stamps are distributed among the customers in line with the worth of their purchase. The customers are required to collect these stamps of sufficient price among a selected amount so as to avail of some benefits. This tool induces customers to shop for that product additional often to gather the stamps of required value.

(viii) Scratch and win offer: To induce the client to shop for a selected product 'scratch and win' scheme is also offered. Under this theme a client scratch a selected marked space on the package of the merchandise and gets the profit in line with the message written there.

In this method customers might get some item free as mentioned on the marked space or might avail of price-off, or typically visit completely different places on special tour organized by the manufacturers.

(ix) A reimbursement offer: beneath this theme customers are given assurance that full price of the product are came back to them if they're not happy when victimization the merchandise. This creates confidence among the shoppers with reference to the standard of the merchandise. This technique is particularly helpful whereas introducing new merchandise within the market.

9.10 ADVERTISING

Advertising entails dissemination of an advert message to focus on audiences in additional than one country. Target audiences dissent from country to country in terms of however they understand or interpret symbols or stimuli; answer humor or emotional appeals, in addition as in levels of literacy and languages spoken. How the advertising function is organized also varies. In alternative cases, budgets are decentralized and placed in the hands of local subsidiaries, resulting in greater use of local advertising agencies.

It is the promotion of goods, services, companies and ideas, usually in more than one country performed by an identified sponsor. Marketers see advertising as a part of Associate in Nursing overall promotional strategy. Other elements of the promotional combine embrace content, public relations, personal selling, and sales promotion. Advertising may be a cogent communication arrange to modification or reinforce ones' previous perspective that's sure of future behavior.

It will be viewed as a communication method that takes place in multiple cultures that dissent in terms of values, communication styles, and consumption patterns. It is conjointly a commercial activity involving advertisers and also the advertising agencies that make ads and obtain media in numerous countries. The assemblage of those activities constitutes a worldwide trade that's growing in importance. International advertising is additionally a serious force that each reflects social values, and propagates sure values worldwide.

International advertising involves recognizing that individuals everywhere the planet has completely different wants. Companies like King Camp Gillette, Coca-Cola, BIC, and Cadbury Schweppes have brands that are recognized across the world. While several of the merchandise that these businesses sell are targeted at a worldwide audience employing a consistent selling combine, it's conjointly necessary to know the regional variations, hence it's necessary to know the importance of international selling. Organizations must accept that differences in values, customs, languages and currencies will mean that some products will only suit certain countries and that as well as there being global markets e.g. for BIC and King Camp Gillette razors, and for Coca-Cola drinks, there are necessary regional variations for instance advertising in China and Bharat have to be compelled to specialize in native languages. Just as the selling setting must be assessed reception, the overseas potential of markets must be rigorously scrutinized. Finding relevant data takes longer owing to the strangeness of some locations. The potential market size, degree and sort of competition, price, promotional variations, and product variations in addition as barriers to trade need to be analyzed so as to advertise our product effectively in different countries

9.10.1 BARRIERS OF INTERNATIONAL ADVERTISEMENTS

1. **Culture**

   Culture may be a problematic issue for several advertisers since it's inherently nebulous and sometimes troublesome to know. One could violate the cultural norms of another country while not being educated of this, and folks from completely different cultures could feel uncomfortable in every other’s presence while not knowing specifically why. Communication is harder as a result of cultural factors mostly verify the approach varied phenomena are perceived. If the sensory activity framework is completely different, perception of the message itself differs.

2. **Language**

   Translation from one language to a different language is crucial in international advertising. The literal translation could fail to convey the required message across the countries thanks to cultural factors. For instance the word yes means in low context in USA and Europe and in Japan it means I am listening to what are you saying, in Thailand it means Ok. So there's a distinction within the language of various countries. Some instances of the interpretation blunders in international packaging are as follows:

   Pepsi used the German translation of the saying ‘come alive with cola’ in its drive in West Germany. However, the saying once translated in German really meant 'come out of the grave with Pepsi' and didn't generate any market response from the purchasers.

3. Education

The level of accomplishment plays a crucial role choose what packaging tool and message ought to be employed in international market. Market segments with lower level of adult accomplishment have to be compelled to be self-addressed by approach of additional audio visual content instead of a written message.

4. Government Regulations

The regulative framework of a rustic influences the packaging strategy in international market. The government rules within the following country relate to following issues:

- Advertisement in foreign language.
- Use of sensuality
- Comparative advertising touching on the competitor product from rival companies
- Use of children as models
- Advertisement related to alcohol and tobacco
- Advertisement related to health and pharmaceuticals

5. Media Limitation

Media could diminish the role of advertising within the promotional program and will force the marketers to stress the opposite components of promotional combine. A marketer's ability is definitely challenged once a TV business is proscribed to ten showing a year with no 2 exposures nearer than ten days. In some African countries advertisers run boats up and down the rivers taking part in genre and broadcasting business into the bush as they travel.

9.10.2 INTERNATIONAL ADVERTISEMENT HELPS IN

❖ Remind customers and prospects concerning the advantages of your product or service

❖ Establish and maintain your distinct identity

❖ Enhance your reputation

❖ Encourage existing customers to shop for additional of what you sell

- Attract new customers and replace lost ones
- Slowly build sales to boost your bottom line
- Promote business to customers, investors

9.11 E-MARKETING

E-marketing ways entail utilizing existing and rising communication and data networks to impart customized and uninterrupted communication between the company and its customers and to produce worth on top of ancient networks (Watson et al., 2002). The opportunities of e-marketing are massive as papers during this special issue will attest. However, so as to know the opportunities and problems two-faced bye-marketing we have a tendency to examine the evolution of selling follow. In the agricultural errand, recently, even in developing countries, shoppers and businesses bought products on the point of their physical location and had them tailored toward their wants. In this structure, most marketing transactions were initiated by the client and adapted to her/his desired want (e.g. tailors and clothing). Production was typically initiated when receiving the client order and specialization was at a neighborhood level.

This mode shifted with the arrival of mass producing and mass transportation (especially when warfare II). The costs of mass-manufactured product were dramatically not up to small-lot pliant native product, resulting in market dominance by factory-made product. Marketing also became more organization initiated as products were 1st manufactured and then marketed E-marketing creates a fundamental shift in business and consumer behaviors similar to that related to the introduction of cars and telephones that reduced the requirement for channel immediacy. E-marketing uses the web as a platform that allows organization to adapt to the wants of shoppers, reduces dealing prices, and allows customers to maneuver from time- and location-based behaviors toward non-temporal and non-location behaviors (Watson et al., 2002). E-marketing is comparable to agricultural-age selling, with direct recurring relationships between consumer and producer but with lower costs (Sheth et al., 2000; Sheth and Sharma, 2004).The implementation of e-marketing strategies in international markets adds associate degree magnified level of quality. There are rustications in examining common-marketing ways thanks to the communalities across international markets (Levitt, 1983; Ghosal, 1987; Walters, 1986; Wind, 1986; Yip, 1989; Samiee and Roth, 1992). However, country's infrastructure for e-marketing ways and totally different stages marketing institutional development leads USA to recommend targeted strategic development of e-marketing ways in numerous countries (Quelch and Hoff, 1986; Douglas and Wind, 1987).Our emphasis in this paper is to spot e-marketing opportunities and problems in international markets supported country development. Building on the work done by U.S. we begin the paper by discussing e-marketing advantages of costs and reach in international markets. We then develop a framework for classifying countries supported the "countries infrastructure development" and "countries selling institutional development." Based on this classification, we develop a framework that examines the type of e-marketing ways that may achieve success in numerous international contexts. The implications of the international e-marketing ways on the theory and follow of selling $1^{st}$from the marketers' perspective so from the customers' views are then mentioned. The last section highlights the implications of those endings on selling thought and follow. Research propositions are presented throughout the manuscript. Advantages of e-marketing in international operations the first benefits of e-marketing is reducing prices and enhancing reach. The cost of Associate in nursing e-marketing platform is often not up to different selling platforms such as face-to-face salespeople or middlemen/distributors (Watson et al., 2002). In addition e-marketing permits companies to achieve customers which will not be accessible due to temporal and location limitations of existing distribution channels. E-marketing platforms increase reach and cut back prices by providing 3 areas of advantage for customers. First, the selling company will give unlimited info to customers without human intervention. This is a bonus over different sorts of contact because the quantity of knowledge that may be provided is far bigger than in the other form of communication. It can be provided in a form that customers can easily process and understand. Ex. Train scheduling and reservation systems are very difficult to create and maintain to serve individual needs. It is difficult to provide in any format that is better that the e-marketing or web-based format. Second, the e-marketing company can create interactions by customizing info for individual customers that enable customers to style product and services that meet their specific necessities (Watson et al., 2002). For example, on-line checking and seat assignment will be done on the net. Finally, e-marketing platforms will allow transactions between customers and companies that will generally need human contact as within the case of triple-crown companies like dingle and amazon.com.

9.12 SUMMARY

The promotion of goods and services is an important part of the marketing mix. The purpose of promotion is to inform, persuade, and remind the customer that certain goods and services are available. The four ingredients of promotion are advertising, personal selling, sales promotion, and publicity. An important decision for international advertisers to make is whether the advertising campaign should be standardized worldwide or localized. Arguments for standardized advertising are (1) a successful campaign in one country is likely to be effective in another nation as well and (2) standardized advertising is economical. The argument against standardization is that advertising campaigns effective in some countries are not always effective in others, because of differences in cultural traits, language, economic life, and the like. Personal selling is an important ingredient of any marketing program. The three sources of sales personnel are expatriates, natives, and third country nationals. In the realm of international business, most personal selling jobs are handled by the local management. The head office, however, can provide useful support to local management on such aspects as selection, training, supervision, compensation, and evaluation. In ways similar to domestic marketing, sales promotion and public relations are also relevant to international marketing. An appropriate sales promotion program for an overseas market should be geared to the local environment.

Public relations provide a justification and an identity for the foreign enterprise in the economic sphere of the host country. It is desirable to hire the program. Publicity programs, which give the firm and its products broad exposure to customers and prospects as well as third-party endorsement by the media, provide a cost-efficient use of a limited promotional budget.

The wider is that the company's product combine, the greater will be its strength to deal with its customers directly. Similarly, consistency within the company's product combine ensures bigger homogeneity or uniformity and similarity in its marketing channels.

It is found that international e-marketing methods are basically dynamic, and will continue to change, marketing thought and practice in international markets. The paper suggests that the e-markets of tomorrow could have very little likeness to the markets of nowadays

9.13 SELF ASSESSMENT QUESTIONS

1. Discuss the promotion tools that are available to a marketer who decides to venture in foreign markets?
2. Discuss about the Promotional Strategies.
3. What do you understand by the Communication Process?
4. What are the Promotion Appeals in International Promotional Strategies?
5. Difference between the Publicity and Public Relations.
6. Write a short note on Advertising.
7. Discuss the latest trends in advertising and sales promotion in the international context.
8. Compare and contrast promotion standardization and adaptation.
9. Challenges a marketer face while promoting its products in foreign countries. Discuss.
10. What do you understand about the E-Marketing?

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UNIT-10 FOREIGN MARKETS AND EXPORT MARKETING PROCESS

Unit Framework

10.0 PURPOSE

- To understand the Foreign Markets Processes
- To understand the appropriate mode of Operations
- To understand Export Marketing Processes
- To understand the Export Contracts
- To understand Export Import Policy

10.1 INTRODUCTION

Investments in foreign markets are created to create wealth. As a part of this method, investors should acknowledge the cultural nuances that separate foreign markets from their domestic base. From there, it's essential for you to know however the mechanics of the interchange market have an effect on your bottom line. Lastly, acknowledge effective risk-management techniques to preserve international profits.

Foreign markets introduce accrued populations that may be targeted for higher sales and profits. Overseas markets conjointly would possibly supply an additional accommodating sales setting thanks to fewer entrenched competitors.

Foreign markets are categorized into developed and rising markets. Industrialized nations, like us, Germany and Japan, represent mature markets, with relatively stable political regimes and commercial environments. Emerging markets are known by their higher profit potential and heightened risk levels. Like, Nigeria is associate rising market wherever parts of its well-endowed oil reserves are typically excluded from the worldwide economy thanks to rebel warfare.

Global markets are any markets outside of a company's own country.

Selling in foreign markets involves coping with completely different languages, cultures, laws, rules, rules and needs. Companies trying to enter a replacement market have to be compelled to fastidiously analysis the potential chance and make a market entry strategy.

Exporting product is usually the primary step to coming into a distant market (which will cause putting in a business presence there).

Imports are important for businesses and individual consumers. Countries like Ellen's usually got to import a product that is either not pronto offered domestically or is offered cheaper overseas. Individual shoppers conjointly have the benefit of the regionally created product with foreign parts still as a different product that is foreign into the country. Oftentimes, the foreign product gives additional robust an improved worth or more selections to shoppers, which helps increase their standard of living.

Countries wish to be web exporters instead of web importers. Importing isn't essentially a foul issue as a result of it provides U.S. access to big resources and product not otherwise offered or at a less expensive price. However, rather like consumption an excessive amount of candy, it can have bad consequences. If you import over your export, extra money is going away from the country that is returning in through export sales.

10.2 CHOOSING APPROPRIATE MODE OF OPERATIONS

10.2.1 DECISION ON ENTRY

If the manufacturer is satisfied with the domestic performance & not wishing to go global, export marketing is no more attractive for him. In case of an entry to foreign market being confirmed, the options available for entry are explored & attempted. In view of target market to enter, the firm has to decide the best way of entry. Two alternatives are available.

Direct or indirect entry, Licensing, joint ventures & direct investment should also be studied to determine their feasibility. The firm must be clear on export objectives, planning & policies to ensure safe entry in the foreign market. Targets are to be set, export efforts are to be put in and the performance is to be reviewed to justify the entry. As different nations pass through different stages of development, the type of country to enter for export purpose should be selected carefully.

10.2.2 DECISION ON MARKET

If entry to export markets is determined & planned, the next decision area is to know where to export. The whole world may be the market for the firm's products but it is neither possible nor feasible to reach. Thus, it is important to have a proper & judicious selection of markets where in the products can perform best. The primary task, here is to gather relevant information from several sources and on careful data evaluation, a promising market should be chosen, It is advisable to tiny fewer markets. For selecting a foreign market several factors like political stability, exchange regulations, availability of export related assistance, product categories used, physical distance, market accessibility & business environment need careful study & scrutiny.

10.2.3 DECISION ON MARKETING MIX

For reaching the target market, effective marketing mix is designed and implemented. The key elements like product, price, promotion &distribution are evaluated on international perspectives and suitable strategies among them are carved out. Review of the prevailing marketing environment in foreign countries helps the firm to determine the adaptability of these strategies. These may be standardized strategies evolved to apply to all foreign markets or the customer made to suit the unique requirements of a particular foreign country. The strategies are flexible enough to cope with the diversity of environment of different countries. Finer matching of marketing mix with the overseas market ensures a large market share & stable return for the exporters.

10.2.4 DECISION ON MODE

For successful marketing selection of right mode of entry is essential. However, it is not a simple task. Direct exporting is costly &risky as well simply because exporters have to all the botheration of business. At the same time it would mean entitlement of export benefits, incentives and exposure. Indirect exporting would mean approaching world market through a merchant or agent middlemen where in the role of firm is that of supplier without carrying any export related risk. Factors like resources mobility, financial standing, infrastructure facilities, readiness to accept risk and philosophy of management will determine which mode of entry to select.

Most of the business organizations are quite successful in their own country as they operate in the framework of resources & constraints prevailing there. Somehow, their thinking and behavior are largely influenced by this background. But to earn success in the export marketing, the firm should be skilled & competent enough to take itself away from the domestic environment & adopt a new environment of foreign market, understand business practices, export related rules &regulations, customers' profile & competitive base and plan on the strategy of export. Thus, export marketing needs a different dimension to study and focus.

What is required for a potential exporter is to comprehend international environment as much as possible to facilitate export related activities. He must understand various terms used in international business, receiving proceeds, from export transaction & acquire a good level of knowledge on packing, inspection, shipping, insurance and port formalities. The volume of orders in export businesses is huge & thus, the production capacity of the domestic manufacturer should be sufficient to entertain such big offers. Export marketing is viewed on a global phenomenon in which citizens of different countries try to achieve higher standards of living.

10.3 ISSUES RELATED TO EXPORTS

A firm faces many difficulties when it attempts to reach overseas markets. These may be found in the areas like identifying & measuring the potentials of foreign markets, devising & positioning the export marketing mix in target areas & management of various kinds of risks. Export firms have to understand as precisely as possible to minimize them. These difficulties are listed below.

a) Language :

People world over are using different languages to communicate and transact business. Even within the territory of a country, language diversity is visible. For successful export marketing operations, knowledge of foreign language is essential as the major activities like export correspondence; documentation & promotion are to be performed in the specified language for better understanding. Product brochure, catalogues & price quotations are to be designed in the language prevailing in a desired market overseas. If languages barrier is different to overcome, translators are hired. People like their language tasty, export market activities need through understanding on how it is written & spoken in the foreign markets.

b) Distance :

It would be easy for a firm to trade with neighboring countries if cordial political relations exist. Easy proximity of the foreign market is enjoyed. Exporting to the nearby countries is beneficial from cost& distribution point of view. However, the underlying fact is that the firm has to offer the products wherever the demand prevails irrespective of the geographical distance. Some countries are far away but they show highest potentials. But it is difficult to establish quick & close trade contacts with them & streamlining export marketing is a serious concern. With increasing distance, the risk in export marketing goes up generally. Personal meeting of both the parties is rare & a wide gap prevails in placing order & actually receiving goods. A close surveillance on export markets is difficult due to longer distance.

c) Uncertainty & Risks :

International business environment keeps on changing increasing the level of uncertainty. Political instability, terrorism, economic disaster, ethnic disturbances, cultural hostilities, unrest, and crisis on monitory & payment systems - all add to uncertain business environment. Export marketing also becomes risky when dealing with those countries facing lot of turbulences. The firm carries a very high level of risk - transit, inventory, rejection or payment.

d) Different Currencies :

World over nations have their own monitory systems & currencies in which domestic trade is affected. The value of these currencies differs in relation to other currencies making it difficult to collect the proceeds of exports. The foreign exchange rates fluctuate in the international market creating difficulty for a firm to calculate the sales amount. The political governments or market forces determine over or under valuation or adjustment of rates of several currencies.

As an exporter, fluctuations on this front should be studied continuously. Some of the currencies are commonly used in the world market like U.S. Dollar, Pound Sterling, Marks & Yen and exporting community prefer them for transactions. To some what extent, this move offers comfort to the exporters. For the payment of imports, again, the question of currency arises,

e) Tariff Barriers :

In order to achieve a favorable balance of payment, many countries follow a policy of boosting exports & restricting imports.

This policy is implemented with the main objective of protecting domestic industry & encoring the consumption of domestic goods, custom duties, taxes, levies & other tariff barriers are imposed on imports. Besides, non-tariff barriers like quotas, licensing &exchange control are practices to restrict the inflow of foreign goods in home country'. On several times, dumping is effected by selling products at an unrealistic low price to jeopardize home economy is regulated by imposing anti dumping duties.

10.4 PROCESSING AN EXPORT ORDER

Therefore, it looks pertinent currently to create you learn the assorted steps' concerned within the process of associate degree export order.

These are listed as follows:

1. **Having an Export Order :**

   Processing of associate degree export order starts with the receipt of associate degree export order. There should be an agreement in the form of a document, between the exporter and importer before the exporter actually starts producing or procuring goods for shipment. Generally associate degree export order could take the shape of pro form an invoice or order or letter of credit. You have already learnt these simply within the preceding section.

2. **Examination and Confirmation of Order :**

   Having received associate degree export order, the exporter should examine it with reference to the terms and conditions of the contract. In fact, this can be the foremost crucial stage as all future actions and reactions depend upon the terms and conditions of the export order.

   The examination of associate degree export order, therefore, includes items like product description, terms of payment, terms of shipment, inspection and insurance requirement, documents realizing payment and the last date of negotiation of documents with the bank. Having being happy with these, the export order is confirmed by the exporter.

3. **Manufacturing or Procuring Goods :**

   The banking company of Asian country (RBI), under the export credit (interest subsidy) scheme, extends pre-shipment credit to exporter to finance working capital needs for purchase of raw materials, processing them and changing them into finished product for the aim of exports. The businessperson approaches the bank on the idea of ordered down procedures for the pre-shipment credit. Having received credit, the businessperson starts to manufacture / procure and pack the products for cargo overseas.

4. **Clearance from Central Excise :**

   As before long as product are manufactured/ procured, the method for getting clearance from central excise duty starts. The Central Excise and Sale Act of Asian country and also the connected rules offer the refund of excise duty paid. There are 2 various schemes whereby one hundred per cent rebate on duty is given to export product on the submission of the proof of cargo.

The first theme is to create payment of the excise duty at the time of removing the export consignment from the manufacturing plant and file a claim for rebate of duty after exportation of goods. The second theme is to get rid of product from factory/warehouse while not payment however beneath associate degree applicable bond with the excise authorities. The exporter needs to apply on a form known as AR4 or AR4A to the Central Excise Range Superintendent for obtaining excise clearance.

Form A is filed once product area unit to be cleared once examination by the excise inspector. In all other cases, form AR4A is filed.

5. Pre-Shipment Inspection :

There are variety of-goods whose export needs quality certification as per the govt. of India's notification. The custom authorities will require the submission of an inspection certificate issued by the competent and designated authority before permitting the shipment of goods takes place.

Inspection of export goods may be conducted under:

(i) Consignment-wise Inspection

(ii) In-process Quality Control, and

(iii) Self-Certification.

The Inspection Certificate is issued in triplicate. The original copy is for the customs verification. The second copy of the certificate is distributed to the businessperson and also the third copy remains with the businessperson for his reference purpose.

6. Appointment of Clearing and Forwarding Agents :

On completion of the method of getting the review Certificate from the custom agencies, the businessperson appoints clearing and forwarding agents WHO perform variety of functions on behalf of the exporter.

The main functions performed by these agents embrace packing, marking and labeling of consignment, arrangement for transport to the port arrangement for shipment overseas, customs clearance of cargo, procurement of transport and other documents.

In order to facilitate the businessperson in discharging his duties, the subsequent documents area unit submitted to the agent:

(i) Commercial invoice in 8-10 copies

(ii) Customs Declaration Form in triplicate

(iii) Packing list

(iv) Letter of Credit (original)

(v) Inspection Certificate (original)

(vi) G.R. Form (in original and duplicate)

(vii) AR4/ AR4A (in original and duplicate)

(viii) GP-l/GP-2 (original)

(ix) Railway Receipt/Lorry means Bill, because the case is also

7. Goods to Port of Shipment:

After the excise clearance and pre-shipment review formalities are completed, the products to be exported are packed, marked and labeled. The export department takes steps to order are on the ship through that product are to be sent to the businessperson.

The shipping are may be reserved either through the clearing and forwarding agent or freight broker WHO works on behalf of the company or directly from the company. Once the area is reserved, the shipping company issues a document known as Shipping Order. This order is an indication of area reservation.

If product area unit sent through a road carrier to the port, no specific formality is concerned. In case, the products are sent by rail to the port of cargo, allotment of wagon needs to be obtained from the Railway Board.

The following documents area unit submitted to the booking railway yard/station:

(i) Forwarding Note (A Railway Document)

(ii) Shipping Order

(iii) Wagon Registration Fee Receipt

Once wagons are assigned, goods are loaded, for which railways will issue Railway Receipt (RR). Then, this receipt and different documents are sent to the clearing and forwarding agent at the port city. At a similar time, the production/export department takes insurance in duplicate for risk coverage (internal furthermore as overseas) for the products to be exported.

8. Port Formalities and Customs Clearance:

Having received the documents from the export department, the clearing and forwarding agent takes delivery of the payload from the terminal or the road transport company and stores it in the warehouse. He conjointly obtains customs clearance and permission from the port authorities to bring the payload into the cargo shed.

The custom department grants permission for export at the workplace of the customs and physical verification of products within the cargo shed.

The clearing and forwarding agent is needed to submit the subsequent documents with the Customs House for getting customs clearance and permission:

(i) Shipping Bill

(ii) Contract Form

(iii) Letter of Credit, if applicable

(iv) Commercial Invoice

(v) GR Form

(vi) Inspection Certificate

(vii) AR4/AR4A Form

(viii) Packing List, if needed

Later on documents from the export department, the clearing and forwarding agent presents the Port Trust Document to the Shed Superintendent of the port. He obtains truck age order conveyance the payload to the transit shed for physical examination by the Dock Appraiser.

The Dock Appraiser is given the subsequent documents to facilitate him in physical examination of export goods:

(i) Shipping Bill

(ii) Commercial Invoice

(iii) Packing List

(iv) AR4/ AR4A Form and Gate Pass

(v) GR Form (duplicate)

(vi) Inspection Certificate (original)

The 'Let Export' endorsement on the duplicate copy of the Shipping Bill and hands over it to the Forwarding Agent. All these documents area unit given to the Preventive Officer UN agency puts associate degree endorsement 'Let Ship' on the duplicate copy of the Shipping Bill. The preventive officer supervises the loading of payload on board the vessel.

After the products area unit loaded on board the vessel, the captain of the ship problems a receipt referred to as 'Mate's Receipt' to the

Shed Superintendent of the port concern. The forwarding, agent once paying port charges, takes the delivery of the 'Mate Receipt'. He submits to company and requests it to issue the Bill of freight.

9. by Forwarding Agent to the Exporter :

After getting the Bill of freight from the company, the clearing and forwarding agent dispatches all the documents to his / her bourgeois.

These documents include:

(i) Commercial Invoice (attested by the customs)

(ii) Export Promotion Copy

(iii) Drawback Copy

(iv) Clean on Board Bill of Lading

(v) Letter of Credit

(vi) AR4/ AR4A and Gate Pass

(vii) GR Form (in duplicate)

10. Certificate of Origin :

On receipt of on top of documents from the forwarding agent, the bourgeois currently applies to the Chamber of Commerce for a Certificate of Origin and obtains it. If the products area unit exported to countries giving GSP concessions, the bourgeois must procure the GSP Certificate of Origin from the involved authority like Export review Agency.

11. Dispatch of Shipment Advice to the Importer :

At last, the bourgeois sends 'Shipment Advice' to the bourgeois intimating the date of cargo of the consignment by a named vessel and its expected time of arrival at the destination port of the importer.

The following documents are sent to the bourgeois to facilitate him for taking delivery of the' consignment:

(i) Bill of Lading (non-negotiable copy)

(ii) Commercial Invoice

(iii) Packing List

(iv) Customs Invoice

12. Submission of Documents to Bank:

At the top of the method, the bourgeois presents the subsequent documents to his bank for realization of his quantity because of the importer:

(i) Commercial Invoice’

(ii) Certificate of Origin

(iii) Packing List

(iv) Letter of Credit

(v) Marine Insurance Policy

(vi) GR Form

(vii) Bill of Lading

(viii) Bill of Exchange

(ix) Bank Certification

(x) Commercial Invoice

13. Claiming Export Incentives :

On completion of the process of associate degree export order at the 3 levels of cargo i.e., pre-shipment, cargo and post-shipment, the bourgeois claims for export incentives permissible to him / her.

10.5 ENTERING INTO EXPORT CONTRACT

Export Contract ought to be specific as attainable and with none ambiguity concerning the precise specification of products and terms of sale as well as export worth, mode of payment, storage and distribution method, styles of packaging, port of cargo, delivery schedule, etc. All theses “terms” have a special connotation and which means in International trade that should be understood by the parties (seller & buyer).

1. Product Standards and specifications : the primary necessary part of a bourgeois contract is to expressly state the subsequent:

   - Product name including technical name
   - Sizes, if any in which to be supplied
   - Standard Specifications national or International or
   - Per specific needs of client or
   - Because the sample approved by him.

2. Amount : place the amount each in figures and words clearly specifying whether or not it's in terms of number, weight or volume. If the number refers to product by weight or measuring, specify the character of a similar.

3. Review : Whereas variety of products square measure currently subject to pre-shipment review by selected agencies, the foreign client should stipulate his own conditions and manner of review by any other agency. Hence the parties should clearly states in their contracts the character, manner, aspects and therefore the agency for review of products, different from those laid down under the Quality Control and Pre–shipment inspection rules.

4. Total worth of the Contract : the full worth of the contract might also be place in each figures and words specifying the currency together with the name of the country.

5. Terms of Delivery : conjointly referred to as variety of worth, terms of delivery ought to be clearly incorporated within the contract. It could be f.o.b., c.i.f., c&f. etc.

6. Taxes, Duties and Charges : The taxes, duties and charges with reference to exportation of products square measure unremarkably a region of worth i.e. terms of delivery quoted by seller. Similarly such levies, if any within the country of importation square measure to be account of the customer.

7. Amount of Delivery/cargo : As distinguished from terms of delivery, amount of delivery/shipment relates to the particular dates of delivery/shipment. In addition, it should be place of dispatch and delivery as a result of if it's not selected; the place of the business of the vendor is typically deemed to be the place of delivery. It also depends upon the terms of delivery. Moreover, it ought to be processed whether or not the time for delivery can run from the date of the contract or from the date of receipt of the advance cash by the seller or from the date of receipt of the notice of provision of the import license by the vendor, etc. The importers invariably fire a firm date of the receipt of the products at the port within the country great, whereas thanks to sure circumstances on the far side the control of the bourgeois the products don't reach the port of destination within the timeframe mentioned within the contract. Hence the bourgeois ought to ensure that the L/C or contract ought to have specific date of dispatch from the country of origin, instead of the arrival date within the country of import.

8. Half cargo/Transshipment/Consolidation by load theme : The contract should clearly state whether or not half shipment / transferrable square measure specified by the parties. In the absence of such stipulations, disputes usually arise once the bourgeois is change to ship the products in one ton or on to the port of delivery. Also indicate the port of transferrable and therefore the range, if any half cargo specified. In case the products square measure possible to be sent below the Consolidation of Export – load theme, do build a relevancy a similar within the export contract.

9. Packing, Labeling and promoting : The bourgeois contract should be specific as attainable regarding the kind of package and particulars labels and marking needs. These needs square measure unremarkably quite totally different just in case of export consignments and intrinsically involve extra price necessitating and upward revision in export costs. The language, color of labels and even marking ought to be taken care as of needed by the customer.

10. Terms of Payment – quantity, Mode and Currency : The mode and manner of payment for the products to be exported vary from contract to contract relying upon the terms settled between the parties. While quoting totally different payment terms, the bourgeois ought to specify on whether or not the costs square measure supported current rate of exchange of the rupee on the idea of another currency say North American country dollar or the other currency.

11. Discounts and Commissions : relying upon the supply of export enquiry and therefore the negotiator concerned, if any within the execution of an order the contract ought to specify the quantity of discount / commission to be paid and by whom i.e. by exporter or importer. The basis of calculation of commission and rate of a similar might also be clearly stipulated. The commission / discount could or might not be enclosed within the export worth to be quoted / in agreement by the bourgeois / bourgeois.

12. Licenses and Permits : unremarkably all exporter/importer dealings involve getting the licenses and permits/quotas to the export/import within the country of exportation/importation. The problem with relevancy import licenses within the buyer’s country is someday additional outstanding and acute in several developing countries.

10.6 EXPORT PRICING AND COSTING

Pricing associate degreed cost accounting are 2 various things and a businessperson mustn't confuse between the two. Price is what associate degree businessperson supply to a client on explicit product whereas price is what associate degree businessperson purchase producing a similar product.

Export rating is that the most vital think about for promoting export and facing international trade competition. It is necessary for the businessperson to stay the costs down keeping in mind all export edges and expenses. However, there's no mounted formula for prospering export rating and is take issue from businessperson to businessperson relying upon whether or not the businessperson could be a bourgeois businessperson.

Determining Export Pricing Export rating is often confirmed by the subsequent factors:

- Range of products offered.
- Prompt deliveries and continuity in supply.
- After-sales service in product like machine tools, durables.
- Product differentiation and brand image.
- Frequency of purchase.
- Presumed relationship between quality and price.
- Specialty value goods and gift items.
- Credit offered.
- Preference or prejudice for product originating from a selected supply.
- Aggressive marketing and sales promotion.
- Prompt acceptance and settlement of claims.
- Unique value goods and gift items.

10.6.1 EXPORT COSTING

Export Costing is basically Cost Accountant's job. It consists of fixed price and variable cost comprising numerous parts. It is better to organize associate degree export cost accounting sheet for each export product.

As regards quoting the costs to the overseas purchaser, a similar are quoted within the following internationally accepted terms that are ordinarily called Inco term.

10.7 EXPORT-IMPORT (EXIM) POLICY, 2002-2007

Turning with the ongoing process of reforms & liberalization in the economy, the Government announced new EXIM policy 1997-2002.

The new export & Import policy 1997-2002 focuses on giving a major thrust to acceleration of India’s exports through restructuring &revamping of various exports promotion schemes & wide ranging measures for simplification & streamlining of procedures. This is an attempt to make the framework & procedures more transparent & simple to administer. The new EXIM policy emphasizes continuing the process of trade reforms &trade liberalization for higher growth in export. It also aims to reduce procedural bottlenecks by minimizing discretionary controls, thereby allowing free environment for exporters to operate. The policy aims at improving global competitiveness.

The duration of the policy which used to be yearly initially was subsequently extended to three years. How were, in the post liberalization era, the policies of 1992-97 and 1997-2002 cover a period of five years for facilitating the formulation of production planning & marketing strategy for export & import by the business firms.

The new EXIM policy 1997-2002 include a pruned dominate items shifted to OGL, DEPB schemes among others.

1. The new policy focuses on a free trade regime by removing the initiative restrictions on a number of items including consumer items as well. Import of about 340 items has been making liberal in undine about 99 items which can now be imported against special Import licenses (SIL). Many items to be import through SIL route have been moved to free list.

2. The new policy 97-2002 brings change in case of 340 items which can be imported freely. These include a wide variety of consumer electronic items, sea food items, and agro& food items. There items can now be freely imported into the country under open general licenses. As a part of meeting the requirement of WTO, these items have been removed from restricted list.

3. In case of DEPB scheme, time limit for filing post export DEPB claim has been raised from 90 days to 180 days. Nov/, new special custom duty will be taken into account for the purpose of calculating DEPB rates.

4. The new EXIM policy covers important measures to encourage export of agriculture & allied products. In this regard, there quirement of minimum web interchange earning of 2 hundredth is done away with. The threshold limit for this sector for EPCG has been brought down 5 corers to 1 corer. In case of food processing sector, the limit was brought down to 1 crore. Exports of all oil seeds for consumption purpose are made free without any initiative restrictions. Recognizing the vast scope of agro exports, the need for long then stable agriculture export policy is acknowledged to establish the country as a reliable supplier in the global market. In view of export potentials of floriculture & horticulture products, a stable of export policy is called for. The export growth of these sectors is expected to provide vast employment in rural areas.

5. The new EXIM policy aims at dealing with the dumping issue.

   Accordingly, the new anti dumping directorate set up by the Government is expected to investigate anti dumping cases with the primary responsibility of recommending anti dumping duties when import are affecting the domestic industry.

10.7.1 THE OBJECTIVES OF THE POLICY ARE

a) To accelerate the country's transition to an internationally oriented economy with a view to drive maximum benefit from the expanding global market opportunities.,

b) To augment the productivity, modernization, and competitiveness of Indian agriculture, industry and services and thereby to enhance their export potential and capabilities.

c) To encourage the attainment of internationally accepted standards of quality and thereby improve the image of India's products abroad;

d) To stimulate India's exports by facilitating access to require raw materials intermediates, components, consumables and capital goods from the international market;

e) To encourage efficient and internationally competitive import substitution within liberalized framework of foreign trade.

f) To import greater transparency in the export import policies and eliminate or minimize quantitative restrictions, licensing and other discretionary controls.

g) To strengthen and stimulate the country's Research and Development capabilities.

h) To conserve the forest and wildlife of India and assist efforts towards the preservation, protection and promotion of a healthy eco-system for ensuring balanced and sustainable development.

i) To simplify and streamline the procedure governing exports and imports.

j) To provide consumers with food quality products at reasonable prices. Major provision of the policy for realizing the above objectives are:

A. Export promotion of capital Goods scheme

B. Duty Exemption Scheme

C. Diamond, Gem and Jewelers Export promotion schemes.

D. Export oriented units, FTZ/EPZ EHTP and STP schemes.

E. Deemed Export status

F. Export house and trade house status for merchant exporters.

G. Export promotional councils.

H. Incentives for promotion of qualify.

I. Negative lists for exports and imports.

- ❖ Consular Invoice : A document that covers all the usual details of the commercial invoice and packing list, prepared in the language of the foreign country that merchandise are destined, on special forms obtainable from the consulate or authorized commercial printers.
- ❖ Bill of Lading : A document that is issued to a shipper by a carrier, listing the goods received for shipment.
- ❖ Export License : A document that grants government permission to ship certain products to a specified country
- ❖ Certificate of Origin : A shipping document that determines the origin of products and is usually validated by an external source, such as chamber of commerce; it helps countries determine the specific tariff schedule for imports.
- ❖ Distribution : The course— physical path or legal title— that goods take between production and consumption.

10.8 SUMMARY

Export markets provide a unique growth opportunity, but competition in these markets is fierce. Business persons, therefore, should adopt appropriate marketing strategies to conduct export trade profitably. They should be aware of attractive markets, specializing in the export of products where business has a lead, adopt private measures to strengthen their competitive position in relation to foreign competitors and develop an appropriate orientation for managing an export business.

Procedurally, exporting requires locating customers, obtaining an export license from the government (a validated or a general license), collecting export documents (such as a bill of lading, commercial invoice, export packing list, insurance certificate), packing and marking product, shipping product abroad; and receiving payment. Methods of receiving payment include cash in advance, open account, consignment sale, draft, and letter of credit. Of these, the latter two are the most popular.

There are only 2 strategies to be adopted for attracting the foreign markets – one is producing goods of high quality and durability and the other is to fix a competitive price in the export market. In this connection we may recall the famous Devaluation of Indian Rupee on 6th June 1966, reducing voluntarily the value of one Indian Rupee by 36.5 per cent; this is for the export market only. The price paid should be equal to the satisfaction obtained, a per the concept of ―consumer‘s surplus. The pricing decision depends upon the environment, especially the political environment. A ―price-marker in the domestic market is the ―Price-taker‖ in the export market. Various trade agreements help the global community to help each other in international trade.

10.9 SELF ASSESSMENT QUESTIONS

1. Define export marketing. What are the different modes or entry strategies for export marketing?
2. Which types of documents are used in export marketing? Explain in brief.
3. What do you understand by Foreign Markets?
4. What are the modes of operations?
5. Discuss the processing procedure of an Export order.
6. What do you understand by Export contract?
7. Difference between Export pricing and costing.
8. Explain the Export- Import policy.
9. What are the issues in Export Marketing?
10. Write short note on:
    i. Market logistics.
    ii. Export procedure.
    iii. Cargo insurance.

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UNIT-11 EXPORT MARKETING DOCUMENTATION

Unit Framework

11.0 PURPOSE

- To understand the Export Marketing Documentation
- To understand the Significance of Export Documentation
- To Understand the Disposal of Export Documentation
- To understand the Major Documents involved in Export Marketing
- To understand the Declarations forms

11.1 INTRODUCTION

Documentation is incredibly vital to maneuver merchandise moreover as payload to the international selling. It adds additional cost to the total cost of goods sold. In most of the cases the marketers find it a lot of sensible to depart the physical distribution of products to the technically specialist agency. For example many multinational like IBM is having its business activities in many countries across the world market. The company takes help of the specialized agencies for the distribution of its products throughout the world market. It is for the international direct marketers to make it certain that their channel of distribution is convenient for their customers.

For example in the European Union the transportation of the products has become very easy and more efficient. Further the steps at international borders in those countries are limited to checking on legal matters only. It may be to check the illegal immigrations and dug trafficking. Even in some of the counties of European Union, people are free to move within the Union states without showing passports.

Further the different nations in the world market are also working towards automated customs and minimum or paperless custom procedure in the international market, as to facilitate the frequent cargo movements. The customs co-operation council has also approved a system, which will facilitate the custom administration to work towards electronic data interchange. The main body in this regard is a United Nations supported group called by the name of Electronic Data Interchange for Administration,

Commerce and Transport (EDIFACT). The use of latest electronic trading technology will improve the speed and efficiency of world trade and data significantly.

In Export market, a company is to insert the proper identification number to its products so as to fill out the required formalities of documentation. If a product is made of several materials, it ought to be classified thereupon material that represents its main characteristics.

11.2 THE SIGNIFICANCE OF IMPORT EXPORT DOCUMENTS

A common locution is that commerce and commercialism has next to zilch to try to with product and everything to try to with import export documents! It sounds like an exaggeration, but unfortunately it’s true! The importance of correct work can't be overdone properly managing commerce commercialism. If you’re the kind of one that simply can’t stand addressing work for your import export documents, may we suggest that you hire someone who can! Documentation is that the cornerstone of international trade and also the lifeblood of creating a living from it.

11.2.1 SOME VARIATION IN THE IMPORT EXPORT DOCUMENTS REQUIRED

There is typically some variation within the Import Export documents documentations needed for trade from country to country however they’re bound to embrace the following:

Purchase order – It feels like a business demand however it's going to be required for finance. The purchaser may need to show the order to his bank to organize a temporary loan or customs may want to see the paperwork to make sure everything is valid.

Letter of credit – this is often used for creating payments for foreign product, once the necessary import export documents are handed over. A letter of credit essentially says that the importer's bank guarantees to pay provided all the papers stipulated in it area unit so as.

Shipment documents – a bill of lading is needed for sea shipments or an airway bill when goods are sent by plane, as proof that the goods have been sent by the supplier.

Certificates of origin – Several countries have restrictions on the learn import of goods from certain other countries, and may apply tariffs to these goods or ban them altogether. Alternatively, there may be tariff benefits accorded to goods from specific supply sources. In such cases, a learn export will need to submit a Certificate of Origin, which is endorsed by a designated regulatory authority.

Quality or scrutiny certificates – if the client specifies associate scrutiny before cargo, these are paramount to making sure the deal is confirmed.

Packing list – The list of all of the cartons among the instrumentality and also the contents among.

Invoice – The most important document, make sure that a full summary of goods is outlined and it's invoiced in the currency of sale.

Documentation :

When it comes to national or international transaction, documents are prerequisite. Carrying and delivery of documents have become a part of logistical services. For any company actively involved in foreign trade, the increased documentation requirement is a commonly heard complaint. Handling the amount of documentation required for international shipments can be a burden for even companies with sophisticated logistics management.

11.3 THE STATUTORY CONTROL

A businessperson needs to follow strictly the regulation of each the commerce country likewise as that of the commerce country. For example, there is exchange control in India. Therefore after we export merchandise, we've got to administer associate enterprise to the run that we have a tendency to shall notice the exchange instead of the products exported. We do that by submitting GR type, and it is obvious that we cannot export unless we submit this document. Then there are sure commodities that area unit subject to export regulation. We have to get a license for commerce the controlled commodities. Thus, another document has necessarily to be used. In order to create up a picture of Indian merchandise abroad there's a system of required pre-shipment review and internal control of variety of export merchandise. The exporter has to obtain an inspection certificate. This gives rise to still another document. There is variety of commerce countries that stipulate that the businessperson should submit sure such that documents punctually certified by their missions within the commerce country. This condition makes it essential the employment of the diplomatic building invoice and in some cases the employment of the legalized invoice. There are countries specially the Commonwealth countries and conjointly those developed countries that have offered concessions to the developing countries underneath the Generalized System of Preferences that demand that the exporters must submit a certificate of origin. Thus, the businessperson needs to submit GR type, export licence inspection certificate, consular invoice, legalized invoice and certificate of origin. These are examples of regulatory documents.

The Export Administration Regulations (EAR) is implemented by the Bureau of Industry and Security (BIS) within the Department of Commerce. The EAR regulates the export of “dual use” merchandise and services (goods and services having each military and civilian uses) that area unit known on the Commerce management List (CCL). These area unit things that don't seem to be inherently military in nature; they're primarily business things with potential military uses.

The International Traffic in Arms laws (ITAR) area unit enforced by the State Department’s board of Defense Trade Controls (DDTC). These laws apply to articles, services, and connected technical information that area unit inherently military in nature, as determined by the State Department. These “defense articles,” "defense services,” and connected “technical data” are listed on the U.S. Munitions List (USML).

Some articles and technologies don't seem to be without delay recognizable as inherently military in nature—for example, research satellites or small, research submersibles—are included on the USML.

The Treasury Department’s workplace of Foreign Assets management (OFAC) implements the economic and trade sanctions and, based on U.S. foreign policy and national security goals, targets foreign countries, terrorists, international narcotics traffickers, and people engaged in activities associated with the proliferation of weapons of mass destruction. The university typically encounters issues arising under the OFAC regulations when researchers engage in collaborations with foreign nationals overseas or seek to teach classes or perform research in foreign countries.

11.4 DECLARATION FORMS

The declaration type GR (in duplicate) shall be submitted in duplicate to the Commissioner of Customs. After punctually collateral and authenticating the declaration type the Commissioner of Customs can forward the initial type to the closest workplace of the banking company. The duplicate type is handed over to the businessperson for being submitted to the licensed dealer with whom the export document is negotiated.

The declaration type PP (in duplicate) shall be submitted to the licensed dealer in interchange named within the type. The licensed dealer shall countersign on the type and fork out the initial form to the businessperson. The businessperson can submit the shape to the communication authorities through that the products are being dispatched. The communication authorities when dispatch of the products shall forward the declaration type to the closest workplace of the banking company of Bharat. On realization of export issue, the authorized dealer shall after due certification submit the duplicate form to the nearest office of the Reserve Bank.

11.5 DISPOSAL OF EXPORT DOCUMENTATION FORM

The customs clearance for commercial cargo refers to the process that involves the clearing' of goods through the customs barriers for importers and the exporters (usually businesses). This process however involves the preparation of documents and or the electronic submissions, for the purpose of calculation and also for the payment of taxes, duties and goods and also service tax.

In order to complete the clearance process , shipping documents are thus required and the type of documents which are needed for importing or exporting of transactions usually depend on the type of goods which the businessman have. In many cases, the process of documentation may also vary depending on the country of origin or its destination. Thus, the documents might get to be ready during a specific method so as to befit the wants of the import or the export country.

As a rule of thumb, a standard procedure for importing or exporting of transaction usually requires a commercial invoice, a quarantine packing declaration, a packing list, bill of Lading and also insurance certificate, and this depends on your Inco terms.

Customs Clearance is however mandatory for any kind of import export business. In order to get Custom Clearance, shipping documents are necessary and this depends on the type of cargo.

The documents required are as follows :

Commercial Invoice: the very first document which gives details about the contents of the goods. Exporter needs this document in order to obtain an inspection certificate.

Bill of lading: this document is an acknowledgement of the fact that the mentioned goods are either in the process of shipping or that the shipment is complete. In different words, it is an evidence of the contract of transport.

Bill of exchange: it's addressed to the businessperson so as to form payment either on demand or at a hard and fast or determinable future.

Letter of Credit: this letter gives the exporter more security than a bill of exchange.

Shipping Bill: After preparing of the invoice which is based on a purchase order or Letter of Credit, an exporter needs to prepare the documents well in time. He will rent a custom factor or will do himself. Normally, to make the work easier, customs agents are hired who submit this shipping bill through custom online software system. The generation of shipping bill variety is consistent with the serial order everywhere the country. ICEGATE works for 24*7 in order to accomplish smooth working of Customs Clearance.

Following documents are necessary for getting the shipping bill :

GR Forms (in duplicate) for cargo to any or all the countries.

Four copies of packing list portraying contents, quantity, the gross and net weight of each package.

Four copies of invoices that contain all relevant details sort of a variety of packages, quantity, price, correct specification of goods etc.

Purchase Order, Letter of CreditAR4 (both in original and duplicate) and invoice Examination Certificate

After this, the generation of prints of shipping bill takes place. There you get three copies :

One for the Exporter Second is exchange management copy for the depository financial institution of India. It is submitted with RBI through exporter's authorized bank. RBI desires this copy to stay a check on interchange.

Third is for shipping carriers to require the freight to final destination.

On these written copies, the involved custom officers then place their signatures and come it to the businessperson or customs agents. After movement of goods, shipping carrier files Export General Manifest (EGM) with the Customs Department and on the basis of this, the department issues a proof namely, Export Promotion Copy.

Let Export Order– after verifying all the information and conducting an examination procedure, Custom Department issues 'Let Export Order' as a proof of completion of the Customs Clearance procedure.All exports to that the need of declaration applies should be declared on applicable forms. These forms are as follows:

GR type (in duplicate): its accustomed export to all or any countries aside from Asian country and Kingdom of Bhutan.

PP type (in duplicate): its accustomed export to all or any countries aside from Asian country and Kingdom of Bhutan by mail.

SOFTEX type (in triplicate): it's accustomed export laptop software system in non-physical type.

SDF type: The Statutory Declaration Form (SDF) is needed just in case of exports wherever shipping bills are electronically processed.

House to be used of the competent authority (i.e. Custom/SEZ) on behalf of Ministry concerned: Certified, on the basis of above declaration by the Custom/SEZ unit, that the Goods described above and the export value declared by the exporter during this kind is as per the corresponding invoice/gist of invoices submitted and declared by the Unit.

11.6 MAJOR DOCUMENTS

There are many sorts of documentation within the export market.

11.6.1 SHIPPING DOCUMENTS

The shipping documents are prepared to move the shipments. They are prepared as to fill up the customs needs and conjointly to permit the shipment to be loaded, shipped and finally unloaded. All the requirements for shipping, loading and unloading are to be fulfilled and mentioned upon. There are many types of shipping documents. There can be explained as under:

(i) **Export License** : An export license is a permission which allows an exporter to export its merchandise. It is needed for all kind of exports. In the U.S., there are two types of export license procedure: (i) General License, (ii) validated license.

(ii) **General License** : A general license is a permit for which no application is required. It is allow that no document or any kind of other authorization is granted. It is general kind of permission of export of certain commodities or some kind of other technical data, without applying for a license document. It allows the export of all those kinds of goods published in an authorizations list and also covers the export of those commodities not under restriction or control. Those products which meet the specific parameters will be shipped by putt General License image on the shipper’s export declaration.

(iii) **Valid Export License** : it's a proper authorization document that a bourgeois could apply if he fails to qualify for a general license. The United States require this type of licensing for the strategic commodities and for the technical significance.

Under such systems of foreign policy controls the restriction are placed on export to certain countries. Further in certain circumstances of short-supply controls, the licenses are given on to keep an eye to prevent the depletion of strategic and scarce resources of the country. The most of the products are exported and shipped under individual validated export license. It authorizes an individual sale of certain commodity to the certain buyers in the certain country, while the Special License permits the sale of a certain rank of products to certain buyers in the certain countries. It is carried out if the exporters satisfy that they have introduced a strict control process.

Further the technical data is also subject to the export control process. The technical information or data can be used in the production, designing, or reconstruction etc. The export of such types of information requires a validated export license. It is pertinent to mention here that the technical data can be exported under one of the two technical data general licenses.

As way as export controls are involved it will be co-ordinate at the international level frequently. In United States most of the export controls are multilateral controls. They are maintained with the co-operation with other countries.

11.6.2 SHIPPER'S EXPORT DECLARATION FORM

The shipper's export declaration form is to be filed for all shipments. It should be deposited with an exporting carrier. The shipper's export declaration form is a multipurpose document. Generally it serves the following purposes:

(i) It serves as an export control document.

(ii) It is helpful to administer the requirements of the Export Administration Act.

(iii) It assists the Bureau of Census by providing statistical information on export shipments.

11.6.3 PACKING LIST

A packing list is a document which contains all the detail about the merchandise. The packing list consists of following information:

(i) Types and total number of units,

(ii) The contents of the merchandise,

(iii) Weight and measurement of each unit.

(iv) Markup and numbers.

A packing list is helpful to serve following purposes:

(i) It is helpful in custom clearance,

(ii) It is helpful to keep track of inventory of goods.

(iii) It assists in tracing the lost goods.

(iv) It assists in insurance claim by determining the content of lost pieces.

(v) It is helpful in estimating shipping cost prior to the export.

11.6.4 THE SHIPPER'S LETTER OF INSTRUCTIONS

This is a form provided by the shipper to the freight forwarder. It contains all those pertinent information and instruction regarding the shipment and also about its handling. The shipper may authorize the forwarder to issue all necessary documents on behalf of him and to put his signatures accordingly.

11.6.5 RECEIPT

It is a proof of delivery (POD) for the merchandise received at the dock or warehouse. This document is required for shipments on the parts of United States, Gulf Coasts, etc.

11.6.6 COLLECTION DOCUMENTS

An exporter is to provide with a number of documents to the buyer as to satisfy him that the shipment has been made as per the agreed terms and conditions. The seller can make the request for the payments accordingly, as per the agreed terms and conditions. On the other hand the buyers do need all these documents to satisfy the rules and regulation of his home country.

(i) Invoices : Invoices are used for the collection of payments.

Generally there are two types of invoices used for this purpose:

(1) Pro-forma Invoice: it's Associate in Nursing Invoice that is provided by the supplier prior to the shipment of merchandise. The Pro-forma invoice is provided by the seller for the following purposes:

(a) To inform the buyers for the kinds of goods to be dispatched.

(b) To inform the buyers about the quantity of the goods dispatched. It includes important specifications like weight, size, etc.

(c) To inform the buyers about the value of the goods to be sent. It may help the buyers to make the arrangements for the payments at the earliest.

(d) The Pro forma invoice is required for the buyers, in order to obtain import license.

(e) The Pro forma invoice is also required to open letter of credit.

(ii) Commercial Invoice: It is an important document of export business, which provides a list of shipped goods and a detail of other charges. It provides a complete description of the goods dispatched. It can also be said to be a complete record of business transactions between buyers and sellers. The following types of description are included in the commercial invoice.

- Quantity of the merchandise,
- Price charged for the goods sent,
- Shipping terms,
- Payment terms.

Further it is pertinent that the commercial invoice should provide the complete breakdown of all the charges. It is required to clear the goods through customs. Therefore the breakdown of the charges, related to inland transportation, loading charges, freight and insurance charges and others should be provided. The commercial invoice must include all other necessary information required by the importer’s country government. The necessary information required by the exporter’s country should also be satisfied.

(iii) Foreign Custom Invoice: it's Associate in nursing invoice that is required by the custom authorities in certain countries. Some time the custom authorities may not recognize the commercial invoice for their requirement purposes. Therefore a special format invoice is required in lieu of the commercial invoice. The information provided on such types of invoices is similar as in case of the commercial invoice. It may also contain the certification with regards to the value and origin of the shipment.

11.6.7 CONSULAR INVOICE

Many countries notably require legalized documents. In addition to the commercial invoice, these countries require consular invoice. It is a descriptive document prepared by the exporter in the language of buyer’s country on an officially prescribed form supplied by the buyer’s country government. The main and basic purpose behind such invoice is to monitor merchandise and the flow of the capital. It must have seal, signature and an official stamp affixed on it. The Consulate General takes this responsibility to fulfill all the requirement, who represent on behalf of the government of the importing country. The Consulate General is to verify all the contents of the invoice. He is to certify the authenticity and correctness of the detail of the contents, which should includes the following contents:

- Detail about the total value of invoice
- Detail about the quantity of the invoice.
- Detail about the nature and other contents of the invoice.

Generally a certain fee is charged for this sort of services.

The consulate may take his own time for approving the legalized documents and to return the same. Therefore, it is for an exporter to allow sufficient time for the processing of said invoice. It is pertinent to mention here that a consul invoice is a legalized document and any error noted in the later stage requires a special consideration. No correction of any kind can be made by the exporters at this stage. Because a consular invoice is a certified document and such type of correction are considered forgery, for which a severe penalty can be imposed. The information contained in the consular invoice is generally same as per the commercial invoice. The difference in both may be of specific information required by the consulate. Therefore it is the best way to talk directly with consulate regarding those specific requirements. The reference manuals like Bureaus of National Affairs (BNA) can also be consulted for this.

11.6.8 CERTIFICATION OF ORIGIN

A certificate of origin is a document, which is prepared by exporter. It identifies that the particular merchandise is originated in a particular country. It is also an important and necessary document for tariff and control purposes. It is also helpful to prevent unusual import of goods from prohibited countries. The forms of certificate of origin can vary. It may be on shipper's own letterhead to a countersigned certificate by the Chamber of Commerce. In certain circumstances such forms should be legalized by the resident consul of an importing country.

The Form can be provided and recommended for this purpose by the United Nation.

11.6.9 INSPECTION CERTIFICATE

This certificate is generally prepared by an independent firm or agency, which is other than the exporter. An inspection certificate is a document, which certifies the quality or quantity of goods being shipped. It also certifies that the merchandise was in a good condition prior to its shipment. Many foreign buyers require a shipper's affidavit or a certificate of an independent inspecting agency, which also certify the quality and quantity of goods strictly as per the order. It also ensures and certifies that the goods have been shipped as per the agreed terms and conditions.

Special Purpose Documents: The buyer can request for the special purpose documents as in the case of an inspection certificate. The special purpose documents may includes the following:

(a) Certificate of weight.

(b) Certificate of measurement.

(c) Certificate of analysis as to ensure quality and others.

The certificate of weight and measurement is provided by an independent agency. It ensures that weight and measurement of the merchandise is as per the contract. Further the certificate of analysis contains the report of an expert on the findings of the composition of merchandize shipped. It also ensures that the goods are shipped as per the contract made by an exporter. Insurance Certificate: An Insurance certificate provides full coverage for the entire shipment. It also describes the transactions and other coverage in brief. Generally a certificate of insurance is issued as an open coverage policy. It provides the coverage to insure all kinds of shipments. It also protects the merchandise from any kind of damage in transportation. The marine insurance policy uses to cover every modes of transportation.

11.6.10 AIR WAY BILL

Basically it is a bill of lading issued by an air carriers for shipping the merchandize through air way. This is not a negotiable instrument or document. Therefore the merchandize is released to the designated consignee even without having a way bill.

11.6.11 BILL OF LADING

A bill of payload could be a document, usually prepared by the shipper on its form issued to record transactions related to the shipment. The bill of lading serves the following purposes:

(a) A Document of Title: It is a document which certifies the ownership of merchandise. It also permits the importer to claim the goods as per description.

(b) A Receipt of Goods: A bill of lading serves the purpose of receipt of goods dispatched. It is also a proof of the freight of carrier's possession. A receipt of goods is issued by the carrier to the shipper for merchandise handed over to the carrier's care for transportation.

(c) A Contract of Carriage: A bill of lading establishes the contractual terms between shipper and the carrier. It also defines the terms and conditions under which the goods are to be dispatched.

The responsibility for the delivery of merchandise is also defined by a contract of carriage.

Further a bill of lading can be issued for the following modes of transportations:

(a) Inland modes of transportation.

(b) Ocean modes of transportation.

(c) Air Transport.

When the bill of lading is issued by the railways or roadways modes, it is called an inland bill of lading. It enables the movements of merchandise form the warehouse of the shipper's to the port. On the other hand in an ocean bill of lading it is issued by ocean modes of transportation or by the steamship lines. Whenever a bill of lading is issued by associate air carrier or transport, it is called an air way bill. Non vessel operator business concern (NVOCC) is associate another sort of bill of lading, which consists freight of a container for shipping.

Further, the bill of lading is acceptable in that case, whenever it is marked clean and on board. When there is no evidence of damage to the conditions of the cargo, it is called clean bill of lading. The cargo should be received in good order and conditions without exceptions. On the other hand, whenever there are evidences or indication of damage to these goods received, the bill of lading is foul.

Further whenever an on board bill of lading is issued, the cargo should be loaded in abroad, the named vessel on the given date of loading. Further a received for shipment implies that goods are received by the steamship company. It is pertinent to mention here that goods are not yet loaded on board. In a particular vessel, this may end up on another vessel.

A bill of lading can also be straight or negotiable. When the goods are consigned directly to a consignee rather than to consign it to order it is called a straight bill of lading. A straight bill of lading is non-negotiable document. Therefore, it allows the delivery of the goods to the consignee or to the party mentioned on the bill.

It is for the carrier's to ensure that the receiving party is actually the named party. The importer is to show the proof of his identity as to take possession of the shipment.

Note Export Terminology

- **Acceptance -** this term has several related meanings which include the following :
  - ➢ A time draft or bill of exchange that the drawee has accepted and is unconditionally obligated to pay at maturity. The draft should be given 1st for acceptance the remunerator becomes the acceptor then for payment. The word accepted and therefore the date and place of payment should be written on the face of the draft.
  - ➢ The drawee's act of receiving the draft confers on him the duty to pay its price at maturity.
  - ➢ An agreement to buy product at an expressed value an underneath expressed terms. Generally, this covers any agreement reached to buy product underneath given terms.

- **Ad valorem** - according to value. Refer also to duty.
- **Advance against documents -** a loan created on the protection of the documents covering the cargo.
- **Advising bank -** a bank operating in the company producer/exporters country that handles letters of credit for a foreign bank by notifying the producer/exporter that the credit has been opened in its favour. The advising bank absolutely informs the company bourgeois of the conditions of the letter of credit while not essentially bearing responsibility for payment.
- **Advisory capacity** - a term indicating that a shipper's agent or representative is not empowered to make definitive decisions or adjustments without the approval of the group or individual represented.
- **Agent foreign -** sales agent represents an individual or firm that serves as the foreign representative of a domestic supplier and seeks sales abroad for the supplier.
- **Air AWB -** a bill of lading that covers each domestic and international flights transporting product to a given destination. this is a non-negotiable instrument of transportation that is a receipt for the shipper indicating that the carrier has accepted the products listed and obligates itself to carry the consignment to the landing field of destination consistent with given conditions.
- **Alongside**- the side of a ship. Goods to be delivered 'alongside' are to be placed on the dock or barge within reach of the transport ships tackle so that they can be loaded aboard the ship.
- **Arbitrage** - the method of shopping for exchange stocks bonds and different commodities in one market and like a shot mercantilism them in another market at higher costs.
- **Balance of trade -** the difference between a country total imports and exports. If exports exceed imports a positive balance of trade exists if not then a deficit is claimed to exist.
- **Barter**- interchanges that product square measure changed directly for different product while not use/exchange of cash. Barter is an important means of trade with countries using the currency that is not readily convertible.
- **Beneficiary**- the corporate in whose favour a letter of credit is issued or a draft is drawn.
- **Bill of exchange draft**- an unconditional order in writing from one company the drawer to another the drawee directing the drawee to pay a specified amount to a named drawer at a fixed or

determinable future date. Refer also to date draft sight draft and time draft.

- **Bill of freight-** a document that establishes the terms of a contract between a shipper and a company underneath that freight is to be captive between given points for a specified charge. Usually ready by the shipper on forms issued by the carrier it is a document of title a contract of carriage and a receipt for product. The client typically wants the first or a duplicate as proof of possession to require possession of the products. In this respect their square measure 2 varieties namely: - a straight bill of freight that is non-negotiable. a negotiable bill of lading or shippers order can be bought sold or traded while goods are in transit and are used for 'letter of credit' transactions.

- **Bonded warehouse-** a warehouse authorized by a country's customs authorities for storage of goods on which payment of duties is deferred until the goods are removed.

- **Booking-** a rendezvous with a company for the acceptance and carriage of freight.

- **Buying agent commission agent-** who purchases product in their own country on behalf of foreign importers like government agencies and personal issues.

- **Carnet-** a customs document permitting the holder to carry or send goods temporarily into certain foreign countries for display demonstration or similar purposes without paying duties or posting bonds.

- **Cash against documents (CAD)** - payment for goods in which a commission house or other intermediary transfers title documents to the buyer upon payment in cash.

- **Cash in advance (CIA)** - payment for goods in which the price is paid in full before shipment is made. This method is usually used only for small purchases or when the goods are built to order.

- **Cash with order (CWO)** - payment for goods in which the buyer pays when ordering and in which the transaction is binding on both parties.

- **Certificate of inspection** - a document certifying that goods were correct and in good order, immediately prior to their shipment. Some countries and customers require this certificate which attests the specification level of the product being shipped. The inspection is usually performed by a third party, which is an independent testing organization. These inspections can be stipulated in the country of the product, or the country of import, or both.

- **Certificate of manufacture** - a statement (often notarized) in which a producer of goods certifies that manufacture has been completed and that the goods are now at the disposal of the buyer.
- **Certificate of origin** - a document, required by certain foreign countries for tariff purposes, certifying the country of origin of specified goods.
- **Cost and freight (CFR)** - a pricing term indicating that the cost of the goods and freight charges is included in the quoted price. Where the buyer arranges for and pays insurance.
- **Charter party** - a written contract, usually on a special form, between the owner of a vessel and a .charterer. Who rents use of the vessel or a part of its freight space? The contract generally includes the freight rates and the ports involved in the transportation.
- **Cost, insurance, freight (CIF) -** a pricing term indicating that the cost of the goods, insurance, and freight are included in the quoted price.
- **Clean bill of lading -** a receipt for goods issued by a carrier that indicates that the goods were received in .apparent good order and condition. Without damages or other irregularities.
- **Clean draft** - a draft to which no documents have been attached.
- **Collection papers** - all documents (commercial invoices, bills of lading, etc.) submitted to a buyer for the purpose of receiving payment for a shipment.
- **Commercial invoice** - an itemized list of goods shipped, usually included among an exporter's collection papers. This is a mechanism that is used by the local company to sell its products to its customers. The commercial invoice should include basic information about the transaction being enacted - including a description of the products being sold, the address of the shipper and Producer/Exporter, the delivery terms and payment requirements. The export customer needs the invoice to prove ownership and to arrange payment, while Customs & Excise authorities in the importing country can use the commercial invoice to assess the tariffs/duties and taxes payable on the imports.
- **Common carrier** - an individual, partnership, or corporation that transports persons or goods for compensation.
- **Confirmed letter of credit** - a letter of credit, issued by a foreign bank, the validity of which has been confirmed by a domestic bank. An exporter whose payment terms are a confirmed letter of credit is assured of payment by the domestic bank even if the

foreign buyer or the foreign bank defaults. Refer also to Letter of credit.

- **Consignment** - delivery of goods from an exporter (the consignor) to an agent (the consignee) under agreement that the agent sell the goods for the account of the exporter. The consignor retains title to the goods until the consignee has sold them. The consignee sells the goods for commission and remits the net proceeds to the consignor.

- **Consular declaration** - a formal statement, made to the consul of a foreign country, describing the goods to be shipped.

- **Consular invoice** - a document, required by some foreign countries, describing a shipment of goods and showing information such as the consignor, consignee, and value of the shipment. Certified by a consular official of the foreign country, it is used by the country's Customs officials to verify the value, quantity, and nature of the shipment.

- **Convertible currency** - a currency that can be bought and sold for other currencies at will. E.g. US Dollars, Saudi Rials, etc.

- **Correspondent bank** - a bank that, in its own country, handles the business of a foreign bank.

- **Counter trade** - the sale of goods or services that are paid for in whole or in part by the transfer of goods or services from a foreign country.

- **Carriage paid to (CPT) & Carriage and insurance paid to (CIP)** - pricing terms indicating that carriage, or carriage and insurance, are paid to the named place of destination. They apply in place of CFR and CIF, respectively, for shipment by modes other than water.

- **Credit risk insurance** - insurance designed to cover risks of non-payment for delivered goods.

- **Customhouse broker** - an individual or firm licensed to enter and clear goods through Customs.

- **Customs** - the authorities designated to collect duties levied by a country on imports and exports. The term also applies to the procedures involved in such collection.

- **Date draft** - a draft that matures in a specified number of days after the date it is issued, without regard to the date of acceptance.

- **Deferred payment credit** - type of letter of credit providing for payment some time after presentation of shipping documents by exporter.

- **Demand draft (Sight draft. S/D) -** a draft that is payable upon presentation to the drawee.
- **`Devaluation** - the official lowering of the value of a country's currency in terms of one or more foreign currencies. E.g. if the Euro is devalued in relation to the Saudi Rial, the one Euro will buy Fewer Saudi Rials than before.
- **Discrepancy - Letter of credit** - when documents presented do not conform to the letter of credit, it is referred to as a discrepancy.
- **Dispatch** - an amount paid by a vessel's operator to a charterer if loading or unloading is completed in less time than stipulated by the charter party.
- **Distributor** - a foreign agent who sells for a supplier directly and maintains an inventory of the supplier's products.
- **Dock receipt** - a receipt issued by an ocean carrier to acknowledge receipt of a shipment at the carrier's dock or warehouse facilities. The receipt is used to transfer accountability when the export product is moved by the domestic freight forwarder to the port of embarkation and left with the international shipping carrier for export.
- **Documentary draft** - a draft to which documents are attached.
- **Documents against acceptance (D/A)** - instructions given by a shipper to a bank indicating that documents transferring title to goods should be delivered to the buyer (or drawee) only upon the buyer's acceptance of the attached draft.
- **Drawee** - the company on who a draft is drawn and who owes the stated amount.
- **Drawer** - the individual or firm that issues or signs a draft and thus stands to receive payment of the stated amount from the drawee.
- **Dumping** - selling goods in another country at a price below the price at which the same goods are sold in the home market or selling such goods below the costs incurred in production and shipment.
- **Duty** - a tax imposed on imports by the Customs authority of a country. Duties are generally based on the value of the goods (ad valorem duties), some other factor such as weight or quantity (specific duties), or a combination of value and other factors (compound duties).
- **Ex. From. -** When used in pricing terms such as .ex-factory or ex-dock., it signifies that the price quoted applies only at the point of origin (e.g. at the seller's factory or a dock at the import point). In practice, this kind of quotation indicates that the seller agrees to

place the goods at the disposal of the buyer at the specified place within a fixed period of time.

- **Exchange permit** - a government permit sometimes required by the importer's government to enable the import firm to convert its own country's currency into foreign currency with which to pay a seller in another country.
- **Exchange rate** - the price of one currency in terms of another, that is, the number of units of one currency that may be exchanged for one unit of another currency.
- **Export broker** - a company that brings together buyers and sellers for a fee but does not take part in actual sales transactions.
- **Export commission house** - an organization which, for a commission, acts as a purchasing agent for a foreign buyer.
- **Export management company (Export trading company)** - a private company that serves as the export .outlet. for several producers of goods or services, either by taking title or by soliciting and transacting export business on behalf of its customers, in return for a commission, salary, or retainer plus commission.
- **Free alongside ship (FAS)** - a pricing term indicating that the quoted price includes the cost of delivering the goods alongside a designated vessel.
- **Free carrier (FCA) to named place** - replaces the former term .FOB named in land port to designate the seller's responsibility for the cost of loading goods at the named shipping point. It may be used for all types of transporting methods.
- **Free in (FI)** - a pricing term indicating that the charterer of a vessel is responsible for the cost of loading and unloading goods from the vessel.
- **Floating policy (Open insurance policy)** - a marine insurance policy that applies to all shipments made by an exporter over a period of time rather than to one shipment only.
- **Free out (FO)** - a pricing term indicating that the charterer of a vessel is responsible for the cost of loading goods from the vessel.
- **Free on board at named port of export (FOB)** - a pricing term indicating that the quoted price covers all expenses up to and including delivery of goods upon an overseas vessel provided by or for the buyer.
- **Force majeure** - the title of a standard clause in marine contracts exempting the parties for non-fulfillment of their obligations as a

result of conditions beyond their control (acts of God), such as earthquakes, floods, or war.

- **Foreign exchange** - the currency or credit instruments of a foreign country. Also, transactions involving purchase or sale of currencies.
- **Foul bill of lading** - a receipt for goods issued by a carrier with an indication that the goods were damaged when received.
- **Free port** - an area such as a port city into which goods may legally be moved without payment of duties.
- **Free trade zone** - a port designated by the government of a country for duty-free entry of any non-prohibited goods. Goods may be stored, displayed, used for manufacturing, etc., within the zone and re-exported without duties being paid. Duties are imposed on the goods (or items manufactured from the goods) only when the goods pass from the zone into an area of the country subject to the Customs authority.
- **Freight forwarder** - an independent business that handles export shipments for compensation. NOTE: A freight forwarder is among the best sources of information and assistance on export regulations and documentation, shipping methods, and foreign import regulations.
- **Gross weight** - the full weight of a shipment, including goods and packaging.
- **Import license** - a document required and issued by some national governments authorizing the importation of goods into their individual countries.
- **Inland bill of lading** - a bill of lading used in transporting goods overland to the exporter's international carrier. Although a through bill of lading can sometimes be used, it is usually necessary to prepare both an inland bill of lading and an ocean bill of lading for export shipments.
- **Insurance certificate -** if the Producer/Exporter is providing shipping insurance cover for the product (in the case of CIF shipments), then the insurance certificate identifies the type and amount of coverage and risk covered by it.
- **Irrevocable letter of credit** - a letter of credit in which the specified payment is guaranteed by the bank if all terms and conditions are met by the drawee.
- **Letter of credit (L/C)** - a document, issued by a bank per instructions by a buyer of goods, authorizing the seller to draw a

specified sum of money under specified terms, usually the receipt by the bank of certain documents within a given time.

- **Licensing** - a business arrangement in which the manufacturer of a product (or a firm with proprietary rights over certain technology, trademarks, etc.) grants permission to another company to manufacture that product (or make use of that proprietary material) in return for specified royalties or other payment.

- **Manifest (Ship's manifest)** - an instrument in writing, signed by the captain of a ship, that lists the individual shipments constituting the ship's cargo.

- **Marine insurance** - insurance that compensates the owners of goods transported overseas in the event of loss that cannot be legally recovered from the carrier. Also covers air shipments.

- **Marking (or marks)** - letters, numbers, and other symbols placed on cargo packages to facilitate identification.

- **Ocean bill of lading** - a bill of lading (B/L) indicating that the exporter consigns a shipment to an international carrier for transportation to a specified foreign market. Unlike an inland B/L, the ocean B/L also serves as a collection document. If it is a straight. B/L, the foreign buyer can obtain the shipment from the carrier by simply showing proof of identity. If a negotiable. B/L is used; the buyer must first pay for the goods, post a bond, or meet other conditions agreeable to the seller.

- **On board bill of lading** - a bill of lading in which a carrier certifies that goods have been placed on board a certain vessel.

- **Open account** - a trade arrangement in which goods are shipped to a foreign buyer without guarantee of payment. The obvious risk this method poses to the supplier makes it essential that the buyer's integrity be unquestionable.

- **Order bill of lading** - a negotiable bill of lading made out to the order of the shipper.

- **Packing list (Export packing list)** - a list showing the number and kinds of items being shipped, as well as other information needed for transportation purposes. Therefore, the export packing list should itemize the products in each individual package and indicates the type of package used. I.e. box, crate, drum, carton, etc. It should also identify the individual net, tare, and gross weights and measurements for each package.

- **Parcel post receipt** - the postal authorities' signed acknowledgment of delivery to receiver of a shipment made by parcel post.

- **Perils of the sea** - a marine insurance term used to designate heavy weather, stranding, lightning, collision, and sea water damage.
- **Political risk** - in export financing, the risk of loss due to such causes as currency inconvertibility, government action preventing entry of goods, expropriation or confiscation, and war.
- **Pro-forma invoice** - an invoice provided by a supplier prior to the shipment of goods, informing the buyer of the kinds and quantities of goods to be sent, their value, and other details (weight, size, etc.).
- **Quota** - the quantity of goods of a specific kind that a country permits to be imported without restriction or imposition of additional duties.
- **Quotation** - an offer to sell goods at a stated price and under specified conditions.
- **Remitting bank** - the bank that sends the draft to the overseas bank for collection.
- **Revocable letter of credit** - a letter of credit that can be cancelled or altered by the drawee (buyer) after it has been issued by the drawee's bank.
- **Spot exchange** - the purchase or sale of foreign exchange for immediate delivery.
- **Steamship conference** - a group of shipping companies that operate under mutually agreed-upon freight rates.
- **Straight bill of lading** - a non-negotiable bill of lading in which the goods are consigned directly to a named consignee.
- **Tare weight** - the weight of a container and packing materials without the weight of the goods it contains.
- **Tenor (of a draft)** - designation of a payment as being due at sight, a given number of days after sight, or a given number of days after a specific date.
- **Through bill of lading** - a single bill of lading covering both the domestic and international carriage of an export shipment. E.g. an air waybill (AWB) is essentially a through bill of lading used for air shipments. However, ocean shipments usually require two separate documents - an inland bill of lading for domestic carriage and an ocean bill of lading for international carriage. Through bills of lading are insufficient for ocean shipments.
- **Time draft** - a draft that matures either a certain number of days after acceptance or a certain number of days after the date of the draft.

- **Tramp steamer** - a ship not operating on regular routes or schedules.
- **Transaction statement** - a document that defines the terms and conditions agreed upon between the importer and exporter.
- **Trust receipt** - release of goods by a bank to a buyer in which the bank retains title to the goods. The buyer, who obtains the goods for manufacturing or sales purposes, is obligated to maintain the goods (or the proceeds from their sale) separately from the remainder of his assets and to hold them ready for repossession by the bank.
- **Warehouse receipt** - a receipt issued by a warehouse listing goods received for storage.
- **Wharf age**- a charge assessed by a dock owner for handling incoming or outgoing cargo.
- **Without reserve** - a term indicating that a shipper's agent or representative is empowered to make definitive decisions and adjustments abroad without approval of the organisation represented.

11.7 SUMMARY

Importing and mercantilism are routine activities for several businesses, and also the reason for being for others. It is virtually bound that you've been concerned in import export at some level in your business, albeit it's simply the product you wish to use in your business. But if you're frolic with the concept of obtaining additional serious concerning import export, you wish to be told concerning the import export documents you'll have to be compelled to be familiar with.

Most significantly, together with specific terms on however the products are shipped is required within the agreement for the good thing about the assorted folks and organizations that may facilitate the movement of goods. Exports of physical product that move between bodies of water are often costly and risky if not done properly; so, in each state of affairs, the exporter must be aware of the export documents accustomed ship the products. A great range of exporters realize it additional convenient to manage the amount and style of paper work and connected matters by planning a folder that has written on the covers the whole management procedure covering documentation, production of products, payment, shipping instructions and so on. Each separate dealing is then allotted to a numbered filed folder.

The documents are either needed by the bourgeois to satisfy the country's trade management authorities or to change documentary credit dealing to be enforced. Trade management authorities need to confirm that every document controls the import of a good/commodity for sanitary/veterinary reasons, or to confirm no disease probably to have an effect on the native seeds is imported from another country. The bourgeois conjointly desires to confirm that the bourgeois fulfills these necessities beneath documentary letter of credit operations so as for payment to be established.

11.8 SELF ASSESSMENT QUESTIONS

1. What do you understand by the term ―Documentation?
2. Why the documentation is important in export marketing?
3. What are the limitations of disposal of documentation?
4. What do understand by Export Marketing Documentation?
5. Explain the significance of Export Marketing Documentation.
6. Discuss the Statutory Control of Documentation.
7. Why the Declaration Forms are important?
8. What do you understand by the Major Documents?
9. What do you understand by the term Disposal Form?

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UNIT-12 FOREIGN TRADE POLICY

Unit Framework

12.0 PURPOSE

- To understand the Foreign Trade Policy
- To understand Schemes under the Foreign Trade Policy
- To understand the Diamond Import License
- To understand the Special Economic Zones
- To know about the Deemed Exports
- To know about the Star Export Houses

12.1 INTRODUCTION

During the pre-British period, India was quite famous for its foreign trade. The pattern of India's trade was got gradually transformed during the British period. With the decline of Indian handicrafts, India became exporter of raw materials and other primary products and became an importer of British machine-made good. Thus the British's imposed a pattern of trade on India that was deliberately designed in its own favour, and against the interest of India. India became associate degree businessperson of all primary products like jute, tea and cotton etc. But during the post-independence period, India experienced a thorough change in the composition and direction of foreign trade. At present, a good number of non-traditional commodities are included in the export list of the country. The direction of trade has also changed remarkably.

Since the introduction of planning in the country, India had to depend heavily on the imports of various types of machineries and equipments for the development of various types of industries in the country. Such imports were called biological process imports. At that stage, India had to import capital product extensively so as to set up various industries like steel plants, locomotives etc.

In the next stage, India had to import a huge quantity of intermediate goods and raw materials in order to utilize the productive capacity, developed in the initial periods. These types of imports were known as maintenance imports. Thus the developmental process of a developing country like Bharat in its initial stages was noticeably depending on developmental and maintenance imports.

In order to meet its mounting import bill, the country started to export various types of primary products at initial stage. But with the growth of various types of manufacturing and engineering industries, the country started to withdraw these traditional items of export and gradually established a good market for its manufactured and semi-manufactured commodities. Thus foreign trade has been helping the country in the different stages of its economic development.

12.1.1 TRADE POLICY IN INDIA

In the pre-independence period, India did not have any clear cut trade policy however in specific cases adopted solely import restriction viz. Discriminating protection since 1923. After independence, the Government adopted a trade policy as a component of policy on economic development of the country.

Main Features: In the initial stage in order to protect Indian industries form foreign competition the Government imposed restriction as a part of protective policy. Accordingly, the Government of India restricted the foreign competition through the system of import licensing, import quotas, import duties and import ban in extreme cases. After the adoption of Mahalnobis Model of development since the Second Plan a clear cut import policy became imperative on the following grounds: (a) Complete or partial ban on the import of consumer goods, (b) extensive control of various items of imports,(c) liberal imports of capital goods for industrialization, and (d) developing suitable environment for adopting import substitution.

In respect of export, the Government adopted various decisions for promotion of exports through various fiscal and other incentives, and conjointly by putting in some commerce establishments. After the second plan, the Government undertook various export promotion measures in order to overcome its foreign exchange crisis and to attain the objective of self reliance.

12.1.2 EXPORT POLICY OF INDIA AND EXPORT PROMOTION

The export policy of Republic of India as developed since independence is guided by export promotion measures. At various items, the Government introduced different types of measures for the promotion of exports. All these measures can be broadly classified under the following headings. (a) The duty drawback system, i.e. reimbursing exporters for tariff paid on foreign materials and excise duties paid on inputs; (b) Market development assistances, i.e. providing money compensative support (CCS) to exporters, and providing grant in aid to Export promotion councils and different organisations for exploring new export markets: (c) Fiscal concessions for exports i.e. exempting export earnings from income tax partly or fully; (d) import grant for exports, i.e. providing imported inputs to export sector at international costs through import entitlement scheme and import replenishment scheme; and (e) Developing Export process Zones (EPZ) and one hundred per cent Export-Oriented Units(EOUs) for providing necessary open environment for export production.

Considering the condition of balance of payments in the country, the Government of India has been adopting certain special measures for the promotion of exports in our country since the Third Plan period. Various export promotional measures introduced by the Government were mainly related to: (a) providing imported inputs to exports through commodity specialization and service specialization; (b) fostering competitive capability of Indian exports and making the export business more attractive.

Thus we can now conclude that the export promotion measure introduced by the Government include-various incentive schemes, fiscal relief or tax concessions, relaxation of controls on export restrictions, simplification of procedures, price stabilizations of export commodities, compulsory gradation of commodities, granting of additional inducements and incentives for the export to nontraditional markets, special ship and rail facilities, credit arrangements, trade agreements, and finally setting up of favorable export institutions, viz. Export-import Council, Export Promotion Council, State Trading Corporation, Export Credit and Guarantee Corporation. Trade Development Authority, Export –Import (EXIM) Bank Ltd. etc.

12.1.3 IMPORT POLICY OF INDIA

The import policy of India was formulated as a part of foreign trade policy of the country. During the post-independence period, the import policy of the country was developed at totally different times in order to realize the subsequent requirements: (a) Limiting the amount of imports to the minimum level so as to conserve foreign exchange, (b) Encouraging import of items required for industrialization of the country and (c) modifying import for exports promotion.

Thus broadly the import policy of the country has two important constituents, i.e. (a) import restrictions and (b) import substitution; the country formulated the import policy considering its restricted exchange reserve, requirements of capital goods for industrialization and necessity for import substitution.

During the primary decade of coming up with, the country adopted a liberal import policy and so suffered a heavy exchange crisis at the end of the second plan. Considering this, the Government reversed its import policy and imposed heavy restrictions on imports.

12.2 EXPORT PROMOTION CAPITAL GOODS SCHEME

Export Promotion Capital merchandise (EPCG) theme helps facilitate import of capital merchandise into Republic of India for manufacturing quality merchandise and repair and to reinforce India’s export aggressiveness. EPCG theme permits for import of capital merchandise utilized in pre-production, production and post-production at zero customs. In this article, we glance at the fundamentals for availing EPCG theme in Republic of India.

12.2.1 EPCG SCHEME ELIGIBILITY

Capital Goods

The following varieties of capital merchandise may be foreign into Republic of India at zero customs underneath the EPCG scheme:

Plant, machinery, instrumentation or accessories needed for manufacture or production, either directly or indirectly, of goods or for rendering services, including those required for replacement, modernization, technological up gradation or expansion.

- ❖ Packaging machinery and equipment
- ❖ Refractoriness for initial lining
- ❖ Refrigeration equipment
- ❖ Power generating sets
- ❖ Machine tools
- ❖ Catalysts for initial charge

Equipment and instruments for testing, analysis and development, quality and pollution control.

Capital merchandise utilized in producing, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture and viticulture as well as those used in services sector.

- Computer software systems
- Spares, moulds, dies, jigs, fixtures
- Catalysts for initial charge plus one subsequent charge

In addition to the higher than varieties of capital merchandise, different varieties of capital merchandise may also be permissible underneath the EPCG theme subject to approval from the EXIM Facilitation Committee at DGFT.

Note : used capital merchandise isn’t eligible for EPCG theme.

Applicant

Manufacturer exporters with or while not supporting manufacturer(s), bourgeois exporters tied to supporting manufacturer(s) and repair suppliers square measure eligible underneath the EPCG theme. EPCG scheme also covers Common Service Provider (CSP).

Export Obligation

Import of capital merchandise underneath EPCG theme is subject to associate export obligation corresponding to six fold of duty saved, to be consummated in six years reckoned from date of issue of EPCG authorization. In case, EPCG authorization holder fails to fulfill prescribed export obligation, the businessperson is needed to pay customs duties and interest as prescribed by Customs authority. Export obligation may be fulfilled by the EPCG authorization holder through export of products that square measure factory-made by him or his supporting manufacturer/services rendered by him, that EPCG authorization has been granted.

EPCG authorization is valid for import for eighteen months from date of issue and revalidation of EPCG authorization isn't permissible.

12.3 DUTY EXEMPTION/REMISSION SCHEME

Policy relating to Duty Exemption/Remission Schemes is prescribed in Chapter 4 of Foreign Trade Policy.

12.3.1 GENERAL PROVISION

(i) Application for grant of Advance Authorization / Advance Authorization for Annual Requirement / Duty Free Import Authorization (DFIA) shall be filed online (digitally signed) by IEC holder to the concerned jurisdictional Regional Authority as per Appendix 1A. Applicant can be either registered workplace or Head workplace or a branch workplace or a producing unit of the IEC holder.

(ii) Applicant shall upload documents as prescribed in ANF 4A, if any, at the time of online filing of application. No physical copy of application is required to be submitted to Regional Authority.

(iii) In case an applicant is not able to upload any document as given in Appendix 4E electronically for fixation of adhoc norms / standardization of norms, then only such documents may be submitted in physical form to the concerned Norms Committee in DGFT headquarters.

12.3.2 APPLICANT DETAILS

Where applicant is a branch office or a manufacturing unit, name of branch office or manufacturing unit should appear in electronic RCMC and in IEC of the applicant.

12.3.3 ADVANCE AUTHORIZATION

Applicant shall file application online in ANF 4A. Same type is applicable wherever commonplace Input Output Norms (SION) are notified or on the basis of adhoc norms or on self declaration basis as per paragraph 4.07 of Hand Book of Procedures.

Advance Authorization for things that square measure otherwise prohibited for export (i) Items covered under Chapter 7 and Chapter 15 of ITC (HS) Schedule 2, which is prohibited for export, may be allowed to be exported under the advance authorization scheme. Export shall be allowed subject to pre-import condition under notified SION/prior fixation of norms by Norms Committee in terms of paragraph 4.06 of Hand Book of Procedures. Import and Export would be permissible solely through EDI enabled ports.

(ii) The Export obligation period (EOP) of advance authorizations issued for such items shall be 90 days from the date of clearance of import consignment and no extension in EOP shall be allowed. Such import shall be subject to actual user condition and no transfer of foreign stuff, for any purpose, including job work, shall be permitted. In case of non-fulfillment of EO/ non-achievement of stipulated worth addition, a penalty equal to five times of the CIF value of the imported material, corresponding to the shortfall in EO, shall be obligatory additionally to the applicable duty and interest. Provisions of Paragraph 4.49 of Handbook of Procedures shall not be applicable in this case.

12.3.4 FIXATION OF NORMS

(i) just in case wherever norms haven't been notified, application in ANF 4B, along with prescribed documents, shall be uploaded online to concerned Norms Committee (NC) in DGFT headquarters for fixation of norm. Details of Norms Committees together with merchandise teams dealt by every Norms Committee and individual email addresses for correspondence concerning norms fixation

(ii) An applicant shall indicate a valid email address for communication purpose and to ensure that this email address is active.

(iii) The selections of Norms Committees shall be obtainable on the web site of DGFT (http://dgft.gov.in) sporadically and therefore the candidates shall update themselves the standing of norms fixation in respect of Authorization obtained by them.

(iv) Norms Committees shall also function as recommendatory authority for notification of SION and DGFT may notify such norms from time to time.

(v) Exporters / EPC shall provide data to the Norms Committee for the fixation of SION for the export product within three months of such request made by Norms Committee. Norms Committee shall Endeavour to notify such adhoc norm(s), if not notified already, within six months of the ratification of such adhoc norm (s).

(vi) it's obligatory for business / manufacturers/ EPCs to produce production and consumption knowledge etc for the past 3 years, as is also needed by DGFT for fixation of SION. Otherwise, candidates shall not be allowed to require good thing about Advance Authorization theme for taking repeat Advance Authorizations on self-declared basis. Norms Committee may additionally ask for knowledge from Central Excise (CBEC).

12.3.5 SELF DECLARED AUTHORIZATIONS WHEREVER SION DOESN'T EXIST

(i) Regional Authority may additionally issue Advance Authorization wherever SION isn't fastened, supported self declaration by person. Wastage thus claimed shall be subject to wastage norms as set by Norms Committee. The applicant shall submit an undertaking to abide by decision of Norms Committee. The provisions in this regard are given in paragraph of FTP.

(ii) In case of revision / rejection, applicant shall pay duty and interest as notified by DoR within thirty days from the date of hosting of Norms Committee decision on DGFT website.

(iii) No Authorization beneath this paragraph are going to be issued by Regional Authority for items listed in paragraph of FTP.

12.3.6 CASES INVOLVING ANHYDRIDE, EPHEDRINE AND PSEUDO- EPHEDRINE AS INPUTS.

(i) Where Acetic Anhydride, Ephedrine and Pseudo- ephedrine is required as an input for import, applications shall be filed with Regional Authority concerned. After filing application online, printed copy of such application shall also be simultaneously endorsed by applicant to (a) Drug Controller of India, Nirman Bhawan, New Delhi, (b) Narcotics Commissioner, Central Bureau of Narcotics, Gwalior (c) respective Zonal Director of Narcotics Control Bureau. The applicant should declare that they would maintain prescribed records / documents and also submit prescribed returns to the relevant authorities, within time as prescribed by law from time to time.

(ii) Regional Authority shall endorse a copy of such Advance Authorization to the above three agencies. Regional Authority shall also endorse a condition that before effecting imports, 'No Objection Certificate' shall be obtained from Drug Controller and Narcotics Commissioner of India.

12.3.7 CASES REQUIRING SANITARY IMPORT PERMIT

(i) Where import of meat and meat products of any kind including fresh, chilled and frozen meat, tissue or organs of poultry, pig, sheep, goat; egg & egg powder; milk & milk products; bovine, ovine and caprice embryos, ova or semen; and pet food products of animal origin has been sought as an input under Advance Authorization, the Regional Authority, while supplying Advance Authorization shall endorse a condition that before effecting imports of any of those inputs, Sanitary Import Permit shall be obtained from the Department of Animal Husbandry, Dairying and Fisheries (DAHDF).

(ii) Regional Authority shall also endorse a copy of authorization to DAHDF, Krishi Bhawan, New Delhi.

12.3.8 ADVANCE AUTHORIZATION FOR APPLICANTS WITH MULTIPLE UNITS

(i) Transfer of any duty free material foreign or procured against Advance Authorization from one unit of a corporation to a different unit for producing purpose shall be through with previous intimation to jurisdictional Excise Authority. Benefit of CENVAT shall not be claimed on such transferred input.

(ii) Such transfers shall not be allowed to units located in areas covered by Central Excise Notification Numbers 32/1999, 33/1999, 39/2001, 56/2002, 57/2002, 49/2003, 50/2003, 56/2003, 71/03, 8/2004 and 20/2007 and any other notification issued by DoR from time to time. (The areas presently included are Himachal Pradesh, Uttara khand, Jammu and Kashmir, Kutch in Gujarat, Assam, Tripura, Meghalaya, Mizoram, Manipur, Nagaland, Arunachal Pradesh and Sikkim).

(iii) In case of non-excisable company / products, units should maintain a proper record.

(iv) To avail this facility, names of such units should appear in IEC. Rules and Regulation of Central Excise for job work would be followed.

(v) Imported duty free inputs can be taken from the port / domestic supplier's premises to the factory or the premises of the authorization / co-authorization holder or the factory of the supporting manufacturer (whose name is endorsed in the authorization or allowed by the Central Excise authority). However, such duty free material foreign or procured against advance authorization may be taken from the port on to the project web site of the project authority, subject to furnishing a bond to the customs authority at the port eminent and different documents / declaration and different provisions as per Department of Revenue pointers.

12.4 GEM AND JEWELLERY PROMOTION SCHEME

The Indian Gems and jewelry (G&J) sector is one amongst the biggest within the world, contributory around twenty nine per cent to the worldwide jewelry consumption. The sector employs over four.64 million staff and is home to over three 100,000 gems and jewelry players. The sector contributes seven per cent to the Gross Domestic Product (GDP) of the country. India's exports of cut and polished diamonds, gold jewelry and gem stones square measure forecasted to grow around ten per cent year-on-year in FY19 per Gems and jewelry Export Promotion Council (GJEPC).

Indians have invariably been connoisseurs of precious stones and ornaments. Trade secrets of the jewelry business are bimanual down over generations, guaranteeing continuity of ancient craft. Thus, Republic of India is these days the world's largest diamond cutting and sprucing centre. India has been adding trendy techniques to its ancient shrewdness that square measure a lot of in tune with world market trends.

India is that the most well-liked country in terms of gems and jewelry export. The facts listed below offer North American nation a concept of India's position on the worldwide gems and jewelry export map. Indian gems and jewellery are exported across continents.

India is the world's second largest gold consumer.

India's diamond exports hierarchic second within the world valued at US$ eighteen.1 billion that accounted for one5.3 per cent of the worldwide diamond exports in FY17

India's prime export destinations for gems and jewelry square measure U.S, Europe, Japan and China. US account for nearly fourth part of the country's total gems and jewelry exports.

Net Gems and jewelry exports from Republic of India for 2017-18 stood at US$ forty.98 billion, whereas in April-July 2018 the exports were valued at US$ ten.64 billion.

Exports of cut and polished diamonds grew by four.17 per cent to $23.74 billion in 2017-18. During April-October 2018, polished diamond exports grew by eight.37 per cent year-on-year to US$ fourteen.99 billion.

Gold jewelry shipments went up concerning eleven per cent to $9.67 billion in 2017-18.

12.4.1 GEM & JEWELRY EXPORT PROMOTION COUNCIL

The Gem and jewelry Export Promotion Council (GJEPC) undertakes direct promotional activities, together with joint participation in international jewelry shows, causation and hosting trade delegations, and sustained image-building exercises.

Net Gems and jewelry exports from Republic of India for 2017-18 stood at US$ forty.98 billion, whereas in Apr-Jul 2018 the exports were valued at US$ ten.64 billion.

Source : The Gem & Jewelry Export Promotion Council (GJEPC)

12.5 DIAMOND IMPORT LICENSE

Diamond Import Licenses square measure issued prior to for import of rough diamonds. The licenses carry an export obligation. The export obligation against each consignment is required to be fulfilled within a period of 5 months from the date of clearance of such consignment through Customs. The export obligation is fixed.

It may be noted that under the present Policy there is no mechanism for recovering the duty from the defaulting importers in case of their failure to fulfill the export obligation. It is for this reason that a provision was made for execution of bond and furnishing a bank guarantee in notification No.27/ 2001-Cus. Considering the point made by the DOC and exporting trade that execution of bank guarantee would increase the transaction cost exports, and taking into account the waiver from bank guarantee requirement for larger exporters already permitted under advance licenses, it has been decided that in case of importers having average turnover of Rs.2 crores and above during the last financial year a Bond may be accepted without insisting for any Bank Guarantee. The Bond may be taken in the same format. Suitable modifications may be made to provide therein the conditions of the notification. As for other categories of importers i.e. those who do not fulfill the above criteria, apart from Bond, a Bank Guarantee may also be taken at 50% of the duty saved. For the purpose of verification export figures of an exporter, a certificate from the regional licensing authority or a statement of export of cut & polished diamonds made during the last financial year duly certified by a Chartered Accountant may be accepted.

Further, the exporters importing rough diamonds under Diamond Import Licenses shall not be required to maintain any accounts specifically for the Customs. The procedure as being followed by DGFT for monitoring discharge of export obligations by the Diamond Import License holders shall continue to be followed. However, the license holders will furnish a copy each of the statement/ return being furnished to DGFT giving particulars of imports and discharge of export obligation, license-wise etc. For discharge of Bond/ Bank Guarantee executed with Customs, the license holder may be asked to produce a certificate from DGFT to the effect that export obligation against the particular Diamond Import License has been fulfilled. In case of defaults in export obligation, the duty may be demanded in proportion to the shortfall and not on the total imports as provided in the exemption notification.

Imports under Bulk Licenses: The bulk licenses are issued for import of rough diamonds for supply of such diamonds to the holders of valid REP/ Diamond Import License, EOU/ EPZ/ SEZ units or to re-export the same. The supply/ export of such diamonds is required be completed within a period of 12 months from the date of import, whichever is later the Bulk Licensee is required to furnish to the licensing authority the proof of supplying rough diamonds to the REP/ Diamond Import License and to the EOU/ EPZ/ SEZ units within the prescribed period. The Bulk Licensee is required to submit the details of such supplies along with the original proforma signed by the licensing authority. The licensing authority then compares such original with the proforma retained by it and thereafter redeems the case provided the Bulk Licensee has supplied the rough diamonds up to the value of rough diamonds foreign underneath the majority License. If the Bulk licensee fails to supply rough diamonds within the prescribed period, he is required to surrender REP Licenses of S.No.2.1 to 2.6 of Appendix 30A for a value double worth of such rough diamonds foreign underneath the majority License.

12.6 SPECIAL ECONOMIC ZONES (SEZS)

Special economic zones (SEZs) in Asian nation area unit bound localities which provide tax and different incentives to their resident businesses.

Up till 2000, Asian nation failed to have SEZs, and instead had variety of export process zones (EPZs), which, though similar in structure to the fashionable SEZ, did not attract many firms to India.

The government, consequently, introduced the SEZ in April 2000. Structured closely on the already successful model of China, they're designed to assist stimulate each foreign and domestic investment, boost India's exports, and create new employment opportunities.

India's Special Economic Zone Act, 2005 more amended the country's foreign investment policy and regenerate its EPZs to SEZs, with notable zones including Santa Cruz (Maharashtra state), Cochin (Kerala state), Kandla and Surat (Gujarat state), urban center (Tamil Nadu state), Visakhapatnam (Andhra Pradesh state), Falta (West Bengal state), Noida (Uttar Pradesh state), and Indore (Madhya Pradesh state).

Since the Act's promulgation, the Indian government has additionally accepted proposals for extra, far smaller SEZs, which must be proposed by developers to the Indian Board of Approval.

The SEZ Rules, 2006 lay down the whole procedure to develop a planned SEZ or establish a unit in associate degree SEZ.

As of September 2017, 221 SEZs area unit operational, and by January 2018, a massive 423 have received formal approval for operation.

Although India's SEZs area unit comparatively new, they need become vital sourcing and producing destinations for foreign investors.

Below we tend to examine however these zones operate, associate degreed highlight key data relevant for firms considering putting in an Indian SEZ.

Incentives for setting up in an Indian SEZ

Some benefits of putting in a sourcing or producing platform among associate degree Indian SEZ include :

Duty free import and domestic procurable of products for the event, operation, and maintenance of your company.100 percent tax exemption on export financial gain for initial 5 years, fifty percent for 5 years thenceforth, and fifty percent of the export profit reinvested within the business for the next five years. These incentives are going to be withdrawn from April one, 2020 (Sunset Clause), unfinished associate degree extension, that is presently below discussion.

Exemption from the products and Services Tax (GST) and levies obligatory by government. Supplies to SEZs area unit zero rated below the IGST Act, 2017, that means they're not taxed.

External commercial borrowing (ECB) is allowed up to US$500 million a year without restriction. For developers of associate degree SEZ, the ECB channel may be availed after receiving government approval, and only for providing infrastructure facilities in the zone. However, ECB won't be permissible for development of integrated administrative division and industrial assets among the SEZ.

Permission to manufacture product directly, as long as the goods you are producing fall within a sector which allows 100 percent FDI.

The benefits of Asian nation’s SEZ policy are substantial and have already served to exponentially increase the number of foreign companies in operation in India.

Since 2005, exports from the country have virtually frequently been increasing, largely due to the rise in sourcing and manufacturing platforms there.

12.6.1 CHOOSING AN SEZ LOCATION

There are several SEZs for your company to settle on from – a listing of which might be obtained from the Department of Commerce’s web site – then picking that is best for you'll typically be a troublesome and stress-inducing method.

For firms directly sourcing from or producing in Asian nation, your platform ought to be placed to accumulate the raw materials required for production, while at the same time being in an area fitted to export (that is, on the coastline).

It won’t to be that this was a troublesome balance to strike, however the new government’s stress on infrastructural investment implies that procuring your materials from different elements of Asian nation is becoming a lot easier.

12.7 FREE TRADE WAREHOUSING ZONES (FTWZ)

FTWZ/Free Trade deposit Zone – Genesis, Concept, Objectives and envisaged advantages for trading.

A trade zone (FTZ) or export process zone (EPZ), conjointly known as foreign-trade zone, rest free port is a region among a rustic during which product is also landed, handled, manufactured or reconfigured, and re-exported while not the intervention of the customs authorities. Only when the products square measure stirred to customers among the country during which the zone is found do they become subject to the prevailing customs duties.

Free Trade deposit Zone (FTWZs) square measure a special class of Special Economic Zone, provide services like speedy delivery of merchandise, one-stop for Customs clearance capability; integrated solutions, such as packing management, sorting, inspection, re-invoicing, beefy and kitting, assembly of complete and semi-knocked down kits, and taxation benefits. Basically the trade Zones (FTWZ) could be a special class of Special Economic Zones with a spotlight on commerce and deposit.

Free trade deposit zones (FTWZs) are an exceptional success in Jebel Ali, Singapore and Rotterdam. One has got to visit these zones to envision their sheer size and contribution to the regions they're set in turning into major supplying hubs.

As per The Hindu (March half dozen, 2011), The Jebel Ali (Jafza) accounts for twenty five per cent of all instrumentation outturn at Jebel Ali port and 12% of all air freight at Dubai International Airport. Established in 1985, it covers a forty eight sq metric linear unit space and is home to over half dozen, 400 firms from across the globe. It sustains over a hundred and sixty thousands jobs within the UAE through its firms and accounts for over fifty per cent of Dubai’s exports.

12.7.1 GENESIS

In India, trade and deposit Zone was introduced within the EXIM Policy with the target to facilitate import and export of products and services. Each Zone was considered to have Rs. 100 crores outlay and five hundred thousand sq.mts engineered up space. Government of Bharat introduced the FTWZ Policy as a section of foreign national trading policy (FTP) 2004-2009 ruled by the SEZ ACT, 2005 and SEZ Rules, 2006.

For development and institution of FTWZ the govt. has permissible 100 percent Foreign Direct Investment. FTWZ could be a ‘Sanitized Zone’ selected as Foreign Territory for carrying on business. FTWZ’s square measure envisaged to be Integrated Zones & to be used as ‘International commerce Hubs’. Each Zone would provide ‘World Class’ Infrastructure for:

- Warehousing for various kinds of products
- Handling and Transportation Equipment
- Commercial office space
- All related utilities – telecom, power, water, etc

- One stop clearance of the essence and Export of products

FTWZ would be a key Link in supplying and international provides chains – mating each Bharat and therefore the Globe.

12.8 STAR EXPORT HOUSES

Star export home is associate degree Indian businessperson World Health Organization has excelled in international trade and with success achieved sure minimum quantity of export performance in 2 out of 3 money years. To obtain star export house standing, the businessperson concerned in export of products or service should have a sound import export code (IE Code). On being recognized as a star export house, the businessperson enjoys numerous advantages and privileges as under:

Authorization and customs clearance for each imports and exports is also allowed on self-declaration basis. Exemption from furnishing of bank guarantee for Schemes below Foreign Trade Promotion, unless specified otherwise.

Input-output norms perhaps fastened on priority among sixty days by the Norms Committee.

The exemption from compulsory negotiation of documents done through banks. Remittance or receipts, ought to but be received through banking channels. Two star and higher than export homes square measure allowable to ascertain export warehouses as per Department of Revenue pointers.

Three star and higher than export homes square measure allowable to urge advantages of licensed shoppers Programme, as per the rules of Central Board of Excise and Customs.

Status holders would be entitled to discriminatory and priority treatment whereas handling of consignments by involved agencies. Status holders square measure eligible to export freely exportable things on freed from price basis for export promotion subject to associate degree annual limit of Rs.10 lakhs or a pair of average annual export realization throughout preceding 3 licensing years, whichever is higher.

Exporters concerned in producing would be eligible to self-certify their merchandise as origination from Asian country.

12.9 DEEMED EXPORTS

"Deemed Exports" are those transactions during which the products provided don't leave the country and therefore the payment for such provides is received either in Indian rupees or in free foreign exchange.

12.9.1 CATEGORIES OF SUPPLY

The following classes of provider of products by the main/ sub-contractors shall be considered "Deemed Exports" underneath this Policy, provided the products square measure factory-made in India:

(a) Supply of products against Advance License/Advance License for annual requirement/DFRC underneath the Duty Exemption /Remission Scheme;

(b) Supply of products to Export familiarized Units (EOUs) or software package Technology Parks (STPs) or Electronic Hardware Technology Parks (EHTPs) or Bio Technology Parks (BTP);

(c) Supply of capital product to holders of licenses underneath the Export Promotion Capital product (EPCG) scheme;

(d) Supply of products to comes supported by many-sided or bilateral agencies/funds as notified by the Department of Economic Affairs, Ministry of Finance under International Competitive Bidding in accordance with the procedures of these agencies/ funds, where the legal agreements provide for tender evaluation without including the customs duty;

(e) Supply of capital product, including in unassembled/ disassembled condition as well as plants, machinery, accessories, tools, dies and such goods which are used for installation purposes till the stage of commercial production and spares to the extent of 100% of the FOR worth to plant food plants.

(f) Supply of products to any project or purpose in respect of that the Ministry of Finance, by a notification, permits the import of such goods at zero customs duty.

(g) Supply of products to the facility comes and refineries not lined in (f) higher than.

(h) Supply of marine freight containers by 100% EOU (Domestic freight containers–manufacturers) provided the aforesaid containers square measure exported out of Asian nation inside half dozen months or such more amount as permissible by the Customs; and

(i) Supply to projects funded by UN agencies.

(j) Supply of products to atomic energy comes through competitive bidding as critical International Competitive Bidding.

12.10 AGRI EXPORT ZONE (AEZ)

The concept of Agri Export Zone (AEZ) was initiated by the Government of India in the year 2001 under Chapter – 16 of EXIM Policy. The objective behind the notification of AEZ was to focus on potential products from the export perspective and address critical issues in creation of exportable quantity and quality and to synergize the use of all available resources and logistics from central and state sector schemes in existence. 60 AEZs in 20 States were notified by the Government till 2005. APEDA had signed MoUs with state governments defining the commitments of state governments for implementation of AEZ. The Ministry of Commerce & Industry set up a Peer Review group to look into the performance of AEZs in December 2004. It was decided not to consider notification of any new AEZs unless there are strong compelling reasons. Therefore, the Government has not notified any new AEZs during the last three years and the current year. The data regarding exports from AEZs is not available. However the export of APEDA scheduled products has increased from Rs. 83485 crores during 2011-12 to Rs. 136920 crores during 2013-14.

The information was given by the Minister of State (Independent Charge) within the Ministry of Commerce Smt. Nirmala Sitharaman in an exceedingly written reply in Lok Sabha nowadays.

12.11 TARGET PLUS SCHEME

The Target and theme (TPS) was introduced within the foreign national trading policy 2004-2009. The details of the scheme are enumerated under Para 3.7 of the Foreign Trade Policy and also in the Notification No. 32/2005-Cus dated 08.04.2005. This theme provided for duty credits of fifty, 100 percent or 15 August 1945 of FOB worth of the quantum by that the exports grew over the last year for exporters WHO achieved a quantum growth in exports of over two hundredth or twenty fifth or 100 percent over last year export figure. The theme permissible the License holder to use the total worth of duty credit for mercantilism any materials to create any resultant product himself or through his job staff. In case of manufacture on job-work basis the name, address and production capability of the job-worker must be supported on the TPS Certificate. The Additional impost and special CVD debited within the license is additionally permissible as CENVAT credit to the license holder or may be claimed as downside. The theme additional provided purchasable of the resultant product once manufacture in native market or to the duty employee on payment of acceptable Central Excise duty, however prohibited the sale of the foreign stuff before manufacture of finished product.

By a public notice dated seventh Apr 2005, the board General of Foreign Trade prescribed a type in Appendix 17D during which associate application would got to be created for availing of Duty Free credit (“DFEC”) beneath the TPS for the 2 licensing years 2004 to 2006. At

Serial No. 10 of Appendix 17D, it was stated that goods i.e. inputs and capital product ought to have a "broad nexus" with the "Export Product Group". Thereafter, by a Public Notice No. 16 dated 4th June 2005, the earlier Appendix 17D was replaced by a new one. Para ten of Appendix 17D as amended contained a provision in relevance the "broad nexus" and skim as under:

"Goods allowed to be foreign beneath this theme shall have a broad nexus with the merchandise exported. For the aim Copernican entitlements beneath this theme, "broad nexus would mean product foreign with respect to any product teams of the exported product inside the general worth of the entitlement certificate."

A further circular dated eighth might 2007 was issued by the Department of Revenue, Government of India, which at stated as under:-

"In the sunshine of this, the Ministry of Law clarified that the holder of TPS certificate is permitted to import an item under the TPS and get the same processed into doable resultant merchandise provided that constant contains a broad nexus with the merchandise cluster as associate input within the export product and is needed to be used as an input within the product exported that TPS profit is wanted. The Ministry of Law has conjointly processed that the term broad nexus with the merchandise cluster is additionally to and not in substitution of the words "inputs" and "own use" in the Scheme.

This circular was followed by a Public Notice dated twenty first June 2007 that wanted to additional narrowed down the correct to import beneath TPS to solely such inputs that have a nexus with the export product, and not the export product group. After the modification of HBP reads as under:

"1 product allowed to be foreign beneath this theme shall have a broad nexus with the merchandise exported. For the aim Copernican entitlements beneath this theme, "broad nexus" would mean goods imported with reference to any of the product groups of the exported goods within the overall value of the entitlement certificate."

Thereafter a further circular No. 45/2007-Customs dated nineteenth December 2007 was issued whereby it had been additional processed that the term "broad nexus" needs to be construed with respect to the words "use" and "inputs" in the FTP, therefore limiting the profit beneath the TPS by informative that solely "inputs" utilized in the manufacture/production of products exported are allowed to be foreign.

These Circulars and Public Notices that rather than being clarifies in nature, had the impact of denying the legitimate advantages otherwise supposed to accrue to the TPS license holders by the legislature as a reward for achieving incremental growth in exports.

The higher than circulars and Public Notices were recently beneath challenge before the judicature of city in a very legal document Petition filed by Indian Exporters Grievance Forum (CIO 2010 Del 2). The judicature once elaborate hearing within the matter command that the Foreign Trade Policy can reasonably be interpreted to require an exporter to show that product foreign ought to have a "broad nexus with respect to any product cluster of the exported goods inside the general worth of the claim certificate. The word "nexus clearly refers to a bigger cluster of comparable product and not the terribly exported product itself. Consequently the impugned circulars and spot that imagined to "clarify the term "broad nexus", i.e. the impugned circular dated eighth might 2007, the general public Notice dated twenty first June 2007 and therefore the additional circular dated nineteenth December 2007, traveled on the far side what was envisaged the FTP and severely restricted the profit under that. It was a major amendment that might be caused solely through a notification beneath Section five FTDR Act. The same circulars and public notice were, therefore, ultra virus of the FTP. Further they wanted to retrospectively exclude a profit that had accumulated to the exporters that cannot however be viewed as unreasonable within the context. After perceptive therefore, the High court quashed the circular dated 8th May 2007, the Public Notice dated 21st June 2007, the further circular dated 19th December 2007 and the amended Procedure.

12.12 SUMMARY

The series of trade policy reforms in the form of annual EXIM Policy announced by the Government during the nineties and thereafter has been able to change the conditions of trade conducive to its growth. Trade policy reforms over the last decade have provided an export friendly environment with simplified procedures conducive to enhancing export performance. The focus of these reforms has been on liberalization, openness, transparency and globalization with basic thrust on outward orientation centering on export promotion activity moving away from quantitative restrictions and up aggressiveness of Indian business to fulfill international market requirements. Over the years, significant changes to strengthen the export production base, remove procedural irritants; facilitate input availability besides focusing on quality and technological up gradation and increasing competitiveness. Steps have additionally been taken to market exports through multilateral and bilateral initiatives, identification of thrust areas and focus regions. Thus it can be finally observed that the trade policy introduced in India in the form of annual EXIM policies have become successful in bringing the conditions of trade in right directions.

As rough diamonds are imported duty free which otherwise carry a duty of 5%, it is the responsibility of the Customs to ensure that the goods are properly accounted for. To safeguard the interests of revenue, a condition has been put in the notification that the Bulk License holder will be liable to pay duty on such quantity of diamonds as are not accounted for by him. Therefore, before allowing imports under Bulk Licenses, a Bond may be taken from the license holder on the lines given in Appendix

24 B of the Handbook. Bank Guarantee may be waived as all Bulk License holders have very large turnover. No separate account will be required to be maintained specifically for the Customs. The Bulk License holders will however furnish a copy each of statement and other documents presently being given to DGFT, to the Customs. For release of Bond, the licensee shall be required to produce a certificate from DGFT to the effect that the obligation against a particular Bulk License has been fulfilled.

Deemed exports shall be eligible for any/all of the subsequent edges in respect of manufacture and provider of products qualifying as deemed exports subject to the terms and conditions as given in Handbook.

Duty free import of gems and jewelry samples upto Rs 3 lakh or 0.25% of the average of last three years export turnover of gems and jewelry items, whichever is lower, shall be allowed in a financial year as per Customs notification.

12.13 SELF ASSESSMENT QUESTIONS

1. Explain the trend of Foreign Trade in India. What are the reasons of slow export growth?
2. Explain in brief the Composition of foreign trade in India.
3. Explain the Special Economic Zones in India.
4. What do you understand by Import Licensing?
5. Write short note on Deemed Export & Agri Export.
6. Explain GEM Promotion Scheme in brief.
7. Write short note on the importance of Foreign Trade Policy.
8. Explain Target plus Scheme.
9. What are the Demand Exports?
10. Explain and Duty Exemption/Remission Schemes of India.

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UNIT-13 FOREIGN EXCHANGE

Unit Structure

13.0 OBJECTIVES

After reading this unit, you should be able to-

- Describe the Nature of Foreign Exchange Market
- How to exchange foreign currency in India
- Explain the Exchange Rate Reforms and
- Know how the Triangular arbitrage

13.1 NATURE OF FOREIGN EXCHANGE MARKET

The foreign exchange market is the place where money denominated in one currency is bought and sold with money denominated in another currency. It provides the physical and institutional structure through which the currency of one country is exchanged for that of another country, the rate of exchange between currencies is determined, and foreign exchange transactions are physically completed.

The primary purpose of this market is to permit transfer of purchasing power denominated in one currency to another. For example, a Japanese exporter sells automobiles to a U.S. dealer for dollars, and a U.S. manufacturer sells instruments to a Japanese Company for yen. The U.S. Company will like to receive payment in dollar, while the Japanese exporter will want yen.

It would be inconvenient for individual buyers and sellers of foreign exchange to seek out one another. So a foreign exchange market has developed to act as an intermediary. It is the largest financial market in the world with prices moving and currencies trading somewhere every hour of every business day.

Major world trading starts each morning in Sydney and Tokyo; moves West to Hong Kong and Singapore; passes on to Bahrain; shifts to the main European markets of Frankfurt, Zurich and London; Jumps the Atlantic to New York; goes west to Chicago, and ends in San Francisco and Los Angeles.

It is the largest financial market in the world having daily turnover of over 1600 billions dollar in 2001. Bulk of the trading is accounted for by a small number of currencies the U.S. dollar, Deutschemark (DM), Yen, Pound Sterling, Swiss Franc, and Canadian dollar.

Foreign exchange market is of two types, viz.; retail market and wholesale market, also termed as the inter-bank market. In retail market, travellers and tourists exchange one currency for another. The total turnover in this market is very small.

Wholesale market comprises of large commercial banks, foreign exchange brokers in the inter-bank market, commercial customers, primarily MNCs and Central banks which intervene in the market from time to time to smooth exchange rate fluctuations or to maintain target exchange rates.

Over 90% of the total volume of the transactions is represented by inter-bank transactions and the remaining 10% by transactions between banks and their non-bank customers. It is worth noting that central bank intervention involving buying or selling in the market is often indistinguishable from the foreign exchange dealings of commercial banks or of other participants.

The foreign exchange is similar to the over-the counter market in securities. It has no centralized physical market place (except for a few places in Europe and the futures market of the International Monetary

Market of the Chicago Mercantile Exchange) and no fixed opening and closing time.

The trading in foreign exchange is done over the telephone, telexes, computer terminals and other electronic means of communication. The currencies and the extent of participation of each currency in this market depend on local regulations that vary from country to country.

It is interesting to note that bulk of the turnover in the international exchange market is represented by speculative transactions.

Foreign exchange market in India is relatively very small. The major players in that market are the RBI, banks and business enterprises. Indian foreign exchange market is controlled and regulated by the RBI. The RBI plays crucial role in settling the day-to-day rates.

Participants in Foreign Exchange Market:

Participants in Foreign exchange market can be categorized into five major groups, viz.; commercial banks, Foreign exchange brokers, Central bank, MNCs and Individuals and Small businesses.

13.1.1 COMMERCIAL BANKS

The major participants in the foreign exchange market are the large Commercial banks who provide the core of market. As many as 100 to 200 banks across the globe actively "make the market" in the foreign exchange. These banks serve their retail clients, the bank customers, in conducting foreign commerce or making international investment in financial assets that require foreign exchange.

These banks operate in the foreign exchange market at two levels. At the retail level, they deal with their customers-corporations, exporters and so forth. At the wholesale level, banks maintain an inert bank market in foreign exchange either directly or through specialized foreign exchange brokers.

The bulk of activity in the foreign exchange market is conducted in an inter-bank wholesale market-a network of large international banks and brokers. Whenever a bank buys a currency in the foreign currency market, it is simultaneously selling another currency.

A bank that has committed itself to buy a certain particular currency is said to have long position in that currency. A short-term position occurs when the bank is committed to selling amounts of that currency exceeding its commitments to purchase it.

13.1.2 FOREIGN EXCHANGE BROKERS

Foreign exchange brokers also operate in the international currency market. They act as agents who facilitate trading between dealers. Unlike the banks, brokers serve merely as matchmakers and do not put their own money at risk.

They actively and constantly monitor exchange rates offered by the major international banks through computerized systems such as Reuters and are able to find quickly an opposite party for a client without revealing the identity of either party until a transaction has been agreed upon. This is why inter-bank traders use a broker primarily to disseminate as quickly as possible a currency quote to many other dealers.

13.1.3 CENTRAL BANKS

Another important player in the foreign market is Central bank of the various countries. Central banks frequently intervene in the market to maintain the exchange rates of their currencies within a desired range and to smooth fluctuations within that range. The level of the bank’s intervention will depend upon the exchange rate regime flowed by the given country’s Central bank.

13.1.4 MNCS

MNCs are the major non-bank participants in the forward market as they exchange cash flows associated with their multinational operations. MNCs often contract to either pay or receive fixed amounts in foreign currencies at future dates, so they are exposed to foreign currency risk. This is why they often hedge these future cash flows through the inter-bank forward exchange market.

13.1.5 INDIVIDUALS AND SMALL BUSINESSES

Individuals and small businesses also use foreign exchange market to facilitate execution of commercial or investment transactions. The foreign needs of these players are usually small and account for only a fraction of all foreign exchange transactions. Even then they are very important participants in the market. Some of these participants use the market to hedge foreign exchange risk.

13.2 SEGMENTS OF FOREIGN EXCHANGE MARKET

There are two segments of foreign exchange market, viz., Spot Market and Forward Market.

13.2.1 SPOT MARKET

In spot market currencies are exchanged immediately on the spot. This market is used when a firm wants to change one currency for another on the spot. The procedure is very simple. A banker can either handle the transaction for the firm or may have it handled by another bank.

Within minutes the firm knows exactly how many units of one currency are to be received or paid for a certain number of units of another currency.

For instance, a US firm wants to buy 4000 books from a British Publisher. The Publisher wants four thousand British Pounds for the books so that the American firm needs to change some of its dollars into pounds to pay for the books. If the British Pound is being exchanged, say, for US $ 1.70, then £ 4,000 equals $ 6800.

The US firm simply pays $ 6800 to its bank and the bank exchanges the dollars for 4000 £ to pay the British Publisher.

In the Spot market risks are always involved in any particular currency. Regardless of what currency a firm holds or expects to hold, the exchange rate may change and the firm may end up with a currency that declines in values if it is unlucky or not careful.

There are also risks that what the firm owes or will owe may be stated in a currency that becomes more valuable and, as such possibly harder to obtain and use to pay the obligation.

13.2.2 FORWARD MARKET

Forward market has come into existence to avoid uncertainties. In Forward market, a forward contract about which currencies are to be traded, when the exchange is to occur, how much of each currency is involved, and which side of the contract each party is entered into between the firms.

With this contract, a firm eliminates one uncertainty, the exchange rate risk of not knowing what it will receive or pay in future. However, it may be noted that any possible gains in exchange rate changes are also estimated and the contract may cost more than it turns out to be worth.

For example, suppose that the ninety-day forward price of the British pound is 2.000 (US$ 2.00 per £) or quoted £ 0.5000 per US $, and that the current spot price is US $ 1.650. If a firm enters into a forward contract at the forward exchange rate, it indicates a preference for this forward rate to the unknown rate that will be quoted ninety days from now in the spot market.

However, if the spot price of the pound increases by 100 per cent during the next 90 days, the pound would be US $ 3.3000 and the £ 5,00,000 could be converted into US $ 1,650,000 The forward market, therefore, can remove the uncertainty of not knowing how much the firm will receive or pay. But it creates one uncertainty-whether the firm might have been better off by waiting.

13.3 FUNCTIONS OF FOREIGN EXCHANGE MARKET

Foreign exchange market plays a very significant role in business development of a country because of the fact that it performs several useful functions, as set out below :

1. Foreign exchange market transfers purchasing power across different countries, which results in enhancing the feasibility of international trade and overseas investment.
2. It acts as a central focus whereby prices are set for different currencies.
3. With the help of foreign exchange market investors can hedge or minimize the risk of loss due to adverse exchange rate changes.
4. Foreign exchange market allows traders to identify risk free opportunities and arbitrage these away.
5. It facilitates investment function of banks and corporate traders who are willing to expose their firms to currency risks.

13.4 FOREIGN EXCHANGE MARKET AND ITS STRUCTURE IN INDIA

The foreign exchange market in India has been around for about 40 years now. The market started operating in 1978 after the government's decree. After its establishment, the forex market has seen significant growth over the years. The market is regulated by the central government and all aspects of the trade are defined by national laws. There are many things about this market that make it distinct from other markets in the world. To start with, its structure is slightly unique and defined by different market dynamics. In order to understand the forex market in India, you need to study its structure and what makes it different.

The structure of the forex market in India

Like other forex markets in the world, the forex in India consists of several stakeholders. The main stakeholders in this market are :

- Traders
- Banks /Authorized dealers
- The Reserve Bank of India

The three actors mentioned above play different roles in the trade. Traders are generally all individuals in the public who are also corporate customers of the banks. These customers use the banks as authorized dealers to access the forex market. There are traders of different kinds but all of them are able to access the market only through dealers. This is much like elsewhere in the world where brokers are the intermediaries between the forex and ordinary traders.

The banks, on the other hand, are the legally authorized institutions to handle currency. In India, banks exist in different tiers and there are clear laws that determine which institution is categorized as a financial institution. From these legal institutions, all those who want to trade can create accounts, access the market and choose products that they would like to trade in. The trading landscape has changed a lot over the years especially since the 1990's when the Indian regulatory authorities liberalized this market.

Lastly, the Reserve Bank of India (RBI) is the central financial institution which is responsible for the monetary policy in India. This institution has been instrumental in shaping the trading landscape in India. Before 1993, the Indian Rupee had a fixed value which was determined by the RBI. This meant that the currency only attracted a certain exchange rate even though the market dynamics were changing. In 1993, though, the RBI repealed the prevailing law at the time to allow for an exchange rate determined by the market itself. Since then, the Rupee's value has changed a lot in relation to different currencies.

13.5 THE STATUS OF THE FOREX MARKET IN INDIA

In 2018, the forex market in India is quite vibrant. Even though it is not the market with the most daily volume, it is among the top ten markets in the world. As of 2017, the forex assets in India place it as the 8th best market in the world by forex reserves. The top asset in this market is the United States as represented by US institutional bonds and government bonds. The Indian forex reserves are also held in terms of gold. Indeed, India is the first nation in the world in terms of gold consumption.

Statistically, the Indian forex market has changed a lot. To start with, the daily turnover for the market is well over several billion dollars down from a couple of millions when it started. The Indian forex market has several forex players that facilitate the exchange of currency. The markets in these exchanges have several listed brokers and authorized institutions. There are several non-bank financial institutions that are legally authorized to facilitate trade in the Indian market. These institutions are regulated by the FEDAI and they use the USP for better rates of exchange. The market is open 24 hours every day and it is linked to the rest of the world markets.

13.6 HOW TO EXCHANGE FOREIGN CURRENCY IN INDIA

The procedure to exchange foreign currency in India is really simple;

1. **Exchange foreign currency in Indian banks :**

   With the foreign currency in hand visit your bank where you hold an account. For example, if you are an SBI bank account holder, you can exchange foreign currency in SBI. You won't be able to do the exchange in a bank where you don't hold an account or have a customer relationship. Ask for the exchange rate of the foreign currency with respect to the rupee and the service fee quoted by your bank. If you are satisfied with the rate you can complete the money exchange in your bank itself. Skip to step 4 where the documents required are mentioned. However, if you want to sell the forex in your hand at the best possible rate you can find in the market then continue with step 2.

2. **Sell foreign currency in India with RBI approved money changers :**

   Approach an RBI approved money changer holding "Authorised Dealers Category – II or Full Fledged Money Changers (FFMCs) licence.

   Examples of money changers are Muthoot Forex, UAE Exchange, Cox & Kings, Thomas Cook etc. Their advantage is that unlike banks we need not have an account with them to sell foreign currency. Also, money changers are more competitive than banks. Thus they offer attractive exchange rates to grab customers.

   Since you can choose among many exchange houses, you have a lot of options. The procedure to exchange currency is same as that of banks. Go to a forex store and initiate your sell currency transaction. If the total amount is below Rs 50,000 you have the option to receive the money as cash. Otherwise, the money changer will deposit the money directly into your bank account or give you a cheque for the same.

3. **Compare the exchange rates :**

   Compare the exchange rates and service fees by your bank vs money changers in your town. By comparing, you'll be able to pinpoint the forex centre giving the best exchange rate and sell your foreign currency there for a higher amount of rupee. When it comes to dealing in foreign exchange, or sending money abroad, the most important factor you should consider is the exchange rate offered for your currency.

For example; Say you want to convert USD to INR. If your bank is giving you an exchange rate of 64 rupees for 1 US dollar and the best rate given by a money changer in your city is 66 rupees for 1 dollar then it is better to go with the money changer. You get 2 extra rupees for every dollar exchanged. If you are selling $ 2,000 that would mean getting Rs 4,000 extra compared to your bank exchange rate!

4. **Produce documents required for money exchange in India :**

When selling forex through your bank or a chosen money changer, you'd be required to provide KYC (Know your customer) documents. This is in compliance with RBI rules and all banks and authorized exchange houses must adhere to this rule.

The documents required for selling foreign currency in India are ;

- Indian Passport (Mandatory for transactions above Rs.25,000)
- Copy of your Driving License
- Voters ID
- Aadhar Card
- PAN Card (If required)

Please Note : Any 1 of the above documents is enough

These are the steps you need to take if you want to exchange forex in India.

13.7 EXCHANGE RATE SYSTEM IN INDIA: OBJECTIVES AND REFORMS

An exchange-rate regime is the way an authority manages its currency in relation to other currencies and the foreign exchange market. Between the two limits of fixed and freely floating exchange regimes, there can be several other types of regimes. In their operational objective, it is closely related to monetary policy of the country with both depending on common factors of influence and impact.

The exchange rate regime has a big impact on world trade and financial flows. The volume of such transactions and the speed at which they are growing makes the exchange rate regime a central piece of any national economic policy framework.

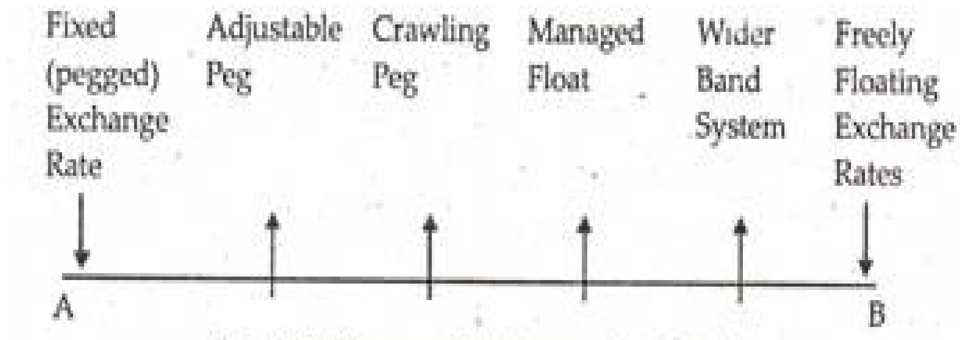


Fig. 21.2: Types of Exchange Rate Regime

In Figure above, as one moves from point A on the left to point B on the right, both the frequency of intervention by domestic monetary authorities and required level of international reserves tend to be lower.

Under a pure fixed-exchange-rate regime (point A), authorities intervene so that the value of the domestic currency vis-a-vis the currency of another country, say the US Dollar, is maintained at a constant rate. Under a freely floating exchange-rate regime, authorities do not intervene in the market for foreign exchange and there is minimal need for international reserves.

13.8 EXCHANGE RATE SYSTEM IN INDIA

India was among the original members of the IMF when it started" functioning in 1946. As such, India was obliged to adopt the Bretton Woods system of exchange rate determination. This system is known as the par value system of pegged exchange rate system. Under this system, each member country of the IMF was required to define the value of its currency in terms of gold or the US dollar and maintain (or peg) the market value of its currency within ± per cent of the defined (par) value.

The Bretton Woods system collapsed in 1971. Consequently, the rupee was pegged to pound sterling for four years after which it was initially linked to the basket of 14 currencies but later reduced to 5 currencies of India's major trading partners.

This system continued through the 1980s; through the exchange rate was allowed to fluctuate in a wider margin and to depreciate modestly with a view to maintaining competitiveness. However, the need for adjusting exchange rate became precipitous in the face of external payments crisis of 1991.

As a part of the overall macro-economic stabilisation programme, the exchange rate of the rupee was devalued in two stages by 18 per cent in terms of the US dollar in July 1991. With that, India entered into a new phase of exchange rate management.

13.9 OBJECTIVES OF EXCHANGE RATE MANAGEMENT

The main objectives of India's exchange rate policy is to ensure that the economic fundamentals are truly reflected in the external value of the rupee.

Subject to this predominant objective, the conduct of exchange policy is guided by the following:

i. Reduce volatility in exchange rates, ensuring that the market correction of exchange rates is effected in an orderly and calibrated manner;

ii. Help maintain an adequate level of foreign exchange reserves;

iii. Prevent the emergence of destabilisation by speculative activities; and

iv. Help eliminate market constraints so as to assist the development of a healthy foreign exchange market.

13.10 EXCHANGE RATE REFORMS

Exchange rate reforms have proceeded gradually beginning with a two- stage cumulative devaluation of rupee by about 20 per cent effected in July 1991. Subsequently, the Liberalised Exchange Rate Management System (LERMS) was introduced in 1992, which was later replaced by the Unified Exchange Rate System (UERS) in 1993. The net result was an effective devaluation of the rupee by around 35 per cent in nominal terms and 25 per cent in real terms between July 1991 and March 1993.

13.11 FEATURES OF THE CURRENT REGIME

The principal features of the current exchange rate regime in India can be briefly stated as follows:

i. The rates of exchange are determined in the market.

ii. The freely floating exchange rate regime continues to operate within the framework of exchange control.

iii. Current receipts are surrendered (or deposited) to the banking system, which in turn, meets the demand for foreign exchange.

iv. RBI can intervene in the market to modulate the volatility and sharp depreciation of the rupee. It effects transactions at a rate of exchange, which could change within a margin of 5 per cent of the prevailing market rate.

v. The US dollar is the principal currency for the RBI transactions.

vi. The RBI also announces a Reference Rate based on the quotations of select banks on Bombay at twelve noon every day. The Reference Rate is applicable to SDR transactions and transactions routed through the Asia Clearing Union.

In short, the India rupee has matured to a regime of the floating exchange rate from the earlier versions of a 'managed float'.

Convertibility on Current Account :

The current regime of the exchange rate has been accompanied by full 'Convertibility on current account with effect from August 20, 1994. Accordingly, several provisions like remittances for service, education, basic travel, gift remittances, donation, and provisions of the Exchange Earners' Foreign Currency Account (EEFCA) were relaxed.

In a further move, announced in 1997, the RBI liberalised the existing regulations in regard to payments for various kinds of feasibility studies, legal services, postal imports and purchases of designs and drawings. With this, India acquired a status called as the IMF Article VIII Status.

By attaining the Article VIII status, India has reached a position by which it can instill confidence among the international investor community, paving the way for further inflow of foreign capital. Further, India is also committed to allowing free outflow of current account payments (like interest) even if there is a serious foreign exchange crisis.

Notwithstanding the above, the government still retains many controls on current account.

Among these, the following may be specifically mentioned :

i. Repatriation of export proceeds within six months;

ii. Caps on the amounts spent on the purchase of services abroad;

iii. Restrictions on the repatriation of interest on rupee debt;

iv. Dividend-balancing for FDI in some consumer goods industries;

v. Restrictions on the repatriation of interest on NRI deposits;

vi. The rupee is not allowed to be officially used as international means of payment. Indian banks are not permitted to offer two-way quotes to NRIs or-non-resident banks.

With the help of these controls, the governments can significantly alter the flow of foreign exchange and the exchange rate of rupee. Additionally, the RBI can influence the exchange rate through direct purchase and sale of foreign exchange in the market.

Convertibility on Capital Account :

Drawing on the experience of the past decade and a half, the extent and timing of capital account liberalisation is sequenced with other reforms like strengthening of banking systems, fiscal consolidation, market development and integration, trade liberalisation, etc. all of which are in tune with the changing domestic and external economic environment.

A hierarchy is thus established in the sources and types of capital flows. The priority has been to liberalise inflows relative to outflows, but all outflows associated with inflows have been totally freed. Among the type of inflows, FDI is preferred for its stability, while short-term external debt is avoided. A differentiation is made between Corporates, individuals and banks.

For outflows, the hierarchy for liberalisation has corporate at the top, followed by financial intermediaries and individuals. Restrictions have been eased for corporate Seeking investments and acquisitions abroad, which strengthen their global presence. Banks and financial intermediaries are considered a source of greater volatility as their assets are relatively illiquid and their liabilities are demandable.

They are thus susceptible to self-fulfilling crisis of confidence leading to contagion effect. In view of this, liberalisation for outflows in this sector has been tied to financial sector reforms. For individuals, residents are treated differently from nonresidents, and non-resident Indians are accorded a well-defined intermediate status between residents and non-residents.

13.12 INTERVENTION BY RBI

The current exchange rate regime, introduced in 1993, the RBI has been, actively intervening in the foreign exchange market with the objective of maintaining the real effective exchange rate (REER) stable.

The RBI uses two types of intervention in this regard :

i. Direct Intervention :

   It refers to purchases and sales in international currency (i.e. US dollars and euro) both on the spot and also in forward markets.

ii. Indirect Intervention :

   It refers to the use of reserve requirements and interest rate flexibility to smoothen temporary mismatches between demand and supply of foreign currency.

Intervention by the RBI has raised a question as to whether or not there should be an exchange rate band within, which the central bank should allow the currency to fluctuate. The Tarapore Committee in its report on Capital Account Convertibility had, while suggesting transparency in the exchange rate policy of the central bank, recommended a band within which it would allow the currency to move.

The RBI has been, in contrast, saying that there cannot be such rigidities in exchange rate policy, and, therefore, the bank should have the right to intervene at its discretion. Such interventions are considered necessary till the rupee is made fully convertible.

13.13 TRIANGULAR ARBITRAGE

Triangular arbitrage (also referred to as cross currency arbitrage or three-point arbitrage) is the act of exploiting an arbitrage opportunity resulting from a pricing discrepancy among three different currencies in the foreign exchange market. A triangular arbitrage strategy involves three trades, exchanging the initial currency for a second, the second currency for a third, and the third currency for the initial. During the second trade, the arbitrageur locks in a zero-risk profit from the discrepancy that exists when the market cross exchange rate is not aligned with the implicit cross exchange rate. A profitable trade is only possible if there exist market imperfections. Profitable triangular arbitrage is very rarely possible because when such opportunities arise, traders execute trades that take advantage of the imperfections and prices adjust up or down until the opportunity disappears.

13.14 CROSS EXCHANGE RATE DISCREPANCIES

Triangular arbitrage opportunities may only exist when a bank's quoted exchange rate is not equal to the market's implicit cross exchange rate. The following equation represents the calculation of an implicit cross exchange rate, the exchange rate one would expect in the market as implied from the ratio of two currencies other than the base currency.

{\displaystyle S_{a/\$}=S_{a/b}S_{b/\$}} $S_{a/\$} = S_{a/b} S_{b/\$}$

where

$S_{a/\$}$ {\displaystyle S_{a/\$}} is the implicit cross exchange rate for dollars in terms of currency a

$S_{a/b}$ {\displaystyle S_{a/b}} is the quoted market cross exchange rate for b in terms of currency a

$S_{b/\$}${\displaystyle S_{b/\$}} is the quoted market cross exchange rate for dollars in terms of currency b

If the market cross exchange rate quoted by a bank is equal to the implicit cross exchange rate as implied from the exchange rates of other currencies, then a no-arbitrage condition is sustained. However, if an inequality exists between the market cross exchange rate, {\displaystyle S_{a/\$}} $S_{a/\$}$ {\displaystyle S_{a/\$}} , and the implicit cross exchange rate, {\displaystyle S_{a/b}S_{b/\$}} $S_{a/b} S_{b/\$}$, then there exists an opportunity for arbitrage profits on the difference between the two exchange rates.

13.15 MECHANICS OF TRIANGULAR ARBITRAGE

Some international banks serve as market makers between currencies by narrowing their bid-ask spread more than the bid-ask spread of the implicit cross exchange rate. However, the bid and ask prices of the implicit cross exchange rate naturally discipline market makers. When banks' quoted exchange rates move out of alignment with cross exchange rates, any banks or traders who detect the discrepancy have an opportunity to earn arbitrage profits via a triangular arbitrage strategy. To execute a triangular arbitrage trading strategy, a bank would calculate cross exchange rates and compare them with exchange rates quoted by other banks to identify a pricing discrepancy.

For example, Citibank detects that Deutsche Bank is quoting dollars at a bid price of 0.8171 €/$, and that Barclays is quoting pounds at a bid price of 1.4650 $/£ (Deutsche Bank and Barclays are in other words willing to buy those currencies at those prices). Citibank itself is quoting the same prices for these two exchange rates. A trader at Citibank then sees that Crédit Agricole is quoting pounds at an ask price of 1.1910 €/£ (in other words it is willing to sell pounds at that price). While the quoted market cross exchange rate is 1.1910 €/£, Citibank's trader realizes that the implicit cross exchange rate is 1.1971 €/£ (by calculating 1.4650 × 0.8171 = 1.1971), meaning that Crédit Agricole has narrowed its bid-ask spread to serve as a market maker between the euro and the pound. Although the market suggests the implicit cross exchange rate should be 1.1971 euros per pound, Crédit Agricole is selling pounds at a lower price of 1.1910 euros. Citibank's trader can hastily exercise triangular arbitrage by exchanging dollars for euros with Deutsche Bank, then exchanging euros for pounds with Crédit Agricole, and finally exchanging pounds for dollars with Barclays. The following steps illustrate the triangular arbitrage transaction.

Citibank sells $5,000,000 to Deutsche Bank for euros, receiving €4,085,500. ($5,000,000 × 0.8171 €/$ = €4,085,500)

Citibank sells €4,085,500 to Crédit Agricole for pounds, receiving £3,430,311. (€4,085,500 ÷ 1.1910 €/£ = £3,430,311)

Citibank sells £3,430,311 to Barclays for dollars, receiving $5,025,406. (£3,430,311 × 1.4650 $/£ = $5,025,406)

Citibank ultimately earns an arbitrage profit of $25,406 on the $5,000,000 of capital it used to execute the strategy.

The reason for dividing the euro amount by the euro/pound exchange rate in this example is that the exchange rate is quoted in euro terms, as is the amount being traded. One could multiply the euro amount by the reciprocal pound/euro exchange rate and still calculate the ending amount of pounds.

13.16 SUMMARY

The foreign exchange market is the place where money denominated in one currency is bought and sold with money denominated in another currency. It provides the physical and institutional structure through which the currency of one country is exchanged for that of another country, the rate of exchange between currencies is determined, and foreign exchange transactions are physically completed.

India was among the original members of the IMF when it started" functioning in 1946. As such, India was obliged to adopt the Bretton Woods system of exchange rate determination. This system is known as the par value system of pegged exchange rate system. Under this system, each member country of the IMF was required to define the value of its currency in terms of gold or the US dollar and maintain (or peg) the market value of its currency within ± per cent of the defined (par) value.

The Bretton Woods system collapsed in 1971. Consequently, the rupee was pegged to pound sterling for four years after which it was initially linked to the basket of 14 currencies but later reduced to 5 currencies of India's major trading partners.

Triangular arbitrage (also referred to as cross currency arbitrage or three-point arbitrage) is the act of exploiting an arbitrage opportunity resulting from a pricing discrepancy among three different currencies in the foreign exchange market.

13.17 SELF ASSESSMENT QUESTION

1. Explain the nature of Foreign Exchange Market:
2. Discuss about the segments of Foreign Exchange Market:
3. Elaborate functions of Foreign Exchange Market:
4. Discuss the Foreign Exchange Market and its Structure in India
5. Explain the status of the forex market in India? How to exchange foreign currency in India
6. Write an essay on Exchange Rate System in India: Objectives and Reforms
7. What are the Exchange Rate Reforms:
8. What are the features of the Current Regime:
9. What Triangular arbitrage? Explain Mechanics of triangular arbitrage

UNIT-14 FORWARD CONTRACTS

Unit Structure

14.0 OBJECTIVES

After reading this unit, you should be able to-

- Describe the forward contract and currency derivates segments
- Explain the Frequently Traded currencies In The Forex Market and
- Know how the prices are determined

14.1 INTRODUCTION

A futures market is an auction market in which participants buy and sell specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future. The futures market is a centralized market place for buyers and sellers from around the world, who meet and enter into commodity futures contracts. Like most other markets, futures exchanges are mostly electronic. Futures contracts are used by producers and suppliers of commodities to avoid market volatility. These producers and suppliers negotiate contracts with an investor who agrees to take on both the risk and reward of a volatile market. The primary advantage of futures is that it allows individuals and businesses to protect their positions against price fluctuations. For the buyer, it offers protection from future price increases and for the seller, it offers protection from prices falls. A market where commodities are traded is referred to as a commodity market. It is the market where a wide range of products, viz., precious metals, base metals, crude oil, energy and soft commodities like palm oil, spices, coffee etc. are traded. The commodities markets are one of the oldest markets where trading in commodities takes place and is similar to an equity market. Commodity Markets are markets where raw or primary products are exchanged. Futures market pricing is based mostly on an open cry system or bids and offers that can be electronically matched. The commodity exchanges are more self-regulating than stock exchanges. Futures contract in the commodities market, similar to equity derivatives segment will facilitate the activities of speculation, hedging and arbitrage to all class of investors. Futures contracts are used as hedging instruments in agricultural commodities. Hedging is a common practice of insures against a poor harvest by purchasing futures contracts in the same commodity. These raw commodities are traded on regulated commodities exchanges in which they are bought and sold in standardized contracts. Commodity markets require the existence of agreed standards so that the trades can be made without visual inspection. Commodity market is an important constituent of the financial markets of any country. Forward Markets Commission (FMC) is a regulatory authority for commodity futures market in India.

14.1 WHAT ARE FORWARD CONTRACTS?

In financial terms, a forward contract or simply forward, is a customized contract between two parties, where settlement takes place on a specific date in future at a price agreed today, making it a type of derivative instrument. The party agreeing to buy the underlying asset in the future assumes a long position, and the party agreeing to sell the asset in the future assumes a short position . The price agreed upon is called the delivery price, which is equal to the forward price at the time the contract is entered into.

This is one of the many forms of buy/sell orders where the time and date of trade is not the same as the value date where the securities themselves are exchanged. Forwards, like other derivative securities, can be used to hedge risk (typically currency or exchange rate risk), as a means of speculation, or to allow a party to take advantage of a quality of the underlying instrument which is time-sensitive.

14.1.1 THE MAIN FEATURES OF FORWARD CONTRACTS ARE

They are bilateral contracts and hence exposed to counter- party risk.

Each contract is custom designed, and hence is unique in terms of contract size, expiration date and the asset type and quality

The contract price is generally not available in public domain.

The contract has to be settled by delivery of the asset on expiration date.

14.2 WHAT ARE FUTURES CONTRACTS?

In financial terms, Futures contracts or simply Futures, is a standardized forward contract, a legal agreement to buy or sell financial instruments or physical commodities for a future delivery at a predetermined price at a specified time in the future.

There is an agreement to buy or sell a specified quantity of financial instrument commodity in a designated future month at a price agreed upon by the buyer and seller. To make trading possible, BSE specifies certain standardized features of the contract. The transaction is usually done on the trading floor of a futures exchange. Since it is a function of an underlying asset, a futures contract is a derivative product.

Contracts are negotiated at futures exchanges, which act as a marketplace between buyers and sellers. The buyer of a contract is said to be long position holder, and the selling party is said to be short position holder.

The first futures contracts were negotiated for agricultural commodities and later futures contracts were negotiated for natural resources such as oil. Financial futures were introduced in 1972, and in recent decades, currency futures, interest rate futures and stock market index futures have played an increasingly large role in the overall futures markets.

14.3 CURRENCY DERIVATIVES SEGMENT

Currency market internationally is very mature and large in terms of market share which is bigger than equity and commodity market. International currency markets are made up of banks, commercial companies, central banks, investment management firms, hedge funds, retail forex brokers and investors.

Indian currency markets have noticed heightened activities and extreme volatilities in last couple of years. The developments taking place in the Indian Forex market have brightened the prospects for investors and traders.

14.3.1 WHAT IS CURRENCY MARKET?

Participants from all round the world, who can buy, sell exchange and speculate on different currencies. The international currency market comprises of Banks, Commercial Companies, Central Banks, and Investment Management firms, Hedge Funds, Retail Forex and Investors.

14.3.2 WHAT IS FOREX TRADING?

Forex is Foreign Exchange Market which is global decentralized market for trading currencies. It is a buying, selling, exchange of currencies at a determined price.

14.3.3 WHAT CURRENCIES ARE FREQUENTLY TRADED IN THE FOREX MARKET?

Euro/US dollars (EUR/USD) - euro

US dollar/Japanese yen (USD/JPY) - gopher

British pound/dollar (GBP/USD) – cable

US dollar/Swiss franc (USD/CHF) – swissie

Australian doller/US dollar (AUD/USD) – aussie

US dollar/Canadian dollar (USD/CAD) –loonie

Currency derivatives derivatives are a contract between the seller and buyer, whose value is to be derived from the underlying asset i.e. the currency value. A derivative based on currency exchange rate is an agreement that two currencies can be exchanged in a specific quantity of a particular currency pair at a future date.Currency Derivatives can be Future and Options contracts which are similar to the Stock Futures and Options but the underlying happens to be currency pair (i.e. USDINR, EURINR, JPYINR OR GBPINR) instead of Stocks. Currency Derivatives are available on four currency pairs viz. US Dollars (USD), Euro (EUR), Great Britain Pound (GBP) and Japanese Yen (JPY). Currency options are currently available on US Dollars.

14.3.4 WHAT IS AN 'EXCHANGE TRADED DERIVATIVE'?

An exchange traded derivative is a financial instrument whose value is based on the value of another asset, and that trades on a regulated exchange. Futures and options are two of the most popular exchange traded derivatives. These derivatives can be used to hedge exposure or speculate on a wide range of financial assets like commodities, equities, currencies, and even interest rates.

14.3.5 WHAT IS CURRENCY TRADING?

Currency trading is the act of buying and selling international currencies for example USD-EUR or USD-YEN. Very often, banks and financial trading institutions engage in the act of currency trading. Individual investors can also engage in currency trading, attempting to benefit from variations in the exchange rate of the currencies.

14.3.6 HOW PRICES ARE DETERMINED?

Currency prices are affected by a variety of economic and political conditions, but probably the most important are interest rates, international trade, inflation, and political stability. Sometimes governments actually participate in the foreign exchange market to influence the value of their currencies. This is known as central bank intervention. Any of these factors, as well as large market orders, can cause high volatility in currency prices. However, the size and volume of the FOREX market make it impossible for any one entity to drive the market for any length of time.

14.3.7 WHY TO INVEST/TRADE IN CURRENCY?

Portfolio Diversification

Hedging (specially for importers/exporters)

Low margin – High leverage

Limited Scripts to track

Serves as a separate asset class for market savvy investors, arbitrageurs and speculators

Far from Manipulation

Products

Symbol	**USDINR ($)**	**EURINR (€)**	**GBPINR (£)**	**JPYINR (¥)**
Market Type	N	N	N	N
Instrument Type	FUTCUR	FUTCUR	FUTCUR	FUTCUR
Unit of trading	1 - 1 unit denotes 1000 USD.	1 - 1 unit denotes 1000	1 - 1 unit denotes 1000 POUND	1 - 1 unit denotes 100000 JAPANESE

Symbol	**USDINR ($)**	**EURINR (€)**	**GBPINR (£)**	**JPYINR (¥)**
		EURO.	STERLING.	YEN.
Underlying / Order Quotation	The exchange rate in Indian Rupees for US Dollars	The exchange rate in Indian Rupees for Euro.	The exchange rate in Indian Rupees for Pound Sterling.	The exchange rate in Indian Rupees for 100 Japanese Yen.
Tick size	0.25 paise or INR 0.0025			
Trading hours	Monday to Friday - 9:00 a.m. to 5:00 p.m.			
Contract trading cycle	12 month trading cycle			
Last trading day	Two working days prior to the last business day of the expiry month at 12:30 pm.			
Final settlement day	Last working day (excluding Saturdays) of the expiry month. The last working day will be the same as that for Interbank Settlements in Mumbai.			
Quantity Freeze	10,001 or greater			
Base price	Theoretical price on the 1st day of the contract. On all other days, DSP of the contract.	Theoretical price on the 1st day of the contract. On all other days, DSP of the contract.	Theoretical price on the 1st day of the contract. On all other days, DSP of the contract.	Theoretical price on the 1st day of the contract. On all other days, DSP of the contract.

Symbol	USDINR ($)	EURINR (€)	GBPINR (£)	JPYINR (¥)
Price operating range	Tenure upto 6 months	+/-3 % of base price.		
	Tenure greater than 6 months	+/- 5% of base price.		
Position limits	Position Limits for CDS Segment			
Initial margin	SPAN Based Margin			
Extreme loss margin	1% of MTM value of gross open position	0.3% of MTM value of gross open position	0.5% of MTM value of gross open position	0.7% of MTM value of gross open position
Calendar spreads	Rs.400 for spread of 1 month Rs.500 for spread of 2 months Rs.800 for spread of 3 months Rs.1000 for spread of 4 months and more	Rs.700 for spread of 1 month Rs.1000 for spread of 2 months Rs.1500 for spread of 3 months and more	Rs.1500 for spread of 1 month Rs.1800 for spread of 2 months Rs.2000 for spread of 3 months and more	Rs.600 for spread of 1 month Rs.1000 for spread of 2 months Rs.1500 for spread of 3 months and more
Settlement	Daily settlement : T + 1 Final settlement : T + 2			
Mode of settlement	Cash settled in Indian Rupees			

Symbol	USDINR ($)	EURINR (€)	GBPINR (£)	JPYINR (¥)
Daily settlement price (DSP)	Calculated on the basis of the last half an hour weighted average price.			
Final settlement price (FSP)	RBI reference rate	RBI reference rate	Exchange rate published by RBI in its Press Release captioned RBI reference Rate for US$ and Euro	Exchange rate published by RBI in its Press Release captioned RBI reference Rate for US$ and Euro

14.4 FORECASTING FOREIGN EXCHANGE RATES

An intense debate has been raging over the value of the Indian rupee, since it depreciated by more than 10% this year and recently breached a new low of 72 against the US dollar. Given the expected strengthening of the dollar, downward pressure on the value of the rupee (and other emerging market currencies) is expected to continue for some time. Since India imports huge quantities of oil, rupee depreciation also has an adverse impact on domestic inflation. With the Lok Sabha elections around the corner, it is a hot topic. This makes it important for investors to understand how to forecast the value of the rupee, also known as its exchange rate.

There are three approaches to exchange rate forecasting: Market-based forecasts, fundamental analysis and technical analysis.

14.4.1 MARKET-BASED FORECASTS

We look at the price of the currency in the forward market (forward contracts trade in the derivatives market). As an example, if the rupee-dollar is currently trading at 72 and the one-year forward contract is trading at 75, we assume that it implies a depreciation of the rupee from 72 to 75. However, this approach can be misleading as the market consensus on the value of the rupee may be wrong or may change when new information becomes available. Savvy investors rarely rely on this approach.

14.4.2 FUNDAMENTAL ANALYSIS

The second approach, fundamental analysis, tries to forecast exchange rates by studying movements in the underlying economic factors which drive them. The most common variables which drive exchange rates are inflation and interest rates. Currencies of countries with high inflation and high interest rates usually depreciate over a period of time, although this relationship does not always hold. This approach can also be used to analyse the effect of monetary policy announcements on currency valuation. For medium-term forecasting, fundamental investors often use a popular demand-supply framework called the balance-of-payments (BoP) equation. The BoP is a systematic accounting record of all economic transactions during a period of time between residents of a country and residents in the rest-of-the-world. There are three components of the BoP: current account, capital account and official reserves account (special type of capital account).

The current account balance represents the net income of a country and incorporates the import-export balance, dividends, interest and unilateral transfers (like foreign aid). The capital account balance represents the net change in foreign assets (both real and financial assets) owned by the residents of a country. Finally, the official reserves account reflects the amount of international reserve assets owned by a country's central bank. Each component of the BoP affects the demand and supply of a country's currency. For example, every time an Indian company exports goods and services to USA, it receives payment in dollars, thus increasing the supply of dollars in the dollar-rupee market.

When exports increase, supply of the dollar goes up causing a decrease in the value of the dollar. Similarly, when Reserve Bank of India increases its foreign reserves by purchasing dollars, it increases the demand for dollars in the dollar-rupee market and creates depreciation pressure on the rupee. Tracking changes in the different BoP components is thus a useful approach for forecasting exchange rates.

14.4.3 TECHNICAL ANALYSIS

The third approach, technical analysis, tries to forecast exchange rates using past data from currency markets, primarily related to price and volume. Technical traders use a variety of tools and techniques, including different types of charts, to identify price patterns and sustainable trends so that they can be exploited in the future. Charts like candlesticks, bar charts, line charts and point-and-figure charts are commonly used along with concepts like resistance levels, support levels, trends and breakouts to identify trading opportunities. Technical analysis can be employed effectively only in the short-term and requires sophisticated trading systems. Hence, this approach is usually unsuitable for retail investors.

While the three approaches can be useful in forecasting exchange rates, investors should remember that exchange rates also depend on a variety of non-economic factors like political uncertainty and geopolitical tensions around the world. The value of a currency is thus one of the most difficult economic variables to forecast.

14.5 SUMMARY

A futures market is an auction market in which participants buy and sell specific quantities of a commodity or financial instrument at a specified price with delivery set at a specified time in the future. The futures market is a centralized market place for buyers and sellers from around the world, who meet and enter into commodity futures contracts. Like most other markets, futures exchanges are mostly electronic. Futures contracts are used by producers and suppliers of commodities to avoid market volatility. These producers and suppliers negotiate contracts with an investor who agrees to take on both the risk and reward of a volatile market. The primary advantage of futures is that it allows individuals and businesses to protect their positions against price fluctuations. For the buyer, it offers protection from future price increases and for the seller, it offers protection from prices falls. A market where commodities are traded is referred to as a commodity market. It is the market where a wide range of products, viz., precious metals, base metals, crude oil, energy and soft commodities like palm oil, spices, coffee etc. are traded. In financial terms, a forward contract or simply forward, is a customized contract between two parties, where settlement takes place on a specific date in future at a price agreed today, making it a type of derivative instrument.

14.6 SELF ASSESSMENT QUESTION

- What Are Forward Contracts?
- What are the Main Features Of Forward Contracts
- What Are Futures Contracts?
- Explain Currency Derivatives Segment
- What Is Currency Market?
- What Is Forex Trading?
- What Currencies Are Frequently Traded In The Forex Market?
- What Is an 'Exchange Traded Derivative'?
- What Is Currency Trading?

- How Prices Are Determined?
- Why to Invest/Trade In Currency?

UNIT-15 INTERNATIONAL FINANCIAL INSTITUTIONS

Unit Structure

15.0 OBJECTIVES

After reading this unit , you should be able to-

- Describe the working and objectives of some of the international financial institutions;
- Explain the various dimensions of World Bank and IMF; and
- Know how the international financial institutions are regulated.

15.1 INTRODUCTION

At the Bretton Woods Conference in 1944 it was decided to establish a new monetary order that would expand international trade, promote international capital flows and contribute to monetary stability. The IMF and the World Bank were borne out of this Conference of the end of World War II. The World Bank was established to help the restoration of economies disrupted by War by facilitating the investment of capital for productive purposes and to promote the long-range balanced growth of international trade. On the other hand, the IMF is primarily a supervisory institution for coordinating the efforts of member countries to achieve greater cooperation in the formulation of economic policies. It helps to promote exchange stability and orderly exchange relations among its member countries. It is in this context that the present chapter reviews the purpose and working of some of the international financial institutions and the contributions made by them in promoting economic and social progress in developing countries by helping raise standards of living and productivity to the point of which development becomes self-sustaining.

15.2 INTERNATIONAL SOURCES OF FINANCE

One major source of financing is international non-profit agencies. There are several regional development banks such as the Asian Development Bank, the African Development Bank and Fund and the Caribbean Development Bank. The primary purpose of these agencies is to finance productive development projects or to promote economic development in a particular region. The Inter-American Development Bank, for example, has the principal purpose of accelerating the economic development of its Latin American member countries. In general, both public and private entities are eligible to borrow money from such agencies as long as private funds are not available at reasonable rates and terms. Although the interest rate can vary from agency to agency, these loan rates are very attractive and very much in demand. Of all the international financial organisations, the most familiar is the World Bank, formally known as the International Bank for Reconstruction and Development (IBRD). The World Bank has two affiliates that are legally and financially distinct entities, the International Development Association (IDA) and the International Finance Corporation (IFC). Exhibit 1 provides a comparison among IBRD, IDA and IFC in terms of their objectives, member countries, lending terms, lending qualifications as well as other details. All three organisations have the same central goals: to promote economic and social progress in poor or developing countries by helping raise standards of living and productivity to the point at which development becomes self-sustaining. Toward this common objective, the World Bank, IDA and IFC have three interrelated functions and these are to lend funds, to provide advice and to serve as a catalyst in order to stimulate investments by others. In the process, financial resources are channelled from developed countries to the developing world with the hope that developing countries, through this assistance, will progress to a level that will permit them, in turn, to contribute to the development process of other less fortunate countries. Japan is a prime example of a country that has come full circle. From being a borrower, Japan is now a major lender to these three organisations. South Korea is moving in a direction similar to that of Japan nearly a quarter of a century ago.

EXHIBIT 1 : THE WORLD BANK AND ITS AFFILIATES

	The World Bank		International Finance Corporation (IFC)
	International Bank for Reconstruction Association and development (IBRD)	International Development Association	
Objectives of the institutions	To promote economic progress in developing countries by providing financial and technical assistance, mostly for specific projects in both public and private sectors		To promote economic progress in developing countries by helping to mobilise domestic and foreign capital to stimulate the growth of the private sector
Year established	**1945**	**1960**	**1956**
Number of member countries	**144**	**131**	**124**
Types of countries assisted	Developing countries other than the very poorest. Some countries borrow a 'blend' of IBRD loans and IDA	The poorest: 80% of IDA credits go to countries with annual per capita	All developing countries, from the poorest to the more advanced.

	credits.	incomes below $ 480. Many of these countries are too poor to be able to borrow part or any of their requirements on IBRD terms.	
Types of activities assisted	Agriculture and rural development, energy, education, transportation, telecommunications, industry, mining, development finance companies, urban development, water supply, sewerage, population, health and nutrition. Some nonproject lending, including structural adjustment.		Agribusiness, development, finance companies, energy, fertiliser, manufacturing, mining, money and capital market institutions, tourism and services, utilities.
Average maturity period	Generally 15 to 20 years	50 years	7 to 12 years
Grace period	Generally 3 to 5 years	10 years	An average of 3 years
Recipients of financing	Governments, government agencies and private enterprises which can get a government guarantee for the IBRD loan.	Government. But they may relend funds to state or private organisations.	Private enterprises; government organisations that assist the private sector.
Government guarantee	Essential	Essential	Neither sought nor accepted
Main method	Borrowings capital	Grants from	Borrowings and

of raising funds	markets	in world's governments.	IFC's own capital, subscribed by member governments.
Main sources of funds	Financial markets in US, Germany, Japan and Switzerland.	Governments of US, Japan, Germany, France, other OECD countries and certain OPEC countries.	Borrowings from IBRD.

15.3 THE WORLD BANK

The World Bank group is a multinational financial institution established at the end of World War II (1944) to help provide long-term capital for the reconstruction and development of member countries. The group is important to multinational corporations because it provides much of the planning and financing for economic development projects involving billions of dollars for which private businesses can act as contractors and suppliers of goods and engineering related services.

The purpose for the setting up of the Bank are

- To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and encouragement of the development or productive facilities and resources in less developed countries.
- To promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.
- To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balance of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and condition of labour in their territories.

- To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, can be dealt with first.
- To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The World Bank is the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD has two affiliates, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). The Bank, the IFC and the MIGA are sometimes referred to as the "World Bank Group".

15.3.1 INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The IBRD was set up in 1945 along with the IMF to aid in rebuilding the world economy. It was owned by the governments of 151 countries and its capital is subscribed by those governments; it provides funds to borrowers by borrowing funds in the world capital markets, from the proceeds of loan repayments as well as retained earnings. At its funding, the bank's major objective was to serve as an international financing facility to function in reconstruction and development. With Marshall Plan providing the impetus for European reconstruction, the Bank was able to turn its efforts towards the developing countries. Generally, the IBRD lends money to a government for the purpose of developing that country's economic infrastructure such as roads and power generating facilities. Funds are directed towards developing countries at more advanced stages of economic and social growth. Also, funds are lent only to members of the IMF, usually when private capital is unavailable at reasonable terms. Loans generally have a grace period of five years and are repayable over a period of fifteen or fewer years.

The projects receiving IBRD assistance usually require importing heavy industrial equipment and this provides an export market ror many US goods. Generally bank loans are made to cover only import needs in foreign convertible currencies and must be repaid in those currencies at long-term rates. The government assisted in formulating and implementing an effective and comprehensive strategy for the development of new industrial free zones and the expansion of existing ones; reducing unemployment, increasing foreign-exchange earnings and strengthening backward linkages with the domestic economy; alleviating scarcity in term financing; and improving the capacity of institutions involved in financing, regulating and promoting free zones.

The World Bank lays special operational emphasis on environmental and women's issues. Given that the Bank's primary mission is to support the quality of life of people in developing member countries, it is easy to see why environmental and women's issues are receiving increasing attention. On the environmental side, it is the Bank's concern that its development funds are used by the recipient countries in an environmentally responsible way. Internal concerns, as well as pressure by external groups, are responsible for significant research and projects relating to the environment. The women's issues category, specifically known as Women In Development (WID) is part of a larger emphasis on human resources. The importance of improving human capital and improving the welfare of families is perceived as a key aspect of development. The WID initiative was established in 1988 and it is oriented to increasing women's productivity and income. Bank lending for women's issues is most pronounced in education, population, health and nutrition and agriculture.

15.3.2 INTERNATIONAL DEVELOPMENT ASSOCIATION

The IDA was formed in 1960 as a part of the World Bank Group to provide financial support to LDCs on a more liberal basis than could be offered by the IBRD. The IDA has 137 member countries, although all members of the IBRD are free to join the IDA. IDA's funds come from subscriptions from its developed members and from the earnings of the IBRD. Credit terms usually are extended to 40 to 50 years with no interest. Repayment begins after a ten-year grace period and can be paid in the local currency, as long as it is convertible. Loans are made only to the poorest countries in the world, those with an annual per capita gross national product of $480 or less. More than 40 countries are eligible for IDA financing. An example of an IDA project is a $8.3 million loan to Tanzania approved in 1989 to implement the first stage in the longer-term process of rehabilitating the country's agricultural research system.

Cofinancing is expected from several countries as well as other multilateral lending institutions. Although the IDA's resources are separate from the IBRD, it has no separate staff. Loans are made for similar projects as those carried out by IBRD, but at easier and more favourable credit terms. As mentioned earlier, World Bank/IDA assistance historically has been for developing infrastructure. The present emphasis seems to be on helping the masses of poor people in the developing countries become more productive and take an active part in the development process. Greater emphasis is being placed on improving urban living conditions and increasing productivity of small industries.

15.3.3 INTERNATIONAL FINANCE CORPORATION

The IFC was established in 1956. There are 133 countries that are members of the IFC and it is legally and financially separate from the

IBRD, although IBRD provides some administrative and other services to the IFC. The IFC's main responsibilities are (i) To provide risk capital in the form of equity and long-term loans for productive private enterprises in association with private investors and management; (ii) To encourage the development of local capital markets by carrying out standby and underwriting arrangements; and (iii) To stimulate the international flow of capital by providing financial and technical assistance to privately controlled finance companies. Loans are made to private firms in the developing member countries and are usually for a period of seven to twelve years.

The key feature of the IFC is that its loans are made to private enterprises and its investments are made in conjunction with private business. In addition to funds contributed by IFC, funds are also contributed to the same projects by local and foreign investors. IFC investments are for the establishment ne1x enterprises as well as for the expansion and modernization of existing ones. They cover a wide range of projects such as steel, textile production, mining, manufacturing, machinery production, food processing, tourism and local development finance companies. Some projects are locally owned, whereas others are joint ventures between investors in developing and developed countries. In a few cases, joint ventures are formed between investors of two or more developing countries.

The IFC has also been instrumental in helping to develop emerging capital markets.

15.3.4 THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA)

The MIGA was established in 1988 to encourage equity investment and other direct investment flows to developing countries by offering investors a variety of different services. It offers guarantees against noncommercial risks; advises developing member governments on the design and implementation of policies, programmes and procedures related to foreign investments; and sponsors a dialogue between the international business community and host governments on investment issues.

15.3.5 WHAT DOES THE WORLD BANK DO?

The World Bank is the world's largest source of development assistance, providing nearly $30 billion in loans, annually, to its client countries. The Bank uses its financial resources, its highly trained staff and its extensive knowledge base to individually help each developing country onto a path of stable, sustainable and equitable growth. The main focus is on helping the poorest people and the poorest countries hut for all its clients, the Bank emphasises the need for: investing in people, particularly through basic health and education; protecting the environment; supporting and encouraging private business development; strengthening the ability of the governments to deliver quality services efficiently and transparently; promoting reforms to create a stable macroeconomic environment conducive to investment and long-term planning; focusing on social development, inclusion, governance and institution building as key elements of poverty reduction. The Bank is also helping countries to strengthen and sustain the fundamental conditions that help to attract and retain private investment. With Bank support- both lending and advice- governments are reforming their overall economies and strengthening banking systems.

They are investing in human resources, infrastructure and environmental protection which enhance the attractiveness and productivity of private investment. Through World Bank guarantees, MICA's political risk insurance and in partnership with IFC's equity investments, investors are minimising their risks and finding the comfort to invest in developing countries and countries undergoing transition to market-based economies.

15.3.6 WHERE DOES THE WORLD BANK GET ITS MONEY?

The World Bank raises money for its development programmes by tapping the world's capital markets and in the case of the IDA, through contributions from wealthier member governments. IBRD, which accounts for about three-fourths of the Bank's annual lending, raises almost all its money in financial markets. One of the world's most prudent and conservatively managed financial institutions, the IBRD sells AAA-rated bonds and other debt securities to pension funds, insurance companies, corporations, other banks and individuals around the globe. IBRD charges interest from its borrowers at rates, which reflect its cost of borrowing. Loans must be repaid in 15 to 20 years; there is a three to five year grace period before repayment of principal begins.

IDA helps to promote growth and reduce poverty in the same ways as does the IBRD but using interest free loans (which are known as IDA "credits"), technical assistance and policy advice. IDA credits account for about one-fourth of all Bank lendings. Borrowers pay a fee of less than 1 per cent of the loan to cover administrative costs. Repayment is required in 35 to 40 years with a 10 years grace period. Nearly 40 countries contribute to IDA's funding, which is replenished every three years. IDA's funding is managed in the same prudent, conservative and cautious way as is the IBRD's. Like the IBRD, there has never been default on an IDA credit.

15.3.7 WHO RUNS THE WORLD BANK?

The World Bank is owned by more than 180 member countries whose views and interests are represented by a board of governors and a Washington based board of directors. Member countries are shareholders who carry ultimate decision making power in the World Bank. Each member nation appoints a governor and an alternate governor to carry out these responsibilities. The governors, who are usually officials such as ministers of finance or planning, meet at the Bank's annual meetings each fall. They decide on key Bank policy issues, admit or suspend country members, decide on changes in the authorised capital stock, determine the distribution of the IBRD's net income and endorse financial statements and budgets.

15.4 INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) came into official existence on December 27, 1945, when 29 countries signed its Articles of Agreement (its Charter) agreed at a conference held in Bretton Woods, New Hampshire, USA, from July 1-22, 1944. The IMF commenced financial operations on March 1, 1947. Its current membership is 182 countries. Its Total Quotas are SDR 212 billion (almost US$300 billion), following a 45 per cent quota increase effective from January 22,1999.

- Staff: approximately 2,700 from 110 countries.
- Accounting Unit: Special Drawing Right (SDR). As of August 23, 1999, SDR I equalled US $1.370280.

IMF is a cooperative institution that 182 countries have voluntarily joined because they see the advantage of consulting with one another on this forum to maintain a stable system of buying and selling their currencies so that payments in foreign currency can take place between countries smoothly and without delay. Its policies and activities are guided by its Charter known as the Articles of Agreement. IMF lends money to members having trouble meeting financial obligations to other members, but only on the condition that they undertake economic reforms to eliminate these difficulties for their own good and that of the entire membership. Contrary to widespread perception, the IMF has no effective authority over the domestic economic policies of its members. What authority the IMF does possess is confined to requiring the member to disclose information on its monetary and fiscal policies and to avoid, as far as possible, putting restrictions on exchange of domestic for foreign currency and on making payments to other members.

There are several major accomplishments to the credit of the International Monetary System. For example, it

- sustained a rapidly increasing volume of trade and investment;
- displayed flexibility in adapting to changes in international commerce;
- proved to be efficient (even when there were decreasing percentages of reserves to trade);

- proved to be hardy (it survived a number of pre-1971 crises, speculative and otherwise, and the down-and-up swings of several business cycles);
- allowed for a growing degree or international cooperation;
- established a capacity to accommodate reforms and improvements.

To an extent, the fund served as an international central bank to help countries during periods of temporary balance of payments difficulties by protecting their rates of exchange. Because of that, countries did not need to resort to exchange controls and other barriers to restrict world trade.

15.4.1 ORIGINS OF IMF

The need for an organisation like the IMF became evident during the great depression that ravaged the world economy in the 1930s. A widespread lack of confidence in paper money led to a spurt in the demand for gold and severe devaluation in the national currencies. The relation between money and the value of goods became confused as did the relation between the value of one national currency and another. In the 1940s, Harry Dexter (US) and John Maynard Keynes (UK) put forward proposals for a system that would encourage the unrestricted conversion of one currency into another, establish a clear and unequivocal value for each currency and eliminate restrictions and practices such as competitive devaluations. The system required cooperation on a previously unattempted scale by all nations in establishing an. innovative monetary system and an international institution to monitor it. After much negotiations in the difficult war time conditions, the international community accepted the system and an organisation was formed to supervise it. The IMF began operations in Washington DC in May 1946. It then had 39 members. The IMF's membership now is 182.

15.4.2 MEMBERS AND ADMINISTRATION

On joining the IMF, each member country contributes a certain sum of money called a 'quota subscription', as a sort of credit union deposit. Quotas serve various purposes. They form a pool of money that the IMF can draw from to lend to members in times of financial difficulty.

- They form the basis of determining the Special Drawing Rights (SDR).
- They determine the voting power of the member.

15.4.3 STATUTORY PURPOSES

The purposes of the International Monetary Fund are:

- To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade and to contribute, thereby, to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- To promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation.
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustment in their balance of payments without resorting to measures destructive to national or international prosperity.
- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

15.4.4 FINANCIAL ASSISTANCE

The IMF lends money only to member countries with balance of payments problems. A member country with a payments problem can immediately withdraw from the IMF the 25 per cent of its quota. A member in greater difficulty may request for more money from the IMP and can borrow up to three times its quota provided the member country undertakes to initiate a series of reforms and uses the borrowed money effectively. The frequently used mechanisms by the IMF to lend money are

1. Standby Arrangements
2. Extended Arrangements
3. Structural Adjustment Mechanism (With low interest rates)

Regular IMF facilities

- Standby Arrangements (SBA) are designed to provide short-term balance of payments assistance for deficits of a temporary or cyclical nature, such arrangements are typically for 12 to 18 months. Drawings are phased on a quarterly basis, with their release made conditional on meeting performance criteria and the completion of periodic programme reviews. Repurchases are made 31/4 to 5 years after each purchase.

- Extended Fund Facility (EFF) is designed to support medium-term programmes that generally run for three years. The EFF aims at overcoming balance of payments difficulties stemming from macroeconomic and structural problems. Performance criteria are applied, similar to those in standby arrangements and repurchases are made in 4½ to 10 years.

Concessional IMF facility

- Enhanced Structural Adjustment Facility (ESAF) was established in 1987 and enlarged and extended in 1994. Designed for low-income member countries with protracted balance of payments problems, ESAF drawings are loans and not purchases of other members' currencies. They are made in support of three year programmes and carry an annual interest rate of 0.5 per cent, with a 51h year grace period and a 10 year maturity. Quarterly benchmarks and semi-annual performance criteria apply; 80 low income countries are currently eligible to use the ESAF.

15.5 SPECIAL DRAWING RIGHTS (SDRS)

As time passed, it became evident that the Fund's resources for providing short-term accommodation to countries in monetary difficulties were not sufficient. To resolve the situation, the Fund, after much debate and long deliberations, created new drawing rights in 1969. Special Drawing Rights (SDRs), sometimes called paper gold, are special account entries on the IMF books designed to provide additional liquidity to support growing world commerce. Although SDRs are a form of money not convertible to gold, their gold value is guaranteed, which helps to ensure their acceptability. Initially, SDRs worth $9.5 billion were created. Participant nations may use SDRs as a source of currency in a spot transaction, as a loan for clearing a financial obligation, as a security for a loan, as a Swap against currency, or in a forward exchange operation. A nation with a balance of payments need may use its SDRs to obtain usable currency from another nation designated by the fund.

A participant also may use SDRs to make payments to the Fund, such as repurchases. The Fund itself may transfer SDRs to a participant for various purposes including the transfer of SDRs instead of currency to a member using the Fund's resources. By providing a mechanism for international monetary cooperation, working towards reducing restrictions to trade and capital flows and helping members with their short-term balance of payments difficulties, the IMF makes a significant and unique contribution to human welfare and improved living standards throughout the world.

Services

Besides supervising the international monetary system and providing financial support to member countries, the IMF assists its members by :

- Providing technical assistance in certain areas of its competence.
- Running an educational institute in Washington and offering training courses abroad.
- Issuing wide variety of publications containing valuable information and statistics that are useful not only to the member countries but also to banks, research institutes, university and the media.

15.6 ASIAN DEVELOPMENT BANK (ADB)

The Asian Development Bank is a multilateral developmental finance institution founded in 1966 by 31 member governments to promote social and economic progress of Asian and the Pacific region. The Bank gives special attention to the needs of smaller or less developed countries and gives priority to regional/non-regional national programmes.

In early 1960, the United National Economic Commission for Asia and Far East (UNECAFE) estimated that Asia and the Pacific region had an annual deficit of US $ one billion. The ADB was formed to fill this gap. The inaugural meeting was held in Tokyo and the newly named bank was installed in Manila (Philippines). The first President was Mr. Wanatanade and during his initial years the bank conducted regional surveys to develop a fuller understanding of the social and economic conditions of the Developing Member Countries (DMC).

In 1974, the Asian Development Fund was established to streamline the bank's means of financing. During 1972-76, the Banks' commitment to the DMCs increased from $316 million to 776 million. In the late 70s, the bank recognised the need to develop additional strategy to reduce poverty in the region, so they evolved the concept of multi-project loans which was a cost-effective means for funding projects too small for the Bank's involvement.

In 1978, the Asian Development Fund was increased to 2.15 billion. 1986 was a significant year for the Bank because the Peoples Republic of China joined the Bank and India received her first loan of $100 million to the ICICI (Investment Credit and Investment Corporation of India) for one lending to Private Sector enterprises. In 1993, annual lending commitments rose to $5 billion and the cumulative total by 1991 was $37.6 billion for 1039 projects. On the borrowing front, in 1991, the Bank offered Dragon Bonds which was a US $ 300 million offering in the capital markets or Hong Kong, Singapore and Taipei. The present President is Mr. Tadao Chino, who was Japan's former Vice Minister of Finance for International Affairs, before he took over in January 1999.

Bank Profile

Over the past 41 years, the bank's membership has grown from 31 to 57, of which 41 are from within the region and 16 from outside the region.

The Bank gives special attention to the needs of the smaller or less developed countries and priority to regional, sub-regional and national projects and programmes.

The Bank's principal functions are

- To extend loans and equity investments for the economic and social development of its Developing Member Countries (DMCS);
- To provide technical assistance for the preparation and execution of development projects and programmes and for advisory services;
- To promote and facilitate investment of public and private capital for development purposes; and
- To respond to requests for assistance in coordinating development policies and plans of its DMCs.

Location

The Bank's headquarters are in Manila, Philippines. It has resident missions in Bangladesh, Cambodia, India, Indonesia, Nepal, Pakistan, Sri Lanka and Vietnam and has opened resident missions in Kazakhstan and Uzbekistan. These resident missions improve the Bank's coordination with the governments and donor agencies; assist with activities related to country programming and processing of new loans and technical assistance projects; and help ensure project quality.

The Organisation for Economic Co-operation and Development (OECD)

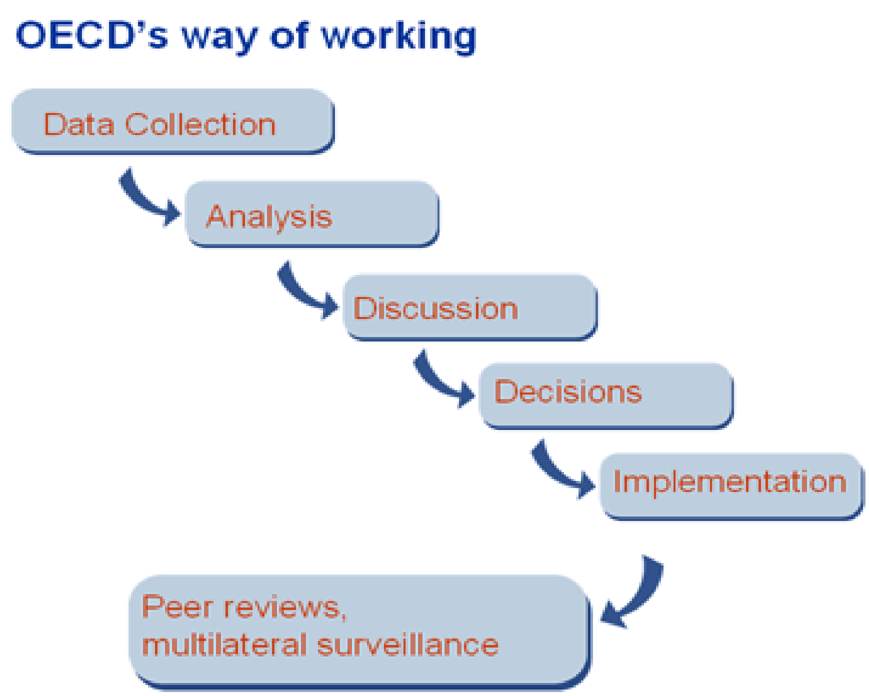
The Organisation for European Economic Cooperation (OEEC) was established in 1948 to run the US-financed Marshall Plan for reconstruction of a continent ravaged by war. By making individual governments recognise the interdependence of their economies, it paved the way for a new era of cooperation that was to change the face of Europe. Encouraged by its success and the prospect of carrying its work forward on a global stage, Canada and the US joined OEEC members in signing the new OECD Convention on 14 December 1960. The Organisation for Economic Co-operation and Development (OECD) was officially born on 30 September 1961, when the Convention entered into force.

Other countries joined in, starting with Japan in 1964. Today, 36 OECD member countries worldwide regularly turn to one another to identify problems, discuss and analyse them, and promote policies to solve them. The track record is striking. The US has seen its national wealth almost triple in the five decades since the OECD was created, calculated in terms of gross domestic product per head of population. Other OECD countries have seen similar, and in some cases even more spectacular, progress.

So, too, have countries that a few decades ago were still only minor players on the world stage. Brazil, India and the People's Republic of China have emerged as new economic giants. The three of them, with Indonesia and South Africa, are Key Partners of the Organisation and contribute to its work in a sustained and comprehensive manner. Together with them, the OECD brings around its table 39 countries that account for 80% of world trade and investment, giving it a pivotal role in addressing the challenges facing the world economy.

WORKING OF OCED

OECD uses its wealth of information on a broad range of topics to help governments foster prosperity and fight poverty through economic growth and financial stability. We help ensure the environmental implications of economic and social development are taken into account.



OECD's work is based on continued monitoring of events in member countries as well as outside OECD area, and includes regular projections of short and medium-term economic developments. The OECD Secretariat collects and analyses data, after which committees discuss policy regarding this information, the Council makes decisions, and then governments implement recommendations.

Peer reviews

Mutual examination by governments, multilateral surveillance and a peer review process through which the performance of individual countries is monitored by their peers, all carried out at committee-level, are at the heart of our effectiveness. An example of the peer review process at work is to be found in the Working Group on Bribery, which monitors the implementation by signatory countries of the OECD Convention on Combating Bribery of Foreign Officials in International Business Transactions.

Agreements, standards and recommendations

Discussions at OECD committee-level sometimes evolve into negotiations where OECD countries agree on rules of the game for international co-operation. They can culminate in formal agreements by countries, for example on combating bribery, on arrangements for export credits, or on the treatment of capital movements. They may produce standards and models, for example in the application of bilateral treaties on taxation, or recommendations, for example on cross-border co-operation in enforcing laws against spam. They may also result in guidelines, for example on corporate governance or environmental practices.

15.7 SUMMARY

Of all the international financial organisations, the most familiar is the World Bank, formally known as the International Bank for Reconstruction and Development (IBRD). The World Bank has two affiliates that are legally and financially distinct entities, the International Development Association (IDA) and the International Finance Corporation (IFC). Exhibit 1 provides a comparison among IBRD, IDA and IFC in terms of their objectives, member countries, lending terms, lending qualifications as well as other details. All three organisations have the same central goals: to promote economic and social progress in poor or developing countries by helping raise standards of living and productivity to the point at which development becomes self-sustaining. Toward this common objective, the World Bank, IDA and IFC have three interrelated functions and these are to lend funds, to provide advice and to serve as a catalyst in order to stimulate investments by others.

15.8 KEYWORDS

SDRs: Special drawing rights, sometimes called paper gold, are special account entries on the IMF books designed to provide additional liquidity to support growing world commerce.

15.9 SELF ASSESSMENT QUESTIONS

1. What are the goals and functions of the World Bank, the IDA and the IFC?
2. What are the role and functions of the IMF?
3. What role does the International Monetary Fund play in determining the value of exchange rates? How did the Bretton Woods agreement provide a stable monetary environment?
4. What are Special Drawing Rights? Why were they created?
5. Enumerate the important purposes of the World Bank.
6. What are the objectives of the Asian Development Bank?

15.10 REFERENCES/SUGGESTED READINGS

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UNIT-16 LEGAL AND ETHICAL ISSUES IN INTERNATIONAL MARKETING

Unit Structure

16.0 OBJECTIVES

After reading this unit , you should be able to-

- Describe the Legal and Ethical Issues in International Marketing
- Explain the Moral Obligations and

- Know how Industrial Dispute Settlement Machineries for Settling Industrial Disputes in India

16.1 INTRODUCTION

When markets in foreign countries offer a higher profit potential than your home market, it makes sense to expand internationally. As you prepare your expansion and research target markets in other countries, you will often find that the legal structures and ethical frameworks differ substantially from those in India. You have to address the legal and ethical issues of your entering these markets to make your expansion a success.

16.2 ETHICAL ISSUES

As political, legal, economic, and cultural norms vary from nation to nation, various ethical issues rise with them. A normal practice may be ethical in one country but unethical in another. Multinational managers need to be sensitive to these varying differences and able to choose an ethical action accordingly.

In an international business, the most important ethical issues involve employment practices, human rights, environmental norms, corruption, and the moral obligation of international corporations.

16.2.1 EMPLOYMENT PRACTICES AND ETHICS

Ethical issues may be related to employment practices in many nations. The conditions in a host country may be much inferior to those in a multinational's home nation. Many may suggest that pay and work conditions need to be similar across nations, but no one actually cares about the quantum of this divergence.

12-hour workdays, minimal pay, and indifference in protecting workers from toxic chemicals are common in some developing nations. Is it fine for a multinational to fall prey to the same practice when they chose such developing nations as their host countries? The answers to these questions may seem to be easy, but in practice, they really create huge dilemmas.

16.2.2 HUMAN RIGHTS

Basic human rights are still denied in many nations. Freedom of speech, association, assembly, movement, freedom from political repression, etc. are not universally accepted.

South Africa during the days of white rule and apartheid is an example. It lasted till 1994. The system practiced denial of basic political rights to the majority non-white population of South Africa, segregation between whites and nonwhites was prevalent, some occupations were exclusively reserved for whites, etc. Despite the odious nature of this system, Western businesses operated in South Africa. This unequal consideration depending on ethnicity was questioned right from 1980s. It is still a major ethical issue in international business.

16.2.3 ENVIRONMENTAL POLLUTION

When environmental regulation in the host nation is much inferior to those in the home nation, ethical issues may arise. Many nations have firm regulations regarding the emission of pollutants, the dumping and use of toxic materials, and so on. Developing nations may not be so strict, and according to critics, it results in much increased levels of pollution from the operations of multinationals in host nations.

Is it fine for multinational firms to pollute the developing host nations? It does not seem to be ethical. What is the appropriate and morally correct thing to do in such circumstances? Should MNCs be allowed to pollute the host countries for their economic advantage, or the MNCs should make sure that foreign subsidiaries follow the same standards as set in their home countries? These issues are not old; they are still very much contemporary.

16.2.4 CORRUPTION

Corruption is an issue in every society in history, and it continues to be so even today. Corrupt government officials are everywhere. International businesses often seem to gain and have gained financial and business advantages by bribing those officials, which is clearly unethical.

16.2.5 MORAL OBLIGATIONS

Some of the modern philosophers argue that the power of MNCs brings with it the social responsibility to give resources back to the societies. The idea of Social Responsibility arises due to the philosophy that business people should consider the social consequences of their actions.

They should also care that decisions should have both meaningful and ethical economic and social consequences. Social responsibility can be supported because it is the correct and appropriate way for a business to behave. Businesses, particularly the large and very successful ones, need to recognize their social and moral obligations and give resources and donations back to the societies

16.3 NATURE OF INTERNATIONAL DISPUTES

Many companies sign contracts giving little thought to dispute resolution issues. That can be a big mistake, particularly in transactions with foreign parties.

Business people want to focus on deal-making not dispute resolution. Those who do think about the deal going bad often expect that their local court can resolve the dispute. But cross-border business transactions present unique challenges. Relying on your local court – or even worse a foreign court – can lead to many problems. International arbitration often provides a better solution.

Why do cross-border business contracts require special consideration? Unlike domestic contracts, cross-border contracts are always subject to the laws of multiple countries. A contract which involves foreign companies or manufacturing or distribution outside your country gives rise to complicated legal issues regarding the applicable law governing the contract, the country or countries with court jurisdiction to resolve the dispute, the law governing the resolution of the dispute and the enforceability of any court judgment.

Some of these issues can be efficiently resolved by careful drafting of the contract. Typically, all of these issues can be efficiently addressed if international arbitration procedures are selected for dispute resolution when the contract is drafted.

It is smart to include international arbitration provisions in an international contract at the time the deal is made. Even if international arbitration is afterthought to the contract, agreeing to international arbitration to resolve an existing international dispute increases the likelihood of efficient, reliable and cost effective dispute resolution.

Relying on a local court to protect your company in an international transaction can be futile. More often than not, there is no way to enforce a local court monetary judgment or injunction against a foreign party. Relying on a foreign court to protect your company is usually foolhardy. In a foreign court, you face the disadvantage of being subjected to foreign legal procedures, foreign customs, foreign language, prejudice and corruption. Turning to the courts, locally or abroad, means taking a risk with a judge (or a jury) probably unfamiliar with your business and almost certainly unfamiliar with the foreign law issues presented in your dispute.

International arbitration solves many of these problems. International arbitration offers a fair proceeding for both sides, with the expectation of doing so in a cost-efficient and effective manner. The parties can select the arbitrators, the hearing site and the governing procedures before the dispute arises. For example, the parties can agree on an arbitration held at a convenient location outside the U.S. to be governed by U.S. substantive law. The parties can decide who will resolve the dispute for them, ensuring that the arbitrators are fair and knowledgeable. Significantly, once the arbitrators' decision on the dispute is made, that decision can be readily enforced. Thanks to existing international treaties, international arbitration awards are enforceable nearly world-wide.

International arbitration provides the parties with the ability to select a decision maker trained in a particular industry or technology. This streamlines the process on its own and may reduce the need for retaining costly expert witnesses. Also, arbitration allows for greater confidentiality protections than many U.S. or foreign courts provide. Confidentiality protections are often welcome in what would otherwise be high profile court cases and such protections are often critical when confidential business strategies are the focus of the dispute.

Another advantage of arbitration in the international business context is that the dispute can be resolved by a single tribunal. There is no multinational treaty for the enforcement of foreign court judgments and relying on the courts of various jurisdictions to enforce a foreign court judgment is an expensive process with great risk of ineffective or, worse, inconsistent outcomes. Although foreign arbitral awards, like foreign judgments, require judicial recognition by a court to be enforceable, an effective international treaty mechanism exists for enforcement of international arbitral awards. Moreover, arbitration allows multi-jurisdictional disputes to be resolved without requiring the courts of any number of countries to revisit the merits of the dispute.

International arbitration is different from domestic arbitration and other alternative dispute resolution ("ADR") procedures. In deciding whether to include an international arbitration provision in a contract and in drafting the provision, considerable care must be given to the selection of the arbitration site and where enforcement might be sought. This is especially critical in transactions where the other side does not have assets located around the world making enforcement an issue.

Experienced international arbitration counsel can advise on whether particular contracts should include arbitration clauses, the best place for the arbitration to be held and the best arbitration rules to utilize based upon the type of transaction, the nationality and business operations of the parties, the law selected to govern the contract, the laws of the countries which are potential arbitration sites and the laws of the countries where the award may need to be enforced. Choosing the right arbitral institution to administer the arbitration, choosing the right arbitrator(s) and careful selection of the appropriate procedures for the arbitration can have a significant impact on the cost, timing and outcome of the arbitration.

Experienced drafters of arbitration clauses do not select a particular country as a hearing site just because it has convenient flight connections, good weather, nice golf courses or good shopping. Rather they look to sites that have favorable procedural laws and treaty protections.

Likewise experienced drafters of arbitration clauses know that the selection of the right arbitration rules can be critical. They know the reputation and quality of arbitration providers. Many countries have formed local arbitral institutions which often fail to provide fair hearings to foreign parties. Accordingly, arbitrarily agreeing to the wrong set of arbitration rules can lead to disaster.

Often much of the legal work required in an international arbitration is not done in the country selected as the hearing site. Rather, it is handled by international arbitration lawyers with knowledge of the law governing the contract, which is typically the law of the country where one of the parties is based or the law of a major trading nation. Most international arbitration lawyers practice globally and rely on local lawyers to handle any necessary related court proceedings for them.

It is important for companies doing international business to be guided by legal counsel knowledgeable on international business law and international dispute resolution issues. Given the specialized nature of the international dispute resolution practice, when a dispute arises on an international contract with an arbitration clause, a lawyer with international commercial arbitration experience should be consulted. Likewise, it is critical to select arbitrators who will be fair, understand your industry, and have a solid grasp of international arbitration practice and law.

16.4 INTERNATIONAL LAWS FOR BUSINESS

Business today is truly international. International trade has existed since times immemorial. There are findings to indicate that international trade existed as long back as 2000 B. C. With increasing complexities and volumes in international trade, an urgent need for a uniform code for regulating these transactions was keenly felt. The importance of international trade and a uniform code is more keenly felt in present day economy where domestic and foreign politics play their influencing role in conducting transnational business

International Law for business aims at providing the regulations required for execution of international transactions involving more than one nation. Every country has its own set of laws for regulating business. Therefore, it is apparent that every international business transaction has to comply with provisions of both domestic as well as international law. In order to ensure performance of the transaction(s), parties enter into treaties/agreement. These treaties are framed according to general practice and customs. The most significant aspect of international law is jurisdiction.

Why do we need Law?

One should keep in mind that the base for law is a dispute. The judgment of a decided case becomes a referral point - known as a precedent. The reason behind this reference is to facilitate uniformity in deciding similar cases. It may be noted that precedents may be overruled if the judgment pronounced earlier is found to be erroneous. To enable students to have a better view of the legal structure, a discussion on the legal system existing in five economically important countries like Canada, Germany, Saudi Arabia, Japan and China would be fruitful.

Canada, the second largest country in the world framed its own constitution in l982 by the act of British Parliament. It has a bicameral parliament - House of Commons and a Senate. Canada follows the principle of legislative supremacy, giving importance to precedents. Cases, statutes, customs and royal prerogative are the sources of Canadian law. The judges for federal and provincial courts are selected by Governor-General of Canada. The legal system of Canada is primarily based on the common law tradition. By and large, the regulatory framework is uniformly applicable throughout Canada with the exception of the province of Quebec. Quebec has been given special rights to preserve its culture, language and governing institutions.

Germany, the largest European country, follows the civil law tradition. Of all the civil codes, the German Civil Code has had the widest influence in the development of laws in other countries like China, Japan and many Eastern and Central European countries. With the unification of the erstwhile two German nations, the political authority is divided between the federal government and the states. Matters of utmost importance like defence, foreign affairs, currency, nationality and intellectual property are exclusively looked into by the federal government. The Chancellor, the most powerful political figure, makes public policy and appoints heads of state. There is marked difference in the manner cases are resolved and the judiciary system that exists in Germany as compared to other countries. Two important codes play a significant role. They are the German Civil Code and the German Commercial Code. The civil code has 2300 sections divided into five parts with the first two covering legal and contractual obligations. The commercial code sets rules for doing business in Germany.

Saudi Arabia, an Islamic country, has a legal system that follows the Sharia –commandments of Prophet Mohammad. Unlike other countries, Saudi Arabian government has only two wings - the executive and judicial, and the King is the supreme authority. The regulations approved by the King are published in the official gazette. There are agencies to assist in regulating the administration of the Kingdom. The most important among them are the Supreme Commission on Labor Disputes, the Commissioner for the Settlement of Commercial Disputes and Board of Grievances. A well regulated country, Saudi Arabia strongly abides by the Holy Quran. As such students will note that unlike common law systems, charging of interest is prohibited among many other things. Dispute resolution normally results in damages or recession. Despite the difference in the regulatory structure, the importance of Saudi Arabia in present day economy is continually growing.

Japan, is perhaps the only example of 'real development' in almost all areas. Japan which was battered and ravaged during the World War II, is now among the most advanced counties of the world. A look at its legal system shows traces of the Tokugawa period influence of the German

Civil Code and the American influence. Right from the early days, Japanese gave much importance to the Confucian system where the head of the family/village was the deciding authority. His word was rarely contested. The process of industrialization in the nineteenth century saw Japan draw up a Civil Code based on the German Civil Code This however, underwent a drastic change after the Second World War when the American influence separated the church and state and introduced a parliamentary system with a duly elected Prime Minister and a bicameral legislature. Despite, the American influence Japanese have a different outlook in matters of international trade. All contracts have the regular clauses. Yet, the Japanese treat an international transaction as an opportunity to develop personal ties and business relationships. They look for flexibility, amicable settlement of disputes and performance of contract in good faith.

China has for many hundreds of years been known for the superior quality of goods it produces and its ancient medical practice. Thus, international trade has been an integral part of Chinese economy. Very much like the Japanese Confucian attitude, the Chinese have deep faith in behaving in an honorable and ethical manner. Until recently, the attitude of Chinese towards practitioners of law has been discerning. Primarily because it has gone through a lawless period during the Cultural Revolution known as 'Dark Ages' in 1966 and the second revolution which started in 1976 with the death of Mao Zedong's. Today, China has a large, complex system of agencies, the most important among them being Ministry-of Foreign Economic Relations and Trade which renders guidance in matters related to foreign trade. The governing statute for foreign trade is Foreign Economic Contract Law (FECL). According to FECL all contracts should be in writing, must express the real intent of the parties who must have legal contractual capacity and the contract should not violate law or public policy. Before resorting to arbitration, Chinese prefer to settle disputes out of court through friendly consultations, which again reflects their reliance on traditional value of honorable and ethical behavior.

European Community - The aftermath of the Second World War set the world leaders to think of a united Europe to achieve economic alliance and compatible political and legal setup. Thus, started the European community. The first step towards this was, building a common market between France and Germany for coal and steel through the European Coal and Steel Community (ECSC). The success of this led to signing of a number of treaties like the EURATOM, European Economic Community (EEC) and the Maastricht Treaty, all directed towards political and economic unity. To simplify the administration of ECSC, EURATOM and EEC, a merger treaty was subsequently signed. The European community has a well organized administrative set-up comprising of council of ministers, parliament, commission, courts of justice and auditors, and advisory committees. These community institutions have developed substantive laws- which prevail over individual country laws and create rights in individuals and businesses which are to be protected by national courts

16.5 INTERNATIONAL TRADE - LEGAL FRAMEWORK

We have looked briefly into the various laws prevalent in different countries. Let us now concentrate on what will be the scenario if two or more nations wish to have trade relationships and the various regulations that one has to follow.

16.5.1 GATT

The General Agreement on Tariffs and Trade popularly known as GATT attempts to promote multilateral fair trade and reduce trade barriers. Members of GATT reduce trade barriers by granting 'Most Favored Nation' (MFN) status and charging the lowest applicable tariff rates for imports from MFN. GATT provides for promotion of fair trade by prohibiting 'dumping' and 'unfair subsidies, bounties and grants'.

Lack of adaptability of GATT, to regulate world trade has resulted in nations entering into a direct trade relationship like the North American Free Trade Agreement for example. In other cases some developed nations have come forward to help the less-developed countries by permitting duty free imports of certain items under the Generalized System of Preferences.

Regulation of Imports and Exports :

Tariff or duty which is levied on imports is one of the important sources of income for a country. Tariff is levied based on the classification of products, its value which usually is the transaction value and its place of origin. The rate of duty levied on imported goods has significant impact on the domestic market for that product. To safeguard domestic interests some countries may resort to imposition of non-tariff barriers like adherence to strict quality standards in order to ensure safety to health and environment. Quotas and embargoes are the other forms of non-tariff barriers

On the other hand, countries wanting to promote exports may extend technical, market, and financial assistance and tax benefits to the exporters. To check undue assistance, GATT imposes countervailing duties on exports supported by unfair subsidies. The United States regulates its exports under the Export Administration Act of 1979. The primary objective being to protect its economy in case of short supply, to protect national security and to further its foreign policy objectives. The US has a complex regulatory structure for both imports and exports which includes the anti-boycott regulations.

Global Business Enterprises :

Let us now look at another important aspect of international law relating to international or global business organizations. International business organizations often known as Multinational Enterprises (MNE) are organizations having business entities in two or more countries. These entities are so interlinked that one exercises significant influence over the other.

MNE can adopt different channels for doing business. It may choose to do business either through its own firm or through agents and distributors. In the case of an agent and principal relationship, depending upon the country in which the agent would be operating, the terms and conditions are decided. Some countries provide for protective measures to safeguard against unfair termination of the agency. Distributors on the other hand buy goods for the purpose of selling them and offering after-sales and warranty services. Unlike in agency contracts, distributors cannot bind the manufacturer with their acts. Distributorship contracts are normally for a fairly lengthy period as they involve large investment on part of the distributor. Licensing of technology is another form of doing global business. Licensing agreement may: (i) permit manufacture of patented, trademarked or copyrighted product, or (ii) be a franchise arrangement. MNE may also choose to carry-on business ion different countries by investing directly. This investment can be either by acquiring an existing company, opening a branch, establishing branches or starting a joint venture.

Regulation of Global Competition :

Competition may make businesses to resort to unfair, restrictive and monopolistic trade practices. Many developed as well as developing countries have adopted regulations to prevent such malpractices. For instance, the US has enacted antitrust laws – Sherman Act and Clayton Act. The European Community through Articles 85 and 86 of the Treaty of Rome also attempts at regulating unfair business competition. Japan too has antimonopoly law to prohibit unreasonable trade practices and abuse of dominant market power. Regulations have also been passed to check hostile acquisitions and strategic alliances.

Protecting Business Property Rights :

Inventions, creations, technological advancements when protected take the form of copyrights, patents, trademarks or trade secrets. These intellectual properties are assets of business enterprises, as they are essential for the success of businesses. Hence, the need to encourage their growth and also provide legal protection against misuse, theft, etc. Copyright law gives authors and artists the right to control the reproduction and performance of their work(s). The period of protection varies in each country. By and large, protection is granted to authors for their life plus 50 years, and for photographic and works of applied art for25 years. Patents provide exclusive right to manufacture or use an invention for a specific period of time. Patent laws are primarily territorial. However, there are a couple of international agreements to provide patent protection like the European Patent Convention and the Patent Co-operation Treaty. Lack of a universally accepted patent law hinders introduction of a product on a global basis. Trademark is any work, name, symbol, or device or any combination thereof adopted and used by manufacturer or merchant to identify his goods and distinguish them from those manufactured or sold by others. Apart from protecting their intellectual property rights, business enterprises are faced with a more complex problem of dealing with piracy and counterfeit goods. Pirators and counterfeiters cause great harm as they deprive the owner of the protected work his share of royalty, the authorized dealer his profit and the buyer of quality product. The US government through an amendment of the Trade Act of 1974, attempts to counteract such practices under Section 301 of the said act. Another problem faced by business enterprises is the gray market, where legitimate goods are marketed through unauthorized channels. Protecting intellectual property rights do not prevent governments from expropriating such property for public use. The criteria for such expropriation should be that these properties are taken for public use and a "just"compensation is paid for their acquisition

The MNE as world citizen : Merely by their size, MNE have an edge over other corporations. Their ability to access capital helps in developing countries. They also possess the powers to exploit natural and human resources, demolish local economies and corrupting and controlling political figures. The United Nations Commission on Trade and Development (UNCTAD) has been making efforts for evolving a code of conduct for MNE to ensure their positive influence on the economy and avoid economic menace like the collapse of the Bank of Credit and Commerce International (BCCI) .the organization for Economic Co-operation and Development (OECD), has set guidelines to protect corporations in its member countries from MNE abruptly. Following the Bhopal disaster, varies governments have through treaties and conventions sought to adopt policies to reduce various polluting activities and protecting environment. Thus ‗International Law for Business' covers a whole gamut of business aspects with an international perspective.

16.6 CONTRACTS

After having discussed about the general legal framework prevailing in the international business scenario, let us now discuss the other aspects involved in international business laws, viz., Contract - legal provisions; payments terms; international sales agreements; rights and duties of agents and distributors.

16.6.1 LEGAL PROVISIONS

Contracts are an integral part of business and assume significance in case of transactions for sale of goods between two or more countries. Different contract laws in each country necessitated formulation of a uniform international law - for contracts. Thus, in 1988, the United Nations Convention on Contracts for the International Sale of Goods (CISG) came into force with l0 nations endorsing it. The CISG is organized in four parts. Part I (Articles I to 13) contains the Convention's general provisions, including rules on the scope of its applications and rules of interpretation. Part II (Articles 14 to 24) governs the formation of contracts. Part III (Articles 25 to 88) governs the rights and obligations of buyers and sellers. Part IV (Articles 89 to l0l) contains provisions for the ratification and the entry into force of convention. The essentials of a valid contract are that there should be an offer and acceptance and consideration. Utmost care is required to be taken while drafting the contract for incorporating the terms and conditions. This is important as a single contract can be incorporated in more than one way in case of any ambiguity. To ensure uniformity in international contracts, certain common terms relating to price, delivery, title, insurance like FOB, CIF, C&F, FAS, etc., have come into use. These are known as Incoterms. These are used in contracts involving sale of goods. It is reiterated that the term ‗contract‘ is not restricted only to sale of goods. There are contracts for setting up ventures, mergers and acquisitions and for transfer of intellectual property. In order to ensure performance of contracts and provide for remedy in case of dispute, CISG also provides a resolution mechanism. Generally, the choice of forum and enforcement clauses is included in a contract, so as to define the area of jurisdiction in case of a dispute.

16.6.2 LETTERS OF CREDIT

Naturally, a contract for sale of goods involves purchase of goods for consideration .which is often money, and the mode of payment is an important clause in a contract. With today's dynamic market transactions across countries, Letters of Credit" (LOC) is considered to be one of the safest mode of payment. (LOC is an instrument issued by a bank or other person at the request of an account party that obliges the issuer to pay to a beneficiary a sum of money within a certain period of time upon the beneficiary's presentation of documents specified by the account Payee) There is another use for LOC in America and Japan. It is the "standby Letters of Credit". In these two countries, banks are not permitted to engage in insurance activities. Standby LOC are more like insurance policies, performance bonds or repayment guarantees. Despite the inbuilt safety-net, frauds do take place in the transactions because the LOC requires payment to be made against presentation of documents and since banks are under no obligation to scrutinize the underlying transaction, the buyer may be defrauded. Two cases - United Bank Ltd. vs. Cambridge Sporting Goods Corporation and ltek Corporation vs. First National Bank of Boston make an interesting reading.

16.6.3 TRANSPORT AND INSURANCE

A contract is incomplete unless the parties have decided on the mode of transport to be utilized for transporting the goods and the extent of risk coverage. Sales contracts involving transportation customarily contain trade terms like FOB and CIF. Transportation may be either by air or ship. When shipped, the parties to a contract may adopt the provisions of the Carrier of Goods by Sea Act (COGSA) to adjust their liability. One of the important shipping documents is the 'Ocean Bill of Lading' which is a contract between the carrier and the shipper. It serves as a receipt for the goods and also as a negotiable document of title. Where goods are transported by air, the documentation is called an 'Air Waybill'. An air waybill performs the same functions as a bill of lading, except that it is generally non-negotiable. A bill of lading or an air waybill is among the many documents to be submitted to the banks for obtaining Payment under a LOC. Most contracts also have an insurance clause to minimize risk of loss or damage during transit.

16.6.4 PAYMENT TERMS

Letter of Credit A document issued by a bank (issuing bank) stating its commitment to pay someone a stated amount of money on behalf of a buyer so long as the seller meets very specific terms and conditions. Letters of credit are more formally called documentary letters of credit. Before payment, the bank responsible for making payment on behalf of the buyer verifies that all documents are exactly as required by the letter of credit. If an United States exporter is unfamiliar with the credit risk of the foreign bank, or if there is concern about the political or economic risk associated with the country in which the bank is located, it is advised that a letter of credit issued by a foreign bank be "confirmed" by a U.S. bank. This means that the U.S. bank adds its pledge to pay to that of the foreign bank. Letters of credit that are not confirmed are called "advised" letters of credit. The local Department of Commerce district office or an international banker will help exporters determine whether a confirmed or advised letter of credit is appropriate for a particular transaction.

Cash in Advance (CIA) Usually used only for small purchases and when the goods are built to order.

Draft (or bill of exchange) An unconditional order in writing from one person (the drawer) to another (the drawee), directing the drawee to pay a specified amount to a named drawer at a fixed or determinable future date. May be date, sight, or time draft.

Credit cards Used mainly in transactions where the dollar value of the items sold is low and shipment is to be made directly to the end user.

Open Account The exporter bills the customer, who is expected to pay under agreed terms at a future date. Some of the largest firms abroad make purchases only on an open account, which is a convenient method of payment if the buyer is well established and has demonstrated a long and favorable payment record.

Consignment Sales Exporter delivers goods to an agent under agreement that the agent sell the merchandise for the account of the exporter. The agent sells the goods for commission and remits the net proceeds to the exporter.

Counter trade/barter Sale of goods or services that are paid for in whole or in part by the transfer of goods or services from a foreign country.

16.7 INDUSTRIAL DISPUTE SETTLEMENT MACHINERIES FOR SETTLING INDUSTRIAL DISPUTES IN INDIA

Some of the major industrial dispute settlement machinery are as follows:

1. Conciliation
2. Court of Inquiry
3. Voluntary Arbitration
4. Adjudication.

This machinery has been provided under the Industrial Disputes Act, 1947. It, in fact, provides a legalistic way of setting the disputes. As said above, the goal of preventive machinery is to create an environment where the disputes do not arise at all.

Even then if any differences arise, the judicial machinery has been provided to settle them lest they should result into work stoppages. In this sense, the nature of this machinery is curative for it aims at curing the aliments.

This machinery comprises following organs:

1. Conciliation
2. Court of enquiry
3. Voluntary arbitration
4. Adjudication (Compulsory arbitration).

16.7. 1 CONCILIATION

Conciliation, is a form of mediation. Mediation is the act of making active effort to bring two conflicting parties to compromise. Mediation, however, differs from conciliation in that whereas conciliator plays only a passive and indirect role, and the scope of his functions is provided under the law, the mediator takes active part and the scope of his activities are not subject to any statutory provisions.

Conciliation is the “practice by which the services of a neutral party are used in a dispute as a means of helping the disputing parties to reduce the extent of their differences and to arrive at an amicable settlement of agreed solution.”

The Industrial Disputes Act, 1947 provides for conciliation, and can be utilised either by appointing conciliation officers (permanently or for a limited period) or by constituting a board of conciliation. This conciliation machinery can take a note of a dispute or apprehend dispute either on its own or when approached by either party.

With a view to expediting conciliation proceeding, time-limits have been prescribed—14 days in the case of conciliation officers and two months in the case of a board of conciliation, settlement arrived at in the course of conciliation is binding for such period as may be agreed upon between the parties or for a period of 6 months and with continue to be binding until revoked by either party. The Act prohibits strike and lock-out during the pendency of conciliation proceedings before a Board and for seven days after the conclusion of such proceedings.

Conciliation Officer: The law provides for the appointment of Conciliation Officer by the Government to conciliate between the parties to the industrial dispute. The Conciliation Officer is given the powers of a civil court, whereby he is authorised to call the witness the parties on oath. It should be remembered, however, whereas civil court cannot go beyond interpreting the laws, the conciliation officer can go behind the facts and make judgment which will be binding upon the parties.

On receiving information about a dispute, the conciliation officer should give formal intimation in writing to the parties concerned of his intention to commence conciliation proceedings from a specified date. He should then start doing all such things as he thinks fit for the purpose of persuading the parties to come to fair and amicable settlement of the dispute.

Conciliation is an art where the skill, tact, imagination and even personal influence of the conciliation officer affect his success. The Industrial Disputes Act, therefore, does not prescribe any procedure to the followed by him.

The conciliation officer is required to submit his report to the appropriate government along with the copy of the settlement arrived at in relation to the dispute or in case conciliation has failed, he has to send a detailed report giving out the reasons for failure of conciliation.

The report in either case must be submitted within 14 days of the commencement of conciliation proceedings or earlier. But the time for submission of the report may be extended by an agreement in writing of all the parties to the dispute subject to the approval of the conciliation officer.

If an agreement is reached (called the memorandum of settlement), it remains binding for such period as is agreed upon by the parties, and if no such period is agreed upon, for a period of six months from the date on which the memorandum of settlement is signed by the parties to the dispute, and continues to be binding on the parties after the expiry of the period aforesaid, until the expiry of two months from the date on which a notice in writing of an intention to terminate the settlement is given by one of the party or parties to the settlement.

Board of Conciliation: In case Conciliation Officer fails to resolve the differences between the parties, the government has the discretion to appoint a Board of Conciliation. The Board is tripartite and ad hoc body. It consists of a chairman and two or four other members.

The chairman is to be an independent person and other members are nominated in equal number by the parties to the dispute. Conciliation proceedings before a Board are similar to those that take place before the Conciliation Officer. The Government has yet another option of referring the dispute to the Court of Inquiry instead of the Board of Conciliation.

The machinery of the Board is set in motion when a dispute is referred to it. In other words, the Board does not hold the conciliation proceedings of its own accord. On the dispute being referred to the Board, it is the duty of the Board to do all things as it thinks fit for the purpose of inducing the parties to come to a fair and amicable settlement. The Board must submit its report to the government within two months of the date on which the dispute was referred to it. This period can be further extended by the government by two months.

16.7.2 COURT OF INQUIRY

In case of the failure of the conciliation proceedings to settle a dispute, the government can appoint a Court of Inquiry to enquire into any matter connected with or relevant to industrial dispute. The court is expected to submit its report within six months. The court of enquiry may consist of one or more persons to be decided by the appropriate government.

The court of enquiry is required to submit its report within a period of six months from the commencement of enquiry. This report is subsequently published by the government within 30 days of its receipt. Unlike during the period of conciliation, workers' right to strike, employers' right to lockout, and employers' right to dismiss workmen, etc. remain unaffected during the proceedings in a court to enquiry.

A court of enquiry is different from a Board of Conciliation. The former aims at inquiring into and revealing the causes of an industrial dispute. On the other hand, the latter's basic objective is to promote the settlement of an industrial dispute. Thus, a court of enquiry is primarily fact-finding machinery.

16.7.3 VOLUNTARY ARBITRATION

On failure of conciliation proceedings, the conciliation officer many persuade the parties to refer the dispute to a voluntary arbitrator. Voluntary arbitration refers to getting the disputes settled through an independent person chosen by the parties involved mutually and voluntarily.

In other words, arbitration offers an opportunity for a solution of the dispute through an arbitrator jointly appointed by the parties to the dispute. The process of arbitration saves time and money of both the parties which is usually wasted in case of adjudication.

Voluntary arbitration became popular as a method a settling differences between workers and management with the advocacy of Mahatma Gandhi, who had applied it very successfully in the Textile industry of Ahmedabad. However, voluntary arbitration was lent legal identity only in 1956 when Industrial Disputes Act, 1947 was amended to include a provision relating to it.

The provision for voluntary arbitration was made because of the lengthy legal proceedings and formalities and resulting delays involved in adjudication. It may, however, be noted that arbitrator is not vested with any judicial powers.

He derives his powers to settle the dispute from the agreement that parties have made between themselves regarding the reference of dispute to the arbitrator. The arbitrator should submit his award to the government. The government will then publish it within 30 days of such submission. The award would become enforceable on the expiry of 30 days of its publication.

Voluntary arbitration is one of the democratic ways for setting industrial disputes. It is the best method for resolving industrial conflicts and is a close' supplement to collective bargaining. It not only provides a voluntary method of settling industrial disputes, but is also a quicker way of settling them.

It is based on the notion of self-government in industrial relations. Furthermore, it helps to curtail the protracted proceedings attendant on adjudication, connotes a healthy attitude and a developed outlook; assists in strengthening the trade union movement and contributes for building up sound and cordial industrial relations.

16.7.4 ADJUDICATION

The ultimate remedy for the settlement of an industrial dispute is its reference to adjudication by labour court or tribunals when conciliation machinery fails to bring about a settlement. Adjudication consists of settling disputes through intervention by the third party appointed by the government. The law provides the adjudication to be conducted by the Labour Court, Industrial Tribunal of National Tribunal.

A dispute can be referred to adjudication if hot the employer and the recognised union agree to do so. A dispute can also be referred to adjudication by the Government even if there is no consent of the parties in which case it is called ‘compulsory adjudication’. As mentioned above, the dispute can be referred to three types of tribunals depending on the nature and facts of dispute in questions.

These include :

a. Labour courts,

b. Industrial tribunals, and

c. National tribunals.

The procedure, powers, and provisions regarding commencement of award and period of operation of award of these three bodies are similar. The first two bodies can be set up either by State or Central Government but the national tribunal can be constituted by the Central Government only, when it thinks that the adjudication of a dispute is of national importance. These three bodies are into hierarchical in nature. It is the Government’s prerogative to refer a dispute to any of these bodies depending on the nature of dispute.

(a) Labour Court : A labour court consists of one person only, who is normally a sitting or an ex-judge of a High Court. It may be constituted by the appropriate Government for adjudication of disputes which are mentioned in the second schedule of the Act.

The issues referred to a labour court may include:

1. The propriety or legality of an order passed by an employer under the Standing Orders.

2. The application and interpretation of Standing Orders.

3. Discharge and dismissal of workmen and grant of relief to them.

4. Withdrawal of any statutory concession or privilege.

5. Illegality or otherwise of any strike or lockout.

6. All matters not specified in the third schedule of Industrial Disputes Act, 1947. (It deals with the jurisdiction of Industrial Tribunals).

(b) Industrial Tribunal : Like a labour court, an industrial tribunal is also a one-man body. The matters which fall within the jurisdiction of industrial tribunals are as mentioned in the second schedule or the third schedule of the Act. Obviously, industrial tribunals have wider jurisdiction than the labour courts.

Moreover an industrial tribunal, in addition to the presiding officer, can have two assessors to advise him in the proceedings; the appropriate Government is empowered to appoint the assessors.

The Industrial Tribunal may be referred the following issues:

1. Wages including the period and mode of payment.
2. Compensatory and other allowances.
3. Hours of work and rest intervals.
4. Leave with wages and holidays.
5. Bonus, profit sharing, provident fund and gratuity.
6. Shift working otherwise than in accordance with the standing orders.
7. Rule of discipline.
8. Rationalisation.
9. Retrenchment.
10. Any other matter that may be prescribed.

(c) **National Tribunal :** The Central Government may constitute a national tribunal for adjudication of disputes as mentioned in the second and third schedules of the Act or any other matter not mentioned therein provided in its opinion the industrial dispute involves "questions of national importance" or "the industrial dispute is of such a nature that undertakings established in more than one state are likely to be affected by such a dispute".

The Central Government may appoint two assessors to assist the national tribunal. The award of the tribunal is to be submitted to the Central Government which has the power to modify or reject it if it considers it necessary in public interest.

It should be noted that every award of a Labour Court, Industrial Tribunal or National Tribunal must be published by the appropriate Government within 30 days from the date of its receipt. Unless declared otherwise by the appropriate government, every award shall come into force on the expiry of 30 days from the date of its publication and shall remain in operation for a period of one year thereafter.

16.8 WHAT IS MARKETING COMMUNICATION (MarCom)?

Marketing communication (MarCom) is a fundamental and complex part of a company's marketing efforts. Loosely defined, MarCom can be described as all the messages and media you deploy to communicate with the market.

Marketing communication includes advertising, direct marketing, branding, packaging, your online presence, printed materials, PR activities, sales presentations, sponsorships, trade show appearances and more.

Marketing communication series

The complexity of the MarCom topic makes it too broad to cover in one article. This article is one in a series of six that covers the field of marketing communication. The full list of the titles in this series includes:

What is marketing communication (MarCom)?—outlines the basic marketing communication concepts and provides the foundation for rest of the series

Positioning—discusses the ins and outs and importance of claiming the most attractive position in your customer's mind

Your marketing message—provides the framework for planning your marketing message throughout the technology adoption lifecycle (TALC)

Marketing communication for tech startups—describes the process and methods to develop word-of-mouth marketing in the marketplace

Marketing communications: Reaching early adopters of technology products—focuses on how (and why) you should tailor your message for technology enthusiasts and visionaries

Successful market communication across the Chasm and in the Bowling Alley—explains the tactics that will help you cross the Chasm

16.8.1 MARKETING COMMUNICATION OBJECTIVES

Marketing communication has two objectives. One is to create and sustain demand and preference for the product. The other is to shorten the sales cycle.

Creating preference: Creating preference is often a longer-term effort that aims at using communication tools to help position your product or company in the minds of the target customer.

Positioning and building a brand takes time and requires a certain consistency (not just in the communication efforts themselves, but also in regards to the core elements of product, pricing, and distribution) and therefore represents a significant commitment for the company.

Remember, establishing preference by building a brand will impact market share, profitability and even your access to talent—and thus provides long-term value for the company.

16.9 SUMMARY

When markets in foreign countries offer a higher profit potential than your home market, it makes sense to expand internationally. As you prepare your expansion and research target markets in other countries, you will often find that the legal structures and ethical frameworks differ substantially from those in India.

As political, legal, economic, and cultural norms vary from nation to nation, various ethical issues rise with them. A normal practice may be ethical in one country but unethical in another. Multinational managers need to be sensitive to these varying differences and able to choose an ethical action accordingly.

16.10 SELF ASSESSMENT QUESTIONS

- What is Human Rights
- What is Environmental Pollution
- Explain Corruption?
- Explain Moral Obligations?
- Elaborate the nature of international disputes
- Explain international laws for business?
- Explain international trade - legal framework?

- What are Industrial Dispute Settlement Machineries for Settling Industrial Disputes in India
- What is marketing communication (MarCom)?