



INTERNATIONAL MARKETING MIX

LECTURE 3



LECTURE KEY POINTS

1. International Product Positioning

- Product Adaption & Positioning
- Product Customization & Positioning

2. International Pricing

- International Cost-Based Pricing (*)
- International Market-Based Pricing (*)
- Transfer Pricing

3. International Marketing Channels

- Indirect International Channels
 - - Export/Import Agents
 - - International Wholesalers
 - - International Retailers

- Direct International Channels

- - Company-Owned
- - Franchising
- - Licensing
- - Company Affiliates

- Currency Exchange Risk

4. International Marketing Communications

- Traditional Marketing Communications
- Digital Marketing Communications
- Interactive Marketing Communications & Social Media



I. INTERNATIONAL PRODUCT POSITIONING

PRODUCT ADAPTION & POSITIONING, PRODUCT CUSTOMIZATION & POSITIONING



PRODUCT ADAPTATION & POSITIONING

FIGURE I: APPLE IPAD CHINA MARKETING MIX

Product



Price

Country	iPad 2
US	\$399
Hong Kong	\$398
China	\$480
Europe	\$633
UK	\$632

Place



Promotion



THE POSITIONING AND MARKETING MIX STRATEGY FOR THE IPAD IN CHINA

- **Positioning:** The iPad in China has the same product benefits and user experience presented worldwide.
- **Product:** The same hardware is used, with the exception of minor differences in cellular radios and power supplies. The Chinese version is, however, tailored for language and cultural differences.
- **Price:** The prices of iPads in China are approximately 18% higher than in the U.S., although this is less than the price of iPads on the gray market, where they are as much as \$1,000.
- **Promotion:** Ads are tailored to the Chinese target audience, language, and cultural norms.
- **Place:** Apple store environments are similar, but managed and operated by Chinese employees.

FROM LITTLE TO EXTENSIVE MODIFICATION

Little or No Modification	Louis Vuitton	Apple iPad	Coca Cola	McDonald's	Banner Sun Potato Chips	Pizza Hut	Extensive Modification
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Coca Cola adapts its products in taste and packaging and McDonald's makes adjustments to their menus to serve local market needs. Banner Sun Potato Chips creates completely different brands and flavors for specific international market needs. Similarly, Pizza Hut employs a completely different positioning strategy in many of the international markets it serves.

PRODUCT CUSTOMIZATION & POSITIONING

FIGURE 2: BRAND AND PRODUCT ADAPTION TO INTERNATIONAL MARKET PREFERENCES

COUNTRY	BRAND	CUSTOM FLAVORS (in addition to classic)
Australia	SMITH'S	Vegemite (modeled after popular Australian bread spread)
Brazil	ELMA'S	Queijp Coalho (traditional Brazilian cheese)
China	LAY'S	Numb & Spicy Hot Pot
India	LAY'S	Magic Masala (combination of Indian spicy, sour & hot tastes)
Mexico	SABRITAS	Abobadas
Russia	LAY'S	Red Caviar, Crab Flavored, Pickled Cucumber, Salted Cucumber
South Africa	LAY'S	Spring Onion & Cheese
Spain	LAY'S	Gambas Al Ajillo (pawns, garlic & chili flavor), Aresnanas (olive flavor)
Thailand	LAU	Nori Seaweed, Hot & Spicy Crab, Hot & Chili Squid, Lobster Hot Plate
United Kingdom	WALKER'S	Worcester, Pickled Onion
United States	LAY'S	BBQ, Sour Cream & Onion, Salt & Vinegar and Cheddar & Sour Cream

BRAND AND PRODUCT ADAPTION TO INTERNATIONAL MARKET PREFERENCES



INTERNATIONAL MARKETING PRACTICES

- **Custom Taste Products:** Tailor products to the taste preferences of country consumers, as shown in Figure 2.
- **Innovative Marketing:** The “*Do Us A Flavor*” campaign (in 30 countries) co-created products with country consumers using traditional and social media where consumers shared their ideas for new potato chip flavors.
- **Local Agriculture:** Banner Sun sources more than four million tons of potatoes a year for its products. The company works with local farmers to ensure consistent supply and quality.
- **Marketing System:** The parent company (Pepsi Cola) has a powerful go-to-market system operating that serves approximately 10 million outlets every week.

FIGURE 3: PIZZA HUT MARKETING MIX IN CHINA

Product



Promotion



Price



RELATIVE QUALITY/IMAGE

Place



PIZZA HUT MARKETING MIX IN CHINA

Positioning Strategy: An upscale restaurant appropriate for many occasions, from family gatherings to dates.

Product: Pizzas with toppings such as corn, crab, shrimp and Chinese pickles—as well as a wide range of pizza alternatives—enhancing its appeal to a wider audience. They also offer three-course gourmet meals at a premium price point. You can find a variety seafood (including: oysters, snails, and shrimp), salads, soups, steaks, pizza (of course), and desserts on the menu.

Price: Urban consumers are willing to pay U.S.-range prices for pizza if it is served in a well appointed, full-service setting.

Promotion: Upscale casual family dining experience and a place where couples meet for a date.

Place: There are 700 Pizza Hut locations—many open 24 hours—with home delivery by bicycle.



INTERNATIONAL PRICING

INTERNATIONAL COST-BASED PRICING (*), INTERNATIONAL MARKET-BASED PRICING (*), TRANSFER PRICING



2. INTERNATIONAL PRICING STRATEGIES

- At what price is your product affordable and will sell in this international market?
- Is this price an attractive value given the product-performance of competing products?
- Is the market demand in this international market elastic or inelastic?

FIGURE 4: WORLDWIDE IPAD PRICES

Country	Price
Malaysia	\$392
Hong Kong	\$398
USA	\$399
Canada	\$399
Taiwan	\$432
Singapore	\$433
UAE	\$438

Country	Price
Indonesia	\$436
Vietnam	\$437
Japan	\$438
Thailand	\$441
Australia	\$447
Switzerland	\$452
South Korea	\$459

Country	Price
Philippines	\$462
New Zealand	\$475
China	\$480
Luxembourg	\$480
Czech Republic	\$501
Belgium	\$505
Germany	\$505

Country	Price
Ireland	\$505
Portugal	\$505
Finland	\$505
Spain	\$505
Italy	\$505
Netherlands	\$505
Austria	\$505

Country	Price
Denmark	\$511
France	\$518
Poland	\$518
Norway	\$520
UK	\$522
Hungary	\$533
Brazil	\$634

Note: Based 2012 Apple online prices including sales and value-added for all countries but U.S. and Canada. U.S. sales taxes vary from zero just over 9 percent and up to 15 percent on some Canadian provinces (21).

FIGURE 5: TRANSFER PRICING

Transfer Price at Sales Price

Domestic Company	Dollars	Foreign Operations	Dollars
Sale Price	\$9,000	Sale Price	\$10,000
Cost to Manufacture	(\$6,000)	Cost of Goods	(\$9,000)
		Sales Expenses	(\$1,000)
Net Profit	\$3,000	Net Profit	\$0
Tax Rate	35%	Tax Rate	20%
Tax Paid	\$1,050	Tax Paid	\$0
Net Profit after Tax	\$1,950	Net Profit after Tax	\$0

Transfer Price at Cost

Domestic Company	Dollars	Foreign Operatiios	Dollars
Sale Price	\$6,000	Sale Price	\$10,000
Cost to Manufacture	(\$6,000)	Cost of Goods	(\$6,000)
		Sales Expenses	(\$1,000)
Net Profit	\$0	Net Profit	\$3,000
Tax Rate	35%	Tax Rate	20%
Tax Paid	\$0	Tax Paid	\$600
Net Profit after Tax	\$0	Net Profit after Tax	\$2,400



INTERNATIONAL MARKETING CHANNELS

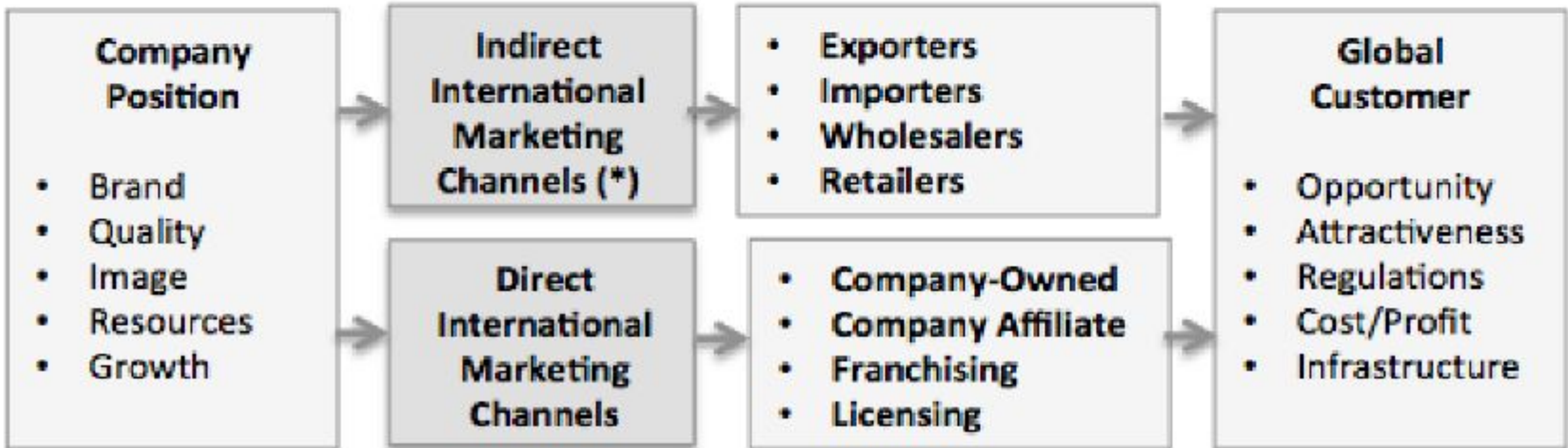
INDIRECT INTERNATIONAL CHANNELS, DIRECT INTERNATIONAL CHANNELS, CURRENCY EXCHANGE RISK



3. INTERNATIONAL CHANNEL STRATEGIES

- What channels of distribution are available in this international market?
- Which channels are best in reaching target customers in this market?
- What are the channel requirements for transportation, channel markups, tariffs, etc.?

FIGURE 6: INTERNATIONAL MARKETING CHANNELS



INDIRECT INTERNATIONAL MARKETING CHANNELS

- **Export/Import Agents:** Export and import agents assist companies in transporting and sometimes selling products in a foreign country.
- **International Wholesaler:** Once a product lands in a foreign market it needs to be moved, stored, and sorted into order quantities desired by buyers. Depending on product requirements, shipping, and inventory requirements, wholesalers' can markup the price by 15 to 33 percent.
- **International Retailers:** Every country will have a slightly different retail market. Again, depending on the type of product, inventory requirements and turnover, retailers will markup their cost by 33 to 100 percent. Typically, more fashion-oriented products are marked up 100 percent, while more price-competitive products like consumer electronics may be marked up 33 percent. While there are many combinations of international channel partners,

DIRECT INTERNATIONAL MARKETING CHANNELS: COMPANY-OWNED

- **Company-owned:** As shown in Figure 27, roughly 19 percent of Yum's 39,014 worldwide locations are company-owned. 76 percent of the company-owned locations are international and 60 percent of all company-owned locations are in China. A company-owned location requires more investment but provides more control over operations. For Pizza Hut, the complete marketing mix is different in China and this allows Yum Brands to better control the desired customer experience as presented in Figure 3.
- **International franchising**
- **International Licensing**
- **Company Affiliates**
 - **Subsidiary**
 - **Joint Ventures**

DIRECT INTERNATIONAL MARKETING CHANNELS: INTERNATIONAL FRANCHISING

- **Company-owned**
- **International franchising:** This is a strategic way to reduce dependence on domestic demand—it has driven roughly 400 U.S. companies to build franchises in international markets. These are just a few examples. *7-Eleven* has more than 50,000 international locations; *McDonalds* has over 30,000 locations; and *Curves*, a fitness for women exercise studio, has more than 2,000 international locations. For Yum Brands, 73.3 percent of its 39,014 locations around the world are franchised businesses and just over 5 percent of these are international franchises. The franchise is an alternative to building store locations to sell products and services that reduces the risk of the major investment and liability involved in a company-owned location. The franchisor's success depends on the success of the franchisee as the franchisee pays an lump sum franchise fee to initiate the franchise agreement and then average fee of 6.7 percent of gross sales along with an additional average marketing fee of 2 percent of sales.
- **International Licensing**
- **Company Affiliates**
 - **Subsidiary**
 - **Joint Ventures**

DIRECT INTERNATIONAL MARKETING CHANNELS: INTERNATIONAL LICENSING

- **Company-owned**
- **International franchising**
- **International Licensing:** Licensing offers another way to penetrate a foreign market. Licensing is a contractual arrangement whereby the firm—the licensor—offers proprietary assets to a foreign company, the licensee, in exchange for royalty fees. These fees vary but are considerably less than Franchise fees. Let's say you are unable to export to an overseas market due to complex rules and regulations or because the cost is too high. A company can grant a license to a foreign company to manufacture and sell a product in return for a royalty payment. This can also include the licensing of trade names.
- **Company Affiliates**
 - **Subsidiary**
 - **Joint Ventures**

DIRECT INTERNATIONAL MARKETING CHANNELS: COMPANY AFFILIATES

- **Company-owned**
- **International franchising**
- **International Licensing**
- **Company Affiliates:** This is an intercompany relationship in which companies share resources, skills, technology and ownership. Company affiliates are often created with subsidiary companies and joint ventures as described below:
 - **Subsidiary:** This is a company that is completely or partly owned by another company with the subsidiary having more than half of its stock owned by another company.
 - **Joint Ventures:** These are strategic alliances that provide companies the opportunity to obtain new capacity or expertise, in order to enter into a related business or new geographic markets.

FIGURE 7: YUM BRANDS CHANNEL STRATEGY

Domestic/International	Company	Franchised	Licensed	Affiliates	Total
United States					
KFC	237	4319	62	0	4618
Pizza Hut	452	5757	1547	0	7756
Taco Bell	1044	4218	433	0	5695
Total US	1733	14294	2042	0	18069
International					
KFC	4422	8460	38	660	13580
Pizza Hut	1205	5343	53	0	6601
Taco Bell	3	247	35	0	285
Other	215	264	0	0	479
Total International	5845	14314	126	660	20945
Company Total	7578	28,608	2,168	660	39014
Percent Total	19.4%	73.3%	5.6%	1.7%	100.0%

COUNTERTRADE

- Countertrade—also called bilateral trade—occurs when countries lack sufficient hard currency or when other types of market trade are not possible. Countertrade means exchanging goods or services which are paid for—in whole or part—with other goods or services, rather than with money of equal value. A monetary valuation can, however, be used in countertrade for accounting purposes. More than 80 countries regularly use or require countertrade exchanges. It is estimated that as much as 25 percent of the world trade occurs with countertrade.

THE MAJOR FORMS OF COUNTERTRADE

- **Barter:** The direct exchange of goods between two parties without the use of money. The exports are paid for with goods or services supplied from the importing market.
- **Switch Trading:** A company sells to another its obligation to make a purchase in a given country.
- **Counter Purchase:** The sale of goods and services where the company promises to make a future purchase of a specific product from the same company in that country.
- **Buyback:** occurs when a firm builds a plant in a country or supplies technology, equipment, training, or other services to the country and agrees to take a certain percentage of the plant's output as partial payment for the contract.
- **Offset:** An agreement that a company will offset a hard currency purchase of an unspecified product from that nation in the future. An agreement by one nation to buy a product from another, subject to the purchase of some or all of the components and raw materials from the buyer of the finished product, or the assembly of such product in the buyer nation.
- **Compensation Trade:** This is a form of barter in which one of the exchanges is partly in goods and partly in hard currency.

CURRENCY EXCHANGE RISK:

- There is a payment risk when receiving payments for goods from one country to another when the currency exchange rate fluctuates between countries.
- For example, if a country operating under the Euro buys \$1 million of goods in U.S. dollars when the Euro is valued at \$1.25 per Euro.
- However, 90 when payment is made 90 days later, the exchange rate has dropped to \$1.23U.S.D per Euro. Now the company owes \$1,016,260, or \$16,260 more because of the devaluation of the Euro relative to the U.S. dollar.
- Of course, this could go the other way just as easily. To protect against currency exchange risk, companies will often pay a third party to guarantee a payment. Because payment periods can often extend way beyond 90 days, this is an important aspect of a payment strategy.



INTERNATIONAL MARKETING COMMUNICATIONS

TRADITIONAL MARKETING COMMUNICATIONS, DIGITAL MARKETING COMMUNICATIONS, INTERACTIVE
MARKETING COMMUNICATIONS & SOCIAL MEDIA



INTERNATIONAL MARKETING COMMUNICATIONS

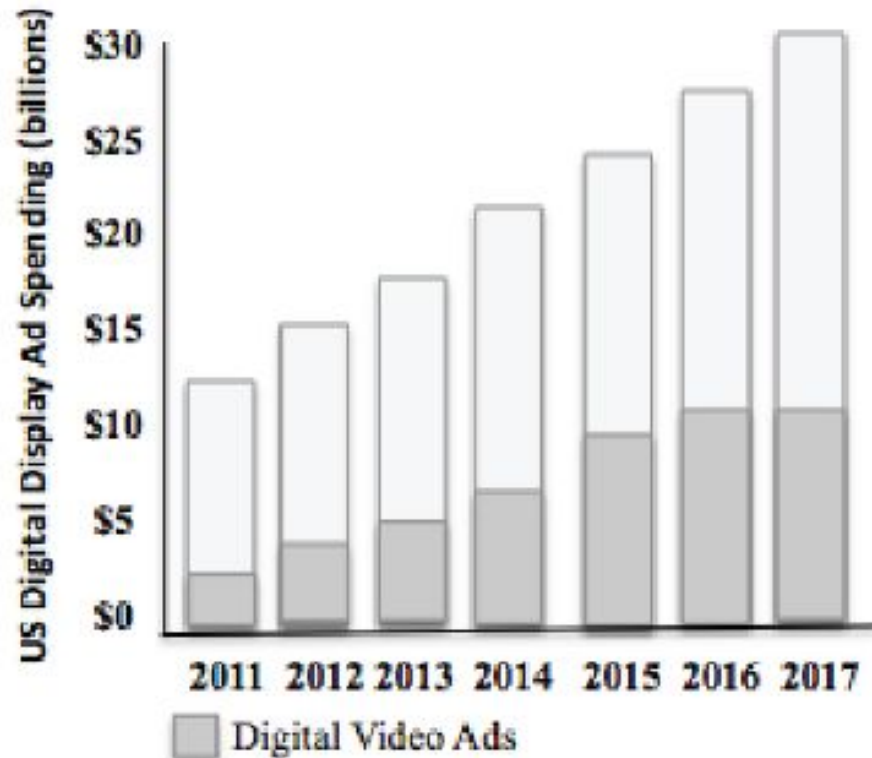
- What are the target customers' communications needs in this international market?
- How should the business's marketing messages be adapted for this international market?
- What media will work best in communicating to target customers in this international market?

TRADITIONAL MARKETING COMMUNICATIONS

- print (magazine, newspaper),
- electronic (TV and radio),
- outdoor (billboards and event signage),
- direct marketing

DIGITAL MARKETING COMMUNICATIONS

- Digital marketing communications can reach consumers 24 hours a day. Digital marketing communications are dynamic, interactive communications that are less expensive, have increasing reach, and are relatively easy to track in terms of performance.

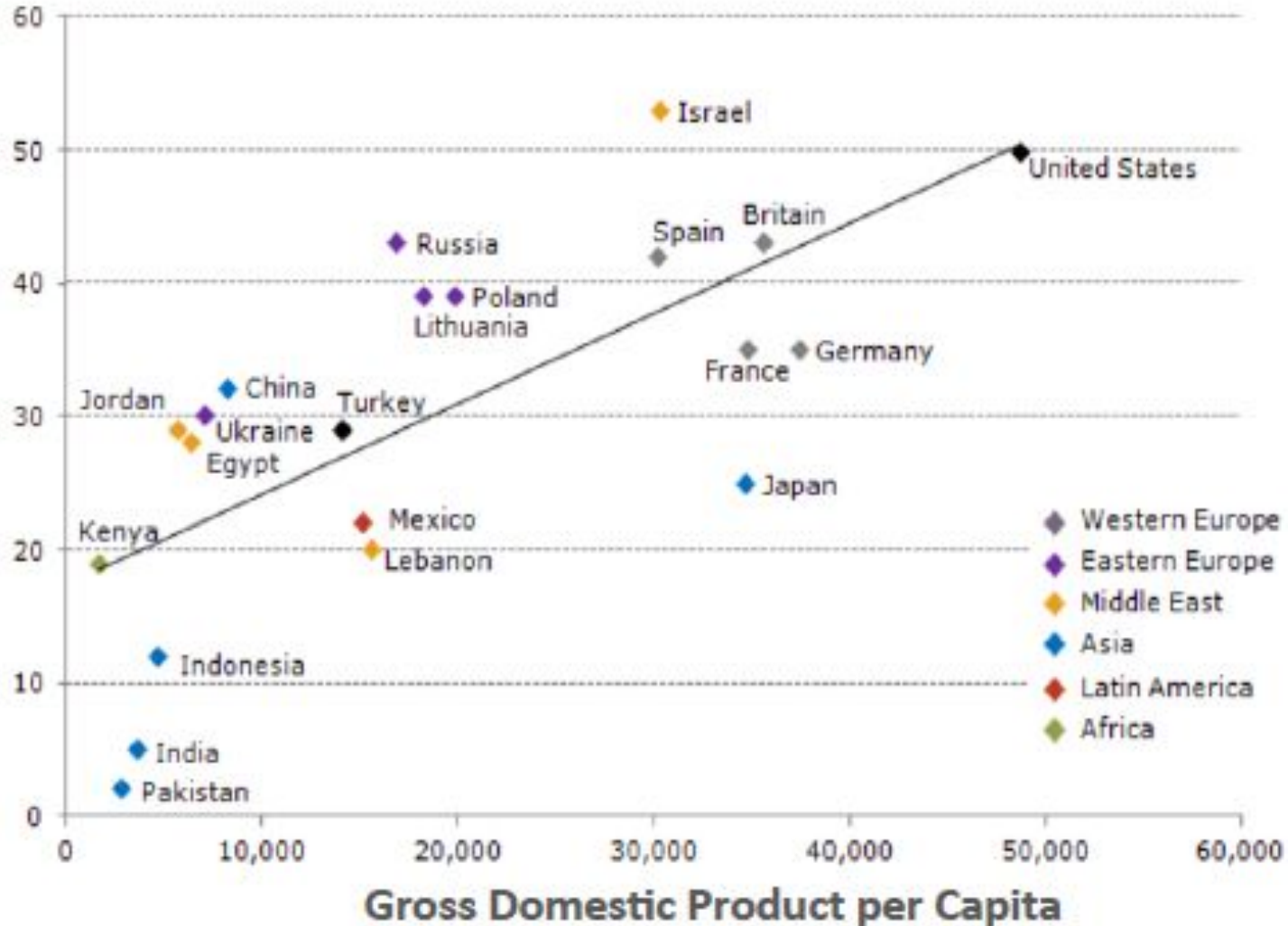


- U.S. Digital Advertising is projected to grow from \$12 billion (2011) to \$30 billion (2017)
- Interactive Digital Video Ads accounted for 5.5 percent in 2011, 11 percent in 2012 and are projected to double again by 2014.
- Interactive Digital Video Ads will increasingly add to the consumer engagement in marketing communications.

INTERACTIVE MARKETING COMMUNICATIONS

- Interactive Marketing Communications: Digital marketing communications are customer-centric marketing communications designed to encourage deep customer engagement. Interactive video advertising emerged in 2011 and was estimated to be 11 percent of all U.S. digital advertising in 2012. For years, the term “interactive” has also been a synonym for online or digital. But these ads were mostly static display.

FIGURE 8: INTERNATIONAL MARKET COMMUNICATIONS AND SOCIAL NETWORKING





Thanks for your kind attention