CERTIFIED GLOBAL BUSINESS PROFESSIONAL

Exam Prep Study Guide

Copyright 2023 - NASBITE International - Version 01.4-2023

Domain II – Global Marketing

Copyright 2023 - NASBITE International - Version 01.4-2023

Table of Contents

Introduction 4
Global Marketing – Domain II 5
Task 2.1 - Evaluate the internal and external environment (e.g., economic and physical geography, history, political environment, competitive analysis, regulatory, cultural, and technological issues) to identify potential marketing threats and opportunities 5
(i) Internal Resources 5
(ii) External Environment 6
(iii) Public and Private Sources of Data 7
(iv) Major Trade Agreements 8
(v) Product Certifications and Standards (e.g., CE Mark, ISO 9000) 9
(vi) Cultural Issues Related to Marketability of Product, Translation Issues 10
(vii) Assessing Technological Infrastructures in Target Markets 11
(viii) SWOT Analysis 11
(ix) Competitor Activity Research 13
Task. 2.2 - Develop and implement the global marketing plan: Conduct market research to determine the best potential market 15
(i) Laws and Regulations 15
(ii) Public and Private Marketing Resources 16
Task 2.3 - After analysis of the market research, select products and markets to be targeted 18
(i) Impact on Market Selection of Product, Price, Place, and Promotion (The Marketing Mix) 18
(ii) Finding Laws and Regulations that Impact Market 19
(iii) Market Segmentation and Demand Analysis 20
Task 2.4 - Develop and select a market strategy to maximize sales and profitability 22
(i) Foreign Market Entry Methods 22
Task 2.5 - Develop and implement a marketing budget related to the global activities of the company 28
(i) Budgeting Processes 28
(ii) Reporting Requirements 29
(iii) Basic Accounting Procedures 29
(iv) Costs Associated with Marketing and Promotion 29
Task 2.6 - Coordinate the marketing mix of goods and services to implement the company's marketing plan: Provide products and services for the targeted markets 31
(i) Customer Expectations and Cultural Requirements 31
(ii) Product Life Cycle 32
(iii) Product Development/Modifications 33
(iv) Technical Compatibility and Product Standards 34
(v) Packaging, Labeling, and Marking 34
(vi) After-sales Service and Support 35
(vii) Product Liability Implications 36
(viii) Legal/Regulatory Requirements for Pricing 37
(ix) Trade Assistance Resources 38
(x) Environmental Concerns 39
Task 2.7 - Implement, monitor, and adjust the company's global pricing strategies 41
(i) Costing Methods and Overhead Allocation 42
(ii) Tariffs, Non - tariff Barriers, and Incentives 44
(iii) Quoting Methods 46
(iv) Resources for Global Pricing Strategies 47
(v) Local Market Conditions 48
Task 2.8 - Initiate and manage global promotion strategies to support the global marketing plan 49
(i) Sales Promotion Mechanisms 49
(ii) Technological Tools for Promotion 50
(iii) Trade Assistance Resources 51
Task 2.9 - Analyze and formulate a global distribution strategy for products and/or services 53
(i) Types and Roles of Distribution Channels 53
(ii) Impact of local market distribution characteristics and implementation issues, gray marketing 56
(iii) Contractual Issues Related to Market Entry 57
Task 2.10 - Establish and manage the global sales activities 58
(i) Sales Knowledge and Techniques 60

Table of Contents

Introduction 4

Global Marketing – Domain II 5

Task 2.1 - Evaluate the internal and external environment (e.g., economic and physical geography, history, political environment, competitive analysis, regulatory, cultural, and technological issues) to identify potential marketing threats and opportunities 5

(i) 6
(ii) 7
(iii) 8
(iv) 9
(v) 10
(vi) 11
(vii) 12
(viii) 12
(ix) 14

Task. 2.2 - Develop and implement the global marketing plan: Conduct market research to determine the best potential market 15

(i) 16
(ii) 17

Task 2.3 - After analysis of the market research, select products and markets to be targeted 18

(i) 19
(ii) 20
(iii) 21

Task 2.4 - Develop and select a market strategy to maximize sales and profitability 22

(i) 24

Task 2.5 - Develop and implement a marketing budget related to the global activities of the company 28

(i) 30
(ii) 31
(iii) 31
(iv) 31

Task 2.6 - Coordinate the marketing mix of goods and services to implement the company's marketing plan: Provide products and services for the targeted markets 31

(i) 33
(ii) 34
(iii) 35
(iv) 36
(v) 36
(vi) 37
(vii) 38
(viii) 39
(ix) 40
(x) 41

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.7 - Implement, monitor, and adjust the company's global pricing strategies 41

- **(i)** 44
- **(ii)** 45
- **(iii)** 47
- **(iv)** 48
- **(v)** 49

Task 2.8 - Initiate and manage global promotion strategies to support the global marketing plan 49

- **(i)** 50
- **(ii)** 51
- **(iii)** 53

Task 2.9 - Analyze and formulate a global distribution strategy for products and/or services 53

- **(i)** 55
- **(ii)** 58
- **(iii)** 59

Task 2.10 - Establish and manage the global sales activities 58

- **(i)** 62

Copyright 2023 - NASBITE International - Version 01.4-2023

Introduction

NASBITE International is a non-profit 501(c)3) 3 corporation organized under the laws of Ohio. Established over 30 years ago as an association of North American Small Business International Trade Educators (NASBITE), NASBITE has become the leading U.S. organization supporting training and education in the field of global business. We are a professional organization of educators, trainers, service providers, and practitioners and our mission is "to advance global business practice, education, and training".

The CGBP "Practice Delineation" is the foundational reference document that articulates the trade skills certified through the attainment of the NASBITE Certified Global Business Professional (CGBP) credential. It comprises four top-level domains along with supporting task and knowledge statements and five threads, which represent topics that cut across all four domains.

Top Level Domains	Threads (topics that cut across all four domains)
1. Global Business Management 2. Global Marketing 3. Supply Chain Management 4. Trade Finance	a. Documentation b. Legal & Regulatory Compliance c. Intercultural Awareness d. Technology e. Resources

The CGBP is designed to meet the needs of individuals working in the profession or studying for a career related to global commerce. Candidates from both small and large companies will benefit, as will students in two-year or four-year post-secondary programs. The credential is also suitable for individuals working in trade assistance organizations, trade promotion agencies, and related educational institutions.

Candidates receiving the NASBITE CGBP designation may use the credential logo and wordmark on resumes and business cards identifying them to employers and the public as individuals proficient and current in global commerce. For companies, the credential establishes a professional development goal for current and future employees. The credential also helps individuals diversify their skills in global commerce and assure they understand a broad range of topics rather than just the specific field within international trade where they have experience.

This document consists of content, which is aligned with the four domains – Global Management, Global Marketing, Global Supply Chain, and Trade Finance - found with the CGBP Practice Delineation. These domain summaries are intended to serve as a CGBP Exam Preparation supplement, with content that addresses all of the knowledge statements found in the CGBP Practice Delineation document.

Note that this document is not intended to serve as a standalone study guide. Rather, it is best used as a supplement to augment training or other resources that can more fully speak to the task statements that are found in the CGBP Practice Delineation. The study guide content has been designed to ensure that those who are planning to sit the CGBP exam have an appreciation for the full scope of the resources, references, and content that is described within the CGBP Practice Delineation document. If you are planning to sit the CGBP, we hope that you find this aggregate study guide helpful.

Any identified errors, omissions, or questions should be sent to Ask.The.Expert@nasbite.org (responses will generally be sent within 24-48 hours).

Copyright 2023 - NASBITE International - Version 01.4-2023

Global Marketing – Domain II

Task 2.1 - Evaluate the internal and external environment (e.g., economic and physical geography, history, political environment, competitive analysis, regulatory, cultural, and technological issues) to identify potential marketing threats and opportunities

Knowledge of:

- (i) Internal resources (e.g., export readiness assessment, goals and preferences of senior management, experiences, and capabilities of employees, technical and production capabilities)
- (ii) External environment (e.g., economic and physical geography, competitive analysis, regulatory, cultural, technological issues, currency fluctuations, and protected industries and sectors)
- (iii) Public and private sources of data and assistance including electronic and print
- (iv) Major trade agreements, trade law, and customs unions (e.g., North American Free Trade Agreement [NAFTA] European Union, export control regulations, anti-boycott regulations, Foreign Corrupt Practices Act [FCPA])
- (v) Product certifications and standards (e.g., CE Mark, ISO 9000)
- (vi) Cultural issues related to the marketability of the product, translation issues
- (vii) Assessing technological infrastructures in target markets
- (viii) SWOT analysis related to global marketing
- (ix) How to research competitor activities internationally (e.g., PIERS, UN Comtrade, Kompass Directory, USA Trade Online)

In the 'Global Marketing' domain, CGBPs are expected to be able to manage, implement, coordinate, and/or assist with marketing, including planning, sales, research, and support functions to assess customer needs; evaluate opportunities and threats on a global scale; and meet corporate needs within environmental constraints and corporate goals. In this study topic, we will discuss the task of being able to evaluate the internal and external environment (e.g., economic and physical geography, history, political environment, competitive analysis, regulatory, cultural, and technological issues) to identify potential marketing threats and opportunities.

(i) Internal Resources

An initial evaluation of internal resources (e.g., export readiness assessment, goals and preferences of senior management, experiences, and capabilities of employees, and technical and production capabilities) is an essential part of any marketing effort.

Company Commitment

This process often begins with an export readiness assessment, which is a self-assessment tool that companies can use to review their internal capabilities, as they relate to exporting (read this short article on the topic). Have a look at this sample export readiness questionnaire (link here). Also, please see the following three self-diagnostics for new exporters, occasional exporters, and experienced exporters (link here), which are offered by the US International Trade Administration.

These tools are widely available and vary in their sophistication, but the basic idea for all of these tools is the same. It is important to do an internal assessment to better understand your capabilities and limitations before undertaking any export effort. The tools generally ask the company to review the following areas:

Copyright 2023 - NASBITE International - Version 01.4-2023

Goals and Preferences of Senior Management

At a minimum, a company should have a firm understanding of the goals and preferences of senior management. Exporting can be time-consuming and challenging, so an internal champion will be needed, and the company will likely need to spend money on staff travel to new markets (e.g., to meet potential buyers, attend trade shows, etc.).

Also, given that there are so many new markets in the world, senior management needs to commit to an international marketing plan with well-defined goals and that plan should be focused on target markets that make sense (given the firm's level of experience in exporting). In general, companies tend to focus on bigger, closer, culturally similar, easier-to-access markets first and move only to more distant, harder-to-access, culturally very different, smaller markets later on (i.e., once the company has considerable experience accessing foreign markets and is better prepared to tackle more difficult markets). The international marketing plan should also be realistic and focus only on 1-2 markets at a time (unless the company has a large group of staff focused on new markets) because each new market will require careful analysis and considerable effort. It is therefore important not to underestimate the time commitment for each new market. Managing the marketing effort for several new markets simultaneously is therefore generally not advisable.

These points are made simply to underscore the fact that international marketing is a strategic commitment. A solid commitment from senior management is therefore definitely needed.

Experience/Capability of Employees

Exporting can involve many unfamiliar processes and new documentation requirements that can affect many people/departments within the exporting company. The finance department may need to deal with unfamiliar financial instruments (e.g. letters of Credit), the shipping/logistics department may be faced with unfamiliar shipping terms, export-licensing requirements, etc., and the sales department may need to spearhead internal efforts to address legal and regulatory requirements that are new/unfamiliar. So, doing an inventory of the experience and capabilities of current employees will help you understand whether the company has staff that is trained and up to the challenge or possibly in need of additional training.

Technical and Production Capabilities

Depending on the quality expectations of the new market, customer preferences, and legal/regulatory requirements (e.g., safety standards, labeling, etc.), a company may need to adapt its products or services. Therefore, it is important to review internal capabilities to better understand the extent to which product/service modifications can be made. International sales orders can also impose new production demands, so the internal capacity to fulfill large orders should be reviewed as well.

Once the goals and preferences of senior management and the experience of both the employees and the company have been assessed, the company will have a better understanding of any gaps in ability that need to be addressed.

(ii) External Environment

At the same time, the marketing effort will involve a good understanding of the external environment in the market(s) being considered (e.g., economic and physical geography, competitive analysis, regulatory, cultural, technological issues, currency fluctuations, and protected industries and sectors).

To begin, read this short article on the international marketing environment (link here).

There are many external resources available for doing preliminary research on these topics (using secondary sources of information). Commonly used resources for this purpose are as follows:

- Export.gov- Country Commercial Guides (link)

Copyright 2023 - NASBITE International - Version 01.4-2023

- The CIA World Factbook (link)
- The World Bank's development indicators (link)
- The Organization for Economic Co-Operation and Development's database (link)
- GlobalEDGE Insights by Country (link)
- International Trade Centre in Geneva – Market Info (link)

As well, some local trade assistance organizations, such as Small Business Development Centers, World Trade Centers, and other state-level organizations (under the State International Development Organizations (SIDO) (link here) also have staff who are focused on trade and able to help companies gather some of this information.

(iii) Public and Private Sources of Data

In this study topic, we will discuss the task of being able to evaluate the internal and external environment using an array of available sources. Of these sources, a number of them are publicly available and provide data and information at no cost. These sources not only provide data on various indicators, but may also provide information on major trade agreements, trade law, and customs unions.

Online Resources

The following public sources are important online resources

- Export.gov - www.export.gov

A U.S.-based resource that is managed by the U.S. Department of Commerce provides valuable, no-cost information. This site provides information on selecting markets and researching data to support potential markets. The Country Commercial Guides (CCG) contain reports on a country's economic, political, marketing, trade regulation, investment, financing, and travel conditions. In addition, the appendices contain country data, domestic indicators, trade and investment statistics, and a list of contacts.

- U.S. Trade Online - usatrade.census.gov

This resource is maintained by the U.S. Census and is the official site for U.S. export and import data. It provides historical and current data that is collected monthly on nearly all U.S. exports and imports, available at the ten-digit harmonized code. There is no cost to subscribe.

- UN Commodity Trade Statistics Database (UN Comtrade) – comtrade.un.org

This resource is similar to U.S. Trade Online; however, it provides export and import data for all countries on an annual and monthly basis; however, data only goes to the six-digit harmonized code. Despite this, UN Comtrade still offers great insights into the trading activities of non-U.S. countries at no cost.

- CIA World Factbook - www.cia.gov

This resource is managed by the CIA and provides information similar to that of export.gov; however, it goes into more detail on a country's geography, resources, population demographics, government, infrastructure, military, and economic indicators.

- World Bank Development Indicators - www.data.worldbank.org

This resource is managed by the World Bank and provides a large database of up-to-date, comparable data for more than 200 countries on various indicators. This database also allows one to analyze countries by regional groupings, income, and other criteria.

- OECD.Stat Extracts - stats.oecd.org

This resource is similar to the World Bank resource in that it provides data for a variety of indicators, however, it may be able to fill data gaps relating to indicators that the World Bank does not provide data for. OECD publishes data monthly and may have more up-to-date information on certain indicators, such as those related to the economy.

Copyright 2023 - NASBITE International - Version 01.4-2023

- The International Trade Centre in Geneva - intracen.org

ITC's Market Analysis Tools provide users with export and import statistics of more than 220 countries and territories so they can better understand supply and demand trends for about 5,300 internationally traded products

Trade Assistance Organizations

Several important organizations are local organizations that also provide trade assistance to companies in many US states. These organizations include:

- Small Business Development Centers (aside)
- State International Development Organization (SIDO) (offices)
- U.S. Export Assistance Centers (export.gov), and
- Local World Trade Centers (note that services between WTC locations can vary)

Private Resources

In addition to the numerous public resources that are available, there are private resources that provide additional or more in-depth data than those available in public resources. For example, in-depth data could include data on the export-import activities of specific companies. Companies that provide this sort of data include:

- Euromonitor (strategic market research)
- Kompass (business profiles)
- Marketline (industry profiles)
- ReferenceUSA (business and consumer market data)
- WiserTrade (trade statistics)
- Visual Compliance (trade compliance)
- Descartes Datamyne (market research and regulations)
- IHS Markit PIERS (Bill Of Lading Data for US Trade)

(iv) Major Trade Agreements

Other resources may be utilized to garner an understanding of major trade agreements, trade law, and customs unions (e.g., North American Free Trade Agreement [NAFTA], European Union, export control regulations, anti-boycott regulations, Foreign Corrupt Practices Act [FCPA]) – as follows:

- The US Office of the United States Trade Representative (USTR) - - Description and details of US free trade agreements in force with 20 countries

- European Council (link here) - Description and details of EUs trade agreements

- U.S. Department of Commerce, Bureau of Industry and Security (BIS) –
    - Information on export controls of products, technology, and lists of individuals and companies that are controlled. Additional information is available for Export Administration Regulations (EAR), Export Control Classification Number (ECCN), Commerce Control List (CCL), Commerce Country Chart, Simplified Network Application Process Redesign (SNAP-R), and Lists of Parties of Concern.
    - Anti-boycott Compliance (link here)

- U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC) - www.treasury.gov
    - Information on economic and trade sanctions based on U.S. foreign policy and national security initiatives

- U.S. Customs and Border Protection - www.cbp.gov
    - Utilize this resource to find more information on how this department protects U.S. borders, collects import duties, protects against illegal importation, and maintains the ACE portal.

- U.S. State Department of State, The Directorate of Defense Trade Controls (DDTC)
    - Utilize this resource to find more information on the export controls of defense, military, and munitions articles and information on International Traffic in Arms Regulations (ITAR).

- U.S. Department of Justice Foreign Corrupt Practices Act (FCPA) - The Foreign Corrupt Practices Act of 1977 was enacted for making it unlawful for classes of persons and entities to make payments to foreign government officials to assist in obtaining or retaining business. The DOJ is responsible for enforcement and maintains a resource guide to help businesses understand this law (link here).

(v) Product Certifications and Standards (e.g., CE Mark, ISO 9000)

Most countries aim to protect their public against unsafe or inferior products, mainly by adopting very specific health, safety, or technical standards. These standards are often enforced through a product certification process that typically involves testing the products for performance and quality and then certifying that they meet qualification criteria stipulated in contracts, regulations, and specifications. The certifications are performed by Accredited Certification Bodies in the exporter's country (e.g., SGS, Bivac/Bureau Veritas, and Intertek), under the ISO/IEC 17065:2012 international standard. Countries may waive the certification requirement for low-value shipments or apply it only for certain types of goods.

The European Union has particularly rigorous product standards across many industries, most notably the CE (Conformité Européenne) Mark. The mark consists of the CE logo and, if applicable, the four-digit identification number of the Notified Body involved in the conformity assessment procedure. The CE marking is the manufacturer's declaration that the product meets the prescribed health, safety, and environmental protection standards in the applicable EC directives. Depending on the level of risk of the product, the manufacturer or authorized representative who needs to ensure that the product meets all the CE marking requirements affixes the CE marking to a product. In some cases, if a product has minimal risk, it can be self-certified by a manufacturer making a declaration of conformity and affixing the CE marking to its product.

To better understand the importance of such standards, watch this short video on import regulations.

Other standards deal more with the quality systems of the manufacturer than the quality of the products. The International Organization for Standardization (ISO), an independent, non-governmental international organization comprising 162 national standards bodies, has published 22,654 International Standards and related documents, covering almost every industry. ISO 9000, in particular, is a set of international standards on quality management and quality assurance, including:

- ISO 9001:2015: Quality management systems - Requirements
- ISO 9000:2015: Quality management systems - Fundamentals and vocabulary

ISO 9000 standards are not always mandated, but many companies have broadly adopted them internationally, and adherence to these standards is respected in many countries. Therefore, holding such standards can help a company give assurance to prospective customers that its products are being produced in a facility that has an excellent/rigorous internal quality system. Additionally, some government and private contracts will set out ISO standards as a minimum requirement for potential bidders. Therefore, holding an ISO standard that is relevant to

Copyright 2023 - NASBITE International - Version 01.4-2023

your business/industry can potentially help a company meet contractual requirements, while also ensuring that your company has a top-notch internal system that will support continuous quality improvement.

A good reference for better understanding the Customs, Regulations & Standards in each country is the US Government's Country Commercial Guides (available here).

(vi) Cultural Issues Related to Marketability of Product, Translation Issues

Cultural issues can also profoundly affect the marketability of products in any country, especially those with distinctly different societal structures, traditions, and norms. Companies need to assess the impact of cultural differences on their marketing strategy, focusing particularly on known likes and dislikes, outright "taboos," and resulting do's and don'ts. The literature is replete with horror stories and blunders by even major international companies who failed to anticipate negative cultural reactions to product marketability.

Cultural receptivity to foreign market entry is probably most influenced by the country's language, religion, and negotiating methods and styles.

- Language. Every country has a primary language (e.g., English), and most also have other regional or indigenous languages. For example, India is largely Hindi-speaking but also has 21 other major languages and over 720 different dialects. English is a universal business language but may not be understood at all or by large segments of a country's consuming public. To address this, companies translate the content of their website, marketing materials, and written communication into target-country languages. However, the 193 countries and their many different languages make it too costly to translate into every possible language. Therefore, companies typically limit translations to one or more of the most widely spoken languages (e.g., Spanish, French, Chinese), unless they are targeting a single large market with only one major language (e.g., Germany or Japan).

Although translations help bridge language divides, they can also have unexpected adverse consequences. Some words, idioms, or company slogans that resonate at home may translate into laughable or even morally offensive meanings elsewhere. For example, Kentucky Fried Chicken's "Finger-Lickin Good" slogan was interpreted as "Eat your fingers off" in China. PepsiCo's "Come Alive with Pepsi" ad translated as "Pepsi brings your ancestors back from the dead" in Taiwan. Vicks brand cough drops became "Ficks" in Germany (slang for sexual intercourse) because the Germans pronounce the letter "v" as "f." For more examples of translation blunders, see "20 Epic Fails in Global Branding."

- Religion relates not just to rituals, but also more broadly to values and beliefs, including concepts of right and wrong, ethical behavior, morality, humility, honor, fairness, etc. Religion must be taken into account in market planning because so much of the world's population has a religious affiliation of some kind (an estimated 80%). Although every country has at least one dominant religion, planning can reasonably focus on the world's top five religions -- Christianity, Islam, Hinduism, Judaism, and Buddhism. Notwithstanding some basic commonalities, these and virtually all religions have idiosyncrasies that can determine success or failure in the market. The most impactful aspects of religion are "taboos" that forbid certain products or take offense at the marketing message.

- Product taboos-- would the product likely be well or poorly received from a religious standpoint? The most common religious taboos for products are food-related. For example, in Hindu India, where cows are sacred, beef is prohibited. Orthodox Jews consider pork and shellfish unclean. Devout Muslims will not eat pork or drink alcohol. Other foods in Israel and many Muslim countries, while not banned outright, may require Kosher or Halal certifications by religious authorities. For more examples of food-related taboos, see Food and Drink Prohibitions.

- Marketing taboos -- would the messaging content or methods likely appeal to or turn off target customers? Common marketing taboos include offensive images, words, shapes, and colors considered sacrilegious in the target country or that symbolize grief, bad luck, unhappiness, etc. Logos can create good or bad impressions in different countries, particularly if depicting animals or astrological symbols. Colors are also problematic, as they

inspire positive emotions in some countries and negative ones in others. For example, yellow conveys happiness and warmth in most of North America, but death, sorrow, and mourning in Latin America. Red represents happiness, joy, and celebration in most Asian countries, but symbolizes caution, danger, and evil in Middle Eastern countries. For more examples of how colors are perceived in different countries, see Colors across Cultures.

- Negotiating methods and styles can also significantly affect whether parties interact positively or negatively with each other in pursuing deals. Each country has its own "business etiquette," rooted in culture, that can promote deal-making if respected or break the deal if ignored. In this sense, doing it the "right" way may be more important than the deal itself. Particularly critical in "high context" countries (e.g., Asia and Latin America) is the need to build relationships before cutting to the chase. Also important are body language and gestures during the interactions and respect for customs for dress code, business cards, use of names and titles, punctuality, welcome and unwelcome topics of conversation, gift-giving, and outright or subtle requests for bribes. For examples of how body language and gestures are perceived, see Body Language And Gestures Across The World.

Cultural missteps are preventable with advanced research and planning. Therefore, companies need to take time to research the culture in each target market to ensure that cultural missteps do not affect product marketability. This research can help the company make any needed product adaptations or adjustments in the marketing plan. Here are a few of many free Web resources that can be used for this purpose:

- Kwintessential Global Guide to Etiquette, Customs & Protocol
- Passport to Trade - Business Etiquette - 31 Countries
- Country Intercultural Insights
- Business Strategies International (BSI) Country Guides
- Business Strategies International (BSI) Keys to Success

(vii) Assessing Technological Infrastructures in Target Markets

Assessing the technological infrastructure in a target market is an important part of market research. Infrastructure includes such things as transportation systems, telecommunications, electrical systems, financial systems, healthcare systems, etc. The importance of the sophistication and the similarity of the infrastructure in any given market will vary dramatically depending on the product/service being offered. For example, the availability of electrical service, the electrical standards, and the cost of electricity in a country would all be extremely important to a company that wanted to sell solar panels into that market. Therefore, exporting companies should spend some time thinking about the various aspects of the technological infrastructure in the target market that will be important, and then they should make sure that the relevant infrastructure in that market is going to be adequate to support the introduction of the product/service that they have in mind.

A good resource for initial information on market infrastructure is The CIA World Factbook, which provides information on energy, communications, and transportation in its reports on 267 world entities.

(viii) SWOT Analysis

Before market entry, it is important to conduct multiple assessments to fully analyze the internal and external environment. By conducting a thorough internal assessment using a basic SWOT analysis, a company will have a better picture of strategic priorities.
In essence, a SWOT analysis is a simple analytical tool that companies use to identify and summarize internal strengths and weaknesses, and the threats and opportunities that are relevant factors in the external environment. While conducting this assessment, it may help to keep in mind the "ready-to-go-global" conditions of manager commitment, in-depth experience with product or service, adequate cash flow, and capacity and capability to service international markets.

Copyright 2023 - NASBITE International - Version 01.4-2023

The “S” in SWOT is for “strengths”, or the internal capabilities, of one’s company that would make it successful in the target export market. Regarding global marketing, identifying the internal skills and capabilities that make the company successful in the domestic market is a good first step. These skills and capabilities may include the quality and strength of the internal team (human resources), research and development capabilities, the efficiency of the company’s production, capabilities of the sales/marketing department, financial strength, etc. Some relevant questions to ask are as follows:

- What advantages does your organization have?
- What does your organization do better than competitors do?
- What do others in your market know that you do well?

It is important to add that many companies have conducted a SWOT analysis for domestic business. In international business, the key is to be extra critical and very realistic when considering whether or not the company’s assessment of domestic business strengths is still relevant/important for new markets that are being considered.

The “W” in SWOT is for “weaknesses”, or the internal areas of the company that need improvement. Similarly, these shortcomings must be considered with export markets in mind as they may make it difficult to reach the company’s export goals in new markets. Weaknesses should be considered across all aspects of the business (e.g., Human resources, sales, marketing, R&D, engineering, operations, logistics, supply chain, etc.). Identifying these weaknesses gives the company an inventory of issues that may need to be addressed. Again, relevant questions to ask are as follows:

- What could the company do better?
- What should the company avoid or stop doing?
- What areas of the company are not competitive when compared to other similar companies (domestically and internationally)?

The “O” in SWOT is for “opportunities”. This refers to the external opportunities that are present both in the domestic market and in prospective new export markets. Note that Export.gov Country Commercial Guides (link) is a great resource to find out which industries, and economic sectors are growing and in demand in various countries that may be of interest.

Some relevant questions to ask:

- What national or international trends of relevance are occurring in your industry?
- What opportunities are available domestically and internationally?

The “T” in SWOT is for “threats”, which are any external factors in both the domestic and target markets, which will create challenges for the company. Threats in the external environment may be the presence of strong local or multinational firms operating within the same industry, differing taste preferences, stringent government regulations, and more.

Relevant questions to consider are as follows:

- What is the competition doing?
- What changes will we have to make to the product/service?
- Are there any cash-flow problems?

After conducting a thorough SWOT analysis, many companies can be overwhelmed by the lengthy list of factors that emerge in each of these categories. Yet, the idea is to rank the items in each category (in terms of importance/criticality) and then use this analysis to develop a list of strategic priorities.

Copyright 2023 - NASBITE International - Version 01.4-2023

A company that does a thorough review of this nature will have a much clearer picture of its internal capabilities and a better sense of how the various external factors stack up against one another. This analysis can therefore be used to help the company develop a plan for moving forward.

Take a few minutes and watch this short video on the SWOT analysis, as it relates to exports.

(ix) Competitor Activity Research

It is also important in any analysis to research international competitors that you encounter to better understand your competitive positioning in new markets. Public sources are a great place to find free data and information about these activities. Although they are broader and lack the specificity of private resources, they can provide a high-level view of what activity trends have taken place in previous years and what is going on in an industry today. These resources range from databases provided by the US government to industry press, and even competitor websites.

Helpful online resources for tracking the activities of competitors include:

- UN Comtrade (link) – This is a United Nations resource that offers free access to detailed global trade data. UN Comtrade is a repository of official international trade statistics and a user can easily search for trade statistics related to specific products (using HS Codes) between countries.

- USA Trade Online (link) - Provided by the U.S. Census Bureau, USA Trade Online is a free tool that gives users access to current and cumulative U.S. export and import data. Manufacturers and other businesses wishing to expand their business globally can utilize USA Trade Online to identify new markets, evaluate existing markets, and perform other market research tasks. USA Trade Online provides information at the harmonized code level for the value of export, the quantity of export, and where goods are being sold, but does not provide information at the company level

If a company has the funds available, investing in a private resource can also be extremely useful. Due to differences in how and where data is collected, private resources can provide very specific, detailed data. This specificity can go all the way up to what company's goods are being shipped, what the shipment's contents are, to whom they are selling, and even how they are selling. Some of these private data sources are also available at local Small Business Development Centers (SBDCs) and state-level trade promotion agencies in many states in the United States. These resources include:

PIERS (link) - PIERS is the leading provider of import and export data at the detailed, bill-of-lading level. The company has amassed 40 years of waterborne trade data. Every day, on average, the PIERS team processes close to 60,000 bills of lading that are filed with US Customs. Within hours of receipt, they verify, standardize, enhance, and load the data into their products and integrate this transactional trade data with standardized company details so you can also identify imports and exports by company.

- Available by subscription
- Provides very specific information related to:
  - Where they are selling (excellent)
  - To whom they are selling (excellent)
  - Quantity of export at both industry and company level

Datamyne (link) - The Descartes Datamyne™ solution is the world's largest searchable trade database, covering the global commerce of 230 markets across 5 continents. The company notes that 75%+ of the world's import-export trade is covered by their data with 500m+ shipment records added to their database each year. This includes approximately 26,000 U.S. maritime import Bill of Lading (BOL) records that are added each day 24 hours after receipt from U.S. Customs & Border Protection (CBP)

Copyright 2023 - NASBITE International - Version 01.4-2023

- Available by subscription
- Provides very specific information related to:
  - Where they are selling (excellent)
  - To whom they are selling (excellent)
  - Quantity of export at both industry and company level

Euromonitor (link) – Euromonitor is a leading provider of strategic market research. The company creates data and analysis on thousands of products and services around the world. Each year Euromonitor publishes more than 17,000 reports on 27 industries, 200 sub-categories, and thousands of companies in 210 markets and countries.

- Available by subscription
- Provides very specific information related to:
  - Where they are selling (depends on company and country)
  - To whom they are selling
  - How they are selling
  - Sales levels and pricing information, including market sales and share

Kompass Directory (link) boosts business development with "EasyBusiness" a powerful marketing and segmentation tool. At its heart is the database with over 21 million business profiles across the world.

- Available by subscription
- Provides information related to:
  - Identifying and researching competitors
  - Activities, sales, classifications of competitors
  - Identifying suppliers of products & services
  - Identifying clients, agents, and distributors

Whether public or private, any of these resources is a good starting point for gathering information on your competitors. Gathering detailed competitor information can be a daunting task, or an expensive task to outsource. However, getting started by gathering some basic competitive information will help you understand the competitive issues well enough, to know how much time to invest.

Here are two short articles that you can also read on this topic (here and here).

Copyright 2023 - NASBITE International - Version 01.4-2023

Task. 2.2 - Develop and implement the global marketing plan: Conduct market research to determine the best potential market

Knowledge of:

(i) Laws and regulations that impact the marketing plan (e.g., entity law, promotional restrictions, distributor requirements, corruption)
(ii) Public and private marketing resources (e.g., International Trade Administration, U.S. Commercial Service and the Country Commercial Guides, freight forwarders)

(i) Laws and Regulations

Some various laws and regulations can affect domestic and foreign marketing plans. Laws and regulations such as entity laws, promotional restrictions, distributor requirements, corruption issues, and more must be taken into account:

Entity Law

Entity Laws relate to the types of businesses that are legally allowed in each country and the laws that apply to those entities. Each country allows certain types of incorporated and unincorporated businesses to exist (see this list for examples) and each country has unique laws that apply to each entity type. Therefore, for businesses that are planning to set up an entity in another country, and for companies that are planning to collaborate with another business in another country, it is important to understand the various forms that businesses can take and the laws and regulations that are of relevance.

Promotional Restrictions

There are often restrictions on the types of advertising and promotion that are allowed in any given country. In some instances, laws may be similar to those in the United States, but no assumptions can be made because every country is different. For example, certain restrictions may exist in some countries that do not apply in others (e.g., advertisements aimed at children may be illegal). Another example would be a scenario where the definition of what is considered "false advertising" could be different and/or there could be rules on what may be advertised in print, media, online, etc. In general, these differences are important and need to be investigated thoroughly. Export.gov Country Commercial Guides (link) often contain a section on Trade Promotion and Advertising, so they are a great place to start when conducting market research.

Distributor Requirements

When a business engages in direct exporting through an agent or distributor, there are specific points that must be addressed to ensure the legality of the agreement and to avoid risk exposure. These points include an outline of the responsibilities being assumed by both parties, the products involved, territory, scope, performance targets, duration of the contract, shipping terms, pricing, and promotion of the goods, etc. It is therefore important to research laws involved in forming a distributor agreement in a target export market, as these relationships may have restrictions and/or could be difficult to terminate (once engaged). For example, some companies include payments that are being made to an agent or distributor under employment laws, and in some instances, these relationships may dictate mandatory severance payments under civil law (especially in instances where there has been a longstanding relationship between export and the local representative). This is a point of legal exposure that should therefore be considered carefully. Note that many Export.gov Country Commercial Guides (link) contain a section on "Selling US Products and Services" that provides details on different partnership options, so these guides are a great place to start to learn more about the distributor requirements for target export markets.

Copyright 2023 - NASBITE International - Version 01.4-2023

Corruption

The Foreign Corrupt Practices Act (FCPA) is legislation that prohibits U.S. companies or individuals from making corrupt payments to foreign officials to obtain or keep business. This legislation outlaws bribes made to intermediaries, thus foreign distributors, agents, and subsidiaries of U.S. companies are barred from committing corrupt practices (more detail can be found here). This excludes facilitation payments, which are payments made to lower-level foreign officials to carry out routine governmental action, such as documentation of imported goods. Facilitation payments are generally excluded from legal action in the USA (read this short article on the topic), but they may still be illegal in the country where they are paid. Therefore, any company considering such payments should consult an attorney to ensure that the action is legal (both according to domestic laws and in the country where they are paid).

Other Laws and Regulations

The items above are not intended to be exhaustive. There are important laws in the United States that relate to exporting including many government export controls (read this high-level overview of US Export Laws) and many import laws and regulations that are unique in each country. The examples above are provided to give you a starting point for research, to ensure you understand that relevant laws and regulations exist locally and abroad and that both jurisdictions will need to be carefully researched with this understanding in mind.

(ii) Public and Private Marketing Resources

Systematic market planning is essential to exporting and can be instrumental in avoiding costly mistakes. A global marketing plan provides a structure and step-by-step roadmap for export development, best-market identification, and market entry planning. A global marketing plan should include an internal assessment that looks at available company resources and capabilities and overall strategic objectives and approach, including whether to export directly or through a domestic intermediary and which products to export. The next steps should consider which markets offer the highest export growth potential for the selected products and the accompanying market entry strategy (i.e., best ways to effectively penetrate the selected target markets, including strategies for distribution, promotion, pricing, and market adaptation).

The many countries in the world give a company many potential new markets as options, but not all are worth pursuing. The "best" export markets offer a combination of high comfort for the exporter (language and cultural affinity, trusted business contacts) and a high potential for the products (strong import demand, no or few barriers, limited competition). High comfort markets are easily identified, mostly intuitive from personal experience. High-potential markets require market research, first to identify top prospects and then to differentiate the better markets from others. The key to market research is to know what market potential indicators to look for and where to find them (data sources).

Comparative Market Size and Growth Indicators - Indicators of high-potential markets can be found in available trade, economic, demographic, and sectoral statistics.

- Trade statistics can show which countries are not only large and fast-growing export destinations for any product, but are also large and fast-growing world importers of the same product, including comparative import market shares. Both perspectives are important. For example, U.S. statistics could show encouraging large and growing exports to a country, but that country's import statistics could show that far more of the product comes from competing countries, with a resulting low U.S. share. Three U.S. Government sources provide free access to official U.S. export statistics by product and country -- USA Trade Online, ITC Interactive Tariff and Trade DataWeb, and ITA TradeStats Express. Two UN sources provide free access to world import statistics by country and product – UN Comtrade and UNITC International Trade Statistics (more user-friendly). All can generate tables showing export destinations and import sources for any specified product, in rank order by value and/or growth rate, over the past several years.

Copyright 2023 - NASBITE International - Version 01.4-2023

- Economic, demographic, and sectoral statistics can reinforce what the trade statistics suggest are the best markets. Economic statistics (e.g., level and growth of GDP, industrial/agricultural production) can point to the best markets for products affected by income levels (demand for high- or low-end consumer products) and needs for industrial and agricultural equipment and materials). Demographic statistics (e.g., level and growth of population by age, sex, race, health, etc.) can reflect needs for products aimed at particular population groups (e.g., demand for toys, cosmetics, ethnic products, drugs). Sectoral indicators (e.g., number and growth of relevant manufacturers; farms, hospitals, utilities, cell phones, highways) can indicate demand for products aimed at manufacturing, farming, construction, and power, medical, transportation, and communications infrastructure. Sources: CIA World Factbook, U.S. Census Bureau's International Database (IDB), UN Data – A World of Information, UN Social Indicators, and NationMaster Comparative Statistics.

Comparative Market Receptivity Indicators - Available market research reports can show which markets would be best prospects for products in selected industries – e.g., most needed or wanted products, with limited competition, and few or no entry barriers.

- USDOC/ITA Country Commercial Guides (CCGs) identify "Leading Sectors for U.S. Exports" in Chapter 4. USDOC/ITA Top Markets Series report on the market for a specific industry sector in countries considered the best prospects by U.S. embassies. The industry-specific reports provide a detailed assessment of the competitiveness landscape in each top market, as well as the opportunities and challenges facing U.S. exporters in those markets. USDOC/ITA Services Sector Research provides reports on the market for specific services industries in promising markets, with market environment analysis similar to the Top Market series for manufacturing industries.

USDA'S Global Agriculture Information Network (GAIN) reports provide market insight and analysis on 20 categories of agricultural products in up to 130 countries; The GAIN reports cover production, trade, policy and regulations, consumer profiles, distribution, and tips on market entry for each country.

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.3 - After analysis of the market research, select products and markets to be targeted

Knowledge of:

(i) Impact on the market selection of product, price, place, and promotion (e.g., the four P's)
(ii) How to find laws and regulations that impact the market selection (e.g., entity law, promotional restrictions, distributor requirements)
(iii) Market segmentation and demand analysis

In this study topic, we are going to focus on selecting the products to be exported and identify the markets to be targeted, after the analysis of initial market research. For each market, exporters need to consider (1) the factors related to the marketing mix (i.e., product, price, place, and promotion), (2) the laws and regulations that impact the market selection, and (3) the company will need to conduct a market segmentation analysis and a demand analysis.

(i) Impact on Market Selection of Product, Price, Place, and Promotion (The Marketing Mix)

As companies develop the requisite skills, capital, and capacity for exporting, they will next need to develop an Export Marketing Plan to address key strategic issues – specifically, what to export (**Product**), the specific pricing needed for each new target market (**Price),** the locations where the product will be made available (**Place**), and any market-specific issue related to promotional media choices and messaging (**Promotion)** – these are the four main components of the marketing mix (also known as the "4 P's."). Each of the four elements of the marketing mix will need to be precisely tailored to meet the needs of the targeted customers in each new market segment.

- **Product:** The export marketing plan needs to address two key product-related questions. First, does the product have export potential? Second, can the product be exported "as is" or does it need to be modified in some way to comply with a foreign technical standard, or cultural norm, or to address other considerations? Export potential is a function of likely demand for the product outside the domestic market. If the product has sold well domestically, the chances are that at least one of the nearly 200 other countries in the world will also need or want it.

Trade statistics can corroborate export potential for any product (identified by its HS Code number), by showing how much of that product was exported, to which countries, and the growth rate. The larger the export value and/or growth rate, the greater the export potential. Data sources include USA Trade Online, ITC Interactive Tariff and Trade Data Web for U.S. export statistics, and UN Comtrade and UNITC International Trade Statistics for import and export statistics.

The need for product adaptation is mainly determined by the regulatory and cultural environment in the target market. For example, from a regulatory standpoint, an electrical product may need to be converted to a different voltage or cycle, or it may even need to pass local safety testing. Equally important are cultural issues – for example, most U.S. refrigerators would need to be made smaller to meet the needs of smaller kitchens in a market like Japan. Similarly, a product's shape or color may need to be altered to fit with a local anesthetic or to avoid cultural taboos. Sources for product adaptation needs are USDOC and SBDC trade specialists, as well as Web-based Intercultural and Foreign Regulatory information.

- **Price:** The export marketing plan also needs to address the pricing structure for export sales. Best practices in export pricing begin with a market assessment to establish price targets and in-market meetings with market intermediaries (e.g., distributors or retailers) to better understand the margin expectations of the participants in each distribution channel. Pricing is then developed by starting at the end-user and backing out the requisite margins needed for channel partners along with costs related to shipping and logistics.

By contrast, an export pricing strategy that begins with domestic pricing (i.e., cost of goods sold + normal overhead allocations + profit) and then adds export-related overheads and any additional logistical costs is not an advisable

approach. This can result in pricing that is not suitable for market conditions and can result in lost deals. Instead, many exporting companies use market-based pricing and will take any incremental margin they can earn on export sales as long as they can cover their Cost-of-Good-Sold and any new overheads associated with the export effort.

- **Place:** The export marketing plan also needs to address the issue of distribution. This starts with the end user, and a plan should be developed that will allow the company to get the product in all of the right locations for a particular market segment. For industrial users or large wholesale clients, this can be as simple as an assessment of the logistics associated with shipping container loads of products to a specific location. However, in the case of a retail product, this could involve an in-depth analysis of the range of retail locations where such a product should or could be made available and the types of market-entry strategies that could be employed to ensure the product reaches the target audience.

Note that additional information on various market entry strategies can be found in the USDOC/ITA Country Commercial Guides (CCGs) and USDOC/ITA Top Markets Series.

- **Promotion:** The export marketing plan will need to spell out the promotional techniques, media, and messaging, along with the budget needed to successfully penetrate the market and build market share. Notably, the range of media choices and options can vary from country to country. Most countries have traditional TV, radio, billboard-advertising options, and retail point-of-purchase possibilities as well. However, online options can vary considerably, with unique social media options, specific language requirements, etc. Targeted emails, press releases, paid ads in trade journals, and listings in export directories, may all be possible, but the norms in every market are different, so nothing can be taken for granted. Costs can also vary considerably in each market, so budgets for these items as well as for trade shows and sales trips should be explored in advance.

For budgetary reasons, most companies start with lower-cost options until they have a better feel for market demand. In addition, if your company ends up hiring an agent or a distributor in the target market, you will be able to get advice on the most suitable types of promotion.

The second key aspect of the promotion is messaging. Companies that do not adapt their messaging to respect local needs and cultural norms will quickly make mistakes. Many books have been written about cultural likes, dislikes, ’s, and Don’ts that can guide adaptations in messaging (e.g., *The Do’s and Taboos of International Trade* and *Kiss, Bow or Shake Hands*). Also available on the Web for free are culturally related (e.g., Cultural Gaffes Beyond Your Borders and Cultural Gaffes at Home & Beyond and country-specific Intercultural Research.

(ii) Finding Laws and Regulations that Impact the Market

Laws and regulations that can impact market selection exist at home (domestically) and in the target market. Domestically, companies need to carefully investigate whether or not export controls or political sanctions that apply to the target market are a concern. Good resources for this purpose include

Export.gov Country Commercial Guides - www.export.gov/ccg

  - This resource provides descriptions of various laws and regulations of the target export market. Additional resources and links are provided in subsequent topic areas, such as resources for “Canada –Protecting Intellectual Property”.

Copyright 2023 - NASBITE International - Version 01.4-2023

U.S. Department of Commerce, Bureau of Industry and Security (BIS) - www.bis.doc.gov

- Utilize this resource to find more information on export controls of products and technology and lists of individuals and companies that are controlled. Additional information is available for Export Administration Regulations (EAR), Export Control Classification Number (ECCN), Commerce Control List (CCL), Commerce Country Chart, Simplified Network Application Process Redesign (SNAP-R), and Lists of Parties of Concern.

U.S. Department of the Treasury, Office of Foreign Assets Control (OFAC) - www.treasury.gov

- Utilize this resource to find more information on economic and trade sanctions based on U.S. foreign policy and national security initiatives.

U.S. State Department, The Directorate of Defense Trade Controls (DDTC) - www.pmddic.state.gov

- Utilize this resource to find more information on the export controls of defense, military, and munitions articles and information on ITAR – International Traffic in Arms Regulations.

From the standpoint of the target market, the USDOC Country Commercial Guides and industry-specific Top Market Series typically address regulations that impact the market selection, such as:

- Entity laws that allow only certain types of entities to conduct business in the country (e.g., a local partner) or requirements that mandate the use of a local distributor or make it difficult or costly to terminate a poor-performing distributor.

- Promotional restrictions regulate how certain products can be advertised and promoted to protect the public, such as alcohol and tobacco products, ethical drugs, contraceptives, personal hygiene products, undergarments, and films and books.

Other sources of information about applicable laws and regulations are the organizations within the market that administer the regulations (e.g., government agencies/departments). However, since every market is different, US-based companies should consult with the US Embassy and Consulates to get advice on the best points of contact in that market. Often seeking the advice of well-qualified agents, and distributors, or even contacting the executive staff within the relevant industry association (in the target market) can be an effective way to learn about the laws and regulations that are applicable.

(iii) Market Segmentation and Demand Analysis

Market segmentation is the process of dividing a market of potential customers into groups, or segments, based on different characteristics. These characteristics may be based on a variety of potential characteristics, such as demographics (e.g., age, gender, and occupation), geography (e.g., customer location), behavioral differentiators (e.g., benefits sought, rate of usage), etc. The idea is to group segments of customers according to unique wants and needs.

A detailed understanding of market segmentation can help companies identify the segments that are the best fit for their products, and it can help a company identify underserved niche markets. The idea is to use segmentation to identify the most profitable and/or easiest sales opportunities. It can also help a company ensure that its marketing mix is tailored precisely to address the preferences of one or more targeted segments.

The challenge in doing market segmentation is that these differences are not always easily discernible to someone who is not intimately familiar with the market. Therefore, secondary research reports focused on a particular market

Copyright 2023 - NASBITE International - Version 01.4-2023

sector can be very useful and industry insiders (e.g., agents, distributors, retailers, consultants, etc.) are invaluable if you can meet with them to get their insights into the market segmentation.

Demand analysis, on the other hand, is intended to quantify the size of the target market and the sales potential of that segment. When a market is well established, the insiders in that market will know these sales figures quite well. However, when a market is new or when a new product/service is being offered, a concrete assessment of demand may be difficult to establish.

To begin conducting demand analysis, companies can analyze information gleaned from sales inquiries, competitor behavior (e.g., statistical data on shipments); information gathered at domestic trade shows (e.g., discussions with industry experts, and information gleaned from customers). Other opportunities to gather information include events organized under the U.S. Commercial Service International Buyer Program (link) and information found in the Export.gov Country Commercial Guides (link).

Some companies estimate demand in new markets by comparison when statistics in similar markets are already known. Whatever technique is used, once a demand analysis has been completed and research has shown that there is demand for a product/service in a given target market, a competitive analysis is usually undertaken to better understand the market share that is currently held by the companies that are serving the market already. By comparing the new offering with what is currently being sold in the market and by understanding how market share has been allocated, companies can often get a very good estimate of market potential.

Copyright 2023 - NASBITE International - Version 01.4-2023

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.4 - Develop and select a market strategy to maximize sales and profitability

Knowledge of:

(i) Foreign market entry methods (e.g., licensing, agency/distributor, sales subsidiaries, international joint venture)

In this study topic, we are going to focus on foreign market entry methods (e.g., licensing, agency/distributor, sales subsidiaries, international joint venture) since there are many options that a company can choose from when entering a new market.

(i) Foreign Market Entry Methods

Target markets can be entered using a variety of market entry strategies. Each entry method has pros and cons. The goal is to maximize market penetration while avoiding costly mistakes. The best approach largely depends on the strategic objectives of the company, how much the company can afford to spend, how much control the company wants over the process, and how much risk the company is willing to take.

The barriers to market entry will also influence the choice of strategy. Political, commercial, economic, environmental, and market risks are factors that need to be considered. Most companies begin their international expansion by choosing market entry strategies that involve partnerships that require a minimum investment while reducing risk. As companies gain more experience, they may opt for riskier market entry strategies that offer a greater degree of independence and control.

Mainly, it is important to realize that different options are possible, so it is important not to assume that the same entry method will be best in every new market.

Broadly speaking, market entry strategies can be grouped into indirect exporting and direct exporting categories – as follows:

Indirect Exporting

Indirect market entry is a strategy in which the company essentially turns over the foreign market entry to a third party. Typically, the third part is a domestic business that is easily accessed. This third party does all of the work required in entering a foreign market but may also help your company expand into a foreign market using more direct methods. Common forms of indirect exporting can be summarized as follows:

- **Export Management Company (EMC)**
    - EMCs are companies whose primary purpose is to sell and market products and services internationally on behalf of other companies. These companies typically work with several manufacturers and, by aggregating the products from each supplier (into a larger portfolio of products); the EMC can offer a wide range of products to foreign buyers.
    - Some EMCs act like outsourced export sales departments and charge fees for their services. Other EMCs work on commission and only are paid when sales are made. Either way, the company that is using the EMC often has visibility on the end buyer or they gain some assistance and expertise with the exporting process.

Copyright 2023 - NASBITE International - Version 01.4-2023

- **Piggyback Exporting**
    - Piggybacking is when a company that has little/no-exporting expertise sells its products to a larger exporting company. This could be a sub-component supplier whose products are being incorporated into other products, which are destined for export. On the other hand, it could simply be a product that sits nicely alongside a similar product line being produced by an exporting company. Either way, a company makes an easy local sale to an exporter, and their product is destined for export markets. This helps relatively inexperienced small-to-medium-sized businesses reach export markets indirectly (by being able to piggyback off the success of another company). The most suitable partners for this arrangement are manufacturers whose products or product lines are enhanced by your products.

- **Export Trading Company**
    - An export trading company is a company that specializes in buying and reselling products for export. This can include warehousing, but more often than not, will involve a non-circumvention agreement (between the manufacturer/supplier and the trading company) and direct shipments from the manufacturer to a foreign client. Most trading companies specialize in finding new customers and managing the export process. This is an easy local sale and an indirect path to exporting for manufacturers who do not have to know anything about exporting.

Ultimately, indirect market entry strategies have advantages and disadvantages - as follows:

- Advantages:
    - No international experience required
        - A company can indirectly export as soon as it has a product to sell that can compete. There is no need to know which foreign markets should be targeted, how to sell to those markets, or how to fulfill the order and be paid internationally.
    - Management is not distracted
        - This is particularly important for companies in the initial stages of growth where management may devote attention to developing R&D, manufacturing, or sales and marketing strategies while still making international sales.
    - Faster time to an international market
        - By utilizing the experience and strengths of the exporting partner, a company's product can get to market significantly faster. The company also does not have to know how to export.
    - Little to no financial commitment
        - The export partner typically covers most incremental expenses associated with international sales.
    - Low risk
        - Indirect exporting provides a low-risk option for the manufacturer by not creating additional costs in resources and expenses and allowing management to remain focused on developing the business.

Copyright 2023 - NASBITE International - Version 01.4-2023

- Disadvantages:
  - Poor control & inadequate feedback
    - Because the export partner coordinates all export activities, this gives a company very little control over the sales and marketing decisions for the export markets involved.
  - Inadequate market feedback
    - In sales that are being managed by a third-party intermediary, customer feedback and information on the market may not be received
  - Lower margins
    - Inevitably, if a company is working with an EMC, a trading company, or a larger company in a piggybacking arrangement, lower margins can be expected since their partners will need to be compensated for their efforts.

Direct Exporting

Direct exporting is a broad category that encompasses a range of market entry strategies where the manufacturer is selling its products to an overseas buyer directly, rather than through another domestic company – as follows:

- **Direct Sales**
  - With increasing Internet access around the world, more companies are using E-commerce to directly reach businesses (B2B) or consumers (B2C). E-commerce has the potential to reach a very large target audience while avoiding the costs associated with intermediaries. This works well for small dollar-value transactions with individual consumers but may not be effective when working with larger buyers. An effective e-commerce approach requires a "globalized" company website with the capacity to appeal to different consumer cultures, knowledge of suitable payment methods, an ability to flag and comply with regulatory and documentary requirements, and the ability to fulfill/ship orders.
  - Direct exporting can also be done by Emailing or Faxing to specific potential buyers. For example, a medical device exporter might directly contact end-user hospitals or clinics. However, this type of direct selling may only be a good option in markets with relatively few potential end-users and where sellers and buyers can easily identify each other. It is not practical with very large end-user populations (e.g. lipstick for women) or when the seller and buyer are not easily matched.

- **Agents**
  - A sales agent in exporting is a person located in a foreign market who locates potential customers, initiates sales calls and eventually makes the sale. Agents are generally hired to help a company overcome language/cultural barriers, access large/complex accounts, and provide a regular and close point of contact for buyers who need rapid assistance. An agent does not take ownership of the goods and they do not hold inventory at any point in the value chain, leaving the manufacturer to directly support and invoice the customer.

- **Distributors**
  - Distributors, by contrast, order directly from the exporter, take title (ownership) of the goods per the terms of the sales and manage inventory for the foreign market. The exporter typically ships in bulk to the foreign distributor. While the distributor performs critical onsite functions not possible in direct sales. For example, distributors typically conduct local promotions, develop and send sales

Copyright 2023 - NASBITE International - Version 01.4-2023

orders, arrange payment, prepare required import documents, and clear the goods through customs. Many distributors are equipped to stock, install, and service goods, and some distributors may have one or more retail locations.

- **Watch this short video on Common Exporting Methods**
- **Licensing**
  - Licensing involves the transfer of technology that gives a foreign company (the licensee) the rights to produce and/or sell the licensor's products in their country. Licensing is generally only possible if a company owns intellectual property rights in the foreign market. This could include patented formulas, copyright materials, trademarks, trade secrets, or other proprietary assets – essentially the "know-how" to enable local production. Licensing offers benefits and risks for both parties. The foreign licensee takes on the cost and risk of investing in the manufacturing facilities and marketing, selling, and delivering the goods. For the licensor, the benefits are relatively low-cost entry to an otherwise inaccessible market and a return on investment in the form of a royalty, usually based on each unit produced and sold.
  - The licensor is potentially at risk of losing control over the manufacture and marketing of its goods in other countries, or the licensee might sell a similar competitive product after the license agreement expires. To protect mutual interests, these issues need to be carefully worked out in the licensing agreement.
- **Franchising**
  - Franchising is a type of licensing in which the whole of a business process is licensed to another company. Much like licensing, this form of an agreement is generally only possible if a company owns intellectual property rights in the foreign market. Ultimately, it is a business agreement where a company or an individual in the foreign market purchases the rights to use the intellectual property and sell the products or services that have been proven to constitute a successful business model.
- **Representative Office**
  - A representative office is an office established in a foreign country to conduct marketing or other office functions when a wholly-owned subsidiary company is not warranted. This sort of office is generally staffed by a senior manager from the exporting company and can be most valuable when an ongoing in-market presence is needed. The costs of relocating an employee to another country can be substantial, but this approach to market entry can provide greater control and better market feedback for the company.
- **Overseas Manufacturing**
  - Overseas manufacturing is when some or most of the manufacturing of a product is done overseas to serve overseas customers. Overseas manufacturing is selected when it offers substantially lower production costs. This approach has greater risk and represents a loss of control from a manufacturing standpoint, but it makes pricing viable in a cost-sensitive market and it may be a way to avoid import barriers (e.g., tariffs) that would otherwise be prohibitive.

Copyright 2023 - NASBITE International - Version 01.4-2023

- **Joint Ventures**
    - Joint ventures involve partnering with a local company in the target market. They are usually reserved for countries that either have very high demand and growth potential to justify the cost, or that impose prohibitive import duties or outright import bans to effectively force local production as the only way to get in. An effective joint venture marries the assets and skills of the two parties, such as the foreign partner's money, technology, and management skills and the local partner's knowledge of the market, business connections, and access to distribution channels. The entry cost and risk are much higher for this option, but with much greater control over local operations and the assistance of a local partner. Most countries encourage joint ventures, but some also mandate at least 51% (majority) ownership by the local partner to limit control by the foreign entity.

- **Subsidiaries**
    - Wholly owned subsidiaries are the most aggressive, costly, and risky form of market entry and are usually reserved for multinational corporations (MNCs) that can bear the cost and risk. The parent company "wholly" owns the subsidiary. The facility could be a newly built "Greenfield Investment", the buyout of an existing facility i.e., "Brownfield Investment", or an acquisition of an existing business.

    - The key benefit of this approach is sole management control of the operation and access to production resources and a customer base not as reachable from outside the country. Most countries, especially developing countries, encourage direct foreign investment of this kind and may offer generous incentives, such as tax breaks, the ability to import needed materials and equipment, and the freedom to remit profits and repatriate capital. Other countries may be less welcoming, not only in these respects but also in requiring certain percentages of local hiring and use of domestic materials over imports.

    - Wholly owned subsidiaries are also vulnerable to expropriation and nationalization. Potential investors are well advised to thoroughly assess the investment climate in each target market. U.S. investors can obtain political risk insurance from the Overseas Private Investment Corporation (OPIC) to protect against losses from expropriation, nationalization, and other investment risks.

Ultimately, direct exporting has several advantages and disadvantages - as follows:

- Advantages
    - Greater control
        - Direct involvement in deciding which foreign markets to enter and in selecting which foreign companies are best positioned to represent the exporting company.

    - Market feedback
        - Direct contact with the foreign market allows for immediate and abundant feedback.

- Disadvantages
    - Greater investment required
        - Financial and non-financial resource requirements are greater as the company is in control of the entire export process.

    - Time-to-market may be longer

Copyright 2023 - NASBITE International - Version 01.4-2023

    - Depending on the company's international expertise and contacts, establishing an international distribution network may be very time-consuming and result in delays in selling your product abroad.

- Higher risk
    - Direct exporting involves a higher degree of financial and non-financial commitments, generating the potential for enhanced exposure to political, financial, and foreign transaction risk, among others.

For additional guidance on which entry approach is best in any given market, see USDOC Country Commercial Guides (CCGs). Distribution options are discussed in CCG Chapter 3, "Marketing U.S. Products and Services in (country)". USDOC Top Market Series also covers customary and recommended distribution channels for specific products.

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.5 - Develop and implement a marketing budget related to the global activities of the company

Knowledge of:

(i) Budgeting processes
(ii) Reporting requirements
(iii) Basic accounting procedures (e.g., retained earnings, accounts payable, accounts receivable)
(iv) Cost of marketing and promotion

In this study topic, we are going to focus on developing and implementing a marketing budget related to the global activities of the company. Specifically, we are going to look at budgeting processes, reporting requirements, and basic accounting procedures (e.g., retained earnings, accounts payable, accounts receivable). Additionally, we will look at the costs associated with marketing and promotion.

(i) Budgeting Processes

Budgeting and forecasting are terms that are often used interchangeably in business. The senior management in most companies tries to develop a budget each year by forecasting sales and anticipating expenses. The projected sales and anticipated expenses are put into a budget, or a "Proforma" Income Statement, which is similar to the formal Income Statement that the business will create to record actual Revenues/Sales and Expenses and to calculate the resulting profit or loss. However, a Proforma Income Statement is not based on actual amounts; rather it is a projected budget of anticipated sales and anticipated expenses.

- **Revenues** - In most companies, revenue will mainly come from sales, but this could also include interest earned on investments, royalties being paid to the company (for use of intellectual property), or any other sources of income. The projected revenues are usually developed by the sales/marketing department and typically based on historical trends for established markets and then updated/augmented by analysis for changing market conditions, or any new markets or new initiatives.

In international business, forecasting the volume and timing of new sales can be very challenging because there are so many uncertainties involved in international business. Established exporters may be able to base forecasts in new markets on their experience in other similar markets, but most exporters will rely on local partners (if they have local partners) to help them come up with a realistic projection. In any event, most sales/marketing departments will try to be conservative in their estimates for sales and the timing of sales in new markets, since there are so many variables and unknowns to consider.

Most companies will create a monthly projection, with a 1-3 year forecast and they will update their projections on an ongoing basis. Here is a very basic example of a Proforma Income Statement (link here)

Expenses - One of the most important reasons for projecting new sales in international markets and aggregating those sales with sales in existing markets is to ensure that the operational side of the business is prepared for new activities that will need to be undertaken and new orders that will need to be filled. Corresponding with this activity will be new expenses, such as the "Cost of Goods Sold", or materials and labor that go into making the products that are being sold. In addition, there may be new "Selling, General and Administrative" expenses (i.e., new overhead costs and/or expenditures specifically related to the new markets being opened. By building up a forecast of these expenses and providing a monthly projection, a company can create an overall forecast of revenues and expenses and develop a clear picture of the likelihood of profitability.

Copyright 2023 - NASBITE International - Version 01.4-2023

(ii) Reporting Requirements

In most companies, the budget forecast is updated on an ongoing basis and then the company captures actual sales and actual expenses as time passes in accordance with GAAP (generally accepted accounting principles). This accounting is ultimately used to prepare the financial statements for the company.

Internally, this ongoing reporting is critical for basic financial management and company survival. In addition to giving the company a clear sense of anticipated profitability, most companies will use the budget forecast to also develop a "Proforma" Cash Flow Statement. This is a different type of financial projection that looks specifically at the timing of the cash inflows that will be received for sales and the timing for cash outflows that correspond with expense commitments. The reason that companies use a different statement for cash flows is that some customers prepay for certain items while other customers are given time to pay for certain purchases. Similarly, when a company buys goods and services, sometimes it will prepay for certain items, and at other times, the company may be given time to pay. Therefore, the timing of each expense (when the company is invoiced) may not be the same as when the payment is made. Yet, the inflows and outflows of cash on a monthly basis will impact the company's bank account balance, and when a company doesn't have enough money in its bank account (or a synchronized line of credit for borrowing) to pay its bills, it can be sued (by someone who hasn't been paid) and forced into bankruptcy in court. For this reason, cash flow forecasting is critical.

Externally, this reporting is needed to meet the needs of the tax authorities and the owner/investors. For example, companies that are publicly listed on a stock exchange, have a requirement to provide a financial forecast to give guidance to investors.

(iii) Basic Accounting Procedures

Although a detailed course on accounting procedures is beyond the scope of the CGBP, there are a few basic things that every CGBP should know:

1. First, there are three basic financial statements that all companies use to report their financial condition at the end of the company's fiscal year.
    a. The Income Statement (explained above) captures Revenues, Expenses, and Profit/Loss
    b. The Cash flow Statement (explained above) captures Cash In, Cash Out, and Net Cash flow
    c. The Balance Sheet is a statement that summarizes the company's Assets (i.e., what it owns), it is Liabilities (what it owes), and Owner's Equity (difference between the Assets and Liabilities). Companies have the option to pay a portion of the profit each year to the owners/investors in the form of dividend payments. However, to the extent that the business accumulates these profits, it will increase the Owner's Equity, which is why this account is also referred to as Retained Earnings

2. Some other very basic accounting terminology that will be helpful can be found here.

(iv) Costs Associated with Marketing and Promotion

The costs associated with marketing and promotion in international markets can vary widely because the needs in each market can be very different. Some of the biggest global brands have fascinating global campaigns (see some examples here), but most small-medium-sized businesses are less integrated in their approach and they tend to focus on one-two markets at a time. To avoid cultural mistakes, companies are therefore advised to get professional local advice on all proposed messaging, and an incremental promotional launch (where feedback can be gathered or where sales can be measured) is always a good idea.

The key is to recognize that competitive norms in every country differ, so messaging needs to be culturally sensitive and the media choices that are being made for marketing and promotion need to be carefully tailored to the local market. For example, in some industries in some countries, "Push" promotional incentives are normal and the various channel partners may have certain expectations for discounts, sales incentives, and/or shared/co-op advertising. At

Copyright 2023 - NASBITE International - Version 01.4-2023

the same time, in other industries “Pull” promotional activities may be more important (i.e., promotional messaging that reaches the end customer and attracts them to your products). Therefore, a wide range of other media choices may be equally important (e.g., Internet, TV, Radio, Billboards, etc.).

Given that such care needs to be taken to ensure that the planned marketing and promotion are suitable for the new market and given that the most suitable media choices can vary widely, it is therefore very important to do lots of research in advance to ensure that you fully understand the costs involved. This is an area of budgeting that is often underestimated.

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.6 - Coordinate the marketing mix of goods and services to implement the company's marketing plan: Provide products and services for the targeted markets

Knowledge of:

(i) Customer expectations and cultural requirements
(ii) Product life cycle implications (or strategies)
(iii) (New) product development modification process
(iv) Technical compatibility and product standards (e.g., CE marking)
(v) Where to find packaging, labeling, and marking requirements
(vi) After-sales service and support requirements (e.g., manuals, warranties, technical support, recycling)
(vii) Product liability implications
(viii) Legal/regulatory requirements for pricing (e.g., pricing constraints and controls, fair trade laws, anti-dumping)
(ix) Trade assistance resources in support of providing products and services
(x) Environmental concerns

In this study topic, we are going to focus on how companies manage the marketing mix, specifically with reference to customer expectations and cultural requirements, while also considering product life cycle.

The Marketing Mix

In marketing, companies try to understand the needs/wants of potential consumers and then provide them with products/services to meet those needs. What becomes obvious in most domestic markets is that not all potential customers/consumers within a market have the same needs and wants. Therefore, marketing professionals try to group subsets of consumers/customers within the market into identifiable market segments. Market segmentation can be accomplished using age, gender, race, religion, user preferences, etc. Whatever the strategy, the idea is to try to understand the needs/wants of each different group of users. For example, men and women both have a need to remove body hair, but since the needs of men and women are slightly different, companies that sell products for hair removal (e.g. razors, tweezers, hair removal cream, etc.) try to understand how the needs differ between men and women. This allows them to create strategies that are tailored and best suited to the market segment that they want to focus on.

The Marketing Mix (also commonly known as the "4 Ps") is composed of **Product**, **Price**, **Place,** and **Promotion**, which are four variables that a company can adjust or manipulate to tailor their product/service offering to best meet the needs of the targeted market segment. Watch this short video on the marketing mix to better understand the marketing mix.

(i) Customer Expectations and Cultural Requirements

In international business, this same concept can be applied in much the same way. Potential customers may base some of their purchasing decisions on similar factors to those seen in different segments in a company's domestic market (e.g., the price, quality, brand recognition, after-sales service, etc.). However, beyond these basic considerations, cultural norms and/or other factors that influence buying decisions can also be important (i.e., different ways in which wants and needs may be satisfied) in foreign markets. In other words, in the same way that different market segments exist in a domestic market, companies should expect to find uniquely different segments in the targeted (foreign) market, especially given that cultural differences are likely to exist.

For example, different religions and cultural practices can influence wants and needs. A careful marketing analysis will therefore be needed to understand how the targeted market differs from the domestic market. Entirely new and different types of market segments may be distinguishable in a foreign market. As a result, companies need to

consider the degree to which the four marketing mix variables (i.e., **Product**, **Price**, **Place,** and **Promotion)** should be adapted/tailored to best meet the needs of the customers/consumers in that market.

Here is a short video that explains how the marketing mix can be tailored to meet the needs of different market segments in a new foreign market.

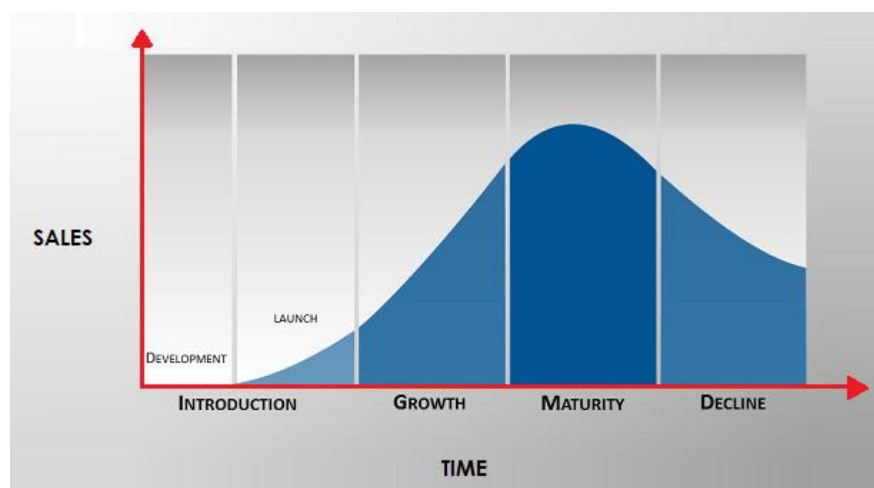
The reason we focus on cultural issues is that they can profoundly affect the marketability of products in any given country, especially those with distinctly different societal structures, traditions, and norms. Companies need to assess the impact of cultural differences on their marketing strategy, focusing particularly on known likes and dislikes, outright "taboos," and resulting do's and don'ts. There are many examples of blunders made by international companies that failed to anticipate negative cultural reactions to product marketability. Cultural missteps are largely preventable with careful market research and advanced planning.

Here are a few resources that can be helpful for this purpose

- Kwintessential Global Guide to Etiquette, Customs & Protocol
- Country Intercultural Insights
- Business Strategies International (BSI) Country Guides
- Business Strategies International (BSI) Keys to Success

(ii) Product Life Cycle

Additionally, companies that are entering foreign markets need to be aware of the product life cycle. Products are generally understood to have a four-stage life cycle – starting from market **introduction/development,** then market **growth**, market **maturity**, and finally, market **decline**.



During the introductory stage, a product/service is newly introduced to potential consumers and it will need to capture initial interest, and sales at this stage are generally low. If successfully introduced, sales will begin to build in the market growth stage, the product's acceptance will build, and sales will accelerate. In the market maturity stage, the product is no longer new and exciting, the market will become saturated with product/service offerings and sales will begin to level off. Finally, if the utility of a product is usurped by a better option, the market will decline, and sales will eventually drop.

Although the duration of each of these stages can vary for different products/services, most products can be found somewhere along this general graphical plot. The reason we focus on the product life cycle is that each stage has

Copyright 2023 - NASBITE International - Version 01.4-2023

unique implications, particularly for the marketing mix. The product, the price, the place, and the promotional variables may need to be adapted depending on the circumstances (e.g., increased competition, newer fads, and technologies). Therefore, companies need to understand the implications at each stage and take action that can expedite market development and growth, manage market maturity, and thwart market decline. For example, if a company is introducing a new product in a new market, where there are no competitors, it might focus on building awareness of the novelty and utility of the product. If the company enters a growing market, there could be an increasing number of competitors, so differentiating the product (setting it apart from competitors) might be key. In a mature market, the challenge may be to find a way to steal market share from well-entrenched competitors. In addition, when a market is in decline, defensive tactics such as price concessions, more generous payment terms, and/or marketing pitches that "reinvent" the product in some way (e.g., "new," "improved, "better") may be more appropriate.

Therefore, it is important for companies to understand this lifecycle and that they recognize that the stage of the market in another country may not be the same as their domestic market because this can impact the marketing mix. For more on the product life cycle and the marketing mix, here is a short video on the topic.

(iii) Product Development/Modifications

New products typically go through a multi-step process before market launch -- conceptualization, needs/demand assessment, development, testing, and commercialization. The product design process takes into account not only what customers are most likely to need and want, but also whether any product adaptations are needed to meet regulatory requirements. The domestic market is usually the first target for a newly developed product since it is the easiest market to assess and understand.

On the other hand, the needs and wants of customers/consumers in foreign markets can vary substantially from country to country and those needs/wants may be quite different from those of domestic customers. Therefore, each market needs to be carefully assessed for cultural, economic, environmental, competitive, and regulatory differences to determine whether product modifications will be needed. For example:

- **Cultural differences** could affect the need to modify the color or shape of the product that would otherwise offend; or to alter the composition of a food or drink product for consumers with sweeter or spicier tastes; or to translate words used on the label or list of ingredients to be more understandable in the local language.

- **Economic differences** could require offering a lower cost or a more luxurious version of the product in countries with high-income disparities.

- **Environmental differences** could require modifications to better protect the product against deterioration in extreme-climate countries (e.g., heat, cold, dry, wet, humid).

- **Competitive offerings** in the market already may necessitate product changes to position your product differently or better differentiate your product from other companies in the market

- **Regulatory differences** could require modifications to comply with the country's health, safety, or technical standards, such as converting to metric measurements or a different voltage, removing banned ingredients,

Companies should assess each target market individually to determine if the domestic version of the product needs to be modified in any way to improve the chances of success. Resources for this purpose include:

- Product Adaptation Strategy
- USDOC Country Commercial Guides
- USDOC Top Market Series
- National Trade Estimate Reports on Foreign Trade Barriers

Copyright 2023 - NASBITE International - Version 01.4-2023

- ITCI Intercultural Research Links

(iv) Technical Compatibility and Product Standards

All countries have health and safety standards to protect the public, as well as standards to assure technical compatibility with local systems (e.g., electrical). These health, safety, and technical standards generally apply to domestic as well as imported products. They are administered by standards bodies in each country and cover a wide range of products. Except for some standards broadly recognized through international consensus, each country's standards may well differ for the same product, forcing companies to comply separately for each country. This usually involves obtaining some form of proof of compliance, such as certification by an approved body, in some cases backed by mandatory testing. This process can be quite costly and time-consuming.

For example, the European Union has particularly rigorous product standards across many industries, most notably the CE (Conformité Européenne) Mark. The mark consists of the CE logo and, if applicable, the four-digit identification number of the Notified Body involved in the conformity assessment procedure. The CE marking is the manufacturer's declaration that the product meets the prescribed health, safety, and environmental protection standards in the applicable EC directives. Depending on the level of risk of the product, the CE marking is affixed to a product by the manufacturer or authorized representative who needs to ensure that the product meets all the CE marking requirements. In some cases, if a product has minimal risk, it can be self-certified by a manufacturer making a declaration of conformity and affixing the CE marking to its product.

Failure to get regulatory approvals in advance, or to demonstrate to certain agencies that the product meets the prescribed standards, could result in fines or the seizure of goods by the customs authorities. For this reason, companies work collaboratively with local partners/contacts to understand exactly which requirements are relevant for the product/service offering that is being exported and ensure that all mandatory standards and compatibility requirements have been addressed.

(v) Packaging, Labeling, and Marking

Goods intended for overseas delivery need to be packaged, labeled, and marked with extra caution to protect them from damage, theft, or delay in transit. Law also requires some actions, either by the exporting or importing country. In these cases, the requirements are usually very specific and must be precisely followed.

Packaging tips and advice can be obtained from freight forwarders, carriers, and marine insurance companies. The following presentation (Packaging. Labeling and Marking Regulations) will give you a good idea of the differences that exist between countries. However, these regulations are changing all the time, and they are specific for each country, so it is critically important for exporting companies to work closely with a local distributor/agent/partner or consultant to ensure that the most current regulations are well understood.

Packaging. Exported goods face greater physical risks in transit than domestic shipments. They are more vulnerable to breakage, theft, and damage. At some ports, goods may still be loaded or unloaded in a net or by a sling, conveyor, chute, or another method, putting added strain on the package. In the hold, goods might be stacked atop each other or bump sharply against other goods in transit. Overseas, handling facilities may not be up to domestic standards, so the cargo might be dragged, pushed, rolled, or dropped. Moisture from condensation is also a danger, even if the ship's hold is equipped with air conditioning and a dehumidifier. The cargo also might be unloaded in the rain. Some foreign ports do not have covered storage facilities. Goods can also be stolen when inadequately protected.

Copyright 2023 - NASBITE International - Version 01.4-2023

To minimize problems:

- Use strong, reinforced boxes or crates to pack the goods. Seal and fill with lightweight, moisture-resistant material. Distribute the weight evenly to brace the container.

- To deter theft, use strapping, seals, or shrink wrapping where possible.

- Do not list the contents or show brand names on the outside of the packages.

- For sea shipments, containerize your cargo whenever possible. Containers vary in size, material, and construction and are best suited for standard package sizes and shapes. Refrigerated and liquid bulk containers are readily available. If you cannot fill an entire container, a freight forwarder can arrange to combine your cargo with others to get the benefit of lower container rates.

- For air shipments, you can use lighter-weight packing, but you must still take precautions. Standard domestic packing should suffice, especially if the product is durable. Otherwise, high-test cardboard or tri-wall construction boxes are more than adequate (at least 250 pounds per square inch).

Labeling and Marking Export packages need to be properly marked and labeled to meet shipping regulations, ensure proper handling, conceal the identity of the contents, and help receivers identify shipments. The buyer will usually specify export marks that should appear on the cargo – typical items are as follows:

- Shipper's mark
- Country of origin
- Weight marking (in Lbs. and Kgs)
- Number of packages and size of cases
- Handling marks (international pictorial symbols)
- Cautionary markings, such as "This Side Up."
- Port of entry
- Labels for hazardous materials

(vi) After-sales Service and Support

Many products can be used exactly as ordered, without the need for detailed user guides or after-sales technical support, user training, or help with installation or repair. This is generally the case for food and agricultural products and no-or low-tech consumer goods. For other types of goods that do require some form of after-sales service and support, the supplier's willingness to meet this need is a critical competitive factor. At a minimum, users will need manuals or other instructional materials on how to set up, operate the product, and troubleshoot to fix common problems. These guides are usually shipped with the product and/or can be accessed in often-greater detail from the supplier's Website.

Beyond instructions, more complex products might need help with installation and user training. Installation service would need to be provided on-site, by either a visiting company technician or the company's local distributor or contractor. Training can be provided in several ways. The supplier can send trainers to the user's site; pay for users to be trained at the supplier's site; or, if feasible and at much less cost, provide videos that virtually replicate face-to-face training. Whether or not a product requires these operational support services, suppliers should at least be willing to back up any product they sell – agricultural or industrial – if, for example, it is flawed on arrival or malfunctions prematurely. This backup, typically as some form of guarantee or warranty, could offer a range of options, including money-back, upgrade, repair, or replacement.

Copyright 2023 - NASBITE International - Version 01.4-2023

Recycling

Lastly, recycling is an important issue that is gaining momentum in many countries. For example, both Germany and Japan have legislation that has resulted in specific rules that relate to the disposal of packaging materials. In general, these packaging regulations are focused on ensuring compatibility with local recycling programs, and/or they may involve recycling fees being levied on companies depending on the type of packaging being used. For additional detail on this topic, see this short article at Export.gov.

In this study topic, we are going to focus on the product liability implications that can apply to products and services being offered, and we are going to look at legal/regulatory requirements for pricing (e.g., pricing constraints and controls, fair trade laws, anti-dumping). Both of these issues are important considerations for international marketing and they will influence how companies manage the marketing mix (watch this short video to better understand the marketing mix).

(vii) Product Liability Implications

Product liability is the risk that companies face when selling any product or service. It is primarily related to the possibility that someone is injured or harmed in some way (due to a faulty product or an inherently dangerous product design) and the resulting cost of compensating those individuals.

In the United States, the courts adhere to the principle of “strict liability” which states that even if a manufacturer is not “negligent” in its actions, it is still liable if a user/consumer is injured/harmed when using the company’s product. As a result, the United States courts have produced product liability awards that are quite significant by global standards, but a similar trend (i.e., towards increasingly significant awards for damages) exists in many countries.

Therefore, this is a substantial risk for manufacturers in the domestic market, and it is a significant risk for those who are selling products in international markets as well.

Safe Design and Foreseeable Use

In most countries, there is an expectation that companies will adopt industry-best-practice designs for safety-related product features. Notably, manufacturers are typically also deemed responsible for the safety of their product for all “foreseeable” uses of their product, not just for “intended” uses of their product. In international business, this particular issue presents unique challenges, because users/consumers with different expectations and unique cultural habits are often located in different contexts/settings, so they may very well find unique/unusual ways to use a new product. However, since how a product is used in a new market can differ from the domestic market, there may be unique risks involved and this may require additional safety considerations. In essence, this means that exporters face a significant risk of product liability in almost every market, so they need to ensure that their products designs are safe; and they need to carefully monitor how their products are being used (to make sure that foreseeable, but unintended uses of their product are also safe).

Exclusion Clauses/Waivers

In general, courts in most countries believe that companies are better equipped to understand product-related risks than users/consumers are, so warning labels are not particularly helpful. If improved design would eliminate product-related risk, this is always a better strategy. And the courts in most countries are increasingly unwilling to recognize the validity of small-print exclusion clauses and/or liability waivers, so companies do need to understand that product safety is a critically important and substantial risk.

Copyright 2023 - NASBITE International - Version 01.4-2023

Product Liability Insurance

From this perspective, companies need to carefully analyze and monitor how the users/consumers in a new market interact with their products and make modifications as needed to ensure that users/consumers are not harmed. Additionally, companies are advised to ensure they have adequate amounts of product liability insurance to protect themselves against product-related lawsuits.

Distributor Indemnification

Notably, a company can be held liable for harm caused by faulty and/or dangerous products even if it did not manufacture them. So, the manufacturer and any or all resellers within a distribution channel can be held liable in a lawsuit of this nature. For this reason, many distributors insist on the inclusion of a "Distributor Indemnification" or "Hold Harmless" clause in their distributor agreement. This is a statement by the manufacturer that it will shoulder responsibility for the defense of any lawsuits arising from product defects or unsafe design. Additionally, since distributors cannot prevent being named in a product-related lawsuit, they will also often insist on seeing a copy of the manufacturer's current product liability insurance, to ensure that the manufacturer is adequately protected and capable of indemnifying the distributor in the event of a significant lawsuit.

(viii) Legal/Regulatory Requirements for Pricing

In international trade, there may also be legal and/or regulatory constraints on pricing that companies need to be aware of when they are developing pricing strategies for the marketing mix.

Price Ceilings

In some markets, some laws prohibit excessive prices. For example, the EU competition laws prohibit excessive pricing, and similar laws exist in many other jurisdictions. Authorities do not always react to excessively high pricing, but the legislation is often invoked when essential goods (e.g., water, medicine) are being sold by companies that have few competitors. Recent examples of enforcement include situations where pharmaceutical companies have implemented exorbitant price increases on medications that were protected from competition by patents. Additionally, some countries will invoke these laws when wage and price controls have been implemented to address domestic inflation. Although these are mostly rare occurrences when these laws are invoked, they apply to all products in a market (domestic and foreign), so exporters need to be aware that price increases or excessively high pricing may not be possible in certain situations.

Anti-Dumping Legislation

Dumping is a term that is used globally when an exporter sells products to an importer in another country at a price that is below the domestic market price and below the price that is currently established in the foreign market. However, it should be noted that the mere fact that a product is priced this low is not usually a problem unless the sale of those products is also resulting in "injury" to local competitors. In other words, a small number of products sold into a new market at a very low price will be looked at only as a benefit for local consumers. However, if significant quantities of products are sold into a new market at very low prices, and it drives local competitors out of business, then countries will usually react by imposing anti-dumping duties on those goods (which increases the cost of importation) to prevent further sales.

Price-maintenance Legislation

Fair-trade law is an antiquated term that originated in the United States and referred to laws that allowed a manufacturer of branded/trademarked goods to dictate the resale prices of those goods when resold by their distributors. These laws have mostly been phased out and they no longer exist in most countries. Instead, most

Copyright 2023 - NASBITE International - Version 01.4-2023

countries now have “Price-maintenance Legislation”, which makes it unlawful for a supplier to prevent a customer from selling a product below a minimum price (by threat or by promise, or agreement). In general, manufacturers in most countries are now able to recommend or make suggestions related to reseller pricing, but any form of formalized enforcement that requires the reseller to comply with those suggestions is considered to be anti-competitive conduct, and that can result in fines/penalties.

Transfer Pricing

In most countries, some laws are related to transfer pricing, which is the price charged for goods/services when sold between related companies (i.e., belonging to the same parent or holding company). These intra-corporate sales make up a considerable portion of international trade, and governments have been trying to find ways to limit the ability of corporations to use the pricing in these sales as a way to shift their profits (i.e., taxable income) to lower tax jurisdictions.

For example, when a company is located in a high tax jurisdiction and it has a business relationship with a related company located in a country that has low tax rates, products/services can be sold by the company located in the low tax jurisdiction to the company located in the high tax jurisdiction at an artificially high sales price. This creates a highly profitable trade for the company that is in low tax jurisdiction and reduces profit at the company that is located where higher corporate tax rates apply. See this short video for a good explanation of this practice.

Although this is not the situation for most exporters, it is important to note that many companies take advantage of these intra-corporate relationships to avoid taxes, so there are laws in most countries now that state that companies must establish pricing for intra-corporate sales that are based on similar transactions that have been conducted between unrelated companies.

Every Country is Unique

What is important to note is that, in all of these examples, we have been referring to what is normal or typical in most countries, because every country creates its laws, so every country is unique. For this reason, we have tried to highlight some of the most important types of legislation that may apply, but exporters need to pay attention to the specific laws in the markets that are of greatest interest to them. Just knowing that product pricing can be constrained by local laws and/or regulations is a good starting point for further investigation.

In this study topic, we are going to focus on environmental concerns and these can influence the marketing mix (if this is your first study topic, please watch this short video to better understand the marketing mix). Finally, we will provide an overview of the various trade assistance resources that are available to support companies that are exporting products and services.

(ix) Trade Assistance Resources

Lastly, for companies that developing a suitable marketing mix of products and services aimed at a targeted market, the following trade assistance resources will be of interest:

U.S. Commercial Service - The U.S. Commercial Service is the trade promotion arm of the U.S. Department of Commerce’s International Trade Administration and consists of trade professionals in over 100 U.S. cities and more than 75 countries. The U.S. Commercial Service offers trade counseling, market intelligence, business matchmaking, and commercial diplomacy to help U.S. companies get started in exporting or increasing sales to new global markets. One popular and long standing program is called the “Gold Key Matching Service”, which is a customized solution for exporters that includes orientation briefings, market research, appointments with potential partners, interpreter services for meetings, as well as counseling on shipping the goods and export financing.

Copyright 2023 - NASBITE International - Version 01.4-2023

Export.gov - The U.S. Department of Commerce's International Trade Administration also manages www.export.gov, which is a portal to help US Exporters. The website is a collaborative effort with inputs from 19 Federal Government agencies and it offers details related to a wide range of export assistance programs and services.

Small Business Development Centers - The nearly 1,000 Small Business Development Centers (SBDCs) nationwide provide a full range of export assistance services to small businesses, particularly those new to exporting. They offer counseling, training, managerial support, and export planning. Counseling services are provided at no cost to the small business exporter, but nominal fees are generally charged for export training seminars and other SBDC-sponsored export events. A local SBDC can be found using this locator.

The State International Development Organization (SIDO) is the premiere U.S. organization dedicated to supporting state international trade agencies and focuses exclusively on state-level support for international trade development. State-level export and trade promotion agencies offer a wide range of export support. Specific state agencies and programs can be found using this locator.

The U.S. Export-Import Bank (Ex-Im Bank) is the principal government agency responsible for aiding the export of American goods and services through a variety of loan, guarantee, and insurance programs. The Ex-Im Bank primarily provides support to U.S. small businesses for the export of U.S.-made products. Programs include Export Credit Insurance (which protects sellers from commercial default by foreign buyers) and Working Capital Guarantee programs (financing that Exporters can use to cover the costs of labor, materials, overhead, and other inputs required to fulfill a sale in an export market).

The Overseas Private Investment Corporation (OPIC) is an agency of the United States Government established to help U.S. businesses invest overseas while promoting economic development in new and emerging markets. OPIC's mission is to "foster economic development in new and emerging markets, support U.S. foreign policy and create U.S. jobs by helping U.S. businesses to invest overseas." The agency provides political risk insurance against the risks of inconvertibility, political violence, or expropriation. OPIC also provides financing through direct loans and loan guarantees.

These are just a few of the main agencies that provide export assistance. Ultimately, many more resources are available to assist US Exporters (see this list of resources). Exporters should be aware of these main programs and look at other programs that may be appropriate since so much assistance is available.

(x) Environmental Concerns

Companies that are exporting to other companies need to also be aware of environmental concerns. This is mainly because there are strict regulations in many countries that relate to any product/service that has the potential to negatively impact the environment. For example, some companies export certain categories of waste from one country to another for further treatment, disposal, or recycling, so this is an area that is highly regulated. Similarly, certain chemicals that are notorious and persistent pollutants (see examples here) have been banned in many countries, so there are restrictions in place to prevent the spread of these pollutants in any form. Other chemicals in products such as pesticides may also be highly regulated, so for these reasons, exporters that are dealing with any products that have the potential to negatively impact the environment should carefully investigate any related import regulations/restrictions to ensure that all relevant clearances, permits, and paperwork have been attained.

Similarly, an export license may also be required for products being exported from the United States. Although most products do not require an export license, exporters can check which agency has jurisdiction over or regulates, the products being exported by searching this list of federal departments and agencies to find out whether or not an export license is needed.
Suffice it to say that the environment is an area of national importance in many countries, so exporters need to carefully evaluate the product/service they are offering and they may need to adapt their product and/or change

Copyright 2023 - NASBITE International - Version 01.4-2023

their direction if they discover that their offering is not able to be exported to a given market for environmental reasons.

Task 2.7 - Implement, monitor, and adjust the company's global pricing strategies

Knowledge of:

- (i) Costing methods and allocation, including marginal and absorption costing tariff and non-tariff barriers and incentives
- (ii) Tariff, non-tariff barriers, and incentives
- (iii) Quoting methods
- (iv) Resources for global pricing strategies (e.g., current revision of International Chamber of Commerce publications (e.g., Incoterms, Unified Cargo Processing [UCP], Uniform Rules for Collections [URC]), U.S. government agencies, and websites
- (v) How local market conditions could impact pricing?

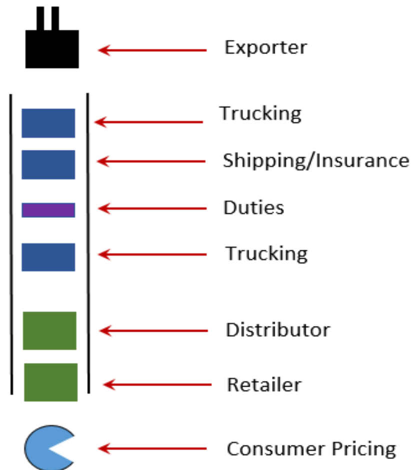
In this study topic, we are going to focus on pricing, because pricing is part of the marketing mix and a CGBP should be able to *implement, monitor, and adjust the company's global pricing strategies.*

Pricing Goods for Export

Most companies that get involved in exporting quickly learn that there are many costs involved in the exporting process that must be accounted for when making export sales. Internally, there can be unique costs involved in preparing the goods for export markets. These can involve product modification/adaptation costs, special labeling, market-specific product packaging, and even special packing (e.g. when shipping containers are being used). At the same time, many external costs may also need to be factored in as well. For example, these costs can be related to the logistics involved in getting the products to the destination, warehousing costs in the foreign market, various forms of transportation that are needed, and even the cost associated with getting the product tested and approved/certified for the market (when specific product certification requirements must be met). Exporters should also know the Harmonized System (HS) code associated with their product, which will allow them to determine any duties that are going to be levied by the customs authorities when the goods pass through customs in the country where they are being sent.

Moreover, pricing should be "market-driven". In other words, the final price that the customer or consumer is willing to pay should drive the exporter's approach to price. This means that the exporter's price, and all of the additional costs that need to be considered, need to be constructed with the final price in mind. Exporters therefore also need to understand the "mark-up or margin" expectations of any intermediaries that might be involved (e.g. wholesalers/retailers). They also need to account for any commissions that may need to be paid to sales agents that are engaged on their behalf.

Copyright 2023 - NASBITE International - Version 01.4-2023



Since there can be many costs and unique requirements in every export transaction and given that these costs and variables can vary (depending on the product being exported and the targeted country), most companies will carefully research these costs in advance, and then they will capture these figures in a fully customized Export Costing Worksheet (sample below).

Ex Work Costs	
Direct Materials	
Direct Labor	
Factory Burden	
Cost of Goods	
Selling Expenses (should be less than domestic sales)	
General Expenses (includes cost of money to be borrowed)	
Administrative Expenses	
Export Marketing Cost (product changes, labeling)	
Profit Margin	
Total Ex Works Price	
Additional Exporting Costs	
Foreign Sales Commission (if applicable)	
Special Export Packaging Costs (typically 1-1.5% above ex works price)	
Special Labeling and Marketing (to protect from moisture, theft, rough handling)	
Inland Freight to Pier (normal domestic common carrier; should also have carry insurance)	
Unloading Charges (include demurrage, if any)	
Terminal Charges (include wharfage, if any)	
Consular Documents (includes Shippers Export Declaration (ED), export license and/or certificate of origin)	
Freight (port-to-port) (determined by freight forwarder)	
Freight Forwarder Fees (must be included)	
Export Insurance (insurance for transit risk; also for credit risk; if credit-worthiness of buyer is unknown)	
Cost of Credit (include credit reports, letter of credit costs, amendments, if any)	
Total Additional Exporting Costs	
Quote : Ex Works Price + Total Additional Exporting Costs	

Copyright 2023 - NASBITE International - Version 01.4-2023

For many companies, the viability of proposed pricing for export will therefore depend on the price quoted for the goods made ready at their facility (EXW Pricing). Essentially, the price the company charges, plus all the incremental costs that are incurred externally, combined with any "markup or margin" that is added by any resellers in the distribution channel must result in consumer/customer pricing that is appropriate for the market conditions.

However, this is not as easy or straightforward as it sounds. Exporting companies have internal choices that can be made when they are developing prices for exported products and these choices can radically alter their ability to be competitive, so we will look at these internal choices in this study topic.

(i) Costing Methods and Overhead Allocation

Absorption Costing - One of the biggest single factors in export pricing is how internal overhead costs are allocated. For domestic sales, most companies use an "absorption costing" approach to allocate overhead expenses.

To understand this approach, consider a hypothetical manufacturing company that sells $10 Million USD in products each year. The company accountants undertake an analysis and determine that the company spent $4M USD on costs that were directly attributable to the production of the goods sold in a company (these costs are known as **Cost of Goods Sold** (COGS)). Additionally, the analysis reveals that the company spent another $4M USD on overhead expenses (i.e., **Selling, General, and Administrative** (SG&A)), which are costs that are not directly tied to making a product or performing a service (i.e., this would include things like executive salaries, the salaries of the administrative staff, marketing and sales costs, etc.). This results in $2 M USD in net income or profit (before tax) – as shown in the diagram.

A company that uses an absorption costing approach would use this understanding of its business as a model to develop pricing for every new project or requirement that it wanted to bid on. In other words, in this scenario, you can imagine that the products the company sold were sold for $1 each. For every $1 in sales, 40 cents would be going towards the direct costs associated with making the product, 40 cents would be helping to pay for the company's overheads, and 20 cents would be the resulting profit (before tax).

So, for each new opportunity, a company using absorption costing would expect to burden every new sale with 40% in overhead expenses to ensure that every product being sold is contributing evenly to the absorption of (or allocation of) the company's overhead expenses. In addition, if a company using this approach decides that it wants to earn the same profit on export sales that it earns on domestic sales, it would use the same pricing structure.

However, if a company using this approach needs to reduce its price to ensure the ultimate pricing that they offer is market-driven, the company accountant in this scenario would tell you that the lowest price they would be willing to sell the item (normally priced at $1) would be 81 cents (i.e., 40 cents to cover COGS, 40 cents to cover SG&A, and 1 cent in profit). The accountant would argue that at 80 cents the company would not be earning any profit and that any price below 80 cents would not be enough on the sale for that product to adequately contribute to the absorption of overhead expenses.

So, in any company that uses absorption costing, this is how a model is created and this is how it gets used to determine product costs. Every product sold generally carries the same amount of overhead *burden* (i.e., overhead expenses are allocated equally across all products that are made). This is important to understand for export sales because market-driven pricing may require the company to discount their normal pricing to be competitive and this model is the basis upon which the company determines the lowest possible price that the company will accept for any new projects where quotes are being provided to potential customers.

Marginal Costing – The problem with the absorption costing approach is that it often results in missed opportunities in the export markets. For example, some companies will use absorption cost to generate quotes for new customers in new export markets without having a clear picture of the market, nor any real understanding of the logistical costs or the expectations of the resellers who are involved. However, without an understanding of the incremental costs

Copyright 2023 - NASBITE International - Version 01.4-2023

within the distribution channel and/or an understanding of market pricing, the price that the company ends up using could (in some circumstances) be too low. This can result in a deal with an importer or distributor that is making a disproportionate share of the profits.

Additionally, the margin expectations of retailers and distributors are not particularly flexible, and supply-chain costs (e.g., shipping costs, insurance, trucking, etc.) are similarly constrained. So many exporters are faced with a scenario where market-driven pricing is the starting point for calculations that must be worked backward from the customer, ensuring that suitable margins for the retailer and the distributor can be made available and that all other supply-chain/distribution costs can be covered. This leaves the company in a position where the normal pricing of their product is often not low enough, so potential deals fall through because the price that is offered is simply not low enough to be viable.

It is for this reason that many exporters use a Marginal-cost (also called Variable-cost) approach to export pricing. In this approach, a company that is already profitable in its own domestic market will make a strategic decision to carry the burden of all of the company's SG&A expenses or overheads on domestic sales. New/incremental overheads incurred specifically for export sales might be added as a burden to the cost of exported goods, but otherwise, the company uses only the COGS as the baseline product cost for export pricing. This gives the exporter a much lower cost basis and the ability to be responsive to potential export sales (i.e., where market-driven pricing and supply-chain costs demand a very low EXW price for export).

Consider the previous example where the company normally sells their product for $1 each, but for export sales, it assumes that it can go as low as 81 cents per unit. This flexibility is helpful, but if market-driven pricing dictated an EXW price of 70 cents/unit, the company would not be willing to provide a quote at a price that low.

By comparison, an exporter that chooses to take a marginal-cost approach to price assumes that it will earn enough margin in its domestic business to pay for the company's overheads. Therefore, instead of automatically adding a 40% SG&A burden to the quoted pricing for new export proposals, the company would charge enough to cover COGS and it would only add whatever additional margin the market would allow.

So if market-driven pricing dictated an EXW price of 70 cents/unit, the company would price the product at 70 cents and it would be satisfied covering the 40 cents COGS/unit and earn 30 cents/unit as a contribution towards overheads (even if this isn't an equal contribution to overheads when compared to domestic pricing). The result is that when a company uses a marginal-cost approach, it can respond to sales opportunities in markets that otherwise would not be attractive. In these instances, the company will earn incremental margins that will contribute to end-of-year profitability, instead of simply saying "no" to all proposals that do not have enough margin to equal the margins that are expected from the domestic market.

Companies take this approach because the additional sales volume will often result in better supplier pricing (lowering COGS) and the incremental margins earned when the sale price is greater than the COGS still contribute toward overall profits. This is not always intuitive since many companies are used to seeing domestic absorption cost model breakdowns that include COGS, SG&A, and Profit. However, marginal-cost pricing begins only with COGS as the baseline cost, and it is therefore much more aggressive and gives the export sales department a much better starting point for making export deals.

(ii) Tariffs, Non-tariff Barriers, and Incentives

Tariffs, non-tariff barriers, and incentives represent three additional categories of costs and related factors that must be considered in pricing decisions – as follows:

Tariffs – A tariff is a term that is directly related to the harmonized tariff system codes (HTS), which are also referred to as HS Codes. Each country uses these harmonized codes to classify products that are passing through customs and to determine what tariff rate will be charged on the products. Historically, tariffs have served as a form of regulation

Copyright 2023 - NASBITE International - Version 01.4-2023

to reduce the attractiveness of inexpensive foreign products while protecting domestic businesses in a given industry. Note that the term tariff is often used interchangeably with the term duty, but they are slightly different. The tariff is the specific classification and the accompanying details in the tariff schedule, whereas the duty is simply the amount of money that ends up being paid to the customs authorities once the tariff has been assigned.

Non-tariff Barriers - The definition of a nontariff barrier is broad, but essentially, it relates to other means of restricting trade (i.e., using means other than tariffs). For example, these barriers could take the form of licenses that are required or restrictive quotas that have been established on imports. The UN Conference on Trade and Development has developed 16 categories of non-tariff barriers (as shown in the table below):

Non-tariff barrier	What this means
Sanitary and phytosanitary measures	Plant and animal health regulations
Technical barriers to trade	Regulations on the contents of products, the process by which they were manufactured, their labelling, etc.
Pre-shipment inspection and other formalities	Requirements that goods be checked or licenses secured before they can be imported
Contingent trade-protective measures	Policies that protect the economy from the impact of certain imports, such as anti-dumping measures, safeguards for agriculture, etc.
Non-automatic licensing, quotas, prohibitions and quantity control, measures other than for SPS or TBT reasons	Policies that limit the total number of imports of a certain good, such as quotas, rules stating that imported goods can only be used in certain industries or temporary bans on certain products
Price-control measures, including additional taxes and charges	Charges or taxes (other than tariffs) that change the price of imports, for example, by ensuring that imports do not undercut the price of domestically-produced goods
Finance measures	Policies that regulate access to foreign exchange for imports, for example, by requiring deposits to be paid in advance, or that customs duties must be paid ahead of time
Measures affecting competition	For example, compulsory requirements to use national services, or use of a single state-owned importer for some goods
Trade-related investment measures	Requirements that goods should contain a certain proportion of locally-produced content, or policies that limit imports based on the performance of exports
Distribution restrictions	Measures which make it harder to sell imported goods in all parts of a market, for example, by stating that goods can only be sold in areas that meet certain conditions
Restrictions on post-sale services	Policies stating that post-sales services (customer services, repair services, etc.) must be provided by a local company
Subsidies	Money from government for domestic producers, making it harder for importers to compete
Government procurement restrictions	Ensuring that governments buy goods from domestic producers
Intellectual property	Ensuring that imports comply with patents, trademarks, industrial designs, copyright, geographical indications
Rules of origin	Rules requiring products to be able to demonstrate in which countries they were produced, often so that it can be determined whether the good can benefit from preferential access under a bilateral free trade agreement
Export-related measures	Policies undertaken by the exporter's government, for example, to limit exports to a certain country through trade embargos, or to reduce exports to keep domestic prices low

Although many of these non-tariff barriers are not strictly related to identifiable or immediate costs, the effects of these types of trade barriers can result in considerable administration and/or schedule delays. Therefore, these types of barriers need to be carefully evaluated and considered when export pricing is being assembled.

Copyright 2023 - NASBITE International - Version 01.4-2023

Export Incentives – On the other hand, export incentives are legal, regulatory, and tax-related programs that governments establish to encourage exports. Essentially, this is any program where the government is providing exporters with assistance to help companies open new export markets. Export incentives include government subsidies, low-interest rate loans, tax rebates, tax exemptions, etc. on activities related to exported products. Although the availability of these types of programs and incentives for exporters is different in each country, any company that is exporting should look for these incentives and try to take advantage of them, especially given that they may have a direct impact on export pricing.

Key incentive programs in the United States are as follows:

- The **Export-Import Bank of the United States (Ex-Im Bank)** provides U.S. exporters with financing options that are comparable to the programs offered by other governments to their exporters.

- The **U.S. Small Business Administration (SBA)** works with lenders to provide loan guarantees for export working capital and acquisition of plant and equipment, as well as capital for enabling small businesses to commence or expand export activity (details here).

- The **Foreign Agricultural Service (FAS)** within the **U.S. Department of Agriculture (USDA)** provides several programs to assist in the financing of exports of U.S. agricultural goods, including the Market Access Program, Commodity Credit Corporation, the Export Credit Guarantee Program, and the Facility Guarantee Program.

- **Overseas Private Investment Corporation -** The Overseas Private Investment Corporation now called "DFC" for US International Development Finance Corporation provides medium- to long-term financing through direct loans and loan guarantees to eligible investment projects in developing countries when conventional institutions are reluctant or unable to lend. DFC also provides political risk insurance and support for the creation of privately-owned and managed investment funds.

This study topic focuses on pricing, because pricing is part of the marketing mix, and a CGBP should be able to *implement, monitor, and adjust the company's global pricing strategies.* Specifically, knowledge of quoting methods, resources for global pricing strategies, and how local market conditions can impact pricing are all important.

(iii) Quoting Methods

Companies often get inquiries from prospective customers in other countries who are interested in their products. When an importer is serious, he/she may ask the company for a formal quotation for a specific item/product or service. Generally speaking, exporting companies will respond with a **pro forma invoice**. *Pro forma* is a Latin term that means "for the sake of form". In this case, the quotation is formatted like an invoice, so it serves as an early preview of what the final invoice/bill would look like (i.e., once the transaction is complete). This is a very complete way of quoting that is favored by many exporters and all of the important details of the planned transaction are included in the quotation.

On the other hand, some companies prefer to send fewer comprehensive quotations to prospective buyers, usually limiting the number of variables that they will initially quote (e.g., by specifying only US/domestic currency, only local pickup, no custom orders, etc.). Companies that use this approach are often trying to respond to many ongoing requests for quotations. These practices vary by industry and product type, but these companies typically do not prequalify the strength of prospective buyers. Rather they just issue many highly standardized quotes each day and hope that a serious buyer will emerge and come back with a request for more detailed information.

Whether a company prequalifies prospective buyers and chooses to only send quotations to those that appear to be credible or opts instead to initially send highly standardized quotes to everyone and only respond with more detail once a buyer inquires further, most companies have a way to qualify prospective buyers. This can involve checking

Copyright 2023 - NASBITE International - Version 01.4-2023

to ensure the person making the request is using a corporate email, checking the buyer's website, asking very pointed questions about the buyer's business and their need for the product, etc. Nevertheless, once a buyer has been deemed credible, much more energy will generally be put into making sure that a very complete **pro forma invoice** is prepared in a manner that is tailored to the importer's specific needs.

Read this short article on Quotations and Pro forma invoices at Export.gov (link here). As noted in this Export.gov article, *a quotation describes the product, states a price for it, sets the time of shipment, and specifies the terms of sale and terms of payment*. A quote should also include the following details:

- Company name and address (seller)
- Company name and address (buyer)
- Date of buyer's inquiry
- Quantity and description of requested products
- HS Code (include the first 6 digits; and the remaining 4 digits if the tariff schedule for the destination country is accessible)
- Price of each item (volume discount if applicable)
- Total cubic volume and/or dimensions (packed for export)
- Shipping weight
- Delivery location
- Insurance and shipping costs
- International Commercial Terms (Incoterms),
- An acceptable method of payment and terms of payment
- The total charge for the shipment
- Currency of sale
- The validity period for quotation
- The time needed to prepare the shipment after receipt of an order
- Estimated transit time for shipments

Negotiating Incoterms

Once a quoted price has been sent to the buyer, the buyer may respond with different preferences for shipping arrangements. Importers sometimes ask for very comprehensive export quotes to see how much the exporter is going to charge for logistical arrangements. However, if the buyer can get better rates contracting for part/all of the shipping and insurance directly, he/she may submit a purchase order that only calls out certain preferred parts of the original quotation.

(iv) Resources for Global Pricing Strategies

Incoterms 2020 – Incoterms specify how logistical obligations are shared between the importer and the exporter. For example, the Incoterm EXW (Ex Works) is the price of the goods made ready for pickup at the exporting factory. Whereas the Incoterm CIF (Cost, Insurance & Freight) is the price when the exporter is agreeing to send the goods to the foreign port with transportation and insurance costs paid. There are many ways in which these obligations can be shared, so the buyer and the seller usually try to agree on the Incoterm that best meets their needs. Also, see the Incoterms 2020 Chart of Responsibility and this guide on the role of freight forwarders in determining incremental transportation and other costs to include in price quotes under each Incoterm.

Copyright 2023 - NASBITE International - Version 01.4-2023

Payment methods - The US Department of Commerce International Trade Administration's Trade Finance Guide covers the basics of trade finance and the pros and cons of all the usual payment options, including advance payment by wire transfer or credit card, several different forms of Letters of Credit (irrevocable/confirmed, standby, back-to-back, and transferable), Documentary Collections (D/P and D/P), open account, and factoring and forfeiting. Through the Uniform Customs and Practice for Documentary Credits (UCP 600), the International Chamber of Commerce (ICC) has standardized worldwide rules on the preparation and use of these payment documents. The ICC's "Uniform Rules for Collections" (URC 522) are also important because they help bankers, buyers, and sellers in the collections process; with guidance such as by stressing the need for banks to attach a separate document, and the collection instruction, to every collection that is subject to these rules.

(v) Local Market Conditions

The US Department of Commerce ITA Country Commercial Guides (CCGs) have a chapter on "Selling U.S. Products & Services in [select any country] that covers "Selling Factors and Techniques," "Pricing," and "Methods of Payment." This is a good starting point for most exporters that want to understand market conditions, specifically as it relates to pricing.

The USDOC/ITA industry-specific Top Markets Series also gives a feel for market demand, ability to pay, the extent of competition, and whether price and credit are key competitive factors in the market.

Getting actual prices and making a current competitive assessment usually require more extensive research. In-market distributor websites can be a good source to find pricing of competing products, particularly e-commerce websites with shopping carts. However, prospective partners in foreign markets (e.g., agents, distributors, joint venture partners, etc.) are usually best positioned to share insights on competitive positioning and suitable price points.

One of the most challenging pieces of information that will be needed to understand the pricing structure within the distribution channel is the typical "mark-up or margin" expectations of any intermediaries that might be involved (e.g. wholesalers/retailers). Usually, this requires a face-to-face visit as this information is not widely shared. However, most prospective partners will tell you what is normal in their industry. Getting this detail from a few prospective partners is the best way to ensure that you have accurate information.

In general, exports have an advantage over local competitors, so exporters are usually competing against other exporters with similar products. Amongst these sellers, companies have two strategic options – price low to undercut other exports in the market or price as high as the market will bear. Exporting companies that choose market penetration pricing often use higher pricing (to convey brand value) complemented by aggressive customer discounts to initially win business and then they remove the discounts once customer loyalty has been earned and/or brand preference has been established. On the other hand, companies that price as high as the market will bear need to weigh a variety of factors such as value/utility being offered, customer willingness to pay, economic affordability, availability of substitutes, competition etc. Given the many local dynamics that can be involved, a local agent or distribution partner can be very helpful, and most companies find that export pricing needs to be carefully tailored and monitored to ensure that competitive positioning is maintained.

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.8 - Initiate and manage global promotion strategies to support the global marketing plan

Knowledge of:

(i) Sales promotion mechanisms (e.g., trade shows and trade missions, horizontal vs. vertical trade shows)
(ii) Technological tools for promotion (e.g., internet activities such as e-mail, websites, e-commerce; videoconferencing, and virtual trade fairs)
(iii) Trade assistance resources in support of global promotion

This study topic focuses on global promotion strategies undertaken to support the global marketing plan. Specifically, this requires knowing *technological tools for promotion* (e.g., internet activities such as e-mail, websites, e-commerce; virtual-conferencing, and virtual trade fairs), and other *trade assistance resources* that can be used in support of the global promotion.

(i) Sales Promotion Mechanisms

In International business, trade shows and trade missions are two important methods of sales promotion that are frequently undertaken by exporting companies.

Trade Shows – A trade show is a commercial exhibition that brings together many companies in a single location where they can display their products and services.

- **Horizontal Trade Shows** are **exhibitions where the** vendors are offering a wide range of products or services and the attendees are usually from a well-defined market segment. Many domestic business-to-consumer (B2C) trade shows use this format. For example, a "home show" might feature many vendors that are selling a wide range of products for homeowners, while the attendees may primarily represent homeowners who live in a single city or geographic area.

- **Vertical Trade Shows** are usually focused on a narrow range of products or a specific type of market, but attendees may come from many locations. Business-to-business (B2B) trade shows often use this format. For example, a seafood processors' trade show might display companies that make seafood-processing equipment, and equipment buyers from seafood-processing companies may come from all over the world to see all of the manufacturers in a single location.

International trade shows (shows that attract vendors from many countries and/or buyers from many countries) are usually organized at large hotels or convention centers and they can last several days. Most international trade shows are focused on B2B sales and consumers are therefore often prohibited from attending the event (which means that most exhibitors can count on attendees that are primarily industry professionals).

Copyright 2023 - NASBITE International - Version 01.4-2023

Exhibitors at international trade shows must pay a fee to attend, that fee can vary depending on the services provided by the event organizer, and the number and type of attendees that are expected to attend. Typical trade show services include:

- Exhibit space
- Presentation opportunities
- Media exposure
- Networking events
- Exhibitor awards

Trade shows are often helpful for exporters that want to meet potential partners in new markets, assess their competitive strengths and talk to a wide range of potential customers. Depending on corporate objectives, some exporters attend trade shows as exhibitors, while others will attend only as attendees (i.e., to walk the trade show floor to meet/see exhibitors, listen to presentations, network, and meet other attendees).

Trade Missions - A trade mission is an international trip that normally involves an organizer and a large group of companies that travel to another country for identifying international business opportunities. In the United States, the US Department of Commerce and a number of state-level export assistance organizations promote trade missions as a way for U.S. firms to explore and pursue new export markets. These activities are generally organized with a particular industry sector in mind, and they help companies meet directly with potential clients in unfamiliar new markets. Trade missions typically include:

- Pre-trip briefings to help those on the mission understand business practices in the target market
- Face-to-face meetings with business executives (potential buyers) that have been pre-screened
- Networking activities involving relevant companies, government officials, members of local chambers of commerce, and local industry associations
- Site visits to local companies and other locations of relevance

The US Department of Commerce maintains a searchable database that highlights trade shows and trade missions that are coming up (link here).

(ii) Technological Tools for Promotion

A Globalized Website - Technology is evolving quickly, but broadly speaking most exporting companies are using the Internet and new technologies to reach a much broader base of prospective customers than ever before. For most companies, this begins with the company's website (or websites), which are essential for conveying basic information to prospective customers and for interactions with prospective customers. The key to being prepared to connect with customers in new export markets is to make sure that the website has an appropriate look and feel. This can involve the addition of a country-specific domain name (e.g., ".ca" for Canada or ".uk" for the UK) and/or specific content for the website that uses local language and terminology, provides for local logistical arrangements, and shows local currency. Making these sorts of country-specific adjustments for every country in the world is not practical for most small-medium-sized businesses. Instead, most companies focus only on adaptations to their website in the markets where they intend to do business and they make these changes on an incremental basis (i.e., they add new content for new markets in accordance with their plans for international business expansion). For additional details, read this short article for additional details on website globalization.

Website Traffic Generation – Once a company website has been updated to address local needs in a new target markets, generating traffic to the website from that market is the biggest challenge that companies face. In general, most exporting companies are creating website traffic using various forms of paid advertising and social media. Paid advertising to generate website traffic can be via traditional media (TV, Radio, Magazines, Billboards, etc.) or Internet-

Copyright 2023 - NASBITE International - Version 01.4-2023

based advertising channels. For example, with the ascendancy of Google as a dominant search platform globally, the Google Adwords program is a means by which companies can create ads that are targeted only at users falling within certain geography who use specific and relevant keywords. Similarly, Facebook now boasts more than 1 Billion users globally and they have paid advertising where users can specify the geography of the target audience and a long list of demographic characteristics (e.g., age, gender, occupation, political and other preferences). With both Google and Facebook, advertisers can set a maximum budget to manage to spend and they only pay for users who click their ads and travel to the company's website. This is called Pay-per-click advertising.

Social media can also be used in other ways (unpaid) to generate targeted website traffic. For example, on Facebook and LinkedIn, users can create a company page to develop followers. However, a much faster path to reach targeted users in specific segments and/or in a specific country is to join Facebook and LinkedIn groups. Increasingly these groups are growing in size, very well defined in purpose and occasionally segmented by country (e.g. Brazil Sugar and Ethanol group, Alcohol Importers & Distributors Network Australia). Joining a group is usually free and although direct advertising is usually discouraged in the discussion area, posting relevant commentary and messages to a group page automatically gives you visibility in the newsfeed of each of the group members and the size of that audience can be significant. Therefore, this strategy can bring significant attention to your company at very little expense (the time invested in producing the content to be posted). YouTube, Instagram, and other social media can also be used to create visibility as well, but companies should be aware that social media networks that are popular in North America are not always the most popular in other countries (see this list and map of top social media sites globally), so companies need to be strategic in their choice of social media platform (depending on the target market). Whichever platform is used, these websites have large audiences, and companies can generally target users in a specific country and give their ads visibility in the target market.

Website Traffic Conversions – The goal of most companies is to share information, generate leads for new business, and/or sell products/services directly from their website(s). Information shared is usually in support of sales efforts and leads captured on a website are used for the same purpose. The term "website conversion" means that a website user has done something that the company desired. This could be number of pages read on the website, content downloaded, email provided, request for more information, sale of a product/service, etc.

- **E-mail Captures** – Website statistics are available to most companies through their website control panel and these statistics usually reveal a surprising amount of international website traffic. Companies that are trying to develop an outreach to customers in a target market frequently employ a range of techniques on their websites to capture emails. Whatever the means, the idea is generally to offer something of interest or value to those in the target market and then hope that some of the users on the website will provide their email addresses in exchange for whatever is being provided. The key is to make sure that the user provides the country where they are located. Over time, this collection of emails from prospective customers in a given country can turn into a powerful database of leads that can be used for outreach in the target market. Bulk email services that can send and track large numbers of emails with valuable statistics such as the percentage of emails received, read, etc. are now relatively inexpensive and widely employed by most companies (see some of the top providers here).

- **E-commerce –** Website-enabled e-commerce sales (using credit card payment) are now common on most company websites. Most website hosting companies have e-commerce tools that your website developer can easily integrate, and the cost of these tools is usually free, with a payment stream being generated as a small percentage of sales going to the financial service provider that handles the online payment (e.g., PayPal). See a comparison of top ecommerce providers here.

Additional promotional tools that are commonly being used in support of support the global marketing plan are **virtual meeting tools** such as Zoom, Skype, GoToMeeting, etc. (see some of the top tools here). In addition, **virtual trade fairs** are even starting to be attempted in some industries (see this example from Alibaba.com).

Copyright 2023 - NASBITE International - Version 01.4-2023

(iii) Trade Assistance Resources

There are also trade assistance programs that can be used for export promotion.

- **Broadcast promotion** – Outbound messaging by a company can include social media announcements, press releases, ads, and articles in industry magazines with a global circulation, and listings in online trade directories, such as ExportUSA, Export Yellow Pages, and Alibaba. Foreign buyers and distributors often search these sources, especially for products that are new-to-market. The responses can come from anywhere in the world, including from unexpected countries, and offer a good test of where interest may lie. The advantage of a broadcast approach is its worldwide exposure at a low overall cost and cost per lead. One drawback is that some respondents may just be fishing for product samples or competitive information.

- **Targeted promotion** – Precisely tailored messaging by a company that is aimed at a pre-identified, high-potential country or region and/or a demographic or industry group is referred to as targeted messaging. The objective is to create brand awareness, differentiate the company and product from established competitors, and attract serious buyer/distributor interest. Trade assistance resources that can be used for this purpose include industry-or-region-specific trade shows and trade missions. The costs are higher, but so are the potential rewards.

Upcoming trade shows throughout the world can be found in online trade show directories (e.g., 10 Times Global Trade Shows), searchable by event name, date, location, and/or industry. USDOC/ITA and USDA/FAS trade event directories list all upcoming trade shows (and missions) organized or endorsed by those agencies. These events offer special benefits to U.S. exporters, such as sign-ups closer to the event, country briefings, and matchmaking support. USDOC/ITA also has several other programs to support targeted promotions, including Trade Fair Certification Program, International Buyer Program, Trade Missions Program, International Catalog Exhibition Program, Video Business & Matchmaking Services, Single Company Promotion, and Featured U.S. Exporters (FUSE) Program.

Not all exporters can afford the more costly forms of global promotion. The U.S. has several programs to ease the cost burden.

- SBA Export Express program. Exporters can borrow up to $500,000 (term loan or revolving line of credit) for global marketing (and other) activities, including translations of export marketing literature and participation in foreign trade shows and missions.

- USDA/FAS Market Access Program (MAP). FAS partners with U.S. agricultural trade associations, cooperatives, state regional trade groups, and small businesses to share up to 50% of the costs of overseas marketing and promotion for U.S. agricultural products and commodities. The funds are typically channeled through mirror programs of regional associations, such as the.

- State Trade Export Program (STEP). This program leverages SBA grant funding through a network of State-level trade promotion organizations. Exporters can apply to the designated State agency for grants (e.g., up to $3,000 per company) to offset costs for a wide range of export development and promotion activities; e.g., to create and translate marketing materials, globalize a Website, pay fees for USDOC/ITA matchmaking services, and participate in overseas trade shows.

Copyright 2023 - NASBITE International - Version 01.4-2023

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.9 - Analyze and formulate a global distribution strategy for products and/or services

Knowledge of:

(i) Types and roles of distribution channels (e.g., resellers, agency/distributor, joint ventures)
(ii) Impact of local market distribution characteristics and implementation issues, gray marketing
(iii) Contractual issues related to market entry (e.g., common elements found in most distributor agreements)

This study topic focuses on global distribution strategies undertaken to support the global marketing plan. Specifically, this requires knowing the types and roles of distribution channels (e.g., resellers, agency/distributor, joint ventures), the impact of local market distribution characteristics and implementation issues, gray marketing, and contractual issues related to market entry (e.g., common elements found in most distributor agreements)

(i) Types and Roles of Distribution Channels

The *distribution channel* is a term that refers to the various contributors to the distribution process that exists between an exporter and the end user or consumer of an exported product/service. In international business, many types of intermediaries and resellers can be needed in a distribution channel to create an efficient and competitive system of distribution. Each entity in the distribution channel should therefore serve a specific purpose and add value to the process because when a distribution channel has too many participants (each seeking profit), it can become inefficient and potentially uncompetitive.

Exporting companies must therefore carefully consider each potential partner in a distribution channel, and those partners should only be part of the distribution channel when their services are essential. The challenge for many exporters is that they do not necessarily understand the roles of the various intermediaries, so they do not always make the best choices. In this study topic, we will focus on a few commonly used types of intermediaries to help you understand when certain types of intermediaries are needed – as follows:

Trading Companies

Trading companies are a type of reseller who do not typically have much in the way of infrastructure. Instead, they tend to focus on specific countries (or regions) and/or specific industries and they develop a network of buyers for a particular category of products or type of product. Therefore, for example, a trading company might specialize in the Japanese seafood market. Trading companies can be located in the domestic market (close to exporters) and foreign markets (close to foreign buyers). With highly specialized market expertise and a network of potential buyers, these companies tend to then look for manufacturers/producers lacking in-house export marketing expertise and/or companies that are not all that familiar with the exporting process (i.e., as a source of supply).

In other words, a trading company can be a great ally for a manufacturer/producer that has surplus products and/or a company that is prepared to sell its product at a very low price to reach new markets quickly. The value that a trading company brings to the table is its obvious ability to quickly find buyers in foreign markets that would otherwise be difficult for a new exporter to access. The disadvantage of using a trading company is that the company may buy the product and never tell the exporter where the product ended up. Therefore, an exporting company may not even know what the distribution channel looks like; they may have little/no feedback on the performance of the product in the market; and likely no communication with the ultimate buyer or consumer. For these reasons, companies that use trading companies are typically trading off a degree of control (over their exports) in exchange for easy, incremental sales.

Companies that do sell products to trading companies at very low prices should be aware of the potential for ***gray marketing***. Gray marketing relates to the sale of products using unauthorized distribution channels. Some unscrupulous trading companies have been known to buy products at a deep discount from a manufacturer/supplier

Copyright 2023 - NASBITE International - Version 01.4-2023

claiming that the products will be sent to a distant export market. Instead, the trading company then sells those products back into the exporter's domestic market (essentially undercutting the exporter by selling the products to the exporters existing customers). Usually, this can be avoided by making sure that the packaging of the products or the products themselves are configured in such a way that they are not suitable for the needs of customers in the domestic market.

Agents

Agents are individuals located in foreign markets and they serve as commissioned sales representatives for exporting companies. Most agents are closely connected to the buyers in a given territory and they tend to represent several exporting companies that offer products in a given territory/market. For example, an agent located in China might specialize in the naval defense sector and represent a multitude of companies from North America that sell naval defense electronics. The job of the agent would be to closely track procurements in China for this type of equipment and help those companies position their products in that market (e.g., by ensuring that relevant meetings are being organized and that the companies are responding properly to official requests for proposals, etc.).

Agents do not purchase the product themselves; rather they help the exporting companies make sales to buyers in the agent's local market. The strength of engaging a local sales agent is that they have local language skills, they can navigate highly nuanced local preferences/needs, they can make frequent visits, reach buyers that might otherwise be difficult to reach, and carefully track procurements in large/complex accounts. So, agents are usually needed in markets that cannot be easily or reasonably serviced from afar. Typically, these markets have one or more of the following challenges:

- Significant language barriers (buyers who don't speak or communicate in English)
- Significant cultural barriers
- Accounts that need frequent face-to-face visits
- Buyers who are difficult to reach
- Complex/political accounts that have a lengthy procurement process (e.g., government)

Most agents do not tend to have any infrastructure or support beyond normal office/administrative support. They are most frequently engaged in a sales role, tend to only call on small numbers (a few dozen or less) of buyers, and are not typically involved in other types of activities that might be needed in the market (e.g., extensive marketing support, logistical support, technical support, etc.).

The territory that an agent covers is usually negotiated and should generally be limited to geography that encompasses a number of buyers that the agent can easily manage/service. In addition, since most agents only earn commission only after sales have been made, they may do a lot of work upfront before being paid. For this reason, many agents are granted exclusive agreements within their territory, so they are not competing with other agents in the same territory who are also representing the same company.

Distributors

Foreign distributors are companies located in other countries that have businesses with infrastructure that allows them to sell to many customers. These companies typically purchase products directly from exporting companies, mark the products up in price, and resell them at a higher price. Using exporting terminology, a distributor could be a traditional distribution company with a large central warehouse and delivery trucks that distribute a range of products to many retail locations. However, it could also be an amusement park that has thousands of customers on-site each day or a company that has an e-commerce website that has high volumes of consumer traffic. Although these additional examples are not traditionally referred to as distributors (by consumers), from an exporting standpoint, any business that can purchase large quantities (e.g., container-load quantities), break down the shipment, and resell the goods in smaller quantities to many customers is referred to as a distributor. The types of assistance that a distributor can offer will include some or all of the following:

Copyright 2023 - NASBITE International - Version 01.4-2023

- Warehousing and physical distribution
- Technical sales
- Marketing and sales
- Local toll-free customer support
- Technical Service and Support

Generally, distributors are added to the distribution channel only when you need a business with infrastructure that can help you support the sales effort to reach many customers.

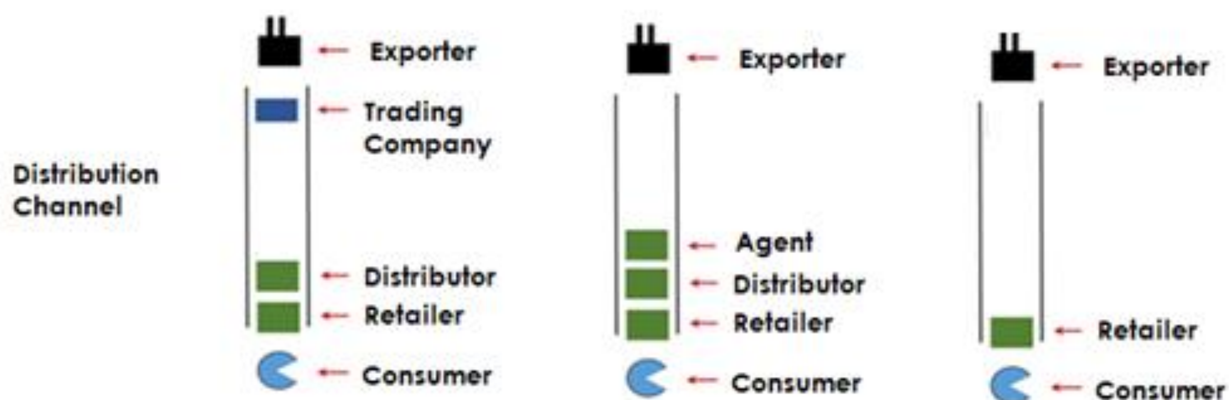
Sample distributor agreements are widely available on the Internet (see examples here and here).

Retailers

Retail locations are resellers that cater to individual customers/consumers. Examples of retail operations would be businesses such as convenience stores, grocery stores, furniture stores, etc. Most exporters don't sell directly to individual retail stores, especially if they are selling container-load quantities of product because there are very few retail stores that have the space to accept a full container of product. However, some exports that sell low-volume, high-value goods (e.g., luxury watches or jewelry) may do business directly with certain retail locations.

Distribution Channel Configuration

Ultimately, distribution channels can have many configurations. Companies that are exporting need to assess local market distribution characteristics and decide which configuration would work best. In the first example (below left), a trading company is being used. In this scenario, the exporter may be selling to a local trading company and not even be aware of the configuration of the rest of the distribution channel. In the middle example, an agent is being used to make sales to a distributor. Although many companies try to work directly with a distributor (i.e., no agent involved), in some circumstances an agent may be needed (see the agent description above). Whereas in the example below on the right, the exporter is shipping products directly to a retailer. As noted above, this is not a channel configuration that is used frequently, but it is used in some circumstances. The point to be made here is that any of these channel configurations could work in the right circumstances, but every extra intermediary comes at a price. Therefore, a simplified distribution channel is always preferred. Companies need to assess local market conditions and should only add intermediaries when their services are needed.



Copyright 2023 - NASBITE International - Version 01.4-2023

Foreign Direct Investment (Joint Ventures)

The intermediaries mentioned above are some of the most frequently used options by small-to-medium-sized exporting companies. This is mainly because they are all no/low-cost options, which makes them easily accessible choices for most exporting companies. However, in all of these examples, the exporters give up a degree of control and a percentage of their profits to secure the assistance of a channel partner that can help them reach the intended customers. In some instances, companies prefer to have a greater degree of involvement and control in the distribution channel. Therefore, in these instances, a legally incorporated, joint venture (with a local partner in a foreign market) is a commonly selected option to achieve this goal. Essentially an exporting company (Company A) and a local partner (Company B) incorporate a legally distinct, jointly-owned, third company (Company C) as depicted below.

In this type of arrangement, both companies put up some money to start the new company, and employees from both companies are used to staff and manage the business. This requires a greater degree of risk on the part of the exporter, but it gives the exporting company a greater degree of input into the new company, which is then used to help the exporter secure sales on the ground. The new company could be a local sales office; it could be a distribution business or even a retail location. The key is that the exporter will have a greater say in how business is conducted in the foreign market.

The main risks in this type of venture are related to having corporate capital invested in a foreign jurisdiction and employees located there as well. In addition, disagreements can arise between the joint-venture partners, and that can have an impact on decision-making (i.e. if the partners cannot agree).

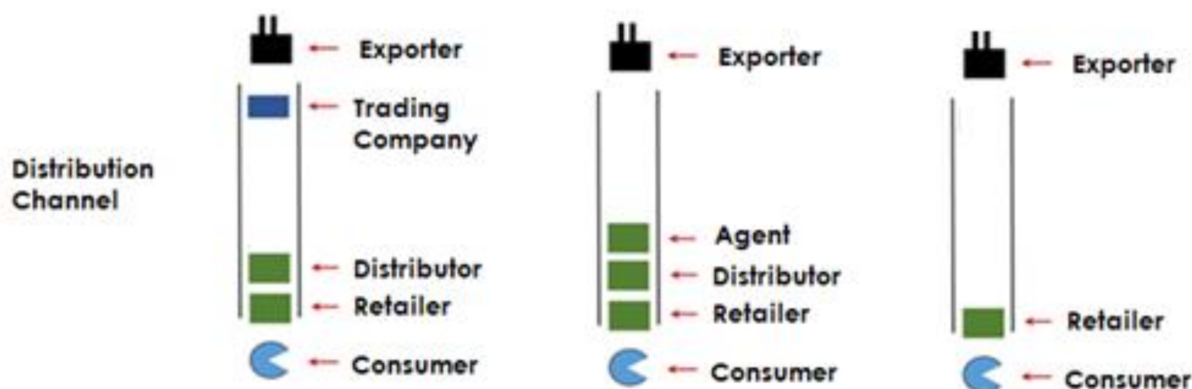
Foreign Direct Investment (complete ownership)

Complete ownership of another company in another country is an approach that is mainly only used by larger companies. ***Greenfield investment*** (building a new facility from the ground up), ***Brownfield Investment*** (buying existing production facilities) and other forms of ***Mergers and Acquisitions*** can also be used to establish operations in another country. These types of investments give companies full control over their foreign operations and allow them to maximize returns earned from related activities, but investments of this type are expensive, management intensive, and high risk, especially if the local government acts in ways that negatively impact companies that are foreign-owned or controlled. For this reason, these options tend to be less popular, and often not viable, for small-to-medium-sized businesses.

(ii) Impact of local market distribution characteristics and implementation issues, gray marketing

Ultimately, distribution channels can have many configurations. Companies that are exporting need to assess local market distribution characteristics and decide which configuration would work best. In the first example (below left), a trading company is being used. In this scenario, the exporter may be selling to a local trading company and not even be aware of the configuration of the rest of the distribution channel. In the middle example, an agent is being used to make sales to a distributor. Although many companies try to work directly with a distributor (i.e., no agent involved), in some circumstances an agent may be needed (see the agent description above). Whereas in the example below on the right, the exporter is shipping products directly to a retailer. As noted above, this is not a channel configuration that is used frequently, but it is used in some circumstances. The point to be made here is that any of these channel configurations could work in the right circumstances, but every extra intermediary comes at a price. Therefore, a simplified distribution channel is always preferred. Companies need to assess local market conditions and should only add intermediaries when their services are needed.

Copyright 2023 - NASBITE International - Version 01.4-2023



(iii) Contractual Issues Related to Market Entry

Since most small businesses rely on agents and distributors for international market entry, it is important to consider the various elements found in an international agent's agreement and/or distributor agreement. At a minimum, most agreements include the following:

- Details of the parties involved
- Roles and responsibilities
- Performance targets/expectations
- Intellectual property issues
- Geographical territory
- Contract term (duration) and termination (circumstances under which the contract may be ended)
- Dispute resolution options (e.g., ADR)
- Proper law clause (country's laws that will apply) and Venue and attornment (where legal proceedings will occur)
- Force majeure

For more detail on these types of agreements, sample agreements are widely available on the Internet (e.g., see here and here).

Copyright 2023 - NASBITE International - Version 01.4-2023

Task 2.10 - Establish and manage the global sales activities

Knowledge of:

(i) Sales techniques (e.g., pull vs. push), sales knowledge, and business travel

This study topic focuses on establishing and managing global sales activities, which include sales processes, sales techniques, and business travel

Establishing an International Sales Network

While many small-to-medium-sized companies begin exporting by responding to random queries from other countries, as the company grows, it will be best served in the long run by approaching export sales strategically. This means that they should identify a small number of priority markets and pursue those markets aggressively based on their assessment of the markets that have the easiest access and greatest potential for returns.

Prioritizing Markets

If a company does not know where to begin, it should do some market research and try to develop a list of important attributes that will help them set priorities. This could involve a review of past sales, sales leads, and information gathered from market research, along with an analysis of global competitors. For example, favorable market attributes could relate to market size, market growth, trade statistics measuring imports of a particular category of product to each country, demographic trends, etc. By ranking a good number of potential markets using metrics that are the most relevant for a given product line, most companies will be able to produce a short list of markets with the greatest potential.

Once priority markets have been established, it is then easier to undertake more focused research to better understand the real potential of each market and any barriers that might be relevant. US Country Commercial Guides are a great starting point for understanding countries that appear to have good potential.

Exploratory market visits - In international sales, exploratory market visits are extremely important. In a high percentage of export transactions involving goods, manufacturers/exporters are trying to sell container-load quantities of their goods to foreign resellers that are positioned to handle high-volume sales. Therefore, companies try to put partnerships in place where this can happen on a recurring basis. However, before decisions can be made about partnerships or any other type of approach, an initial market visit is recommended. This can take a number of forms:

1. **Trade Shows** – Industry trade shows are a great way to see many companies within a target market in a single location. These events make it easy for a company to talk to a lot of market participants over a very short period of time. The disadvantage of these events is that you do not get a chance to see people in their facility/location, so it can be hard at times to gauge a company's capabilities.

2. **Trade Missions** – Trade missions are often organized by city, state, or federal government officials in an attempt to instigate/enhance bilateral trade between two countries. A trade mission usually involves a group of exporting companies from one location that travel to a foreign market to meet buyers and importers from the host country. Event organizers often deploy matchmaking services to ensure that exporters have pre-arranged meetings with relevant buyers, and social events are often planned to encourage people from both countries to meet one another (in the spirit of collaboration).

3. **US Commercial Service Gold Key Program** - Export-ready U.S. companies that are seeking to export goods or services of U.S. origin (>51% U.S. content) can utilize this program. The service provides U.S. companies with matchmaking appointments with up to five interested partners in a foreign market. The full service includes identification and outreach to potential matching firms, sending clients' information to identified

Copyright 2023 - NASBITE International - Version 01.4-2023

matching firms, preparing a profile of interested firms, attending the appointments, and providing a report with the profile and contact information for interested firms. (The fee for a Gold Key Service standard package and other details can be found here).

4. **Independent Visits** – It is also quite feasible for a company to set up its market visits. Planning a single trip to a new market could involve pre-arranged meetings with 10-15 market participants in one week. This could involve an initial meeting at the US Embassy (with a commercial officer), as well as meetings with potential agents, distributors, retailers, market consultants, trade publications, the local Chamber of Commerce, etc.

Gathering Market Intelligence

From an international sales standpoint, the key to all of these various types of exploratory market visits is to go to the market to develop a complete market picture using information gathered from industry insiders. Many companies go to trade shows or on trade missions focused solely on making a sale. While making a sale on the spot is possible in some instances, the larger goal should be to understand the market well enough to get a better sense of the market, the market participants, the market dynamics, and customer preferences. If this is done well, the exporter will have a much better idea of how the distribution channel should be structured (i.e., what types of partners are needed) and how to position the product/service in the market. For this reason, the following questions should be posed to as many industry insiders and channel participants as possible:

Market Assessment and Competitive Positioning

- How big is the market (Sales/Dollar-wise)?
- How is the market segmented?
- In which segment would your product/service best fit?
- How many competitors are in the segment and what are the names of those competitors?
- What individuals and/or companies are working with your competitors (as agents or channel partners)?
- Given the competitive landscape, how would your product/service need to be positioned?
- What local companies would be well-positioned to work with your company?

Pricing Considerations

- What are normal/typical agents paid to agents in this sector?
- What are normal/typical margins earned by distributors in this sector?
- What are normal/typical margins earned by retailers in this sector?

Push versus Pull Sales Strategies

- To what extent are ***push*** sales strategies employed – incentives aimed at distributors and retailers to motivate them to make your product/service a priority

- To what extent are ***pull*** sales strategies employed – incentives aimed directly at consumers/customers to motivate them to find a place where they can buy your product/service a priority

Gathering this detail first-hand from industry insiders at trade shows, on trade missions, or during other types of visits will give a company a much clearer picture of the market. This sort of on-the-ground assessment can be key to the establishment of solid partnerships to support ongoing sales.

Copyright 2023 - NASBITE International - Version 01.4-2023

(i) Sales Knowledge and Techniques

While there are many different face-to-face sales techniques, strong international business relationships are generally founded on solid personal relationships and regular contact. Developing trust and a solid relationship may take some time, but this will strengthen the connection with the buyer in the long run. However, when language barriers, cultural barriers, or limited access to the buyer prevents an exporter from forging a close personal relationship, a local sales agent is generally preferred and recommended. Otherwise, the sales process for most international business relationships should look like *solution selling* or *consultative selling*, which are both types of sales techniques where the seller asks questions and tries to understand the challenges the buyer faces before proposing a solution. In other words, understanding the customer's needs through ongoing questioning is first, and the dialogue that follows will help to export companies to best understand how to position themselves to help the buyer solve their problems. Additionally, those who are in sales roles for exporting companies need to be highly knowledgeable in their field to help their customers understand how to navigate the many possible solutions that may be available – this has been referred to as *Insight Selling*. Most importantly, and no matter what approach is being used, cross-cultural differences must also be taken into consideration and factored into the discussions.

Business Travel

Maintaining sales in foreign markets often requires regular visits to the market to ensure the relationship with channel partners is working well. The travel may be needed to support existing sales, address sales performance issues, maintain relationships, or even find new partners. Whatever the reason, this means that international sales managers travel frequently, so it is important to be well-prepared for international travel. The following items are some key considerations:

- ***Passport*** - Ensure your passport will have at least six months remaining (to expiry) when you are traveling
- ***Travel Visa*** – Some countries require a travel visa which must be requested from their embassy well in advance
- ***Cultural Knowledge*** – Spend time researching the business culture in the destination country before you go to minimize the chances that you will offend or misread those whom you meet
- ***Geography*** – Spend some time in advance researching the area to help you plan visits and to help better understand any travel-related safety issues
- ***Travel Advisories*** – The US Dept. of State maintains up-to-date travel advisories in every country. These should be checked in advance to ensure that travel to an intended destination can be undertaken safely.
- ***US Embassy*** – Companies should contact their local Export Assistance Center and plan to meet the commercial officer at the closest embassy/consulate in the target market. Embassy staff in the target market should be contacted in advance, but they can help identify potential local partners and offer additional and timely insights into local business conditions.
- ***Cash*** – Make sure you have some cash with you at all times, since debit cards and credit cards may not be useful in all situations
- ***International Phone Plan*** – Ensure you have a mobile phone plan that supports international calling
- ***Jet Lag*** - Anticipate the effects of jet lag and build in recovery time in your travel schedule to ensure you are in good condition during planned meetings

Some additional tips related to international travel can be found here, here, and here.

Copyright 2023 - NASBITE International - Version 01.4-2023

Copyright © 2023 NASBITE International All rights reserved. The reproduction, storage in a retrieval system, or transmission in any form or by any means (including electronic, mechanical, photographic, photocopying, or recording) of any part of this publication without the prior written permission from NASBITE International is an infringement of copyright law.

For information contact NASBITE International at info@nasbite.org (website: www.nasbite.org).