Business Environment of Transnational companies

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Lecture outline

- ❖ Transnational companies' definition
- ❖ International marketing strategies (orientation, segmentation, targeting)
- ❖ Product policies
- ❖ International pricing complexities
- ❖ Promotion
- ❖ International branding strategies
- ❖ Distribution practices and complications
- ❖ Gap analysis – a tool for helping to manage the international marketing mix
- ❖ Case study – Svendsen Sport: Marketing Globally for Healthy Business Development

What is the difference?

- **International companies** are importers and exporters, they have no investment outside of their home country.
- **Multinational companies** has locations or facilities in multiple countries, but each location functions in its own way, essentially as its own entity.
- **Global companies** also has locations in multiple countries, but they've figured out to create one company culture with one set of processes that facilitate a more efficient and effective single global organization.
- **Transnational companies** are much more complex organizations. Its a commercial enterprise that operates substantial facilities, does business in more than one country and does not consider any particular country its national home. One of the significant advantages of a transnational company is that they are able to maintain a greater degree of responsiveness to the local markets where they maintain facilities.

Transnational Companies (TNC)

- are characterized by their involvement in direct business activities abroad, and

- their ability to profit from cooperation and international division of labour.

What differentiate the TNC from other international companies?

- Transnational companies are able to plan, organize, coordinate and control their business activities across countries—typically from a central headquarters and through the setting of common goals and strategies.
- they promote multiple internal management perspectives, through which they can decode and respond to the diversity of external demands and opportunities;
- their interdependent physical assets and management capabilities are distributed internationally; and
- they have a strong unifying management approach.
- Unifying management approach is characterized by top management's ability to synchronously manage context, processes and content.

What differentiate the TNC from other international companies?

- Context management is the task of providing a structure for delegated decision-making based on clear goals and priorities, career development for leaders with a global mindset, and established decision-making procedures.
- Top management's direct intervention in organizational processes may include minor modifications, typically handled through continuous monitoring and additional decision support, as well as major interventions (such as establishing temporary working groups and task forces) in larger or more complex situations.
- Through content management, top management intervenes directly in local decision-making situations, if an issue remains unresolved, or if a previously selected solution proves unsatisfactory.

International Marketing strategies: orientation, segmentation, and targeting

- Marketing brings revenue and similarly in global environment company must have desirable products and services, tell people about them, and offer them at appropriate prices at consumers' favoured locations.
- companies apply these principles differently abroad;
- customizing products to correspond with local preferences;
- international marketing approaches should be compatible with companies' overall aims and strategies;

Marketing orientations

- 5 marketing orientations
- production, sales, customer, strategic marketing, and social marketing

Production orientation

- managers concentrate on production assuming that customers simply want products with lower prices, higher quality, or whatever they sell domestically.
- **Commodity sales** – undifferentiated commodities on basis of price due to universal demand
- **Passive exports** – dispose of excess inventory that is not sell domestically to foreign markets
- **Foreign-Market segments of niches** – production for a large share of its domestic market and then find a few consumers abroad who will also buy it (e.g. not changing plugs to fit the local market sockets.)

Sales orientation

- ❖ sales abroad what sales domestically assuming that consumers are sufficiently similar
- ❖ selling to culturally similar countries
- ❖ product development teams composed of different nationalities creates customer solutions that apply globally from the start

Customer orientation

- Managers ask question: What and how can the company sell in country A or to a particular type of consumer?

- Country or type of consumer is held constant and the product and method vary.

Strategic Marketing Orientation

- ❖ Strategy combines production, sales, and customer orientation.

- ➢ Hermes known for its luxury silk products introduced limited edition silk saris for the Indian market.

Social Marketing Orientation

- Companies pay close attention to the potential environmental, health, social, and work-related problems arising when selling or making their products.

- Coca-Cola uses returnable glass bottles in Argentina and Brazil

Segmenting and Targeting Markets

1. **By Global Segment**

- ❖ A firm may identify some global segments that transcend countries
- ❖ For instance, Red Bull targets a global, athletically minded, young-adults.
- ➢ Ferrari targets high-net-worth individuals who want exclusivity.
- ➢ Thus, each country may have some people within the same segment, but the proportional and actual size of the segment will vary by country.

Segmenting and targeting Markets

2. **By Country**

❖ Let's say a company decides to go to the Canadian market. It may modify its global segmentation to fit Canadian nuances, for example by including regional ethnic differences such as Quebec's and British Columbia's French and Chinese speakers, respectively.

❖ It must decide whether to target one or multiple segments there, whether to use the same marketing mix to sell to all segments, whether to tailor the products separately to each segment, and whether to vary the promotion and distribution separately as well.

❖ The company may also compare these Canadian segments with those in other countries in order to gain possible sales through standardization that serves market segments that cut across countries.

Segmenting and targeting Markets

3. **Mixing the Marketing Mix**

- ❖ A company may hold one or more elements of its marketing functions—prices, promotion, branding, and distribution— constant while altering the others (products or services).

- ➢ Chanel aims its cosmetics sales at a segment that transcends national boundaries. It uses branding, promotion, pricing, and distribution globally, but adapts the cosmetics to local ethnic and climatic norms.

Segmenting and targeting Markets

4. **Mass Markets Versus Niche Markets**

- ❖ At the same time, most companies have multiple products and product variations that appeal to different segments; thus, they must decide which to introduce abroad and whether to target them to mass markets or niche segments.
- ➢ For example, General Motors aims at most income levels in the US with models ranging in price from its Chevrolet Spark through its Cadillac Escalade SUV, but it entered China by aiming only at a high-income segment—first with Buicks and later with Cadillacs.

Product Policies: Country Adaptation versus Global Standardization

- product standardization generally gains the biggest savings.
- product adaptations are common

WHY FIRMS ADAPT PRODUCTS?

- Companies have legal, cultural, and economic reasons for adapting their products to fit the customers' needs in different countries

Reasons for product adaptation

❖ **Legal Considerations**

- explicit legal requirements cause companies to customize products for foreign markets, usually meant to protect consumers.

- If they don't comply with the law, they won't be allowed to sell. Pharmaceuticals and foods are particularly subject to regulations concerning purity, testing, and labeling, while automobiles must conform to diverse safety, pollution, and fuel-economy standards.

Reasons for product adaptation

❖ **Cultural Considerations**

➢ Religious differences (limitation of pork products by food franchise in countries with Islam as a main religion)

➢ Toyota had redesign headroom for drivers in pickup trucks for US market for drivers to fit cowboy hats.

➢ Home Depot left Chinese market because they did not overcome the consumers preference for hiring people to do jobs rather embracing DIY concept.

➢ International food marketers alter ingredients to fit local tastes and requirements.

Reasons for product adaptation

❖ **Economic Considerations**

➢ Income level and distribution

➢ Infrastructure (Whirpool sells washing machine in remote areas of India with rat guards to protect hoses).

Costs of product alterations

- ❖ Some product alterations, such as the labeling of packages, are cheaper than others such as designing a different car model.
- ❖ Some will increase sales more than others;
- ❖ thus, potential costs versus sales generation should be evaluated for each type of change.
- ➢ Packaging can change consumer purchase decisions but will differ from country to country.
- ➢ Whirpool has same basic mechanical parts for all its refrigerators but changes the design of the doors and shelves for each country.

Product line: extent and mix

- ❖ When a firm introduces multiple products abroad, the percentage share of sales for each product differs from the shares in its home country.
- ➢ For example, a tire manufacturer may sell all its car tire sizes everywhere, but the share for each size depends on sales of different automobile models in each market.
- ➢ Cultural factors may also be important. Most of Nike’s specialty sports shoes have sold well in China, but its running shoes have not. Why not?

Running in China has been associated with unpopular school exercise and with people being chased.

International pricing complexities

- ❖ Pricing is more complex internationally than domestically
- ❖ **Government intervention** - Every country has laws that affect prices.
- ➢ Minimum prices are usually set to prevent companies from eliminating competitors and gaining monopoly positions. Maximum prices are usually set so that poor consumers can buy products and services.

- ❖ **Market Diversity** – country to country variations in demand and competition create natural segments and differences in pricing possibilities.
- ➢ Some seafood is in one country regular product while in other is as a delicacy.
- ➢ Country of origin stereotypes – exporters in developing countries face negative perceptions about their products thus must often compete through low prices.

International pricing complexities

- **Export price escalation** – due to lengthy distribution channels
- **Fluctuations in currency value** – problems with highly volatile currencies
- **Fixed versus variable pricing** – in developed countries bargaining is only for large and expensive items such as cars, real estate, large orders. In developing countries you can bargain for small and large items regardless.

Should promotion differ among countries?

- ❖ promotion is presentation of messages to help sell the product or service.
- ❖ the type, direction and methods of presentation may vary depending on the company, product, and country.

1. **Push-Pull Mix**

Push – direct selling techniques (when self-service is not predominant, when advertising is restricted, product price is high proportion of income.)

Pull – relies on mass media

Some problems with international promotion

- ❖ Diverse national environments create different promotional challenges:
  - ➢ Over half of the Chinese population live in rural areas so it is difficult to advertise there using traditional media.
  - ➢ In Nigeria direct marketing was found for salespeople to face many dangers.
  - ➢ In Scandinavia states the TV advertising is not allowed to aim on children.
  - ➢ In China adds can’t interrupt dramas.

International Branding strategies

- Brand is an identifying mark for products or services.
- Global versus local brand
- Global brand helps develop a global image and identify companies as global players.
- Problems with global brand
  - language (different meaning of the same word)
  - country of origin image
  - locational origin of names
  - generic and near-generic names

Distribution practices and complications

- It is difficult to standardize globally
- Grocery distribution in Hong Kong and US: The average Hong Kong food stores carry a higher proportion of fresh goods, are smaller, sell less per customer, and are closer to each other, which means that companies selling canned, boxed, or frozen foods encounter less demand per store, have to make smaller deliveries and have a harder time fighting for shelf space.
- Avon sells through mail-order in Japan, has beauty counters in Chine because of regulations on house-to house sales, has franchise centres in Philippines, because of infrastructure inefficiencies, and has beauty centres in Argentina because many customers want services when they purchase cosmetics.

Gap analysis – a tool for helping to manage the international marketing mix

- It is used to estimate potential sales for a given type of product and comparing how emphasis on different marketing mix elements can better help it serve prospective customers.

- The difference between total market potential and a company's sales is due to several types of gaps:
- Usage – collectively, all competitors sell less than the market potential
- Product line – the company lacks some product variations
- Distribution – the company misses coverage by geography or type of outlet
- Competitive – competitors' sales are not explained by product-line and distributions gaps

Usage gap

- ❖ companies may have different-sized gaps in different market
- ➢ Large chocolate companies: In India per capita consumption is less than 1% of that in Germany (low income and inability to use certain animal fat),
- ➢ in many developing countries the population never tasted chocolate (promotion of chocolate in general)
- ➢ in US per capita consumption of chocolate fallen due to weight concerns.

Product-line gaps

❖ Chocolate companies have found that they have product-line gaps.

➢ added sugar-free, high cocoa content, faire trade chocolate products.

➢ added ingredients such as bacon, chia, green tea, quinoa to their products.

Distribution and competitive gaps

- Distribution - company products may be sold in too few places.
  - Ferrero Rocher emphasized product placement in more mainstream outlets.
- competitive gaps – sales by competitors that cannot be explained by differences between product lines and distribution. The competitors are selling more because of their prices, advertising campaigns, or any other factors.
  - Switzerland has the world’s highest per capita chocolate consumption. The companies compete on creating images of better quality.

Case study

❖ Open a chapter Marketing Globally and at the end of the chapter is a case study -> Svendsen Sport: Marketing Globally for Healthy Business Development

❖ Read the case study and answer following questions. Look for the answers in the case text.

1. What kind of marketing strategy they use when comes to orientation, segmentation and targeting
2. Do they use product standardization or adaptation?
3. How do they distribute their products?
4. What kind of pricing complexities can you identify in the case of Svendsen?

References

❖ Daniels, J., Radebaugh, L., and Sullivan, D. (2021). International business, global edition. Pearson Education, Limiter.