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INTERNATIONAL MARKETING

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TABLE of CONTENTS

INTRODUCTION

In terms of globalization, internationalization and interpenetration of economic relations, informatization of the world economy and society, consumers from various countries' awareness of the range and high quality standards of goods and services in the world market, complexity and instabilities of interaction between internal and external environments make each country expand foreign commercial activities. It is vitally important for the enterprises engaged in foreign economic activity to use the principles of international marketing.

On completion of this course the student should know:

– key categories and terms;

– content and functions of marketing concept of international marketing management;

– structure, principles and methods of international marketing management; peculiarities and special features of international marketing;

– theoretical and practical approaches to the identification of sources and mechanisms ensuring competitiveness of Ukrainian companies on world markets;

– special terms of arranging and carrying out market surveys on overseas markets;

and be able to:

– use the tools of marketing research;

– analyze the status and trends in the global markets and internal potential and abilities of the company for entering foreign markets;

– take into account aspects of international business environment while operating marketing activities;

– understand specificity of different ways of breaking into overseas markets, know their advantages and disadvantages;

– identify key sources of information for further usage;

– to give grounds and make a decision on entering a foreign market;

– develop marketing programs and evaluate their effectiveness;

– work out measures to increase competitiveness of goods and companies in foreign markets.

TOPIC 1.
INTERNATIONAL MARKETING: GENERAL REVIEW

Lesson purpose: to study theoretical bases, essence, a subject and objectives of international marketing; to gain practical skills to analyze foreign economic activity of the enterprises in foreign markets.

Theory questions:
1. Concept, formation and types of marketing.
2. Definition of the international marketing. Its essence, purpose and objectives.
3. Types of the international marketing.
4. Principles and main priorities of international marketing.
5. Common and special features of internal and international marketing.

Theory questions for self-study:
1. Peculiarities of the current state and development of international trade.
2. Internationalization of the world economy and new priorities of the international marketing.

THEORETICAL PART

International marketing is a system of planning, implementation, monitoring and analysis of activities to influence multinational market environment and adapt the company operating in more than one country to its conditions.

The object of international marketing is foreign markets. The subject of international marketing is the ratio of supply and demand in foreign markets, their formation and structure.

The subjects of international marketing are:

– Exporter - a company producing goods in any country and selling them outside the country;

– Importer - a company located on the territory of one country but having suppliers or cooperation partners abroad;

– International Corporation - a type of structural organization of a large company making direct investments into various countries of the world. It is represented by two main types: transnational and multinational corporations.

The objectives of the subjects of international marketing can be both qualitative and quantitative (Fig. 1).

The basic principles of international marketing are:

– a grounded choice of strategic objectives of activities and development of the enterprise;

– orientation of the enterprise not on a momentary but on a long-term result of marketing activity;

– application in unity and interrelation of strategy and tactics of the active adaptation to requirements of potential buyers of the foreign market;

– an integrated approach to coordination of the purposes, resources and opportunities of the enterprise;

– identifying optimum ways for achieving objectives;

– fast and accurate reaction on the current changes of international marketing environment.

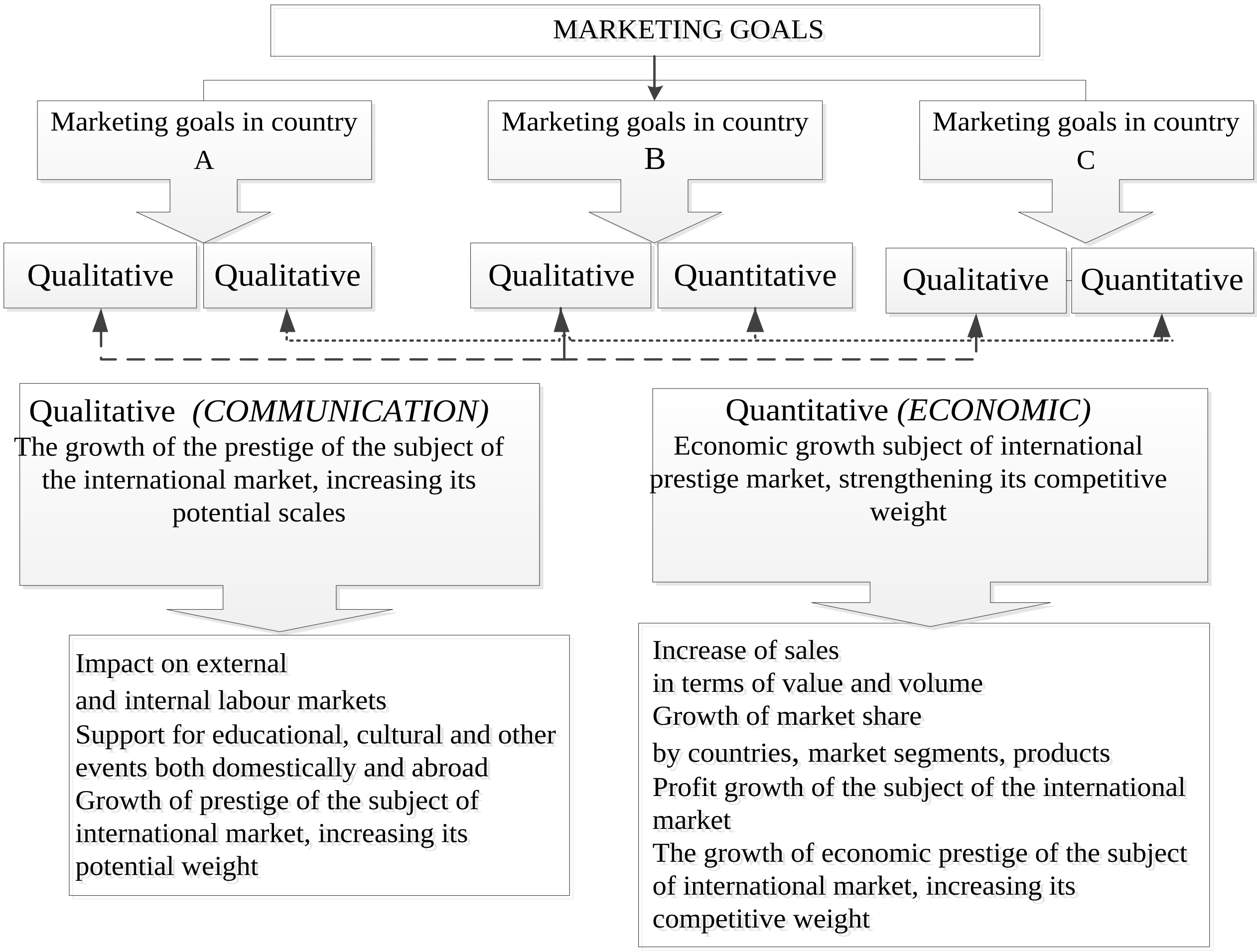

Fig. 1.1. Objectives of the subjects of international marketing

The peculiarity of international marketing is that the organization and methods of the need to take into account social and cultural environment of the foreign market, its political and economic environment, including linguistic and religious differences, everyday habits and customs which greatly expand the scope of international marketing in relation to national marketing.

The overall objectives of the international marketing are presented in Fig. 1.2.

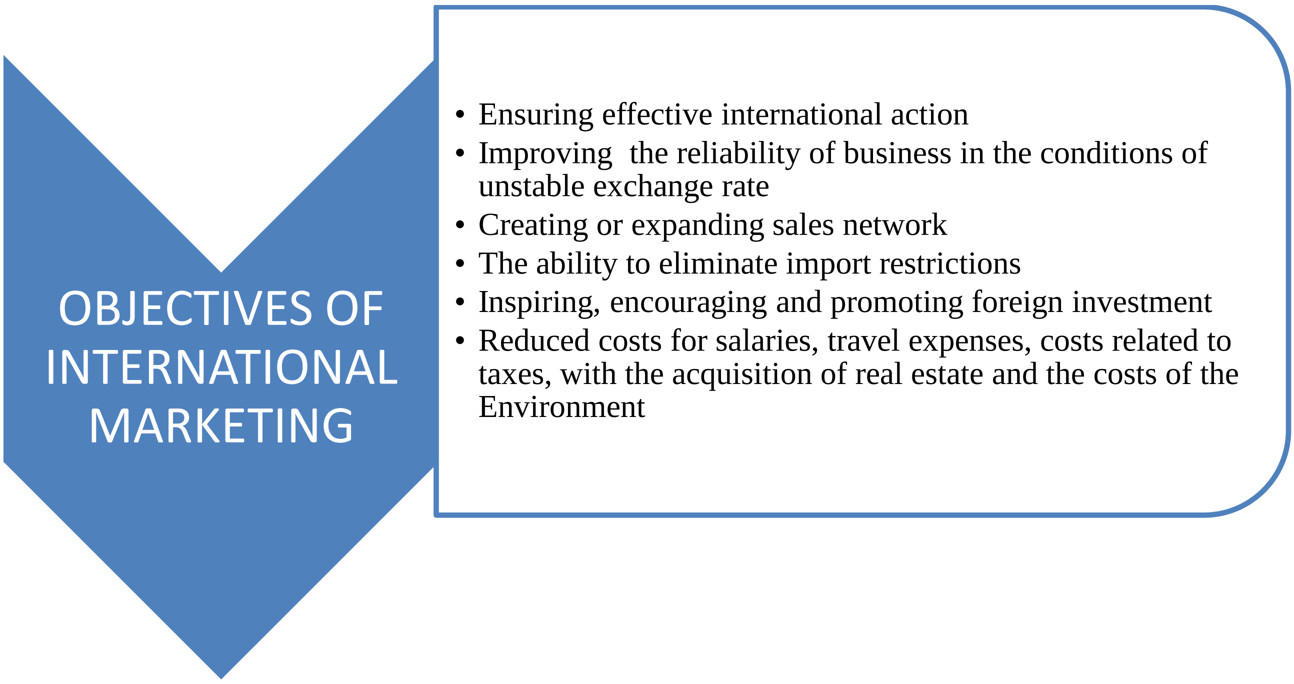

Fig. 1.2. The objectives of International Marketing

Reasons for the firms' entrance foreign market are as follows:

– change of the environment in the domestic market (decline in demand, carrying out anti-enterprise government policy, heavy taxes, stimulation by the state of an entry of businessmen into the foreign markets to increase foreign currency volume);

– accumulation of production rates and full satisfaction of local consumers' demand;

– expansion of sales markets at the expense of foreign clients who are capable to make additional profit;

– attraction of foreign markets despite additional expenses and risks caused by transactions abroad.

By areas of application international marketing is subdivided into:

– marketing of consumer goods;
– marketing of manufactured goods (means of production);
– marketing of services.

PRACTICAL TASKS

Task 1

Group the factors influencing assessment of macro environment of the market of Ukraine by international investors allocating the following directions:

a) factors which interfere with foreign investors' breaking into Ukrainian market;

b) factors which encourage activization of investment into Ukrainian economy.

Factors:

1. State monopoly and restraining the pace of privatization.
2. Strong influence of the command-administrative methods of regulating the economy.
3. Relatively stable political situation.
4. Lack of legal protection of business.
5. Significant "shadow" sector of the economy.
6. Dependence on a single energy supplier.
7. A large and promising market.
8. Non-recognition of the country's market economy.
9. Availability of cheap and skilled labor force.
10. The activity of organized crime and corruption.
11. The proximity of western and Russian markets.
12. Sanctions by some international organizations.
13. Stability of the national currency.
14. Too dynamic and inefficient tax system.
15. The geopolitical location of the country.

Task 2

Expand the essence of the stages of the transition from traditional exports to the global marketing and fill Table. 1.1.

Table 1.1

Stage	Essence
Traditional export	
Exporting marketing	
International Marketing	
Global Marketing (in conjunction with the international management)	

Task 3

Compile and analyze the phases of internationalization of the marketing scheme.

Task 4

Calculate the structure and dynamics of the WTT (foreign trade turnover), if the bulletin of the Ministry of Trade of Ukraine provides the following information on merchandise exports and imports for year 3, in mln UAH – Table 1.2.

Table 1.2

Years	Export	Import	Foreign trade turnover	Balance
1-st	15195,5	12959,3		
2-nd	18250,0	18560,0		
3-rd	18625,3	18310,2		

Task 5

Identify the ratio of openness of the economy of Ukraine, as well as export and import quotas; import coverage ratios; the elasticity of the WTT if in the base year Ukraine's GDP amounted to 43144,21 mln USD, in the following year it was 44558,13 mln. USD. The volumes of exports and imports are presented in Table 1.3.

Table 1.3

Period	Export	Import
Baseline year	18250,0	18560,0
The subsequent year	18625,3	18310,2

Questions for Knowledge Control:

1. Give the definition of "international marketing".
2. Expand the essence and peculiarities of international marketing.
3. List the reasons for the company's entering foreign markets.
4. Name and extend the goals of international marketing.
5. Describe objectives of international marketing.
6. Specify the subject of international marketing.
7. Describe subject and object of international marketing.
8. State industrial sections of international marketing.
9. List the types of organization of overseas activities.
10. Explain the essence of internationalization of international marketing.

TOPIC 2.
INTERNATIONAL ECONOMIC ENVIRONMENT

Lesson purpose: to examine features of the international economic environment, the impact of factors of internal and external environment on the company's activity in the foreign market as well as the direction of the international investment policy and acquire practical skills in calculating the efficiency of foreign trade activities and the profitability of investment projects.

Theory questions:

1. Influence of internal and external environment on the foreign economic activity.
2. The international economic environment, its role. The role of international cooperation.
3. International investment activity. Basic forms and types of international investment.

Theory questions for self-study:

1. International trade. Indicators and processes that characterize its state and development.
2. Methods and tools of regulation of international trade at the national level. Protectionism, neoprotectionism, trade restrictions.
3. International organizations promoting global economic stability: structure, types of activity.

THEORETICAL PART

The economic environment of international marketing is created by the system of international trade of goods and services.

International Trade is the realm of international commodity-money relations, which is a combination of foreign trade all over the world. Foreign trade, in its turn, is a sector of the economy of the state solving the issues of selling a part of the gross national product in foreign markets.

International trade consists of two counter flows of goods and services, i.e. exports and imports and characterized by the trade balance and foreign trade.

When considering the economic environment one should take into account the classification of countries reflecting their specific factors and competitiveness.

By the structure of the country’s economy there can be distinguished:

– industrially-developed (industrialized) countries;
– industrially-developing (10–20% of the country’s GDP refers to manufacturing);
– countries-exporters of raw materials;

– countries with economies such as subsistence farming (farmhouse-sector makes for self-consumption and low surplus production direct exchange of industrial goods and services).

Factors external economic environment of the market in the international practice are presented in Fig. 3.

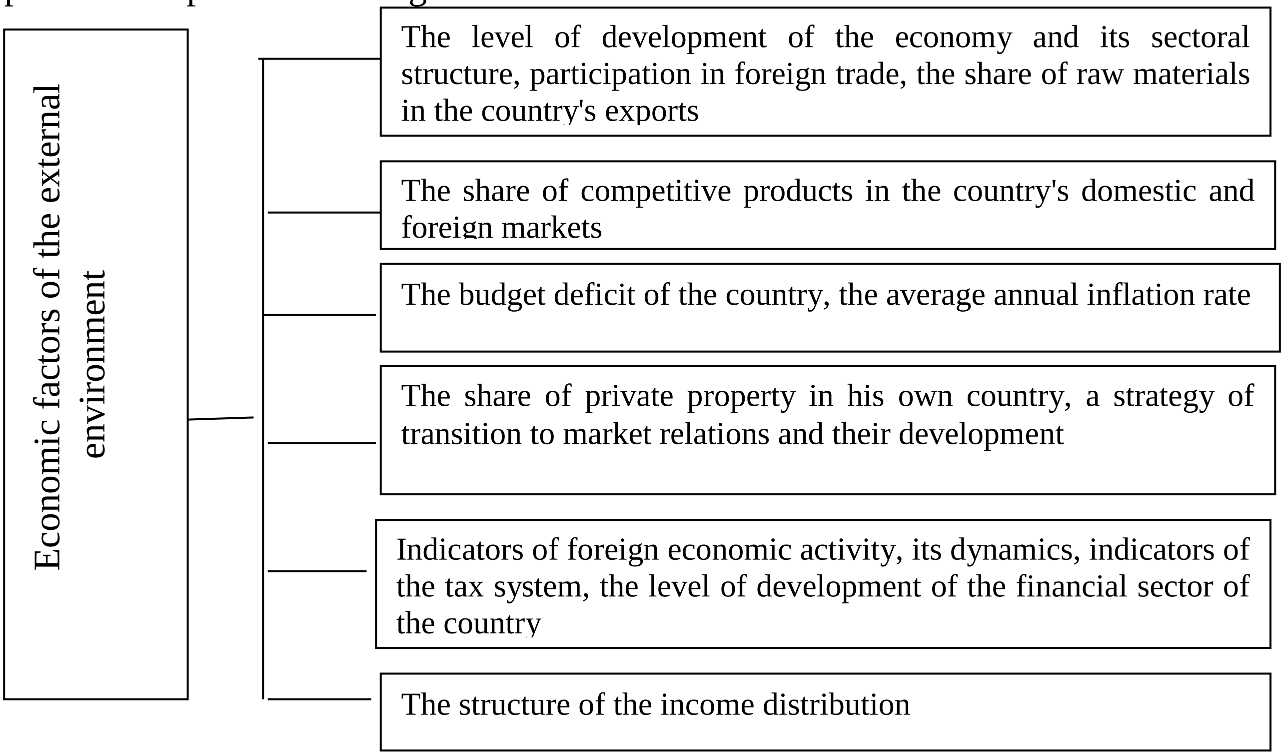

Fig. 2.1. The economic environment factors of international marketing

The indicators of the economic environment of international marketing are:

– gross national product (GNP);
– standard of living;
– the value of GNP per capita;
– the level of the economic growth of the country;
– stability of the national currency.

In order to take into account economic factors operating in a foreign country, one should determine the openness of the economy of this country, its vulnerability, international business cycle and foreign influence on it, industrial activity of the country, the level of prices for goods and services as well as general conditions of the international economic activity.

Under the influence of the internationalization of economic activities and in order to maximize additional profit overseas the value and scale of capital export, which is an intentional movement of funds from one country to another. The export of capital takes a form of the business (direct and portfolio investments) and loan capital. Export of the enterprise capital is a long-term foreign investment into industrial, commercial and other enterprises.

Foreign investments are a source of money, and sometimes of direct property investments into development, expansion, production of new goods and services, improving technologies, mining, use of natural resources.

Direct foreign investments refer to the investments into foreign enterprises, providing investors with control over them. The direct investments are often of such a volume in which a foreign investor has at least 20–25% of the share capital of the company.

Portfolio investment refers to the investment into foreign stocks, bonds and other securities made to obtain high dividends, return on the invested capital. Portfolio investments do not provide control over the enterprise.

The export of loan capital refers to giving medium and long-term loans (in cash or commodities) in order to gain profit through high loan interest.

The degree of foreign investment attractiveness of the country is determined by the so-called “investment climate is”. The latter is characterized by the following features: the type of the legislation on foreign investments, the availability of natural resources, skilled labor force, the capacity of the local market, the convertibility of the national currency, the guarantees of export profits non-nationalization of enterprises, etc.

In recent decades a new type of foreign economic relations in the form of creating free economic zones on the national territory has become widely spread.

Free economic zone is a limited area of the country within which a preferential regime of economic and foreign trade activities operates and more economic freedom is given to enterprises.

Depending on the profile of foreign economic activity, purposes creating zones and the nature of freedom there can be distinguished the following zones:

- free customs territories, which are exempt from customs duties on the import and export of goods;
- export industrial zones created for the development of industry, producing goods for export;
- free trade zones are characterized by the removal of restrictions on trade;
- areas of joint business activities designed for businesses with participation of businessmen from different countries;
- free “open” areas are characterized by a high degree of access for the citizens from other countries to carry economic activity;
- technological zones aim at the development of advanced technologies;
- integrated zones as a combination of all the above properties.

International currency relations are economic relations concerned with the functioning of the national currencies in the world market, monetary exchange of goods and services and other economic relations between countries, usage of currency as a means of payment and credit.

The character of currency exchange depends on the convertibility of the national currency.

Free convertible currency is a currency which can be freely exchanged without any restrictions for other foreign currency.

Partially convertible currency is the national currency of the country where specific restrictions are applied on certain types of foreign exchange transactions. As a rule, partially convertible currency is exchanged only for individual foreign currencies but not all of them.

Non-convertible (closed) currency is a currency which operates only within one country or is not exchanged freely and without restrictions for foreign currency.

PRACTICAL TASKS

Task 1

Calculate the dynamics of GDP and its per capita value, if the country's statistical yearbook provides the following information about the population and GDP of over 4 years – Table 2.1.

Table 2.1

Indicators	Periods			
	1	2	3	4
Population, mln. people	49,9	49,6	49,3	48,7
GDP, mln., UAH	102,6	130,4	179,9	212,5

Task 2

Calculate GDP and fill in the form of production account if the figures are as follows (in billion MU):

• production of goods and services at basic prices – 140213;
• taxes on production and imports – 21456;
• subsidies on production and imports (–) 1456;
• intermediate consumption – 18620.

Task 3

Determine which of the two international investment projects should be applied by the foreign trade company "Ukrimpeks" to improve and upgrade production lines to manufacture the products using the data given in Table 2.2.

Table 2.2

Index (mln. USD)	The project	
	1	2
Sum total of the revenue in the first year	70	78
Costs in the first year	56	60
Amortization expenses	14	38
Desired investment	84	112

Task 4

Calculate the amount of invested funds of one of the investment projects if the amount of total revenue in the first year was 25 mln USD, the costs – 18 mln. USD, amortization expenses – 6 mln USD, the payback period of the investment project – 1,5 years.

Task 5

Calculate the proportion of investment in each country for the first and last year of the total investment and the dynamics of investment by country using the data given in Table 2.3.

Table 2.3

Countries	The volume of investments (mln. USD)			
	1	2	3	4
In total including:	2870,7	3281,8	3865,5	5128,4
USA	511,3	589,6	635,8	689,3
Germany	229,6	228,5	237,9	348,6
Russia	187,2	287,9	314,3	485,3
Netherlands	270,2	302,9	361,8	386,5
Others countries	1612,4	187,3	2315,7	3218,7

Task 6

Fill the balance of payments of the country using the data given in Table 2.4. (mln. monetary units)

Table 2.4

Balance of payments	Consolidated amount
Current account balance Export of goods and services Imports of goods and services	-12850 112805+2470 116290
The balance of goods and services	
Exports of goods Imports of goods	88330 99395
Balance of goods	
Exports of services Imports of services	24975 16380
Balance of services	
Credit Debit Income	5290 21180
Credit Debit Current transfers	6130 620
Direct investments Portfolio investments Other investment Reserve assets Mistakes and losses Financial account and capital account	5720 1000 1254 -2055

Questions for Knowledge Control:

1. Describe the concept “international economic environment”
2. Explain the role and importance of the international economic environment in the international community.
3. List the environmental factors that affect the activity of the company in the foreign market.
4. Give the definition of the concept “investment policy”.
5. List the types of international investment.
6. Name the types of international investments.
7. Explain the types of international cooperation in the field of investment activity.
8. Describe the term “international trade”.
9. List the indicators and processes that characterize the state and development of international trade.
10. Describe the methods and tools of international trade regulation.

TOPIC 3.
SOCIAL AND CULTURAL, POLITICAL AND LEGAL ENVIRONMENT OF INTERNATIONAL MARKETING

Lesson purpose: consolidate theoretical foundations of the social and cultural, political and legal environment and their influence on international marketing; acquire practical skills to analyze the impact of social and cultural factors, political and legal environment on the complex of international marketing.

Theory questions:

1. Definition and basic elements of culture.
2. The influence of social and cultural environment on international marketing.
3. Political and legal environment of international marketing.
4. State policy in foreign economic activity and its impact on international marketing.
5. The risks in international marketing and methods of their security.

Theory questions for self-study:

1. Adaption to different cultures of foreign countries.
2. Interrelation of the governments' objectives and possible political actions towards foreign representatives.
3. Classification of foreign partners in accordance with the degree of political instability and restrictions on business.
4. Informal intervention in business, restrictions in "buy-from-us" style, non-tariff barriers, subsidies, operating environment, conditions of property, boycotts, confiscations.

THEORETICAL PART

Social and cultural environment factors affect all marketing tools changing the type, quality, the way of presenting the product, its price, advertising, type of promotion and distribution of goods. Factors of social and cultural environment of international marketing can be represented by the following groups:

Cultural factors including (Fig. 3.1):

– religion (basic religious principles and their impact on the public that is the target market of the company);
– means of communication (language, gestures, the distance between people, colour preferences, punctuality);
– ethics and aesthetics (particularly while developing advertising, sales of goods, communicating, etc.);
– living conditions (habits, a typical diet, the level of consumption of the products, their quality, style of clothing, housing, traditional leisure, health, sports development, etc.);

– arts and sciences (the average level of education in the country, the level of the population's provision with secondary and higher education institutions, objects of culture, long-term trends in developing cultural values);

– shopping features (tradition of the consumption of goods and peculiarities of the public perception of different kinds of goods, etc.);

– traditions of doing business;

– people's attitudes towards the world.

Human factors, including physical characteristics of people (external data, peculiarities of smell and touch) and specific features of the behavior defined by education, morality and belonging to some particular group.

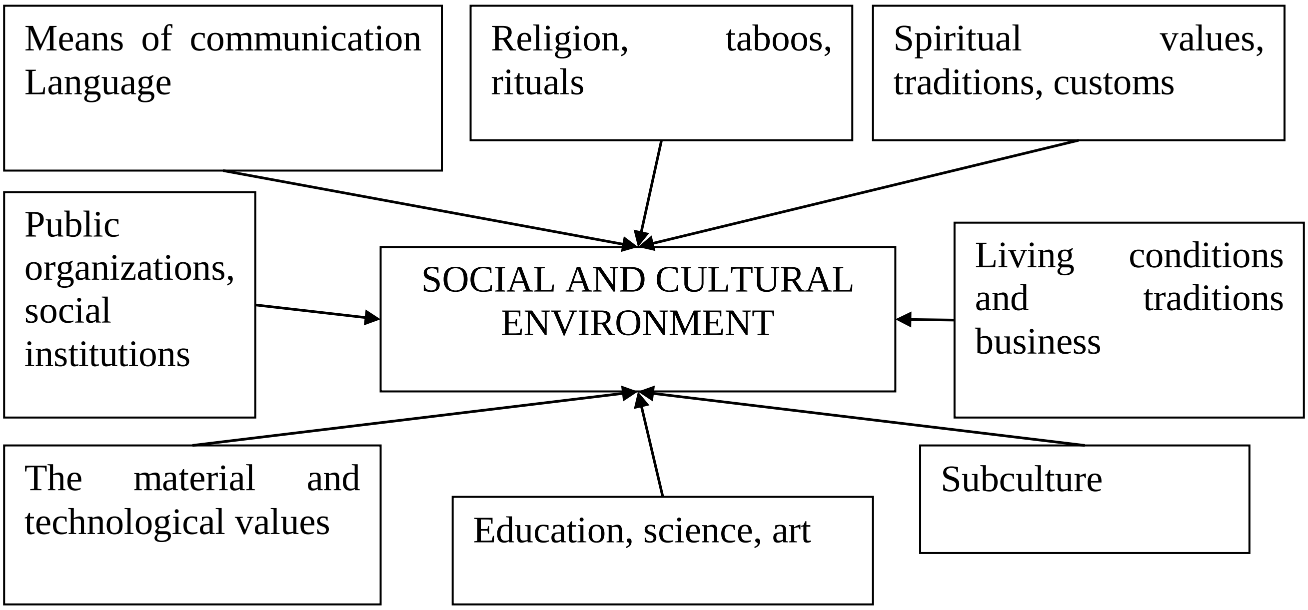

Fig. 3.1. The structure of the cultural environment affecting international business

Political and legal environment of international marketing in various countries of the world community can be represented by the following factors (Fig. 3.2):

Legal practice of the countries of the world falls into three types of legal systems:

– a system of customary law based on the traditions, customs, manners and precedent with the governing role of courts (the USA, the UK);

– a system of civil law (codified legal system) based on a deliberately developed set of laws united in the Code (Germany, France, Japan, Russia, Ukraine);

– triple system of law which is based on religious precepts (the best example is the Muslim law).

Legal regulation of the instruments of international marketing is generally represented in Table. 3.1:

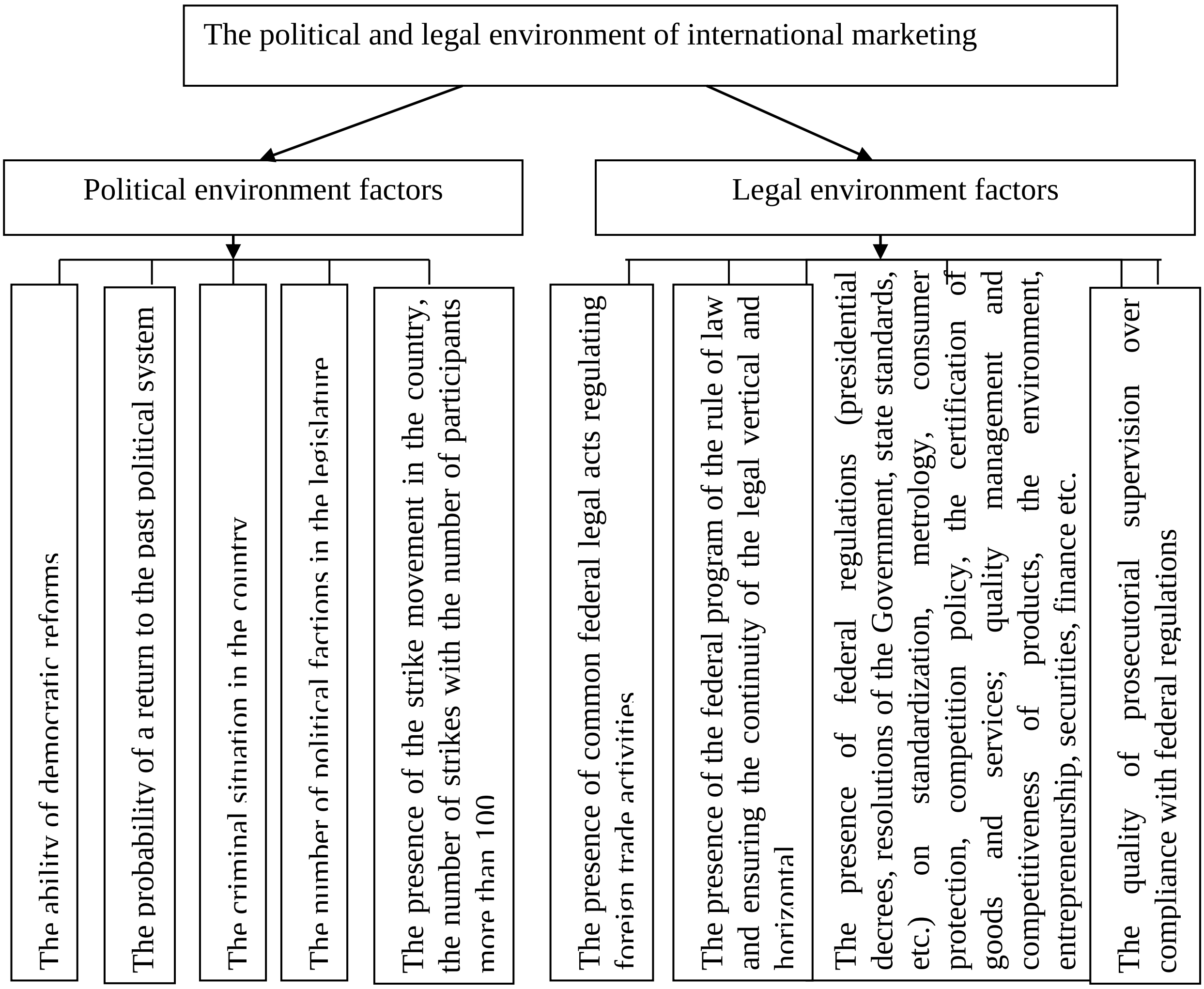

Fig. 3.2. The political and legal factors of the environment

Table 3.1

Areas of legal regulation of international marketing instruments

Marketing instruments	Areas of legal regulation
Product	quality standards; attributes of packaging, labeling; primary information on the package; safety
Price	upper and lower bounds of price movements, fixing or restricting freely set prices the size of margins of trade organizations; competition law, antitrust restrictions
Promotion of goods	ensuring equal opportunities to businesses in their foreign economic activity regardless their type of ownership; the law on advertising, competition law; antitrust committee activity; an opportunity of exclusive sales; availability of consumers' rights: on security, of choice, for access to the information on the risk in consumption of goods
Distribution of goods	basic conditions of supply and unification of trade terms (Incoterms – 2000)

Main instruments and types of foreign trade policy of the state shown in Fig. 3.3.

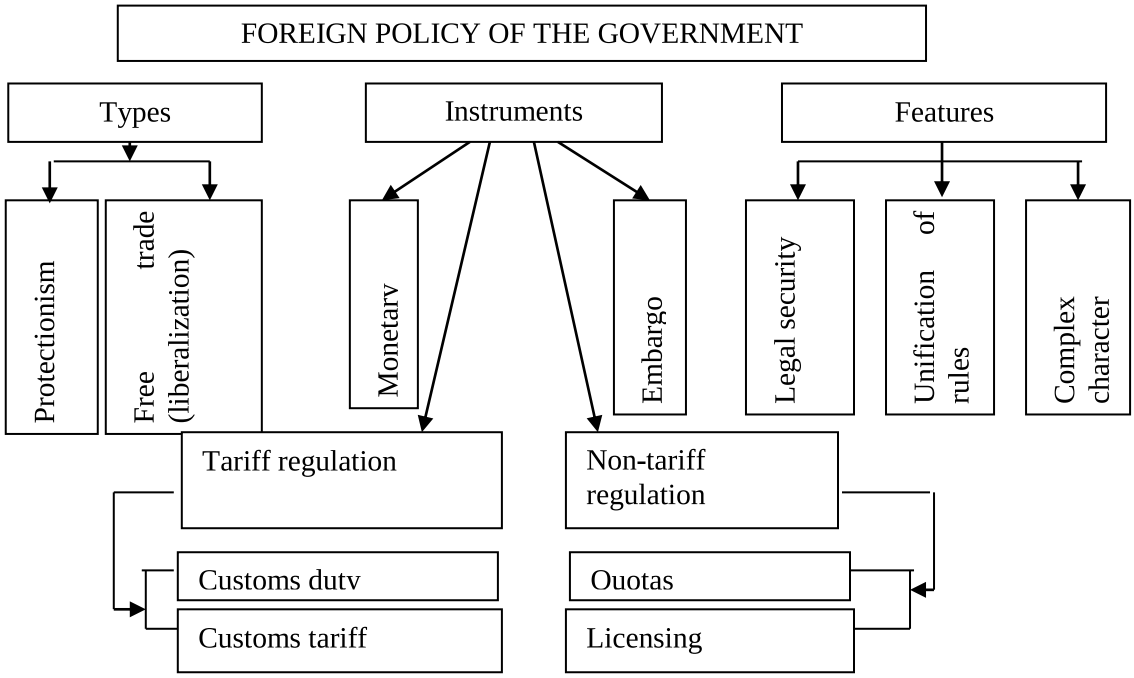

Fig. 3.3. Types, features and instruments of the foreign trade policy of the state

The political forces of the country which are investigated in the study of the political and legal environment of international marketing include:

– political climate – a statistical long-term regime of the political situation in the country;

– government – the supreme body of executive power;

– national sovereignty – independence of the state in the external and its rule in the internal affairs;

– national security – a set of measures concerned with the protection and defense of the state;

– national income – a general indicator of economic development of the country;

– prestige – authority, power of the country on the international market;

– lobby – a system of offices and agents of the monopolies, various organizations in the legislative bodies of the country putting pressure on legislators and officials.

While implementing international marketing the enterprise (company) faces numerous restrictions and difficulties of different nature and scale.

While implementing international projects the following types of risks are distinguished:

– marketing (sales) - a decrease in demand for the selected international or decline in world prices;

– political (restrictions, embargoes, etc.);

– commercial (insolvency of the buyer);

– production (insurmountable in the organization of production, its maintenance, staff training, etc.);
– scientific and technical (a license exchange, development of new technologies and materials, joint research and development, etc.)
– inflation (rising cost on salary, raw materials);
– currency (fluctuations of currency exchange rate);
– investment.

Methods of risk management include:

– insurance, i.e. the use of various types of insurance policies, insurance contracts;
– hedging which is related to the fall in prices for exchange commodities, stock values, depreciation of currency exchange rate;
– types and methods of settlement and credit relations which minimize the risk of non-payment for the delivered goods or non-receipt of goods against their goods;
– analysis and forecasting of market conditions (demand, supply, prices) in the external market, planning and timely development of activities at the cost of their own or borrowed funds in order to avoid possible losses and others.

PRACTICAL TASK

Task 1

Show schematically the main types and levels of law and their content, fill in Table 3.2.

Table 3.2

Types and levels	Content
Common law	
Civil law	
Criminal law	
Arbitration law	
Theological Law	
International law	

Task 2

Analyze the social and cultural environment of Ukraine. For the analysis use the following list of factors: type of economy, language, religion, values and attitudes, manners and customs, art, education, social structure, democratic structure; technologies, politics.

Task 3

Calculate the share of exports and imports for a foreign European country as well as export margins providing that for a year this country has been exporting the item A in the amount of 30.645 million EUR, importing in the amount of 10.846 million EUR while the volume of production of the product A amounts to 63.5 million EUR and the consumption volume is 20.23 million EUR.

Task 4

Complete the matrix of the analysis of the impact of social and cultural environment components on the functions and elements of the international marketing mix. Fill in Table 3.3.

Table 3.3

The components of the social and cultural environment of international marketing	The functions and elements of international marketing mix				
	Product	Price formation	Promotion	product distribution channels	marketing research
1. Education					
2. Art					
3. Language					
4. Religion					
5. Values					
6. The social orientation of the society					
7. Politics					
8. Jurisprudence					
9. Traditions					
10. Technologies					

Task 5

Calculate the indicators of exports and imports of goods for each country if, according to the statistics, export and import quotas on the product B is respectively the following: 13.9% – export 9% – import in Japan; 23% – export, 25% – imports in France. The volume of production in Japan – 100.86 million USD; in France – 82.64 million USD; the volume of consumption in Japan – 68.45 million USD, in France – 49.62 million USD.

Questions for Knowledge Control:

1. Which factors influence the firm in the international market?

2. In what way do the national competitive advantages of the country reveal themselves?

3. What are the main characteristics of the welfare environment of international marketing?

4. What are the main characteristics of the political and legal environment of the foreign market?

5. What is the essence of the cultural environment of business?

6. What makes the attributes of culture and how are they revealed in international marketing?

7. How do the characteristics of the national culture influence the efficiency of management and marketing in the foreign market?

8. How does the national culture affect the company’s behavior in the international market?

9. What political forces of the country are investigated when studying the political and legal environment of the international marketing?

10. What areas of foreign economic activity does state regulation extend to?

11. Which trends does the state economic policy have in relation to foreign trade?

12. What ways of risk insurance are there in international marketing?

TOPIC 4.
FOREIGN MARKET SELECTION AND FOREIGN MARKET ENTRY STRATEGIES

Purpose of the lesson: consolidate the theoretical knowledge in selecting foreign markets and entry strategies to foreign markets, the segmentation of the global market, special features of international marketing research; acquire practical skills for the development of criteria for evaluating the attractiveness of the country for exporting enterprises, analysis of the main forms of participation of the company in international markets and the compilation of the international market selection matrix.

Theory questions:

1. Approaches to the decision making on the feasibility of entering foreign market.
2. Foreign market entry strategies and stages of the company.
3. Methods for the international market entry.
4. Approaches to the selection of foreign market.

Theory questions for self-study:

1. The criteria for assessing the attractiveness of overseas markets and its own competitive advantages.
2. Comparative characteristics of an external market entry strategy by the following criteria: market control, resource requirements, risk, flexibility, involvement in international marketing.
3. Internal and external factors of the foreign market entry strategy selection.

THEORETICAL PART

The following should precede decision making on the company’s foreign market entry:

- analysis of the reasons that motivate companies’ entry the foreign market (Fig. 4.1);
- determination of the export share of total sales of the company’s own sales volume and study the issue – whether the firm engaged in marketing in one or in many foreign countries, including a clear definition of the desired type of the country foreign market.

In the theory of international marketing there are a few types of market strategies of firms’ international market entry depending on the set goals:

- strategy of conquering or market expansion;
- innovation strategy;
- strategy of product differentiation;
- strategy of costs reduction;

– strategy of waiting;
– strategy of consumer's individualization.

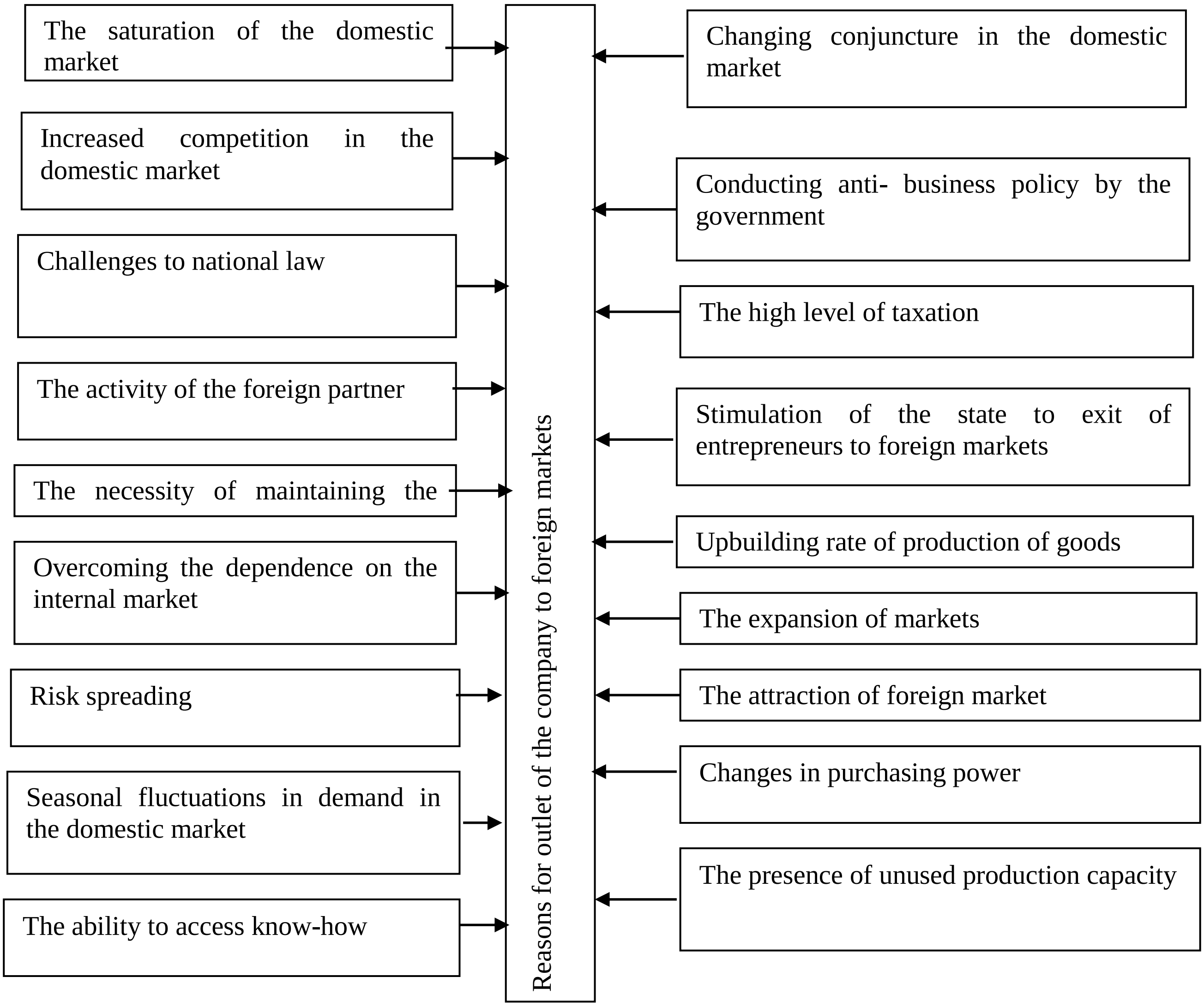

Fig. 4.1. Reasons for release of the company to foreign markets

When choosing a particular strategy it is important to take into account the specific features of the particular market, its structure, type of competition, specific features of the goods sold.

The potential of the foreign market is determined by the following indicators:

– market size (M_{sz}) – the total amount of actual or possible amount of goods (services) sold for a specified period of time:

$$M_{sz} = P + R – E + I + D – M – E_0 + I_0, \qquad (4.1)$$

where P – the national production of this product in the given country;

R – the rest of inventories in the warehouses of manufacturers in this country;

E – export; I – imports;

D – decrease (M – increase) of the sellers' and consumers' stock of goods in the given country;

E_0 – indirect export;

I_0 – indirect import (indirect export (import) – the situation when the product is an integral part and included in the price of other imported (exported) goods).

– saturation of the market (S_m) – an indicator of the outlook for demand:

$$S_m = \frac{Cm_g}{Cm} \times 100, \quad (4.2)$$

where C_g – the number of customers who have already purchased goods;

C – the total number of consumers.

Analysis of demand per capita is defined as:

– the level of per capita consumption (q), measured in natural or value magnitudes:

$$q = \frac{Q}{N}, \quad (4.3)$$

where Q – the volume of purchases;

N – average number of population.

– dynamics of the level of consumption (I_q) in terms of value is calculated at constant prices:

$$Iq = \frac{\sum q_1 p_0}{N_1} / \frac{\sum q_0 p_0}{N_0}, \quad (4.4)$$

where q_0, q_1 – quantity of goods, respectively, and the base of the reporting period;

p_0 – the price of goods in the base year;

N_0, N_1 – average annual population in the baseline and reporting period.

– coefficient of elasticity in dynamics (basic) (El_b):

$$El_b = \frac{y_1 - y_0}{x_1 - x_0} / \frac{y_0}{x_0}, \quad (4.5)$$

where y_0, y_1 – demand, respectively, in the baseline and reporting periods;

x_0, x_1 – factorial signs.

– the elasticity of the chain (El_c) (for the i-th group):

$$El_c = \frac{y_i - y_{i-1}}{x_i - x_{i-1}} : \frac{\bar{y}}{\bar{x}}, \quad (4.6)$$

where y_i – demand in the i-th group;

y_{i-1} – demand in the preceding group;

y – the average level of demand;

x_i, x_{i-1}, x – respectively, in factorial signs *i, (i*-1*)* -th groups, and on average in all groups.

– empirical coefficient of cross-elasticity ($El_{x, y}$):

$$El_{x,y} = \frac{\Delta q_x}{\Delta q_y} : \frac{p_x}{p_y}, \tag{4.7}$$

where Δq_x – increase in demand for the product x;

Δq_y – the increase in demand for goods from;

p_x, p_y – the prices of goods *x* and *y* respectively.

Analysis of competitiveness of the goods (C_t) as an integral index of the useful effect resulting from the use of the product and the costs associated with the purchase and subsequent operation:

$$Ct = \frac{Q_g + Q_{as}}{Pc} \to \max, \tag{4.8}$$

where Q_g – the quality of the goods;

Q_{as} – the quality of after-sales service (service);

P_c – the price of consumption which consists of the price of goods on the market and the costs associated with the operation of after-sales products:

$$P_c = P_m + \sum_{i=1}^{n} p_i, \tag{4.9}$$

where P_m – the price of goods on the market;

P_i – funds that must be spent on each item of expenditure,

n – the number of items of expenditure.

The degree of customer satisfaction is assessed with the help of:

– a composite parametric index (I_{np}) and is calculated by the formula:

$$I_{np} = \sum_{j=1}^{n} a_j i_j, \tag{4.10}$$

where n – a number of quantitative parameters under analysis;

a_j – the weight of j-parametric index;

i_j – parametric index of j-parameter.

– a composite index of competitiveness of the goods by economic parameters (I_{Ct}):

$$I_{Ct} = \sum_{i=1}^{m} a_i i_i, \tag{4.11}$$

where m – the number economic parameters being analyzed;

a_i – weight of *i*-parametric index;

i_i – the parametric index of *i*-parameter.

The composite indices of competitiveness by consumer and economic parameters provide an integrated indicator of relative competitiveness (C) of the article against its sample:

$$C_t = I_{np} : I_{Ct} \tag{4.12}$$

If $C_t > 1$, the product is superior to the sample in competitiveness; if $C_t < 1$, then it is the inferior; if $C_t = 1$ it is at the same level.

Stages, alternative strategies and foreign market entry methods are shown in Fig. 4.2 – 4.4.

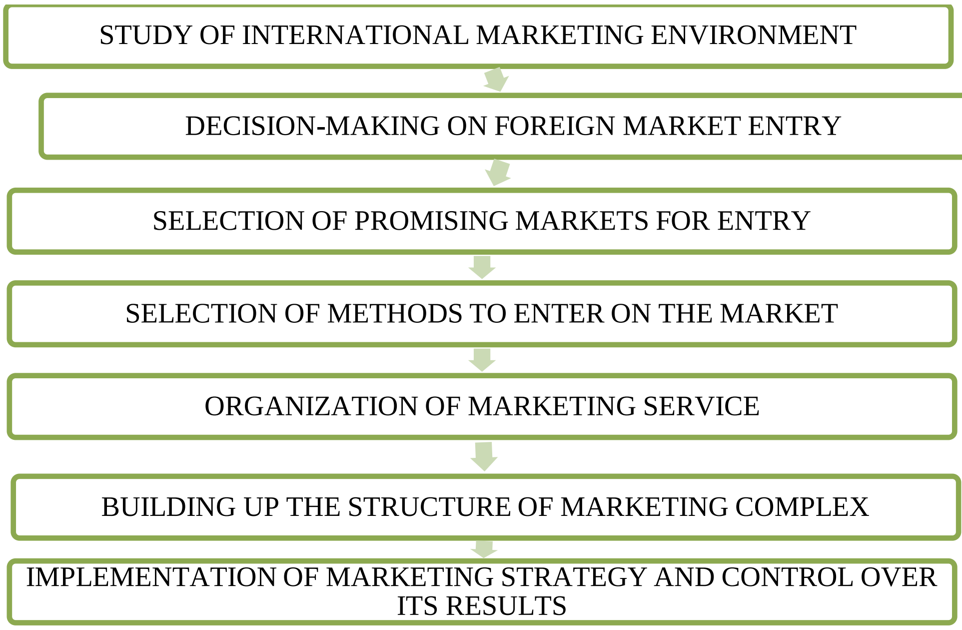

Fig. 4.2. The stages of the company's entry the international market

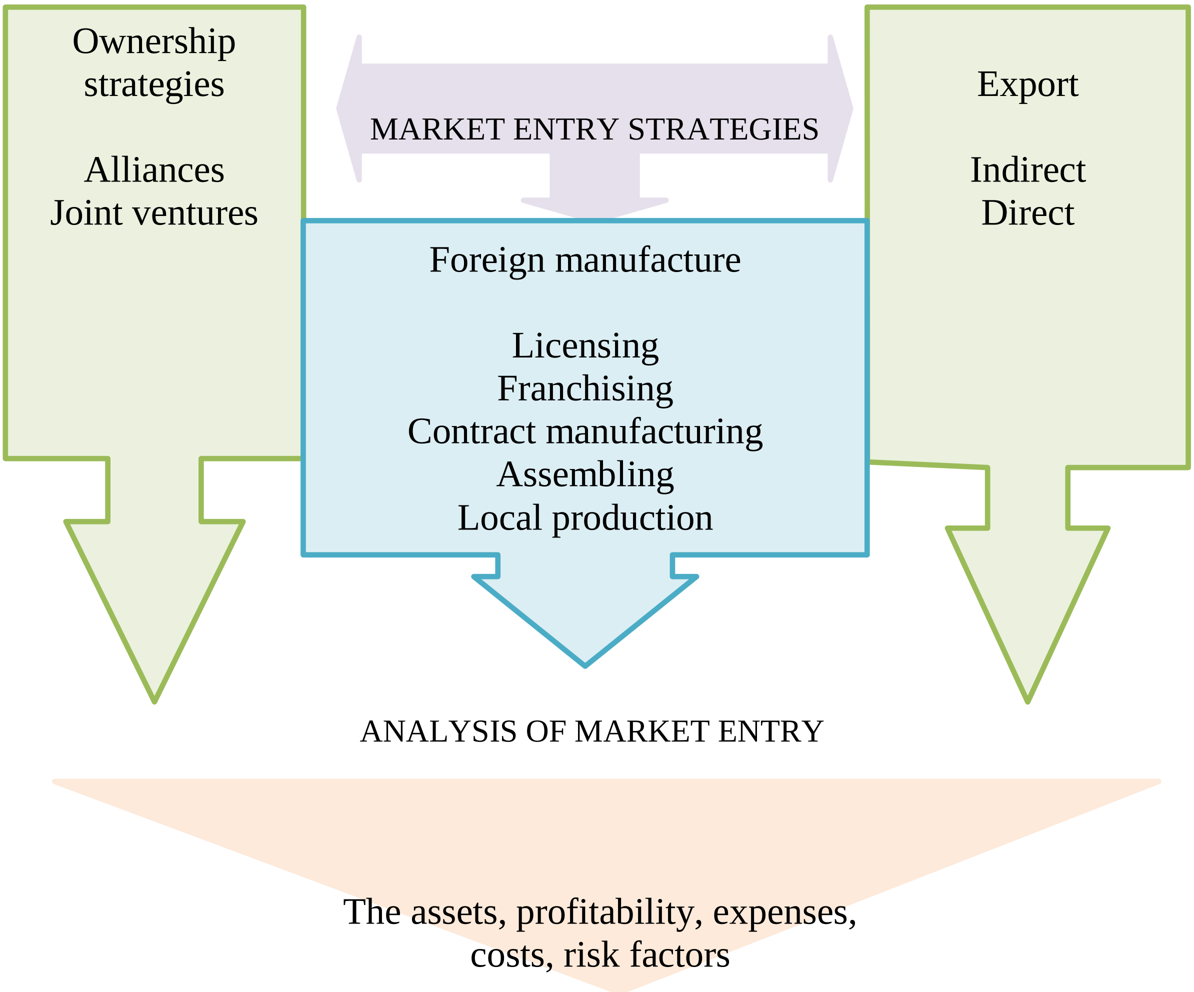

Fig. 4.3. Alternative strategies of foreign market entry

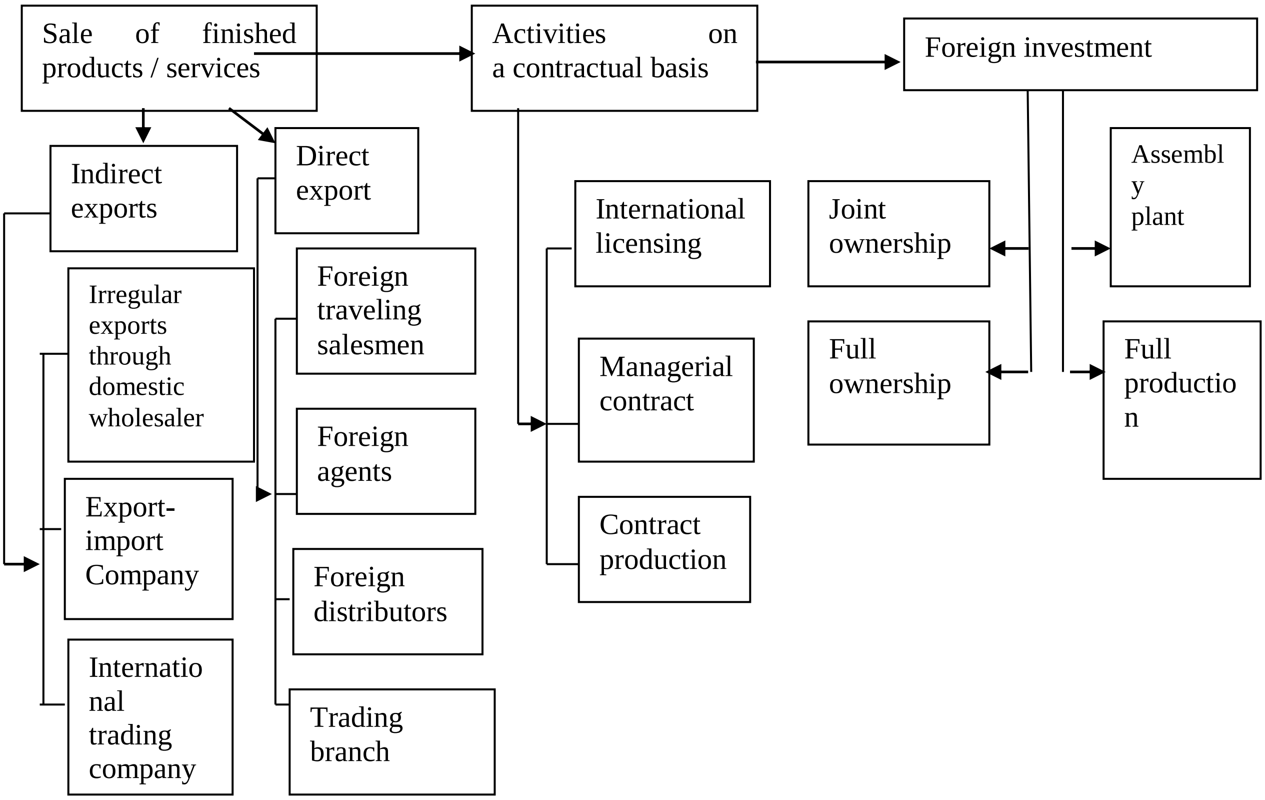

Fig. 4.4. Foreign market entry methods

PRACTICAL TASKS

Task 1

Make a comparative analysis of the main types of the company's participation in international markets. Fill in Table 11.

Main factors	Key features
1. Export	
2. Leasing and franchising	
3. Joint ventures	
4. Strategic alliances	
5. Fully owned branches	

Task 2

Study carefully the following case and answer the following questions:

1. What wrong moments in the company's approach to the selection of a foreign market can be noted in the situation described below?

2. What information does the company need to ensure the competitiveness of its products in the foreign market?

3. What way of getting information could you offer?

Kangaroo in foreign markets

In early 1987 two entrepreneurs founded a small firm D&P, which took orders for high-quality photos to advertise various products as well as public relations. The first years were successful for the company and made it famous in Australia where it was founded. Partners have noted that among numerous tourists visiting Australia there were many Japanese. Having got interested by this fact the partners found out about the growth of popularity for Australian products in Japan. Then they decided to consult the Australian Chamber of Commerce about on their company's entry the overseas market. The Chamber recommended the company to use their photos for a calendar intended for the Japanese market.

D&P made 12 photos and expected that the sale of calendars to their Japanese partners will enable them to focus on design. In late 1987 the Australian Chamber of Commerce organized a trial calendar sale in Japan, which revealed significant differences between Japanese and Australian sense of humor. Potential buyers liked only four photos depicting a kangaroo stylized like a person though their humorous (by the author's conception) poses caused bewilderment with Japanese. Other photographs depicting Australian lifestyle did not attract attention at all.

The staff of the Chamber offered the company to switch for a koala, but the partners chose the kangaroo and they would reject the photos without humor at all. One of the partners noted that if they choose a koala, they would sit them in a row under hair dryers.

Despite this failure the company D&P did not want to give up the idea of breaking into foreign markets. Having noticed improvement in demand for Australian products in the USA, it decided to operate on the market of greeting cards expecting that Americans would understand their humor. Partners prepared a series of postcards with funny inscriptions which required considerable expenses. For the US market cards with kangaroos in funny poses were a novelty at that time. Representative of the company brought samples to the United States, but Americans saw in the stylized kangaroo ... rats!

One newspaper wrote: “Americans believe that kangaroos are mysterious animals picking their way through the wheat field but not crossing them on bicycles. Therefore in the photographs they are more like bloated rats and there is no place for them in this market”…

Partners have studied the proposals to use images of kangaroos on the postage paper, on the note books «Post-it» but they had also been rejected as it was quite complicated to use those negatives, and most importantly in this variant, according to the authors, humor as the main selling point of the photos would have disappeared.

Questions for Knowledge Control:

1. List possible approaches to a decision-making on the foreign market entry.
2. Dwell on the reasons for firms' foreign market entry.
3. What are the strategies of the company's entry the international market.
4. Give a list of stages of the company's foreign market entry.

5. Describe the methods of the companies' foreign market entry.

6. Specify the approaches to selecting a foreign market, describe their advantages and disadvantages.

7. Give a general description of such indicators as the potential of foreign markets.

8. Name the formulas for calculating the capacity of the market and its saturation.

9. Give a list the parameters of the analysis of demand per capita.

10. Give the formula for calculating the level of per capita consumption and its dynamics.

11. What formula can the coefficient of elasticity (basic and chain) be expressed with?

12. Name the formula by which you can analyze the competitiveness of goods.

13. What indicators can help to assess the degree of satisfaction of the consumer's needs?

14. Name the formula for determining the integral index of competitiveness and characterize its values.

TOPIC 5.
WORLD MARKET SEGMENTATION

Purpose of the lesson: to explore the nature and criteria for foreign markets segmentation, approaches to international market segmentation and marketing strategies used by firms in the segmentation of foreign markets; acquire practical skills in analytical operations of the blocks of factors of foreign markets segmentation.

Theory questions:

1. Essence and criteria of foreign markets segmentation.
2. Blocks of factors of foreign markets segmentation.
3. Approaches to international market segmentation.
4. Strategies for the coverage of market segments in international marketing.

Theory questions for self-study:

1. Conditions of effective international segmentation.
2. Ranking of foreign markets, essence, objectives.
3. Methods of segmentation analysis of the foreign market.

THEORETICAL PART

Segmentation is the process of reorganizing information about internal heterogeneity of the market in relation to certain grounds which causes the division of the market into parts (segments), each of which is considered to be homogeneous by the type of the reaction to a particular product or service, and therefore requires particular set of marketing tools (Fig. 5.1).

The term “market segmentation” was first used by Wendell Smith in the 1950s in relation to the popular in the US strategy of producers who wanted to change the qualitative characteristics of their products in accordance with the needs of different groups of potential consumers. This approach called **targeted marketing** emerged as opposed to **mass marketing** intended to cover all consumers at once.

The main purpose of segmentation is to provide targeting to the developed, manufactured and sold goods. There are three different methods of international segmentation:

– singling out in segments the groups of countries relatively homogeneous in social, economic and cultural terms which differ in the demand for similar products (e.g., Scandinavian countries, Hispanic Latin American countries, etc.). However, this approach has limitations as it means a high level of uniformity within the selected countries which is not observed in reality;

– singling out universal consumer segments present in the several countries. The globalization trends of the world economy make many brands known and recognized globally;

– singling out various segments in different countries. This approach requires a serious adaptation of the communication strategy with sales and can be applied to the goods easily modified to local conditions.

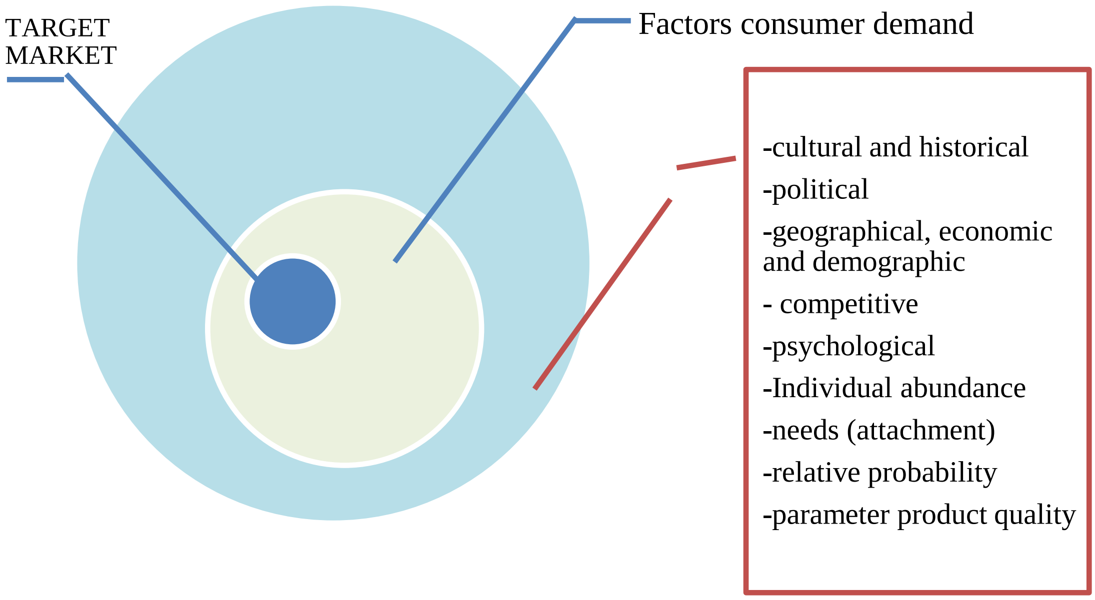

Fig. 5.1. Factors of foreign market segmentation

In general, market segmentation is carried out in accordance with the following principles: the segments must be clearly defined and provided with sufficient, available and reasonable information; significant enough to bring profit; available for marketing activities.

The main criteria of the foreign market segmentation are: significance, its availability, noticeable difference or similarity of consumer preferences, profitability, security from competition and compatibility of the segment with the main competitors' market, measurability, efficiency in the selected segment of the world market.

By market scale there is:

– segmentation of the global market and its major parts (groups of countries) – the global level (macro-level);

– segmentation of the country and its major regions (economic regions) – the regional level (meso-level);

– segmentation of a small area (region), settlement or a specific local market – local level (micro-level).

The process of segmentation is made up of a certain sequence of actions – Fig. 5.2.

Segmentation of international markets reveals opportunities of different segments of the market where the seller will operate. Then the company should decide two main issues:

1. How many segments should be taken?

2. How can the most profitable segments be identified?

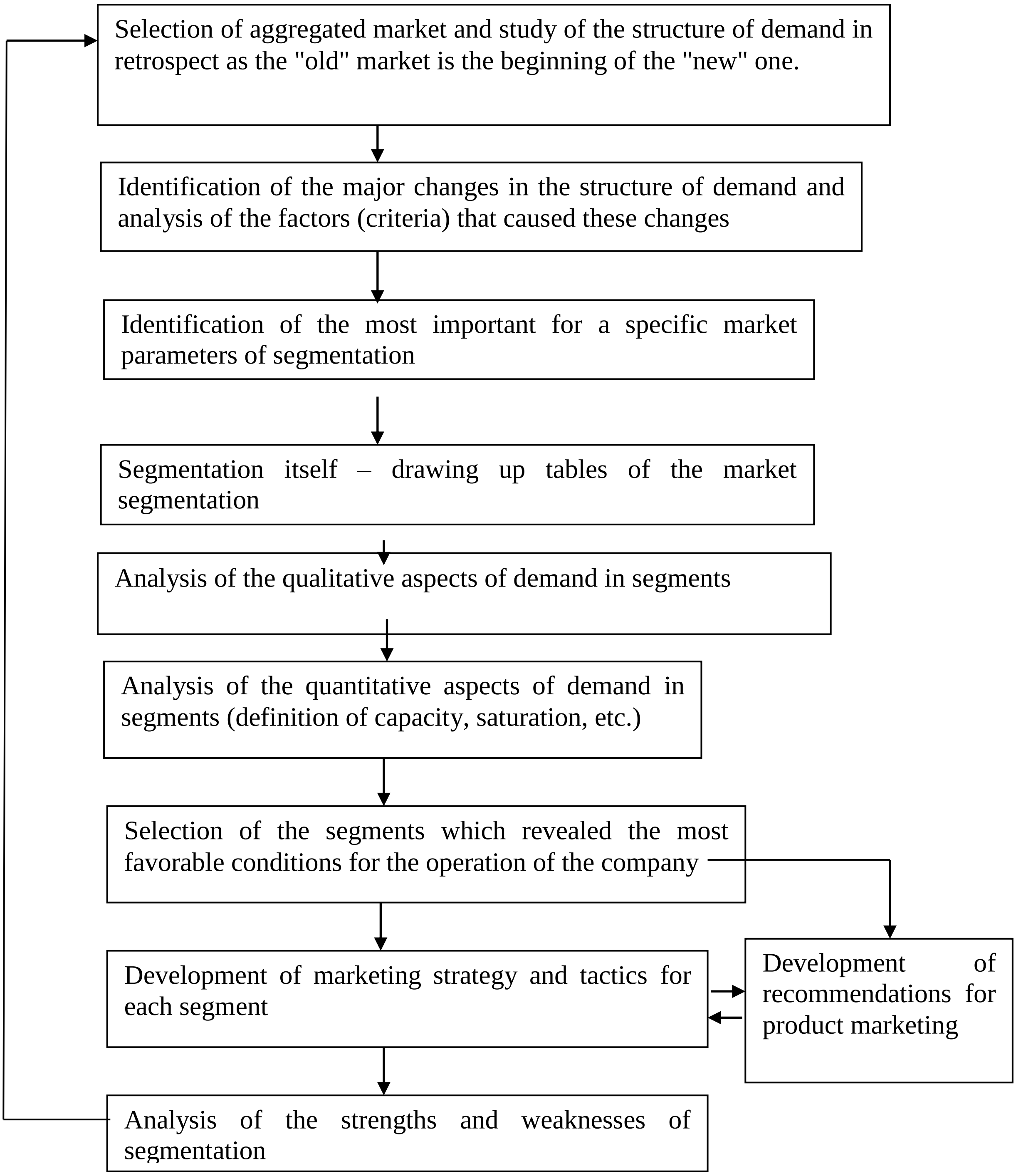

Fig. 5.2. Stages of foreign market segmentation

There are three strategies of the world market expansion – Fig. 5.3.

Undifferentiated strategy (mass or standard) allows the marketing company to neglect any differences in segments and enter foreign markets with the same offer. This strategy assumes that the company offers the foreign market the same goods that are sold in the domestic market and aims to attract the largest possible number of customers in different countries using their standard marketing program.

Differentiated marketing strategy (diversification strategy of marketing efforts) allows the company to operate in several segments of the global market and develop a different offer for each of them. This strategy is based on the analysis of demand for the product in different overseas markets and on the willingness of the company to modify the products and their promotional program tailored to specific markets. The costs of the company grow, but the competition is reduced and the firm can hope that additional costs will be justified by the rise of sales and profit.

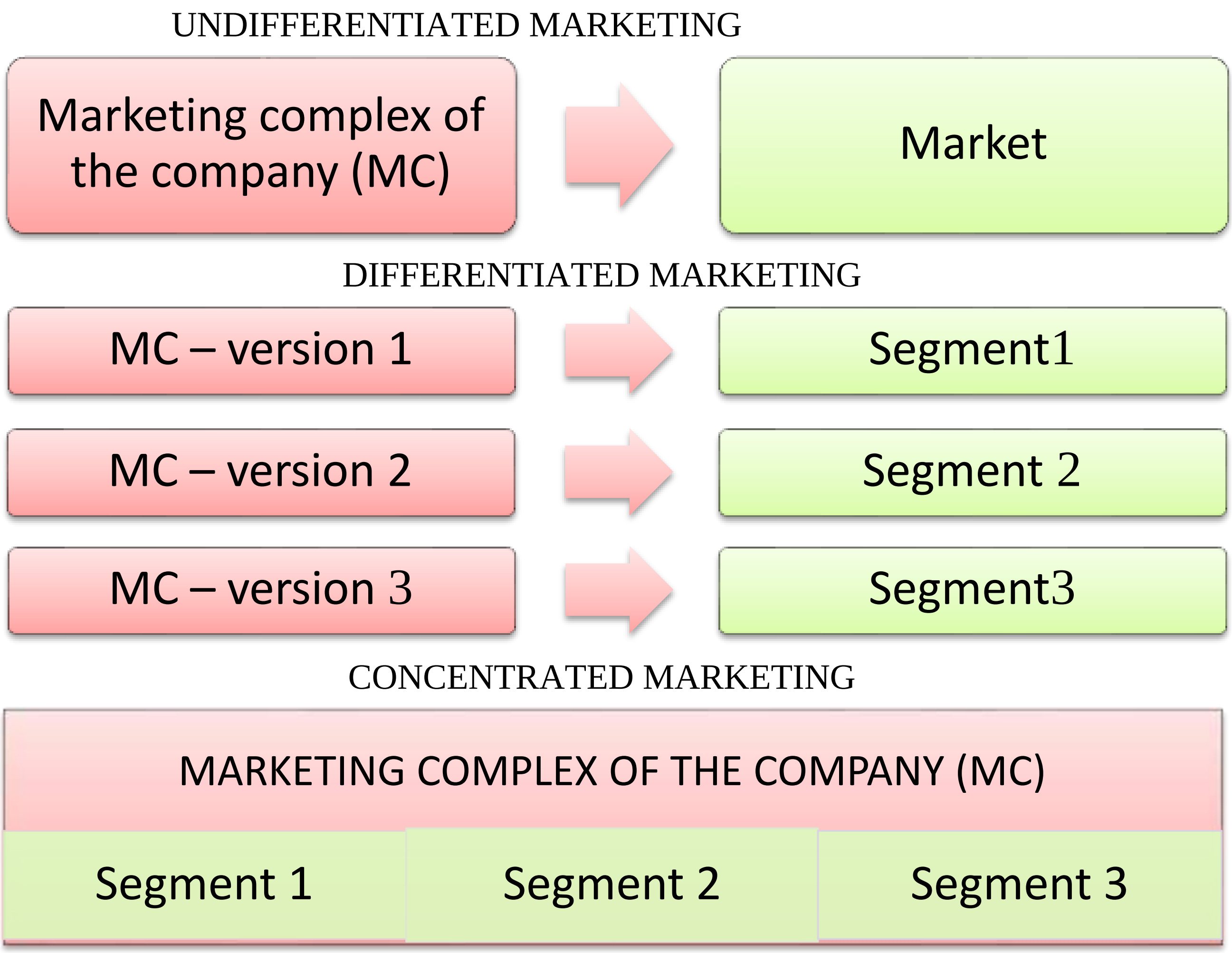

Fig. 5.3. Marketing strategies for market coverage.

Concentrated marketing (target) allows the company to focus on the most part of one or several submarkets. This strategy allows to concentrate efforts on the production and implementation of the most promising, but scarce regions of the world market. Concentrated marketing strategy not only limits a number of markets but also the types of products and services and the whole marketing complex. With this strategy the firm focuses on one segment of the market (or a very small number of segments), knowing that this segment is the most promising. Product and marketing program are adapted to these conditions. It is common for firms with limited resources.

When choosing a market coverage strategy the following factors should be taken into account:

– resources of the company (limited – concentrated marketing);
– degree of homogeneity of products (undifferentiated marketing);

– stage of the product life cycle (implementation - undifferentiated or concentrated marketing at the stages of growth and maturity - differentiated marketing);

– the degree of homogeneity of the market (if all consumers have similar tastes undifferentiated marketing will be beneficial);

– competitors' marketing strategies (if competitors use undifferentiated marketing the company can benefit from differentiated or concentrated marketing).

PRACTICAL TASKS

Task 1

Describe the components of foreign markets segmentation and fill in Table 12.

Table 5.1

Factors of segmentation	Components of segmentation
1. Economic and geographical	
2. Structural and demographic	
3. Cultural and historical	
4. Political	
5. Psychological	
6. Factors of individual prosperity	
7. Factors of requirement	
8. Factors of relative probability	
9. Competitive	

Task 2

Identify the volume of sales of the company in the current year, the structure by segments and the overall size of the market if a foreign trade pharmaceutical company focuses on three segments in sales of their products. In the first segment the volume of sales in the previous year was 8 million items with the market capacity of 24 million items. This year the market capacity in this segment increased by 2%, while the share of the company rose by 5%. In the second segment the company's share in the previous year is 6% with the volume of sales – 5 million items. The estimated size of the market will increase by 14%, while the share of the company will not change. In the third segment market capacity in the previous year was 45 million items with the company's share of 18%. No changes are expected. Calculate the company's performance on each of the segments and make their comparative prospectivity.

Task 3

Calculate the prospective share of the international organization if the actual monthly sales of furniture is 120 000 USD, a promising volume of sales – 150 000

USD, the total size of the market – 480 000 USD, a promising market capacity – 863 000 USD.

Task 4

Identify the prospective capacity of the international market with the help of expert method if invited experts independently of each other gave the following predictions for monthly capacity of the international market:

1 expert - 70 000 USD
2 experts - 100 000 USD
3 experts - 80 000 USD
4 experts - 90 000 USD

Questions for knowledge Control:

1. Expand on the concept and essence of the term “foreign markets segmentation”.
2. Give a list of the blocks of the factors of foreign markets segmentation.
3. Explain the content of blocks of the factors of foreign markets segmentation.
4. Analyze approaches to the international market segmentation.
5. Name the criteria of foreign markets segmentation.
6. Explain in details the marketing strategies and markets segmentation strategies depending on the goals of the company in the foreign market.
7. List the purposes of foreign markets ranking.
8. Name the main conditions for effective international segmentation.

TOPIC 6.
INTERNATIONAL MARKETING STUDIES

Purpose of the lesson: explore features of international marketing studies, formulating research objectives and development of the general plan of the research; acquire practical skills of analytical operations on collecting and analyzing information about foreign markets with further interpretation of the results and preparation of the report.

Theoretical questions for self-study:

1. Features of the international marketing research.
2. Steps in the process of international marketing research: determining information requirements, data collection, analysis and presentation.
3. Types of international market research: background, profound, testing.
4. Methods of international marketing studies.

Theory questions for self-study:

1. Identification of problems and setting up objectives of the research.
2. Developing a plan for the research.
3. International Code of Marketing and Social Research Practice.

THEORETICAL PART

Marketing research is a systematic collection, generalisation and analysis of data on various aspects of marketing. Market research is a set of operations that connect marketing experts with markets by marketing information to ensure making appropriate marketing decisions.

The most relevant areas of research in international marketing are as follows:

- a comprehensive study of foreign markets;
- study of international marketing environment;
- study of foreign consumers' behavior, needs and preferences;
- study of the product portfolio in foreign markets;
- study of competitors operating in foreign markets;
- study of product distribution channels, resellers selling goods in the foreign market.

Marketing studies depending on the intended purpose are divided into current (assessment of the situation at the given time) and forecasting (receiving perspective marketing values of parameters). The results of the latter are used for the development of marketing strategy. Specific issues of international marketing research lies mainly in the vast field of activities and technical difficulties of information collecting and its further processing. The study of foreign markets is not fundamentally different from the market research conducted by the company which operates only on the domestic market. Objectives and methods of work in both cases are similar, but the study of international marketing is of large scale, expansion and thus require substantial financial costs. In this regard, international marketing requires a deeper understanding of the reasons for allocating certain financial resources for the study on international scale.

Typology of market studies in the foreign market is represented by four groups:

- general and preliminary researches in foreign markets;
- studies revealing the peculiarities of foreign markets operation;
- tests;
- special studies.

Any marketing research includes the following steps:

1. Defining the problem and research objectives.
2. Develop a plan for the study which includes:
   - selecting the type of the research;
   - identifying sources of data;
   - identifying data collection methods.
3. Data collection.
4. Data analysis.
5. Processing results and report writing.
6. Applying the results of the study.
7. Assessment of the activities carried out by the achieved results (“feedback”).

Depending on the intended purpose the following types of market research:

- exploratory type (preliminary studies) - combines IP-repetition aimed at gathering preliminary information intended to clarify the issues and test suggestions (hypotheses) put forward, specify terminology and priorities of the research, define the commercial interest which some foreign market may have.
- descriptive (descriptive) type – integrates researches which are simple descriptions of certain objects, phenomena or processes that affect marketing. To conduct this type of research there should be given answers to the questions beginning with: "Who?" "What?" "Where?", "When?", "How?", "How many?", etc. However, these studies do not answer the question: "Why?" They are just the basis on which the following types of studies are built.
- casual style - combines researches aimed at explaining hypotheses based on identifying causality. Factors that cause any changes are called independent variables and properties changing under the influence of these factors - the dependent variables. When doing researches of this type economic and mathematical methods and methods of expert estimates are widely used.

After determining the type of research there should be chosen the sources of information and its collection methods which are divided into primary and secondary ones.

Primary sources of information ("soft information") are obtained as a result of field (out of office) marketing researches carried out specifically for solving particular marketing problems. Methods of collecting primary information can be divided into two groups:

– *quantitative methods*, in which mathematical calculation of the studied phenomena and processes are widely used for further quantitative analysis of the data. These include first of all various kinds of surveys of a large sample of respondents to the same so-called closed questions involving strictly defined answers. In recent years a panel examination method has become popular. The key point in this method is the concept of "panel" – a sample frame of interviewees subjected to repeated interrogations about some particular subject of study which remains unchanged. Polls may be of permanent (diaries) and temporary (interviewing - in person, by mail, phone) character. Quantitative methods also include various experiments, the result of which is quantitative data.

– *qualitative methods* intended to collect and process data, first of all, by observing what people do and say as well as take an in-depth interview during which the qualified interviewer asks the respondent probing questions that are not supposed to be uniquely and readily answered in order to understand why interviewees behave this way or what they think about the problem at hand. Qualitative data can then be transferred into a quantitative form by further analysis.

– **Secondary sources of information** ("hard" information) are obtained by carrying out desk market researches. They represent the data already collected previously for other purposes. Secondary sources of information are divided into:

– internal collected within the organization. These include internal statistics and accounting statements, acts of audits and inspections, materials of various kinds of reports on previously conducted researches, manufacturing, scientific and technical data, business correspondence, etc.

– external which are outside the organization and describe the state of the external marketing environment. In international marketing the following are most often used as the external sources of information: reports of international organizations (UN, UNIDO, WHO, UNESCO, GATT, the International Monetary Fund, World Bank and others); national statistical directories; national periodicals containing general economic and commercial information; electronic media, publications of chambers of commerce and centers of scientific and technical information; publications of foreign trade and marketing organizations; specialized books and periodicals; publications of public organizations, international exhibitions, fairs, product presentations of leading companies; commercial databases; advertising publications.

External information can also be divided into public which is published officially and syndicated which is inaccessible to the general public and can be bought specifically on request.

While working with secondary data the following types of documentation analysis methods are used:

– **traditional analysis** is a chain of mental logical assumptions aimed at identifying the essence of a particular object of interest from the point of view of the researchers;

– **formal analysis** (content - analysis) means finding easily calculated signs, features and properties of documents that reflect certain essential aspects of the content in accordance with the objectives of the study.

When collecting data it is necessary to follwo the rules and regulations of the International Code of Marketing and Social Research Practice prepared and published by the International Chamber of Commerce (ICC) and the European Society for the Study of Public Opinion and Marketing (ESOMAR).

The collected data is analyzed using statistical, economic, mathematical and expert methods. For marketing practice the most significant of those are the analyses: *regression* - a statistical analysis method enabling to determine the relationship of a variable from one (simple regression) or more (multiple regression) of the independent variables; *dispersion* - the method of confirmation or refutation of the impact of the factor under analysis on certain economic indicators; *variation* - a method of testing the significance of the independent variables on the dependent ones; *discriminant* – a method of determining the characteristics of the object to assign it to one or another predetermined group; *factor* – a method for studying the relationship between variables in order to reduce the number of investigated factors to influence the most important ones; *cluster* - a method to combine variables or objects into groups (clusters) so that the differences between the objects belonging to the same cluster would be smaller than their differences from objects included in the other clusters; *Delphi method* - an interrogation of experts, in which their anonymous answers are collected and group assessment of the process is given.

PRACTICAL TASKS

Task 1

Fill in the table with forecasting methods, point out benefits and problems of each of the methods of quantitative and qualitative forecast.

Table 6.1

Method	Determination	Forms, range	Economic example	Advantages and problems
1. Quantitative methods of forecasting				
Extrapolation of the trend				
Projections based on indicators				
Regression analysis				
2. Qualitative forecasting methods				
Delphi method				
Scripts				

Task 2

Study and analyze the structure of the international market research presented in Fig. 6.1.

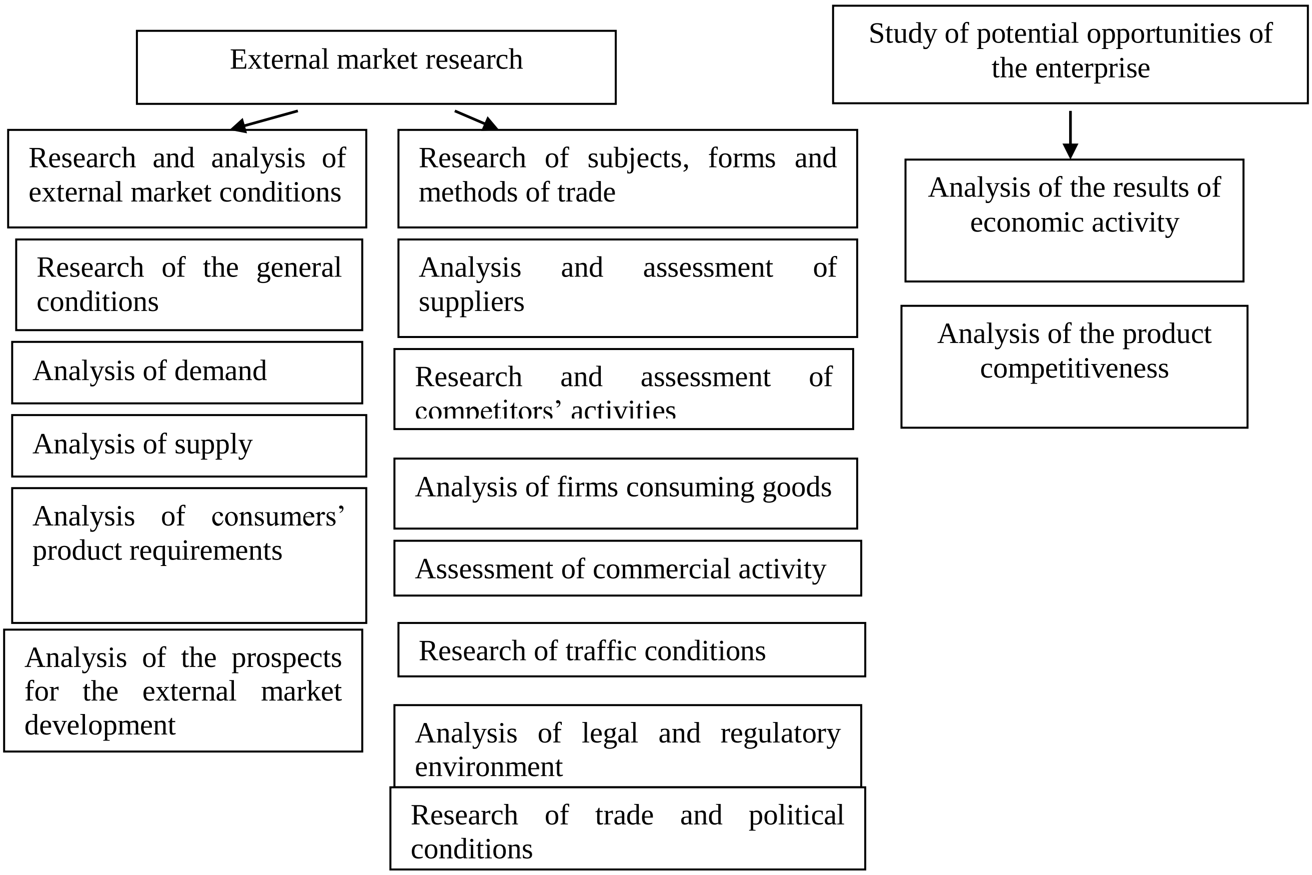

Fig. 6.1. The structure of the international market research

Task 3

According to Table 6.2 construct a number of private commercial enterprises by factorial (forming 5 typical groups with regular intervals), draw up an analytical statement using the main features of distribution series and determine the cost effectiveness of marketing researches.

Table 6.2

Enterprise №	**Costs of marketing researches (mln. UAH)**	**The annual profit of the company (mln. UAH)**
1	6,5	110
2	7,0	112
3	5,6	106
4	7,3	108
5	4,0	95
6	2,5	92
7	4,6	105
8	7,9	109
9	6,2	104
10	3,9	105
11	7,5	110
12	7,6	116
13	12,0	120
14	5,8	103
15	6,8	104
16	6,0	100

17	6,1	102
18	9,4	120
19	5,2	102
20	8,6	110
21	2,0	80
22	3,8	85

Questions for Knowledge Control:

1. Give the definition of “international marketing research”.
2. Describe the main features of international marketing research.
3. List the stages of international marketing research.
4. Name the types of international market research.
5. Define the essence of pre-marketing studies.
6. Give description of the special studies of the foreign market.
7. Define testing as a type of international study.
8. List methods of foreign market research.
9. Name basic data requirements and the methods of collecting primary information.
10. Describe secondary sources of information and methods of their analysis.
11. Explain the essence of the International Code of Marketing and Social Research Practice.

TOPIC 7.
INTERNATIONAL COMMODITY AND MARKETING POLICY

Purpose of the lesson: to consolidate theoretical knowledge on the formation of commodity and marketing policy on the world markets, to acquire practical skills on analyzing advantages and deficiencies of commodity and marketing policy of the company on the foreign market.

Theory questions:

1. Goods on the world market. Elements of goods in international marketing.
2. Communication parameters of the goods to its competitiveness in foreign markets.
3. Formation of marketing complex on foreign markets.
4. International commodity policy. Factors affecting international commodity policy. Types of commercial policy.
5. Commercial strategies in international marketing.
6. The life cycle of the goods in international marketing.
7. The objectives of marketing policy and marketing practices in international marketing.

Theoretical questions for self-study:

1. Types of international marketing mix, strategy and product standardization stage.
2. Adaptation of goods to foreign markets, and forced the necessary adaptation of the goods.
3. Stages of development of a new product in international marketing.

THEORETICAL PART

In the theory of international marketing export goods are goods which are able to meet the requirements of the relevant market segment of the country or a group of countries where the company intends to regularly supply them.

Depending on consumers’ purchasing behavior goods are divided into:

– everyday goods;
– preferred goods;
– specialty goods;
– unsought goods.

Classification of goods by grouping of properties is shown in Fig. 7.1.

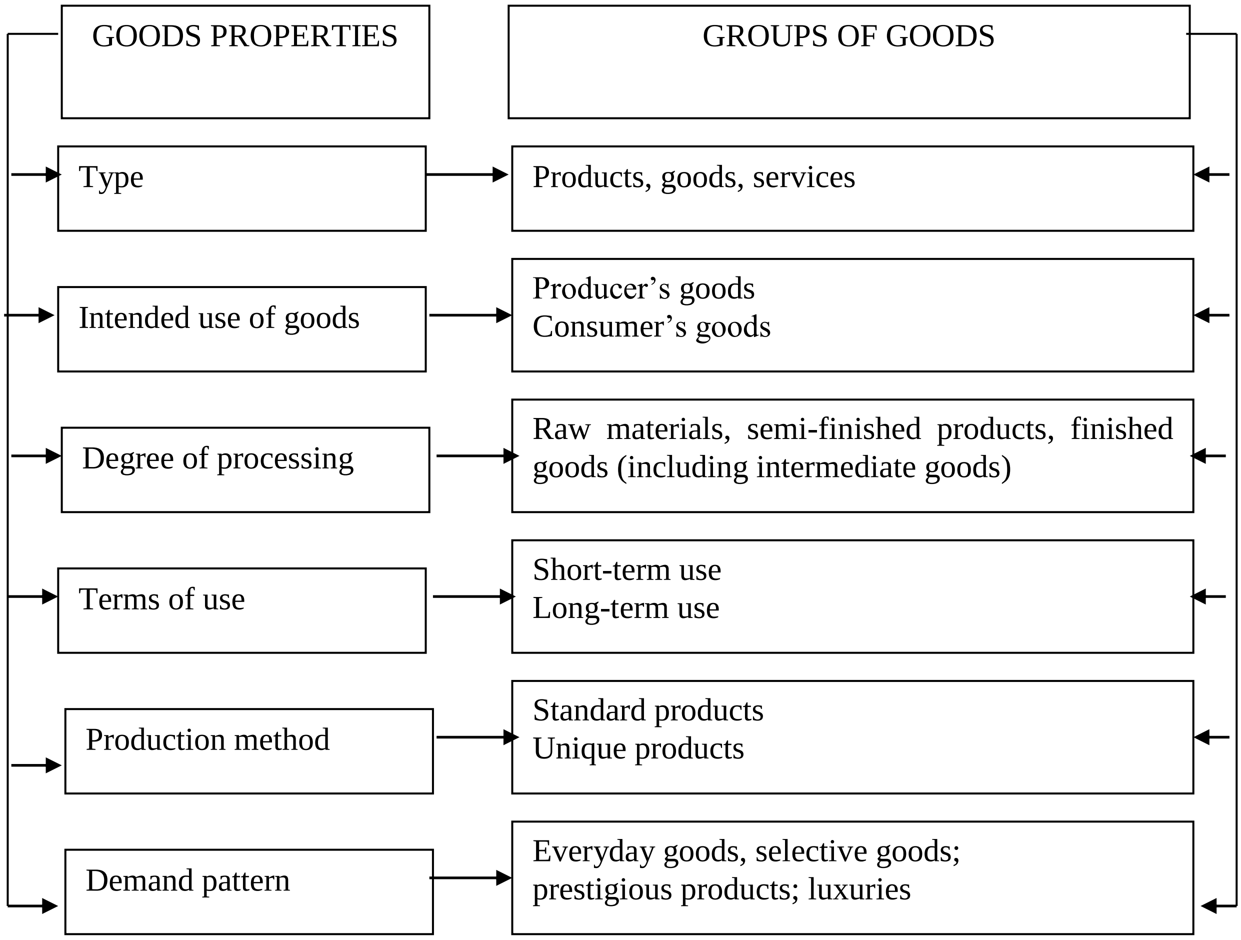

Fig. 7.1. Classification of goods by grouping of properties

The main features of the product in international marketing are as follows:

1) product utility which is regarded as a set of properties associated directly with both the product itself and its complement services;
2) a clear focus of the product on a pre-identified target group of consumers (market segment);
3) commercialization of the product i.e. successful completion of all necessary tests, including market ones;
4) obtaining appropriate certification and other technical documentation;
5) mass production development;
6) service network set-up, etc.;

– competitiveness of the product. In the international market competitiveness of the commodity is determined by the following set of technical and economic parameters:

– the price of the product consumption which equals to the amount of purchase (sale) of the product and operating costs for the consumer over the life of the product;

– class of products within which competitiveness is determined;

– technical parameters that characterize the intended use, design and technological features, reliability, durability, maintainability of the product;

– regulatory parameters reflecting its compliance with standards and norms, determining its patent clearance and legal security of the product on the expectant export market;

– ergonomic parameters that reflect the degree of “user-friendliness” of the product;

– aesthetic parameters: design, compliance with fashion trends (for non-production goods);

– organizational parameters which include maintenance services, warranty, financing purchases services, etc.

– classification of goods by consumption patterns.

The company operating on one or more foreign markets should solve the problem of adapting its marketing mix to local conditions. The theory of International Marketing defines two types of international marketing mix: standardization and adaptation.

The benefits of a standardized set of international marketing refer to the economies of scale, organization of a unified system of goods and services turnover; standardization of goods which is a prerequisite for global marketing strategy; an opportunity of a rapid return on investment in the regular goods and sold in various foreign markets; simplifying management in terms of organization and control.

Disadvantages: lack of marketing flexibility due to the inability to adapt the product to specific local requirements; limiting the development of creativity and commitment to innovation.

Adaptation (modification) is adapting the elements of the complex to the conditions of each individual target market (segment). Adaptation can be *involuntary* or *required* depending on the product features.

Involuntary adaptation is related to laws and local regulations, among which there are: safety standards (non-flammable materials that children's toys are made of); hygiene regulations (restrictions on the import of low-quality foods or industrial products that pollute environment); technical standards (appliances with outlet plugs of European standard, different electric potential in the household electric circuit); cultural norms (accompanying information in the national language).

Required adaptation is connected with the need to consider the specific needs and demands of customers in each of the countries where the product is delivered.

Between these two poles (standardization and adaptation) there are many different options, the choice of which is determined by such factors as consumer’s preferences especially in food products; reduced consumer’s purchasing power which can cause lower prices and a corresponding decline in the quality; the overall level of technical competence which may cause product simplification; insufficient qualifications of maintenance organizations (a common problem in developing countries) which may cause changes in product design; a reduction of reliability or simplified design; labor costs (increase or decrease in automation degree of works).

Key considerations that should be taken into account when developing international commodity policy are the following:

1) *objects of the company* – a company that seeks to maximize profits and does not plan a long-term deep foreign markets penetration will tend towards product standardization;

2) *markets and their requirements* – the conditions of is taken into account the conditions of international marketing environment: the more similar the markets, the more profitable standardization strategy is; if the market is less developed, the strategy of inverse invention is used;

3) *resources of the company:* a company that seeks to maximize meeting the needs of foreign markets through product adaptation strategy must take into account that it will require significant investments in the various components of the marketing system;

4) product chracteristic includes the following features:

– attractiveness - some products by their nature have high demand on the world market and do not require any differentiation, their adaptation to the local market is minimal;

– required service level - products that require a significant amount of maintenance and attention (before and after delivery to the consumer) are usually characterized by a high level of standardization;

– brand – if the company managed to create an internationally recognized brand standardization would undoubtedly prevail over adaptation;

– simplicity or complexity of the production – the product, the production of which is connected with the complex technological processes contributes to the adaptation policy to a lesser extent than the product characterized by simplicity of its manufacture;

– legal constraints encourage adopting an adaptation strategy, influence primarily product design, its packaging, pre-packing and shipping documents; the only way to achieve partial standardization in these conditions is to use multilingual printed messages which correspond to the rules and regulations of the countries of destination;

– peculiarities of the product life cycle – the shorter it is, the riskier it is to invest in the adaptation of products to the conditions of foreign markets considering requirements of return on investment.

Export trade policy can be based on different principles.

Concentric – in terms of technologies and market the product is identical to the existing ones. The purpose is to attract new customers.

Horizontal – the product is the follow-up of the one manufactured, buyers are the same, production is without any changes.

Conglomerate – a new product, new technology, new markets.

The producer’s entry to the foreign market is usually accompanied with a set of measures constituting the concept of product planning strategy or commodity strategy.

When selecting target markets in international marketing the company can use the following methods to strengthen its position in the international market:

– “old market – old product” (deep market penetration) by reducing costs, circulation and production, accelerating of advertising, changes of purposes by extending the scope of manufactured goods;

– “new market – old product” (extending market boundaries by exploring new international distribution channels and new segments of distribution channels and new markets segments);

– “the old market – new product” – expansion, development, production of wholly new products for this market;

– “modification” and introduction of new products in the market in the conditions of using both direct and hidden competition methods (decreasing prices, selling products of better quality at the same price, giving the buyer lengthy guarantees, consumer loans, free complimentary services, etc.);

– • “new market – new product” requires a lot of resources and production capacity necessary for a new product mass production and it sales on the market, not yet captured by a rival.

Here are the following types of product policy of foreign companies:

“*Piloting products*” – their task is to conquer leadership in the market.

“*Production of new simpler products*” – goods, focused on developing countries (manual cash registers, non-electric sewing machines).

“Pioneering product” is the product that can raise a usual (familiar) product satisfaction to a new qualitative level, give an opportunity to satisfy completely new demand of some consumers and a well-known demand of others but at a higher level.

From time to time it is necessary to evaluate the existing promising competition of goods and take further decision on the future production of goods for export, its update to make it pioneering, its removal or replacement with a new product.

Types of international commodity strategies: fixity of goods, adaptation, diversification, new goods.

According to the theory of international marketing the product goes through five stages of its life cycle in international trade:

I. Stage of a new product. New products are produced and consumed at an increasing scale only in the country where it was developed. Production usually starts with small-scale and is fully focused on the domestic market. The quality of goods is adapted to by the manufacturer to the required level of the market.

II. Stage of product growth. This product is modified, its sales are increasing in the domestic market and its exports abroad start. There is no foreign competition yet, and the country has a temporary monopoly over the production and trade of this product.

III. Stage of product maturity. Technology of the product has been improved so much that it becomes unreasonable to continue its further production only in the country of its origin with its workforce. It turns out to be more efficient to transfer a part of already standardized production to other countries where labor costs are much lower. Other countries start to produce this product under license for their domestic markets.

IV. Stage of decline in production of the commodity. Using cheaper labor force the imitating country begins not only to deliver the goods on its domestic market but it also sells it on the market of the country that developed the product forcing out to local producers. Competition of technologies turns into price competition. Domestic production in the country of the product origin decreases rapidly and exports stop.

V. Stage of ceasing domestic production of the commodity. At this stage imitating countries is leave behind the country-developer of the goods so that the latter is eventually forced to stop at all its domestic production and saturate the domestic market only with the imports from imitating countries. The country-developer has to create a new product that is not yet known in foreign markets.

Developing an international distribution policy aims to determine the optimal trends and resources to ensure efficiency of foreign markets penetration.

Implementation of international sales policy involves solving the following tasks:

– selection of a foreign target market or its segment;
– distribution system and identification of the necessary financial costs;
– determining the method and time of foreign market entry, channels and marketing techniques;
– defining a system of international trade and costs of shipping goods to the consumers in foreign markets;
– determining the types and methods of sales on the external market and the costs required.

The main function of sales is to bring the product to the end user. The company should seek to reduce distribution costs to a minimum after considering such marketing issues as defining customers' needs, development and production of the required goods, setting up a reasonable price, advertising selling points of the product.

Implementation of marketing policy by the subjects of the market is carried out in several stages, namely:

1) setting up distribution policy tasks;
2) selection of product distribution channels;
3) selection of marketing techniques;
4) selection of intermediaries;
5) determining working modes with intermediaries.

PRACTICAL TASKS

Task 1

Analyze product policy of the foreign trade company which sells its goods in foreign markets using the following data (tab. 7.1).

Table 7.1

Product name	Consignment size, thousand units	Average price per unit in USD	Company sales turnover, thousand USD	End users' costs, thousand USD
A B C	50 100 120	2 1 0,5	120 125 90	324 275 252

Task 2

Depict the curves of product life cycle of pocket calculators provided that in 1961 they were sold at $ 1,000 per item in the USA. By 1970 some more American and Japanese companies had entered the market with their pocket calculators which caused the price fall to $ 400 per item. Technologies were developing and were getting more standardized. Some US companies transferred their assembly plants to Singapore and Taiwan. By the mid-1970s calculators had already cost no more than $ 10–20 in the US market. By the end of the 1970s almost all the production of calculators had been transferred from the US to developing countries, the price for the most standardized models dropped to $ 2–4, and the entire American market was flooded with calculators made in Singapore, Hong Kong and other countries with cheap labor. The life cycle of the goods took about two decades.

Questions for Knowledge Control:

1. Define the concept "goods on the world market".
2. List the main elements of the goods in international marketing.
3. List the types of international marketing mix.
4. Specify the product, determine its competitiveness on the world market.
5. Name the grouping of properties of the product in international marketing.
6. Give the product classification by the types of the consumers' purchasing behavior.
7. Dwell on the essence of international commodity policy.
8. List the factors affecting international commodity policy.
9. Name the types of product policy in international marketing.
10. List the types of commodity strategies in international marketing.
11. Describe the strategy of product adaptation to the conditions of the external market.
12. Explain the strategy of standardization of goods in the foreign market.
13. Name the stages of the product life cycle in international marketing.
14. Describe the tasks of marketing policy in international marketing.
15. Analyze marketing practices in international trade.

TOPIC 8.
INTERNATIONAL PRICING POLICY

Purpose of the lesson: consolidate the theoretical knowledge of international pricing policy and acquire practical skills in systematizing the types of world prices, defining the goals and objectives of pricing in international marketing and pricing policy of the company operating in the foreign market.

Theory questions:

1. The world price, its nature and characteristics. The concept of international value.
2. Types of prices in international marketing.
3. Method of pricing in international marketing.
4. Pricing strategies in international marketing.
5. Formation of pricing policy in international trade.

Theory questions for self-study:

1. Assessment of cost situations by the degree of internationalization of the firm (export, overseas production, transnational corporations).
2. Pricing strategies of the company in foreign markets by "price-quality" indicator.

THEORETICAL PART

Price is a monetary expression of the value of goods, i.e., a number of currency units of a particular monetary system that the buyer must pay to the seller for goods.

The prices of the main commodities markets form the basis for calculating export and import prices in foreign trade practices. They are indicators that reflect the global average conditions of production, sales and consumption of specific products. In order to exchange goods on an equivalent basis they should be evaluated in the prices of the world market.

The **world price** is a monetary expression of the product international value on the world market.

International cost refers to socially necessary labor costs for the production of goods in the global average conditions of production and the world average level of labor productivity. It is formed mainly under the influence of the conditions of production in those countries which are the main suppliers of goods to the world market.

Actual world price is a price in a freely convertible currency, on which the major import and export transactions in the major centers of world trade under the conditions common to most commodity markets.

The level of world prices is affected by: currency of payment, terms of payment and delivery, selling point and time and other factors.

In practice world prices are often considered to be export prices of the main suppliers of goods and import prices in the major centers of consumption of this product as well as trading prices at major stock exchanges and auctions.

Features of world prices:

– world price deviates from the inside (domestic). Domestic prices are based on the national cost and world prices are based on international cost. As a rule, the world price is lower than the inside (by about 30%) due to high levels of tariff and non-tariff barriers to the import of finished products;

– multiplicity of world prices for the same goods. This results from different quality, different conditions and terms of supply, packaging, etc.;

– rapid "aging" of world prices that reflects changes in the structure of commodity markets. For instance, some prices for movable stock commodities sometimes vary within 100% and more during the day.

Prices in international trade fall into *free market prices* and closed markets prices according to special conditions of the markets they are used at.

The following refer to **free-market prices:**

1. **Reference prices** are officially published prices for goods in the domestic wholesale and foreign trade of foreign countries.

2. **Stock exchange quotations and auction prices** are prices of actual transactions on stock exchanges and auctions conducted on unified conditions with respect to product quality, delivery volume and terms, currency of payment, etc. They are used for a wide range of mineral and agricultural primary goods in the world trade.

3. **Prices of international trading** that are applied in the trade of manufactured goods, machinery and equipment in particular.

4. **Selling prices of large firms** essentially have the character of reference prices and they are reduced during negotiations (usually by about 10%). But they still differ from those prices given in companies' price lists and catalogues in their focusing on a particular customer and less regular publication. They usually come up in specialized trade press.

5. **Prices of actual transactions** are usually never disclosed. It is possible to find them out only in case of regular operating in the free international market as independent sellers or buyers. Comparing them with reference prices enables to more properly set up the price level in the contract.

6. **Settlement prices** are used when there is no required pricing information, the analysis of which allows quoting the foreign trade price for a particular transaction.

Prices of closed markets are divided into:

1. **Transfer prices** (prices of intra-firm trade) which are used in transactions between the countries located in different parts of the same multinational corporation with a view to the resulting gain in profit at the expense of minimization of taxes and tariffs.

2. **Regional prices** used by the various trade blocs in transactions between their member countries.

3. **Preferential (subsidized) prices** set up by intergovernmental agreements on the supply of certain products. Their special feature is their minimum level.

The pricing policy of the company is to establish such goods and services which should ensure the planned amount of profit and delivering other strategic and operational objectives according to the prevailing conditions in the market.

Methods of pricing policy of the company intending to enter foreign markets, usually involves the following stages:

1) Tasks of price formation:

– *capturing maximum market share* to gain long-term profit the company lowers prices to the maximum possible extent, mainly due to lower production costs. Is implemented, usually in the early stages of the life cycle of new products;

– *gaining leadership* in the quality of goods in order to cover the costs of delivering high quality and conducting expensive research and development works high enough price is set up but such an increase is seen by consumers as completely acceptable compensation for quality;

– *maximization of current profit* – current financial performance of the company are placed above the long-term and a high price is selected that provides the highest profit and cost recovery for the shortest period of time. It is implemented when demand for the product significantly exceeds supply or when the company offers a unique product;

– ensuring survivability – in order to retain market position, the company sets up low prices, sometimes even at its loss (but not for a long time). It is used when supply considerably exceeds demand, when there a lot of competitors in the market or when customers' needs drastically change. In such cases survival is more important than profit.

2) **Cost Factors Accounting**:

– *demand (price ceiling)* – in order to determine how sensitive demand is to a change in price one should draw up a demand curve and calculate indicators of elasticity for each product. In the case of inelastic demand it is more profitable the company to raise the price of goods as their revenue increases, and if demand is elastic it is beneficial to lower prices as sales growth boosts revenues;

– *costs (price basis)* if demand determines the maximum price of goods, the minimum price is determined by the costs of production, distribution and sales, including the rate of return for their efforts and risks;

– *supply (the competition)* – the firm must examine the rates and quality of competing products offered by the market;

– *state pricing policy* in relation to price formation:

o fixed prices established by the state itself;

o regulated prices – the government sets the rules for enterprises (price ceiling, maximum cost-effectiveness, margin of a single prices increase, etc.) according to which the latter sets their own prices;

o free market prices – the government sets "market game" rules by introducing a number of bans on unfair competition and monopolization of the market (ban on coallusion of two or more competitors on prices, dumping, price imposition, etc.).

3) Choosing price formation method by price factors:

– price formation on the basis of demand is carried out by the subjective assessment of the value of goods, their quality by the buyer;

– price formation on the basis of costs - "average costs plus profit";

– price formation on the basis of supply focused on the level of competition:

– current price method – built on the prices of competitors;

– "sealed envelope" method - price formation in closed tenders (to obtain a lucrative contract the company sets the lowest possible price according to the expected competitors' offers).

4) **Development of pricing strategy.**

Pricing Strategy – is supposed to change the way the original price of the goods in the market is changed which best fits the purpose of the enterprise:

– *"cream-skimming" strategy* refers to selling goods initially at the highest possible price which is much higher than the production cost; price falls as its production develops and its output increases; this strategy is usually used by companies with unique innovative products, production of which due to technological reasons is quite hard for competitors;

– *the strategy of penetration* (durable implementation) – initially a relatively low price is set in order to attract the largest possible number of buyers and eliminate most of the competitors and then at the stage of growth the company raises the price of goods to the normal level; this strategy is possible only when the company is able to bring a large number of low cost goods to the market; it is acceptable for the markets with high elasticity of demand;

– *strategy of crowding-out* differs from the previous one in the fact that the company uses extremely low prices which virtually eliminate competitors' similar products; such a strategy can be employed only by large industrial firms which managed to fully exploit the benefits of economies of scale and to mass-produce low-cost goods of quite high quality;

– *strategy of orientation to the price leader* refers to taking into account pricing policy of the market leader with the largest market share; it is used by market followers with a small number (usually 3–5) of leaders on the market;

– *prestigious price strategy* is a strategy where goods are sold at low prices based on market segments focusing on product quality and brand and also responsive to the factor of prestige, i.e., consumers of these segments do not buy goods at prices that are considered too low;

– *differential pricing strategy* is a strategy of selling the same product at different prices to different customers according to their characteristics (for example, those living in different countries and belonging to different segments); This strategy is applicable if the market can be clearly divided into territorial or customer segments with different price elasticity of demand, separated by particular barriers (i.e., a low price segment will not resell the product to a high price segment); however, in the context of globalization of trade, increasing awareness of geographically dispersed consumers about products (especially via Internet) and fiercer international competition, this strategy is gradually losing its relevance, except, perhaps, intra-firm trade (transfer pricing);

– *sales stimulation strategy* refers to setting low prices (sometimes even losing prices) for basic commodities with at the same time high prices for additional components, accessories or expendable materials.

In the overseas market company holds the following pricing policy concerning private goods which takes into account psychological effect of prices on the buyer:

– "falling leader" policy is when the price for one of the products is dramatically reduced expecting that attracted buyers will purchase any other commodities at prices which include monopoly profits;

– end of season sales policy is when prices are cut down in order to reduce the costs of storing last season goods;

– price line policy means that all goods of one kind, regardless of the cost, are arranged in a certain scale with a particular skill in selecting the steps of this scale.

PRACTICAL TASKS

Task 1

Calculate how many units of the product should be sold by the company next year to keep the gross margin up to the mark if a foreign trade pharmaceutical company buys goods at a price of US $ 1.7. per unit, sells – at a price of US $ 2.5. per unit in the amount of 200 000 units per year. According to market research results marketing department recommends to lower the price by 10% next year.

Task 2

Determine the price MarkDown if the total amount of price reduction for the product "A" amounted to US $ 700, price discounts amounted to 300 USD, and amount of sales at reduced prices – 80 000 USD.

Task 3

Calculate the total price index using data from table 8.1.

Table 8.1

Product	Analyzed year		The index of price changes compared to the previous year
	Number of goods sold, pcs.	The average price, USD.	
"A"	500	15	+5
"B"	1020	7,5	-10
"C"	1640	3,25	+2

Questions for Knowledge Control:

1. Define the term "world price", "international value".
2. List the prices of the free market.
3. Explain the essence of the reference price.
4. What is meant by "exchange quotation" and "auction price"?
5. Describe the prices of international bidding.
6. Dwell on the essence of selling prices of large firms and prices of actual transactions.
7. What is the essence of settlement prices?
8. List the prices of closed markets.
9. Describe transfer prices.
10. Give the definition of preferential prices.
11. List external market factors affecting the policy of export prices.
12. List the factors of pricing methodologies of the company intending to enter the international market.
13. Name the tasks of pricing in international marketing.
14. List pricing factors of the external market.
15. Specify pricing methods in international marketing.
16. What are the pricing strategies used by companies when entering foreign markets.

TOPIC 9.
INTERNATIONAL DISTRIBUTION CHANNELS FOR CONSUMER PRODUCTS

Purpose of the lesson: explore theoretical views on international distribution channels; acquire practical skills in the analysis of the feasibility of using different distribution channels at the output of the company in foreign markets.

Theory questions:

1. Features of product distribution organization in international markets. Goals and objectives of distribution policy in international marketing.
2. Distribution channels in international marketing.
3. Characteristics of participants in international distribution channels.
4. Distribution methods of products in international marketing.
5. Selection of intermediaries and types of work with them.

Theory questions for self-study:

6. Alternative to international distribution channels.
7. Typical configuration of international distribution channels of consumer, industrial and technical products and services.

References:

THEORETICAL PART

Developing an international marketing policy the firm should take and implement decisions on distribution channels or ways i.e. develop a system of physical movement of goods through the selected channels. Particular features of international distribution of goods in terms of globalization of international marketing are presented in Fig. 9.1.

Policy distribution (sales) in international marketing refers to a set of activities required to deliver goods to the foreign market directly or indirectly, alone or with the help of intermediaries. The objectives of the policy of distribution of goods in international marketing are the following: maximizing turnover; increasing the market share of the company; minimizing marketing costs; creating and keeping up the prestige of the selected distribution channel, long-term relationships within the product distribution channel maintaining its flexibility; optimizing a number of sales intermediaries involved in the distribution of goods.

At the same time the tasks of distribution policy should include: selection of distribution system (centralized or decentralized); selecting the type of the distribution organization (own or third-party sales agencies); distribution channel selection (direct or indirect).

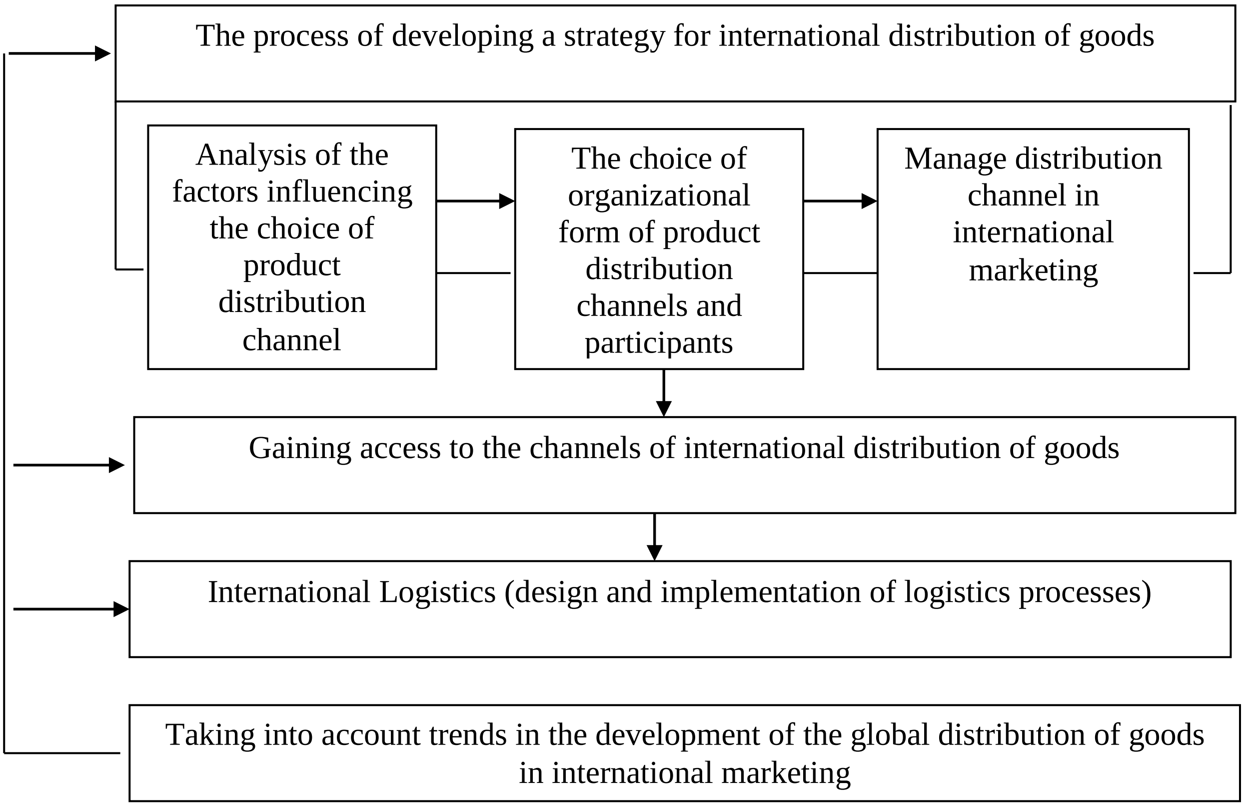

Fig. 9.1. Specifics of international distribution of goods

Distribution channel in international marketing is the sum total of firms or individuals involved in promoting goods from producer to consumer.

Channel is characterized by such parameters as level, length and width. *Channel level* is a member of goods movement performing a particular function on supplying goods to the consumer. As particular work is done by both manufacturer himself and the consumer they are also included in any channel as a zero and the last level respectively. *Channel length* is a number of intermediate level (intermediaries). C*hannel width* is determined by the number of independent participants of sales at the certain level. International product distribution channels appear, usually as follows (Fig. 9.2).

Selected distribution channels must provide the manufacturer with territorial coverage of the target market (or segment) at the lowest costs of product distribution which are calculated by the following formula:

$$D = T + Sc + Vno, \qquad (9.1)$$

where D – the sum of the costs of goods movement;

T – transportation costs;

Sc – storage costs;

Vno – value of orders not executed within the guaranteed terms.

The criteria for effective selection of channels and effective marketing techniques on the foreign market are the speed of turnover, turnover level of costs, volumes of sales, selected product distribution policy.

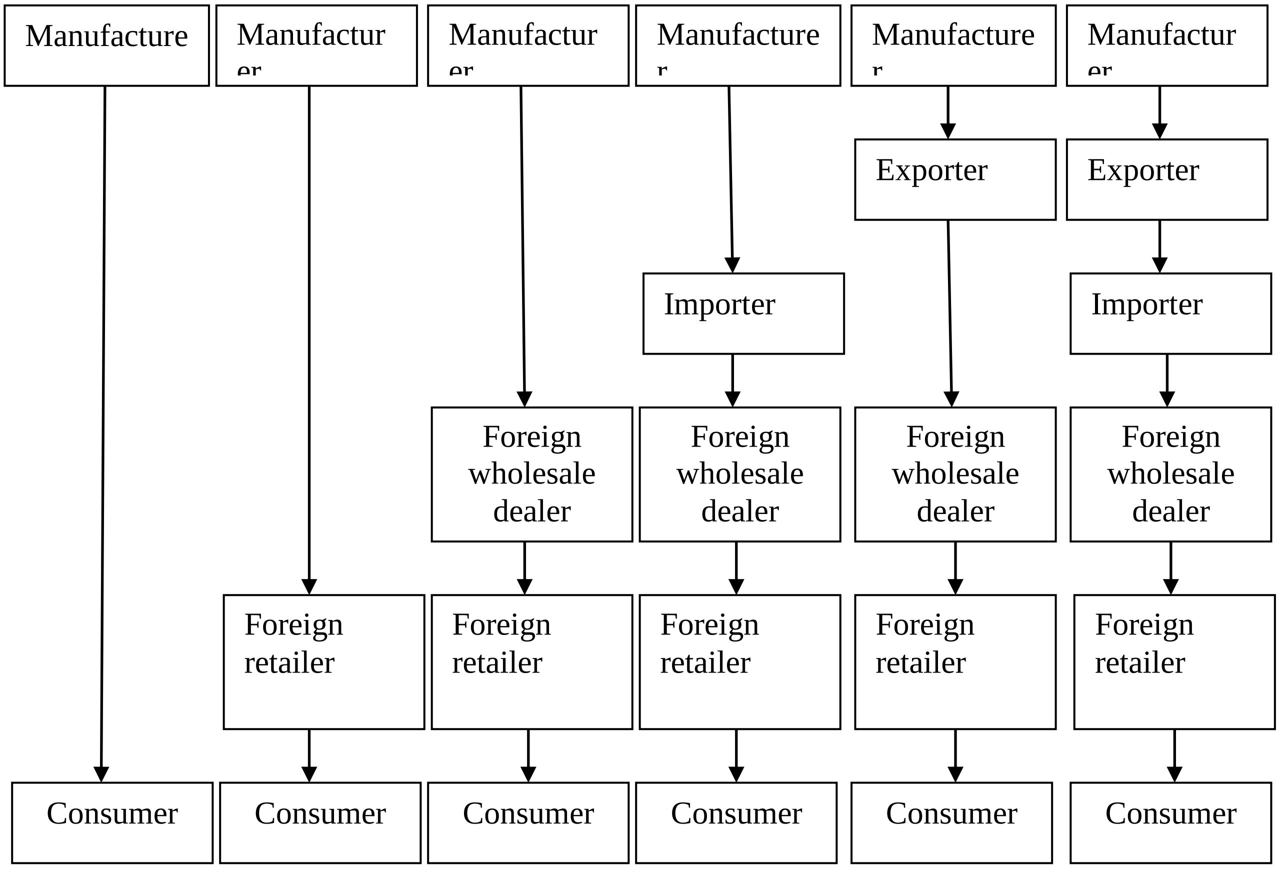

Fig. 9.2. Types of product distribution channels in international marketing

In the theory of international marketing there are three types of participants (levels) of product distribution channels:

– own sales bodies (export department, the management company, the authorized representative of the company, the export organization within the country, foreign representations (or remote association), overseas subsidiary, manufacturers, specialty retail stores);

– third-party sales intermediaries in their country (export organizations or representatives, trading houses and representatives of foreign bulk buyers in the form of trade corporations, large industrial enterprises);

– sales intermediaries abroad (importing wholesale companies, import representatives (agents), transit trade enterprises, commissioners, brokers).

Methods of product distribution in international and national marketing are divided into:

– direct (immediate) distribution provides that the manufacturer of products cooperates with their customers and does not use the services of independent mediators. It is especially prevalent in the market of the means of production – fuel, raw materials, machine building and others. Agents of the consumer market refer to direct marketing using such varieties as:

– *direct marketing* (direct work with customers who are regularly visited by representatives of the sales department);

– *telemarketing* (sales of goods and services by phone);

– *internet-marketing* (sales of goods and services via Internet).

– indirect distribution which provides that the manufacturer uses various services of independent mediators. The presence of intermediaries results from the following reasons:

a) high level of professionalism of intermediaries in the distribution enables to accelerate return of costs and funds turnover and also builds up conveniences for end users;

b) intermediaries are able to bring goods to the target market; their connections, experience, specialization make the company much more successful than if it were alone relying only on itself;

c) many manufacturers lack experience in foreign markets and financial resources for direct marketing;

d) even if a manufacturer can afford to set up his own distribution channels, in many cases it is more profitable for him to increase investment in the core business (when profitability is greater than the return on direct marketing);

e) the use of intermediaries' services in some cases turns out to be the only possible way distribution due to market rules and traditions (for example, at auctions and commodity exchanges)and also when by political and legal norms direct contact with the consumer is not possible.

– combined (mixed) distribution when the manufacturer uses a combination of both direct and indirect methods of marketing. (For example, about 2/3 of exports of machinery and equipment from developed countries is carried out through intermediaries and 1/3 – directly to end users, usually on request).

When selecting intermediaries these guidelines are followed:

– the selected employee shouldn't be a mediator from the rival firm, otherwise it can completely cover the market for your product;

– other things being equal, preference is given to a specialized intermediary as he has extensive experience in the sales of this product (although it is not excluded that goods can be sold more intensively, being together with the goods of another kind that is sold by a universal mediator);

– preference is given to a well-known mediator with high reputation in the market;

– it is necessary to determine sources of financing the intermediary – whether he is provided with loans and exactly which bank;

– the technical level of the intermediary's material base (warehouses, offices, training and service centers, etc.), staff qualification level (experience of products maintenance) should be determined;

– it is recommended to sign short-term trial agreements on mediation (for one year) which allow to find out in practice about business opportunities and liability of intermediaries;

– one should visit (in person on the spot) the intermediary's company to ensure its solidity;

– the location and number of outlets, their specialization and the nomenclature of goods sold there must be taken into account.

The ways the enterprise-producer works with mediators may be the following:

– wide (extensive) sales – distribution and sale of goods at any intermediary firms that are willing and able to sell goods. That is how technologically simple, small and inexpensive mass market products are mostly distributed;

– selective distribution – selecting a limited number of intermediaries depending on the nature of their clientele, products maintenance and repair capabilities, staff training level. This form is used when the products require special maintenance, spare part supply, creating repair shops or service centers, specially trained service personnel. It is beneficial in the sale of luxury, lifestyle products, requiring appropriate environment;

– exclusive distribution –selecting one reseller in the region who has the exclusive right to sell the manufacturer's products.

PRACTICAL TASK S

Task 1

Work out a list of questions to the specified parameters that must be analyzed when choosing the company – a potential distributor (tab. 9.1).

Table 9.1

Specified parameters	List of questions
1. Registration data (source: database of Registration Chamber, tax inspection)	
2. Press review	
3. Analysis of the company's operation (source: press, price list, brochures and interviews with representatives of the company, suppliers, wholesalers, visits to the company's retail outlets)	
4. Structure of the company (source: database of Registration Chamber, interviews with employees)	
5. Staff (source: interviews with staff and managers of the company, press, office and outlet visits)	
6. Financial and property condition (source: company's financial statements, press, reference)	
7. Competitors (source: press, advertising on TV, price lists, and print ads)	
8. Other information	

Task 2

Analyze advantages and disadvantages of different product distribution channels in international markets, taking into account the following parameters:

a) knowledge of international markets;
b) economic and financial risks;
c) ability to control the market by the manufacturer;
d) manufacturer's image;
d) costs of the export unit;
e) possibility of cooperation;
g) conditions of export clearance.

Fill in table. 9.2.

Table 9.2

Name (category of goods)	Advantages of manufacturer	Disadvantages for manufacturer
1. The export trader (wholesaler in the industry, operates in the external market through its own agents, etc., specializes in the territories, and sometimes goods)		
2. Export agent		
3. Export Management Specialist (speaking on behalf of the manufacturer), has extensive international connections, a reward – commission		

Questions for Knowledge Control:

1. Define the term “distribution policy”.
2. List the targets of distribution policy in international marketing.
3. Name reasons for selecting a particular product distribution channel in foreign markets.
4. List the types of product distribution organization.
5. Describe the export department, export company as their own distribution channels in international marketing.
6. Define foreign offices of the firm.
7. What are the company’s subsidiaries presented in the foreign market?
8. List a variety of independent sales intermediaries in international trade.
9. Define the term “distribution channels in international marketing”.
10. Specify parameters of product distribution channels in foreign markets.
11. List the types of product distribution channels in international marketing.
12. Give the form of calculating the total cost of product distribution.
13. Name distribution methods international marketing.

14. List the varieties of direct product distribution.

15. Describe the components of indirect product distribution method in international marketing.

16. Explain the content of the combined method of product distribution.

17. List the main recommendations for selecting intermediaries.

18. Name the ways the enterprise-producer works with intermediaries.

TOPIC 10.
INTERNATIONAL MARKETING COMMUNICATIONS

Purpose of the lesson: to study theoretical principles of international communication process and acquire practical skills in communication process including the definition of the type of barriers during communication process, management decision-making on implementation international marketing communications methods.

Theoretical questions:

1. The concept of communication policy in the system of international marketing.
2. Processes and stages of international marketing communications.
3. Facilities and methods of international marketing communications.
4. Direct methods of international marketing communications: international exhibitions, fairs, trips abroad, presentations, negotiations.
5. Indirect methods of international marketing communications: advertising, personal selling, publicity.

Theory questions for self-study:

1. Development of international marketing communications media.
2. Carriers and means of presenting advertising in international communications.
3. The criteria for determining the quality of the international marketing information.
4. Comparative characteristics of distribution channels in international marketing.

THEORETICAL PART

Communication policy in international marketing is a perspective course of action of the company aimed at the formation of demand, products (services) sales promotion and their promotion on the external market.

In international marketing there distinguished two levels of communication:

– level of general communication (development of a communication policy of the company, defining` a strategic target setting and basic communication tools), organization and management of which are assigned to senior managers of the company management;

– level of communication between such departments as advertising, sales promotion, public relations, in-house communications, sponsorship, etc. (planning and implementation of immediate decisions on the use of the arsenal of tools (instruments) of communication policy implementation in terms of the strategy and tactics of the whole company communication concept. The heads of the relevant departments (departments, groups) take responsibility for the tasks at this level.

The importance of communication policy in international marketing is stipulated by the following:

– communications are information sources and media;

– participants of communication receive information by communicating both inside and outside their organizations;

– communications act as a tool of standardization and high efficiency in implementing the developed strategies of marketing complex and international business.

The *objectives* of international communication policy is to develop and manage the processes of providing subjects of international business with the necessary information reflecting the state and prospects for the national and international markets.

The *process* of communication policy in international marketing includes a set of actions (decisions), the fulfillment of which gives a start to communication interaction between the sender and recipient of information. Advertising, sales stimulation, personal selling, public relations (PR) and global computer Internet network are used as a means (tools) of communication policy implementation.

Advertising is any paid form of impersonal presentation and promotion of goods, services, ideas, businesses and individuals. It first appeared in the US in the mid-nineteenth century and soon became an integral part of business. In the international marketing advertising plays a much greater role than in the domestic marketing. Depending on the properties of advertising the following types are distinguished Fig. 10.1.

To bring advertising information to overseas market consumers international advertising campaign is held which is a set of promotional activities carried out outside the country of the advertiser. There are three methods of managing international advertising campaigns:

– *centralized*, in which strategic, tactical and creative decisions are taken in the advertising agency. The advertiser approving those decisions gives this agency the role of central management of advertising campaigns;

– *decentralized* – when decisions are taken off-line by advertising agencies carrying out promotional activities in countries and regions;

– *mixed*, in which decisions are made by advertising agencies on the spot but agreed with the center.

At present on the global advertising market there is a tendency to avoid centralized control in order to avoid inefficient authoritarian solutions.

Implementation of international advertising campaign is carried out in several stages. Fig. 10.2.

Public relations includes not only advertising of goods but also of the firm itself. Achievements of the manufacturer in the research, modern design, in advanced production methods and the latest equipment, skillful customer service are promoted.

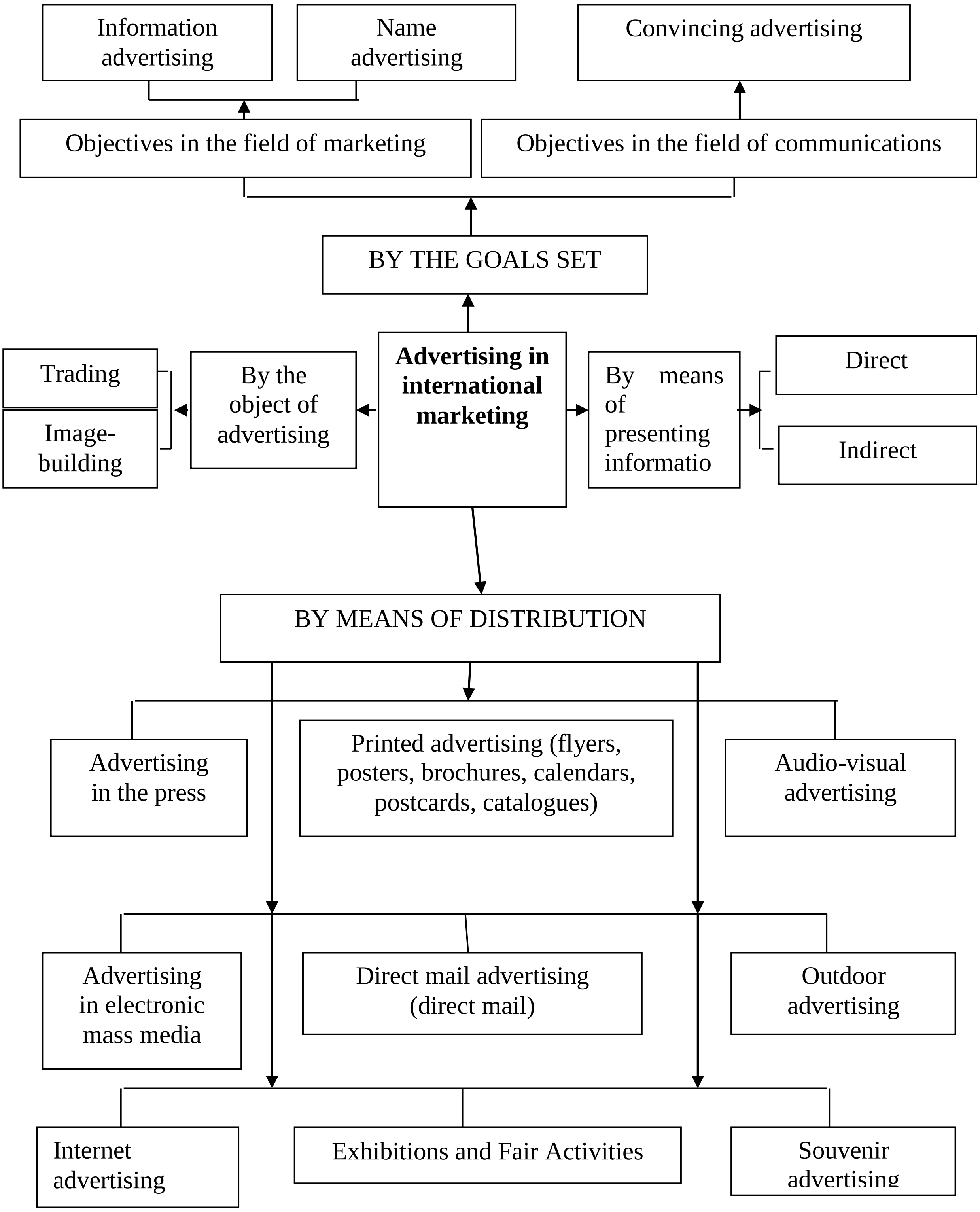

Fig. 10.1. Types of advertising in the international marketing

Advertising on the Internet. The advent and widespread of Internet was a breakthrough in the development of information technology and certainly new, though still poorly meaningful step in the development of mass communications and marketing communications as their part.

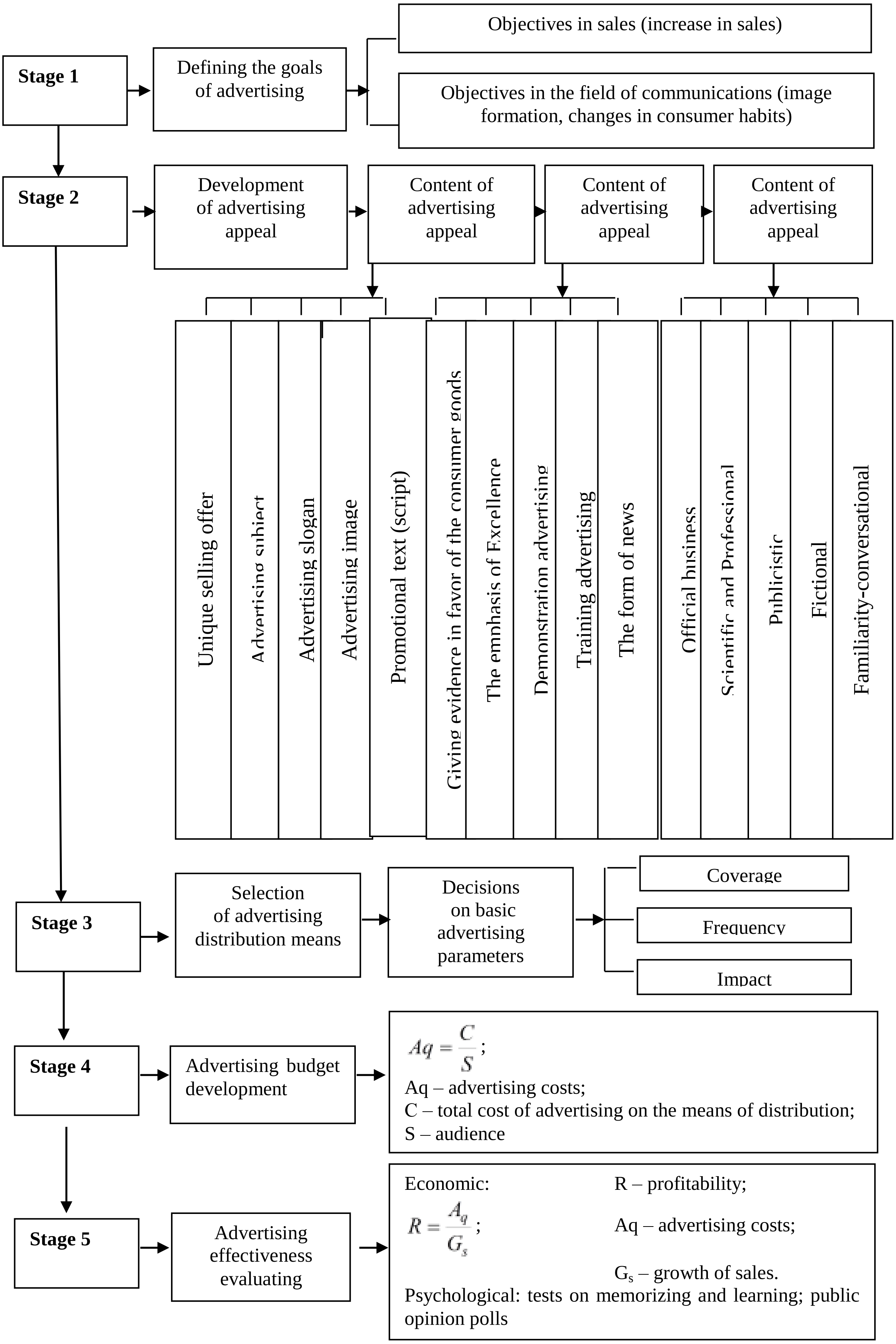

Fig. 10.2. Stages of the international advertising campaign

The network provides unprecedented communication opportunities: to work with all types of information from text to multimedia (graphics, audio and video), to obtain information in real time from anywhere in the world (more than one hundred countries have access to the Internet) and distribute information to an unlimited number of consumers.

Besides, information in the Internet is rigidly structured, its supply and production is carried out in the compressed form which provides links to the source containing more detailed information. Internet technologies also provide an opportunity to carry out a targeted search for needed information resources.

In countries with developed market economies sales promotion plays a big role and has the following trends:

– facilitating sales of products or services offered by the advertiser through distribution network revitalization (commercial agents, wholesalers, retailers and others whom commercial success depends on);
– working with customers.

The economic effect of sales promotion activities depends on the degree of individualization of work with consumers, the degree of psychological impact on them, repeatability and credibility of advertising. In the process of organizing and conducting these activities several problems are solved. First of all, particular individuals should take responsibility for them, then goals should be defined.

As sales promotion is an addition to other types of promotional activities, including advertising media, activities are organized in such a way so that complex advertising campaigns are supported and coordinated with other types of advertising for the joint achievement of the set goals.

International fairs, exhibitions and showrooms make up an important element of the international means of communication.

International fair is a periodically arranged congress of international trade and industrial organizations, businessmen, industrialists mainly for wholesale and supplies of goods by the exhibited samples. By the participants and economic values trade fairs, exhibitions can be national and international.

Foreign buyers are allowed to the national trade fairs, exhibitions and salons held in their country but the right to sell is strictly reserved for national firms.

International exhibitions, trade fairs, showrooms serve international trade. International trade fairs, exhibitions and salons are specific forms of international markets, whose purpose is to facilitate preparation and conclusion of foreign trade agreements. They are an important tool for marketing, trade, advertising, commercial, technical and economic activities.

The main advantage of international fairs, exhibitions and shows is a concentration of a large number of samples of goods, equipment, high-tech products produced in different countries. This enables the buyer in a short time to get acquainted with existing market offers, get information and advice from experts to make the necessary comparison of prices and quality characteristics, to negotiate and tailor business terms and, finally, sign a contract.

PRACTICAL TASKS

Task 1

The special feature of online advertising is that its central element is a Web-server of the company. You, as the owner of the Web-server, have two main tasks: to create a Web-server (information about the company, products and services) and conduct an advertising campaign aimed at warning Internet users about a new server using one of the following events:

– register server in the database of the Internet;
– free placement of links in Web-directories;
– placing links in the “Yellow Pages”;
– registration for thematic Web-servers;
– links to other servers (use one of the areas: on business partners’ servers; in the form of an exchange of links in case you have partnership; in exchange for allowing to use information of the server);
– placement of paid advertisements on well-frequented servers.

Task 2

Arrange the characteristics of the stages of international marketing communications in retrospect in the table.

Table 10.1

Stages of marketing communications

Period of time	Name of the stage	Characteristics of stage
1950-1960	Stage of non-system communication	
1960-1970	Step of commodity communications	
1970-1980	Stage of communication with target groups	
1980-1990	Stage of competitive communications	
1990-2010	Stage of competitive and integrated communications	

Task 3

A comparative economic assessment of the effectiveness of promotional activities of the two foreign companies “Samsung” and “Simens” operating on the audio-video market of Ukraine, if the current year, the total value of advertising firms totaled: the firm “Samsung” – 90,000 USD, the firm “Simens” – 120,000 USD; with the growth of sales amounted to 320,000 and 340,000 USD respectively. Using the M. Vidal – H. Wolf model determine the main factors of dependence of the growth in volume of sales of the goods being advertised.

Questions for Knowledge Control:

1. Define the concept of international communications policy.
2. Describe the process of international marketing communications.
3. List the stages of the international marketing communications.
4. Name the means of international marketing communications.
5. Give a general description of international communication methods.
6. List the direct methods of international marketing communications.
7. Describe the organization of international exhibitions and fairs.
8. Dwell on the essence and role of the presentation as a direct method of international marketing communications.
9. List the indirect methods of international communication.
10. Describe the media and means of advertising representation in international communications.
11. Explain the term “publicity” as an indirect method of international marketing communications.
12. Specify particular features of personal selling in international marketing communications.
13. List the criteria for determining the quality of international marketing information.
14. List the distribution channels in international marketing.
15. Explain the essence of comparative characteristics of distribution channels in international marketing.
16. Name the criteria for determining the quality of marketing information.
17. Why does communication in international business play an important role?
18. Give examples on stimulating sales in the international markets.
19. What is the role of multimedia technologies in international marketing?
20. What is interactive communication and what role does the global Internet network take in international marketing?

TOPIC 11.
MANAGEMENT OF INTERNATIONAL MARKETING

Purpose of the lesson: to research the theoretical bases of management of international marketing, international marketing strategy, and management of control over international marketing; acquire practical skills for the analysis of international marketing planning, sequence of stages of its monitoring and documenting.

Theoretical questions:

1. The essence of the international marketing strategy of the company, its types and the order of selection.
2. International marketing planning: types of plans and sequence of the planning process.
3. Organization of the control of international marketing, its essence and the sequence of control stages.

Theory questions for self-study:

1. Documentation of an international marketing plan.
2. Major landmarks in the creation of international institutional structures.

THEORETICAL PART

The essence of international marketing strategy is to develop a general plan of the firm with a view to future growth in the international market based on opportunities identified in each country and the company's ability to implement them. Key international marketing strategies for products and markets can be *global (standardized)* or *adaptive (multinational*).

Global strategy enables the company to gain a significant competitive advantage placing its activities in the most attractive countries and coordinating their strategic actions around the world. In the last 20 years in international marketing there has been a tendency towards increasingly globalized advertised goods. The global brand helps the company to avoid large costs of developing brands and advertising campaigns for different countries. Running advertising campaigns worldwide, the firm can occupy a dominant position in many countries which gives it a competitive advantage.

The need for a **multinational strategy** arises in some cases from significant differences in the cultural, economic, political and competitive conditions prevailing in different countries. The more varied the conditions of national markets the more preferable the multinational strategy in which the company fits the strategic approach to the situation on the market in each country. In such cases the overall international strategy of the company is a set of strategies for each country.

Differentiated standardization is a compromise between these two strategies. When employing a differentiated standardization strategy the company works out global marketing strategies by giving local market leaders knowing national peculiarities and customs the right to vary marketing strategies implementation.

The answer to the question whether as more countries as possible should try to penetrate into the markets or focus on a few major countries are two variants of international marketing strategy:

– global adaptation;
– key markets adaptation.

Global adaptation strategy is the most expensive as it presupposes sales of goods of different options in every country of the world. Such adaptation is necessary when it is dictated by differences in the demands of customers.

The adaptation strategy in key markets is a strategy of growth in which the company concentrates its resources in selected countries. The procedure of selecting international marketing strategy is shown in Fig. 11.1.

1. Selecting the country-manufacturer	
1.1. Defining the market concept of the product	1.2. Determining the risks of entering the market of the given country

↓

2. Identifying unsatisfied needs at the market of the given country (determine the modification type of the product)

↓

4. Assessing the feasibility of this strategy

↓

5. Identifying the most typical ways of implementing the strategy

Fig. 11.1. The procedure of selecting international marketing strategy when selling goods in overseas markets.

International marketing planning is a logical sequence of actions aimed at defining the goals of international marketing and means of achieving them based on the optimal use of available resources of the organization (Fig. 11.2).

The program of international marketing as a set of strategic and supplemental marketing plans determines the actions of the organization for implementing the selected strategy and it is not of prescriptive but of indicative nature. It is constantly being corrected as capacity of the company and parameters of the marketing environment are implemented and changed.

There are three basic **concepts of planning** in international marketing:

– top-down planning when senior management defines goals and corresponding strategic and tactical plans for lower-level units – enterprises, branches, departments, etc.;

– bottom-up planning when company divisions set up their own goals and develop appropriate plans based on the resources and opportunities available to them. The role of senior management is only in the subsequent approval of the plans and monitoring their implementation;

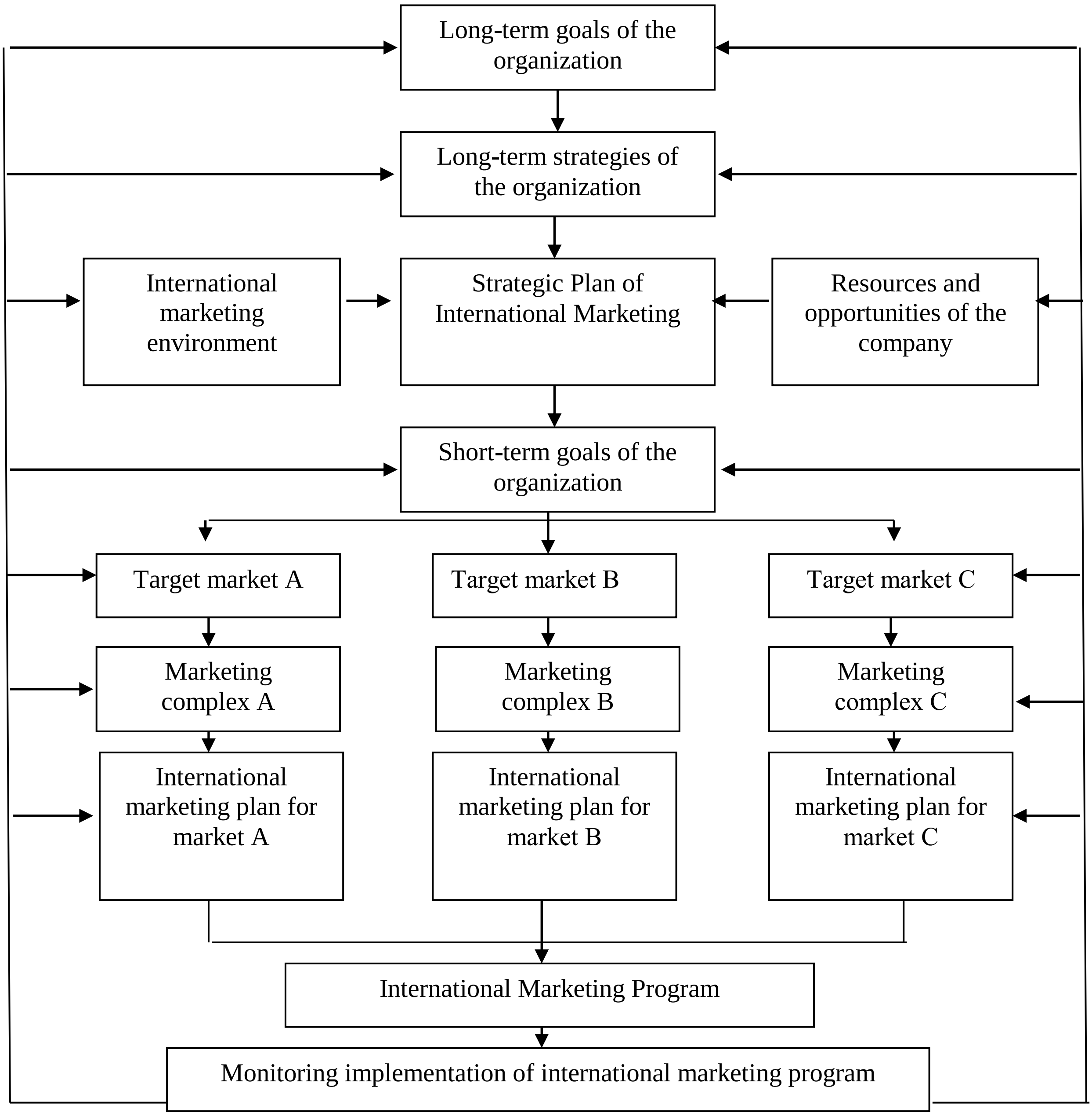

Fig. 11.2. International marketing planning

– “goals at the top, plans at the bottom” planning which is a compromise version of the first two. Senior management defines the strategic goals of the company and individual departments plan their activities to achieve them and get the approval at the top.

The marketing plan may be strategic (long-term) or tactical (current, operational).

A strategic marketing plan being developed for 3–5 or more years ahead describes the main factors and forces that are expected to influence the organization. It contains long-term objectives and the main marketing strategies indicating resources and opportunities required for their implementation.

When selecting planning strategies in international marketing the ERRG model (ethnocentrism, polycentrism, region centrism, geocentrism) is used.

Ethnocentrism assumes that marketing and management in the foreign market are determined by the experience of the organization in the domestic market and, as a rule, they are copied. International development is secondary to the internal expansion and external market is seen as an absorber of excessive products for which there were no customers in the country.

Polycentrism presupposes that marketing and management system is adapted to each overseas market (such markets are usually few). Marketing planning is carried out on a territorial basis, with the emphasis not so much on the similarity of regional markets than on the differences between them.

Region centrism views the world as a set of regional markets with certain similar features. The organization develops a marketing plan within each region.

Geocentricism treats the world as a single market. Marketing planning is also of a standardized character (a single brand of goods, common tone of advertising, similar methods of product distribution and marketing).

Tactical marketing plan developed for a year or less (half a year, a quarter, a month, etc.) describes the current marketing situation, the specific objectives of marketing activity and means of achieving them. It also includes a program of action (operational schedule), marketing budget, measures to control marketing.

The sequence of the planning process can be represented by the following stages – Fig. 11.3.

Assessing international marketing environment

Working out the objectives of international marketing

Making a decision to enter the market

Defining market entry strategies

Developing a strategy of growth in international markets

Working out marketing strategy

Assessing and monitoring the results of international marketing	
	International planning at the company level
	International planning at the product level

Fig. 11.3. The sequence of international marketing planning procedure

International marketing control involves the following stages:

– determining the achieved level of tasks implementation in the program of international marketing;

– identifying deviations from the targets set for the development of international marketing;

– determining admissibility degree of these deviations in terms of the strategic goals set in the program of international marketing;

– determining internal and external causes of deviations;

– working out recommendations for revealing deviations in full or mitigating them if they are caused by external circumstances out of the company control.

In practice international marketing control involves periodical (1–2 times a year) **marketing audit** which is an "instant picture" of the organization with external environment. It enables to compare market conditions and resource potential of the company to make necessary adjustments in the marketing plan for improving financial and economic indicators. Marketing audit enables assess the organization's activities in foreign markets, to see its successes and failures, to determine the causes of both, to determine the competence of employees and their performance.

When monitoring overseas international marketing one should take into account a number of fundamental principles of controlling:

– the principle of motion and deceleration which is closely connected with the concept "innovation" and means an active influence on the people in the organization, who by virtue of natural conservatism (as a property of the mind) hamper progress, the introduction of innovations;

– the principle of timeliness refers to an attempt to reduce to a minimum time lag that occurs between a new chance or risk comes up and the company's response to it;

– the principle of strategic consciousness takes place only when any decision and action of the organization is evaluated in terms of its correspondence to the strategic plan of international marketing;

– the documenting principle refers to the following: when monitoring international marketing the necessary information should be provided regularly in full, evident and written form. Its goal is to enable verification of the compliance of tasks and principles of international marketing monitoring in reality. In accordance with this principle all information obtained in the course of monitoring, is available by certain specially designed scheme and always in writing. Documentation system should allow establishing at any time not only the content of the transmitted information but also its author and recipient, as well as the date of transfer. Written information gives an opportunity of a subsequent verification, thereby encouraging a greater responsibility.

PRACTICAL TASKS

Task 1

Develop the main sections of international marketing plan for the company operating on the Ukrainian market. Company's name, its targeting, sector, type of activities, the form of access to foreign markets, product, and other items of international marketing plan should be chosen individually. Fill in Table 17 with the results.

Table 11.1

The main sections of international marketing plan for the company

____

me, country, type of activity, product, way of the foreign market entry, other

Sections of the plan	Content
1. Introduction (annotation)	
2. Current marketing situation	
2.1. Market description	
2.2. Product overview	
2.3. Competition	
2.4. Distribution	
2.5. Advertising	
3. Dangers and Opportunities	
4. Marketing objectives	
5. Marketing strategies	
6. Action programme	
7. Marketing budget	
8. Monitoring the marketing plan	

Task 2

Conduct marketing audit of the firm (see Ex. 1) by the following scheme:

I. Market description including key market segments, their capacity and forecast of the dynamics of these containers.

II. Consumer analysis: a) for individuals – demographic, social, psychological, behavioral characteristics; b) for organizations-consumers – industry. Overall analysis: consumers' attitudes to goods, purchasing decisions motivation, consumers' needs and the prospect of changes in those needs.

III. The analysis of competitors and also describe what methods of competition are used, what the prospects of competition are like.

IV. Analysis of the marketing environment of the country (politics, economics, legislation, social and cultural factors, the development of scientific and technical progress).

V. Control of international marketing purposes: provide short- and long-term goals of the company, their relationship and correspondence the products competitiveness to the prestige of the company, its resources and opportunities.

VI. Control of international marketing program and its provision, analysis of the components of international marketing plan – see Task 1).

Questions for Knowledge Control:

1. Explain the essence of the international marketing strategy of the company.
2. Describe the basic concepts of international marketing planning.
3. List the types and the procedure for the selecting international marketing strategy.
4. Describe the basic sections of the international marketing plan.
5. Name the types of plans in international marketing planning.
6. List the sequence of the process of international marketing planning.
7. Describe the procedure of international marketing monitoring.
8. Explain the essence of international marketing monitoring.
9. List the basic principles of control.
10. What are the stages of international marketing monitoring.
11. Name the main principles in building up international organizational structures.
12. Specify the documenting principle of the international marketing plan.

TESTS

Must select options for the correct answers to the questions, the right can be 1, 2, and more answers:

1. Planning, analysis and control measures for action on a multinational market environment and adapt it to the conditions at the company, which operates in more than one country - is:

A.	international Marketing
B.	international trade
C.	foreign economic activity of Ukraine
D.	international cooperation

2. What type of marketing considers the world as a single market and built on uniformity in national, cultural, behavioral and other characteristics

A.	micromarketing
B.	makromarketing
C.	multinational marketing
D.	global marketing

3. Investment in the global market are in the form:

A.	foreign
B.	hidden
C.	straight
D.	portfolio

4. Sociocultural elements are:

A.		religion
B.		language
C.		trade
D.		State system

5. In implementing segmentation foreign markets accounted the following groups of factors:

A.		climate
B.		geographic
C.		age
D.		socio-economic

6. Approach to International segmentation exist in the direction of:

A.		identifying countries with similar products
B.		differentiation
C.		competitive confrontation
D.		access to different segments of the same product

7. Approaches of the international segmentation include:

A.		identification of the demand for similar products;
B.		identification of segments, which are present in all or in many countries;
C.		access to different segments in different countries of fact by goods
D.		all answers are correct

8. Typology of international marketing research includes:

A.		commercial research
B.		scientific and technical research
C.		general and preliminary studies
D.		research competitors

9. Trends in marketing research:

A.		the availability of databases
B.		chance of databases
C.		database growth
D.		use of new technologies

10. Factors influencing the choice of the market:

A.		potential
B.		accessibility
C.		stability
D.		intensity

11. The exit strategy for foreign markets are divided into:

A.		diversification
B.		strategy retreat
C.		direct export
D.		"cream skimming"

12. In determining the international commodity policy must hold the relevant analysis, including:

A.		values oriented themselves
B.		life cycle
C.		standardisation
D.		aesthetic design

13. World prices include:

A.		the price of regular transactions
B.		prices closed economic groupings
C.		competitors' prices
D.		barter transactions

14. Actions to ensure goods of a competitive position in the market and develop appropriate marketing mix - this:

A.		goods identification
B.		goods positioning
C.		goods improvement
D.		goods advertising

15. Tools of entering the foreign market:

A.		matrix "market -products"
B.		matrix "possible risk"
C.		grid of parameters
D.		matrix "attractiveness competitiveness"

16. What type of export commodity policy is not used in international trade:

A.		horizontal
B.		conglomerate
C.		vertical
D.		conec

17. Among the methods of marketing in international marketing distinguished:

A.		indirect
B.		direct
C.		analytical
D.		combined

18. International advertising - this means making sure information:

A.		about the product
B.		about the company
C.		about the market
D.		about the advertisers

19. Management of international marketing is the process:

A.		development of the plan
B.		market research
C.		control
D.		sales organization

20. The process of international planning consists of phases:

A.		analysis of market choice depending on the purpose and resources of the enterprise
B.		standard marketing program
C.		determination of output
D.		adaptation offers

21. The subjects of international marketing are:

A.		exporter;
B.		national markets;
C.		individual entrepreneur;
D.		international organization

22. World market – is…

A.		a set of interrelated and interacting with each of the national markets of individual countries participating in the international division of labor, international trade and other forms of economic relations;
B.		a set of economic relationships that develop in the Exchange about the sale of goods;
C.		sales of goods on foreign markets;
D.		concentration of production of certain products in the economy of individual countries for further profitable sale

23. Market’s conjuncture - is:

A.		complex real conditions and factors affecting the operation of the market at a certain time and in certain geographical, administrative - territorial areas;
B.		complex international operations, based on Single-bahatovyrobnychiy activities;
C.		a set of interdependent and interacting with each of the national markets of individual states
D.		all answers are correct

24. Research that can detect peculiarities of foreign markets suggest:

A.		analysis of the environment
B.		analysis of demand
C.		analysis of proposals
D.		analysis of competition

25. Changing demand for this product under the influence of economic and social factors associated with the change in prices – is …

A.		Elasticity of market
B.		elasticity of demand
C.		competitive on the market
D.		profitability

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