

## Marketing Activities

**Marketing** is the sum total of all the activities involved in getting goods and services from the original producer to the ultimate consumer. These activities include market research, product development, pricing, advertising and promotion, sales, and logistics. The main purpose of marketing is to sell the output of production, and all of the marketing activities mentioned above are focused on that primary function. If you can produce fifty thousand sweaters, you need marketing to make sure you sell fifty thousand sweaters.

### Market Research

Market research finds or collects data to help solve marketing problems. Consider Sarah Ottewell's business, SLO Designs. Sarah makes clothing from recycled material. She makes mittens out of used sweaters, baby clothing from used T-shirts, and other items using the collected cast-offs of others. Sarah needs data to help make her business successful, so she uses market research to answer questions like these:

- Where do I source my used fabric?
- What will people buy? What do they like? What do they need?
- How will I tell my potential customers about what I make?
- Should I advertise? If so, where?
- Where will I sell my products?
- Who else is making similar products?

Some of the data Sarah is collecting is **secondary data**, which is data that you can look up because it has been collected by others. Statistics Canada, for example, has collected population data that Sarah can use to determine how large her potential market in a particular area might be,



To run her business, SLO Designs, successfully, Sarah Ottewell needs to determine who her target market is and how to promote her products to this group.

such as the number of females between the ages of fifteen and nineteen in Brockville, Ontario (the number was 725 in 2009). Statistics Canada provides profiles for hundreds of communities across Canada, including information about age, marital status, languages spoken, religions practiced, labour data, educational statistics, and other demographic data.

The phone book is an often-used source of secondary data. The local phone company collects the data and others use it. Sarah could use the Yellow Pages to look up sources of second-hand clothing to use to make her items.

Sarah could also pay to get secondary data. Many companies perform studies on international markets that they sell to interested buyers. These studies might cover population statistics, competition within industries, product category demand studies, and market profiles. These studies often cost hundreds, even thousands, of dollars and would be of use to Sarah only if she were considering a major expansion into a foreign market.

Much of the data Sarah wants, however, is **primary data**, which is data that she needs to collect herself, or hire a market research firm to collect. Primary data refers to information that businesses gather that relates specifically to their company's problems. Sarah needs to know what people like or dislike about her designs, who is most interested in buying her various lines, and who her competitors are. She cannot get that information from secondary sources, but must collect the data using surveys, questionnaires, interviews, and so on. The process is complicated, so Sarah might want to find a market research firm, and pay them to do the research for her, though such research is expensive.

## Product Development

Sarah uses some of the information she collects to develop her products. She needs to consider her designs, the materials she will use, and the packaging and labelling of the finished pieces. Her market research has only provided some of the answers she needs. Research has told her that many people want cool baby clothes and warm mitts. It has shown her that customers are waiting for environmentally friendly clothing. It has also provided her with feedback on the popularity of her designs once she has created her products. But the development of the product ultimately rests with her. Sarah's products are uniquely hers; her talent creates her designs; it is her choice to use recycled fabric and she seeks specific textiles and materials; it is her company's name on the label.

Most companies use market research to help develop new products. Film production companies conduct audience tests to gauge reaction to their movies. Game developers run focus groups to test the "play value" of their new games. Soft drink companies test consumers' reactions to new flavours of sports drinks in specific test markets, and cereal companies conduct surveys in supermarkets to be sure that consumers think their new high-fibre cereal tastes better than the cardboard box it comes in. Advertisers test reactions to their ads before they show them on television, then conduct phone surveys after the ads have been aired to see if anyone remembers the products that they advertised. Market research is a major part of marketing today, as no business wants to risk the high costs of product development without some assurance that its efforts will be successful.



Through market research, Sarah has determined that there is consumer demand for clothing made from recycled fabric such as old t-shirts.

## Pricing

Sarah needs to make a profit on her product. She can only do this if she sells her clothing for more than it costs to make. Much of the cost involved in producing her fashion lines is the cost of the labour that Sarah uses to design and make her items. If it takes her half an hour to make a pair of mitts, and she feels her time is worth \$20 per hour, then the labour costs of the mitts is \$10. Add to that the cost of fabric (\$1) and a portion of her overhead expenses such as electricity and heat (\$1), then Sarah needs to get \$12 for each pair of mitts she sells to cover her costs and pay herself for her time. This is an important calculation for a number of reasons.

If Sarah sells her products directly to the public at craft fairs, she can price the mitts at \$12. But if she sells them to a clothing store, then the store needs to make a profit, too, and is likely to double Sarah's cost price. At the store, the mitts will cost \$25 per pair. Sarah needs to decide if customers will pay \$25 per pair. If the price of her product is too high, she will not be able to sell any.

## Advertising and Promotion

Sarah needs to convince the consumer that her mitts are worth \$25 per pair. She can do this by creating an advertisement such as a brochure or an Internet ad (nothing too expensive like a television commercial, magazine ad, or a radio spot, as those costs would add to the total cost she needs to recover from her mitts). Her ad outlines the features and benefits of her product, such as:

- Unique and creative designs
- Made from recycled fabric and, therefore, environmentally friendly
- Canadian-made
- Extra warm

Sarah has seen leather gloves and other mitts for sale in stores for much more than \$25, and feels that her product is a real bargain, so she would feature her reasonable price in her ad as well. She would be sure to include her brochure with every pair of mitts she sold and make sure it was on her table at craft fairs, so that consumers could reorder directly from her.



Sarah's company name (and logo) are based on her initials. To establish her brand, she should feature her logo on each item she sells and on all advertising materials.



For Sarah to make a profit, she must price her mittens to cover the cost of materials, labour, and overhead.

### Think About It!



- 7.1. What is marketing?
- 7.2. List six marketing activities.
- 7.3. What are the two types of data used in market research?
- 7.4. How does a business make a profit?
- 7.5. Use one word to describe the best measure of marketing's success.

Sarah can advertise on the Internet for free if she posts her items on Kijiji or Craigslist, for instance, which are sites that connect buyers and sellers. Even eBay is a possibility for her, as it takes only a modest percentage of whatever she sells. A bit more expensive, but much more effective, are crafter community websites such as Craftster or Etsy. People like Sarah join Etsy, and pay 20¢ (U.S.) for each item they list, then pay 3.5 percent of the selling price of each item they sell. Etsy has almost two million members, and hosts over 200,000 sellers. Anyone wishing to buy handmade mittens could go on Etsy and find Sarah's clothing.

### Sales

The success of Sarah's marketing efforts can be measured by the sales of her products. How will she sell her designs to consumers? She can select from several possible sales methods or venues. Sarah could:

- **Sell her products at popular craft shows.** She would need to rent a booth to display her products at these shows, and the rental fee can be quite expensive. Some shows, such as the One of a Kind Show in Toronto, charge over \$1,000 for a booth.
- **Sell her products to retailers.** This method gives Sarah little control over the pricing and promotion of her product, but it is very inexpensive. If she has the time to visit retailers in big cities and sell to them, she could become successful.
- **Open her own store.** This is very risky and expensive, but if successful, it would make Sarah a name designer.
- **Sell online.** Sarah could create a website, or become part of other designers' websites, and sell to anyone who finds her page. This is a less expensive and often successful way to sell products.

### Logistics

Logistics is the management of the flow of goods and services both into and out of an organization. It consists of transportation, inventory management, warehousing and storage, and packaging. Logistics is a complex concept, and is the focus of Chapter 8.



Outdoor craft shows like this one often feature handmade clothing. Sarah could choose to sell her clothing at events like this.

## The Four Ps of International Marketing

For the most part, Sarah's business is local. She sources her fabric from local used clothing depots, manufactures her designs in her home, and sells to customers who visit craft shows in Toronto, where she lives. Occasionally, Sarah goes to craft shows in other nearby cities and towns.

She recently started selling her clothing online, and found that she received orders from outside Canada. All of a sudden, without really intending to be, Sarah's business was international. She realized that there was a vast, new market out there that, with a little work, she could tap into. To organize her business to sell internationally, Sarah needs to consider the Four Ps of international marketing:

- Product
- Place
- Price
- Promotion

### 1. Product

It is rare that a Canadian product is sold outside of Canada without being modified. These modifications are made to adapt to a foreign culture, language, or laws, and occur primarily in the following areas:

#### Packaging

- **Package weights.** Canada is on the metric system, which uses grams and kilograms to express weight. The United States (Canada's main trading partner) does not use the metric system. It is the only major industrialized nation that remains on the imperial system, which expresses weight in ounces and pounds. Any product packaged for export to the United States must have imperial weights or volumes on the package.
- **Package colours.** Colours have symbolic meanings, but these vary from one culture to another. White is a symbol of purity in Canada, but of death in China. Yellow is the colour of cowardice in Canada, but symbolizes courage in Japan. A package colour that has positive associations for Canadian consumers might elicit the opposite reaction in another country. Marketers should research the cultural preferences of consumers in the country they are exporting to in order to avoid costly packaging mistakes.
- **Legal requirements.** Every country has laws that affect the packaging of goods that are sold there, most often in relation to the environmental impact of the packaging. Many countries have elaborate fee structures that can cost an exporter more than the packaging itself, if the package material is considered environmentally unfriendly. For example, if a Canadian product is packaged in a polyvinyl chloride (PVC) blister pack weighing 100 grams, the Danish government will charge a 25¢ fee for each package shipped into Denmark. This is far more than each package costs the Canadian manufacturer.



All of Air Canada's planes prominently feature a maple leaf which helps people around the world recognize them as Canadian.



Labels on products to be sold in the United States must show imperial measurements. All other major industrialized nations use the metric system.



Tropicana's strong brand identity (a straw stuck in an orange) helped make it the world market leader in orange juice. It created a demand for packaged fresh orange juice that all but destroyed the frozen concentrated orange juice market.

Tropicana was owned by Seagram's, a Canadian company that sold it to Pepsi, an American company, in 1998. Pepsi thought the sixty-year-old brand needed updating. They hired a design company to come up with new packaging, dropping the image of the straw stuck in the orange.

The redesign, which cost \$34 million, featured a simple picture of a glass of orange juice...that could have been any brand of orange juice. Tropicana consumers were outraged at the change. Pepsi/Tropicana reinstated the old brand, and marketed the return to the old packaging by saying it was listening to its consumers.



- **Labelling requirements.** Marketers must investigate labelling regulations in their target foreign market. There are different regulations in many countries with regards to ingredient and food value labelling, product warnings, and even the picture of the product that is used. In California, cars must have a label that provides consumers with the vehicle's global warming score.
- **Language requirements.** Obviously, the information on the package should be translated into the language of the target country. Some countries, such as Ireland, Switzerland, India, and Canada, have language regulations that require two or more languages to appear on packages.

### Ingredients

Many countries have strong taboos, both religious and cultural, that prohibit the use of certain products, particularly food items. Islam, Hinduism, Buddhism, and some branches of Christianity do not permit the consumption of alcohol, for example. Jews and Muslims do not eat pork. Hindus do not eat beef. If a potato chip manufacturer wanted to sell snacks in a Hindu country, such as India, it would have to make sure the chips were not fried in beef fat.

Some prohibitions are primarily culturally based. Many vegetarians, for example, do not purchase wool, leather, and other products that come from animals. Other ingredients that cause concern within certain cultures include some sugar substitutes, nuts, and chemicals such as monosodium glutamate (MSG), because large segments of the population consider them to be unsafe or unhealthy.

### Style

What the people of one country find fashionable, people of another country might find embarrassing or offensive. Style capitals such as Paris, London, and New York expect cutting-edge products, while stylish people in many other cities create street fashion. Fashion and style are very difficult to export. Marketers often adapt their products to conform to the styles that are popular in their target market.

To become a successful international marketer, Sarah needs to consider how to adapt her product. Her labels need to give care instructions, sizes, and so on in the languages of the countries where she is interested in doing business. She needs to be conscious of her colour choices so as not to offend people. But most importantly, she needs to consider the fashion and style trends in the various countries she targets.

If, for example, Sarah wants to sell her baby onesies in Great Britain, she might have a problem. A onesie is a baby T-shirt that snaps together over a diaper. Sarah makes hers from used T-shirts, and they are immensely popular, especially the ones with Canadian hockey team logos on them. These would not sell at all in London, as Londoners are generally unfamiliar with hockey. If Sarah made onesies out of used soccer shirts, she would be much more likely to be successful.

## 2. Place

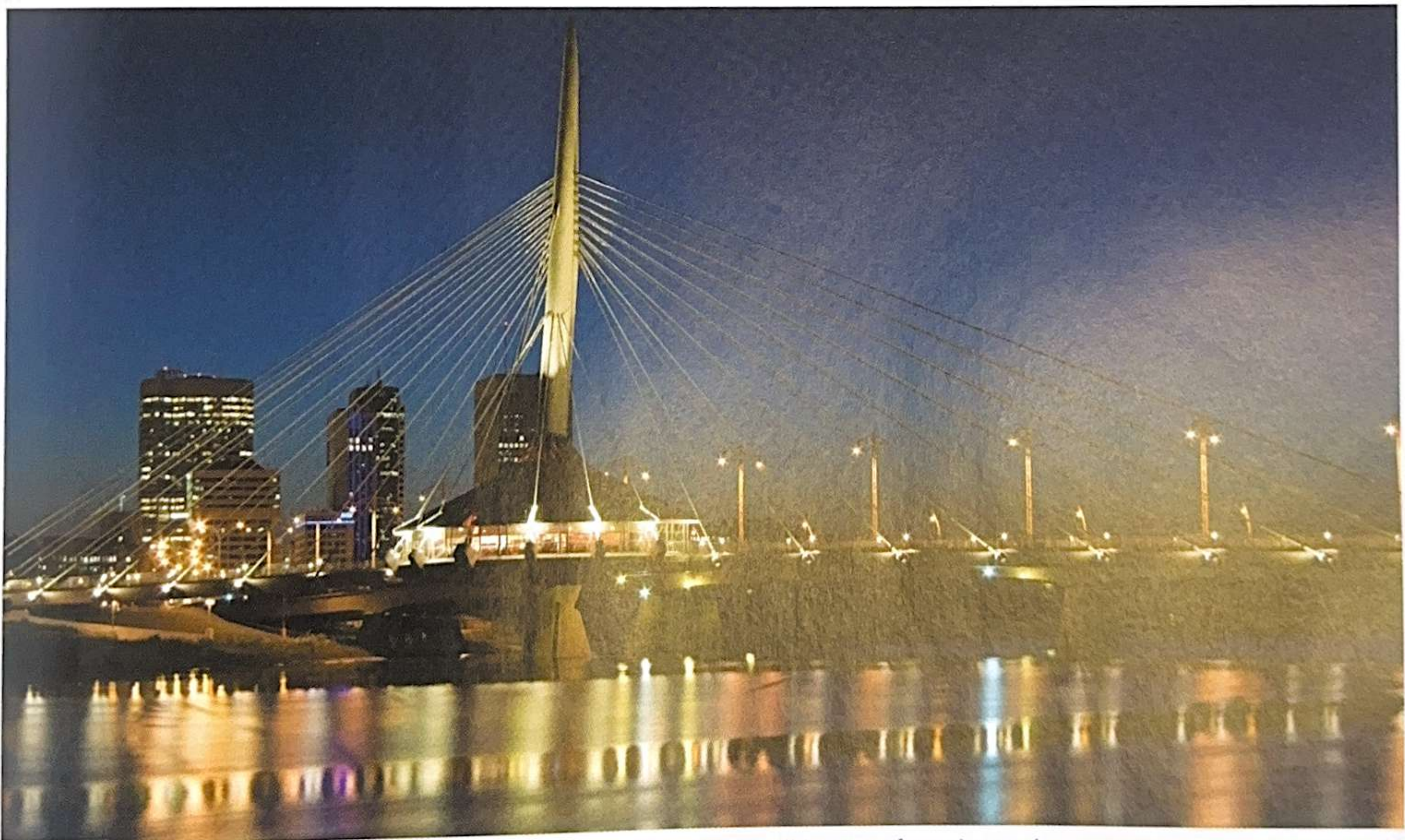
Marketing strategies for entering new domestic markets are relatively straightforward in Canada. Consider Clodhoppers, a chocolate snack food made by the Kraves Candy Company in Winnipeg, Manitoba. Kraves sells to major retailers across the country using sales representatives (the two owners, actually) who visit the head offices of stores and sell their product to the buyers in these organizations, often by letting them try the product. Kraves has a factory in Winnipeg that makes everything, and ships orders across the country. There is no need for Kraves to have offices or other factories in Toronto or Halifax or Montreal. All of its marketing can be done from its home base.

If Kraves Candy decided to market its products internationally, it might need to develop a new marketing strategy. It currently uses a **centralized strategy** in Canada, which means that all of its manufacturing and marketing is performed in one location; in this case, Winnipeg. Kraves could continue to use a centralized strategy, but if it entered a number of foreign markets with this strategy and became very large, it might soon find manufacturing and shipping candy all over the world to be complicated, and perhaps impossible.

At this point, Kraves could consider a **decentralized strategy**, which means it would set up a manufacturing plant in another nation, or hire a sales force there, or even license its brand to a local manufacturer. If it got really big, Kraves might actually consider buying foreign companies to make the product. The easiest way to enter foreign markets, however, is through e-commerce.

### Think About It!

- 7.6. What three ways might a product be modified to make it more suitable for a foreign market?
- 7.7. What system of measurement is used in the United States?
- 7.8. Name two countries, other than Canada, that have regulations requiring that more than one language appear on packages.
- 7.9. Name two global style capitals.
- 7.10. Why would hockey jerseys not sell well in London, England?



Kraves Candy currently uses a centralized strategy in Canada by basing all its manufacturing and marketing in one place: Winnipeg, Manitoba.

## E-Commerce

The Internet and the e-commerce that it fostered have changed the way international marketing is performed. Now, a business in any city in the world that is close to a transportation hub can be an international business. Small clothing manufacturers such as SLO Designs, or global enterprises such as Amazon, the book and media distributor, can stay in their respective cities and do business anywhere on the planet without leaving their local base.

This market-entry strategy is also known as **e-distribution**. It can be more effective than opening a retail store. Amazon is the best example of a company that uses this strategy exclusively (there are no Amazon stores), although many other companies use e-distribution in combination with their retail operations. Retailers such as Lee Valley Tools, Mountain Equipment Co-op, SoftMoc, and hundreds of other retailers sell to consumers online throughout North America. The Internet is a great leveller, as the smallest stores can compete online with the largest chains. Of course, the level of competition depends on the quality of the website, the payment processing options, the variety of goods offered online, and the shipping options. Larger chains can offer free or reduced shipping, while smaller companies cannot. Some companies can offer a variety of credit card and PayPal options; smaller companies often do not.

E-commerce and e-distribution can turn any local retail operation into a global one; all that is required is a website. There are many types of e-commerce transactions:

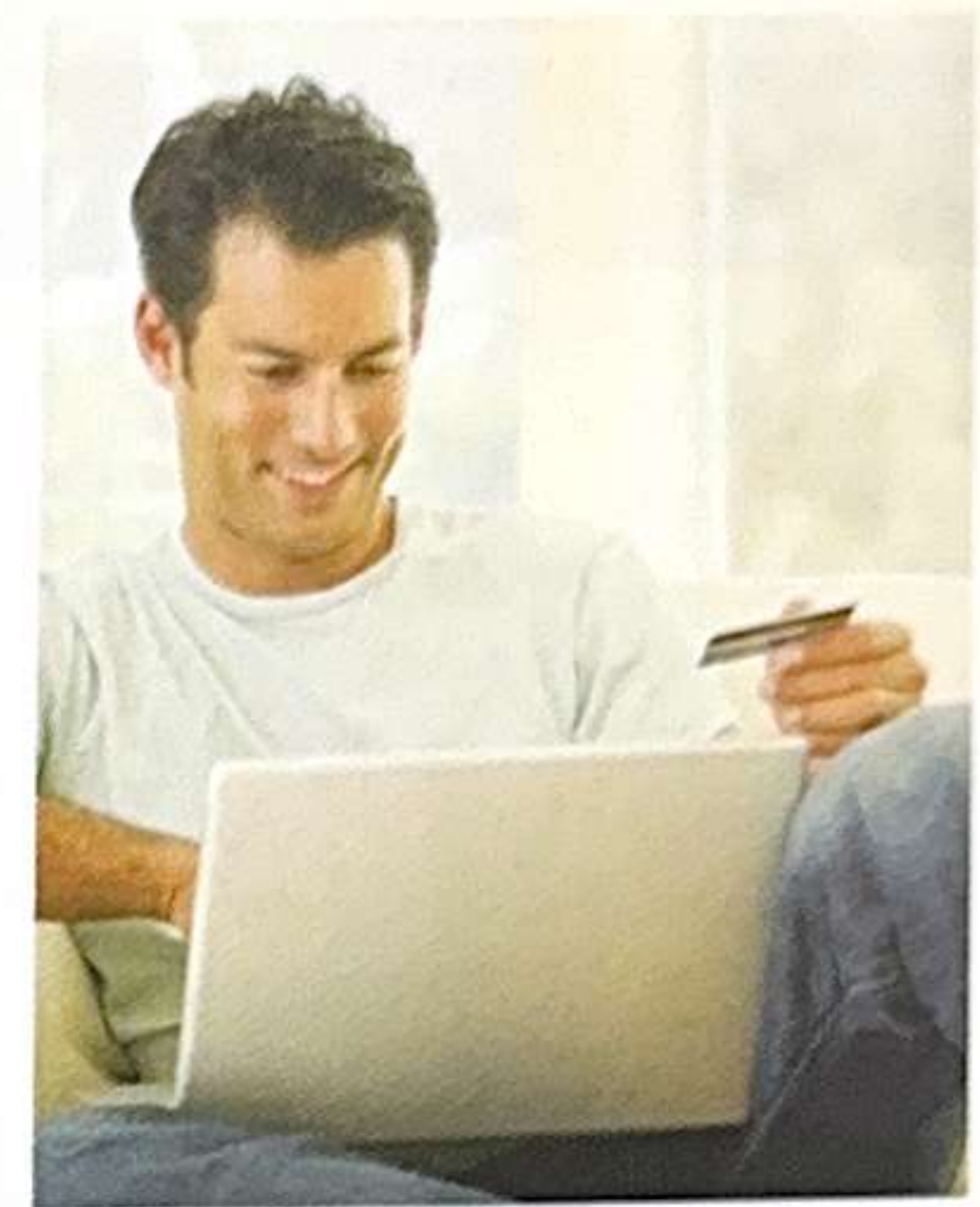
- B2C (business to consumer), on websites operated by major retailers and small crafters like Sarah
- B2G (business to government), to sell everything from computer paper to construction equipment to various levels of government
- B2B (business to business), which are by far the most numerous online transactions. Businesses connect online for every stage of the distribution channel (except B2C), including suppliers, distributors, transporters, manufacturers, wholesalers, and other businesses that the typical consumer does not see.

Small manufacturers, like Sarah, use e-commerce to expand their market. Any manufacturer that is prepared to modify its product to conform to the standards of the importing nation and will take the necessary steps to prepare the product for shipping can “go international” on the Internet.

## Sales Agents

Using a **sales agent** is one way to combine a centralized strategy and a decentralized one. Sarah, acting as her own agent, took her products to outdoor markets in London, England, where she sold out of the inventory she brought with her. The profits paid for the trip to England and provided some extra income for her Christmas operations.

Other companies contract a sales force in the target country to market their product, paying a commission on the sales that the agents make. In many countries, sales representatives divide themselves by line; there are men’s clothing reps, shoe reps, giftware reps, jewellery reps, and so



E-commerce makes it possible for a business anywhere in the world to have an international market.



on. If a company wanted to keep all of its manufacturing centralized in Canada, but sell to consumers in another country, sales agencies would be a very effective way to enter the market.

France imported \$312 million worth of confectionary products in 2005, but none of these products were from Canada. If Kraves wanted to break into the French candy market, it could hire a confectionary sales agency. These agencies are often importers themselves, or have connections to importers. An agency can provide information on local business practices, help navigate through France's complex trade laws, offer a database of good sales leads, and understand appropriate marketing and distribution strategies for the product in that country. All manufacturing of Clodhoppers would still be done in Winnipeg, but the company's potential market would have increased significantly.

### Trade Shows

A **trade show** is a collection of manufacturers and distributors of similar products who rent space, set up display booths, and sell their products to registered buyers who are seeking products to sell in their retail businesses. Trade shows provide buyers with a large number of product sources under one roof, and can save them hundreds of hours and thousands of dollars in buying trips. For sellers, the trade show is often their major sales event.

Kraves Candy could rent space at the Salon International de L'Alimentation (SIAL), a major international food and beverage show held in Paris. According to its website, "SIAL is the world's leading food industry show. Over 140,000 visitors and 5,300 exhibitors are present at this key event for food industry professionals: food manufacturers, distributors, importers, retailers and wholesalers, institutional and commercial catering, etc."

As a result of the exposure gained at this show, it may be possible for Kraves to connect with a local sales agent or importer who could handle the distribution of Clodhoppers in France. This would be an example of a decentralized strategy. Or, the company could connect with major French candy retailers themselves, and arrange shipping directly. This would be an example of a centralized approach.



At international food and beverage exhibitions, manufacturers can showcase their products to distributors and retailers from other countries.

## Branch Plants

Building and staffing a branch plant is the most expensive market entry strategy (see Chapter 1, page 19), but it could also be the most effective. If Kraves Candy built a factory in France, it would have access to the entire European Union, a large, united market that encompasses twenty-seven countries and five hundred million people.

There are three major advantages to owning a branch plant in a foreign market:

- **Shipping costs are lower.** The branch plant is closer to consumers, so shipping costs are dramatically reduced. As a result, the product is priced more competitively because fewer shipping costs are added to the price.
- **Import regulations and tariffs are no longer an issue.** Duties, legal regulations, and other bureaucratic red tape that serve as barriers to imported packages of Clodhoppers disappear if the product is manufactured in the target country.
- **Product modifications are easier.** The Clodhoppers brand that the new factory produces can be modified to appeal to local consumers. The branch plant might even develop new brands to compete with local products.

It would be impossible for Kraves to service the European market using a centralized strategy, as demand would soon outstrip Canadian supply, and the Winnipeg factory would not be able to keep pace. To succeed in Europe, Kraves would have to create a manufacturing plant to produce and distribute Clodhoppers throughout the European Union. Alternatively, it could sell the rights to its product to a European company.

## Licensing Agreements

A licensing agreement is a contract giving someone the right to use a patent or trademark (see Chapter 2, page 42). Perhaps the most famous licensing agreements are for professional sports teams and Disney characters. Under license, hundreds of different businesses manufacture toys, candy, clothing, fashion accessories, wallets, lunch boxes, hats, DVDs, books, posters, and many other products with various trademarks or trademarked characters on them. The manufacturer pays the owner of the trademark or patent a fee, usually a **royalty**, which is a percentage of the revenue from the sale of the licensed products. The three main types of licensing agreements are manufacturing, distribution, and franchising agreements:

- **Manufacturing agreements.** Anyone in a foreign country could enter into a contract with Kraves Candy for the rights to manufacture Clodhoppers under license. The licensee would use the same manufacturing process, the same recipe, and the same ingredients as were used to make the original Clodhoppers. The licensee would use the same brand identification, if it translated well in the foreign market, or they could rebrand the candy with permission (and consultation, usually). Most often, the new licensee is paying for brand identification.



## Global Gaffes

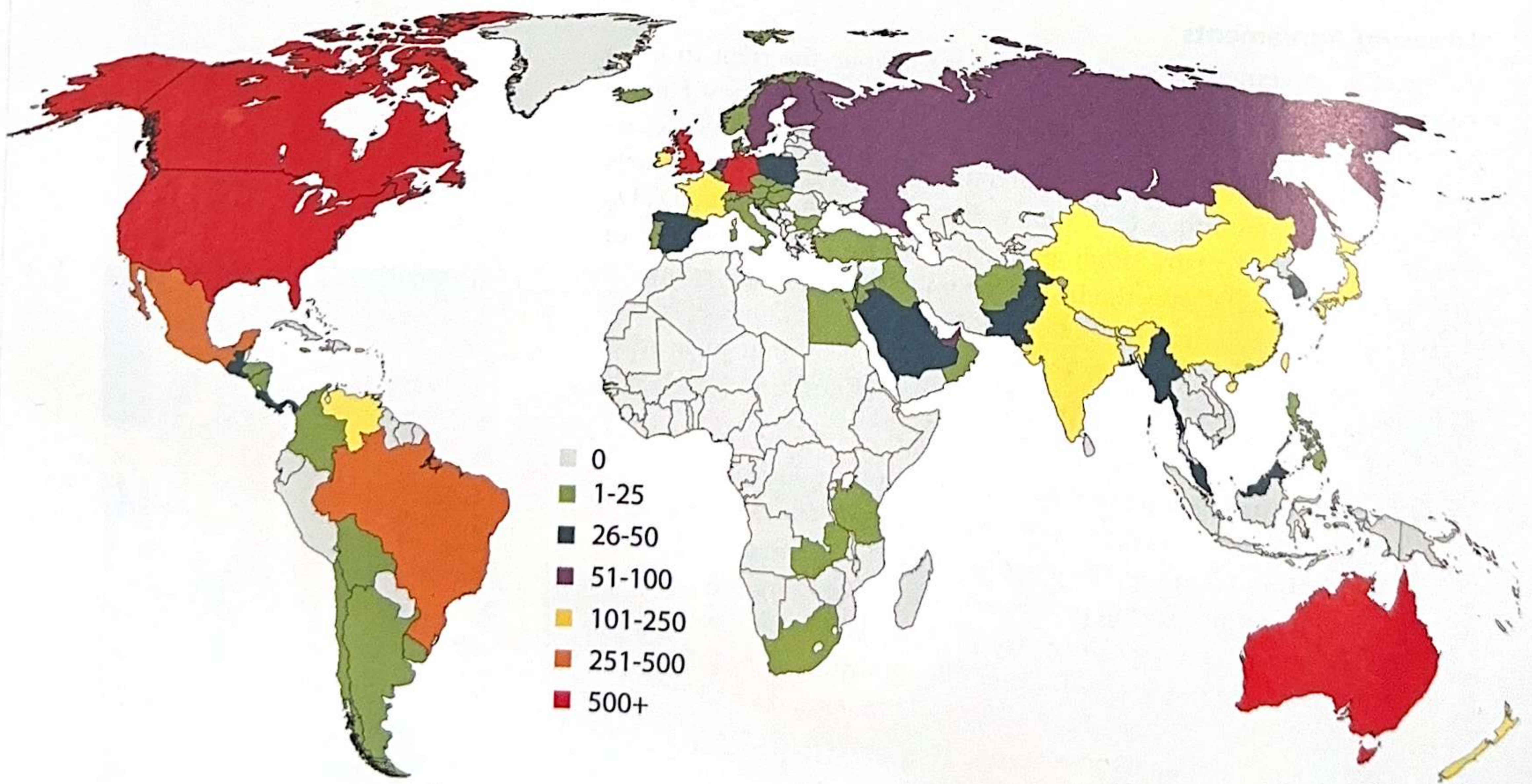
In 2005, Kraft Foods, which owned the Trolli brand at the time, introduced Trolli Road Kill Gummi Candy. The fruit-flavoured candy came in the shapes of snakes, squirrels, and chickens. Each animal was squished flat and had distinctive tire marks on its body. The web ads for the candy featured animals caught in car headlights. The New Jersey Society for the Prevention of Cruelty to Animals complained, and Kraft discontinued both the ads and the product in 2005.



- **Distribution agreements.** Licensing agreements work for distribution chains as well. Retail stores are constantly looking for products that other retailers don't carry to give them a competitive edge, and retail buyers visit trade shows to find these hot, new items. Importers do the same, keeping an eye out for the next big thing to sell to their network of retail buyers.

Once buyers find a product of interest, they attempt to negotiate an exclusive distribution deal with the manufacturer. The terms of this agreement usually state that if the retailer or importer agrees to bring the item into a particular country, it will be the only one allowed to sell it in that country. Kraves Candy could grant the exclusive distribution rights to Clodhoppers to a major French retailer, if the initial order were substantial enough. Or Kraves could give the same deal to a confectionary importer that would agree to buy a certain quantity over a one- or two-year period. This is a centralized strategy mixed with a decentralized one; the manufacturing company makes the product in Winnipeg, but uses others to sell it in the foreign market.

- **Franchising agreements.** Franchises are a form of licensing agreement that turns the ownership of a manufacturing or distribution company over to a local franchisee, who runs the business under the direct control of the head office (see Chapter 2, page 44). The head office takes a percentage of the franchisee's sales revenue in return for the use of the company logo, its established processes, and its expertise in management, store design, advertising, etc. One of the largest international franchisors is Subway Restaurants.



This map shows the number of Subway Restaurant franchises in countries throughout the world. The country with the highest number by far is the United States, with over twenty thousand locations.

## Think About It!



- 7.11. What are the two major marketing strategies that can be used to enter a foreign market?
- 7.12. List five methods that a business could use to enter a foreign market.
- 7.13. What are three types of licensing agreements?
- 7.14. What is the role of a foreign sales agent?
- 7.15. At what point would a manufacturing company need to consider a branch plant in one or more of its foreign markets?

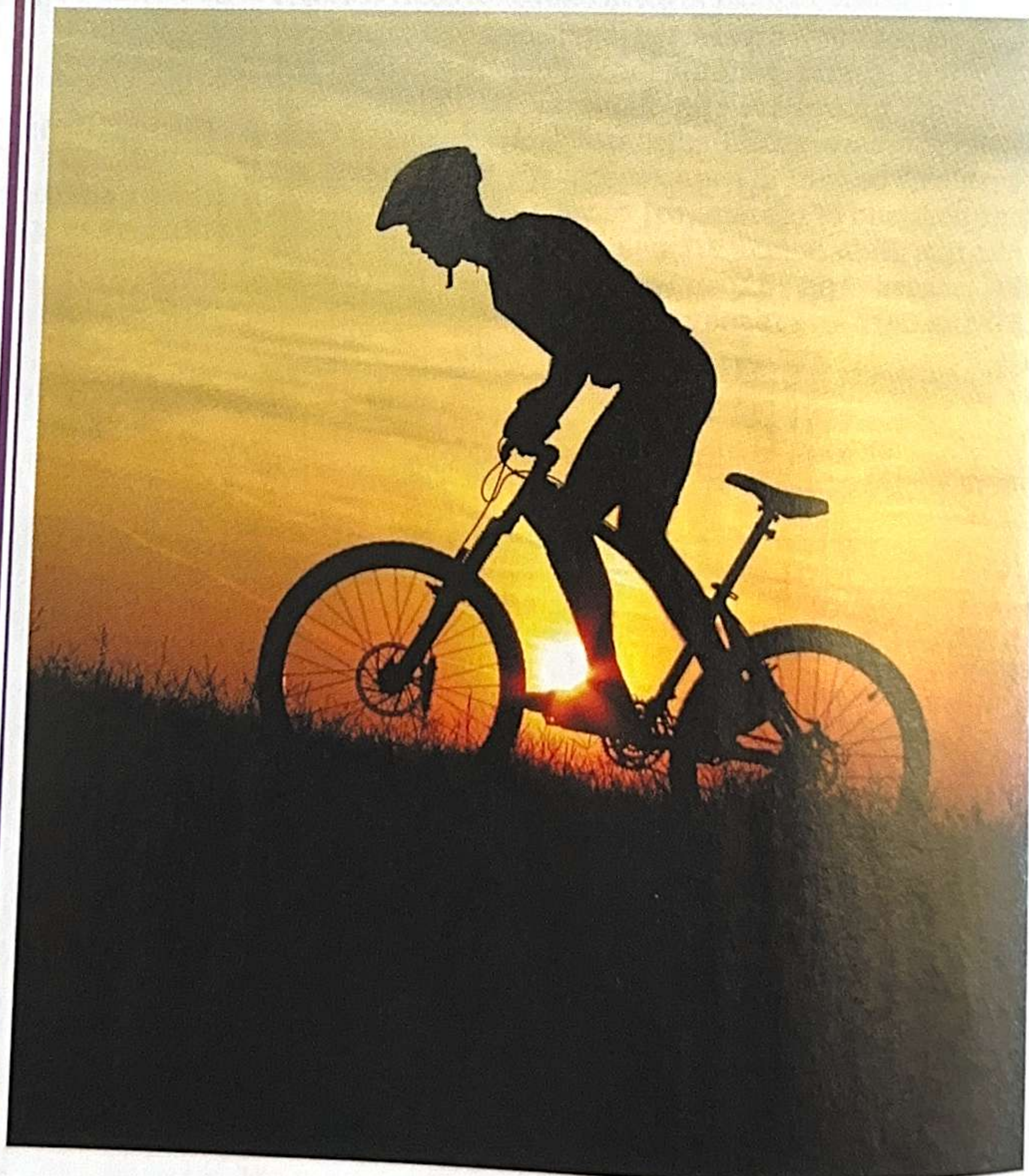
## Canadians Make



### Bicycles

Groupe Procycle (Procycle Group) was started in 1971 in Saint-Georges de Beauce, Quebec, as an assembly plant for bicycles. In 1977, the company began manufacturing its own line of bicycle frames and a short time later signed an exclusive licensing agreement with the French company Peugeot to manufacture and distribute Peugeot bikes in Canada. Later, Procycle Group acquired CCM (Canada Cycles and Motor Ltd.), the oldest bicycle manufacturing firm in Canada, and Rocky Mountain Bicycles, a well-respected manufacturer of high performance mountain bikes. Procycle has also added Oryx, Miele, Mikado, and Velo Sport bikes to its line, and manufactures the Supercycle brand for Canadian Tire and the Vagabond brand for Home Hardware.

Procycle markets its brands all over the world. The company uses a centralized marketing strategy, keeping all of its production in Canada, and relying on a Canadian-based sales staff that travels to bike dealers in different countries to distribute the company's products. Each brand has a specific target market: recreational cyclists, mountain bikers, competitive cyclists, and so on. Procycle has put well over six million bicycles on the road. Chances are, you or someone you know rides a Procycle brand bicycle.

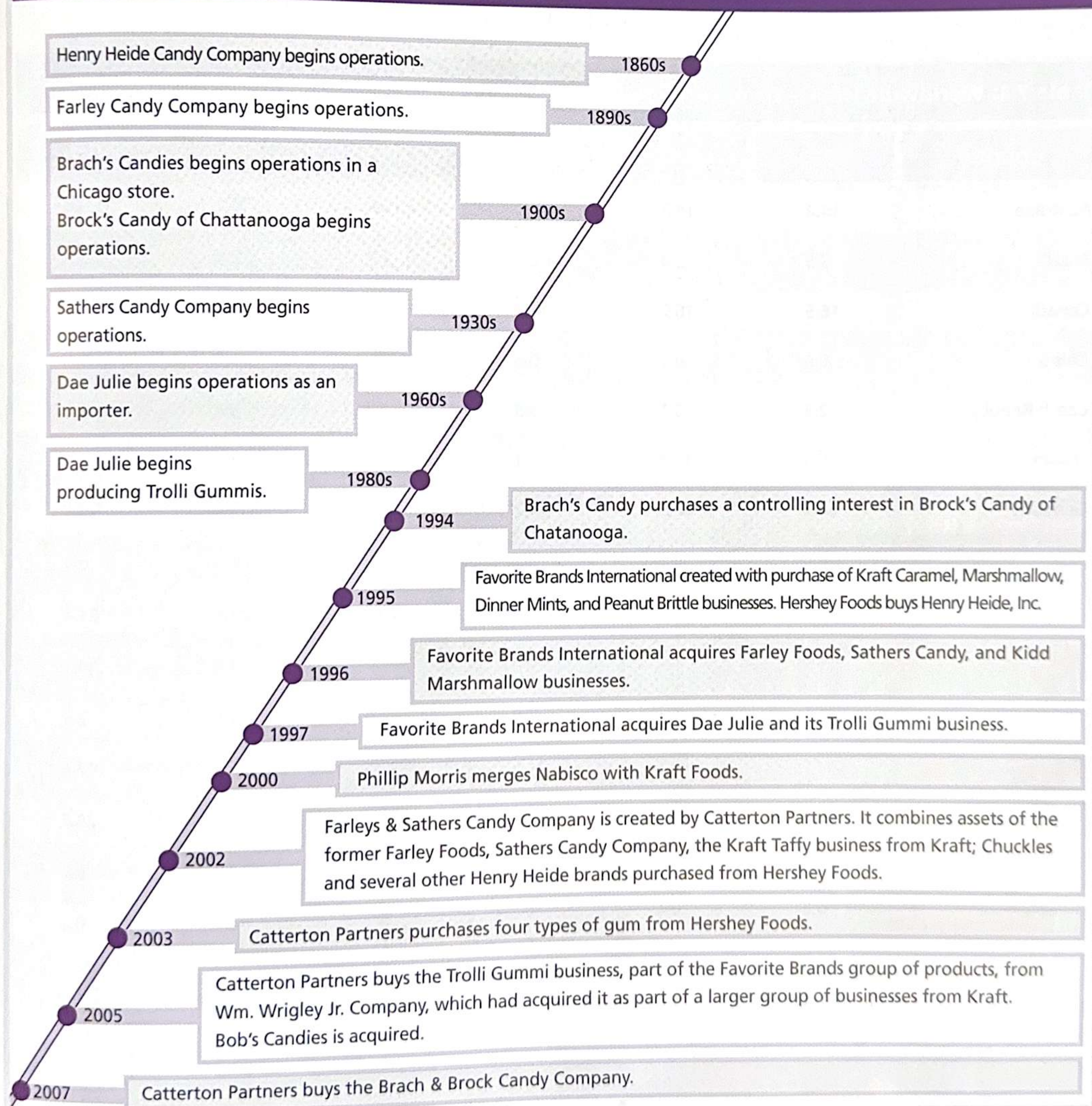


The Procycle Group uses a centralized marketing strategy, keeping all of its production in Canada. The company's Canadian-based sales staff travels throughout the world to distribute Procycle's bikes.

## Acquisitions

The most effective way for a company to deal with competition, whether in a foreign or domestic market is to buy the company that competes with it, then either close the company down or use the firm's resources and marketing connections to expand its market. For example, Alcan, the giant aluminum company headquartered in Montreal, wanted a greater presence in the European market. Alcan purchased French aluminum company Pechiney in December 2003 for \$5 billion. The acquisition doubled Alcan's size, enhanced its leadership position in core smelting technology, and gave it an entry into the aerospace market in Europe. It also increased the profile and potential profitability of the giant Canadian corporation, so much so that British firm Rio Tinto, one of the world's leading mining companies, acquired Alcan on October 23, 2007.

**Figure 7.1: Candy Company Acquisitions Timeline**



### 3. Price

In most cases, the domestic price of a product is certainly lower than the price of the same product abroad. This is a major marketing consideration. If a company exports its product to another country, will consumers there be able to afford it? Many companies find that if they use a centralized market entry strategy, the price of their goods increases to the point where they are not competitive. These increases come from several different areas:

- **Labour costs.** The price of labour in foreign countries is often considerably lower than in Canada. Canadian labour costs are among the world's highest. In 2005, a Canadian worker earned ten times what a Mexican labourer would earn, and twenty-five times what a worker in India would make. A product made in Canada would, therefore, cost significantly more, in most cases, than a product made domestically in the foreign market.

**Table 7.1: Worldwide Hourly Compensation Costs for Steel Workers (USD per hour per worker)**

Country	2000	2001	2002	2003	2004	2005
Australia	14.4	13.3	15.4	19.8	23.1	24.6
Brazil	3.5	3.0	2.6	2.7	3.0	3.2
Canada	16.5	16.2	16.7	19.4	21.4	23.7
China	0.6	0.7	0.8	0.9	1.0	1.1
Czech Republic	2.8	3.1	3.8	4.7	5.4	6.1
France	15.5	15.7	17.1	21.1	23.9	25.3
Germany	22.7	22.5	24.2	29.6	32.5	34.1
India	0.6	0.6	0.7	0.7	0.8	0.9
Japan	22.0	19.4	18.7	20.3	21.9	21.4
Korea	8.2	7.7	8.8	10.0	11.5	14.1
Mexico	2.2	2.5	2.6	2.5	2.5	2.5
Spain	10.7	10.8	11.9	15.0	17.1	17.6
Sweden	20.2	18.4	20.2	25.2	28.4	29.7
Taiwan	6.2	6.1	5.6	5.7	6.0	6.4
Ukraine	0.3	0.4	0.5	0.7	0.7	0.8
United Kingdom	16.7	16.8	18.3	21.2	24.7	26.0
United States	19.7	20.6	21.4	22.3	23.2	23.8

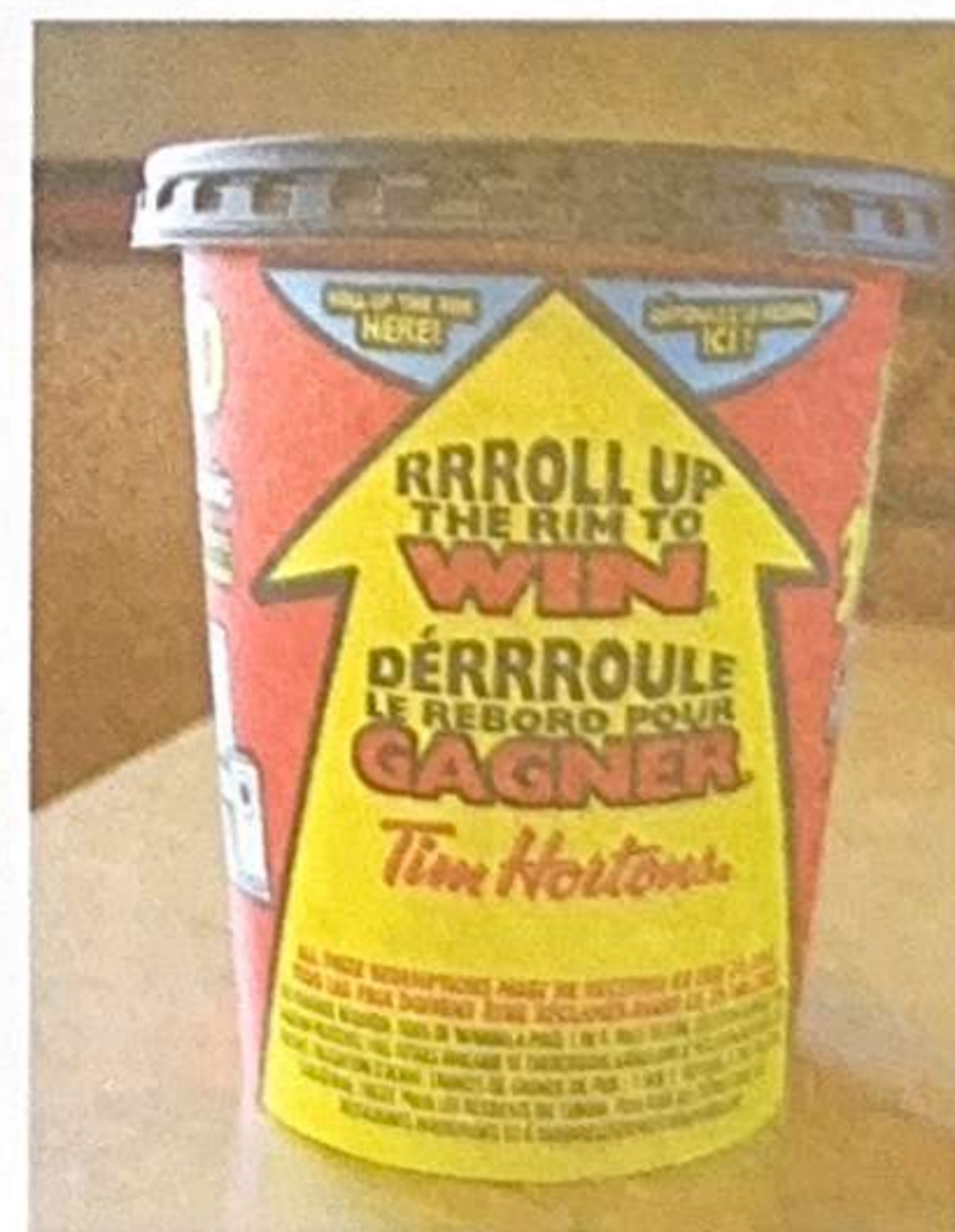
- **Shipping costs.** Although it is often cheaper to ship Canadian-made goods across the border than across the country (the distance between Windsor, Ontario, and Detroit, Michigan, is just 1 kilometre, while the distance from Halifax to Vancouver is 6,119 kilometres), when goods are shipped to other countries, costs escalate considerably. These freight charges must be factored into the price of the goods.
- **Duties and tariffs.** Some countries charge a tax on imports into their country to protect local industries that manufacture similar products. This tax is called a tariff or duty, and can add 10 to 20 percent to the cost of an item (see Chapter 2, page 47).
- **Legal costs** (packaging and labelling, inspections and testing, and so on). Modifications that must be made to conform to product codes and the standards of the foreign market can often be very expensive, requiring translators, new packaging, legal fees, inspection costs, and other charges that increase the costs of the product.

Anyone trying to market a product in another country must consider whether the price of the product in the foreign market is competitive. This is certainly why major companies like the decentralized market entry strategies. A branch plant in another country, for example, hires local labour, pays no duties or tariffs, takes advantage of much lower shipping costs, and conforms to local rules and regulations, thereby eliminating the extra costs associated with product modifications.

#### 4. Promotion

There are three ways to promote and advertise products if you are planning to sell internationally: use your existing ads and promotional strategy in foreign markets; translate your ads and promotional strategy for foreign markets; or create entirely new ads and promotional strategies for foreign markets:

- **Using existing ads.** As of December 2008, Tim Hortons had 520 stores in the United States (and 2,917 Tim Hortons locations in Canada). Tim Hortons runs the popular promotional campaign, Roll up the Rim to Win, between late February and early May each year. Both Canadian and U.S. stores participate in the campaign, and the advertising is virtually the same in both countries. Tim Hortons saves money because it does not have to alter its strategy and spend extra time and money creating U.S. advertising, and still has an effective advertising and promotional strategy.
- **Translating ads.** Mentos, the mint confection made by Perfetti Van Melle (which has head offices in Italy and the Netherlands) and distributed throughout the world, uses the translation approach. Each of its television ads is dubbed into the language of the target market country, and shown on television there. Canadian and U.S. advertisements are the same, as they are both in English. Some of the settings and situations in the spots appear slightly “foreign” to many audiences, however.



Tim Hortons uses its popular Roll up the Rim campaign throughout the United States and Canada.

### Think About It!



- 7.16. What are four factors that would increase the price of a Canadian-made product in a foreign market?
- 7.17. What are three ways to advertise and promote your product in foreign countries?
- 7.18. Name two foreign countries where a Canadian company could use its existing ads.

It is always difficult to say exactly the same thing in another language. Trying to replicate an advertising campaign in a language other than the one in which it was originally written is possible, but can lead to some rather embarrassing mistakes. In China, for example, KFC tried to translate its well-known advertising slogan, “Finger Lickin’ Good,” but it appeared in Chinese as “Eat Your Fingers Off.” Not exactly what the advertisers had in mind.

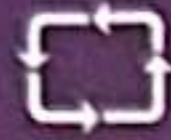
- **Creating new ads.** PepsiCo’s Gatorade brand is sold as a sports drink around the world. In North America, ads for the drink focusing on football players as Gatorade enthusiasts are shown during the Superbowl. Other North American ads feature basketball players and joggers. Gatorade’s ad for Finland was created for the European market, where soccer is the primary sport.

Many companies create websites that target consumers in specific countries. The Mentos website allows you to see what specific brands are offered in Greece, Russia, China, Japan, and at least fifteen other countries, and download promotions and advertising that are focused on local consumers. The Internet has made customizing advertising campaigns much easier and much more affordable.



Gatorade creates marketing campaigns featuring athletes and sports that are popular in the countries where the ads will appear. Here, Finnish soccer star Mikael Forssell appears in a Gatorade ad used in Finland.





Is it acceptable to buy and sell counterfeit products, such as handbags, sunglasses, and watches?

Yes: Counterfeit products don't really hurt sales of high-end merchandise, because consumers of counterfeit products do not (and will not) buy the real thing. A woman who buys a \$20 fake Gucci bag is not committing a serious crime and knows it is not of the same quality as a real Gucci purse.

No: Companies like Gucci, Rolex, and Oakley spend millions of dollars developing a global brand, and their investment should be protected. Selling counterfeit products is illegal. Counterfeit products do not uphold the high standards of the brand, and consumers buy the brand without receiving the high quality they are expecting.

## The Two Cs of International Marketing

Once a company has decided on the product, price, place, and promotion, it needs to make sure that there is enough demand for whatever it is marketing. Demand involves two distinct factors: consumers and competition, often referred to as the two Cs of international marketing.

### 1. Consumers

Countries don't buy products or services—people do. Just like domestic marketers, international marketers must determine the composition of the consumer market (often called the **target market**) in a foreign country for the goods and/or services they are selling. Most often, this involves looking at what people in a selected nation use and then establishing whether or not the goods and services you provide will “fit in.”

Canadian businesses wishing to sell abroad must be very careful of to avoid ethnocentrism. **Ethnocentrism** is a belief that your own culture, values, beliefs, and customs represent the right way of doing things, and that value systems of other countries are not important. In other words, just because we prefer certain products in Canada does not mean that the same products will be popular in other nations. There are several ways for you to avoid ethnocentric thinking:

- Visit the country you want to include in your marketing plan. Look around the local shops, eat in local restaurants, and observe the people's daily customs and style of dress. Do not eat in the hotel or visit the local tourist attractions, as you will not experience the country's culture and customs.
- Read the numerous country profiles available on the Internet, especially the information from the Department of Foreign Affairs and International Trade Canada website.
- Offer your product(s) on the Internet in the language of the target nation to determine if there is any demand at all.



To determine whether a product will sell well in another country, marketers must know what goods and services are in demand.

Once you have researched the nation's culture and customs thoroughly, you can decide if your product has sales potential in the selected country. Your product has sales potential if people in that country want it and have enough money to pay for it.

### **Selling Sarah's Onesies in Japan**

**Market Size.** Japan has a population of 128 million people. There are four times as many people in Japan than in Canada, which means that there are approximately four times as many newborn babies. Sarah would have a very large consumer market for her onesies. According to 2006 Agriculture and Agri-Food Canada report on Japan, however, that market is declining. The report states that fewer children are being born. The decrease has created a decline in sales of products such as baby foods.

Sarah also needs to know some **demographic information**, which is the statistical data about various characteristics of the Japanese population:

- **Age.** What is the average age for mothers in Japan? At what age do people usually marry?
- **Gender.** Are gender differences reflected in baby clothes in Japan? Canadian parents still look for pink clothing for girls and blue for boys, and clothes for baby girls are often frillier and more feminine. Do Japanese consumers look for these differences?
- **Family life cycle.** What are the statistics for single-parent families in Japan? Is the divorce rate higher or lower in Japan than in Canada? Who buys the baby clothing—both parents together, mainly the mother, or mainly the father? Do grandparents play an active role in the lives of Japanese babies? Do they buy gifts of clothing for their grandchildren?

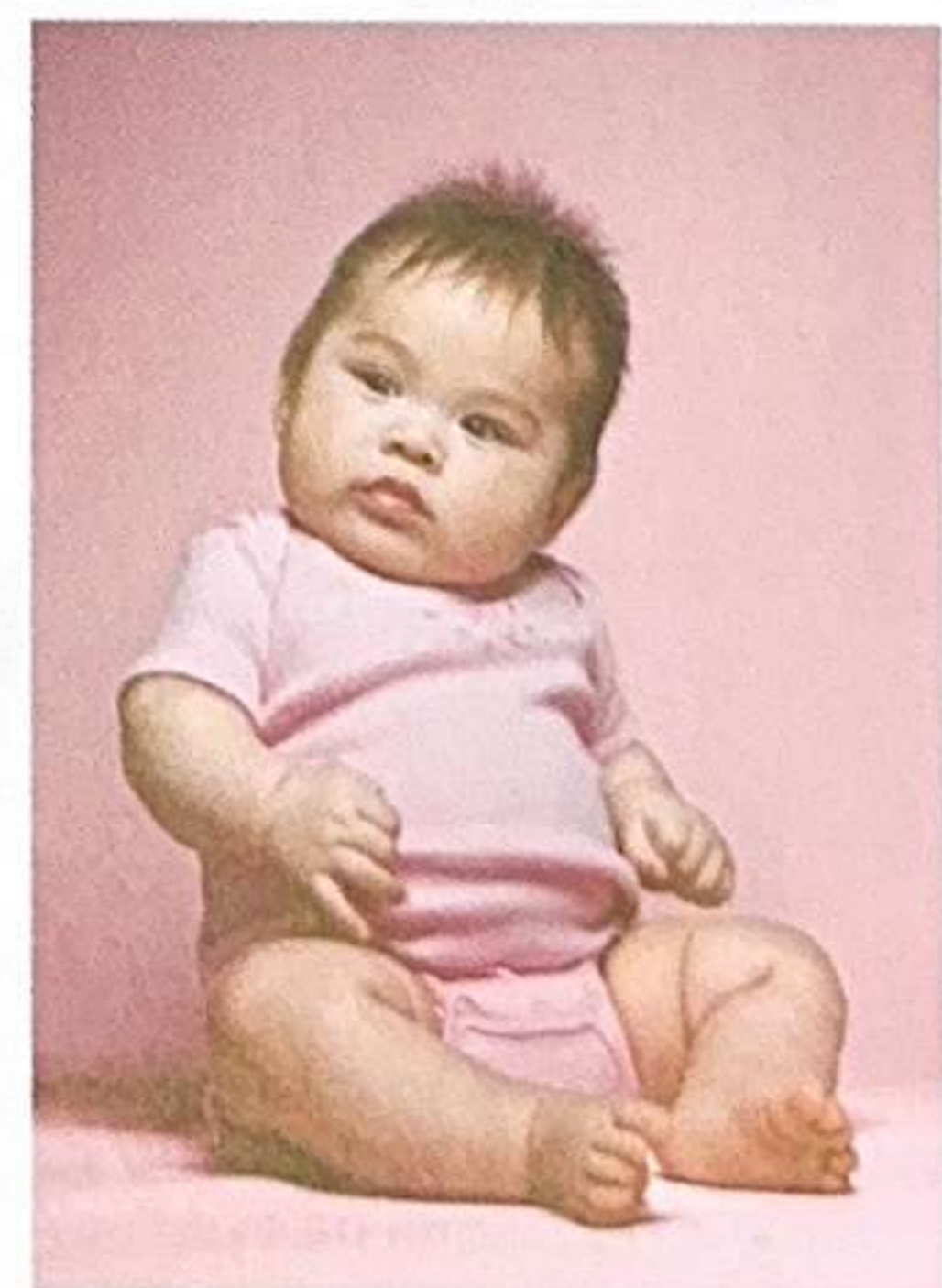
**Baby Gifts.** Baby showers are not a traditional custom in Japan. It is bad luck to give a gift for a baby before the baby is born. When the child arrives, family, friends, and co-workers give gifts for the baby, but not immediately. In Japan it is polite to wait one or two months until the mother is well rested before bringing a gift. Normally, the gift would be money, but many Japanese are adapting Western traditions and giving baby clothing as gifts.

**Baby Clothing Styles.** After considerable research online, Sarah was convinced that onesies were popular in Japan, although the patterns on the clothing were typically Japanese, often featuring popular children's characters that are not known in Canada. Sarah discovered a number of online stores that sold very cool graphic patterns, however, and she felt that her designs would be popular on sites like these. She also purchased copies of *Baby Mammoth* magazine, a Tokyo-based publication that specializes in baby fashions to determine what the current styles are.

**Japanese Style Culture.** In Japan, style is very important among young people, including young mothers. There is a Western influence from the United States, but that influence does not overwhelm the Japanese style itself. Several websites are devoted to describing the style trends of the moment, and styles change very quickly. Japanese mothers want to dress their babies in the latest fashions as well. Sarah feels that because her designs are so different, she will be a major part of the style culture in Japan for at least a few months.



Understanding the market for baby clothes in Japan includes gathering information about birth rates and family structure.



Sarah's research has shown that many Japanese babies are wearing onesies.



Japanese consumers tend to favour stylish and trendy clothing. Some Japanese mothers use their baby's attire to reflect their own personal style.

**Motivating the Japanese Consumer.** The Thorndike theory of motivation states that people are driven to do things for one of two reasons: either to avoid pain or to gain pleasure. Some mothers would consider the safety and warmth of the baby clothes they purchase for their child (pain avoidance), while others might think of the baby as more of an accessory, purchasing designer clothes that will then become a reflection of their own style and status (pleasure gain).

Conflicting motivations are often present when we purchase a product. We hate to pay for things, as it depletes our financial reserves and causes emotional pain, but we often love the things we buy because they give us pleasure. This is a universal cultural phenomena, as no one likes to be without money.

On the other hand, a Japanese consumer would be more motivated by the fear of losing face than a Canadian consumer. "Face" is the ability to face others without embarrassment, and to have others think well of you. Losing face means being publicly embarrassed. The fear of losing face is a very strong motivator in Japan; it is much stronger than the desire for pleasure. Whereas Canadian culture encourages self-confidence and self-respect, which come from within, Japanese culture emphasizes that people should care deeply about what others think of them and stresses the importance of how we are perceived by others. This is the main reason that being in style is so important in Japan. If an individual were out of style, he or she would lose face.

Sarah feels that her clothing is so trendy and stylish that no consumer need worry about losing face by owning one of her designs. She is a little worried, though, about how Japanese consumers feel about recycled products. Will the environmental movement (avoiding the pain of a polluted planet, and gaining pleasure from being topical and trendy) be as strong a motivator in Japan as it is in Canada? It is, after all, one of the main features of Sarah's products. Will a Japanese mother want her baby in a redesigned used T-shirt?

**The Recycled Clothing Market in Japan.** Sarah read an article in the *Toronto Star* (see page 208) that put her mind at rest. The Japanese market for used clothing is huge. Sarah is certain her product will meet with success in Japan.

**Discretionary Income in Japan.** **Discretionary income** is the money left over from your salary or wages after you have paid all of your essential living expenses. For example, if you earned \$2,500 per month, you might pay \$500 of your salary in taxes, pension, and other necessary payroll deductions, \$800 for rent and utilities, \$400 for food, and \$300 for transportation. This leaves you with \$500 of discretionary income every month. You decide how that money is spent. You can save some of it, spend it on clothing, electronic equipment, gifts, or anything you choose; however, \$500 is all you have. If you spend more than \$500 you will go into debt, and some of your discretionary income will be reduced as you manage interest charges and pay off your loans.

Obviously, if you have little or no discretionary income you cannot spend money on non-essential items like designer baby clothes, as you need all of your money for essential items, such as food. It is very important for marketers of non-essential products and services to determine how much discretionary income people in the target country have to spend. The very fact that your product is an import might mean it is non-essential, given that imported products are often more expensive than domestic products. Locally grown fruits and vegetables are generally cheaper than imported ones, for example. Consumers in other countries might wish to eat Canadian lobsters, but may only be able to afford locally caught fish.

According to Agriculture and Agri-Food Canada's report on Japan, the amount of spending money for most men has decreased due to labour cutbacks. However, the amount of spending money for women increased by 22.7 percent between 1999 and 2003. In Japanese society, both men and women contribute equally to household income and Japanese consumers are conscious of how much things cost.

This means that if Sarah targets Japanese mothers, who are the principal consumers for her onesies, she can be sure that, for now, they can afford her products.

**Spending Patterns.** Just because individuals have discretionary income doesn't mean they will spend it, or that they will spend it on products they feel are extravagant. The economic recession that began in 2008 certainly made people all over the world think about their spending habits much more carefully. The *New York Times* reported in February 2009 that many Japanese consumers were cutting back considerably. Spending patterns in Japan reflect those in other countries: consumers are not buying as much as they have in the past.

This is especially hard on the Japanese economy, which relies on exports for a great deal of its wealth. The decrease in global consumer spending has led to an economic downturn, as fewer consumers in other nations can afford Japanese products. This has led Japanese shoppers to be much more thrifty and cautious, as they are uncertain about the economic future. This new spending pattern has a negative impact on Sarah's business plan. She must make sure that Japanese mothers feel her product is worth the price she is asking for it.

### Think About It!

- 7.19. What is ethnocentrism?
- 7.20. What is demographic information?
- 7.21. List three types of demographic information.
- 7.22. What is discretionary income?
- 7.23. What is Thorndike's theory of motivation?
- 7.24. Why are baby showers not a traditional custom in Japan?
- 7.25. What is "face" in Japanese culture?



The amount of discretionary income consumers have available can have an impact on business.

## 2. Competition

The competitive market within a target nation is important to a business wanting to sell a product or service there. Why would a consumer in that country want to buy your product when there are several products that are as good as or better than yours? Sarah's products are unique, but what about businesses that do not have a designer component? Kraves Candy, for example, makes Clodhoppers, which are a version of other confectionary products. One of the major marketing problems in attempting to sell Clodhoppers in another country is the competition that already exists in that country. If there is a market for candy, other candy companies currently control the market, and it may be impossible for Kraves to acquire a share. Competition can be either direct or indirect:

- **Direct competition.** A company's direct competitors are those firms that provide products or services that are almost identical to the product or service that the company provides. There is no product that is identical to Clodhoppers, a crunchy, chocolate-coated, graham-cracker cluster confection, but there are several products on the market that are very similar, including Poppycock and Orville Redenbacher's gourmet popcorn. These products, and products like them, would be the direct competitors for Clodhoppers in China, for example. Kraves would need to research the market in China to determine what other products were its direct competition.
- **Indirect competition.** Consumers in every country have a certain amount of discretionary income. They also have regular spending habits and customs. As these spending habits are difficult to change, any product that competes for consumers' money is a competitor. In China, bulk candy is very popular and chocolate bar sales are rising (although chocolate is still a "new" taste for most Chinese, who are not accustomed to it). If Chinese consumers decided to buy a confectionary product, they would most likely stay within their comfort zone; therefore, all confectionary products are considered competition.



Though there is no product that is identical to Clodhoppers, it does face direct competition from other similar snack foods, such as Poppycock and Orville Redenbacher's gourmet popcorn.



NTT, Japan's leading telephone company, introduced a computer system called Net Cash. It marketed the system as a way to protect customers from identity theft while shopping online. Unfortunately, a hacker broke into the system and stole the identification numbers from more than eighty thousand accounts and spent \$28,000 of NTT customers' money.



Items like soft drinks, snack food, DVDs, and CDs are competition too. A consumer spending his or her discretionary income on a hamburger will have less discretionary income to spend on candy. Kraves Candy must discover what the spending habits of its Chinese target market is, and decide if it can compete with the products that already monopolize the consumer's dollar, whether they are candy or not.

### Competitive Advantage

Marketing businesses use the term competitive advantage somewhat differently from the way that global economists use it. In global economics, competitive advantage refers to one country's specific resources, labour pool, location, and other attributes that give it an advantage on the world economic stage (see the discussion of Canada's competitive advantages in Chapter 9, pages 251 to 259).

In marketing, **competitive advantage** refers to the ability of one company to produce a product more cheaply than another company. A company has a competitive advantage when it has an edge over companies that make similar products. These advantages are often temporary, as the competition strives to make their products cheaper, better, or add special features. The following are typical competitive advantages for products and services in a marketing context:

- **Lower costs of production.** This results in a lower cost to the consumer. The theory of **economies of scale** suggests that the more products you can make in one factory, using the same labour and other overhead costs, the cheaper each unit will be to make. Giant companies such as Coca-Cola have efficient, well-run operations that turn out millions of cans of cola every day at a lower cost than their smaller competitors. Coca-Cola can either realize a higher profit from this efficiency, or lower its costs to be more competitive. Because of its lower costs, Coca-Cola has a competitive advantage in countries where it builds its own factories and can produce its own beverages more cheaply than local beverage companies can.
- **Lower distribution costs.** Companies that have factories within their target country have lower distribution costs. Shipping beverages from a bottling plant in Europe all the way to China, for example, is prohibitively expensive. Coca-Cola's thirty-five bottling factories in China provide a significant cost reduction in their product and a major competitive advantage over beverage companies that have fewer or no plants there.
- **Product differentiation.** A difference in flavour, quality, packaging, colour, scent, and so on can be the reason that a customer selects one product over another, similar product. Kraves Candy, for example, is perhaps the only chocolate-covered, graham-cracker cluster candy in the world. As such, it has a competitive advantage over every other confectionary product on the market (at least until another company copies the recipe).

- **Brand equity.** Brand equity is the value of a product's brand in the market, or the number of consumers that can identify the brand, especially consumers who name the brand as top in its category. For example, when consumers are asked in a survey to identify an MP3 player, they almost always respond "iPod." This means that Apple's iPod has exceptional brand equity. Consumers look for an iPod over any other brand, which gives the iPod a major competitive advantage. This does not mean that the iPod is better or cheaper than other MP3 players, only that consumers know it and want it. Good brand equity is most often the result of effective advertising and promotion. On the international scene, many brands have global equity, meaning consumers around the world recognize them because of the exposure the brands have had in various media, such as television and movies, as well as through their presence in major cities around the world. The top ten global brands of 2009 appears in Chapter 1 (see page 15). Not surprisingly, Coca-Cola topped the list.

 Think About It!

- 7.26. What crucial question should a business ask regarding a foreign competitive market if it wants to sell a product or service there?
- 7.27. What are the two types of competition?
- 7.28. List four ways that a company might have a competitive advantage.
- 7.29. What is meant by economies of scale?
- 7.30. List three ways that one product can differentiate itself from another.



Apple iPods have exceptional brand equity, meaning that consumers look for iPods over any other brand of MP3 player on the market.