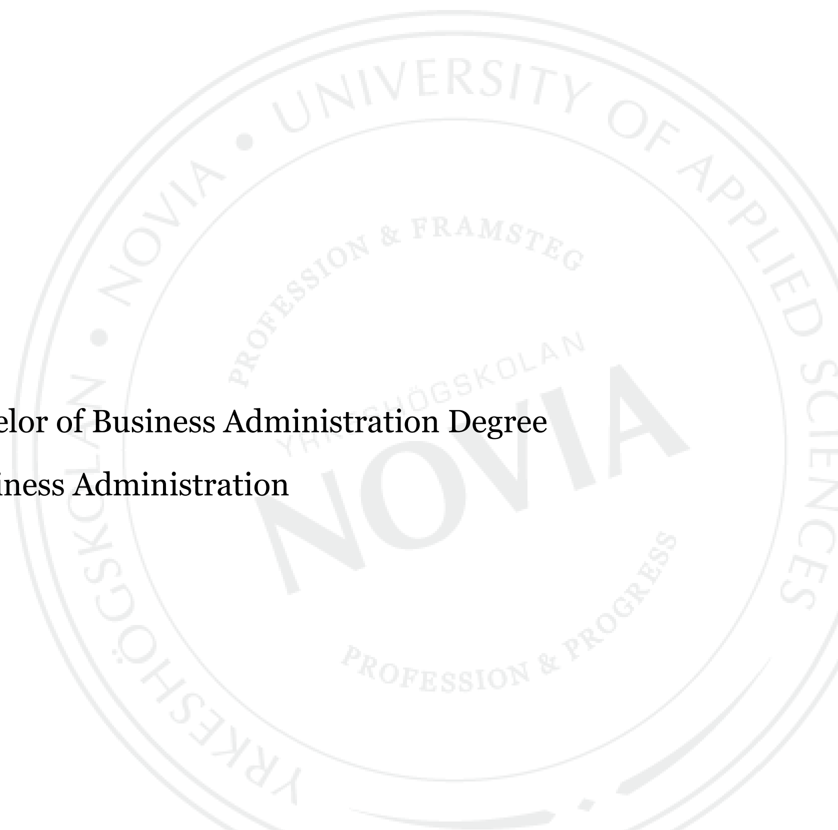
Market research and analysis on the paint market and paint industry in Tanzania

Case: Tikkurila

Ada Selänniemi



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Summary

This Bachelor's thesis is written as an assignment for Tikkurila, the leading paints and coatings professional in the Nordic region and Russia. Tikkurila has its roots in Finland, and now they operate in 16 countries. Tikkurila's expansion plans as well as my own interest in international marketing and business, served as the main motives for the implementation of this thesis.

The objective of this thesis is to analyse the Tanzanian paints and coatings market, and estimate whether Tikkurila could have a market in the country. The focal point of this research will be the assessment of the Tanzanian market, with reference in the marketing mix.

I spent five weeks in Tanzania in the winter of 2016. During that time I collected all the data I needed in order to be able to conduct the analysis presented in this paper. The analysis of the marketing mix and competitive environment was done mainly through semi-structured interviews with key players and potential customers in the market. In addition observation was used. The empirical work was implemented on the basis of a theoretical framework which was accomplished through extensive literature and internet sources.

The empirical part of this bachelor's thesis will include information that Tikkurila can, and will, use in their strategic business choices. Consequently, the empirical part, as well as the conclusion, recommendation and critical review will be confidential. Thus, the published part of this report will only consist of the theoretical framework.

Language: English Key words: Market research, Market analysis, Marketing mix, Tanzania, Paint market

EXAMENSARBETE

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Abstrakt

Detta examensarbete är skrivet på uppdrag av Tikkurila, som är det ledande färgföretaget i Norden och Ryssland. Tikkurila har sina rötter i Finland, men koncernen är nu verksam i 16 länder. Tikkurilas expansionsplaner samt mitt eget intresse i internationell marknadsföring och affärsutveckling var de viktigaste orsakerna för genomförandet av detta examensarbete.

Syftet med detta examensarbete är att analysera den Tanzaniska målarfärgsmarknaden samt bedöma om Tikkurila kunde ha en potentiell marknad i landet. Tyngdpunkten i denna forskning kommer att ligga i att bedöma den Tanzaniska målarfärgsmarknaden utifrån marknadsföringsmixen.

Jag tillbringade fem veckor i Tanzania under vintern 2016, där jag samlade alla de uppgifter jag behövde för att kunna genomföra den analys som presenteras i detta dokument. Analysen av marknadsföringsmixen gjordes främst genom semi-strukturerade intervjuer med nyckelaktörer och potentiella kunder på marknaden. Förutom detta användes även observationer som datainsamlingsmetod.

Det empiriska arbetet genomfördes med grund i en teoretisk referensram som åstadkoms med hjälp av omfattande litteratur och Internetkällor.

Den empiriska delen av detta examensarbete kommer att innehålla information som Tikkurila kan, och kommer att, använda i sina strategiska affärsval. Följaktligen kommer den empiriska delen, de ingående rekommendationerna samt den kritiska granskningen att vara konfidentiella. Således kommer den publicerade delen av denna rapport endast att bestå av den teoretiska referensramen.

Språk: Engelska Nyckelord: Marknadsundersökning, Marknadsanalys, Marknadsföringsmix, Tanzania, Målarfärgsmarknad

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OPINNÄYTETYÖ

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Tiivistelmä

Tämän opinnäytetyön toimeksiantaja on maaliyhtiö Tikkurila, joka on johtava maaliyhtiö Pohjoismaissa ja Venäjällä. Tikkurilalla on juurensa Suomessa, mutta tällä hetkellä konsernilla on toimintaa 16 maassa. Tärkeimmät syyt tämän opinnäytetyön toteuttamiseen olivat Tikkurilan laajennussuunnitelmat sekä oma kiinnostukseni kansainväliseen markkinointiin ja liiketoimintaan.
Tämän tutkimuksen tarkoituksena on analysoida Tansanian maalitmarkkinoita ja arvioida voisiko Tikkurilalla olla potentiaalinen markkina maassa.
Tutkimuksessa keskitytään Tansanian markkinoiden arvioimiseen, jossa viitekehyksenä toimii markkinointimix sekä Tansanian kilpailuympäristö.
Vietin viisi viikkoa Tansaniassa talvella 2016, jolloin keräsin kaikki tarpeelliset tiedot tässä opinnäytetyössä olevan analyysin tekemiseen. Markkinointimixin sekä kilpailuympäristön analyysi tapahtui pääasiassa haastattelemalla markkinoiden keskeisiä toimijoita ja potentiaalisia asiakkaita puolistrukturoiduilla haastatteluilla. Lisäksi tiedonkeruumenetelmänä käytettiin havainnointia.
Empiirinen työ toteutettiin teoreettisen viitekehyksen pohjalta. Tämä viitekehys toteutettiin kirjallisuuskatsauksena, jossa tutkittiin laajaa valikoimaa kirjallisuus- sekä internetlähteitä.
Opinnäytetyön tuloksia käytettäneen Tikkurilan strategisessa liiketoimintasuunnittelussa. Tämän takia empiirinen osa ja siihen liittyvät tulokset, suositukset ja analyysit ovat luottamuksellista tietoa. Näin ollen tämän opinnäytetyön julkaistu osa koostuu pelkästä teoreettisesta viitekehyksestä.

Kieli: Englanti
Avainsanat: Markkinatutkimus, Markkina-analyysi, Markkinointimix, Tansania, Maalimarkkina

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1 Introduction

"Africa will be the success story in the next decades…Africa is on the move and it is moving forward."

- Julian Roberts, Group Chief Executive, Old Mutual (Gundan, 2014).

Africa is no longer synonymous with poverty, war or famine. The amount of years spent in school have risen basically across the continent, where for example in Kenya in 1950 the average years spent in school was less than 2. In 2010 the average years spent in school was between 6 and 7. Between the older generation (65+ years) and the younger generation (15 – 24 years) literacy rates have risen – even doubled in some countries – and the child mortality rates from 1990 to 2012 have fallen across the continent. Furthermore, the average annual real GDP per capita growth between 1996 and 2013 was over 6 % in several countries in Africa, where for example Angola presented an average annual growth rate, in that time period, at 8 to 8,9 %. (Roser, 2015). Of Africa's 54 countries, about a third are accumulating annual GDP growths of more than 6 %, and out of the world's ten fastest growing economies, six are in Africa. Not to mention that 60 % of the world's uncultivated arable land is in Africa. (Gundan, 2014).

In 2002, only roughly one-in-ten owned a mobile phone in Tanzania, Uganda, Kenya, and Ghana. In 2014, it was two thirds or more who affirmed the ownership of a mobile phone. Some countries had an even more explosive growth of mobile phones, as was the case with Ghana. In numbers, in 2002, only 8 % of Ghanaians affirmed mobile phone ownership, while the corresponding figure in 2014 was 83 %. In 2014 in Nigeria and South Africa, Africa's two largest economies, about nine-in-ten had mobile phones – making mobile phones as common in these countries as they are in the United States. (Pew Research Center, 2015, pp. 2-3).

In terms of foreign direct investment (FDI), Africa yielded the highest return for investment in 2011. Whereas Africa's global investment still trails behind the rest of the world, as FDI into Sub-Saharan Africa in 2013 only comprised 3,1 % of the total world FDI, it still amounted to 45 billion USD; which was an 8 % growth from 2012. China invests in numerous African countries, where, at the end of 2012, their largest cumulative investment destinations were, among others, South Africa, Nigeria and Zambia. (Worldbank, 2015).

What the above statistics and measurements are trying to convey is the idea and the possibility that the African countries could be the next big investment target and growth opportunity. Whereas risks still exist, ranging from overpopulation and lacking infrastructure to political instability and corruption, a growing middle class, urbanization as well as advances in education could mean that “the story of Africa as a perpetual, irredeemable basket case is looking increasingly dated” (Smith, 2015).

1.1 Problem discussion and purpose of study

Finland supports Tanzania through bilateral agreements – bilateral support amounted to 36 million EUR in 2014 – in, amongst others, the forestry sector, where Finland is Tanzania’s most important partner. Tanzania’s economy rose by about 7 % in 2014, and the country has plans on becoming a middle-income country by 2025. However, the country is still amongst the least developed in the world, where about 30 % of the population live in extreme poverty. The challenge for the government of Tanzania, as well as international development partners will be to get the country’s public administration, infrastructure and basic services into such a shape that the income that Tanzania’s vast natural resources create leads to a reduction in poverty. (Ministry for Foreign Affairs of Finland, 2015).

Team Finland, a network that promotes and helps Finnish companies onto international markets, has an office in Dar es Salaam. Be that as it may, the presence of Finnish companies in Tanzania is quite limited, even if the market opportunities present in the country surely could be relevant to Finnish companies as well. Since investments and expansion opportunities into foreign markets are linked to the information that a company has on the foreign market, a tremendous amount of research into the target market has to be conducted. Which leads us to the topic of this bachelor’s thesis.

This topic of this bachelor’s thesis was outsourced to me by the Tikkurila; the leading paints and coatings professional in the Nordic region. Tikkurila is interested in the East African market, and asked me to conduct a market analysis on the Tanzanian paints and coatings market. The purpose and goal of this paper is therefore to equip Tikkurila with the information needed for them to be able to make informed business decisions about their start-up, innovation, growth as well as elements related to their four P’s; product, price, placement and promotion. Thus, my objective is to compose a general market overview of the Tanzanian paint and coatings market as well as survey, analyse and assess:

- Potential customers
- Possible sales channels
- Likely competitors
- Existing products
- Typical marketing methods in Tanzania

Hence, the goal is to produce a recommendation if Tikkurila could fit into the Tanzanian market, and if so, what their next step should be.

This bachelor's these will be compiled with the help of literature studies, semi-structured interviews as well as observations. The interviews and observations to the empirical part of this report will be completed in Tanzania, where I will spend five weeks, from the end of January to the end of February 2016. These interviews will be conducted face-to-face, whereas the observations will be carried out in local neighbourhoods, venues and other points of interest and importance related to the research.

The empirical part of this bachelor's thesis will include information that Tikkurila can, and will, use in their strategic business choices. Consequently, the empirical part, starting from part 6, will be confidential. Thus, the published part of this report will only consist of the theoretical framework.

1.2 Market research versus marketing research

Market research and marketing research are often used interchangeably, even though the terms technically convey different meanings. Market research is the gathering of information related to a market's size and trends. Marketing research on the other hand is, by the definition provided by the American Marketing Association (AMA):

"The function that links the consumer, customer, and public to the marketer through information – information used to identify and define marketing opportunities and problems; generate, refine, and evaluate marketing actions; monitor marketing performance; and improve understanding of marketing as a process" (American Marketing Association, 2004).

The difference in market and marketing research is also conveyed through the questions they answer, and through what their objectives are. Say, Company A is thinking about entering

into a new market, or is planning on launching a new product line. The company would then first use market research and analysis, as it provides the foundation on which questions such as “should we enter into a new market?” and “should we launch a new product?” can be answered. Hence, the goal of the market research is to minimize the risks related to the decision-making of important, and expensive, business decisions. (OnTarget Partners a., n.d.). The objective of marketing research on the other hand is to, after market research has been conducted, develop a strategy on how to introduce a product or service line to the market. (OnTarget Partners b., n.d.).

Marketing research provides a wider framework than market research does, as marketing research also covers areas such as advertising and PR, product promotion, modes of distribution as well as research into new products. Market research is smaller concept as it is focused on a specific market, the size of it and the trends within it. Additionally, when conducting marketing research, market research may be involved in the process, but doesn’t have to be included, as marketing research can be applied to a wide array of other marketing problems. Consequently market research can be seen as a subdivision of marketing research. (Trachier, n.d.).

In this bachelor’s thesis both terms are used, however, market research is the main theme and term which will be applied. This will especially be the case in the empirical part, where the term marketing research will only, if at all, be used when the discussed and analysed themes require it. Be that as it may, in the theoretical part, marketing research will be used in the majority of the discussions. This due to the theory of marketing research being more extensive and readily available when compared to the available theory specifically on market research. The theory on marketing research will also be applied due to the fact that marketing research theory also encompasses most, if not all, of the theory related to market research.

1.3 Delimitation

The area of the research conducted in this bachelor’s thesis has been limited to the Tanzanian paints and coatings industry, as per requirements of Tikkurila. Further, the majority of the discussions and analyses will be applied to the city of Dar es Salaam. Other towns as well as the rural parts of Tanzania will be mentioned and analysed, for example regarding marketing methods. Nonetheless, the focus will lie on Dar es Salaam, for two main reasons. Firstly, I will be conducting my field work in Dar es Salaam and so putting a larger focus on Dar es Salaam seems reasonable. Secondly, the majority of the potential customers; the

middle class, the foreigners and the bigger companies, are all mostly located, or at least have their head offices, in Dar es Salaam. Furthermore, this limitation was also made in an effort to limit the magnitude of this report, thus keeping it at a manageable level.

2 Marketing strategy

What do Nike, Coca-Cola and Levi's Strauss & Co. have in common? Aside from the fact that they are all big, well-known companies, hold household name status and have billions of USD in yearly revenue, these companies all have successful core marketing strategies. The core strategy is at the centre of the marketing process (Kotler, et al., 2008, p. 365) and involves how the company divides the market into segments, chooses which customer groups to target and how it best serves the targeted customers (Armstrong & Kotler, 2003, p. 233). After a company has developed its marketing strategy, the marketing mix is used to make the strategies into reality; the marketing mix will be explained and analysed in part 3.

2.1 Market segmentation

There is not one way of market segmentation because of the fact that there is not one type of typical buyer; the buyers differ in income level, age, buying habits, geographical locations, general preferences as well as basic needs and wants. As such, market segmentation is the process by which the company divides a big market into smaller pieces, to which the company provides specific products and services – specifically tailored for each segment. (Kotler, et al., 2008, p. 410). The company has a choice in different levels of segmentation, from no segmentation at all (mass marketing) to complete segmentation (micromarketing). (Armstrong & Kotler, 2003, p. 236).

Mass marketing is also called undifferentiated marketing, and is defined as "a market-coverage strategy in which a firm decides to ignore market segment differences and go after the whole market with one offer". (Kotler, et al., 2008, p. 998). Mass marketing is, for instance, what Coca-Cola practiced at one point in time, producing only one type of drink and selling it to the market as a whole. Arguments for this type of marketing is that it creates the largest possible market, which in turn causes lower costs and potentially lower prices. Be that as it may, due to globalization and the availability of, for instance, internet shopping – making it possible to buy products from almost anywhere – the concept of one company providing only one product that fits everyone is slowly dying out. Selling the same product

to single mothers, students, middle-aged CEO's as well as upper-class teenagers is becoming increasingly difficult, presenting a challenge for those companies that choose to go down the road of "one-size-fits-all" marketing. (Armstrong & Kotler, 2003, p. 236).

Segment marketing is when a company divides the market into larger parts – or segments – and adapts their marketing to match the needs and wants of each segment. These segments can be based on various factors, such as age, income level, families or students. (Armstrong & Kotler, 2003, p. 237). For example, a restaurant can market themselves as family-friendly, thus probably not attracting as many couples wanting a quiet romantic dinner. Nonetheless, in this case the restaurant has adapted to the specific needs of families and children, and what they usually need and want in a restaurant in regard to the menu, play-areas and seating arrangements.

Niche marketing is a more detailed version of segment marketing. Whereas segment marketing focuses on one large group, such as students, niche marketing focuses on subgroups of this segment. (Armstrong & Kotler, 2003, p. 237). Instead of focusing on students at large, a company might focus on freshman students, tailoring their marketing offer for students just moving away from home, preparing for their first year at a university.

Micromarketing differs from niche- and segment marketing in that even though aforementioned forms tailor their offers to various segments, they do not tailor their offers to each individual customer. Micromarketing is thus a "form of target marketing in which companies tailor their marketing programmes to the needs and wants of narrowly defined geographic, demographic, psychographic or behavioural segments" (Kotler, et al., 2008, p. 993). Micromarketing can be divided into local marketing and individual marketing, which are explained below.

Local marketing is, as the self-explanatory title suggests, a form of marketing where the company adapts its brands and marketing services to the needs and preferences of local customer groups, be it cities or even individual stores. (Armstrong & Kotler, 2003, p. 238). For example, grocery stores in different neighbourhoods can accommodate their assortment of products to match the preferences of the clientele – for example if in an ethnic neighbourhood the assortment will probably provide for more ethnic food choices than the assortment in an upper-class neighbourhood.

Individual marketing is the opposite of mass marketing, where a company tailors their products and promotional methods to the preferences of the individual customer. Individual marketing – also called one-to-one marketing – is the extreme of micromarketing and has

brought forth the concept of the customer relationships now mattering more than ever. (Kotler, et al., 2008, p. 429). For example, cars can be tailored with the equipment you want, be it a GPS; different coloured seats, touch-pad control board or a heated steering wheel – thus strengthening the customer relationship and the customer's satisfaction. Further, you can build your own computer, clothing can be customized to your individual needs, and travel agents let you choose and accommodate their different offers to create a travel package perfectly suiting all your individual needs.

2.1.1 Segmenting consumer and business markets

International market segmentation will not be talked about here, as the global marketplace will be analysed as a whole, and more in depth, in part 5.

A one correct way of how to segment you market does not exist, and what kind of segmentation variables you use define what kind of preferences and needs the customers in the segment will have. There are three general groups of criteria for consumer segmentation; behavioural, psychographic and profile variables. The behavioural variables are, for example, the benefits sought from the product, the usage sought for the product as well as the perceptions and beliefs of the consumer. A psychographic variable is, for example, the lifestyle of the consumer, where the belief is that consumers with different lifestyles have different preferences in products or services. The profile variables are, amongst others, factors such as geographic location and socio-economic group. (Jobber, 2004, pp. 212-213). Nonetheless, marketers seldom limit their segmentation to only a few variables. (Armstrong & Kotler, 2003, p. 250). Instead, they will use multiple segmentation bases, for example, starting from the geographical location, further segmenting on the basis of the consumers' lifestyles and then on, for instance, to their purchase behaviour.

Whereas segmenting business markets can be done using the same variables used for the consumer markets – geographic location, company size, benefits sought – additional variables can also be used in order to segment business markets. These additional variables can be, for example, operational characteristics and situational factors. Companies can have teams assigned to only a specific segment in the market, for example, a company producing ready-made sauces can have their customers segmented into supermarkets, restaurants, other manufacturers of ready-made foods, and so on. In both consumer and business market segmentation, marketers are often of the opinion that the buying behaviour and the benefits

sought (also called benefit segmentation) are the best grounds on which one should base one's segmentation. (Armstrong & Kotler, 2003, pp. 250-251).

As has been shown, there are several different ways to segment a market. One must keep in mind though that not all segmentations are equally effective. For example, one can divide the consumers into different segments depending on their shoe size. But, if you are researching the buyers of chairs, their shoe size won't yield any additional, or useful, information. Therefore, effective segmentation requires that the market segments are (Armstrong & Kotler, 2003, p. 254):

- Measurable: one must be able to measure the size of the segment
- Accessible: one must be able to reach the members of the segment in some way
- Substantial: the market segment needs to be big enough to make it profitable for the company to serve it. For example, it would not be profitable for a housing company in a small town to simply provide housing solutions for people over 2 meters tall.
- Differentiable: one must be able to separate between different segments and show that the different segments react differently to, for example, different promotional methods.
- Actionable: One must be able to develop effective programs that serve each segment.

2.2 Market targeting

As the market segmentation simply provides the company with its possible segments in a market, the firm, once realising the segments, still has to evaluate the segments as well as choose which segments to target. The evaluation of a segment is done through the segment's size and growth, its structural attractiveness as well as what the company's resources and objectives are. Here, it's not just the largest and fastest growing segment that is the most attractive, as for example smaller companies may lack the resources to be able to tackle a large segment, additionally, some segments might be too competitive. Therefore, the concept of "right size and growth" is relative to the company evaluating the segment. (Armstrong & Kotler, 2003, p. 255).

Moreover, factors such as the competitors already existing in the segment, substitute products available in the segment, the power of the buyers in the segment and the prevalence of powerful suppliers all affect the attractiveness of a market. Strong and aggressive competitors already in the segment make it less attractive for a newcomer – a logical

consequence. Substitute products have the power of restricting prices and potential profits earned and the relative power of buyers can potentially harm a company's profitability. This because strong and powerful buyers will probably, among other things, try to force the prices down through bargaining. Powerful suppliers have the ability to control prices and have the potential ability of reducing the amount or quality of the ordered goods and services. Moreover, a company needs to evaluate themselves in relation to the segment, calculate if they have the resources needed to tackle the segment, asses if the segment fits in with the company's long-term objectives and decide if the company can successfully compete with the competitors in the market. (Armstrong & Kotler, 2003, p. 255).

When the company has evaluated the different segments, it has to choose which segments it will perform in. This is called target market selection, and a target market is defined as "a segment that has been selected as a focus for the company's offering or communications" (Jobber, 2004, p. 915). The company can choose one of three strategies for the target market: undifferentiated marketing, differentiated marketing and concentrated marketing.

The undifferentiated (or mass-marketing strategy) involves the company ignoring the differences in the different segments. Thus the company focuses on what needs are common amongst the customers, instead of focusing on the differences between them. This strategy involves mass advertising and distribution, and has the goal of creating a superior image of the product in people's minds. (Armstrong & Kotler, 2003, pp. 255-256)

Differentiated marketing means that the company decides, after evaluation, that they will target several different segments, using different strategies to fit the needs and wants of the customers in each segment separately. (Armstrong & Kotler, 2003, p. 256). For example, H&M provides clothes in several different segments: everyday wear, party wear, children, men, women and teen fashion as well as providing sports and swimsuit wear.

Concentrated marketing – also known as niche marketing – fits companies with limited resources, as it is a market-coverage strategy "in which a firm goes after a large share of one of few submarkets" (Kotler, et al., 2008, p. 987). Therefore the objective is not to go after a small part in a large market, but a large part in a smaller market. As these niches are often ignored by larger companies, the company targeting the niche market will probably avoid having to, for example, encounter a large amount of competitors. An example of this is the Montessori schooling system which focuses upon so called natural learning, and thus sets it apart from more traditional educational systems. Albeit this system only appeals to a small part of the parent segment, in many countries it is the only other option to traditional

schooling, making it the only alternative for the those parents wanting to put their children into an alternative schooling process. (Market Segmentation Study Guide, n.d.).

Choosing a market-coverage strategy depends not only on the company's available resources, but also on the differences in products. If, for example, the company sells bananas, an undifferentiated marketing strategy is probably the best fit. Furthermore, if most buyers have the same taste and preferences, undifferentiated marketing is probably the best choice. But, if the competitors all have concentrated marketing strategies, having an undifferentiated strategy can provide to be fatal for the company. Be that as it may, a company can gain an advantage in the segment if the competitor's all have undifferentiated strategies, and you enter the segment with a concentrated strategy. Thus the competitors' marketing strategy also affect which market-coverage strategy a company can, and should, choose. (Armstrong & Kotler, 2003, p. 258).

2.3 Market positioning

Once the company has decided which segments to enter and with what strategy, they then need to decide on the products' positioning. The definition of positioning is that of "arranging for a product to occupy a clear, distinctive and desirable place relative to competing products in the minds of target consumers" (Kotler, et al., 2008, p. 410). Basically it involves placing the unique characteristics of the brand in the mind of the consumer, making the product stand out from the crowd – so to speak. For example when thinking of Volvo one thinks of safety, with Versace one thinks of high-end design, with Rolls Royce one thinks of exclusivity and with Ikea one thinks economical and available. Consumers often do this subconsciously – with or without the marketers – even though the marketers do carefully plan the positioning in a new market in order for the products to get the best possible advantage in relation to the competitors. (Armstrong & Kotler, 2003, p. 260).

Market positioning is essentially the combination of market segmentation, the choosing of the target market and the concept of the differential advantage. (Jobber, 2004, p. 236). Differential advantage is defined as "a clear performance differential over the competition on factors that are important to target customers" (Jobber, 2004, p. 908). Therefore market positioning is the choosing of where the company wants to compete, and how it wishes to do that. The objective of market positioning is the creation and maintenance of a distinctive position in the market for the company and/or its products. Successful positioning requires some key functions to be fulfilled, mainly those of (Jobber, 2004, pp. 237-238):

- Credibility: The customers have to be able to believe in the aim of your positioning or your positioning in the target market won't work. For example, Lidl would not be able to market themselves as an exclusive grocery store, as that image would not resonate with the real image of Lidl that most consumers have
- Clarity: A clear idea of the positioning, both in terms of the target market as well as the differential advantage, needs to exist. Complicated statements on the company's positioning will probably not be recalled, and so simple and easy-to-remember slogans and themes are the way to go. Examples of easily memorized and clear themes are for example Nike's *Just do it,* Nokia's *Connecting People*, Subway's *Eat Fresh* and *L'Oreal's Because you're worth it*.
- Consistency: With the constant stream of advertisements most consumers encounter each day, a constant message is required in order to avoid confusion and differentiate yourself from the crowd of other advertisements. Confusion amongst consumers arises if one year your message is "economical and available" and the next year your message is "quality and performance".
- Competitiveness: A competitive edge is needed, and the product/service should offer some sort of benefit to the customer that the competitor's products/services aren't offering. For example, Nintendo Wii offers something else than just a gaming console, as it offers a form of exercise combined with playing console games, which one could do together, and in interaction with, friends.

Sometimes the company will have to change its positioning in the market, for example due to changes in the market. This can be done through repositioning, which is the changing of the target market and/or the differential advantage. The four strategies that can be used for repositioning are image repositioning, product repositioning, intangible repositioning and tangible repositioning. Image repositioning is, as the name suggest, only the changing of the image of the product, for example through changes in advertising methods. The product and target market are thus kept the same. Product repositioning involves the changing of the product, for example, by adding some aspects to the product that the consumers want, but keeping the target market the same. Intangible repositioning involves the changing of the target market, for example from children to teenagers, but keeping the product the same. Tangible repositioning then involves the changing of both the product and the target market. For example, a car company can, on the basis of one of their cars, decide to develop a smaller car to attract a new target market, for example, people living in the city. (Jobber, 2004, pp. 239-243)

3 The marketing mix

The marketing mix, consisting of the so called four p's – product, price, placement and promotion – is a "set of controllable tactical marketing tools… that the firm blends to produce the response it wants in the target market" (Kotler, et al., 2008, p. 49). As the four p's, explained more in detail in parts 3.1,3.2, 3.3 and 3.4, represent the available tools that the seller can use to influence the buyer, the four c's – customer needs and wants (product), cost to the customer (price), communication (promotion) and convenience (place) – represent what customer benefit should come out of the four p's.

The marketing mix, in conjunction with the competitor analysis (explained in part 4) helps the company in gaining a competitive advantage, which is defined as "an advantage over competitors gained by offering consumers greater value, either through lower prices or by providing more benefits that justify higher prices" (Kotler, et al., 2008, p. 461). Customer choice criteria is related to the marketing mix, as marketers need understand why their target customers choose the products they do, so that the company can develop their marketing mix to match the needs and wants of the customers. Through a successful analysis of the customer choice criteria, the company can reveal a set of principal customer requirements that the company needs to satisfy in order to succeed in the market. When the company has met, or exceeded, these key conditions better than their competitors, they have created a competitor advantage. (Jobber, 2004, pp. 19-20). Figure 1 shows the link between the customer choice criteria and the marketing mix, as was explained above. The figure was captured from the book *Principles and Practice of Marketing* by David Jobber (Jobber, 2004, p. 20).

Customers evaluate, consciously and subconsciously, products and services according to their customer choice criteria, which are divided into two parts; the economic component and the psychological component. The economic component consists of criteria related to, for instance, durability, reliability and performance. The psychological components are factors such as self-image, convenience and pleasure. (Jobber, 2004, pp. 19-20). The aforementioned variables are also used when segmenting your customers into different segments in the market, as analysed in part 2.1. In the following parts, the marketing mix will be generally analysed, thus not specifically considered in relation to the global marketplace. This because aspects of the global market and its relation to the marketing mix will be analysed in part 5.

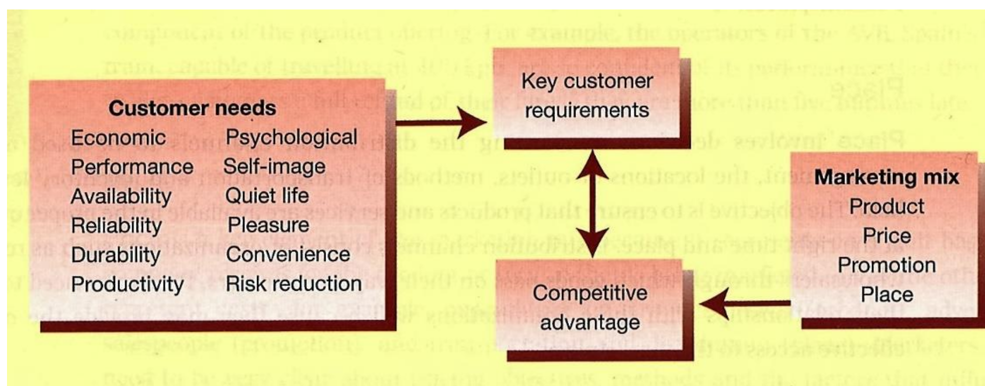

Figure 1 The link between customer choice criteria and the marketing mix

3.1 Product

The product refers to the combination of goods and services that the company offers to the market (Armstrong & Kotler, 2003, p. 63) and can be tangible, intangible or a combination of these. Products like online services or the purchasing of a product, to which a delivery service is attached, combine the products of tangible goods and intangible goods. The purely tangible goods, such as sugar, milk or shampoo, are products that do not require any services at all. On the other side of the spectre are pure services such as banking or hairdressing services, which do not result in the ownership of anything: (Kotler, et al., 2008, p. 500). These services are of great importance in the world economy, but they will not be taken up separately in this report. This due to its small-scale significance for this particular report as a whole. Services involving the purchase of a product, such as customer service, installation or delivery of a product, will be analysed in below.

Products can thus be just about anything; the package deals that travel agencies offer or the cars that Volkswagen sells. The travel package offers the hotel and meal service, the flights, the airport pick-up and the complimentary chocolates upon arrival. The Volkswagen car is made up of parts; different materials, electronics, music players, GPS-systems and so forth – which all are part of the Volkswagen car. Some car dealers also sell you a specific service in relation to the purchase of the car, involving everything from fitting the car to your specific needs, delivering it to your doorstep and selling you the needed car insurance. (Armstrong & Kotler, 2003, p. 63).

A new way for companies to create value for their customers, in addition to offering products and services, is the offering, and selling, of experiences. (Kotler, et al., 2008, pp. 500-501). A company that has a lot of experience in this, and has sold experiences for some time, is Disney, who doesn’t directly advertise that they sell theme park tickets or movies. Instead

they, in their company overview, describe themselves as being the "leading producers and providers of entertainment and information… we seek to develop the most creative, innovative and profitable entertainment experiences and related products in the world" – therefore, not only selling products and services, but selling entertainment. (The Walt Disney Company, n.d.)

There are several layers to a product, which are depicted in Figure 2. The figure is captured from the book *Principles of Marketing*, by Kotler et al. (Kotler, et al., 2008, p. 501). The core product is what satisfies the basic problems that the consumer is seeking to resolve. An example of this would be a tube of toothpaste. The customer needs to brush their teeth, and hence buys toothpaste. The core benefit of this product is that it will clean your teeth. But the customer does not buy the core product – they buy the actual product. Which brings forth the next level of the product, the actual product. To the core product the brand name, quality-level, packaging, different product and service features as well as styling have been added. These characteristics have been combined with the core benefit all the while keeping the core benefit of the product – cleansing you teeth – the same. The third stage is the augmented product to which different service features have been added. For example, by buying the toothpaste you can receive tips on how the choice of toothpaste affects the gums, a free visit to the dentist or discounts on teeth whitening products. Thus, the company is not only selling toothpaste, but a product that can help the overall health of your mouth. (Kotler, et al., 2008, pp. 501-502)

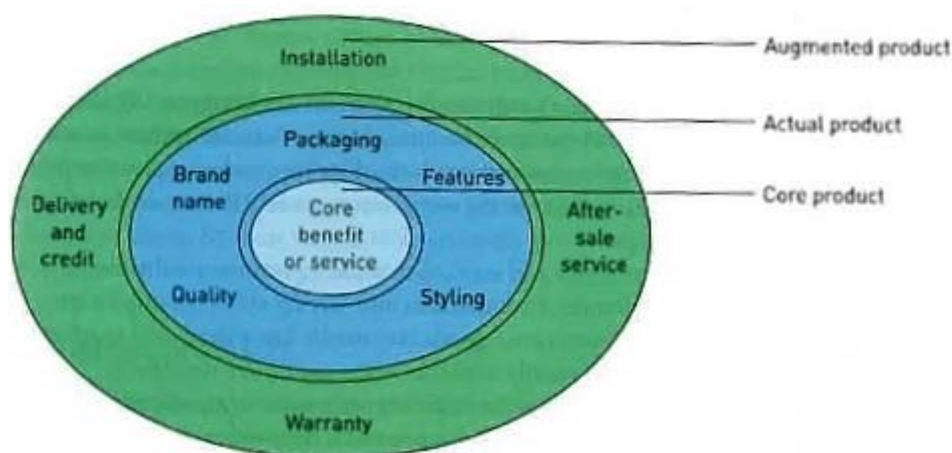

Figure 2 The three levels of a product

Products are also classified into durable and non-durable products as well as consumer and industrial products. Durable products are products that are consumed quite quickly, such as shampoo, whereas non-durable products are products that typically last several years, such as cars or mobile phones. Furthermore, consumer products are products that are bought by

the end-user and intended for personal use. These can be further divided into convenience products, shopping products, speciality products and unsought products. The distinction between a consumer and an industrial product lies in the function of the bought product. If a person buy a mobile phone for personal use, it’s a consumer product. On the other hand, if that same mobile phone is bought by that same person but its intended use is in a call-centre company – it’s an industrial product. (Kotler, et al., 2008, pp. 502-504).

Convenience products are bought regularly, and not much thought is put into the purchase decision. These products are usually lower priced and can be found at most locations; this because the company must focus on selling in volume due to the lower pricing of the products. Most household items go into this group, such as food and personal care items. (KnowThis.com, 2016).

Shopping products are bought more seldom than the convenience products and have a higher price level, thus the consumers are willing to search for these products in different locations. Moreover, these products can have an effect on the perceived social status of the consumer, thus further enhancing the fact that consumers are willing to shop and search for these products. The market for these products is also smaller than the market for the convenience products. Examples of these types of products are for example clothes as well as phones and other electronic items. (KnowThis.com, 2016).

The most expensive group of products are the products included in the speciality products section. These products are not necessarily bought more rarely than the shopping products, but the consumers are more selective of these types of products, and seldom do the customers compare these products or search for locations selling these products. As this market is very small these products are sold at very few locations, to the point of these products being exclusive. Examples of these types of products are for example designer bags and clothes, expensive champagnes and luxury cars. (KnowThis.com, 2016).

Unsought products are products that the consumers do not normally think of buying – or the consumer simply does not know that these products exist on the market. (Kotler, et al., 2008, p. 503). When the computer first became available on the market for home users it was an unsought product (Ripley, 2007) and nowadays classic examples of unsought products are life insurances or pre-planned funeral services. As these products are not known in the market they demand a lot of marketing efforts. (Kotler, et al., 2008, p. 503).

Industrial products are bought for business use or to be used in processing. Industrial goods can be divided into materials and parts, capital items and supplies and services. Materials

and parts consist of raw materials, such as, crude petroleum, timber, wheat or cotton, and of manufactured materials and parts, such as, cement, wires, tyres and small motors. These are products that completely go into the finished product that the buyer purchases. Capital items on the other hand only partly go into the finished product, as these products only assist in the generation of the finished product. Accessory equipment, such as office equipment, trucks and tools, and installations, such as factories and generators, are all different examples of capital items. Finally, supplies and services are industrial goods that do not enter the finished product at all. The supplies are for example pencils, paper, brooms and nails, thus incorporating the company's operating inventory as well as their repair and maintenance items. The services include the business services that the company employs, such as cleaning services, as well as advisory services, such as legal and management consulting. (Kotler, et al., 2008, p. 504).

Aside from classifying the product either into consumer or industrial products, decisions regarding the products', for example, special features, have to be made. Product decisions are the decisions that the company, and its marketers, have to make in relation to the product's development and marketing. The three levels for the decision-making are: individual product decisions, product-line decisions and product-mix decisions. (Kotler, et al., 2008, p. 507).

3.1.1 Individual product decisions

Decisions regarding individual products can be divided into decisions regarding the product attributes (quality, features and style and design), branding, packaging, labelling as well as product support services.

The product's attributes are what makes the product, in itself, special. The product's quality is the "the ability of a product to perform its functions; it includes the product's overall durability, reliability, precision, ease of operation and repair and other valued attributes" (Armstrong & Kotler, 2003, p. 287). The quality of the product has a direct impact on a product's performance and is one of the marketer's main positioning tools. The quality of a product consist of two elements; the quality level and the performance quality. The quality level is the level that matches the positioning of the product in the target market, whereas the performance quality is how well the product executes its functions. Companies rarely try to achieve the highest level of performance quality (products that are considered to have this level of quality are for instance Aston Martin and Rolex), as these products become quite

expensive for the average customer. Thus the companies often choose a quality level that matches the needs of the target customers as well as quality levels of the competitors' products. (Armstrong & Kotler, 2003, p. 287).

Product features are what differentiates the product from its competitors. Additionally, the product can come in several different versions, one without any special features, one with some special features, and so forth. Some companies offer their products with the features readily installed in the product, so that the customers just need to choose which model they want. Then again, some companies can let their customers choose which features they prefer to have in their product. Car companies use this type of selection of features a lot in their products, where the customer can choose which features to equip their car with – where the car becomes more expensive and more special the more features you add. (Armstrong & Kotler, 2003, pp. 287-288).

The style and design of a product is another way of adding customer value. Also, having a specific style, or a certain level of design in your products can clearly set you apart from your competitors, making it an important tool in gaining competitive advantage. For example, Apple's Mac computers are elegant and sleek, setting them apart from the bulkier computers of their competitors. (Armstrong & Kotler, 2003, p. 288).

A brand is a "name, term, sign, symbol or design, or a combination of these that identifies the goods or services of one seller or group of sellers and differentiates them from those of competitors" (Kotler, et al., 2008, p. 985). Successful branding can add value to a product and having high brand equity; i.e. having a powerful brand, is a valuable asset in the market. Most products are branded, even fruits and vegetables, showing that consumers view brands as important parts of a product. This can also be shown by the fact that many consumers view a bottle of Evian water as being somehow better than a bottle of unbranded water. Thus, branding not only identifies the product for the buyers, but also tells the buyers something about the quality of the product as well as providing the bases on which a story about a product's features can be built. (Armstrong & Kotler, 2003, p. 289).

Packaging and labelling consist of, as the titles suggest, the packaging and labelling of a product. The packaging consists of both the designing, as well the producing, of the package, and involves all of the packages that the product is transported in. These can be the bigger packages in which the products are shipped, the smaller packages containing the product, for example the packages that the Stabilo markers come in, as well the packaging on the Stabilo markers themselves. Clever and innovative packaging can give a company a

competitive edge, whereas poorly designed packaging can cause a lot of headache for consumers. (Armstrong & Kotler, 2003, pp. 298-300). For instance, the plastic packages that scissors or headphones come in often cause a lot of problems for the consumers trying to open them. This whereas the Pringles chips have gotten a lot of compliments for their well-thought-out packaging. The chips, packed in a tube, make the chips support each other throughout the shipping, and being that the chips are uniform in size, they do not break. Furthermore, the tube the chips come in has become something that the consumers relate directly to Pringles, making the tube an important marketing tool for Pringles.

Labelling has a couple of different functions, the main one being the identification of the product. Additionally, the label describes the product, such as where it was made. What the label describes is often regulated by law, as, for example, in several countries the labels of food items have to state the product's nutritional content. In the same way many countries' demand that chemical products have the warning signs related to the use of the product visible on the label. Also, the label might promote the product through, for example, the use of attractive graphics. (Armstrong & Kotler, 2003, pp. 300-301).

The product support services are not the intangible services that were mentioned in the beginning of part 3.1, such as hairdressing services, but services that augment the actual products. The extent of these product support services vary depending on the company, where some companies make it a major part of the actual product. These services include, for example, customer service, where an increasing number of companies have started using these support services as a tool in order to gain a competitive advantage. (Armstrong & Kotler, 2003, p. 301).

3.1.2 Product line decisions

Aside from making decisions regarding individual products, a product line has to be established. The product line consists of products that are related due to their similar functions, their sales to the same customer groups, their similar marketing outlets or price ranges. (Kotler, et al., 2008, p. 517). For example, Sony has several lines of audio systems, Samsung has several lines of phones, Timberland as several lines of outdoor shoes and Helly Hansen has several lines of outdoor wear.

The main product line decision affects the number of items in the product line; the product line length. If the company can add items and thus add profits, the product line is too short. Similarly, the line is too long if the company can increase profits by reducing the amount of

products in the product line. Product line stretching and product line filling are two ways that a company can lengthen its product line from its current stage; i.e. add items to its product line. (Kotler, et al., 2008, p. 518).

Downward stretching is when a company located in the upper part of the market stretches their line to include lower parts of the market. This can be either to fill a hole in the market that is not being filled, thus stopping a competitor from possible entering the market, or to respond to a competitor's move in the market. Furthermore the company can find that there is a lot mot growth happening in the lower parts of the market, presenting growth and profit opportunities. For example the car manufacturer Mercedes, stretched their product line downward, and started offering more affordable Mercedes cars, in the form of their C- and A-class cars. (Kotler, et al., 2008, p. 518).

Upward stretching of the product line is when a company in the lower parts of the market wants to expand their product line to target higher parts of the market. This can be, for example, to add prestige to the company's products, because of higher growth rates or because of better margins at the higher ends of the market. For example, Toyota, which produces affordable, mostly everyday use cars, has a higher class line – the Lexus – to compete with companies such as Mercedes or BMW. (Kotler, et al., 2008, p. 518).

The two-way stretch is consequently when a company in the middle parts of the market decides to stretch their product line both upward and downward. Some hotel chains, like the Marriott, offer both regular hotels, but also high-end hotels to serve the upper parts of the market as well as simpler hotels to serve the lower parts of the market. (Armstrong & Kotler, 2003, p. 304).

Instead of product line stretching, where a company intends to reach other parts of the market, there is product line filling – which is another form of product line decisions. This is where a company adds more items to an already existing product line, but not extending the product line to target new customers. This is done to, for example, achieve additional profits or to keep out competitors. (Kotler, et al., 2008, p. 520). However, to avoid confusion among customers, companies should make sure the new products are notably different from the existing products. An example of product line filling is for instance the addition of additional products to Colgate's Colgate Kids product line; such as new toothbrushes, mouth waters or toothpastes. (Colgate a., n.d.).

3.1.3 Product mix decisions

The product mix is the total amount of brands that are marketed in one company – thus the sum of all the offered product lines. (Jobber, 2004, p. 262). Samsung, for example, has a wide product mix, due to the fact that the company offer a wide range of product lines, such as, television's, smartphones, appliances and so forth. A start-up company then again will probably no have a wide product mix, due to the fact that they'll most likely only have one or two different product lines.

Aside from the width, the product mix, also called product assortment, can be measured by its length, consistency and depth. The length of the product mix refers to the total number of products that the company has in its product lines. The depth of the product line reflects on the number of offered versions of a product in the product line. For example, the Colgate Total product line has 7 different toothpastes (Colgate b., n.d.). The consistency of the product mix reflects on how consistent the production lines are in end use, such as in distribution channels. Colgate's product lines are consistent in that they go through the same distribution channels and are in similar use and perform similar functions for the consumers. This whereas, for example, Samsung, while the product lines having consistency regarding their distribution channels, differ in their functions for the consumer; for instance the telephone has a separate function from the television. The product mix provides tools with which a company can define its product strategy; do they, for example, add more product lines or develop the existing ones? This then depends on what type of company the firm wants to be and what kind of presence the company is aiming for. (Armstrong & Kotler, 2003, p. 305).

3.1.4 Branding

For the purpose of this report solely the concept of brand sponsorship and brand development will be analysed in this section – as it is connected to the global marketing programme which is discussed in part 5.3. The process of branding strategy and name selection is not seen as relevant for the empirical part of this study and thus it will not be analysed here.

A manufacturer has four sponsorship options for their brand:

- Manufacturer's brand: Also called national brand. A brand that is created, as well as owned, by the producer of the product or service; like the Samsung phone.

- Private brand: Also called middleman, retailer, distributor or store brand. The brand is owned by a reseller of the product or service; for example the instore brands of different supermarket chains.
- Licensed brand: A licensee pays the brand owner a fee or royalty, against which the licensee can use a brand name for a product or service; for example the clothing manufacturers that license Nickelodeons characters – such as Dora the Explorer – to put on their shirts.
- Co-brand: The use of two different brands of two different companies in one product; for example the use the McDonalds KitKat ice-cream desserts. (Kotler, et al., 2008, p. 529).

Related to the aforementioned licensing is the concept of corporate brand licensing, which is taking a corporate trademark from one category and using it in another category; like Ferrari's fragrances or Porsche's clothes. (Kotler, et al., 2008, p. 529).

Brand development can be done in four different ways, through line extension, brand extension, multi-brands or new brands, which will now be shortly discussed. Line extension is when a company adds new features to an already existing brand name in an existing product category, such as new flavours, ingredients or forms. (Kotler, et al., 2008, p. 530). An example of this is for example the Mars chocolate bar, which has been extended into Mars ice-creams, Mars chocolate drinks and Mars energy drinks (Mars, n.d.). Whereas line extension keeps the brand name and product category the same, brand extension changes the product category, keeping the brand name the same. Thus, brand extension is the extension of an existing brand name into new product categories. An example of brand extension is Honda, who not only covers cars and motorcycles, but also snowmobiles and lawnmowers. (Kotler, et al., 2008, p. 530).

Multi-brand strategy keeps the product category the same, but changes the brand name. Basically the seller develops several products in the same product category under different brand names. An example of this is Unilever who has several different types of laundry detergent, where the corporate name is hardly visible. This type of branding can be further divided into range branding, where instead of developing separate brand names for each product, the company develops separate brand names for each family of products. Furthermore, corporate and individual branding strategy incorporates the company name with the individual brand name. An example of this is Nestle who develops several different chocolate bars, like Kit Kat, Lion and Milky Bar – where, even if Kit Kat has its own brand name, Nestle is still visible and present. (Kotler, et al., 2008, pp. 530-532).

New brands is when a company changes both the brand name as well as the product category. For example, the aforementioned Lexus is an example of this. When Toyota ventured into the luxury cars segment, they changed both the product category as well as their brand name. This so that the new product could be viewed separately from the standard and traditional Toyota brand – creating a distinctive identity and a separate position from the other Toyota cars. (Kotler, et al., 2008, p. 533).

3.2 Price

Due to factors such as intense global competition and informed buyers, the pricing of goods and services has become a key function in firms. Pricing affects the firm's financial performance and influences the buyers purchase decisions. Moreover, it influences the buyer's value positioning of brands and can become a measure for product quality when buyers do not know how to otherwise evaluate the quality of complex products. (Cravens & Piercy, 2003, p. 373). This can be the case with, for example, prestige goods, where "consumers think that higher prices mean more quality" (Kotler, et al., 2008, p. 653).

The price is defined as "the amount of money charged for a product or service, or the sum of the values that consumers exchange for the benefits of having or using the product or service" (Kotler, et al., 2008, p. 639). Pricing is the only factor in the marketing mix that produces revenue, as all the other factors produce costs. It is also one of the more flexible elements, as it can be changed, for example through the cutting of prices to boost sales. Be that as it may, once implemented, the pricing strategy can be somewhat difficult to change, especially if the change is towards increased prices (Cravens & Piercy, 2003, p. 373). Also, pricing, as part of a company's overall value proposition, plays a key role in building customer relationships and creating customer value. (Kotler, et al., 2008, p. 639).

3.2.1 Setting prices

The basic rule of thumb in terms of pricing is that the price of a product needs to be so high that the company gains profits, but not so high that the demand for the product deteriorates. Basically, if the customers see that the product's value is less than the price, they will not buy it. The company cannot either sell the product at a price that is less than the costs of production, as the company will suffer from this. Therefore the company needs to set the price somewhere between these two limits, also taking into account the company's overall

marketing mix and strategy, the supply and demand in the market as well as how the competitor's act and what their pricing strategies look like. (Kotler, et al., 2008, p. 639).

As with other marketing mix decisions, the starting point in regard to pricing decisions is the concept of customer value. An exchange happens between the customer and the company when the customer buys something, as the customer exchanges something of value; the price, and gets something of value in return; the benefits of having or using the product. One right way of setting prices does not exist, as at the end of the day, it is the customer who will decide through their purchase decision if the product's price is right or not. (Kotler, et al., 2008, pp. 639-641).

Choices regarding market targets, products and distribution channels set guidelines for the pricing strategies. Here the product's quality and features, distribution channels and end-users help in establishing a feasible price range. (Cravens & Piercy, 2003, p. 375). Efficient pricing strategies demand a proper understanding of the value that the product or service brings to the customer. The base for the pricing strategy depends on of if the company uses their cost of production or the customer's perception of value as their main frame of reference. Essentially, pricing strategies based on customer values set the roof limit for the prices, whereas the cost-based pricing strategies set the base for the minimum price that can be charged without the company sustaining any damage. (Kotler, et al., 2008, pp. 639-640).

In value-based pricing, the price is set based on the customers' attitudes on the product's value, instead of on the cost of the production of the product. Good-value pricing is the combination of good value at affordable prices, and is a growing form of value-based pricing. For example, the hotel chain Holiday Inn offers cheaper budget hotels, for customers that still want quality, but at a more affordable price. Value-added pricing is an additional form of value-based pricing, and is something that business-to-business marketeers do: Here, instead of cutting costs to match those of the competitors, the company adds services that create value for the customer to their products and services. Cost-based pricing is then the setting of prices based on the production, distribution and selling of the product, as well as including a rate of return for the invested effort and risk. (Kotler, et al., 2008, pp. 639-644).

The simplest pricing method is cost-plus pricing, which is when the company adds a standard margin to the cost that the production of the product entailed. For example, the cost of producing a product is 10 USD. Then the manufacturer would add a standard mark-up, say 50 %, and sell the product to the retailer for 15 USD. This pricing strategy is not the best there is though, as it ignores factors such as demand and competitor prices. Nevertheless, it

still remains popular as it simplifies the pricing process, and, if all companies were to use this pricing method, it would lead to minimized price competition amongst competitors. Additionally, many people see that this method is the fairest both to the buyers and the sellers. Break-even pricing, also called target profit pricing, is another version of cost-oriented pricing. Here the company tries to establish the price at which it will break-even (total revenues will equal total costs) or make a certain target profit. (Armstrong & Kotler, 2003, pp. 364-366).

As was mentioned before, the costs of production set the lower limit for the prices, while the customer's perceptions of value set the upper pricing limits. In-between these two edges, the company has to take into account the internal and external factors. The internal factors are aspects related to the company's overall marketing strategy, the company's objectives and marketing mix as well as organisational elements. The external factors are aspects related to the competitors as well as the overall nature of the market and additional environmental factors.

As pricing is only one part of the four part marketing mix, the overall marketing strategy needs to be clear before the company can set a definite pricing strategy. Pricing is closely related to market positioning, as the price you can ask largely depends on your intended target market and how you market yourself. Fundamentally, the objectives of the pricing set the essential guidelines for the pricing strategy. These objectives vary depending on what the management wants and what the situational factors look like, and so, the pricing objectives can, for example, be about: (Cravens & Piercy, 2003, pp. 378-379)

- Gaining market position – through the use of lower prices the company can increase their sales.
- Achieving financial performance – pricing may be set with the objective of subsidizing profits and cash flow.
- Product positioning – to enhance a product's image, promote the product, or to create awareness about the product, different pricing strategies can be used.
- Stimulating demand – when sales are slow, the company can use the price to encourage the buyers to purchase new or existing products.
- Influence competition – a company can try to influence already existing, or potential, competitors through their pricing, for example, to dampen the market entry of new companies. (Cravens & Piercy, 2003, pp. 378-379).

Organisational characteristics need to be taken into consideration when setting the pricing strategy; basically, who is it inside the organisation/company who will be setting the prices? For example, in small companies, the pricing is usually set by the management, whereas large industries often have separate pricing departments. (Kotler, et al., 2008, pp. 649-650).

The two external factors, the market and the competitor activity, also affect a company's pricing. The freedom that the company has in its pricing depends on if the market is under pure competition, monopolistic competition, oligopolistic competition or pure monopoly. When there are many sellers and buyers on the market, and when no one seller or buyer has a lot of control on the going market price – it's a pure competition market. Sellers in this market do not spend a lot of time on marketing strategy, and marketing research, product development as well as sales promotion play an insignificant role. On the other hand, when there are many buyers and sellers on the market, but they trade over a range of prices (instead of a single market price), the market is under monopolistic competition. Sellers can differentiate their products to the buyers, leading to a varying price range as well as different marketing and sales promotional methods. The companies are not as affected by each other's pricing strategies, as there are so many competitors on the market. (Kotler, et al., 2008, pp. 651-652).

In oligopolistic competition, there are few sellers who are highly susceptible to each other's pricing and marketing strategies. All sellers are aware of what the other sellers are doing and what their strategies are, and in this type of market, market entry is difficult. Lastly, in a pure monopoly, there is only one actor on the market – for example a government owned company. Here, the seller sets the price depending on what their objective is, for example, to offer an essential product that anyone can by. (Kotler, et al., 2008, p. 652)

Additionally, competitor's strategies and pricing affect a company's own pricing strategy. The pricing strategies of each competitor needs to be evaluated to establish which companies in the target market serve as the most direct competitors, and an analysis on how the competing firms are positioned needs to be done. Additionally, how the pricing is used as an active part of the competitors' marketing strategies, what success the pricing strategies of those firms has had and what the key competitors' probable responses to alternative pricing strategies are, needs to be evaluated. (Cravens & Piercy, 2003, p. 684). The most difficult factor to evaluate out of the previous is the prediction on how competitors will respond to your changes in pricing. If a firm's price is viewed as threatening; i.e. low, or greedy; i.e.

high – action is probable. Competitive pricing situations can be analysed using game theory[1], and the theory can also be used to analyse the competitor's pricing strategies. (Cravens & Piercy, 2003, p. 685).

An additional pricing method related to the competitors is that of competition-based pricing, where the company would set their prices based on the competitor's prices of their similar products. One form of this is the so called going-rate pricing. This is when a company bases their products' prices largely on the competitor's corresponding products' prices, consequently not paying much attention to their own costs and demand. This is normal in oligopolistic industries. (Armstrong & Kotler, 2003, pp. 370-371).

Lastly, a company also needs to look at other external factors when setting prices. Economic conditions, for example a boom or recession, the government's influence on pricing decisions, trends in technology development as well as environmental aspects, all affect a company's pricing structure. (Kotler, et al., 2008, pp. 658-659).

3.2.2 Pricing new products

In this part, only the pricing strategies of new products entering the market will be analysed. This because this theory is most relevant to the empirical part of this report. There are two different strategies that companies can choose from when introducing new products to the market; market-skimming pricing and market-penetration pricing. (Kotler, et al., 2008, p. 659).

Market-skimming pricing is when a company initially sets a high price for their product, after which they slowly start lowering the price. Through this the company can skim revenues from various segments of the market, and whereas the company makes fewer sales, the sales are more profitable. Nonetheless, market skimming requires a few conditions to be fulfilled for the use of the strategy to be logical. Firstly, the products image and quality need to be up to a certain standard to justify the higher price. Additionally, the consumers cannot be price-sensitive; i.e. their purchase decision cannot be greatly affected by the price of a product, and there has to be enough consumers that are willing to buy the product at the higher price. Also, the costs of producing the smaller volume cannot be higher than the revenue gained from the higher price. Lastly, market entry should not be so easy that there

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[1]Game theory is a form of applied mathematics that studies situations that involve conflicting interests. It especially aims to "mathematically capture behavior in strategic situations, or games, in which an individual's success in making choices depends on the choices of others". (Pavel, 2012, p. 11).

is a risk that competitors enter the market and undercut the high price. (Kotler, et al., 2008, p. 659).

The second pricing strategy to get a new product onto the market is that of market-penetration pricing. In this strategy the goal is to penetrate the market quickly, attract a large amount of consumers and gain a broad market share. To do this, a low initial price is set. Because of the large amount of consumers the sales volume is large, which results in falling costs, which further results in the company being able to lower its prices even further. As with the market-skimming strategy, also this strategy requires that some conditions be filled in the market. Firstly, the market needs to be price-sensitive; as in these markets a low price generates market growth. Additionally, as sales volume increases, the production and distribution costs need to decrease. Lastly, the low pricing must discourage competitors from entering the market or segment, and the price needs to maintain its low level. (Kotler, et al., 2008, pp. 659-660).

3.3 Promotion

The external communication of a company is immensely important in building customer relationships. This because good relationships are not solely built upon “developing a good product, pricing it attractively and making it available to target customers” (Kotler, et al., 2008, p. 691) – the company’s communication with the customers is as important of a building block of these relationships as are the above mentioned factors. Companies have to develop a functioning communication strategy, and it should communicate with, not only its target customers, but also with the broader public. This because the consumers receive a lot of information through word-of-mouth communication, and not only from those consumers in the same customer segment. As such, communicating effectively with a larger audience helps in promoting the company’s values and making sure that the company’s message reaches the intermediaries and customers. (Kotler, et al., 2008, p. 691).

Most companies communicate externally in some form, where some companies spend more money than others on different advertising agencies, sales promotions and public relation firms. (Kotler, et al., 2008, p. 691). A company’s promotion mix, also called marketing communications mix, is the specific combination of communication activities that the company uses in order to externally communicate customer value and build customer relationships. This mix consists of advertising, sales promotion, public relations, personal selling and direct marketing. (Kotler, et al., 2008, p. 995). The main functions and

characteristics of the components in the marketing mix are (Kotler, et al., 2008, pp. 692, 713-715):

- Advertising: Any paid form of non-personal demonstration and PR of ideas, goods or services by an established sponsor. It can reach large masses of geographically dispersed buyers at low cost, for example, though the radio. Also, because of its public nature, consumers tend to view advertised products as legitimate. However, advertising is often seen as impersonal and is only a one-way communication with the audience. (Kotler, et al., 2008, pp. 692, 713).
- Sales promotion: Short-termed stimulus and hype-creation to inspire the buying or selling of a certain product or service – for example in the form of coupons, free gifts and contests. It attracts consumer attention and can be used to boost slower sales or amplify offers. But, the effects of sales promotions are short-lived and it is not as effective as advertising or personal selling in the building of long-term customers and brand preference; "sales promotion buys short-run reseller support and consumer sales, but advertising build long-run brand equity and consumer preference" (Kotler, et al., 2008, p. 716).
- Public relations (PR): The building and maintenance of a company's favourable public image. Also involves the process of intercepting and stopping rumours, events as well as stories that could harm the company's image. PR can also reach consumers that avoid sales personnel, as PR is broadcasted more as news and not as direct sales advertisement. The way of broadcasting also makes PR more believable than ads; as news stories and sponsorships seem more legitimate to many consumers than simple ads do. The problem with PR is that it is sometimes quite underused and not well thought-out ahead of time. (Kotler, et al., 2008, pp. 692, 714-715).
- Personal selling: The process by which the sales personnel, or sales force, of a company, uses personal presentations as a form of building customer relationships and completing sales. Involves personal interaction which is an effective tool in the sales process as well as in the building of long-term customer relationships. Nonetheless, it is a company's most expensive promotion tool and it is not as easy to change as advertising is. (Kotler, et al., 2008, pp. 692, 714).
- Direct marketing: Direct communication with targeted customers on the products or services. This is done in a way where the responses can be measured, and a goal is also to encourage and develop lasting customer relationships. It is a non-public form of advertising – as telemarketing or direct mail is usually directed at a specific person

– and enables an interactive communication between the buyer and the seller. It can also be customised and the content can be prepared very quickly. (Kotler, et al., 2008, pp. 692, 715).

An additional factor in the promotion mix is, according to some authors, that of internet and online marketing. This is the distribution of a company's products and services, promotions and company information through online media. (Jobber, 2004, p. 414). However, some include this in the direct marketing component (Kotler, et al., 2008, p. 715), which has also been done in this report, and as such it will not be looked at separately.

3.3.1 Promotion-mix objectives

Decisions regarding communication objectives, promotion components and their roles as well as budgetary decisions are all part of the development process of a company's promotion strategy. The market targets and the company's positioning strategy guide the company's promotion decisions. These decisions provide a frame of reference for the decisions regarding what role of the promotion strategy will play in the total marketing programme. (Cravens & Piercy, 2003, p. 402).

It is not enough for the company to solely decide on which promotion strategy components that are to be used in the marketing programme. The company also has to decide on how they are used, which is what the communication objectives help establish. New product introductions typically have the communication objective of triggering a need in the customer. The need recognition objective can also be relevant for an already existing product, especially if the purchase of the product can be postponed to a later time, for example the purchasing of a life insurance. Another communication objective is the finding of buyers, where the promotion activities can help in identifying potential customers and aiming at getting these potential customers to respond. (Cravens & Piercy, 2003, pp. 402-404).

Additional communication objectives are those of brand building, evaluation of alternatives, decision to purchase as well as customer retention. Promotional activities related to brand building, when applied to new products, have the goal of teaching and advising customers about the product – thus assisting in the customers search for information. What's more, promotional activities can help buyers establish alternative products or brands – which is

where the objective of evaluation of alternatives comes in. Comparative advertising[2] as well as personal selling – the use of verbal communication between the sales force and the prospective buyer – are both useful tools when wanting to demonstrate one brand's strengths against a competing brand. One can see that many of the promotional components can be used to trigger the purchase decision – which is an important communication objective. Personal selling is an effective way of stimulating this decision, as it enables the seller to respond actively to the consumer's questions at the time of the purchase decision, something that advertising does not enable in the same way. Finally, the communication with buyers after their purchase is another important promotional activity. The follow-ups done by sales personnel – questionnaires, advertisements showing the company's capabilities and the encouraging of customers to report defects and problems thus all serve the objective of customer retention. (Cravens & Piercy, 2003, p. 405).

As was mentioned, communication objectives "help determine how the promotion strategy components are used in the marketing programme" (Cravens & Piercy, 2003, p. 405). In addition to how the components are used, objectives and goals need to be set for each component separately, as well as for the promotion strategy as a whole; the "promotion objectives guide the specific role of each component in the promotion mix". For example, advertising can be applied to generate repeat purchases of the brand. It is also important to establish which promotion-mix component is responsible for which communication objective. For example, advertising can be responsible for the objective of creating awareness about the brand. In addition, the company needs to establish how big a part each component plays in the promotion strategy as a whole – as this helps in establishing the promotion budget. (Cravens & Piercy, 2003, p. 406).

3.3.2 Total promotion budget

There are four main methods of setting the total budget for promotion; the affordable method (some authors call it the "all you can afford" method (Cravens & Piercy, 2003, p. 407)), the percentage of sales method, the competitive sales method and the objective and task method. The affordable method is a commonly used method for setting up the total promotion budget, and basically it's the setting of the promotion budget at a level that the management thinks that it can afford. This method makes long-term market planning difficult and often places

[2] Comparison advertising is a form of advertising where one brand is compared to one or more other brands. This comparison can be done directly or indirectly. (Kotler, et al., 2008, p. 986).

advertising last in the spending priorities, often leading to too little money spent on advertising and promotion. (Kotler, et al., 2008, p. 711).

The percentage-of-sales method is determining the budget as a percentage of current or projected sales, or as a percentage of the unit sales price. This method does have its good sides – it is simple to use and helps the sales personnel recognize the relationship between money spent on promotion, the selling price and the profit per unit. Be that as it may, this method does not consider sales as a cause of promotion, but as a result of it. Furthermore, it can prevent the additional use of funds for promotional activities when sales are slow – a time when increased promotional activities would be of fundamental importance. (Kotler, et al., 2008, p. 712).

The competitive-parity method of setting the total promotion budget is when a company's promotion budget is set to match the expenditures of the competitor. Arguments for this method claim that the method uses the cumulative knowledge of the industry as well as prevents promotion wars[3] between competitors – as everyone is spending the same amount. Nevertheless, there is little basis to the argument that one's competitors know more than you on where you should be spending you money, especially as companies vary greatly in objectives, sales, profits and promotional needs. Furthermore, there does not exist any evidence on the statement that spending the same amount as you competitors on promotional activities would somehow hinder promotion wars.

The most logical promotion budget method is the so called objective-and-task method. It is developed by defining the specific promotion objectives, establishing what tasks need to be executed in order for these objectives to be reached and then assessing the costs of performing these tasks. The total amount of these costs is then the requested promotion budget. This method requires the management to reflect upon the relationship between money spent on promotion and the results of it. Nonetheless, it is the most difficult method to use, as it is often quite difficult to establish which tasks lead to which goals. Even so, this method's main asset is that it "gets managers to define their communication objectives, how each objective will be met using selected promotion tools and the financial implications of alternative communication programmes". (Kotler, et al., 2008, pp. 712-713).

[3] The situation where competitors compete with each other using different parts and aspects of the marketing, marketing communication and sales promotion mixes. For example, the use of loyalty cards and bonus programmes that different stores offer are a form of trying to keep the customers loyal to your store. (Smith & Taylor, 2004, p. 364).

3.3.3 The promotion strategy

There are two basic strategies for the promotion mix; the push strategy and the pull strategy. In the pull strategy the marketing, which consists of mainly advertising and consumer promotion, is directed towards the end-users in order to persuade them to buy the product. If this strategy works, the consumers will start demanding the product from the sales channels, who in turn will demand it from the producers. In the push strategy on the other hand, the company will push its products through the different marketing channels towards the consumers. Here the main marketing activities are those of trade promotion and personal selling. The marketing is directed at the sales channels in the hopes of them promoting and selling the products to the end-users. Most large companies use a combination of both strategies, where mass advertising is used to pull the customers towards you and a large sales force is used to push the products through the sales channels. Important to remember is thus that it is not a question of setting one against the other, but of finding a balance and a blend between push and pull strategies. Basically a company should intend for a mix that aims at "consistent advertising to build long-run brand value and consumer preference and sales promotion to create short-run trade support and consumer excitement". (Kotler, et al., 2008, pp. 715-716).

When designing the promotion mix strategies, different factors have to be taken into account. For example, the type of product or market, the buyer-readiness stage and product life-cycle stage all need to be accounted for. In business-to-consumer markets the companies usually advertise more, whereas in the business-to-business markets more focus is put upon personal selling. Thus the weight put on each promotion mix component has to be analysed in light of the target market and what type of market it is– as was mentioned in the beginning of part 3.3.1.

The buyer-readiness stage affects what promotional tools will work on the buyer – the development of the different buyer-readiness stages can be seen from Figure 3, the figure was captured from the book *Principles of Marketing* by Kotler et al. (Kotler, et al., 2008, p. 701). In short the buyer readiness stages develop from the buyer becoming aware of the product, developing to more knowledge of the product and then to the development of positive feelings – a liking – for the brand or the product. However, while the consumer might now like the product, it might still not prefer it to other products. This is where the company needs to start promoting the product's quality, value or other feature, to make it a preferable product. After this, the company still needs to convince the buyers of the product,

making sure that the buyers know that the product is perfect for the customer. Following the conviction stage, the company still needs to make sure that the buyer buys the product, as the buyer might wait with the purchase, for example, in order to get more information. Here the company representative must then lead the customer to the purchase through, for example, special prices, special product demonstrations or product trials. (Kotler, et al., 2008, pp. 701-703)

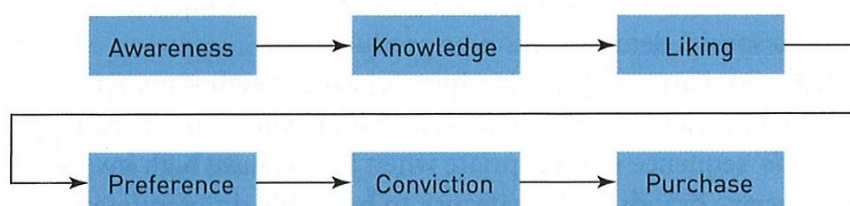

Figure 3 Buyer-readiness stages

The previous is related to the promotion mix strategy as different tools affect the different stages in various ways. Advertising and PR play an important role in the awareness and knowledge stages, whereas the liking, preference and conviction stages are mostly affected by personal selling (as well as advertising). Furthermore, the purchase decision is mostly affected by sales promotions and sales calls (direct marketing).

Advertising and PR are good for producing product awareness, and thus these components are important for a new product entering into the market. Personal selling is also needed, to get the sales channels to carry the product. When the product's name and brand are more known, sales promotion is no longer needed in the same scale, however advertising and PR continue to be of importance. In the so called mature stage, sales promotion is brought in again to boost sales. In this stage of a product's life cycle, the buyers already know of the product, and thus advertising is only needed in order to remind the buyers of the product's existence. In the declining stage, PR is dropped, and salespeople give the product only slight attention. Nonetheless, sales promotion can here be kept strong, in order to, for example, trigger trade and sales. (Kotler, et al., 2008, pp. 717-718).

The problem that many marketers have faced in recent years is the consumers' bombardment with advertising and different promotional activities – making it difficult for the consumer to distinguish between different message sources. For the consumer, all the messages coming from all the different promotion-mix components blend into one, and problems arise if the company hasn't unified the messages coming from these different outlets. If the messages portray conflicting information, the consumer will end up being distracted on the company's

values and brand positions, possibly harming the birth of any long-term customer relationships. As a consequence to this, many modern companies have adopted so called integrated marketing communications (IMC) strategies. In these strategies the different promotion-mix components are in sync, aiming at delivering an understandable and consistent message about the company and its products to the consumer. The goal of the strategy is to build durable customer relationships “by showing how the company and its products can help the customer solve their problems

The development of the promotion strategy is summarized below in Figure 4, which was captured from the book *Strategic Marketing* by David W. Cravens and Nigel F. Piercy. (Cravens & Piercy, 2003, p. 404).

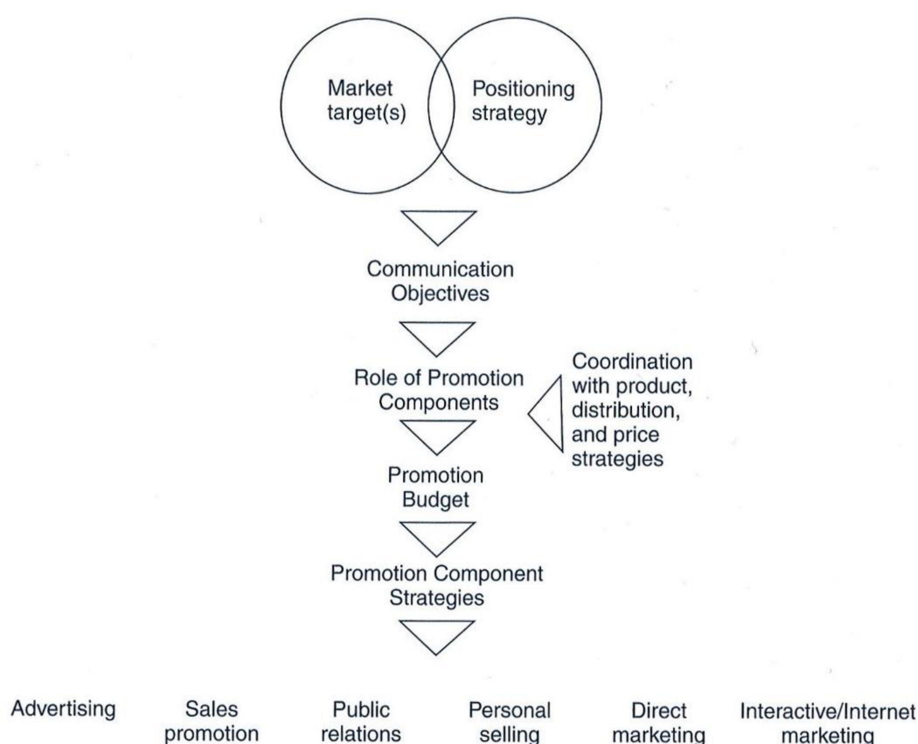

Figure 4 Developing the Promotion Strategy

3.3.4 The message of the promotional practices

An appropriate and effectively conveyed message for the target audience is key in getting the consumer to purchase the product. The optimal message gets the consumers attention, holds their interest, arouses a desire and obtains an action (a purchase). (Kotler, et al., 2008, p. 703). This is separately discussed in this report due to the importance of being able to reach your customers in a competitive market, and due to the role that the conveyed message can play in the establishing of the company’s long-term customer relationships.

A message can be rationally appealing, where it states that the product will deliver the benefits that it promises, for example of quality or performance. If the message is emotionally appealing it attempts to create some sort of negative or positive emotion in the consumer. These emotions – for example, joy, pride, humour, fear – would, in theory, lead to the purchase decision. (Kotler, et al., 2008, p. 703). Examples of the difference between these two message types are Coca Cola's and Volkswagen's differently appealing advertisements. Coca Cola's Christmas advertisements often convey a message of happiness and joy, whereas Volkswagen's rationally appealing messages list the benefits and quality aspects of the car.

A message can also be morally appealing, where the message is meant to apply to a consumer's sense of right and wrong. These types of advertisements are often used by different social and environmental organizations. For example the anti-smoking campaigns headline "Smoking Kills" (Design Bump, n.d.) or the anti-drinking and driving campaign's headline "Not everyone who gets hit by a drunk driver dies" (Mpofu, 2015). These two advertisements can be seen in Figure 5.

Figure 5 Moral appeals in advertisements

In addition to the message appeal, marketers also need to plan the message structure. Should the message arrive at a conclusion or should the conclusion be left for the audience to answer? Should the strongest arguments be presented first or last? Finally, should the message only present the product's strengths, or should some eventual weaknesses also be presented? Associated with this is how the message should be formatted; what colours should be used, how should the headline be placed, what kind of pictures are eye-catching, how strong should the contrast be – and so forth. If the message is sent through the radio, additional formatting questions come in the form of what kind of voices, sounds and eventual

music should be used. The same applies for if the message is broadcasted through the television, as this brings forth concepts such as body language. What's more, factors such as the package colouring cannot be overlooked as "colours speak for brands. Red is associated with intense emotions, ranging from passion, love, sex, ripeness, fertility…" (Kotler, et al., 2008, p. 706) – and therefore the colouring of packaging, and even components such as the texture of the packaging need to be well-thought-out. (Kotler, et al., 2008, pp. 705-706).

The message has to be planned so that the consumer notices the message when he or she is exposed to it. There are certain aspects that need to be considered in order to optimize the chances that the message gets the wanted attention (Kotler, et al., 2008, p. 707):

- The message needs to accurately address the target audience, as for example, school children will probably not understand an advertisement of quality living-room furniture – seeing it as not relevant.
- The message thus also needs to be interesting for the target group.
- Consumers hear new messages easier, and such the advertisement should convey new information about the product or service.
- If a buyer recently bought a product, the advertisement for this product should further justify the purchase of the product, reinforcing the idea in the customer that he or she purchased the right thing.
- The message needs to make an impact, and thus needs to be presented in a way that leaves and impression.

After designing the message, the communicator now has to choose a communication channel. Communication channels are divided into two large subgroups, the personal communication channels and the non-personal communication channels. In personal communication channels people interact directly with each other, either face-to-face, through email, phone or some other type of intermediary. Some of these channels are controlled by the company; as is the case in for example personal selling. Nonetheless, sometimes the company does not have direct control over these communication channels, as can be the case in, for example, online buying guides. Furthermore, consumers can get their information about the company from family, friends or neighbours. This form is called word-of-mouth influence, which was already briefly mentioned in the beginning of part 3.3. Word-of-mouth influence is thus a form of personal communication where the target buyers communicate with neighbours, family, friends, associates, and so forth, about the products. This form of communication is hugely influential in the purchase decisions of buyers, as can be shown from the next quote; "more than 90 per cent of customers trust 'recommendations

from consumers' whereas trust in ads runs from a high of about 40 per cent to less than 10 per cent" (Kotler, et al., 2008, p. 708).

A further form of personal communication is that of buzz marketing, where companies give special attention to certain people, making them so called opinion leaders. The purpose is that these opinion leaders spread the information about this product to their family and friends, thus using word-of-mouth to their advantage. (Kotler, et al., 2008, p. 708). A lot of life-style and fashion bloggers are types of these opinion leaders, where cosmetics companies send their products to these people, after which the bloggers test and discuss the product – thus also promoting it.

Non-personal communication channels are channels where no personal contact or feedback is included. These channels include all major types of media, such as newspapers and websites, atmospheres, such as banks that exude professionalism, and events, such as shows meant to convey a certain type of message to the consumers. The non-personal communication via major media, such as magazines, often first flows to the opinion leaders, after which it goes on to opinion leaders' audiences. Thus the opinion leaders are a sort of link between the mass media and the people that aren't as exposed to the media. (Kotler, et al., 2008, p. 709)

Generally a company does not solely choose one medium through which their message is circulated. The company and its advertisers usually choose a mix of different media – where each media has distinct role – and combine these different sorts of media into an integrated marketing communications campaign, which was talked about in part 3.3.3. The different types of media have their own advantages and disadvantages, where for example the television has good mass-marketing coverage and appeals to the senses, but has less audience selectivity and high absolute costs. Radio on the other hand has low costs, high geographic and demographic selectivity and a good local acceptance, but is audio only, has fleeting exposure and has fragmented audiences. The outdoors, such as billboards, have a good flexibility and high repeat exposure, however, the outdoors can limit creativity and has little audience selectivity. Further, newspapers have good local market coverage and a high believability, but are short lived and have meagre reproduction quality. The aforementioned are only a couple of the major media types, however, they have been discussed to show the differences in-between even the most used media types – and to show that a combination of different media types is needed for the company to be able to reach as broad of an audience as they can. (Kotler, et al., 2011, p. 395).

No matter how well planned the message and its content is, if the message source is unreliable, the audience will probably not take the message seriously. The message source is the person or organisation endorsing the advertisement for the product – be it the company, brand name, spokesperson for the brand or the actor in the advertisement. The source also has to be seen as an expert in the field, and the audience has to be able to not only trust the message source, but also regard the source as objective and genuine when stating the benefits of the products. This is why toothpaste advertisements are often endorsed by dentists, well-known athletes endorse sports gear and fashion models are used to endorse clothes.

As was mentioned before, the customer retention – the collecting of feedback from customers – is an important communication objective. It also an important step in the messaging process, as the company needs to follow-up on how the message was perceived by the target audience. Here the company needs to research how many times the targeted audience saw the message, what their reaction was, what they remember from it and how, if at all, it affected their opinion of the company. (Kotler, et al., 2008, p. 710).

Finally, the legal and ethical aspects of marketing communications need to be taken into account at all levels of the company, and in all the different elements of the marketing communication. The company needs to work towards open and honest communication, with both their customers as well as with their resellers. (Kotler, et al., 2011, p. 403). For example, it is unethical for a company to use exaggerated and misleading information in their advertising. The level of when an exaggerated ad becomes unethical varies, as different countries have different agencies controlling advertisements. Therefore some level of exaggeration is usually accepted, as most countries and agencies perceive the consumers as being able to distinguish when absolute truth becomes an advertising quirk For example, Carlsberg's "Probably the best lager in the world" – slogan is accepted as the view is that most consumers can interpret this slogan with a grain of salt. (Jobber, 2004, pp. 444-445).

3.4 Place

The fourth, and last, marketing mix tool that will now be analysed is place; the company's distribution. This planning and implementing of a company's physical distribution is not always a simple process, especially with large multinational firms, where there can be numerous different links in-between the company and the end user. Therefore, the success of a company does not only depend on how well the company in itself works, but how well the entire marketing channel works, and how well this channel competes with the

competitors competing channels. (Kotler, et al., 2011, p. 332). Marketing channels are also called distribution channels, definition in footnote 4, and as such these two terms will be used interchangeably throughout the discussion.

In order for the company to get its products to the consumers, it needs to build a supply chain. The supply chain consists of both upstream partners – the firms supplying the company with materials and services – as well as downstream partners. The downstream partners are the retailers and wholesalers who form the distribution channel[4] to the end user, thus forming an essential link between the company and its customers. A more extensive view on a company's relationships with other firms is provided by the value delivery network, which looks at the multiple and more complex relationships that companies form – instead of the more linear view that the supply chain provides. The value delivery network is a network consisting of the company, the suppliers, the distributors and the consumers. Each member in the network plays a part in the improvement of the system and its deliverance of customer value. The distribution channels need to be carefully planned, as changing stores, distributors and other partners every time the market changes is slightly more difficult than, for example, changing advertising channels or taking a product off the market. This since the establishing of distribution channels often involve long-term commitments to multiple firms and dealers. (Kotler, et al., 2011, pp. 333-334).

The agents in between the company and the end user have a vital role in the matching of supply and demand. Companies such as Cadbury – the British multinational confectionery company – have an enormous production capacity each day. For example, Cadbury has the capacity to produce 1,5 million Creme Eggs, every day (London, 2014). Be that as it may, the demand for Creme Eggs might not be 1,5 million, every single day – you might only want to buy one. As such, stores and supermarkets buy in a few boxes of these eggs per week and stock them on their shelves, so that the customer can buy the one egg that he or she wants. As such, in addition to matching supply and demand, the different "channel members add value by bridging the major time, place and possession gaps that separate goods and services from those who would use them." (Kotler, et al., 2008, p. 882). In addition to this, the intermediaries provide contacts, specialisation and experience, offering the manufacturer greater efficiency in getting the products and services available in the target market. And

[4] A distribution channel, also called marketing channel, is a group of connected companies or organisations that cooperate in making a product or service available for the consumer or business user. (Kotler, et al., 2011, p. 333).

this is why these intermediaries are used, even though the use of them takes away some of the manufacturer's control over the selling process. (Kotler, et al., 2008, pp. 881-882).

The different channel members have different key functions, either in helping to achieve transactions or in fulfilling the already achieved transactions. For example, members can help in spreading promotional offers, negotiating on prices or in matching the offers to the buyer's needs. Additionally, channels members can help in the physical distribution of goods, in the obtaining of finances or in the undertaking of the risks related to the channel work. As these actions and functions need to be completed, the question that remains for the company is that of who will perform the aforementioned functions. If the manufacturer takes on most of these functions, such as gathering information or the contacting of potential buyers, the manufacturer's costs go up. If an intermediary takes on some of these functions, the manufacturer's costs go down, but they have to pay the intermediary for the work done. Consequently, the functions that need to be done have to be distributed so that the channel member who can add most value to the cost of a function is assigned to that function. (Kotler, et al., 2008, pp. 882-883).

Each level in the distribution chain has intermediaries working towards getting the product closer to the end user – i.e. the final buyer. Each of these levels are called channel levels, and the number of intermediary levels in the distribution channel express the length of that channel. Not all channels have intermediaries; a direct-marketing channel is a channel that has no intermediary levels; where the company sells directly to the customers. Tupperware, for example, sells directly to its customers, thus not having any intermediaries in their distribution channel. Figure 6 shows the different marketing channels, where channel 1 represents direct-marketing channels, and the rest represent indirect-marketing channels. (Kotler, et al., 2008, p. 884). Figure 6 was captured from the book *Principles of Marketing* by Kotler et al. (Kotler, et al., 2008, p. 884).

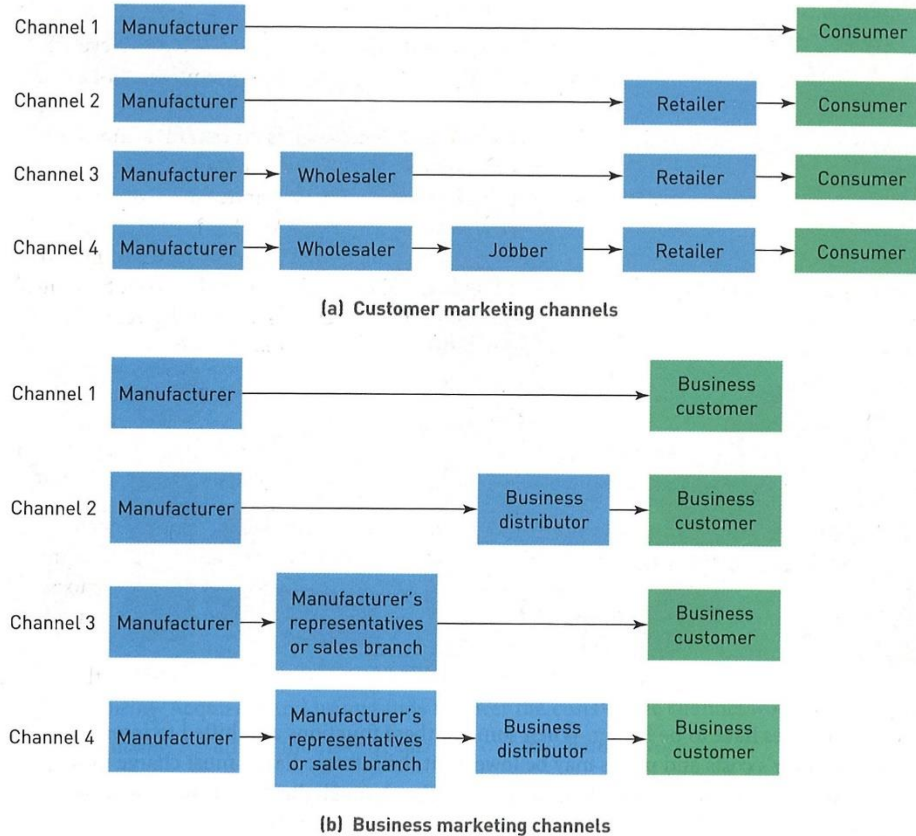

Figure 6 Consumer and business marketing channels

The flows – how the different levels are connected – in the business marketing channels do not only apply to products. The institutions are also connected by the flow of ownership, payment, information as well as promotion. More channels in the business and customer marketing channels than those seen in Figure 6 can exist, but it is quite uncommon. This because the control that the manufacturer possesses over the products and the process decreases as the number of channel levels increase. (Kotler, et al., 2011, pp. 335-336).

Because the channels consist of real people and companies, conflicts are bound to occur at some points in time. A channel conflict is therefore a disagreement between members of a channel regarding their roles and goals. A horizontal channel conflict is when firms on the same level in the channel, for example retailers, conflict. A vertical channel conflict is then when there is a conflict between members of different levels in the channel – for example distributors coming into conflict with the manufacturing company. For these conflicts to be handled, and for the channel to function well, there needs to be an organ who provides leadership; a unit that handles the conflicts. Additionally, the channel members' roles have to be specified. In a conventional distribution channel, the aforementioned factors of leadership and conflict management are lacking, as this channel form consists of independent producers, wholesalers and retailers. In vertical marketing systems (VMS) on the other hand,

the channel works as a unified system. This is possible due to the fact that one member owns or has contracts with the other members – or possess so much power that they can make everyone cooperate – which leads to the system functioning in agreement. There are three dominant types of VMS; corporate, contractual and administered. (Kotler, et al., 2011, pp. 336-337).

In the corporate VMS the production and distribution are under single ownership. In this type of system, conflict management is reached through standardized organisational channels. (Kotler, et al., 2011, p. 337). An example of a company that uses this system is Apple, as the company itself does everything related to its products. The Apple Company designs, produces as well as sells their own products through their designated Apple stores – thus not relying on any other people or organisations for the purpose of getting their products to the final buyer. (Mello, 2014).

Contractual VMS is where the different level members of the channel are bound together by contracts. As such, the system consists of independent firms joined together through these formal agreements, the reason for this often being that the channel members gain greater sales impact by being part of the channel than they would alone. Conflicts and co-ordination are managed through the formal agreements. The most common type of contractual VMS is franchising. (Kotler, et al., 2011, p. 338).

When leadership in a channel is assumed because of one, or a few, of the dominant members' size and power, administered VMS is acquired. For example, manufacturers of top brands, like Sony, or big retail stores like Wal-Mart, can achieve strong trade co-operation and support from resellers, simply due to their size. (Kotler, et al., 2011, p. 339).

When two or more companies, competitors or not, at one level join forces and follow a marketing opportunity, such as restaurants and cinemas, the system is called a horizontal marketing system. Through working together, these companies can combine their financial, marketing and production resources, accomplishing more than they would alone. These companies can establish an entirely new company, or simple work together on a permanent – or temporary – basis. (Kotler, et al., 2011, p. 339). For example Apple and Starbucks worked together on a music partnership, which they announced in 2007. In this partnership Starbucks customers could wirelessly browse, preview and download songs and albums from the iTunes Music store onto their Apple devices. (Brynza, 2010).

Due to technological advances, significant changes in the design of marketing channels have occurred, where traditional resellers have been replaced by newer forms of intermediaries.

(Kotler, et al., 2011, p. 339). A prime example of this is Spotify, through which consumers can stream music, and Netflix, through which consumers can stream movies and TV-series. These services are slowly replacing traditional music as well as DVD-rental stores.

When designing the marketing channel, a company often has to choose between what would be ideal and what, in reality, is practical. Also, it's not always the choice of channels that is the most difficult – the problems might solely be in convincing the intermediaries to handle the distribution. A new firm starting up will probably start first in selling in a smaller area – due to the lack of capital. If successful, the firm can then expand into new markets through different intermediaries. In larger markets the companies can sell through distributors, in smaller markets they can sell straight to the retailers, and depending on the market situation in a country, different parts of the country can have different franchising rights. As such, the channel systems can evolve as the market presents new opportunities, so that the systems are in sync with the conditions required by the market. Be that as it may, one cannot simply change the channel systems as one would like, as was mentioned in the beginning of 3.4. For the system and decision-making to be more effective, marketing channel design should be used. (Kotler, et al., 2011, p. 341).

The marketing channel design "calls for analysing consumer needs, setting channel objectives, identifying major channel alternatives and evaluating them" (Kotler, et al., 2011, p. 341). Say a bread manufacturer is planning its channel design, when identifying the customer needs, it needs to evaluate what the customers want from the channel. The following questions are examples that the bread manufacturer would need answered; from where do the customers want to buy the bread? Are they willing to travel to more far-off locations to get the bread? Do they prefer bakeries over supermarkets? Do they prefer specialized breads or a regular assortment? Would they prefer that someone delivered the bread to their home? The better the manufacturer can match the answers to these questions, and the faster their delivery, the wider their assortment, and the more services they provide – for example in the form of catering services – the better the channel's service level is. (Kotler, et al., 2011, pp. 341-342).

Before deciding on sales points, a company needs to choose what their main focus for the distribution is, whether it is cost-efficiency or some other goal. For example, for a premium brand, the distribution channel has to reflect upon the premium values, whereas 7-Eleven convenience stores usually are located in places where there is traffic throughout the day and evening. Nonetheless, the company does not have to choose one single marketing channel. This because the multiple channel and customer segment possibilities of the modern markets

have brought forth the concept of multichannel distribution systems. This is when one company sets up several marketing channel systems in order to reach more customer segments. For example, a clothing company can have retailers as well as a web shop, reaching one consumer segment directly, whereas the other segment is reached indirectly. (Kotler, et al., 2011, p. 343).

As was previously mentioned, the control that the company has over its marketing channel decreases as the number of channel levels increase. This also applies to the number of channels and retailers. The control and the ease with which the distribution is managed decreases as the number of marketing channels and retailers increases. Intensive distribution is when a company stocks its products in as many outlets as possible, a typical strategy for companies selling generic products, such as toothpaste and salt. These products need to be available to the consumer when they want them and a high sales volume is prioritized. In exclusive distribution on the other hand, which can be found with luxury cars and handbags, only a couple of intermediaries are allowed to handle the products. Through this the company achieves greater selling support from its dealers, more control over the dealer's prices and services as well as augmenting the brand's image. (Kotler, et al., 2011, p. 343).

Selective distribution is the middle ground between intense and exclusive distribution. In this strategy, more than one intermediary, but not all possible intermediaries, who are willing to bear a company's product, are used. Many home appliance companies use this strategy, where the use of this strategy gives the company "good market coverage with more control and less cost than does intensive distribution" (Kotler, et al., 2011, p. 344).

In addition to choosing the number of channels, the company also has to choose the number, and size, of the retail outlets. Market coverage is increased through many retailers, though this could lead to intra-brand competition. This is when outlets of the same brand compete for the customers, albeit not usually a problem for generic products, such as salt. Furthermore, small dealers in rural markets will have a better knowledge about the local markets, and most likely will have contacts into this market, consequently profiting the business. Nonetheless, these small dealers will probably have smaller knowledge about trends in the market, and they could take up an excessive amount of the company's resources. Bigger dealers on the other hand are easier to do business with, as they usually are more professional, and can have a more extensive experience in the market. Nonetheless, these firms are not as dependant on the manufacturer as smaller dealers are, and are much stronger in regard to the power relationship with the manufacturer. (Kotler, et al., 2011, p. 344).

The concept of marketing channel management is the process with which the company selects, manages and motivates the individual channel members, as well as evaluates their performance. This is implemented after the company has chosen the best channel design for them. Sometimes finding quality intermediaries willing to carry your product can be difficult – a situation when the company probably needs to change its channel design. For example, if trying to sell budget products to exclusive stores, the stores will most likely not be willing to carry them. If the company then changes its strategy and approaches discount stores, the strategy might be more successful. (Kotler, et al., 2011, p. 345).

3.4.1 Logistics

A poor distribution system can damage a company's otherwise functioning marketing strategy, whereas an effective and well-planned distribution affects both company's costs as well as customer satisfaction. Marketing logistics, also called physical distribution, is basically "getting the right product to the right customer in the right place at the right time" (Kotler, et al., 2008, p. 911). Logistics today demand greater attention, and companies are putting more effort into the planning and implementation of effective logistics systems because of: (Kotler, et al., 2008, pp. 911-912)

- The increased importance of customer service and satisfaction in the marketing strategy – distribution being an important customer service element,
- The cost savings from effective distribution systems,
- The enormous variety of products on the market demanding improved logistics management,
  and
- The improvements in technology enabling improvements in the logistics field.

No logistics system can both minimize costs as well as maximise customer satisfaction – as customer satisfaction and service depends on quick deliverance, a broad assortment of products as well as flexible return systems. The previous factors are all elements that raise a company's costs. In the same way those factors that minimise a company's costs, smaller inventories and slower delivery, represent a lower level of customer service. Thus the company needs to find a balance between a high level of customer service and low distribution costs. The goal of the marketing logistics system should therefore be "to provide a targeted level of customer service at the least cost" (Kotler, et al., 2008, p. 912). Here, researching is needed into what types of distributions services customers in each segment

need and want, the objective being to maximise profits, not the sales. As such, the company needs to evaluate if a high level of customer service is worth the costs. Here the company can look at the competitors to see if there would be a market for a products with a lower level of customer service, but at lower prices; or vice versa, a market for a higher level of customer service at higher prices. (Kotler, et al., 2008, p. 912).

Warehousing, inventory management as well as transportation are all major logistics functions, which will be briefly discussed in the following. Warehousing is the concept of storing products while they are waiting to be sold. Here the company must decide on how many and what types of warehouses they need, as well as deciding on where these warehouses should be located. Inventory management on the other hand is the handling of the stock. This is also related to customer satisfaction as too little stock affects order deliverance times. However, too much stock is not recommended either, as carrying too much inventory brings forth needless costs, as well as the possibility of some of the stock not being used at all. (Kotler, et al., 2008, p. 913).

The choices in the different modes of transportation affect both the product's price, delivery time as well as the condition of the product upon arrival – therefore also affecting the customer satisfaction. There are five major transportation modes; road, air, water, rail and pipeline. A sixth mode is available for digital products, namely the internet. All of the previous modes are not always possible, depending on geographical and infrastructural conditions. Thus the shipper needs to evaluate and balance speed, dependability, cost as well as availability when choosing a transportation mode for the goods. If speed is priority, air and truck are the best choices. However, if the goal is to minimise costs, then water or pipelines are the preferred modes. Lastly, by using different combinations of these modes – called intermodal transportation (Kotler, et al., 2011, p. 349) - companies can cost-effectively meet the logistics objectives. (Kotler, et al., 2008, pp. 914, 916).

The integrated marketing communications strategies (discussed in part 3.3.3) aim at a clear and consistent message throughout the different promotion mix components. In a similar fashion, the integrated logistics management concept recognises teamwork as an essential part of delivering improved customer service, as well as trimmed distribution costs. This teamwork is required both inside the company, as well as amongst its marketing channel organisations. The members of a marketing channel are closely linked; "one company's distribution system is another company's supply system", and so if one of the elements in the chain doesn't work properly, neither will the rest. (Kotler, et al., 2011, p. 349).

Finally, logistics and the functions required by this can be outsourced to so called third party logistics providers; also called 3PL providers. These are independent logistics providers, administering the logistics activities needed of a company in order to get its product onto a market. For the 3PL providers, the getting of the product onto the market is the main objective, and a company can outsource either a part of its logistics, or the logistics in its entirety, to these companies. The logistics outsourcing usually results in cost-savings for the company. Furthermore, due to the fact that the company does not have to spend time and effort on the logistics, they are freer to focus more intently on their core business. These 3LP providers are often valuable for companies wanting to enter into the global marketplace, or expand their global marketplace coverage, as these companies often are experienced and knowledgeable in the complexities of the global environment. (Kotler, et al., 2011, pp. 349-350).

3.4.2 Retailing and wholesaling

Retailing, as well as wholesaling, will be discussed separately in this report. This is due to the fact that the theory of these needs to be known before moving onto the empirical part, starting in part 6. The retailer's marketing decisions however will not be discussed in this report, due to its irrelevant nature to the research questions on which the empirical report is based.

Retailing is the process of selling any product or service directly to the end users for their private, non-business, use. Most retailing is conducted by retailers; businesses whose sales mainly come from the act of retailing. Retailers play a very important role in the final purchase decision of the buyer, and as such many marketers are now seeing the importance of the retail store – and how the store in itself acts as a marketing medium. This is the concept of so called shopper marketing, which focuses the whole marketing process[5] at turning the shopper into a buyer at the point of sale. Thus, according to this concept, the marketing process should be organized around the shopping process itself. (Kotler, et al., 2011, p. 350).

There are different types of retailers, ranging from speciality stores to superstores. They can be classified based on how much service they offer, how broad their offered product line is, what their relative prices are as well on how they are organised. Discount stores are based on self-service, serving customers who are willing to search, compare and select the product

[5] The entire marketing process would be everything from "product and brand development to logistic, promotion and merchandising". (Kotler, et al., 2011, p. 350).

themselves – thus these retailing stores have a low level of offered service. In contrast, full service retailers have customer service assistants helping the customers find, compare, as well as select, their products. These services come at greater operating costs, and so these retailers charge higher prices for their products. In between these two types are limited-service retailers, offering some combination of these two service levels. (Kotler, et al., 2011, pp. 351-352).

When retailers are classified by their product line, the classification is done based on the breadth and length of their assortment of products. Speciality stores – for example stores selling kitchen appliances – carry a narrower product assortment, but have deep assortments within the product lines offered. Department stores on the other hand – usually selling clothes and household goods –provide the consumers with a wide variety of different product lines, but the depth of the product lines is not as deep as for the speciality stores. Supermarkets – for example the K-Supermarkets in Finland – are the most regularly visited type of retail store. These stores are quite large, carry a high volume of goods at fairly low prices, and offer a certain level of self-service. This as opposed to convenience stores – for example 7-Eleven – which are small stores that carry a limited number of high-turnover convenience goods, such as sweets, at somewhat higher prices. These stores are usually located in residential areas and are open long hours every day of the week. (Kotler, et al., 2011, pp. 352-353).

Many retailers are franchises, where the business model is based on an agreement with the franchisor; the manufacturer, wholesaler or service organisation. The franchisee is an independent businessperson who buys “the right to own and operate one or more units in the franchise system” (Kotler, et al., 2011, p. 358). These organisations are typically based on a particular product or service, trade name, patent, method of doing business or goodwill that the franchisor developed. (Kotler, et al., 2011, p. 358). Subway, Burger King, Hertz and Starbucks are all examples of successful franchises.

Whereas retailing involves the selling for personal use, wholesaling involves the selling of products and services to those buying for the purpose of resale or business use. Wholesalers can, for example, buy overproduced products from the manufacturer and sell them with considerable margins to the retailers. As such, they can provide, as well as find, sales channels for products that the manufacturer has problems selling. The wholesalers add value to the marketing channels by carrying out one or more of the subsequent channel functions: sales and promotion, buying and assortment building (selecting and building assortments needed by their customers), bulk breaking (breaking large batches into smaller quantities),

warehousing, transporting, financing, risk bearing, market information gathering and advice and management service offering. (Kotler, et al., 2011, pp. 361-362).

In addition to wholesalers agents and brokers also bring value to the marketing channels by performing some of the abovementioned functions. Brokers bring buyers and sellers together and can aid in their negotiations. Agents on the other hand, represent buyers or sellers on a more permanent basis. (Kotler, et al., 2011, p. 362).

4 Competitor analysis

Having an attractive product, a profitable potential customer base and a well thought out marketing strategy will not guarantee success if the company doesn't realize its competitors and their actions, strengths, weaknesses and responses. The information about your competitors can be found through market research and surveys, interviews with employees at the competing companies, newspaper and magazine articles, distributors as well as through conducting analysis of the competitors' products. A successful competitor analysis answer the questions of who the competitors are, what their strengths and weaknesses are, what their strategies and objectives are, as well as what their response patterns look like. (Jobber, 2004, pp. 681-682). Basically a competitor analysis provides the information the company needs in order to know which competitors to attack and which to avoid. Moreover, through a competitor analysis the company, with the help of their marketing mix, can gain a competitive advantage. (Kotler, et al., 2008, p. 461).

Not only assessing and selecting you competitors is enough. After conducting the competitor's analysis the company has to develop competitive strategies; marketing strategies that could give the company a competitor advantage. As marketing strategies in the general sense are analysed in part 2, and as the empirical part of this paper does not include a complete competitive marketing strategy, the theory of competitive marketing strategies will not be analysed any further in this report.

The simplest, and most evident form of competitor identification is the so called product category competition. This is the competition involving different companies offering similar products at similar prices in the market. For example, Ford can see Volkswagen as a competitor, however they will not see Aston Martin as a competitor, as their cars and pricing differ to an extent where they are not competing for the same customers. Product competition then is a wider perspective on competition, as it is the competition between all companies

that produce the same – or same class of – products. Taking the above example with Ford, in product competition, Ford would see all car manufacturers as their competitors. Moreover, Ford could see all companies manufacturing anything related to motor vehicles, such as motorcycles, as their competitors. Additionally, one could include an even broader outlook on competitors here, looking at all companies selling some sort of larger consumer goods or services, such as home improvement providers or travel agencies. (Kotler, et al., 2008, pp. 461-462).

There are two points of views from which companies can identify their competitors; from an industry point of view and from a market point of view. An industry point of view requires that the company knows and understands the competitive patterns of the industry they are in – as well as being able to specifically identify and define the industry of their operations. For example, in the beverage industry, Coca-Cola, from the industry point of view, sees their competitor as, for instance, Pepsi. The market point of view on the other hand, identifies the competitors as companies trying to entertain the same, or similar, consumer needs. With Coca-Cola, their competitor's would not only be other soft drink manufacturers, but also any company offering a product with the ability to quench thirst, be it juice manufacturers or bottled water providers. The market concept therefore opens up a broader variety of the company's competitors for them to assess. (Kotler, et al., 2008, p. 462).

The assessment of the competitors seeks to answer the questions of the, now identified, competitor's objectives, strategies, strengths, weaknesses and responses. Every company has different values, goals and objectives, be it concerning growth, profitability, leadership, or other ambitions. Understanding these objectives is crucial for any company wanting to understand the competitor, as these can reveal if the competitor will, for example, expand their market share. The competitor's reactions to your company's increase in advertising expenditure will vary depending on what they value, and what their objectives in the market are – for instance. Monitoring these aspects of your competitors is not only of importance when thinking about entering into a market – as it is important to constantly monitor you competitors, so that you can be forewarned if they, for example, intend to expand into your market segment. (Kotler, et al., 2008, p. 463)

A strategic group in an industry is a group of companies that all have similar strategies which they follow. The more the strategies resemble one another, the more they compete with one another. For example McDonalds and Burger King belong to the same strategic group – where they operate according to similar business models and strategies within the same industry. Another strategic group in this industry would then be fine-dining restaurants,

lunch restaurants, diners and so forth. When entering into a strategic group as a new company, the companies in that group become your key competitors, and so focusing on their strategies and how they create value for their customers is vital. Be that as it may, a new company entering into an industry needs to look at all strategic groups in that industry, and at all of the companies in these groups, understanding, and knowing, each competitor's "product quality, features and mix, customer services, pricing policy, distribution coverage, sales force strategy and advertising and sales promotion programmes". (Kotler, et al., 2008, p. 464). Even though the main, and most intense, competition is inside the different strategic groups, some competition does happen in-between these groups. This can be because of some overlapping customer segments, or because members of one strategic group expand their operations into new strategic segments. For example, the Pirkka brand of the K-chain in Finland offers food, and other household items, at budget prices. However, they also have a premium brand, appealing to the more exclusive customers, thus competing in both the budget as well as premium price ranges. Additionally, lunch restaurants, in addition to competing with one another, also face competition from the fast-food chains, as not all consumers exclusively eat lunch at lunch restaurants.

In order to understand what the competitors can do; i.e. what they are capable of, marketers need to be able to understand the competitor's strengths and weaknesses. One can do this by, for example, collecting data and information on the competitor's performance, objectives and goals as well as information on their sales and marketing from the past few years. The problem that especially business-to-business marketers face is that information like this is quite difficult to obtain. Thus, assessing a competitor's strengths and weaknesses is usually done through secondary data as well as through word-of-mouth and observations. A powerful tool in assessing a competitor is the process of benchmarking. Benchmarking is the comparison of the company's products, services and the like to those of the competitor. It doesn't necessarily have to be done against the competitor, as benchmarking can also be done against leading firms in other industries. The goal of the benchmarking process is to find ways in which one can improve the quality and performance of the company and its products. (Kotler, et al., 2008, p. 464).

After understanding what a competitor can do, a company will want to know what the competitor will do – i.e. how will they react to different situations. The combination of a competitor's objectives, strategies, strengths and weaknesses, will present an indication of how a competitor will react to a given situation. Additionally, marketers need to understand the mentality of the competitor in order to be able to estimate how the competitor will react

to, for example, the introduction of a competitive product into the market. Important to remember is that all companies react differently, depending on, for example, how loyal they see their customers to be or how much funds they have – i.e. do they have enough funds in order to react to market changes, and if so, how fast they can react. (Kotler, et al., 2008, p. 464).

Once the competitors are identified and assessed, the company must still select which competitors to "attack and avoid". As most of the competitor selection is done through the process of, for example, customer targeting, the selection process is more of a selection of which competitors to compete against most vigorously than a complete selection of competitors. Logically, most companies want to compete against weak competitors, as this demands less resources and time. On the other hand, also including strong competitors against which to compete, could lead to a company gaining more, as competing against stronger companies can force you to constantly evolve and sharpen your abilities.

An essential task in assessing your competitors and their strengths and weaknesses is to compare what your company has to offer in each customer segment and then compare this to the corresponding segments and offerings of the competitors. Moreover, customer value analysis – the process by which one determines the benefits that the target customers value, and how they feel that these benefits are fulfilled by the various offers of the competitor's – is a useful tool in the estimation of the competitor's strengths and weaknesses. Other than strong or weak competitors, also close and distant competitors as well as so called good or bad competitors play a part in the selection of competitors. Close competitors are competitors that resemble your company the most, Ford and Volkswagen for example, whereas distant competitors are more loosely linked, like Volkswagen and Aston Martin. Essentially most competition is good and beneficial, as competitors can help increase demand on the market or lead to more product differentiation. Additionally, good competitors are those competitors that benefit your own company and that play by rules of the market. This whereas bad competitors, play by their own rules, and thus harm the industry as a whole. (Kotler, et al., 2008, pp. 465-466).

A competitive intelligence system is a system which identifies, gathers, processes, interprets and organizes competitive information for a company's decision makers and managers. With the help of the system, managers receive regular updates on their competitors' activities. Moreover, managers are able to communicate with the system about, for instance, the competitor's strengths and weaknesses. If a company cannot afford a competitive intelligence system, it can assign different executives to monitor certain competitors, through

whom the company can get the information needed on the competitors. (Kotler, et al., 2008, p. 467).

5 The global marketplace

Solely focusing on the home market is cheaper, easier, and also much safer. If the home market provides sufficient opportunities for the company, why not stay in it? Staying spares you from dealing with other cultures, languages and currencies, it saves you money from not having to invest in global research and development, and it spares the employees time from not having to learn another language. Nonetheless, international trade has, while significantly fluctuating in the past 20 years, grown and become an important factor and aspect in a businesses' survival.

In 1995 the merchandise exports in the world accounted for 5 168 billion USD. In 2014 it had risen to 19 002 billion USD. Computer and other information services account for a big part of the world's service export sector, where the average growth per year, between the years 1995-2014, of computer and international services has been 18 %. In 2014 this sector of world service export accounted for about 302 billion USD. The financial crisis of 2008 left a mark on the international trade of goods and services, which led to global recession from 2008 to 2011; for example the volume of world exports fell with 12 % in 2009. In addition, crises like the Asian financial crisis of 1997 and the bursting of the dotcom bubble in 2001 have impacted international trade negatively. One must also account for the effects that political tensions and debt crisis have on international trade. (WTO a., 2015). Nevertheless, even though these different crises have had a negative impact on international trade, globalization has made for international trade growing into an important business factor and something that a business aspiring for success can't ignore.

The global competition is intensifying, with companies such as Nestle, Unilever and Gillette having succeeded in their global marketing and have – de facto – made the world their marketplace. New household names continue to pop up, and a company's home market is no longer as rich in opportunity as it once was. Whereas a domestic firm can decide whether or not to enter into the international market, it can't decide that other firms aren't allowed to enter into its domestic market. Therefore the domestic firm faces the risk of losing his market to international firms. Globalization has presented many opportunities for those companies wanting to take the leap into international trade, a leap that also contains many risks. Corruption and unstable governments as well as trade barriers are just a few of the risks

connected to global marketing and trade. Because of the many risks connected to international marketing there are a few important decisions that a company, whether it's a large, small- or medium-sized firm, must make before deciding if it wants to operate internationally. These six decisions, as taken from the book *Principles of Marketing* by Kotler et al. can be seen in Figure 7. (Kotler, et al., 2008, p. 942)

Figure 7 Major decisions in global marketing

In the following the above mentioned decisions, and the processes that are linked to them, will be studied. Because this process is very extensive, some of the abovementioned decisions have been merged into one process, to be able to present the decisions in a more clear and summarized manner.

5.1 What to consider when looking at the global marketing environment

The international trade system is something that any company that wants to expand needs to understand. The World Trade Organization (WTO) is an international organization consisting of 162 member countries that deals with the rules of trade between nations. It is the only one of its kind, and has as a goal to help importers and exporters, as well as producers of goods and services, conduct their business. (WTO b., 2016). The General Agreement on Tariffs and Trade (GATT) is a multilateral agreement that was the predecessor to WTO, signed by 23 nations in Geneva in 1947. WTO was created in 1995 and the original GATT still exists among WTO's framework. The WTO acts like an umbrella organization that oversees the GATT, since GATT alone did not possess the right to, for example, impose sanctions on countries. (WTO c., 2016). Lowering trade barriers, protecting the environment and offering less developed countries transition periods and greater flexibility are some of the principles that the WTO stands for. (WTO c., 2016).

Groups of countries can also decide upon free-trade zones, which is what the European Union (EU) has done. The EU has trade barriers outward toward those that are not members of the EU, whereas inside the EU a free flow of products, services and people is guaranteed. Whereas this opens up many opportunities for firms both outside and inside the EU, it also poses risks, in the form of, for example, excessive protectionism. Similar agreements and unions have been made in other parts of the world as well, for example the North American

Free Trade Agreement (NAFTA) and The Dominican Republic – Central America Free Trade Agreement (CAFTA-DR) (Office of the United States Trade Representative, n.d.).

The concept of free-trade zones is not the only concept regarding trading regulations when it comes to international businesses. Concepts such as tariff, quota, embargo, exchange controls and non-tariff trade barriers are also very important and worth mentioning. A tariff is a tax that a government puts on certain imported products; its goal is to protect domestic firms. A quota is the limit which a country is willing to import of a certain product and its goal is to protect the domestic industry and employment. An embargo is a ban on the import of a certain product, such as the one U.S.A has had against Cuba or the sanctions that the United Nations had against Iran, albeit the sanctions were lifted in January 2016. (Kotler, et al., 2008, p. 943).

Aside from the international trade system, there are a couple more notions to consider when looking at the global marketing environment. These are the economic-, geographical-, culture-, political-, legal- and social aspects. Before a business can venture into another market they have to study the country's economy. The two factors that affect a country's attractiveness as a market are its industrial structure and its income distribution. The industrial structures to be considered are: (Kotler, et al., 2008, pp. 945-946)

1. Subsistence economies – few market opportunities because most of the population in the country employ simple forms of agriculture where they consume most of their output. This form is also called subsistence farming, an example of this is Ethiopia (Bachewe, 2009).
2. Raw-material-exporting economies – good markets for tools and supplies since these economies are rich in one or more natural resources, which they export, however, they are poor in other ways. Saudi Arabia with their oil is an example of such an economy.
3. Industrializing economies – manufacturing accounts for a big part of the country's economy, thus, they therefore need to import raw materials and machinery, whereas their need for finished products is smaller. This form often creates an expanding middle class and a new upper class. Brazil is an example of this sort of economy.
4. Industrial economies – these economies export finished products and trade amongst themselves but also to other economies for raw materials or half-finished goods. The level of manufacturing varies with the country and this combined with a large middle class makes them potential markets for a wide variety of businesses. Taiwan is one of these industrial economies.

The income distribution of a country describes in what proportions the upper- lower and middle classes are to each other. For example in 2000 the top 10 % of Russia's population held 77, 1 % of the country's wealth, and in 2014 the top 10 % of Chinas population held 64 % of the nation's wealth. (Hirst, 2015). These are indicators that the country's income is not distributed evenly and that the industrial growth, that for example China is experiencing, is simply making the rich richer, instead of benefitting everyone in the country.

Anni Pasanen states in her book *Kansainvälisen kaupan käsikirja* (Pasanen, 2005, p. 27) that two of the main factors that influence a firm's decision in the first steps in planning to venture into another market are geographical viewpoints and the framework set up by the target country's culture. The geographical conditions can affect how the product works, how the transport can be organized and what kind of working conditions are to be expected. For example, the rainy seasons in Kenya can disrupt the work and one can't paint houses in January in Finland because it's often too cold. The cultural aspects are of vital importance as well, views on masculinity and femininity, power distance and the importance of individuality all vary depending on one's culture. In a culture that is centred on individuality people are more confident, whereas in a culture that is more focused on collectivism one can find more team spirit. In a feminine community solving conflicts is often attempted through compromises, and in a society where the power distance is big, the leadership style is often more authoritarian. Additionally, viewpoints on time and how to handle insecurities are also linked to one's culture; some live more in the moment whereas others live in the goals of the future. Insecurities can be dealt with rigidly, for example through rules and regulations. In contrast, in other cultures the insecurity isn't considered to be a problem and the individuals or organizations are often more willing to try new things. (Pasanen, 2005, p. 28). These cultural differences can present themselves for example when beginning a meeting, as can be seen from Figure 8 (Lewis, 2006, p. 154)

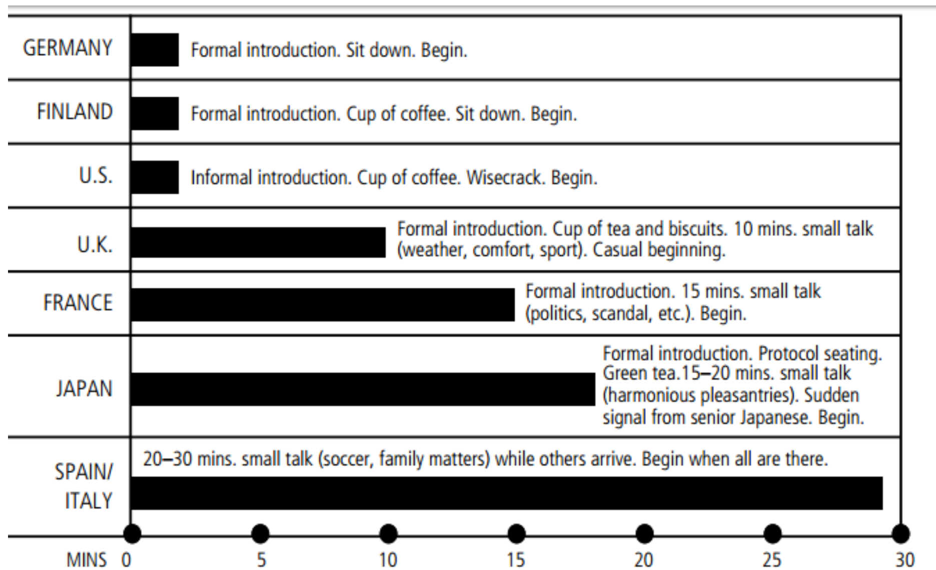

Figure 8 Beginning a meeting

Cultural distinctions can be used to a company's advantage in their marketing strategy. The cosmetics company Lóreal for instance uses the charm of different cultures in the marketing of their different products, thus making their understanding of different cultures one of their trump cards. (Kotler, et al., 2008, pp. 949-950).

The political-legal environment consisting of, but not limited to, the attitudes towards international buying, government bureaucracy, political stability and monetary regulations also should be considered before deciding to venture into a given country. (Kotler, et al., 2008, p. 947). Whereas some nations are sympathetic toward foreign firms, some nations make it more difficult for foreign firms to operate there, for example through making it difficult to obtain business visas or having strict import quotas. Government bureaucracy can make the transition for the foreign firm into the given country very efficient and easy or extremely difficult and complicated. Bureaucracy in India is extremely high, leading to confusion and frustration for foreign firms wanting to venture there. Bureaucracy in Singapore on the other had is quite low, having a reputation of being one of the best country to do business in. (IBNLive, 2012). Somalia with its political violence and poor governance (Brown, 2013) is an example of a country with political instability, a factor that greatly affects a business's possibilities of survival. Monetary regulations are also important factors to be accounted for. The best scenario is when the seller and buyer can use a currency that has value to both of them. Stable exchange rates also benefit the seller, whereas currency limits and countertrade agreements can cause for complex or risky payment methods. (Kotler, et al., 2008, p. 948).

Before a business can enter into another market it has to decide whether or not it wants to venture into the global marketspace. All companies do not need to go international, especially if the domestic market can provide sufficient business opportunities for the business. Other times it’s not as much about choosing to go international, but rather of being thrust there because of factors outside the company’s control. For example, the company’s customers may be expanding, resulting in their need for international services. The company’s domestic market may also be shrinking leading to the seeking of other opportunities on a global scale. In addition, global competitors may be offering better services at a lower cost, making a venture into the global market one of the only options for the business’s survival. (Kotler, et al., 2008, pp. 951-952).

When the decision to go international has been made, the company needs to decide which market it wants to enter. To be able to do this it needs to define its international marketing objectives and policies. Also the volume of wanted sales needs to be established, as well as how many countries it wants to expand to and how fast. Furthermore, the type of target country needs to be selected. After choosing the possible target markets, they are then ranked according to factors such as market growth, costs of doing business, risk level, and so forth. The potential of each market needs to be estimated, and the company must conclude which market will provide the highest long-run return on investment. Market potential is established through, among others, the indicators which are shown in Figure 9 (Kotler, et al., 2008, p. 953). The content of the figure below was created by the authors of *Principles of Marketing* which they adapted from P. Douglas et al. (1982) article *Approaches to assessing international opportunities for small and medium-sized businesses* from the Columbia Journal of World Business.

After having decided into which country the company wants to enter, the firm has to set up a strategy for how they intend to conduct their business in the foreign country. The international export strategy is one of the central decisions for the company, defining the company’s entry mode, where all factors have to be accounted for. According to Pasanen, all strategies are based on one’s own power in relation to external forces; that is, what does our company have that the target market’s companies don’t have? Are they bigger, smaller or the same size as our company? If the target market’s competitors are greater and have the same kind of products that the company wanting to enter into the market has, failure is quite probable. (Pasanen, 2005, pp. 32-35). Thus, before establishing a strategy, the company’s resources have to be established in detail and a real view of what the company is capable of and can handle has to be present.

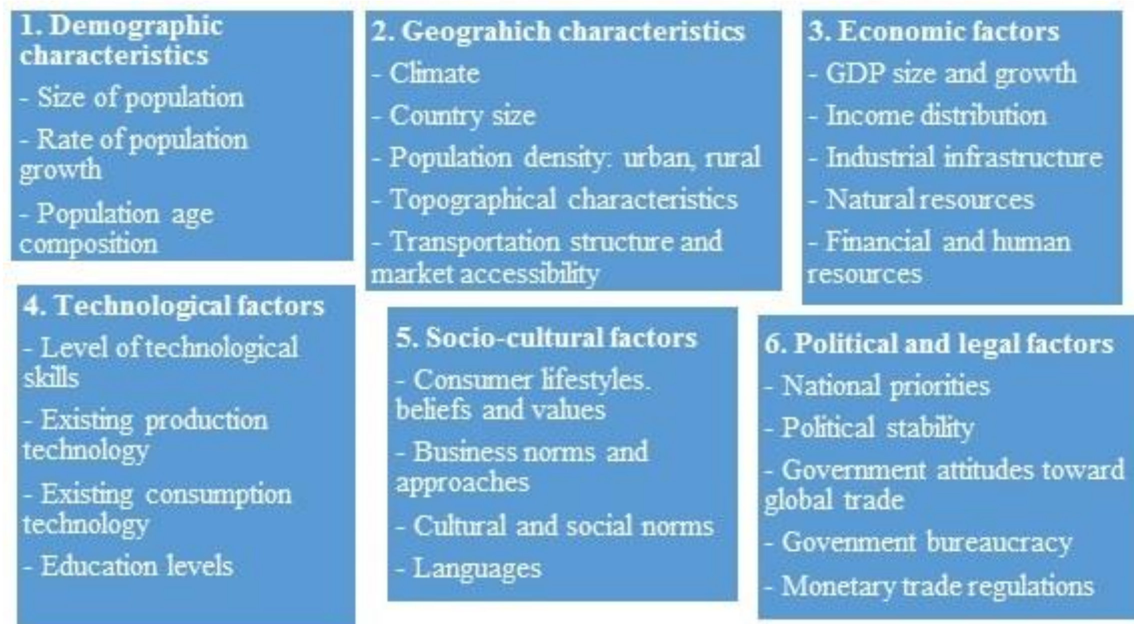

Figure 9 Indicators of market potential

5.2 Market entry modes

Having established the resources at hand, the company must decide the best mode of entry into the given market. The company has three choices for this; exporting, joint venturing and direct investment. The strategies differ in their required level of commitment, their level of risk as well as their scope of control and opportunities for potential future profits. (Kotler, et al., 2008, p. 953)

5.2.1 Exporting

Exporting is defined as "the marketing of goods produced in one country into another" (FAO: Agriculture and Consumer Protection, 1997). Since the manufacturing of the goods is done in the domestic country it's less risky, however, this also means that the company has a lack of control in the foreign country; as the company itself is not operational in the given country. Exporting is done through agents in the foreign country, which can lead to the possibly harmful scenario where the agents in the target market can dictate terms to the exporting company. For example, the agents and the flower auctions in Holland are in a position to dictate to the producers of the flowers in Africa.

Passive and aggressive exporting are two different forms of exporting. A passive exporter does not actively make marketing strategies of what needs to be done in the foreign market, instead the passive exporter simply awaits orders, or comes across them by chance. The

aggressive exporter on the other hand has a clear strategy involving the company's marketing mix and research findings, all to optimize the firm's chances of survival and the continuation of the exporting. Whether a company is a passive or aggressive exporter depends simply on the firm's motivation to export and what goals have been set up for this business strategy. (FAO: Agriculture and Consumer Protection, 1997).

Indirect exporting is usually the first form of exporting that a company uses. This is when a company outsources everything that is related to exporting to independent intermediaries. It involves less risks and also requires less investment, this because the exporting company does not, for example, have to establish an overseas office. Because these international marketing intermediaries – which can be for example cooperative organizations or government export agencies, have experience in this type of exporting, they contribute with important exporting related know-how to the company; resulting in less mistakes from the company. (Kotler, et al., 2008, p. 956) Indirect exporting, whereas involving less risks, also means less control for the company, since the export management company takes over the risks *and* the administration associated with exporting. In addition, they may hinder the development of the company whose products they are exporting, since you have no contact with the end customer, thus not receiving feedback from them. Another disadvantage with indirect exporting is that the intermediary takes a margin. Furthermore, the learning opportunities of the export process are very limited, giving no extra information about the target market, possibly hindering future expansion plans. (New Zealand - Trade & Enterprise, n.d.).

Direct exporting is when sellers handle their own exporting. The investment and risk are larger in this strategy, but so is the return. The direct exporting can be conducted in several different ways: the exporting company can establish an office oversees to handle distribution, sales and promotion or the company can send over domestic personnel at certain intervals to check up on the foreign market. (Kotler, et al., 2008, pp. 956-957). Direct exporting places greater pressure on the exporting company and demands more resources, due to the company having to establish an exporting branch or team and possibly hire new multilingual personnel. Furthermore getting all the paperwork and accounting right can present new challenges to the people in charge of these. On the other hand, in direct exporting the company can itself choose the target market and they can better take into account the preferences and buying criteria of the customers. In addition, the margin is left entirely to the company as there is no intermediary. Also, the company being in direct contact with the

target market enables a quicker reaction by the company to changes in the market's trends, competitors and adjustments in demand. (Pasanen, 2005, p. 38).

5.2.2 Joint venturing

The next market entry mode is joint venturing which can take on four different forms: licensing, contract manufacturing, management contracting, and joint ownership. A joint venture forms when a foreign company joins with a company already in the market into which the foreign company wants to enter. The foreign company generally brings new know-how and technology into the relationship, while the local company provides the networking opportunities, relationships and the required documents for operating in the country. In addition, the domestic company is already familiar with the industry and knows their way around the business culture which will help the foreign company. (Cornell University Law School - Legal Information Institute , n.d.).

Licensing is defined as "the method of foreign operation whereby a firm in one country agrees to permit a company in another country to use the manufacturing, processing, trademark, know-how or some other skill provided by the licensor" (FAO: Agriculture and Consumer Protection, 1997). For the foreign company, licensing is a simple way to enter into the foreign market and comes at little cost. Coca-Cola is a good example of licensing; they license bottlers around the world and supply them with the required syrup to make the soft drink. Both licensor and licensee benefit from this relationship; the licensor gets access into the foreign market at little risk and investment, and the licensee receives important manufacturing experience and/or an acclaimed brand-name without having to start from the beginning. (Kotler, et al., 2008, p. 957). However, licensing also comes with some disadvantages: the licensor has limited control over the licensee and when the contract ends, if the product has been well received, the licensor might find that through the licensing it has created a competitor.

Contract manufacturing is when a foreign company agrees with a domestic manufacturer that they produce the products or services intended for the market. A contract manufacturing firm is for example the Flextronics Corporation, who has factories around the world, and make among others, the Xbox game machine for Microsoft and the printers for HP. (PCMag.com, n.d.). An advantage to this form of manufacturing is that the foreign firm has through this process a chance to start faster in the foreign market. Disadvantages are that the

foreign firm has less control over the manufacturing process and loses the potential profits that the manufacturing produces. (Kotler, et al., 2008, p. 957).

Management contracting is when the foreign company supplies the capital to the domestic company, who in turn supplies management know-how to the foreign company. Therefore the export firm supplies services instead of products to the foreign firm. This form of contracting is a low-risk option into getting into a foreign market and it produces income from the very start. Nevertheless, this form of contracting prevents the company from constructing its own form of operations for a period of time. (Kotler, et al., 2008, pp. 957-958). Taking hotels as an example, the operating company provides the services to the guests. In return the company who owns the hotel provides the operating company with the agreed remuneration for them to be able to provide the services of the hotel, as well as conduct maintenance and execute the required marketing for the hotel. (Hanks, n.d.).

5.2.3 Direct investment

Direct investment is the foreign market entry mode that requires the biggest level of commitment. It is when a company directly invests in the foreign market by, for example, investing in operations or building production facilities. A big recipient of foreign direct investment (FDI) is China, who in 2012 was the world's largest recipient of FDI, where in the first six months of 2012 it received 59 billion USD in direct investments. Among others, one of the world's largest agricultural machinery manufacturers, Deere & Company, invested 250 million USD in 2012 into an assembly plant in China that would produce nearly all of the company's agricultural machinery. (Perkowski, 2012).

Direct investment into foreign production facilities offers many advantages; the firm may have lower labour and raw material costs and it creates jobs in the host country therefore possibly improving the company's image. Additionally, it connects with the foreign market on a deeper level, making it easier for the company to adapt its products to the local market. Finally, the company has full control over its investment making it easier to, among others, plan the company's long term international policies. Disadvantages to this form of foreign market entry mode is that it's quite risky, and the company may face sharply fluctuating currencies, government changes or shifts in the market. (Kotler, et al., 2008, pp. 958-959).

Table 1 is provided as a summary of the foreign market entry modes where the different modes are compared to each other in table form. The table has been adapted from the website Quickmba.com (QuickMBA, n.d.).

Table 1 Summary of market entry modes

Mode	Advantages	Disadvantages
Exporting	• Low risk and investment • Fast market entry • Uses existing facilities	• Lack of control • Trade barriers and tariffs raise costs • Transport costs • Limited access to local information • Company viewed as an outsider
Joint Venture	• Medium investment • Combines resources of different companies • Potential for learning • Company viewed as an insider • Fast market entry • If a sense of trust and partnership is acquired between the partners – a win-win situation arises	• Limited control • Partner may become a competitor • More risk than exporting • Knowledge spillovers
Direct Investment	• Extensive knowledge of target market • Easier to apply specialized skills • Minimizes knowledge spillover • Viewed as an insider • Full control over investment	• Highest risk • Requires a lot of resources and involvement • Managing of the local resources may be difficult

5.3 Global marketing programme

Once the company has chosen how to enter the market, it then has to decide on it marketing programme. This part has to be carefully planned, because it sets the tone for the company's marketing strategy, not only in the target market, but also on a global scale. In part 5.1 the importance of taking into account a society's cultural aspects were discussed. Now this will be applied to a company's global marketing programme. Before the marketing programme can be planned, the company has to decide on their market segmentation in the target market and how they intend to reach this segment. Here an understanding of both the cultural aspects as well as the reigning marketing customs in the market are required. The company has two

choices for their global marketing programme: adapting their marketing mix to the local conditions or standardising their marketing mix to the local conditions. (Kotler, et al., 2008, p. 960). The debate between standardization and adaption of the marketing mix has become a very relevant research area in international marketing, where many favour the standardization process because of the different markets' increasingly homogenous character. On the other hand researchers that support the adaptation strategy mean adapting ones marketing mix into a specific market brings great advantages to the company and its operations. (Akgün, et al., 2014, p. 611).

Standardising the marketing mix means that the company uses the same marketing strategy globally, not adapting to local markets in any form. Standardisation results in higher quality products at lower prices due to the fact that production, distribution and marketing costs are lower since one strategy covers all of these elements. (Kotler, et al., 2008, p. 960) .

The world had 3, 2 billion internet users by the end of 2015 (International Telecommunication Union - ICT Data and Statistics Division, 2015) of which about half, 1,49 billion, used Facebook (Troup Buchanan, 2015). Development of the internet and its different Social Medias, as well as international TV broadcasting has led to a world that feels smaller, where trends spread instantly and places that before seemed remote, don't feel as remote anymore. This global marketplace leads to companies using the same standardised marketing mix, resulting in global brands and branding that is the same wherever you go. Apple is a prime example of this, wherever in the world you go, Apples marketing, products and stores all look the same; "global branding and standardisation result in greater brand power and reduced costs from economies of scale". (Kotler, et al., 2008, p. 960).

Adaptation of the marketing mix means that the manufacturer of the products or services adapts the marketing mix to fit the target market. This come at greater costs, as the manufacturer has to develop different strategies for each market and possibly change some features of the product or service. However, by doing this the manufacturer can hope for a larger market share in return, since the marketing mix is specially designed to meet the target market's needs. Even with the global market becoming more homogenous, many different cultures still exist, with variations in spending power, shopping patterns and trends. (Kotler, et al., 2008, p. 960).

"Think global, act local" (The Telegraph, 2015) – is a phrase first used when speaking of environmental challenges, however, it has now been linked to the debate of international marketing programmes. When looking at standardization and adaptation, one shouldn't look

at them as extremes, and even less as two methods that are mutually exclusive. A marketing mix can be standardized in order to reduce costs, but still include elements of it being tailored to a specific market, making sure that each customer in each market gets what they want and expect. McDonalds, a big company with a well-known brand, also adapts to the target markets. In India their signature dish is the Chicken Maharaja Mac, instead of the Big Mac which is made with beef, which shows that "even companies with big brands need to tailor for specific markets". (The Telegraph, 2015).

5.3.1 International marketing mix decisions

When adapting a product to the international market, the company has three different choices. They can choose to not adapt at all (straight product extension), to adapt the product to meet the target market's needs (product adaptation) or, invent an entirely new, or reintroduce an earlier, product for the target market (product invention). The previous can also be applied to services. Heineken beer is an example of product extension; as the product is overall nearly identical in all different markets. (Kotler, et al., 2008, p. 967). An example of product adaptation is Samsung, who, in their Turkish market, made the fridges narrower so that they would better fit into Turkish homes. When Samsung noticed the increasing desire for minimalist products in China and Korea, they developed an ultra-slim air-conditioner for these markets – perfect for design oriented customers, and also an example of product invention. (Digital Training Academy, 2013).

As with products, companies can adapt promotion strategies depending on the market, or standardize their promotion practices. As was stated earlier, it's not either or; a company can standardize their global promotion strategies, but still tone down some parts , e.g. sexuality in advertisements – as a sign that they have addressed the cultural differences in the different markets. Therefore an exact copy of a promotion campaign around the world does not exist; usually the company has to make some minor changes, for example because of a language barrier. However, differences in communication strategies exist, some companies only change what is needed, e.g. language, in their marketing, whereas others have entirely different marketing programmes depending on the target market. For example McDonalds, while having somewhat different products on the menu depending on the market, largely follows the same marketing strategy. However, for example Tommy Hilfiger, who also runs standardized ad campaigns, also has adapted versions for the Asian market. (Kang, 2014, p. 30).

Pricing sets a whole new level of challenges when acting in the global market. Price levels, currencies and income levels all vary depending on the market, which makes it quite complicated to be able to set specific prices for specific products in different markets. Price escalations happen when an exported product increases in price in the foreign market. Because the company has to pay tariffs, transporting costs, importer margins and so forth but still wants a profit for the product, the price has to increase, causing the price escalation. (University of Southern California, n.d.). For example, the price of a Gucci handbag in Italy might be significantly different from the price of the same bag in Singapore. (Kotler, et al., 2008, p. 971). The transfer price is the price that the company sells its products for to its foreign subsidiaries. Companies often try to charge high prices of subsidiaries in countries with high income taxes so that the earned income in that country is minimized. Anti-dumping regulations are worth mentioning here, as a company is generally not allowed to sell products to the foreign subsidiaries at a lower price than the cost it took to produce the product, or at a smaller price than for which it is being sold in the home country. (University of Southern California, n.d.).

Since many countries in the European Union have adopted the euro, price differentiation has decreased. This is due to the fact that customers now can clearer see the differences in prices in the different countries. Product pricing and differences in different markets are also conscious choices by companies, as can be seen Figure 10 (Mathur, 2012). Nokia has separate products for sale in many African countries – product that also are cheaper than the models sold in Europe and North America. The price difference is due to, for example, the income levels in many African countries being lower than those in many European countries.

Figure 10 Economic Adaptation: Nokia

The problem of distribution channels is something that the company must look at with a broad perspective. There are three major links between the seller and the buyer; the seller's headquarters for international marketing, channels between nations and channels within nations (Kotler, et al., 2008, p. 972). The first link oversees all the channels, whereas the second link moves the product from one country to the other. The third link is the link that moves the products from the entry point of the foreign market to the final customers. Even though this sounds simple enough, there can be several different channels and types of middlemen that the company must work through; the complexity of these varying depending on the country. For example, in U.S.A. and Britain the retail units are large and dominated by a few large-scale chains. In Japan and India on the other hand the retailing is operated by several independent small-scale retailers. Understanding the distribution format of a country is vital for any company wanting to enter into its market, as well as choosing the right distributers with whom the company can mutually determine the best and most cost-effective form of targets and goals. Logically, investments to obtain the needed knowledge about the structures of these distributions chains is crucial, both to be able to gain access to the market as well as to gain success in it. (Kotler, et al., 2008, pp. 972-973).

5.4 The global marketing organisation

A company that has entered into the global market faces the problem of being at a distance from its foreign markets; possibly causing problems in the implementation of the marketing strategy. This because the strategy can be the best there is, but it is to no use if the company can't implement it correctly. Therefore the company needs an organisational structure that goes together with the international surroundings. (Kotler, et al., 2008, p. 973).

Companies can manage their international marketing in several different ways, but usually they first organise an export department, then an international division before lastly becoming a global organisation. Since most firms usually get into international marketing through exporting, most companies form a small export department as a starting point. International divisions are relevant when a company has operations in several different markets. These divisions can be organised in several different ways: geographical organisations with country managers or world product groups divided according to the products being produced and sold. Global organisations are organisations where "they stop thinking of themselves as national marketers that sell abroad and start thinking of themselves as global marketers". (Kotler, et al., 2008, p. 974). Global organisations are characterized

by, for example, the hiring of managers from all over the world. An additional example of a global organisation is when the components needed for a production are bought in the country where they are the cheapest, or, when investments are placed where the expected returns are the largest. In addition, the executives of these organisations are trained in world-wide operations, instead of just domestic *or* international operations. (Kotler, et al., 2008, p. 974). According to Pasanen, purposeful management control, the understanding of differences, perseverance and an "all hands on deck" – attitude are required of an international marketing organisation in order for the organisation to function. (Pasanen, 2005, p. 75).

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