Marketing internationally

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The traditional definition of a successful marketing program focuses on two concepts: determining the needs of your selected market and serving that market better than your competitors. If you are currently serving a domestic market successfully, marketing internationally may be a logical extension of your current business activities. In fact, marketing your product or service internationally may offer growth and profit opportunities that don't exist in the domestic market. The export market offers a more diverse market base, which has advantages other than just increasing your market size. Market diversity can extend a product's life cycle, help cushion revenue losses associated with an economic downturn in the domestic economy, and encourage you to constantly improve your marketing skills.

The purpose of this publication is to introduce you to some of the aspects of marketing internationally. If you are really interested in expanding into the international market, you will need more information. A list of additional readings is provided at the end of this publication.

Marketing internationally offers some challenges you should keep in mind. International monetary transactions involve foreign currencies and require an understanding of certain terms and documentation. Your potential customers are going to be different. They may act and think in ways you find unusual, speak a different language, and conduct business using rules you find puzzling. Remember you are the outsider. Good marketing suggests you should be the one making cultural and language adjustments. Taking the time to learn something about the culture and business practices of this new group of customers should be an expected investment.

As with exploring any new marketing opportunity, don't begin with preconceptions about what products or services have market potential in certain countries. Begin the search with an open mind – U.S. companies have developed export markets for chopsticks in Japan and oil in Saudi Arabia! Your best opportunity may lie in a new export market nobody else has been innovative enough to discover.

Should I do it or not?

The first step in marketing internationally is to explore whether or not you should enter the export market. You don't have to be a large firm selling a high-tech product or service to be a successful exporter. The key is a willingness to put forth the necessary effort.

However, exporting is not for everyone. If your company is not succeeding in the domestic market, the export market is probably not going to be your salvation. If you cannot afford to commit time and capital as a long-term investment in market expansion, marketing internationally is not the right decision. Marketing internationally is a long-term investment, which means there is a short-term cost.

Much like any major change in your business, the decision to market internationally should be supported with a well-thought-out plan. An export plan is not only useful in making the initial decision, but also is an excellent management tool if the decision is made to begin exporting. *A Basic Guide to Exporting* published by the U.S. Department of Commerce provides a good outline for an export plan.

Which market(s)?

The strategy of selecting a few countries — or even one initially — with the eventual goal of a strong entry is probably the most effective. This is especially true for a smaller company with limited international marketing experience. Start with a general overview of several countries using broad-based information which is easy to obtain. The *Ernst and Young Resource Guide to Global Markets 1992* is an excellent source for general information. Obtain more specific information (which is more expensive) as you narrow the field down to the country (or group of countries) you plan to target.

Which country (or group of countries) you initially select depends on several factors. The nature of your product probably plays the most significant role. The first step is to find out where your product fits in the numerical classification systems used for international trade. The Standard Industrial Classification (SIC), Standard International Trade Classification (SITC), and

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Harmonized System (HS) codes are used to classify products. Your regional Small Business Administration (SBA) office or your state Department of Commerce is the most efficient way to obtain your product's classification numbers. *The World is Your Market* edited by William Delphos has a list of SBA offices and phone numbers.

Statistical data on U.S. exports, imports for other countries, total world trade, and tariffs or quotas are likely based on one of the numbering systems mentioned above. Therefore, determining where your product fits in each of these numbering systems can assist you in locating potential markets, measuring potential market size, and identifying important trade barriers.

Other factors to consider in selecting potential export markets are geographic proximity and cultural similarity. Canada is the largest export market for the U.S. because it is close, has similar business practices, and is primarily English speaking. For a firm just entering the export market on a small scale, Canada may be the most logical country to analyze in more detail.

Additional considerations include trade barriers, political climate, distribution infrastructure, market size, and the level of competition. In sum, a lot of information is needed to identify a market that fits your particular product, experience, and resources. The Delphos book has several appendices with comprehensive lists of public and private information sources. If your product is related to agriculture, the U.S. Department of Agriculture's Foreign Agricultural Service puts out an excellent set of materials called the *Agxport Action Kit* that includes information sources.

How to enter the market(s)

There are several ways to enter your selected markets. Producing the product domestically and then exporting directly (establishing your own sales organization) or indirectly (selling through a third party) are the most likely initially. Other options include licensing (an agreement with a foreign firm to produce and sell the product in their country), joint ventures (joint ownership of a company to produce and/or sell the product in the foreign country), or direct investment (direct ownership of foreign manufacturing/distribution facilities). Since indirect and direct exporting are the most common alternatives for a beginning exporter, both are briefly discussed here.

Indirect exporting involves working through companies that specialize in exporting for others. Such companies are organized as export merchants (firms that buy your product and resell it in a foreign market); export agents (firms that negotiate with foreign buyers on your behalf and are paid a commission on any sales); export management companies (firms that totally manage your export activities for a fee); and cooperatives (firms owned by a group of producers that provide marketing services for the group).

All of these firm types provide international marketing expertise and charge for their services. *Profitable Exporting: A Complete Guide to Marketing Your Products Abroad* has excellent chapters on indirect exporting and developing agents or distributors overseas.

Indirect sales requires a smaller investment in capital, time, and personnel in comparison to direct sales. Thus, for someone new to international marketing, using an indirect sales approach is an excellent way to gain valuable international marketing experience.

Direct exporting involves setting up your own marketing/distribution operation for the export market. Direct exporting can be accomplished through an export department or division in your company; overseas sales branch (gives the firm a greater presence in the target market); traveling export sales representatives (home-based); and foreign distributors or agents (firms located abroad that market your product or represent your interests).

Direct exporting will involve more up-front costs, foreign travel, direct contact with foreign buyers, and risk. However, it will also provide greater control over your international marketing efforts and can be more profitable than indirect marketing. For most firms, direct marketing is a reasonable long-term goal as your expertise in international marketing develops.

How to modify my current program

How much you need to change your existing marketing program depends on whether you use an indirect or direct method for entering the market. The indirect approach may mean someone else is responsible for your international program, yet you should still be familiar with the program that is being used. If you use a direct exporting approach, the amount of change in your existing marketing program will vary by product type and targeted markets. In almost every situation, some changes will be required.

Product

Your product (which includes the package) will probably need some modification for the export market. Shipping products overseas with no modification may be viewed as a surplus disposal program and may not succeed over the long term. Some products can be introduced into foreign markets without modification (cameras, battery-operated consumer electronics, machine tools, for example), but other products need major modification or are specifically designed and developed for the international market to begin with.

Even if the product doesn't need modification, the package will have to be specifically designed. Brand names don't always translate appropriately, information must be printed in the customer's language, and packages may need metric units of measure.

Promotion

Products that depend heavily on promotion in the U.S. probably need similar support overseas. Much like your product and its package, modification in advertising and promotion should be expected.

It is possible to maintain your domestic theme in your foreign message, but be sure the message is translated by a native speaker who is also familiar with the target market. Mistakes in translation can be major, leaving a lasting negative or humorous impression that is expensive to change. Color schemes are also a consideration. Colors suggest particular images in all cultures, and this varies from country to country. Acquire enough understanding of the culture to avoid words and colors that attach an inappropriate image to your product.

What media to use also varies by country. Some countries don't have commercial television or radio time, or restrict commercial access to these media. Thus, what is considered the most effective media in the U.S. may be unavailable or ineffective in overseas markets. Use of consumer promotional mechanisms will also vary. Coupons or contests involving games of chance, for example, are not allowed in some countries. If advertising and promotion are going to be an important part of your overseas marketing program, get input from individuals or groups within the target market.

Government agencies and trade associations sponsor trade shows in foreign countries. Trade shows offer a relatively inexpensive way to promote your product in a targeted international market. The Idaho Department of Commerce should have information on upcoming trade shows for specific countries.

Place (distribution)

International marketing uses three distribution channels. The first is in the U.S. and involves shipping from the production location to an export facility. Special packaging and documentation are required, so this operation will be different than your domestic distribution activities.

The second is distribution between nations. This involves different organizations, documentation, and transportation modes than your domestic distribution activities. Services of a freight forwarder are often necessary, at least initially. *A Guide to International Shipping* by Donald E. Ewert provides a thorough discussion of international shipping and a methodology for evaluating and selecting a freight forwarder.

The third is distribution within the country you are exporting to. Many foreign countries have distribution channels much different than the United States. Most are more complex, involving a larger number of firms and a higher total markup.

In export marketing the principles of efficient distribution still apply, but don't assume the distribution system you currently use is comparable to what exists in the export market. Different methods of packing, documentation, shipping modes, and a more complex internal distribution system are typically associated with entering an overseas market.

Price

You should keep your pricing method simple at the beginning. A basic cost-plus procedure is probably the easiest to implement. To your production cost, add an acceptable profit margin and the costs of getting the product to the destination (transportation, documentation, duties, etc.) and you have established your price. This pricing process ignores competition and the willingness or ability to pay in the destination market. As your experience and abilities in international marketing increase, you may want to consider more complex pricing strategies to improve your competitive position or expand your market, but the cost-plus method is a good starting point.

An easy way to implement a cost-plus pricing procedure is to use a pro forma invoice. The term "pro forma" indicates the invoice is a quotation, although it looks identical to an invoice that would be used in the case of a real sale. The invoice contains information about the product, prices, shipping methods and costs, means of payment, insurance, and delivery instructions. A properly designed pro forma invoice form can be helpful in developing a price quotation procedure when using the cost-plus method.

Since a pro forma invoice is viewed as a legal offer to sell, it is important that information on the invoice be correct. Keep in mind that certain terms are used in international trade that contractually create an obligation for the seller. Many of the books listed at the end of this publication have glossaries that define specific terms. Your pro forma invoice must use these terms correctly to be an effective price quotation mechanism.

How do I get paid?

The first step in arranging for payment in international transactions is to find a bank with an international trade department. This should be fairly easy. Such units are becoming more common as U.S. export opportunities expand and banks continue to consolidate.

Like domestic sales, payment for international sales can be made in a variety of forms. Terms of payment and credit are important competitive tools in international trade, just as they are in the domestic market. The problem is that getting reliable information on a buyer's credit worthiness is much more difficult. As a seller, you can specify payment in advance and in U.S. dollars before any product is shipped. This eliminates virtually all of the currency exchange rate problems and nonpayment risk to you as a seller. As you might guess, this is not the preferred method for most buyers. Buyers also need some form of assurance they will receive the product as promised.

A common way to arrange for payment of goods internationally is with a letter of credit. A letter of credit is essentially a document whereby a bank substitutes its credit worthiness for that of the buyer. The seller can request that a letter of credit be confirmed by a U.S. bank. The bank agrees to pay when specified documents (typically those showing the goods have been shipped according to the buyer's orders) are presented to the bank. The bank can refuse to pay if the terms and conditions are not complied with completely and accurately.

Letters of credit provide some protection for both the seller and buyer operating in an uncertain situation, and, thus, serve the needs of both parties. Letters of credit are a popular method of payment in international trade, especially if the buyer and seller are not familiar with each other. Fees associated with letters of credit are often fixed regardless of the face amount. These fees range from $250 to $500 for each letter of credit. Thus, letters of credit can be relatively expensive if transaction amounts are small.

Exchange rate risk is also a concern when dealing with international transactions. If payment is made in the currency of the buyer, you must exchange the currency for U.S. dollars. For some currencies, daily exchange rate fluctuations can be dramatic. The easiest way to deal with exchange rates is to specify payment in U.S. dollars. If this is not possible, contact your banking organization to get some sense of the risk associated with exchange rate fluctuations and methods of transferring that risk.

Summary

Getting involved in international marketing has several potential advantages. The export market may provide expansion opportunities that are simply not available in the domestic market. Export marketing can have a diversifying impact on revenues without adding product lines significantly different from what you currently produce. The international market offers a unique challenge, and improving your international marketing skills can have a positive impact on your entire operation. Finally, with the changes that are currently taking place regarding free trade, competing on the international market may be a fact of life for all businesses. The best defense may be to develop an active global offense.

For further reading

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