

Elena Horská et al.

# INTERNATIONAL MARKETING

WITHIN AND BEYOND  
VISEGRAD BORDERS



Krakow 2014

**Názov: International Marketing:  
Within and Beyond Visegrad Borders**

**Authors:**

HEAD

**Elena Horská** (Chapters 1, 4, 9, 13, Subchapter 14.2)

Slovak University of Agriculture in Nitra, Slovak Republic

MEMBERS

**Renáta Benda Prokejšová** (Chapter 6)

Slovak University of Agriculture in Nitra, Slovak Republic

**Jana Gálová** (Chapters 1, 9, 13)

Slovak University of Agriculture in Nitra, Slovak Republic

**Zdenka Kádeková** (Chapter 11)

Slovak University of Agriculture in Nitra, Slovak Republic

**Andrzej Krasnodębski** (Chapter 8)

University of Agriculture in Krakow, Poland

**Mansoor Maitah** (Chapters 2, 3, Subchapter 14.4)

Czech University of Life Sciences in Prague, Czech Republic

**Renata Matysik-Pejas** (Chapter 8)

University of Agriculture in Krakow, Poland

**Johana Paluchová** (Chapters 4, 5, 6, 12, Subchapter 14.2)

Slovak University of Agriculture in Nitra, Slovak Republic

**Ludmila Nagyová** (Chapter 11)

Slovak University of Agriculture in Nitra, Slovak Republic

**Meruert Omarkulova** (Chapter 13)

Kazakh National Agrarian University in Almaty, Kazakhstan

**Martin Příbyl** (Chapter 11, Subchapter 14.4)

Private College of Economic Studies, Znojmo, Czech Republic

**Euboš Smutka** (Chapters 2, 3, Subchapter 14.4)

Czech University of Life Sciences in Prague, Czech Republic

**Zoltan Szabo** (Chapter 10, Subchapter 14.3)

Szent Istvan University in Gödöllő, Hungary

**Krzysztof Wach** (Chapter 7, Subchapter 14.1)

Cracow University of Economics, Poland

**Reviewers:**

Iveta Ubrežiová

Slovak University of Agriculture in Nitra, Slovak Republic

Janusz Żmija

University of Agriculture in Krakow, Poland

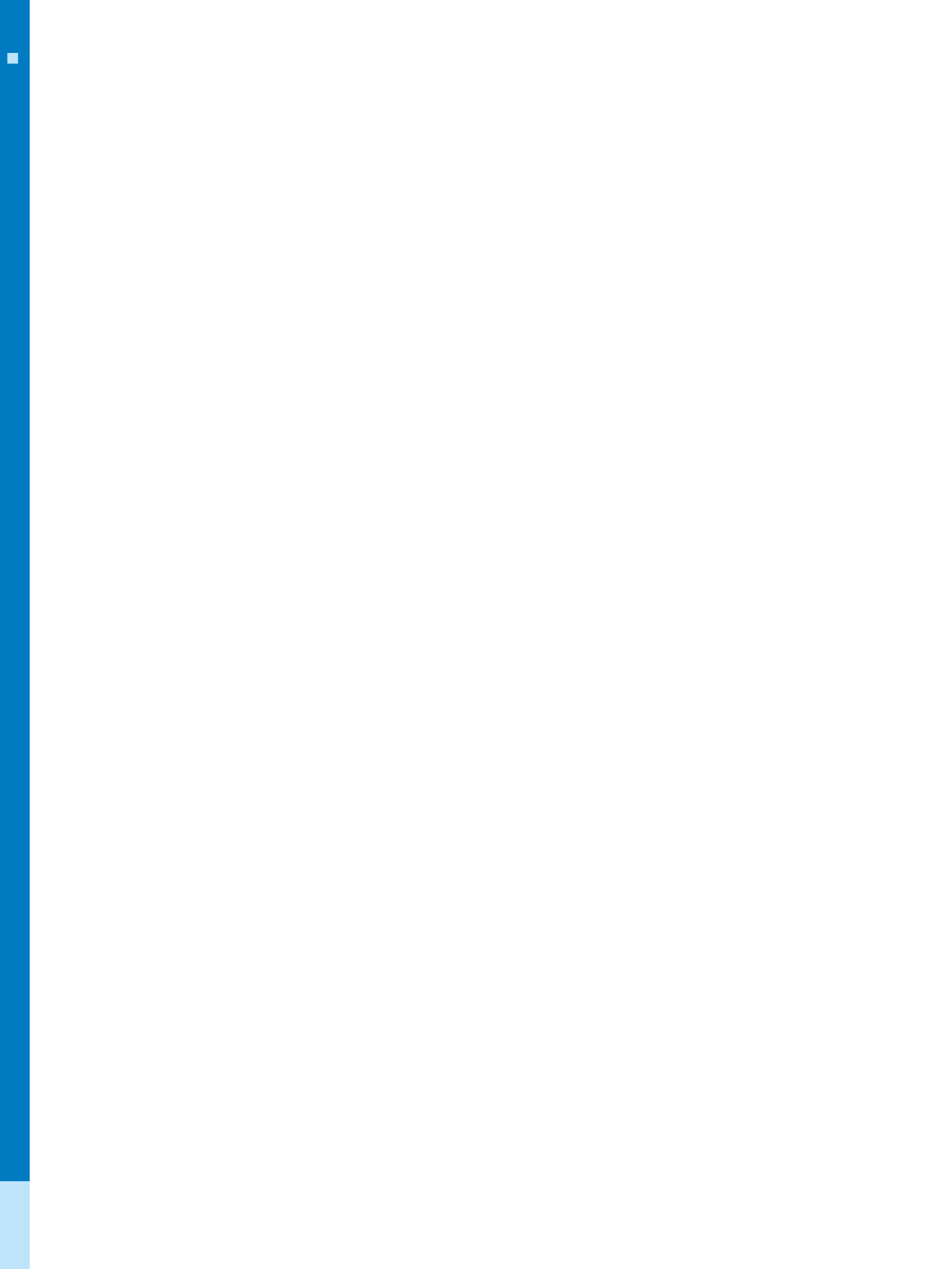
Publication of the international book has been supported by the project of the International Visegrad Fund: VUSG No. 61100001  
“International Marketing: A Visegrad Perspective”

Published as the textbook by WYDAWNICTWO EPISTEME in Krakow

WYDAWNICTWO EPISTEME 2014

ISBN 978-83-7759-039-3







# Contents

---

Preface .....	11
<b>Part I</b>	
<b>WHY &amp; HOW COMPANIES EXPAND INTERNATIONALLY: WITHIN AND BEYOND VISEGRAD BORDERS .....</b>	<b>13</b>
<b>Chapter 1</b>	
<b>Introduction to International Marketing and V4 Implications .....</b>	<b>15</b>
Introduction .....	16
1.1 Globalization, Internationalization and Territorial Expansion .....	16
1.2 Definition of International marketing .....	19
1.3 Standardization versus Adaptation .....	24
1.4 V4 Implications from International Marketing Issues .....	26
Summary .....	29
Further Recommended Readings .....	30
Literature .....	30
<b>Part II</b>	
<b>MARKETING ENVIRONMENT WITHIN AND BEYOND VISEGRAD BORDERS: PEOPLE, ECONOMICS, POLITICS AND CULTURE .....</b>	<b>33</b>
<b>Chapter 2</b>	
<b>Selected Indicators of Economic and Trade Development – Global and Visegrad Overview .....</b>	<b>35</b>
Introduction .....	36
2.1 Global Economy – in Selected Numbers .....	36
2.1.1 Global Trade – Position in Global Economy .....	37
2.1.2 International Trade Structure and Development .....	40
2.1.3 World Trade in Services .....	42
2.1.4 World Trade Territorial Structure .....	42
2.1.5 Regional and Inter-Regional Merchandise Trade .....	44
2.1.6 The Impacts of the Global Economic Crisis on Selected Segments of the World Trade in Commodities .....	45
2.2 Visegrad Countries and Global Economy Development .....	49
2.2.1 V4 – Visegrad Group .....	49
2.2.2 Visegrad Countries Trade Development and Trade Competitiveness .....	52
Summary .....	57
Literature .....	58
<b>Chapter 3</b>	
<b>Political Risk in International Business .....</b>	<b>61</b>
Introduction .....	62
3.1 Political Risk .....	62
3.2 Political Risk Assessment – Key Steps .....	65
Summary .....	67
Literature .....	68

## Chapter 4

<b>Culture and Business: Within and Beyond Visegrad Borders .....</b>	<b>69</b>
Introduction .....	70
4.1 Culture and Its Impact on International Marketing Activities.....	71
4.2 Elements of Culture.....	73
4.2.1 Technology and Material Culture.....	73
4.2.2 Language .....	74
4.2.3 Aesthetics .....	76
4.2.4 Education .....	79
4.2.5 Religion.....	80
4.2.5.1 Christianity .....	82
4.2.5.2 Islam.....	84
4.2.5.3 Buddhism .....	88
4.2.5.4 Hinduism.....	91
4.2.5.5 Judaism .....	94
4.2.6 Attitudes and Values .....	96
4.2.7 Social Organization .....	98
Summary .....	98
Further Recommended Readings .....	99
Literature .....	99
Review Marketing Concepts.....	101

## Part III

<b>RESEARCH METHODOLOGY AND EUROPEANIZATION.....</b>	<b>103</b>
--	------------

## Chapter 5

<b>International Marketing Research.....</b>	<b>105</b>
Introduction.....	106
5.1 Defining of International Marketing Research.....	106
5.2 Marketing Research at Global and European Environment.....	108
5.2.1 Multicultural Research.....	110
5.2.2 Importance of Research for International Marketing Decision .....	111
5.3 Designing of International Marketing Research .....	112
5.4 Sources of Market Research – Secondary and Primary Data.....	113
5.4.1 Secondary Data .....	114
5.4.2 Primary Data and Neuromarketing Research.....	114
Summary .....	117
Further Recommended Readings .....	118
Literature .....	118

## Chapter 6

<b>Research Methodology and Practical Implementation in International Business .....</b>	<b>121</b>
Introduction.....	122
6.1 Business Research.....	122
6.2 Quantitative versus Qualitative Researches .....	123
6.2.1 Qualitative Research.....	124
6.2.2 Quantitative Research .....	125
6.3 Research Methods of Quantitative and Qualitative Research .....	127

6.3.1	Methods of Quantitative Research .....	128
6.3.2	Methods of Qualitative Research.....	129
6.3.3	New Technologies of International Marketing Research .....	131
	Summary .....	132
	Further Recommended Readings .....	133
	Literature .....	133

**Chapter 7**

	<b>Market entry modes for international businesses .....</b>	<b>135</b>
	Introduction.....	136
7.1	Exporting Modes.....	136
7.2	Contractual Modes .....	140
7.3	Investment Modes .....	141
7.4	Entry Mode Choice .....	143
	Summary .....	146
	Further Recommended Readings .....	147
	Literature .....	147

**Part IV**

	<b>INTERNATIONAL MARKETING PROGRAM .....</b>	<b>149</b>
--	--	------------

**Chapter 8**

	<b>International Product Policy and Innovations for Visegrad Countries.....</b>	<b>151</b>
	Introduction.....	152
8.1	Product Strategies on International Market.....	152
8.2	Branding on the International Market.....	154
8.3	Country of Origin Effect .....	157
8.4	Product Packaging.....	160
8.5	The Term of Innovation and Classification of Product Innovations .....	161
8.6	Sources of Ideas for New Products.....	164
8.7	Process of New Product Development .....	165
8.8	Factors of New Product Failure and Success on the Market.....	167
8.9	Strategies of Product Innovation in the International Environment.....	169
	Summary .....	173
	Further Recommended Readings .....	174
	Literature .....	174

**Chapter 9**

	<b>International Pricing Policy .....</b>	<b>177</b>
	Introduction.....	178
9.1	Definition of Pricing and Related Terms .....	178
9.2	Pricing Strategies .....	182
9.3	Payment Methods and Delivery Terms .....	186
9.4	Countertrade Operations .....	179
	Summary .....	191
	Further Recommended Readings .....	191
	Literature .....	191

## Contents

### Chapter 10

<b>Distribution Policy in Theory and Practice.....</b>	<b>193</b>
Introduction.....	194
10.1 Levels and Types of Distribution.....	194
10.2 International Distribution Channels .....	197
10.3 Selected Aspects of Retailing Across the World .....	201
Summary .....	205
Further Recommended Readings .....	206
Literature .....	206

### Chapter 11

<b>Marketing Communication in Theory and Practice.....</b>	<b>209</b>
Introduction.....	210
11.1 Marketing Communication, International Marketing Communication and Integrated Marketing Communication .....	210
11.2 Tools of International Marketing Communication .....	213
11.3 Media Planning, Media Plan and Budget Plan.....	219
Summary .....	221
Further Recommended Readings .....	222
Literature .....	222

### Part V

<b>COORDINATION OF MARKETING ACTIVITIES INTERNATIONALLY .....</b>	<b>225</b>
---	------------

### Chapter 12

<b>Planning, Organization and Control of the International Marketing Operations.....</b>	<b>227</b>
Introduction.....	228
12.1 Planning of the International Marketing Operations.....	228
12.1.1 Types of Planning in Marketing Business Activities.....	229
12.1.2 The International Planning Process .....	230
12.2 Organization of the International Marketing Operations.....	233
12.2.1 Types of Organisation in Marketing Business Activities.....	235
12.3 Control of the International Marketing Operations.....	237
12.3.1 Types of Controls in Marketing Business Activities .....	238
Summary .....	239
Further Recommended Readings .....	240
Literature .....	240
CASE STUDY I: Marketing Planning and Organization Activities one of the Biggest World Coffee Franchising – Starbucks Coffee in V4 Countries.....	241

### Part VI

<b>CHALLENGES FOR VISEGRAD AND THE WORLD: LESS DEVELOPED AND EMERGING MARKETS.....</b>	<b>249</b>
--	------------

### Chapter 13

<b>Selected Issues of Doing Business and Marketing in Less Developed and Emerging Markets .....</b>	<b>251</b>
Introduction.....	252
13.1 Basic Characteristics and Classification of Emerging Markets .....	252

13.1.1	Market Potential Index (MPI).....	255
13.1.2	S & P Emerging BMI.....	257
13.1.3	FTSE International Country Classification.....	258
13.1.4	MSCI Emerging Markets Indices.....	260
13.2	Poverty and Least Developed Markets.....	263
13.3	Emerging and Less Developed Markets as a Challenge for Marketing and Business.....	264
13.4	Marketing in Poverty.....	267
	Summary.....	274
	Further Recommended Reading.....	274
	Literature.....	274

**Part VII**

<b>SELECTED ISSUES OF VISEGRAD PROFILE: POLAND, SLOVAK REPUBLIC, HUNGARY, CZECH REPUBLIC.....</b>	<b>279</b>
---	------------

**Chapter 14**

<b>Selected Aspects of Doing Business in Visegrad Countries.....</b>	<b>281</b>
14.1 Rzeczpospolita Polska – Republic of Poland.....	282
14.1.1 Macroeconomic overview of Polish economy.....	283
14.1.2 Socio-Cultural Aspects of Doing Business in Poland.....	285
14.1.3 Legal Forms of Business Units.....	286
14.1.4 Formal and Fiscal Aspects of Doing Business in Poland.....	290
14.2 Slovenská republika – Slovak Republic.....	292
14.2.1 Selected Aspects of Consumer Behavior at the Food Market in Slovakia.....	294
14.3 Magyarország – Hungary.....	298
14.3.1 Economic Indicators of Hungary.....	298
14.3.2 Demographic Indicators of Hungary.....	300
14.3.3 Doing Business in Hungary.....	300
14.4 Česká republika – Czech Republic.....	304
14.4.1 The Business Environment in Czech Republic.....	306
Literature.....	307



## Preface



The main objective of the book “International Marketing: Within and Beyond Visegrad Borders” is to provide a comprehensive overview on the topic of international marketing from the viewpoint of issues related to the V4 countries, namely the Czech Republic, Hungary, Poland and Slovakia.

This publication is based on qualified contributions of experts in the field of international marketing and business. The team of 14 authors includes university staff from 6 universities in Visegrad region – the Czech University of Life Sciences in Prague and Private College of Economics in Znojmo (Czech Republic), Szent István University in Gödöllő (Hungary), the University of Agriculture in Krakow and the Krakow University of Economics (Poland), the Slovak University of Agriculture in Nitra (Slovakia) – and one university beyond Visegrad borders – Kazakh National Agrarian University in Almaty (Kazakhstan).

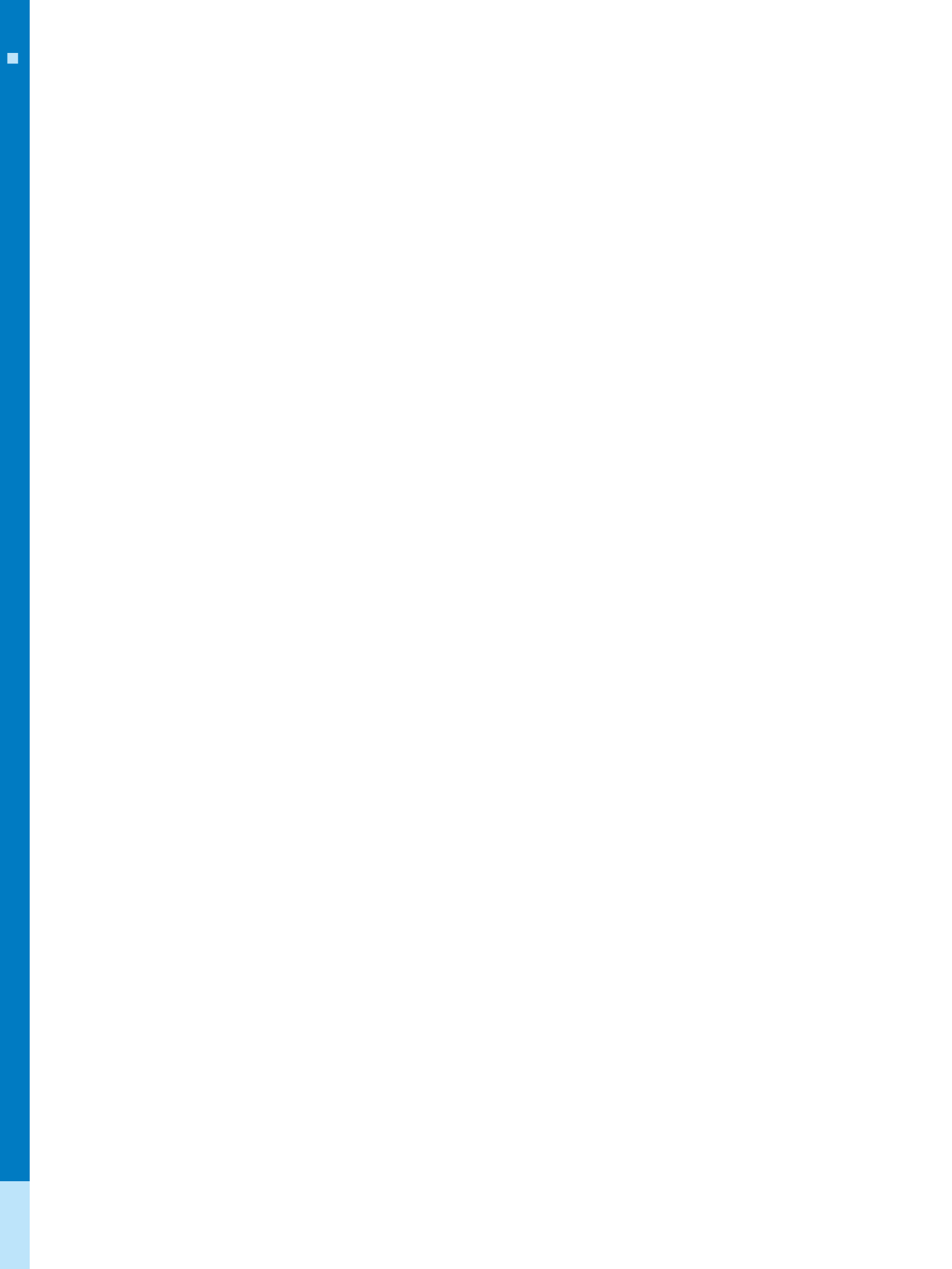
The book contains issues related to international marketing as well as practical and deeper insights from V4 countries and global perspective in each chapter, some of them illustrated on

case studies originated from this region. Thematically, the book is divided into 7 parts and 14 chapters. The first chapter gives an overview about international marketing and V4 implications from local to global viewpoint emphasizing the motives for doing business internationally. The following three chapters are dedicated to the elements of business environment. In chapters 5 and 6, research methodology and practical implementation in international business are explained. Chapter 7 discusses the Europeanization of SME and market entry modes. The book continues with four chapters related to marketing mix tools including topics as international product policy and developing innovative and new products for V4 countries, followed by international pricing policy, distribution and communication policy. Chapter 12 is devoted to the issues of planning, organization and control of international marketing operations. In Chapter 13 the authors respond to the existing challenges stemming from the expansion and trade cooperation with less developed and emerging countries. The final part of the textbook is very specific, as it is focused on selected market indicators of individual V4 countries which gives the reader a picture of the conditions and opportunities for business in the region.

I believe that this book presented on approximately 300 pages will provide the reader (university students, scholars, professionals) with theoretical knowledge necessary for an in-depth understanding of international marketing issues at the level of theory and some practical examples originated in Visegrad but also other regions and countries, to enrich their knowledge and understanding of this topic from a complex viewpoint.

Publishing of the book was supported by the IVF project VUSG No. 61100001 “International Marketing: A Visegrad Perspective.” The book also presents some research studies, resulting from the research project VEGA supported by the Ministry of Education, Science, Research and Sport of the Slovak Republic VEGA 1/0874/14 “The use of neuromarketing in visual food merchandising.” Publishing of the book was also supported by the companies Leich und Mehl, GmbH, Dehoga Westfalen, Kanzlei Dr. Schenk, Berlin and Dr. Klaus Oestringer from Germany, for which I would like to thank them, as well as all those who in any way contributed to the content, or the formal aspect of the book.

*Elena Horská*  
Head author and project coordinator





# PART I

## WHY & HOW COMPANIES EXPAND INTERNATIONALLY: WITHIN AND BEYOND VISEGRAD BORDERS



■ Photo: Elena Horská, Green Week Berlin, 2009



# CHAPTER

## INTRODUCTION TO INTERNATIONAL MARKETING AND V4 IMPLICATIONS

# 1

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Define the terms related to international marketing and global marketing.
2. Discuss the advantages and disadvantages of international marketing.
3. Explain the reasons to do business internationally.



■ Students of the course “International Marketing: A Visegrad Perspective” visited in 2012 successful food producing company Maspex Wadowice. Maspex Wadowice Group is one of the biggest companies in Central and Eastern Europe in the segment of food products. The company is the definite market leader in the production of juices, nectars and soft drinks in Poland, Czech Republic and Slovakia and the main producer in Hungary, Romania, Bulgaria and Lithuania. Panel discussion with company management was about several successful stories how to attract local customer in Central European countries. **Photo:** Elena Horská, 2012

### Introduction

The current development of the world economy is increasingly influenced by integration and globalization tendencies. The competitive environment in foreign markets enables an entry and participation in international trade activities for many companies. The decisions of the company related to the market selection and entry or operation on the foreign market are based on the principles of international marketing which can be defined as implementation of marketing activities exceeding national borders of countries. It presents the philosophy of company management focused on foreign markets and aimed at optimal placement of goods and services on these markets (Horská 2007).

The implications of international marketing activities take place all around us every day, have a major effect on our lives and offer a wide variety of new opportunities and challenges (Czinkota and Ronkainen, 2012).

## 1.1 Globalization, Internationalization and Territorial Expansion

The world business has undergone significant changes in recent years. Each company, whether it is big or small, operates in a competitive environment and has its own global competitors (Kretter, 2010). Intensification of economic life in global view, especially in last decades, results in increasing number of firms involved in the process of decision-making whether to enter a foreign market and which mode would be the most suitable for them. However, if the firm does not know how to apply marketing in the domestic market, it cannot be able to carry out marketing in the international field.

National markets continue to exist while being part and giving way to the extending global market, due to three main reasons. The first explanation is innovation of technologies which enabled declining prices for transportation and telecommunication services substantially; therefore companies have the possibility to minimize production costs by moving some production activities overseas. Secondly, globalization is supported by liberalization of international trade where the reduction of tariffs contributes to the growth of trade and investment. Thirdly, the continuous change and development provided additional incentives for global integration. Certainly, there are various other reasons for going global, such as avoiding dependence on domestic market and economies of scale.

There are many authors (Ghemawat, 2009; Hollensen, 2008; Paul and Kapoor, 2008; Goldin and Reinert, 2007) who deal with the topic of **globalization** and **internationalization**. Globalization can be seen as a summary of changes from three global aspects: culture, economics and environment. Globalization can be described as the deepening relationship and broadening interdependence among people from different parts of the world and especially among different countries (Daniels et al., 2007). Therefore, global marketing can be defined as the coordinated performance of marketing activities to create exchanges across (not domestic or foreign) countries that satisfy individual, organizational and societal objectives.

Globalization reflects the trend of firms buying, selling and distributing products and services in most countries and regions of the world. On the other hand, internationalization means doing business in many countries of the world, but often limited to a certain region (e.g. Europe) (Hollensen, 2007).

Internationalization is a process by which companies increase their influence on international activities carried out in future while they make transactions with companies in different countries (Horská and Ubrežiová, 2001). Internationalization

Globalization reflects the trend of firms buying, selling and distributing products and services in most countries and regions of the world

Internationalization is a process by which companies increase their influence on international activities carried out in future while they make transactions with companies in different countries



occurs when the firm expands its research and development, production, selling and other business activities into international markets (Hollensen, 2007). Internationalization and contributing associated processes may have different faces, dimensions, horizons, perspectives and levels. Thus, it would be not only pointless, but even impossible to give universal definitions of the ongoing processes (Daszkiewicz and Wach, 2012).

Usually a mixture of factors results in firms taking steps in a given direction towards internationalization. Table 1.1 provides an overview of the major **internationalization motives** which are differentiated into proactive and reactive motives.

**Table 1.1** Major internationalization motives

Proactive motives	Reactive motives
<ul style="list-style-type: none"> <li>– profit and growth goals</li> <li>– managerial urge</li> <li>– technology competence/unique product</li> <li>– foreign market opportunities / market information</li> <li>– economies of scale</li> <li>– tax benefits</li> </ul>	<ul style="list-style-type: none"> <li>– competitive pressures</li> <li>– domestic market: small and saturated</li> <li>– overproduction/excess capacity</li> <li>– unsolicited foreign orders</li> <li>– extend sales of seasonal products</li> <li>– proximity to international customers / psychological distance</li> </ul>

**Source:** adapted from Albaum et al. (1994), p. 31. in Hollensen (2007), p. 42.

**Proactive** motives stimulate to attempt strategy change, based on the firm's interest in exploiting unique competences (e.g. a special technological knowledge) or market possibilities (Figure 1.1). **Reactive** motives indicate reaction on pressures or threats in the domestic or foreign markets and adjusting passively to them by changing activities over time (Hollensen, 2007).



■ **Figure 1.1** Hungarian Bonbonetti Group's alcoholic praline Cherry Queen, tibi traditional chocolate and the popular Dunakavics candies produced in Budapest, from 2012 under the strategic partnership with the Ukrainian Roshen Confectionery Corporation, as bought in Komárom, Hungary, June 2014

**Photo:** Jana Gálová, 2014

There are several characteristic trends towards greater internationalization. Paul and Kapoor (2008) highlight three macro factors from them. They include the decline in trade barriers, the removal of restrictions on foreign investment and the technological change (e.g. the development in communication, information processing, or transportation technologies).

When considering the territorial expansion and selection of target market the basic question is whether to enter business and culturally close or distant markets. The market selection matrix according to Lehota and Szucs (1999) defines the basic options as follows:

- In terms of business distance we distinguish between two fundamental alternatives: a similar market and a distant market in terms of trade (legal and administrative conditions for entrepreneurship, entering and leaving the market, conditions for setting up a business, managerial communication, and cultural aspects of business environment).
- In terms of geographical distance we also distinguish between two basic alternatives: a neighboring market and a remote market in terms of geographic (physical distance of the two markets, different natural, time and climatic zones, the impact of the distance on transport costs and related problems).

When selecting the target export areas the following criteria are crucial (Horská 2014):

- International rating, internal political and economic development.
- Territory generates the need and demand for products.
- Territory has a stable political and economic development.
- Territory has a low level of inflation and a slow movement of consumer prices.
- Territory is not affected by sanctions.

The applied market selection matrix for the countries of the Visegrad region shows that the business conditions in the region are suitable for new as well as experienced businesses and meet all the criteria mentioned above. As an example we present the modified applied market selection matrix (Figure 1.2) for the V4 countries and other European countries as defined within the research “Factors of Successful Internationalization in the case of the Slovak Agri-food companies“. Within the research, other European countries (EU and non-EU member countries) were considered and the research took into account the low versus high cultural context. European countries with high cultural context and/or large geographic distance are for example Malta or some Portuguese or Spanish islands (of course, from perspective of Visegrad countries) as the ways and costs of transportation make trading goods less competitive (it leads us to the conclusion that businesses might look for another ways of doing business, others than export, to eliminate high costs of transportation or problematic logistics).

In our research, considering the countries of V4, European Union and any other trading partner countries coming from any continent, we agree with the statement of Ghemawat (2009) that the real world is semiglobalized and borders continue to matter. Instead of treating differences versus similarities in absolute terms, he suggests to consider degree of differences. Practically, it can be done by modeling differences in terms of the distances between countries along a variety of cultural, administrative/political, geographic and economic dimensions (CAGE). As a result, the CAGE framework not only helps to identify the key differences in particular settings, it also affords to insights into differences by providing a basis for distinguishing countries that are relatively close, along the key dimensions, from those that are relatively far. For analytical and comparative purposes we can use either the CAGE framework at the country level or industry level. Ghemawat (2009) also offers possibility of bilateral and multilateral comparison of countries. The CAGE framework, as noted, is an acronym for four broad components of distance. It is useful to distinguish between 4 components, because they have different bases and, partly as a result, present very different challenges and opportunities. The success of the foreign business is not only determined by a good quality of the products, but a solid preparation, search for adequate business partners, market knowledge, attentive acquisition of local staff and a well-founded business concept. Main message of using the CAGE framework is to find some relevant criteria useful for designing marketing

program for certain country and region. This is how we interpret the CAGE framework also in case of the Visegrad group of countries.



■ **Figure 1.2** Modified Applied Matrix of Market Selection: Business versus Geographical Distance among V4 and Other Countries according to Horská (2008)  
**Source:** Horská, 2014, p. 165

## 1.2 Definition of International marketing

A study of international marketing should begin with an understanding of what marketing is and how it operates in an international context. **Marketing** belongs to the basic tasks of a company operating in the market environment. The great development of internationalization and globalization in recent years adds the aspect of international measure. The most effective way of doing marketing activities comes to the forefront, without considering the territorial borders of their influence.

It is necessary to distinguish between different levels of marketing (Doole and Lowe, 2008):

- **Domestic marketing** involves managing controllable variables such as attributes of products/services, price, distribution and advertising in a largely uncontrollable external environment made up of different economic and financial structures, political and legal infrastructure, competitors, socio-cultural environment and within specific country boundaries.

**Marketing** belongs to the basic tasks of a company operating in the market environment

## Introduction to International Marketing and V4 Implications

- **International marketing** involves operations across a number of foreign country markets in which except the uncontrollable variables also the controllable factors (in the form of cost and price structures, opportunities for advertising and distributive infrastructure) differ significantly between one market and another. These sorts of differences then lead to the complexities of international marketing.
- **Global marketing** management is an even larger and more complex international operation where a company coordinates, integrates and controls a whole series of marketing programmes into a substantial global effort. The primary and main objective of the company here is to achieve a degree of synergy in the overall operation, so that the organisation as a whole will be greater than the sum of its parts, by taking advantage of different exchange and tax rates, labour rates, skill levels and market opportunities.

How international marketing is presented depends on the level of involvement of the company in the international marketplace. International marketing could therefore be:

- **Export marketing**, when the firm markets its goods/services across national or political boundaries.
- **International marketing/multinational marketing**, where an organisation carries out activities or operations in more than one country, with some influence or control of marketing activities from outside the country in which the goods/services will actually be sold. Multinational or multidomestic marketing is often used on markets perceived to be independent and a profit centre in their own right. The Eurocentric orientation of firms serving as the basis for the development of a specific form of international marketing is called Euromarketing (Szymura-Tyc, 2012). Euromarketing considers several European regions, including Visegrad one. Despite many similarities, we find also different exogenous factors in terms of historical, cultural and economic there (Duréndez and Wach, 2014). International marketing involves activities from basic marketing mix decision-making across national boundaries to more complex operations such as establishing manufacturing or processing facilities around the world and coordinating marketing strategies across the globe (Doole and Lowe, 2008).
- **Global marketing**, in which the whole organisation focuses on the selection and exploitation of global marketing opportunities and gathers resources around the globe with the objective of achieving a global competitive advantage (Doole and Lowe, 2008). Global marketing further represents the firm's commitment to coordinate its marketing activities across national boundaries in order to find and satisfy global customer needs better than competitors do, therefore the firm is able to:
  - develop a global marketing strategy, based on both similarities and differences between markets;
  - exploit the knowledge of the headquarters (home organization) through worldwide diffusion (learning) and adaptation;
  - transfer knowledge and best practice between served international markets (Hollensen, 2007).

Global marketing refers to marketing activities by companies that emphasize according to Kotabe and Helsen (2011) the following:

- **Standardization efforts** – standardizing marketing programs across different countries particularly with respect to product offering, promotional mix, price and channel structure. Such efforts increase opportunities for the transfer of products, brands, and other ideas across subsidiaries and help address the emergence of global customers.
- **Coordination across markets** – reducing cost inefficiencies and duplication of efforts among their national and regional subsidiaries.
- **Global integration** – participating in many major world markets to gain competitive leverage and effective integration of the firm's competitive campaigns across these markets by being able to subsidize operations in some markets with resources generated in others and responding to competitive attacks in one market by counterattacking in others (Zou and Cavusgil, 2002).



Literature offers several various **definitions of international marketing**:

- International marketing consists of findings and satisfying global customer needs better than the competition, both domestic and international and coordinating marketing activities within the constraints of the global environment (Terpstra, Foley and Sarathy, 2012).
- International marketing focuses on the need to create, communicate and deliver value internationally (Czinkota and Ronkainen, 2012).
- A series of activities that creates an exchange that satisfies the individual customer across national borders is known as international marketing (Kleindl, 2007). International marketing activities may need to be adjusted because of geographic, competitive, cultural, or legal differences.
- International marketing is the application of marketing orientation and marketing capabilities to international business. International marketing capabilities support a company in searching for appropriate markets, in building and sustaining competitive advantages there and in managing the relationships with all important stakeholders belonging to those markets (Mühlbacher, Leihns and Dahringer, 2006).
- International marketing is the multinational process of planning and executing the marketing mix (product, place or distribution, promotion and price) to create exchanges that satisfy individual and organizational objectives. These marketing activities are undertaken in several countries and should somehow be coordinated across nations (Onkvisit and Shaw, 2009b).
- International marketing covers companies that have made a strategic decision to enter foreign markets, have made appropriate organizational changes and marketing mix adaptations (Jobber and Lancaster, 2009).
- A definition by the AMA (American Marketing Association) describes **international marketing** as the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives (Onkvisit and Shaw, 2004). The word **multinational** implies that marketing activities are undertaken in several countries and they should somehow be coordinated across nations. However, this definition has some limitations. The definition emphasizes the relationship between the consumer with his individual objectives and the organizations with their objectives. In effect, it does not cover the issues in business-to-business marketing which involves a transaction between two organizations, although in the world of international marketing governments, quasigovernment agencies and profit-seeking and nonprofit entities are frequently buyers (Onkvisit and Shaw, 2009a).
- International marketing is much more complex than domestic marketing because a marketer faces two or more sets of uncontrollable variables from various countries which originate in different cultural, legal, political and monetary systems (Onkvisit and Shaw, 2009b).

International marketing consists of findings and satisfying global customer needs better than the competition, both domestic and international and coordinating marketing activities within the constraints of the global environment

A definition by the AMA (American Marketing Association) describes **international marketing** as the multinational process of planning and executing the conception, pricing, promotion and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives



### GLOBAL MARKETING INSIGHTS

Wal-Mart, one of the world's leading retailers, started in the USA in 1962 and became an international company in 1991 when it entered Mexico as a wholly owned subsidiary without a Mexican partner. In 1994, Wal-Mart entered Canada with the acquisition of a local chain. In 1995 Argentina and Brazil were next, followed by China in 1996. In 1999, Asda in the United Kingdom was acquired by Walmart. In 2002, Wal-Mart entered Japan in partnership with another company (first it acquired a stake in Seiyu,

one of the largest supermarket chains in Japan, in 2005 it acquired a majority interest and in 2008 Seiyu became a wholly-owned subsidiary of Walmart). In 2005, it covered the region of Central America, with stores in Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua – Walmart is the largest retailer in the region currently. In 2009, Walmart acquired a majority in Chile’s leading food retailer and opened a wholly owned subsidiary in India. In 2011, Walmart acquired a majority stake in the leading African retailer of general merchandise and entered the area of Botswana, Ghana, Lesotho, Malawi, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Tanzania, Uganda and Zambia. Today, Wal-Mart operates in 27 countries around the world under 71 banners. Wal-Mart has attempted to use the same retailing strategy in each of the countries it has entered (Walmart, 2014).



The difference in the definitions of domestic marketing and international marketing might be that the marketing activities take place in more than one country

International marketing is relevant regardless of whether or not the activities are for profit (Onkvisit and Shaw, 2009b). The difference in the definitions of domestic marketing and international marketing might be that the marketing activities take place in more than one country. This often seemingly minor difference causes the complexity and diversity found in international marketing operations (Cateora and Ghauri, 2000). Table 1.2 shows the overview of the advantages and disadvantages of international marketing.

**Table 1.2** Potential Advantages and Disadvantages of International Marketing

Potential advantages	Potential disadvantages
<ul style="list-style-type: none"> <li>– opportunity to create economies of scale</li> <li>– opportunity for growth, if the domestic trade is limited</li> <li>– opportunity to avoid fierce competition at home</li> <li>– keep up with international competition</li> <li>– create an international brand image or provide international services to multinational clients</li> <li>– opportunity to dispose large stocks</li> <li>– opportunity to increase profits by using the excess capacity</li> <li>– opportunity to extend the product life cycle if it is different than in domestic country</li> <li>– benefit from lower costs (particularly wage) and more free regulation</li> <li>– geographic diversification reduces country-specific risks</li> </ul>	<ul style="list-style-type: none"> <li>– the cost of the customization of marketing mix</li> <li>– risk of governments instability</li> <li>– risk of currencies instability</li> <li>– difficult entry requirements, different standards, legislation and regulations</li> <li>– difficulty understanding the local culture, customs, values and norms</li> <li>– difficulty in entering the local distribution channel</li> </ul>

**Source:** Pelsmacker et al. (2007), p. 559

Marketing activities are shaped by the environment in which they are carried out

Marketing activities are shaped by the environment in which they are carried out. If a firm wants to adapt a certain product to the target market, it is essential for the product to meet the regional specifications, to be in balance with the local environment and to satisfy the requirements of local customers (Figure 1.3). Country market environments differ in four main areas: in their economic systems, political and legal systems, levels of economic development, financial situation and culture (Pride and Ferrell, 2012; Bennett, 2010; Onkvisit and Shaw, 2009a, 2009b; Doole and Lowe, 2008; Aaker, Kumay, and Day, 2007; Blythe, 2006) which are further discussed in chapters 2, 3 and 4.

The company is, as we can see, subject to risks associated with doing business globally. These risks include misunderstanding the preferences of foreign customers, not knowing the business culture and underestimating regulations together with general economic and geopolitical conditions which may cause problems and unexpected expenses because of internationally unexperienced managers (Onkvisit and Shaw, 2009a; Kotler and Keller, 2006).



■ **Figure 1.3** Matryoshka doll – a symbol of Russian folk art has been also affected by economic and political environment. Besides classical forms the dolls with world-wide known politicians (not only Russian) are offered on the market  
**Photo:** Elena Horská, Russia 2010

International marketing is a function of culture. Marketing practices in a country are culturally dependent and what works in one country market does not necessarily have to work in another. Adaptation of the marketing mix is needed in many cases when the target customers belong to different cultural environments.

Obviously, adjusting to cultural imperatives such as language to ensure communication is a must in each business activity. On the other hand, adjusting to other cultural elements not critical for success only increases expenses and detracts from economies of scale and scope. Therefore, after carefully analyzing the cultural imperatives that exist in the markets, the international marketer must only adapt to those. Not only the application of marketing tools may need to be changed, even the entire marketing approach may need to be adapted, if the categories of thinking are considerably different from one society to another.

Increasingly, international marketing managers must be aware that culture not only influences their decisions, but that their decisions and actions influence culture as well.

However, in many cases it can be difficult to transfer marketing symbols, trademarks, logos and even products to international markets, especially if these are associated with objects that are uniquely significant in a particular culture (Pride and Ferrell, 2012).

International marketing affects consumers daily in many ways, though its importance is neither understood nor appreciated. Government officials and other observers seem always to point to the negative aspects of international business. Many of their charges are more imaginary than real.



## 1.3 Standardization versus Adaptation

One of the greatest challenges to the global marketer is to understand when it is possible to exploit similar needs and behaviour and when it is important to adapt to different buyer conditions. In addition, many buyers increasingly search the world for products. This intensifies competition and makes it a requirement that global marketers understand their markets and address the needs of their buyers.

Product **standardization** means that the product originally designed for a local market is exported to other countries with no change, except for the translation of words or minor cosmetic changes

Product **standardization** means that the product originally designed for a local market is exported to other countries with no change, except for the translation of words or minor cosmetic changes (Onkvisit and Shaw, 2009). Several benefits result from globalization and standardization of the marketing mix, such as economies of scale in production and marketing, transfer of experience and know-how across countries through improved coordination and integration of marketing activities (Cateora and Ghauri, 2000).

Different legal, economic, technological and climatic requirements of various local marketplaces often require product **adaptation**

Different legal, economic, technological and climatic requirements of various local marketplaces often require product **adaptation** (Cateora and Ghauri, 2000). The less economically developed is a market, the greater degree of change a product may need for acceptance. Understanding external environment therefore means not to highlight universal approaches and a homogeneous strategy: more efficient is to focus on the identification of fragmented markets and adaptation to these (Cateora and Graham, 2005).



■ **Figure 1.4** How to bring globally famous Kinder Chocolate closer to the local customers? How about personalized version with photo of your child? Or at least, child from your country with nice smiling face? Promotion event “Kinder Chocolate is looking for smiles” in Khan-Shatyr Shopping and Entertainment Centre in Astana, Kazakhstan

**Photo:** Elena Horská, Astana 2012

Global companies should try to find compromise between standardization (globalization) based on common features and adaptation (localization) towards national or regional characteristics, needs and expectations of markets (Horská, Ubrežiová and Kekäle, 2007) (Figure 1.4).

With respect to the incompatibility of the two previously mentioned concepts, most businesses keep within the two marginal solutions and achieve success in a suitable application of both. As companies gain more experience in global markets, the approach is likely to be to standardize where possible and adapt where necessary (Cateora and Ghauri, 2000).

The differences between countries are still significant, therefore according to Ghemawat (2009) the right business strategy is neither the local customization nor the global standardization, or the one that compromises between those two extremes, but companies must compete in an integrated way. Instead of treating differences versus similarities in absolute terms, Ghemawat (2009) suggests to consider degree of differences in terms of the distances between countries along the CAGE framework, a variety of cultural, administrative/political, geographic and economic dimensions (Horská, Nagyová and Felixová, 2010).

There is still discussion about the extent of global markets today. Is a global marketing strategy possible? Can a completely standardized marketing mix be achieved? A global approach to international marketing can be defined with three points: first, the world is viewed as the market; second, homogeneous market segments are sought; and third, standardization of the marketing mix is sought wherever possible but adapted whenever culturally necessary (Cateora and Ghauri, 2000). Many researchers agree that global marketing does not necessarily mean standardization of products, pricing, distribution and promotion worldwide, but rather it is a company's proactive willingness to adopt a global perspective instead of country-by-country or region-by-region perspective in developing a marketing strategy. Clearly, not all companies adopt global marketing. Yet, an increasing number of companies are proactively trying to find commonalities in their marketing strategy among national subsidiaries (Kotabe and Helsen, 2010). Acculturation or transfer of trendy features from one country to another can work also (Figure 1.5).



■ **Figure 1.5** Bus stops in Kiev with unusual ads and billboards based on Japanese and Indian motives of the Ukrainian **Mojo** beverage brand from Ukrainian New Products Group, as seen in Kiev, Ukraine, September 2013  
**Photo:** Jana Gálová, 2013

Very closely related to adaptation and standardization is the term glocalization: the development and selling of products or services intended for the global market, but adapted to suit local culture and behaviour. Hollensen (2008, 2007) claims that the global marketing strategy strives to achieve the slogan, 'think globally but act locally' (the so-called "glocalization" framework), through dynamic interdependence between headquarters and subsidiaries. Organizations following such a strategy coordinate their efforts, ensuring local flexibility while exploiting the benefits of global integration and efficiencies, as well as ensuring worldwide diffusion of innovation.

## 1.4 V4 Implications from International Marketing Issues

The growth of globalisation and internationalisation of the world trade results in more intensive mobility of people of other cultures. The growing rate of integration of the European countries is creating a phenomenon of diversification – multiform – multiculturalism in Europe. The quest for knowledge requires the basic knowledge of the topic of intercultural communication. This is what can easily happen: what is for a given country common and obvious, the same can become the object of rejection, disrespect and contempt for another culture. This is valid not only for tourism but also for business and the work environment.

Social differences encompass many complex types of differences, including class, race, cultural, ability, age and gender differences, as well as more subtle characteristics such as family or occupational background, social experience, place of dwelling. Opinions of each group are based on the historical and social background. Opinions that are valid in the particular country do not have to be taken by the same way in the other country. Inconsiderable incomes of individuals and families influence their attitude to the products. Necessity in one country is luxury in another country (Horská, 2008).

A Visegrad consumer as an European one is geographically bounded to Europe and is characterized by considerable diversity in terms of history, culture and achieved economic parameters. All aspects of diversity affect the variousness in consumer behaviour in different countries or regions. The issue of diversity is a matter of accepting and understanding the natural differences within Europe. On the other hand, with respect to the trend of integration and globalization in Europe and the world, it leads to homogenization of consumption. Homogenization of consumption occurs as a result of global and uniform perception of man as a consumer who has the same needs and desires and wants to resemble to the general, globally recognized model of modern Homo sapiens. The perfect example of this type of consumer is the young generation. Despite the desire of people to follow their “idols”, “economic barriers” still exist in a physical understanding of human life which allow or prevent from following the dream model of consumer behaviour.

**Table 1.3** Purchasing Power Parity in V4 and Neighbouring Countries

Country	Purchasing Power Parity (GDP per capita) in USD	Year	World Rank
Austria	\$ 42,600	2013 est.	22
Germany	\$ 39,500	2013 est.	29
European Union	<b>\$ 34,500</b>	<b>2013 est.</b>	<b>41</b>
Slovenia	\$ 27,400	2013 est.	55
Czech Republic	<b>\$ 26,300</b>	<b>2013 est.</b>	<b>56</b>
Slovakia	<b>\$ 24,700</b>	<b>2013 est.</b>	<b>61</b>
Lithuania	\$ 22,600	2013 est.	65
Poland	<b>\$ 21,100</b>	<b>2013 est.</b>	<b>69</b>
Hungary	<b>\$ 19,800</b>	<b>2013 est.</b>	<b>71</b>
Croatia	\$ 17,800	2013 est.	78
Belarus	\$ 16,100	2013 est.	85
Romania	\$ 14,400	2013 est.	94
Serbia	\$ 11,100	2013 est.	111
Ukraine	\$ 7,400	2013 est.	139

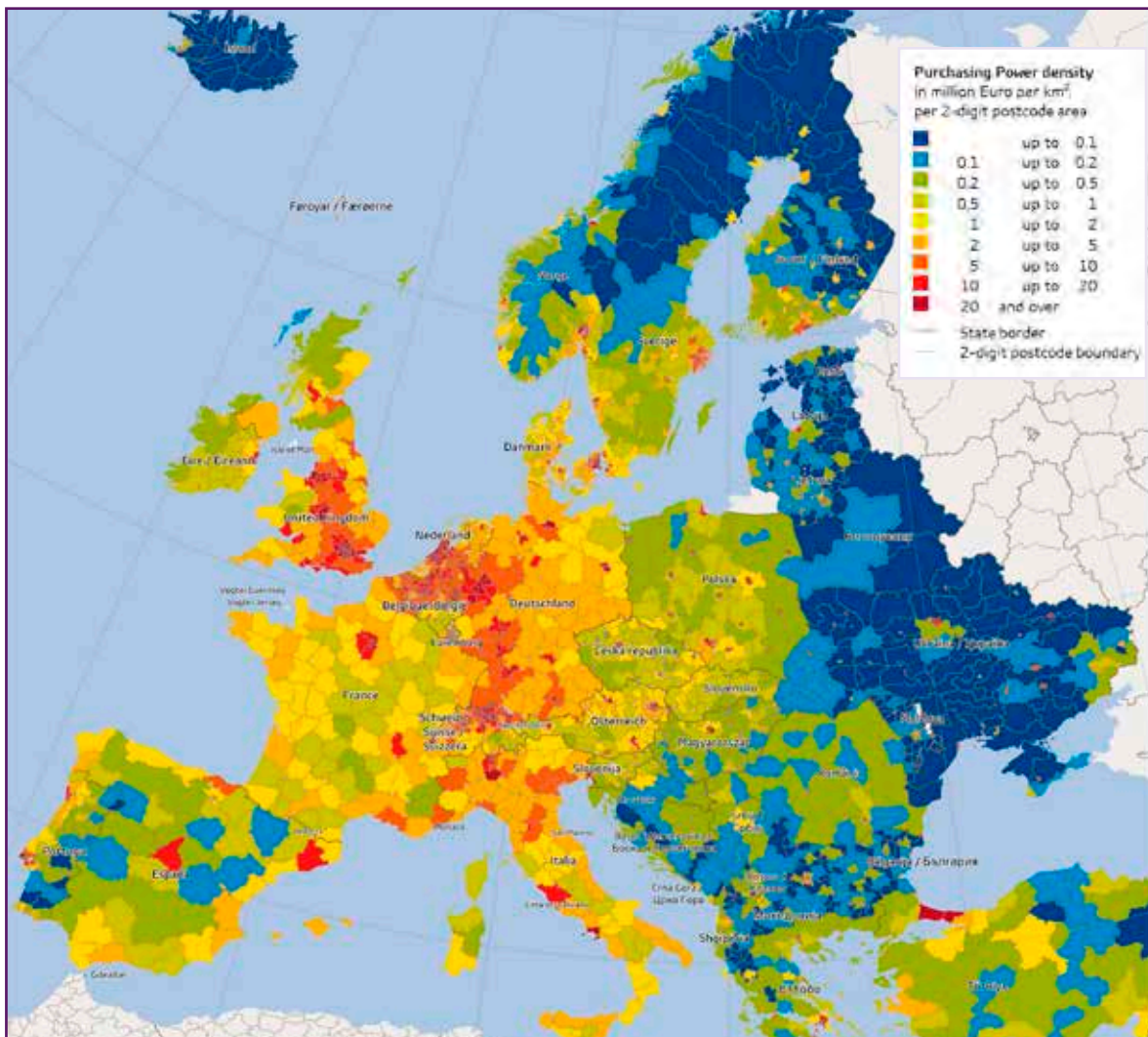
**Source:** The World Factbook 2013–2014 (2013)

**Note:** data are in 2013 US dollars



Economic diversity is typically seen not only within Europe and the EU, but also in the Central European countries, including the revenues as well as the pace of economic growth. Table 1.3 shows the amount of purchasing power in selected European countries according to the World Factbook from the CIA (Central Intelligence Agency). The indicator of purchasing power measures the disposable income per capita (including any state benefits) after deduction of taxes.

The “GfK Purchasing Power Europe 2013/2014” study reveals the regional distribution of consumers’ purchasing power in 42 European countries (Figure 1.6). The spectrum ranges from 4.5 times the European average in Liechtenstein to one-tenth the average in Moldova. According to this study, a total of approximately €8.62 trillion was available to European consumers in 2013 for spending and saving. This corresponds to an average per-capita purchasing power of €12,890 for the 42 countries under review. However, considerable discrepancies remain between the income available to inhabitants of these 42 countries for consumer spending.



■ **Figure 1.6** GfK Purchasing Power Density Europe 2013  
**Source:** GfK (2013a)



## V4 MARKETING INSIGHTS

The result of our research is a finding that there are 1.87 changes done to one exported food product made in Slovakia, of which 1 mandatory change was done to each product (placing mandatory information on the packaging of a food product under the food law). The rest, 0.87, is a voluntary change, which increases with

the degree of the business and cultural distance of export territories. The results of the research vary if we exclude products exported to the Czech Republic. In this case, the number expressing the voluntary adaptation will increase to 1.27. In case we exclude export to all Visegrad countries (not only the Czech Republic), the number expressing



■ **Figure 1.7** Velkopopovický Kozel is a Czech lager produced since 1874. In that year, Franz Ringhoffer founded a brewery in Velké Popovice, a town 25km (15mi) southeast of Prague. Their symbol is a goat (Kozel means “goat” in Czech). Kozel became the best-selling Czech beer brand in the world, mainly thanks to licensed production. Licensed production began in January 2001 in the Slovak Republic and continued into the east. Kozel progressed over the Russian Kaluga and Ulyanovsk to Vladivostok. In Hungary Kozel settled in Budapest and in the Ukraine in Donetsk. Recently Kozel has entered new markets in Scandinavia, Great Britain, Canada, Greece and Kazakhstan. Efes Moldova, Efes Georgia and Efes Turkey have started Kozel Production (Velkopopovický Kozel, 2014)  
**Photo:** Elena Horská, Moscow, Russia 2012



the voluntary adaptation will increase to 1.32. This confirms the theory of the conduct of businesses based on the business and geographical distance of the target territory. Highest level of adaptation was recorded in relation to exports to high cultural context countries (Kuwait, Saudi Arabia, United Arab Emirates, South Korea, Izrael and Russia).

Several businesses in the survey were selling their products in the Czech market within the former Czechoslovakia. After the establishment of the independent Slovak Republic in 1993, the situation deteriorated, business connections in many cases discontinued and after a few years there were attempts to regain the lost markets. The situation was same in the case of markets of the former Soviet Union, where in recent years,

several businesses re-entered the markets of Ukraine and Russia. In the case of re-entry into the Czech market, the situation was relatively simple, as this is a very close market from the geographic and business perspective. Compared with the Czech market, entering the Russian market is more difficult and complicated. In this market, plenty of powerful multinational companies have established expecting not only immediate profit, but in the first place, trying to occupy the market and create conditions for generating future profits (Horská, 2014). However, successful stories exist. Velkopopovický Kozel is one of successful examples of doing business in the segment of beer market, not only in Slovakia, Czech Republic, but also in Russia (Figure 1.7).



General purchasing power refers to the money available to consumers for all expenditures related to food, accommodation and services as well as consumer purchases. Inhabitants of the European countries with the highest purchasing power must devote a large portion of their income to rent and generally more expensive living costs. Even so, inhabitants of these countries have substantially more money for non-essential purchases than consumers in countries with low purchasing power. The Europe-wide per-capita growth (revised) is 0.39 percent, which lies below the inflation rate of 1.5 percent determined by the European Central Bank. The GfK purchasing power study reflects the nominal purchasing power in euros (the values have not been adjusted for inflation), which provides a unified basis for comparing these values down to the most detailed level, Europe-wide. The exchange rates for non-euro countries are based on Eurostat figures from August 8, 2013 (GfK, 2013b).

### Summary

This chapter has provided an overview of the basic issues of international marketing. Similar to domestic marketing, international marketing is concerned with the process of creating and executing an effective marketing mix in order to satisfy the objectives of all parties seeking an exchange. International marketing is relevant regardless of whether or not the activities are for profit. It is also of little consequence whether countries have the same level of economic development or political ideology, since marketing is a universal activity that is applicable in a variety of circumstances. The marketing principles may be fixed, but a company's marketing mix in the international context is not. Certain marketing practices may or may not be appropriate elsewhere and the degree of appropriateness cannot be determined without careful investigation of the market in question.

The benefits of international marketing are considerable. The trade moderates inflation and improves both employment and the standard of living, while providing a better understanding of the marketing process at home and abroad. For many companies, survival or the ability to diversify depends on the growth, sales and profits from abroad. As it may be expected, the BRIC (Brazil, Russia, India and China) economies have been getting a great deal of attention.

This chapter has provided an overview of the major motives for firms to internationalize.

Territorial expansion outside of the EU and the Visegrad region will require a better understanding of intercultural differences, business distance and practice of business negotiation. On the other hand it is important to use any kind of similarities among Visegrad countries, Ukraine and Russia. Common historical and cultural background could create the first supposition for better understanding and consequently, should contribute to further trade development.

**Key terms:** Globalization, Internationalization, Marketing, Global marketing, International marketing, Culture, Standardization, Adaptation, Glocalization, V4 countries, Purchasing power parity



### QUESTIONS FOR DISCUSSION

1. Define the terms international marketing and global marketing.
2. Describe the advantages and disadvantages of international marketing.
3. Distinguish among: (a) domestic marketing, (b) international marketing and (c) global marketing.
4. What is the difference between standardization and adaptation?

### Further Recommended Readings

DURÉNDEZ, A. – WACH, K. 2014. *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics*. Cartagena, 2014, 244 p. ISBN 978-84-942562-0-2

PENG, M. V. 2014. *Global Business*. South-Western CENGAGE Learning. 636 p. ISBN 978-1-133-48593-3

### Literature

AAKER, D.A. – KUMAR, V. – DAY, G.S. 2007. *Marketing research*. 9<sup>th</sup> ed. Hoboken : John Wiley, 774 p. ISBN 978-0-470-05076-7.

BENNETT, A.G. 2010. *The Big Book of Marketing (Lessons and Best Practices From the World's Greatest Companies)*. New Delhi : The Tata McGraw-Hill, 481 p. ISBN 978-0-07-162125-0.

BLYTHE, J. 2006. *Principles and Practice of Marketing*. London : Thomson, 744 p. ISBN 1-84480-120-9.

BONBONETTI 1868. *Roshen strategic partnership*. [2012-07-31]. [online]. Available from: <http://www.bonbonetti.hu/en/roshen-strategic-partnership/>

BRADY, D.L. 2011. *Essentials of International Marketing*. S.l. : M.E. Sharpe, 395 p. ISBN 978-0-7656-2475-8.

CATEORA, P. R. – GHOURI, P. 2000. *International Marketing: A European Edition*. London : McGraw-Hill, 728 p. ISBN 0256-23654-2.

CATEORA, P. R. – GRAHAM, J. L. 2005. *International Marketing: International Edition*. 12<sup>th</sup> ed. New York : McGraw-Hill/Irwin, 697 p. ISBN 0-07-283371-8.

CZINKOTA, M.R. – RONKAINEN, I.A. 2012. *International Marketing*. S. l. : Cengage South-Western, 720 p. ISBN 978-0-324-31702-2.

DANIELS, J. – RADEBAUGH, L. – SULLIVAN, D. 2007. *International business environments and operations*. 11<sup>th</sup> ed. S. l. : Prentice Hall. ISBN 0-13-186942-6.

DASZKIEWICZ, N. – WACH, K. 2012. *Internationalization of SMEs: Context, Models and Implementation*. Gdansk : Gdansk University of Technology, 110 p. ISBN 978-83-7348-411-5.

- DOOLE, I. – LOWE, R. 2008. *International Marketing Strategy: Analysis, Development and Implementation*. 5<sup>th</sup> ed. London : Cengage Learning EMEA, 462 p. ISBN 978-1-84480-763 5.
- DURÉNDEZ, A. – WACH, K. 2014. *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics*. Cartagena 2014, 244p. ISBN 978-84-942562-0-2
- GÁLOVÁ, J. 2013. *Opportunities for Doing Business with Countries Neighbouring V4 – The Case of Ukraine*. In *Entrepreneurial Business and Economics Review (EBER)*. 2013, Vol. 1, No. 1, pp. 77–90. ISSN 2353-883X.
- GfK GeoMarketing GmbH – Cornelia Lichtner. 2013b. *GfK study shows uneven distribution of purchasing power across Europe: GfK Purchasing Power Europe 2013/14*. Press Release. [2013-11-04]. 7 p. [online]. Available from: [http://www.gfk.com/documents/press-releases/2013/20131104\\_pr\\_gfk-purchasing-power-europe-2013\\_fin.pdf](http://www.gfk.com/documents/press-releases/2013/20131104_pr_gfk-purchasing-power-europe-2013_fin.pdf)
- GfK GeoMarketing GmbH. 2013a. *GfK Purchasing Power Density Europe 2013*. [online]. Available from: [http://www.gfk.com/documents/press-releases/2013/20131104\\_pr\\_gfk-purchasing-power-europe-2013\\_fin.pdf](http://www.gfk.com/documents/press-releases/2013/20131104_pr_gfk-purchasing-power-europe-2013_fin.pdf)
- GHEMAWAT, P. 2009. *Redefining Global Strategy: Crossing Borders in A World Where Differences Still Matter*. Boston, Massachusetts : Harvard Business School Press, 257 p. ISBN 978-1-59139-866-0.
- GILLESPIE, K. – HENNESSEY, H. D. 2011. *Global Marketing*. S.l. : Cengage Learning, 608 p. ISBN 978-1-4390-3943-4.
- GOLDIN, I. – REINERT, K.A. 2007. *Globalization for development*. Washington D.C. : World Bank Publications, 308 p. ISBN 978-0-8213-6929-6.
- HOLLENSEN, S. 2007. *Global Marketing*. 4<sup>th</sup> ed. Harlow : Pearson Education, 714 p. ISBN 978-0-273-70678-6.
- HOLLENSEN, S. 2008. *Essentials of global marketing*. Harlow : Pearson Education, 494 p. ISBN 978-0-273-71784-3.
- HORSKÁ, E. et al. 2008. *Internacionalizácia agropotravnárskych podnikov v SR*. Nitra: SUA, 167 p. ISBN: 978-80-552-0136-8
- HORSKÁ, E. – GÁLOVÁ, J. 2014. Patterns of Business Internationalisation in Slovakia: Empirical Results from the V4 Survey. In DURÉNDEZ, A. – WACH, K. *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics*. Cartagena : K and K, pp. 103-124. ISBN 978-84-942562-0-2.
- HORSKÁ, E. – NAGYOVÁ, L. – FELIXOVÁ, I. 2010. CAGE distance framework among Visegrad countries, Ukraine and Russia and lessons for international business. In BIELIK, P. et al. 2010. *Economics, Social Policy and Citizenship in the European Union : Evidence of V4 Countries and Perspectives for Ukraine*. Nitra : SUA, pp. 188–217. ISBN 978-80-552-0448-2.
- HORSKÁ, E. – UBREŽIOVÁ, I. – KEKÁLE, T. 2007. *Product adaptation in processes of internationalization: case of Slovak food – processing companies*. In *Baltic Journal of Management*, 2007, Vol. 2, No. 3, pp. 319–333. ISSN 1746-5265.
- HORSKÁ, E. – UBREŽIOVÁ, I. 2001. *Manažment a marketing v medzinárodnom prostredí*. Nitra : SUA, 418 p. ISBN 80-7137-884-4.
- HORSKÁ, E. – YESPOLOV, T.I. – GÁLOVÁ, J. 2013. Sustainability: Communicating, Reporting and Managing Change. In HORSKÁ, E. – YESPOLOV, T.I. et al. 2013. *Sustainability in Business and Society: Global Challenges – Local Solutions*. Kraków : Wydawnictwo Episteme, pp. 153–166. ISBN 978-83-7759-015-7.
- HORSKÁ, E. 2007. *Medzinárodný marketing*. Nitra : SUA, 223 p. ISBN 978-80-8069-938-3.
- HORSKÁ, E. 2012. New Consumerism and Trends at the Food Market: Within and Beyond Visegrad Borders. In HORSKÁ, E. et al. 2012. *Food Sciences and Business Studies : Global-Regional-Local Approach*. Nitra : SUA. pp. 391–410. ISBN 978-80-552-0815-2.
- HORSKÁ, E. 2014. Specifics of International Marketing and Management in Visegrad Countries – Qualitative Analysis of Selected Case Studies. In: DURÉNDEZ, A. – WACH, K. 2014. *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics*. Cartagena 2014, pp. 161–178. ISBN 978-84-942562-0-2
- JOBBER, D. – LANCASTER, G. 2009. *Selling and Sales Management*. 8<sup>th</sup> ed. S.l. : Financial Times/ Prentice Hall, 2009. ISBN 978-0-273-72065-2.
- KLEINDL, B. 2007. *International Marketing*. S.l. : Thomson South-Western, 336 p. ISBN 978-0538729154.

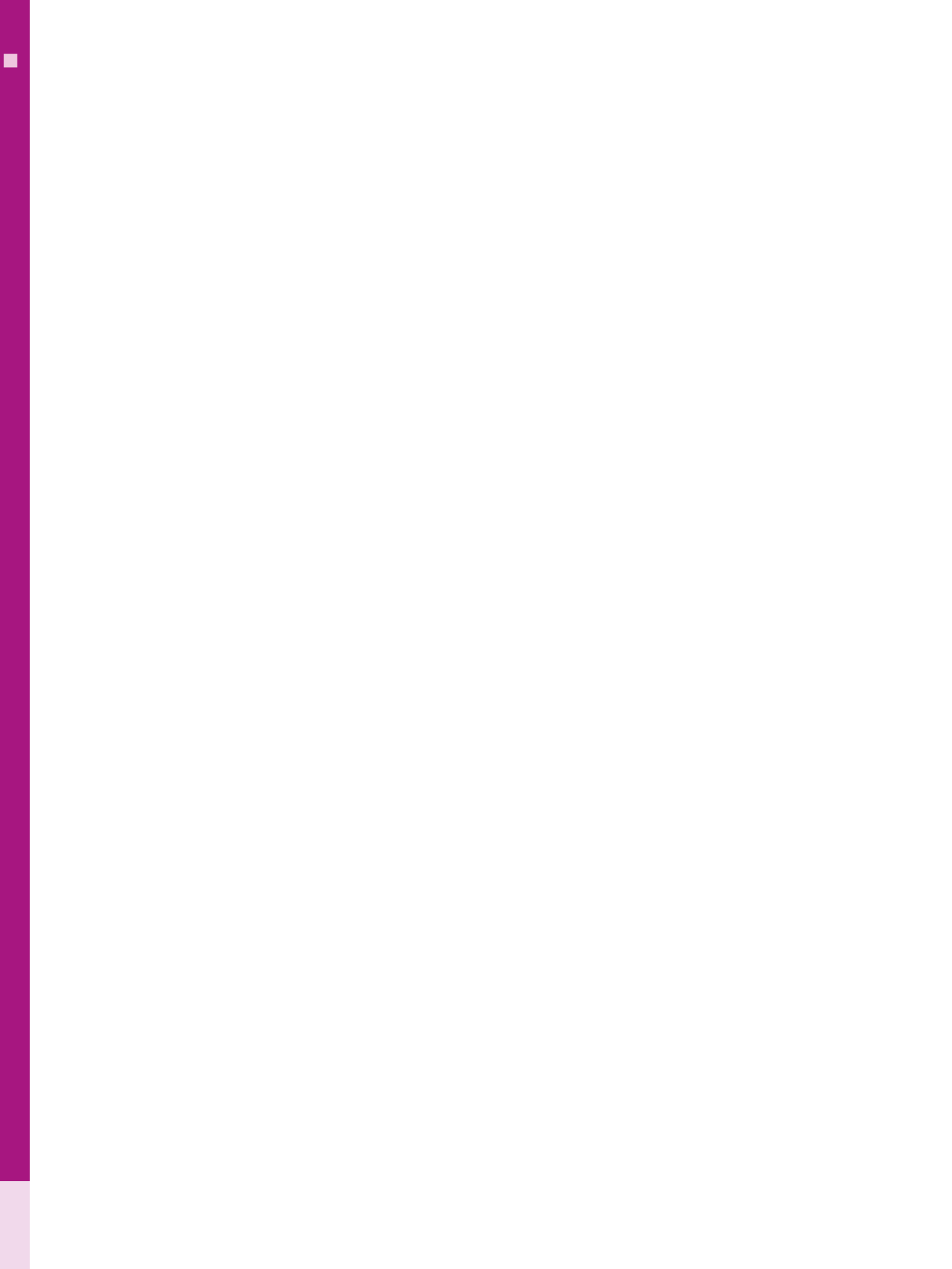
- KLEINOVÁ, K. – ŮRGEOVÁ, J. 2011. *Country image and branding of Slovakia*. In *Polityki europejskie*, Vol. 54, No. 5, pp. 50–58. ISSN 2081-3430.
- KLEINOVÁ, K. 2012. Marketing research: implications for the V4 food market. In HORSKÁ, E. et al. 2012. *Food Sciences and Business Studies : Global-Regional-Local Approach*. Nitra : SUA. pp. 339–356. ISBN 978-80-552-0815-2.
- KOTABE, M. – HELSEN, K. 2010. *Global marketing management*. 5<sup>th</sup> ed. Hoboken, NJ : John Wiley, 725 p. ISBN 978-0-470-38111-3.
- KOTABE, M. – HELSEN, K. 2011. *Global marketing management*. 5<sup>th</sup> ed. Hoboken, NJ : John Wiley, 717 p. ISBN 978-0-470-50574-8
- KOTLER, P. – KELLER, K. L. 2006. *Marketing Management*. New Jersey : Pearson Education, 674 p. ISBN 0-13-145757-8.
- KRETTNER, A. et al. 2010. *Marketing*. Nitra : SUA, 287 p. ISBN 978-80-552-0355-3.
- LEHOTA, J. – SZUCS, J. 1999. *The Role of Foreign Capital in Hungary's Food Industry, with Respect to Multinational Companies*. Hungarian Agricultural Research – Journal of the Ministry of Agriculture and Regional Development, March 1999, p. 12–13
- MÜHLBACHER, H. – LEIHS, H. – DAHRINGER, L. 2006. *International Marketing: A Global Perspective*. London : Cengage Learning EMEA, 737 p. ISBN 978-1-84480-132-9.
- OMARKULOVA, M. – HORSKÁ, E. – GÁLOVÁ, J. 2013. Introduction to International Marketing and Market Entry Modes. In OMARKULOVA, M. – HORSKA, E. – USPANOVA, M. et al. 2013. *Selected Issues in International Marketing: Textbook*. Turan University: Almaty, pp. 4–19. ISBN 978-601-214-186-3.
- ONKVISIT, S. – SHAW, J.J. 2009a. *International Marketing: Analysis and Strategy*. 4<sup>th</sup> ed. London: Routledge (Taylor and Francis), 594 p. ISBN 978-0-415-31133-0.
- ONKVISIT, S. – SHAW, J.J. 2009b. *International Marketing: Strategy and Theory*. 5<sup>th</sup> ed. Abingdon, Oxon : Routledge, 710 p. ISBN 978-0-415-77262-4.
- PALUCHOVÁ, J. – BENDA PROKEINOVÁ, R. 2013. *Udržateľné tendencie v spotrebiteľskom správaní: Asociačné pravidlá, udržateľný marketing a zodpovedná spotreba*. Nitra : SUA, 112 p. ISBN 978-80-552-1125-1.
- PARIS, A. 2011. *It's a Colorful World: The Meaning of Color Across Borders*. [2011-05-11]. [online]. Available from: <http://ezinearticles.com/?Its-a-Colorful-World:-The-Meaning-of-Color-Across-Borders&id=6259782>
- PAUL, J. – KAPOOR, R. 2008. *International Marketing: Text and Cases*. New Delhi : Tata McGraw-Hill, 379 p. ISBN 978-0-07-063588-3.
- PELSMACKER, P. D. – GEUENS, M. – VAN DEN BERGH, J. 2007. *Marketing Communications: A European Perspective*. 3<sup>rd</sup> ed. Harlow, Essex : Pearson Education, 610 p. ISBN 978-0-273-70693-9.
- PRIDE, W.M. – FERRELL, O.C. 2012. *Marketing*. S.l. : Cengage South-Western, 653 p. ISBN 978-1-111-526191.
- SZYMURA-TYC, M. 2012. *International Marketing in Europe*. Katowice : University of Katowice Publ. 236 p. ISBN 978-83-7246-754-6.
- TERPSTRA, V. – FOLEY, J. – SARATHY, R. 2012. *International Marketing*. Naperville : Naper, 518 p. ISBN 978-0981-7293-50.
- THE World Factbook 2013-14. 2013. Washington, DC: Central Intelligence Agency. [online]. Available from: <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2004rank.html>
- VELKOPOPOVICKÝ Kozel. 2014 [online]. Available from: [http://en.wikipedia.org/wiki/Velkopopovick%C3%BD\\_Kozel](http://en.wikipedia.org/wiki/Velkopopovick%C3%BD_Kozel)
- WALMART. 2014. Our Story – Our Locations. [online]. Available from: <http://corporate.walmart.com/our-story/our-business/locations/>
- ZOU, S. – CAVUSGIL, S.T. 2002. *The GMS: A Broad Conceptualization of Global Marketing Strategy and its Effect on Firm Performance*. *Journal of Marketing*, 66, October 2002 pp. 40–56



# PART II

## MARKETING ENVIRONMENT WITHIN AND BEYOND VISEGRAD BORDERS: PEOPLE, ECONOMICS, POLITICS AND CULTURE





# CHAPTER

## SELECTED INDICATORS OF ECONOMIC AND TRADE DEVELOPMENT – GLOBAL AND VISEGRAD OVERVIEW

# 2

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Understand the global economy development trends and the position of global trade in modern economy.
2. Understand the Visegrad (V4) countries' economy basic development trends in relation to global economy development trends.
3. Understand selected economic indicators (foreign trade, competitiveness) related to V4 region.



■ The 1335 Meeting of Central European Kings in Visegrad – how Visegrad history is presented in Visegrad Castle Museum in Hungary. **Photo:** Elena Horská, Visegrád 2006

### Introduction

Economic globalization is the increasing economic interdependence of national economies across the world through a rapid increase in cross-border movement of goods, service, technology, and capital (Joshi, 2009). Whereas globalization is centered around the rapid development of science and technology and increasing cross-border division of labor (Shangquan, 2000), economic globalization is propelled by the rapid growing significance of information in all types of productive activities and marketization, and the advance of science and technologies (Shangquan, 2000). Depending on the paradigm, economic globalization can be viewed as either a positive or a negative phenomenon.

Economic globalization comprises the globalization of production, markets, competition, technology, and corporations and industries

Economic globalization comprises the globalization of production, markets, competition, technology, and corporations and industries (Joshi, 2009). While economic globalization has been occurring for the last several hundred years (since the emergence of trans-national trade), it has begun to occur at an increased rate over the last 20–30 years under the framework of General Agreement on Tariffs and Trade and World Trade Organization which made countries to gradually cut down trade barriers and open up their current accounts and capital accounts (Shangquan, 2000). This recent boom has been largely accounted by developed economies integrating with less developed economies, by means of foreign direct investment, the reduction of trade barriers, and in many cases cross border immigration.

It can be argued that economic globalization may or may not be an irreversible trend. There are several significant effects of economic globalization. There is statistical evidence for positive financial effects as well as proposals that there is a power imbalance between developing and developed countries in the global economy. Furthermore, economic globalization has an impact on world cultures (Shangquan, 2000).

## 2.1 Global Economy – in Selected Numbers

Since the end of the Second World War the world economy has undergone a significant development. The human population increased from 3 billions to 7 billions. Since 1960 till 2011 the volume and value of global production (GDP) increased their values by more than five times respectively six times. The value of global production increased from 7.2 trill. USD to about 42.5 trill. USD (in 2000 USD constant prices), in nominal value the value growth was even higher from 1.3 trill. to almost 70 trill. USD. The growth of global production was even higher than the growth of human population. The result of mentioned trend was constantly increasing GDP per capita and also income per capita. In analyzed time period the global GDP per capita increased its value from about 2 382 USD to about 6 099 USD (in 2000 USD constant prices). Again if we take in consideration only nominal USD price development the GDP per capita value growth was higher – from about 444 USD to more than 10 thousands USD. It can be said that the last fifty years can be taken as the most prosperous period of human society development. Except for the human population and world GDP growth, the world economy recorded significant changes in its structure. Only in period 1970–2011, the share of agriculture in global GDP decreased its value from about 9 % to about 3 %. The share of industry was reduced from 38 % to about 26 % and the share of services increased from 53 % to about 71 %. It must be highlighted that the growth of services share in global economy was increasing despite the constant growth of agricultural and industrial value added. In the same period the agricultural added value related to GDP increased from 273 bill. USD to more than 2.5 trill. USD, the added value generated by global industry increased from 1 trill. USD to more than 17 trill. USD. If we count the growth of value added generated by both mentioned sectors of global economy as a significant, in comparison with the growth of added value generated by services sector, the growth is low. Services sector increased its value from 1,4 trill. USD to almost 40 trill. USD. The mentioned development only confirms the idea that while the period 1850–1950 was a period of industry, the period 1950 till



present is period of services. The globalization and liberalization processes extremely changed the global economy environment. Individual economies have to cooperate much more that in it was in the past. The liberalization process, which started in nineties, made individual economies around the World much more depended on each other. Individual economies are mutually interconnected by financial, trade, political and others relations (for details providing an overview of global economy development please see Table 2.1).

**Table 2.1** Global economy development – basic characteristics

Indicator Name	1960	1970	1990	2011
<b>GDP (current US\$)</b>	1 349 827 514 643	2 896 761 039 527	21 976 859 782 975	69 971 507 754 454
<b>GDP per capita (current US\$)</b>	444	785	4 149	10 034
<b>Population, total</b>	3 040 197 382	3 691 705 531	5 296 329 583	6 973 738 433
<b>Trade (% of GDP)</b>	24	27	39	62
<b>Trade in services (% of GDP)</b>			8	12
<b>Merchandise exports (current US\$)</b>	123 625 241 459	303 628 125 866	3 473 190 900 428	18 206 997 007 830
<b>Merchandise imports (current US\$)</b>	130 015 534 023	315 399 722 727	3 550 249 977 333	18 240 748 598 948
<b>Service exports (BoP, current US\$)</b>			876 725 817 148	4 282 849 196 174
<b>Service imports (BoP, current US\$)</b>			891 869 776 101	3 903 397 000 785
<b>Agriculture, value added (% of GDP)</b>		9	5	3
<b>Agriculture, value added (current US\$)</b>		273 606 365 880	1 122 136 535 771	2 522 042 846 358
<b>Industry, value added (% of GDP)</b>		38	33	26
<b>Industry, value added (current US\$)</b>		1 016 175 134 600	6 819 612 101 834	17 166 703 497 857
<b>Manufacturing, value added (% of GDP)</b>			22	17
<b>Manufacturing, value added (current US\$)</b>			4 234 187 278 735	9 996 779 698 529
<b>Merchandise trade (% of GDP)</b>		21	32	48
<b>Services, etc., value added (% of GDP)</b>		53	62	71
<b>Services, etc., value added (current US\$)</b>		1 422 283 162 731	12 610 111 752 773	39 043 135 423 883

Source: WDI, 2012

### 2.1.1 Global Trade – Position in Global Economy

The specific element influencing the current global economy development is trade. Trade has been playing an important role in global economy growth and formation. Global trade – based on comparative advantage idea – enables to individual countries to produce and to consume more products than if they would be fully self-sufficient. The global economy based on international trade – both in relation to regional and inter-regional – level provides significant stimuli for economy growth in all regions around the World.

The global economy based on international trade – both in relation to regional and inter-regional – level provides significant stimuli for economy growth in all regions around the World

International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history (see Silk Road, Amber Road), its economic, social, and political importance has been on the rise in recent centuries. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders (Samuelson, 2001).

The value of global merchandise trade within the period 1960 and 2011 increased from 123 bill. USD to more than 17.2 trill. USD (according to WB even 18.2 trill. USD). When we take into consideration trade in services (almost 4.3 trill. USD in 2011), we can see that international trade value represents more than 22 trill. USD. The share of trade turnover in global economy performance increased during the period 1960–2011 from about 24 % to about 62 %. Merchandise trade represents about 80 % of global trade performance and trade in services participates in global trade by 20 %. As we can see the global trade increased its value significantly during the monitored time period, but it has to be highlighted that the growth expressed in current prices can provide only limited overview about the real growth of global trade. To be able to analyze the real impact of global trade on global economy performance, this material is full filled by the analysis of trade and production volume development. The following Table 2.2 provides an overview about the real volume growth of international trade and it also enables to compare the growth of trade volume with growth of production volume in period 1960–2011.

On the basis of above mentioned data the following findings about the global production and trade development can be expressed. The global trade increased its nominal value within the analyzed time period more than 174 times. Its individual components (agricultural trade, trade in fuels and mining products and trade in manufactures) increased their nominal values almost 40 times, respectively 222 times, respectively 158 times. As it was mentioned before (Table 2.1) the real growth rate was much lower, but still significant. The global trade volume increased within 1960–2011 almost 16 times, the main driver of this volume growth is trade in manufactures, which increased its volume almost 33 times. The growth rate of trade in manufactures was much higher in comparison with the growth rate of trade in agricultural products and fuels and mining products – both increased their volume by 5.2 times respectively 5 times. It is interesting to see that within the analyzed time period the global trade growth exceeded the global production growth. It means that strategy of many stakeholders operating on global market changed during the last fifty years. While at the beginning of the monitored period the strategy of individual countries was to keep high level of self-sufficiency in the case of all sectors of their economy, in nowadays many stakeholders (countries) changed their strategies and they are trying to specialize their economy and to take a maximum on the basis of applying of comparative advantage approach. The result of this development is an increasing volume of global trade and the share of trade activities in individual countries GDP value formation is constantly increasing. The evidence of this development is comparison of global production volume development and global trade volume development. Production volume growth rate is of course much lower in comparison with global trade volume growth rate. During the above mentioned time the global production volume increased almost five times and its individual components increased the volume of production 3.2 times in the case of agricultural production, 3 times in the case of fuels and mining products production and 7 times in the case of manufactures production. Individual countries became more specialized and the current economy is based on mutual trade relations more than it was in the past.

**Table 2.2** World merchandise exports, production and gross domestic product, 1950–2011  
(Index, 2005 = 100)

	Value				Volume								GDP
	Exports				Exports				Production				
	Total	Agricultural products	Mining products	Manufactures	Total	Agricultural products	Mining products	Manufactures	Total	Agriculture	Mining products	Manufacturing	
1960	1	5	1	1	8	24	22	4	21	35	35	16	20
1970	3	8	3	3	17	35	44	11	37	45	59	33	34
1980	20	35	32	15	29	49	52	22	53	56	77	50	51
1990	33	49	28	33	42	57	59	38	69	72	78	67	70
2000	61	65	47	64	79	83	84	76	88	89	91	88	88
2001	59	65	43	62	78	85	84	76	88	90	91	86	89
2002	62	69	43	65	81	88	86	79	89	91	91	88	91
2003	72	80	54	75	86	91	91	83	92	94	94	91	93
2004	88	92	72	91	94	94	96	93	97	98	98	96	97
2005	100	100	100	100	100	100	100	100	100	100	100	100	100
2006	116	111	128	113	109	106	104	111	104	102	101	105	104
2007	134	133	147	130	116	111	107	119	109	105	101	112	108
2008	154	158	195	143	118	114	108	122	110	109	103	112	110
2009	120	139	125	115	104	111	102	103	104	109	101	104	107
2010	146	160	166	137	118	121	108	122	109	109	103	110	111
2011	174	195	222	158	124	125	109	130	111	112	104	113	113

Source: WDI, 2012

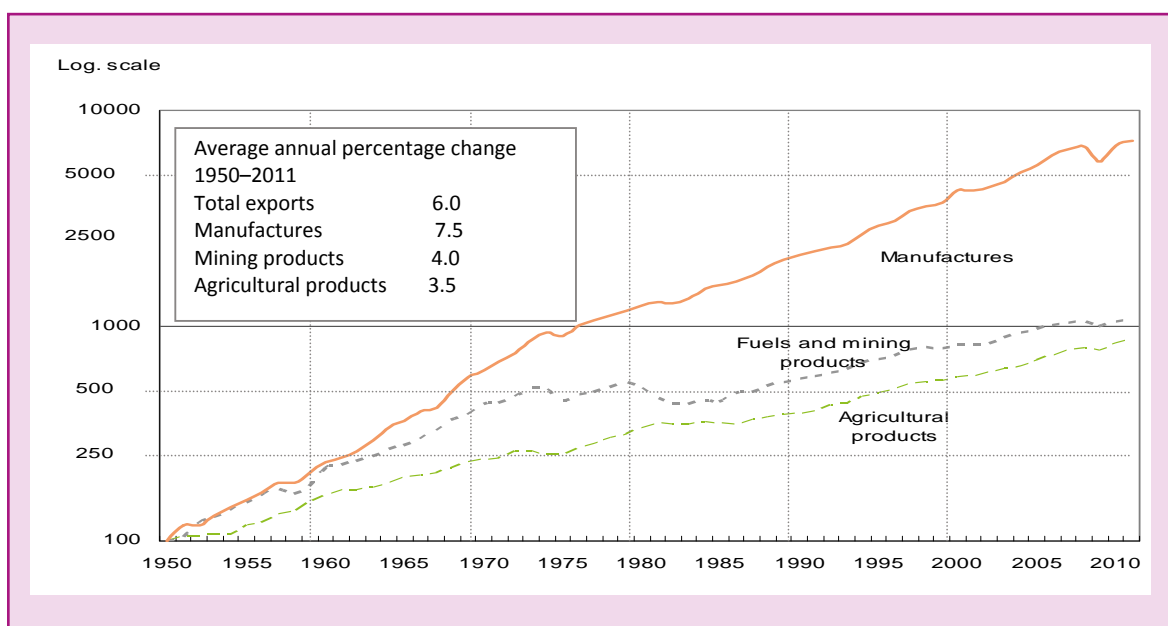
## 2.1.2 International Trade Structure and Development

The world trade consists of two capital parts. Trade in goods and trade in services. When referring to trade in goods or merchandise trade, it is necessary to use a more detailed decomposition. In general trade in goods consists of trade in manufactured products, trade in fuels and raw materials and trade in agricultural products.

### Merchandise trade

The most important part of world merchandise trade is trade in manufactured products (In literature we can also find it referred to as “manufactures”. Manufactured products represent products with a high level of added value. Among these products we can include products with a high level of fabrication (semi-finished products) or finalized products). Another very important characteristic of merchandise trade is that trade in manufactured products is growing faster than trade in agriculture, and fuels and mining products.

The Figure 2.1 illustrates the development trends of trade in manufactured products, agricultural products, and fuels and mining products. It can be seen that trade in manufactured products is growing much faster in comparison with other world merchandise trade sectors (World Trade Report, 2009).

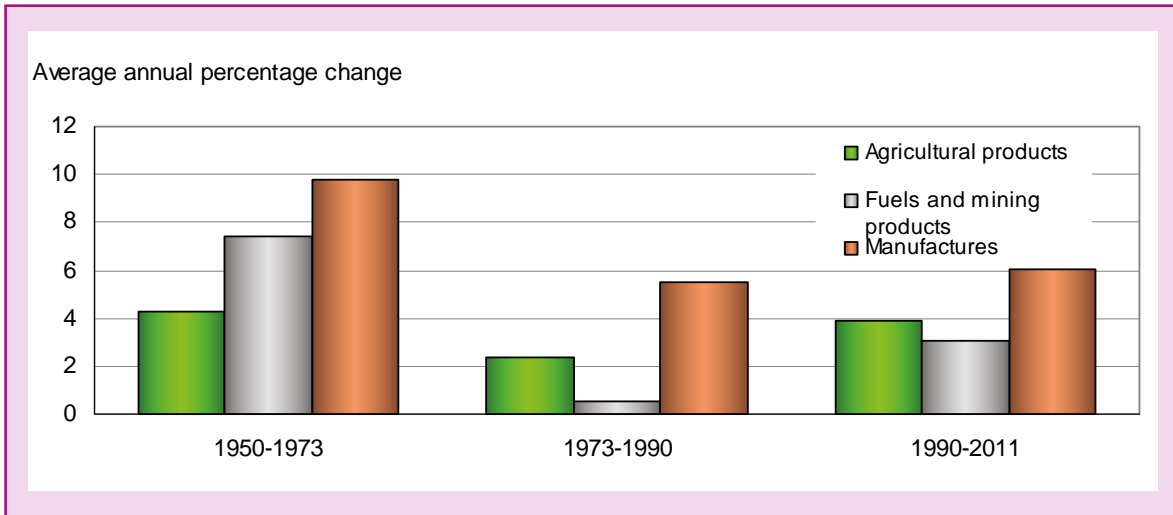


■ **Figure 2.1** World merchandise trade volume by major product group, 1950–2011 (Volume indices, 1950 = 100)  
**Source:** WTO

The structure of world trade has been constantly changing. While in the past agricultural products and raw materials made up the main shares in total world trade, nowadays the manufacturers have the main share in the total world trade

The structure of world trade has been constantly changing. While in the past agricultural products and raw materials made up the main shares in total world trade, nowadays the manufacturers have the main share in the total world trade. The Figure 2.2 illustrates the average inter-annual growth rates for every basic commodity group. We can see that world trade in manufactured items has been growing much faster than world trade in other commodity groups.

There are huge differences in the commodity structures of merchandise exports between individual regions. In the developed regions (Europe, North America, Asia), exports consist mainly of manufactured items (about 80%) and shares of agricultural products and fuel and mining products are about 20%.



■ **Figure 2.2** Development trends of world merchandise trade  
**Sources:** World Trade Organisation

However, the export structure of the developing regions is based mainly on fuels and mining products, and their share of manufactured items in total exports is only minor (Africa 20%, Middle East 22%, CIS 26%, Latin America 33%). In developing regions, also for consumer markets the bulky, primary agricultural products with no added value are of great importance (Figure 2.3).



■ **Figure 2.3** Open air-market with agricultural primary products for local people in Accra, Ghana  
**Photo:** Elena Horská, Ghana 2008



Export of fuels and mining products has the decisive position, especially in developing countries. We can see the dominant position of primary products exports in the case of Africa (more than 70%), the Middle East (more than 75%), CIS (almost 70%) and Latin America (nearly 40%). The share of agricultural products in the total individual region's exports is only minor (except for Latin America – more than 20%). We can see that the share of agricultural products in total world exports is about 7–9% (a significant decline from 25% at the beginning of the fifties).

### 2.1.3 World Trade in Services

World trade is not only represented by merchandise trade. A significant part of trade transactions is represented by trade in services (Table 2.3). As mentioned above, in 2010, the value of world merchandise trade was over 17 trill. USD (according to WB the value is even higher cc 18.2 trill. USD). In the same period the value of world trade in services was about 4.2 trill. USD. It means that the total value of both trade in services and trade in merchandise is about 21–22 trill. USD. Over 80% of world trade is represented by merchandise goods, primarily industrial equipment, consumer goods, oil and agricultural products. Almost 20% of world trade is in services, mostly in banking, insurance, transport, telecommunication, engineering and tourism.

**Table 2.3** World exports of commercial services by major category, 2000–2011  
(Billion US dollars and percentage)

Global market	Value	Share				
	2011	2000	2005	2009	2010	2011
All commercial services	4170	100.0	100.0	100.0	100.0	100.0
Transportation services	860	23.0	22.7	20.0	21.0	20.6
Travel	1065	32.1	27.7	25.5	25.2	25.6
Other commercial services	2240	44.8	49.6	54.4	53.7	53.7

Source: WTO, World Bank

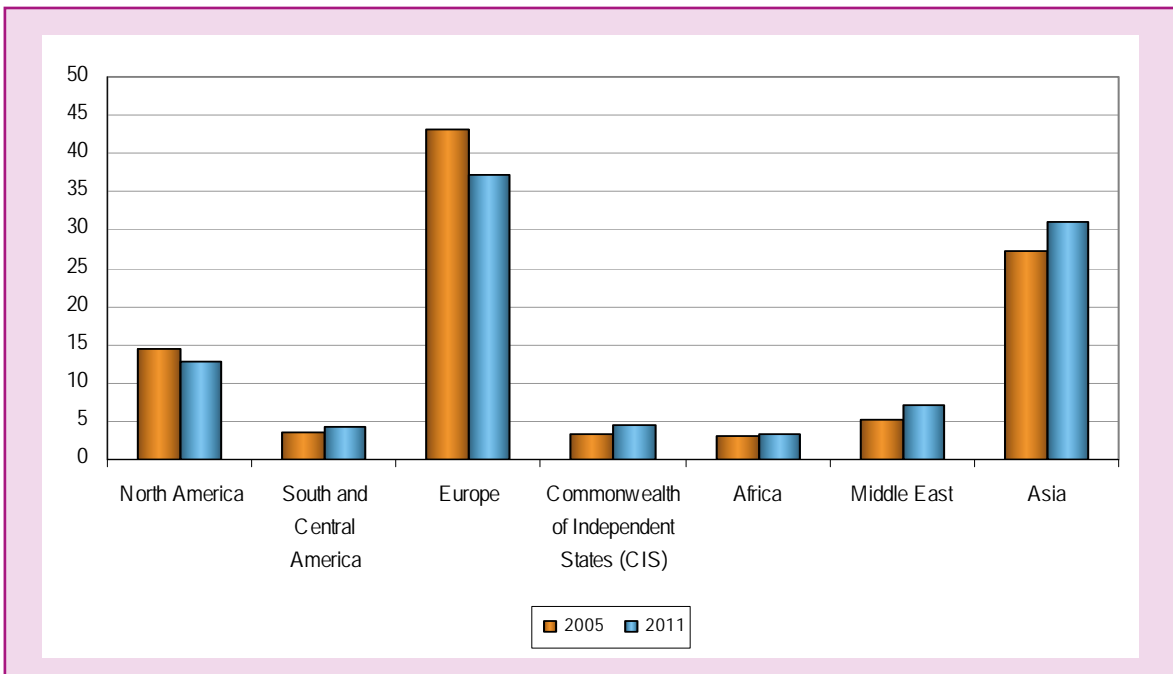
The expansion in the volume of world trade over the past half century has been supported by a steady decline in trade barriers, helping to sustain global growth and enable economic development. As the trade barriers have fallen, the structure of international trade has also changed. New information and communication technologies have had, and continue to have, a profound effect. Some services, which previously could only be provided domestically, can now be traded internationally. Finer differentiation between products designed to meet specific consumer needs has led to a rise in intra-industry trade – where countries exchange goods which fall into the same broad industrial classification but differ in their specialised features. In addition, technological advances have allowed companies to separate production processes, locating different stages of production in different regions or countries. These developments offer major new trading opportunities for all economies. They also imply change. Resources are shifting away from traditional industries and into new ones; and the process of change will continue as developing countries increase their share of the world trade. The global benefits from the continued expansion of world trade are potentially substantial.

### 2.1.4 World Trade Territorial Structure

World trade is controlled by specially developed regions. The share of OECD countries in total world exports is about 55–60%. The USA, EU 27 and Japan control about 50% of world exports. On the other hand, the share of developed countries in total world exports is slowly decreasing, while the developing countries, especially the Asian countries (Figure 2.4), share in total world export is increasing – nowadays the share of developing countries reached over 45%, which means that during 2005–2011 these countries increased their share in total trade by cc 10% (Figure 2.5)



■ **Figure 2.4** The port in Singapore belongs to the world's busiest ports in terms of shipping tonnage handled. It is of great importance at the strategic East Asia – Europe route  
**Photo:** Elena Horská, Singapore 2014



■ **Figure 2.5** Regional shares in world merchandise exports, 2005 and 2011 (in Percentage)  
**Source:** World Trade Organisation

## 2.1.5 Regional and Inter-Regional Merchandise Trade

World trade in merchandise is still characterized by intra-regional flows (Table 2.4). Distances are still a barrier. Inter-regional trade in merchandise flows between individual regions account for only 48% of world trade (cc 67% of inter-regional trade is realized by Europe, North America and Asia). It means that more than half of global trade is realized at the intra-regional level (cc 94% of intra-regional trade is realized by Europe, North America and Asia).

**Table 2.4** Regional and inter-regional merchandise exports, 2011  
(Billion dollars and percentage)

Origin	Destination							
	North America	Latin America	Europe	CIS	Africa	Middle East	Asia	World
<b>Value</b>								
World	2923	749	6881	530	538	672	5133	17816
North America	1103	201	382	15	37	63	476	2282
South and Central America	181	200	138	8	21	18	169	750
Europe	480	119	4667	234	199	194	639	6612
Commonwealth of Independent States (CIS)	43	11	409	154	12	24	117	789
Africa	102	19	205	2	77	21	146	594
Middle East	107	10	158	6	38	110	660	1251
Asia	906	189	922	110	152	242	2926	5538
<b>Share of regional trade flows in each region's total merchandise exports</b>								
World	16.4	4.2	38.6	3.0	3.0	3.8	28.8	100.0
North America	48.3	8.8	16.7	0.7	1.6	2.8	20.9	100.0
South and Central America	24.2	26.7	18.3	1.1	2.8	2.4	22.5	100.0
Europe	7.3	1.8	70.6	3.5	3.0	2.9	9.7	100.0
Commonwealth of Independent States (CIS)	5.5	1.4	51.8	19.5	1.6	3.0	14.8	100.0
Africa	17.1	3.3	34.5	0.3	13.0	3.6	24.5	100.0
Middle East	8.6	0.8	12.6	0.5	3.0	8.8	52.8	100.0
Asia	16.4	3.4	16.7	2.0	2.8	4.4	52.8	100.0
<b>Share of each region's exports in world merchandise exports to the region</b>								
World	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
North America	37.7	26.9	5.6	2.9	7.0	9.3	9.3	12.8
South and Central America	6.2	26.8	2.0	1.6	4.0	2.7	3.3	4.2
Europe	16.4	15.9	67.8	44.2	37.1	28.9	12.4	37.1
Commonwealth of Independent States (CIS)	1.5	1.4	5.9	29.1	2.3	3.5	2.3	4.4
Africa	3.5	2.6	3.0	0.3	14.3	3.2	2.8	3.3
Middle East	3.7	1.3	2.3	1.1	7.0	16.4	12.9	7.0
Asia	31.0	25.2	13.4	20.8	28.3	36.0	57.0	31.1



Continued Table 2.4

Origin	Destination							
	North America	Latin America	Europe	CIS	Africa	Middle East	Asia	World
<b>Share of regional trade flows in world merchandise exports</b>								
<b>World</b>	16.4	4.2	38.6	3.0	3.0	3.8	28.8	100.0
<b>North America</b>	6.2	1.1	2.1	0.1	0.2	0.4	2.7	12.8
<b>South and Central America</b>	1.0	1.1	0.8	0.0	0.1	0.1	0.9	4.2
<b>Europe</b>	2.7	0.7	26.2	1.3	1.1	1.1	3.6	37.1
<b>Commonwealth of Independent States (CIS)</b>	0.2	0.1	2.3	0.9	0.1	0.1	0.7	4.4
<b>Africa</b>	0.6	0.1	1.2	0.0	0.4	0.1	0.8	3.3
<b>Middle East</b>	0.6	0.1	0.9	0.0	0.2	0.6	3.7	7.0
<b>Asia</b>	5.1	1.1	5.2	0.6	0.9	1.4	16.4	31.1

Sources: World Trade Organisation

The intensity of cooperation at the intra-regional level is very high in the case of Europe (especially European Union), North America (NAFTA) and Asia (ASEAN). In the case of other regions the prevailing part of trade is realized at the inter-regional level. It is necessary to emphasize, that except for developed regions the level of cooperation within individual developing regions is very low. Individual countries are not able to realized benefits from comparative advantages and instead of cooperation at the regional level – many countries developing efforts to penetrate market of other regions (for example: the share of intra-regional trade in total individual regions' trade is the following: Commonwealth of Independent States (19.5%), Africa (12.9%), Middle East (8.8%) and South and Central America (26.7%)).

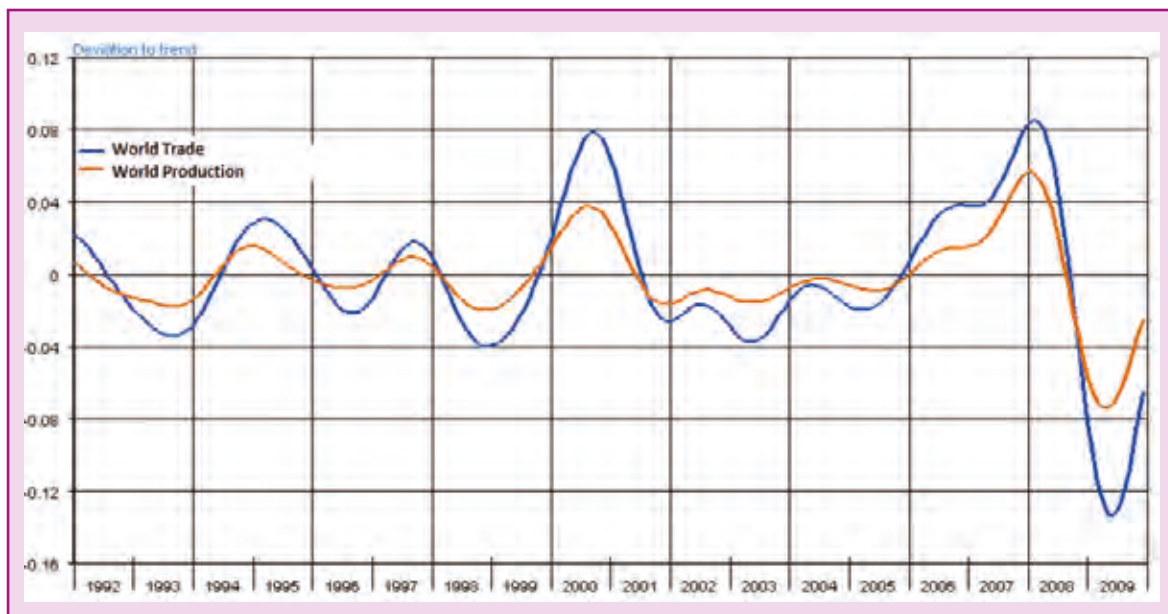
## 2.1.6 The Impacts of the Global Economic Crisis on Selected Segments of the World Trade in Commodities

The world economy experienced very significant changes in the last few years. First, it witnessed very rapid economic growth that influenced last two decades (1990–2010) in general, however, this growth was not continuous and it was interrupted by a few minor recessions and one notable crises. Among the most important problems of the world economy, it is possible to include the recession from the year 2001 and the crisis that hit the world economy in late 2008 and early 2009 (WTO, 2010).

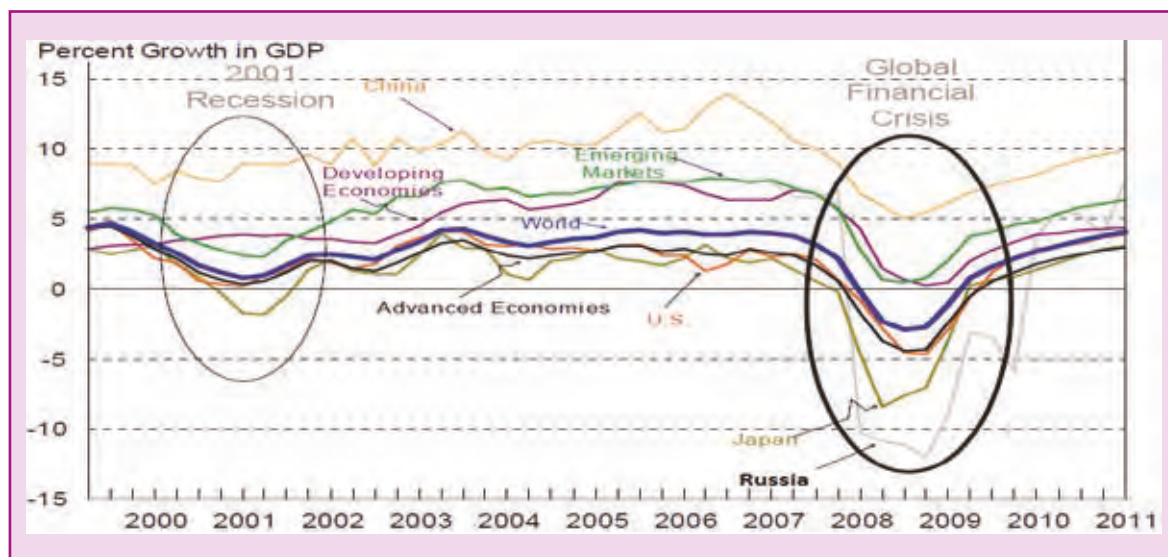
If we left out of consideration the shocks that affect the world economy mentioned in the introduction of this paper, last 20 years can be classified very positively and it can be said that the world economy grew at a record pace (WB, 2010). During the last ten years, the world output increased to a record USD 61 trillion in 2008. Compared to 2000, it was an increase of about USD 30 trillion in current prices. In constant prices, the GDP also raised considerably, from USD 32 trillion in 2000 to more than USD 40 trillion in 2008. In the observed period, the GDP grew by about 6.8% per year (current prices) or by 2.4% per year (constant prices of 2000) (UN COMTRADE, 2011). Growth of the world output in the observed period was accompanied by a very significant increase in the world trade which value and volume had been constantly raising (Bielik, 2010). Just in the years 1948–2009, the value of the world trade increased from USD 62 billion to more than USD 12 trillion in nominal value (Bielik et al, 2010). This means that the share of the world trade turnover in the value of the world output increased from about 20% to more than 50% (WTO, 2010). In this regard, it is worth mentioning the fact that nowadays, the world trade is highly territorially concentrated; the share of Europe, North America and Southeast Asia in the value of the world commodity trade is more than 80% (Horská et al., 2011). The

## Selected Indicators of Economic and Trade Development ...

world commodity trade is basically represented by the transactions implemented in three commodity segments (manufactures, fuels and mining products, and agricultural and food products) (Jeníček, 2009). Currently, the share of individual segments in the resulting value of trade is approximately 76% in the case of manufactures, approximately 16% in the case of fuels and mining products and less than 8% in the case of food and agricultural commodities (Svatoš et al., 2009). Details regarding the development of the value of individual segments of the world trade in 2002–2009 are included in the following Table 2.5, Figure 2.6 and 2.7.



■ **Figure 2.6** Correlation between values of deviations from trend in case of development of world trade and world output in the time period 1992–2009  
**Source:** WTO, 2011



■ **Figure 2.7** The value of global GDP (percentage change) including the most important regions of the world in 2000 to 2011 (estimation according to the WTO)  
**Source:** WTO, 2011

**Table 2.5** The value of the world commodity trade in the time period 2002–2009

World Trade (export) b. USD	2002	2003	2004	2005	2006	2007	2008	2009
<b>Agrarian and Food products</b>	443.6	512.9	586.6	638.2	708.8	849.6	1 021.5	910.0
<b>Fuels and Mining products</b>	754.6	917.4	1 198.1	1 559.7	1 985.9	2 142.0	3 020.8	1 965.6
<b>Manufactures</b>	5 045.7	5 841.4	7 052.1	7 769.6	8 945.8	10 247.5	11 256.7	9 030.1
<b>Total Commodity Trade</b>	6 243.9	7 271.8	8 836.9	9 967.4	11 640.5	13 239.1	15 299.0	11 905.7

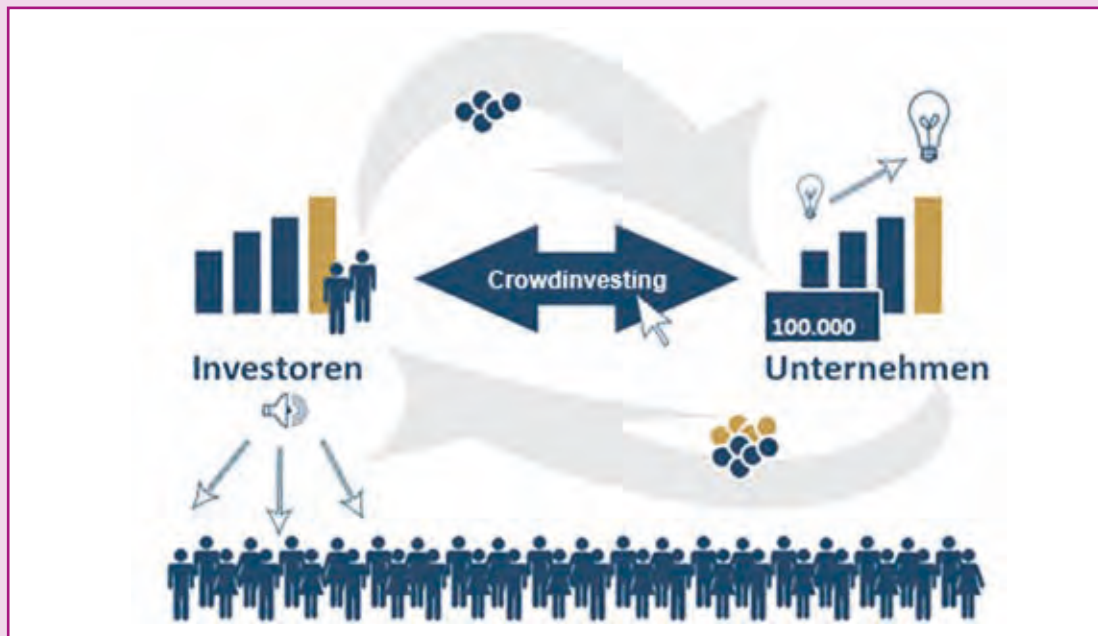
Source: UN Comtrade, 2011



## GLOBAL MARKETING INSIGHTS

### COPORATE CYBER FINANCE has Potential to Change the Financial Sector of Economy

The evolution of Cyber Finance as new kind of Corporate Finance especially for startups and small sized enterprises started in Germany in the year 2011. As a result of the last financial and economic crises since 2007 people are aware, to trust banks anymore. They were looking for alternatives to invest savings. Consumption was not the only way. At the same time, many enterprises had and still have problems to get loans from banks to realize their investments or to finance their further growth. There is a growing credit crunch for Startups, smallest and small sized enterprises, not only caused by the last crisis, but also because of the bank-regulations of BASEL III and the negative change in loan policy of banks. Therefore we had two „needs“, first to invest savings and second to get money for companies. Is there a common interection between people and enterprises? Yes indeed. Coming from USA to Europe the idea of financing enterprises via the Internet using specific social networks called „Crowdfunding online platforms“ was born. Collecting money for investments from the Internet population makes it not longer necessary to involve only banks by financing companies. Figures 2.8 and 2.9 give an overview about the principle of Coporate Cyber Finance and different variations.



■ **Figure 2.8** Principles of Corporate Cyber Finance

Source: <http://www.a-crowd.de/wp-content/themes/responsive/images/featured-image.png>  
retrieved 10/07/2014, modified by Rainer Schenk

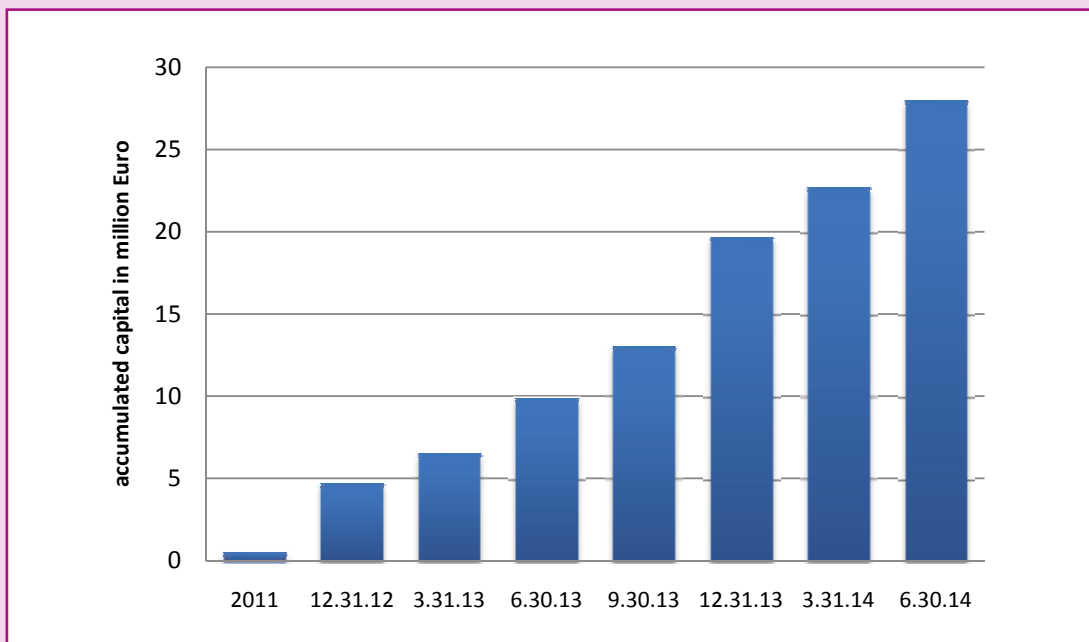
In Germany about 3.2 Million enterprises are smallest and small sized companies but represents about 88 percent of all SME companies in Germany. Therefore it was at the time, to find ways against the restrictive loan policy of the bank sector. In Germany "Corporate Cyber Finance" is part of Crowdfunding, not based on an donation modell but characterized by special rewards or form of participation. (The total amount of SMEs in Gemany ist about 3.65 million companies. That is 99.6 % of all companies in Germany. According to the definition of the EU commission smallest enterprises has up to 9 employees and a revenue up to 2 million euro per year. Small enterprises has up tu 49 employees and a revenue up to 10 million euros per year.)



■ **Figure 2.9** Variations of Corporate Cyber Finance in Germany 2014  
 Source: Schenk, 2014

Using the power of social networks, social media and considering the socio-anthropological phenomenon of collective intelligence more and more existing enterprises but also Startups get financed by Crowdinvestors (small investors) via the Internet. The special online platforms are acting as intermediaries to organize dealflow and workflow of Cyber financed projects. In cases up to hundreds of Crowdinvestors are spending small amounts of money, but in the sum considerable amounts ( e.g. from 100.000 Euro to 1 million Euro) are coming together (Figure 2.10).

Cyber Finance includes opportunities and threats. The level of development of Cyber Finance ist still at its beginning. To reduce threats and risks and taking advantages of opportunities, Cyber Finance has the potential to become a new innovative sustainable form of financing companies.



■ **Figure 2.10** Overall accumulated capital by Cyber Finance (Crowdinvesting) in Germany from 2011 to 2014  
 Source: Schenk, 2014

As a result of a current survey by the German association BITKOM (Berlin) about 3.5 million of the German are always willing to invest money in projects Cyber Finance. During the Cyber Financing Process, companies has also the possibility to use the special social networks as a marketing channel and for market research. All in all a win win situation for the parties, Companies, Crowdinvestors and consumers.

Author of the Corporate Cyber Finance is Diplom-Kaufmann Univ PhDr. Rainer Schenk, PhD. He is a German tax counselor and economist, and one of the few experts in the field of Cyber Finance in Germany.



Global economy responded to the sharp decline in production and trade in the year 2009 by a significant growth one year later. Both global trade and the GDP raised. The presented data show that the economic drop in the year 2009 was more or less fully compensated. While in 2009, there was a decline in volume of the global production and trade by 2.5% and 12% respectively, in 2010, there was an increase in the volume of the global production and trade by about 4% and 14% respectively.

In relation to the development of the global trade, it should be mentioned that during the period of reconstruction of the global economy, the trade in agrarian and food products showed lower sensitivity to the GDP growth in comparison to the trade in mining products and manufactures. In 2010, the GDP value of the global economy grew by about 8.7% annually (at current USD prices), agrarian trade increased its value by 15%, trade in mining products increased by 33% and trade in manufactures increased by approximately 20%. Therefore, the facts mentioned above imply that one percent growth in the value of global output cause an increase of trade in agrarian products by about 1.75%, in fuel and mining products by about 3.85% and elasticity of the trade in manufactures reached about 2.26%.

## 2.2 Visegrad Countries and Global Economy Development

### 2.2.1 V4 – Visegrad Group

The Visegrad Group (also known as the „Visegrad Four“ or simply „V4“) reflects the efforts of the countries of the Central European region to work together in a number of fields of common interest within the all-European integration. The Czech Republic<sup>1</sup>, Hungary<sup>2</sup>, Poland<sup>3</sup> and Slovakia<sup>4</sup> have always been part

---

1/ The Czech Republic is a stable and prosperous market economy, which harmonized its laws and regulations with those of the EU prior to its EU accession in 2004. While the conservative, inward-looking Czech financial system has remained relatively healthy, the small, open, export-driven Czech economy remains sensitive to changes in the economic performance of its main export markets, especially Germany. When Western Europe and Germany fell into recession in late 2008, demand for Czech goods plunged, leading to double digit drops in industrial production and exports. As a result, real GDP fell 4.7% in 2009, with most of the decline occurring during the first quarter. Real GDP, however, has slowly recovered with positive quarter-on-quarter growth starting in the second half of 2009 and continuing throughout 2011. The auto industry remains the largest single industry, and, together with its upstream suppliers, accounts for nearly 24% of Czech manufacturing. The Czech Republic produced more than a million cars for the first time in 2010, over 80% of which were exported. Foreign and domestic businesses alike voice concerns about corruption especially in public procurement. Other long term challenges include dealing with a rapidly aging population, funding an unsustainable pension and health care system, and diversifying away from manufacturing and toward a more high-tech, services-based, knowledge economy.

2/ Hungary has made the transition from a centrally planned to a market economy, with a per capita income nearly two-thirds that of the EU-25 average. The private sector accounts for more than 80% of GDP. Foreign ownership of and investment in Hungarian firms are widespread, with cumulative foreign direct investment worth more than \$70 billion. In late 2008, Hungary's impending inability to service its short-term debt - brought on by the global financial crisis - led Budapest to obtain an IMF/EU/World Bank-arranged financial assistance package worth over \$25 billion. The global economic downturn, declining exports, and low domestic consumption and fixed asset accumulation, dampened by government austerity measures, resulted in an economic contraction of 6.8% in 2009. In 2010 the new government implemented a number of changes including cutting business and personal income taxes, but imposed „crisis taxes“ on financial institutions, energy and telecom companies, and retailers. The IMF/EU bail-out program lapsed at the end



of a single civilization sharing cultural and intellectual values and common roots in diverse religious traditions, which they wish to preserve and further strengthen (Table 2.6).

These countries came through many changes in last two decades which very significantly influenced their political and especially economic character. The events connected with the transition from a centrally planned economy to a market economy, and the subsequent period of preparations for accession to the EU very greatly influenced the economic structure of these particular countries. Together with these changes, there were also important changes in the development of foreign trade territorial and commodity structures. During the last two decades, the analysed countries completely changed the commodity structure of their production and trade activities. Furthermore, there were also changes of choice of their economy and trade partners. These countries reoriented their production capacities such that consumer goods and services took up a dominant position, whilst at the same time they initiated very intensive business connections with the countries of today's EU.

Visegrad countries GDP value development is closely related to European Union's GDP development. The correlation value characterizing the relationship between individual countries GDP value development and EU GDP value development is over 90%. Individual countries significantly increased their GDP value performance during the period 1993–2011. The Czech Republic increased its GDP value from almost 39 bill. USD to more than 215 bill. USD. Hungary increased its GDP value from 39 bill. USD to more than 140 bill. USD. Polish GDP value increased from 93 bill. USD to almost 514.5 bill. USD and Slovakian GDP increased from 16 bill. USD to more than 87 bill. USD (for details see the following Table 2.7).

However, the growth of GDP value is significant; the real growth is much lower – but still higher than average GDP growth trend in the World market and European Union market. In constant prices Czech GDP increased its value by 68.3%, Slovakia increased its GDP by 118.7%, Hungary increased its GDP by 49.2% and Polish GDP increased its real value by 124.1%. If we take in consideration the GDP

---

of the year and was replaced by Post Program Monitoring and Article IV Consultations on overall economic and fiscal processes. The economy began to recover in 2010 with a big boost from exports, especially to Germany, and achieved growth of approximately 1.4% in 2011. At the end of 2011 the government turned to the IMF and the EU to obtain a new loan for foreign currency debt and bond obligations in 2012 and beyond. Whether negotiations result in a loan depend on Hungary meeting EU and IMF requirements for ensuring the independence of monetary, judicial, and data privacy institutions. The EU also launched an Excessive Deficit Procedure and requested that the government outline measures to sustainably reduce the budget deficit to under 3% of GDP. Unemployment remained high, at nearly 11% in 2011. Ongoing economic weakness in Western Europe is likely to further constrain growth in 2012.

**3/** Poland has pursued a policy of economic liberalization since 1990 and today stands out as a success story among transition economies. It is the only country in the European Union to avoid a recession through the 2008–2009 economic downturn, although GDP per capita is still much below the EU average. Since 2004, EU membership and access to EU structural funds have provided a major boost to the economy. Unemployment has been 2% more than the EU average. Inflation reached a low of about 2.6% in 2010 due to the global economic slowdown, but climbed to 4.3% in 2011. Poland's economic performance could improve over the longer term if the country addresses some of the remaining deficiencies in its road and rail infrastructure and its business environment. An inefficient commercial court system, a rigid labor code, bureaucratic red tape, burdensome tax system, and persistent low-level corruption keep the private sector from performing up to its full potential. Weak revenues, together with rising demands to fund healthcare, education, and the state pension system caused the public sector budget deficit to rise to 7.8% of GDP in 2010, but the PO/PSL coalition government, which came to power in November 2007, took measures to shore up public finances – including increasing contributions to the public pension scheme at the expense of private pension funds – and reduced the deficit to 2.9% of GDP in 2011. For 2012 the coalition government has proposed further deficit-reducing reforms and to fulfill its promise to enact business-friendly reforms.

**4/** Slovakia has made significant economic reforms since its separation from the Czech Republic in 1993. Reforms to the taxation, healthcare, pension, and social welfare systems helped Slovakia consolidate its budget and get on track to join the EU in 2004 after a period of relative stagnation in the early and mid 1990s and to adopt the euro in January 2009. Major privatizations are nearly complete, the banking sector is almost entirely in foreign hands, and the government has helped facilitate a foreign investment boom with business friendly policies. Slovakia's economic growth exceeded expectations in 2001–08 despite a general European slowdown. Foreign direct investment (FDI), especially in the automotive and electronic sectors, fueled much of the growth until 2008. Cheap and skilled labor, low taxes, a 19% flat tax for corporations and individuals, no dividend taxes, a relatively liberal labor code and a favorable geographical location are Slovakia's main advantages for foreign investors. The economy contracted 5% in 2009 primarily as a result of smaller inflows of FDI and reduced demand for Slovakia's exports before rebounding 4% in 2010 and 3.3% in 2011. Unemployment rose above 12% in 2010–11. The government of Prime Minister Iveta RADICOVA implemented reforms to curb corruption and improve government accountability – a major source of discontent with many Slovaks – and trimmed the budget deficit to 4.9% of GDP in 2011.

## Selected Indicators of Economic and Trade Development ...

value growth in the case of World (2.8% a year) and EU (1.9% a year) market, we can see that except for Hungary individual Visegrad countries GDP value growth is above both European and World average GDP value growth development trend. In monitored time period, Polish GDP inter annual growth rate reached 4.5%, Czech average inter annual GDP value growth reached 2.9%, Slovakian GDP value of inter-annual growth rate reached 4.4%. Hungarian GDP value growth was the lowest from all Visegrad countries it reached only 2.2% a year – it was higher than the EU average GDP growth rate, but it was lower than the World average growth rate.

**Table 2.6** Basic economic characteristics of V4 countries

Czech Republic	Hungary	Poland	Slovakia
<b>GDP (PPP)</b>	<b>GDP (PPP)</b>	<b>GDP (PPP)</b>	<b>GDP (PPP)</b>
\$285 billion (2011 est.)	\$195.6 billion (2011 est.)	\$771 billion (2011 est.)	\$126.9 billion (2011 est.)
<b>GDP – per capita (PPP)</b>	<b>GDP – per capita (PPP)</b>	<b>GDP – per capita (PPP)</b>	<b>GDP – per capita (PPP):</b>
\$27,100 (2011 est.)	\$19,600 (2011 est.)	\$20,200 (2011 est.)	\$23,300 (2011 est.)
<b>GDP – composition</b>	<b>GDP – composition</b>	<b>GDP – composition</b>	<b>GDP – composition</b>
Agriculture: 1.8%	Agriculture: 4.1%	Agriculture: 3.6%	Agriculture: 3.8%
Industry: 38%	Industry: 29.1%	Industry: 33.3%	Industry: 35.5%
services: 60.2% (2011 est.)	services: 66.7% (2011 est.)	services: 63% (2011 est.)	services: 60.7% (2011 est.)
<b>Labor force</b>	<b>Labor force</b>	<b>Labor force</b>	<b>Labor force</b>
5.41 million (2011 est.)	4.261 million (2011 est.)	17.85 million (2011 est.)	2.713 million (2011 est.)
<b>Unemployment rate</b>	<b>Unemployment rate</b>	<b>Unemployment rate</b>	<b>Unemployment rate:</b>
8.5% (2011 est.)	10.9% (2011 est.)	12.4% (2011 est.)	13.2% (2011 est.)
<b>Budget</b>	<b>Budget</b>	<b>Budget</b>	<b>Budget:</b>
Revenues: \$86.69 billion	Revenues: \$74.03 billion	Revenues: \$93.65 billion	Revenues: \$32.08 billion
Expenditures: \$93.35 billion	Expenditures: \$68.16 billion	Expenditures: \$102.1 billion	Expenditures: \$36.71 billion
<b>Exports</b>	<b>Exports</b>	<b>Exports</b>	<b>Exports:</b>
\$138.5 billion (2011 est.)	\$107.1 billion (2011 est.)	\$193.9 billion (2011 est.)	\$78.5 billion (2011 est.)
<b>Imports</b>	<b>Imports</b>	<b>Imports</b>	<b>Imports</b>
\$133.2 billion (2011 est.)	\$101.5 billion (2011 est.)	\$208.1 billion (2011 est.)	\$75.1 billion (2011 est.)

Source: IMF, WB, WTO

**Table 2.7** Visegrad countries GDP value development in relation to world and EU market (in current US\$)

Country Name	2004	2008	2009	2011
<b>Poland</b>	252 768 998 589	529 400 630 915	430 878 337 233	514 496 456 773
<b>Czech Republic</b>	113 976 672 925	225 448 799 063	196 181 794 334	215 215 310 734
<b>Hungary</b>	101 925 734 602	154 233 541 852	126 631 684 033	140 029 344 474
<b>Slovak Republic</b>	56 073 225 726	97 908 891 167	87 239 747 152	95 994 147 901
<b>World</b>	42 270 308 994 120	61 214 440 323 531	57 876 729 714 195	69 993 693 036 451
<b>European Union</b>	13 185 996 893 285	18 253 212 065 235	16 305 855 993 921	17 552 216 141 776

Source: WB, 2012

Individual economies became more opened to foreign trade activities and services became the dominant sector of individual economies. Czech economy changed its structure by the following way. The share of agricultural value added in GDP was reduced from 5% to 2%, the share of industry became the same (about 35%) and the share of services increased from cc 60% to more than 71%. The share of Czech trade in relation to GDP value increased in the case of merchandise and commercial services exports and imports from 49% to almost 78% respectively from 47% to almost 73%.

Hungarian economy changed its structure by the following way. The share of agricultural value added in GDP was reduced from 7.5% to 3.5%, the share of industry became the same (about 30%) and the share of services increased from cc 62% to more than 65%. The share of Hungarian trade in relation to GDP value increased in the case of merchandise and commercial services exports and imports from 29.6% to almost 85.2% respectively from 38% to more than 80%.

Polish economy changed its structure also significantly probably more than the others. The share of agricultural value added in GDP was reduced from 8.4% to 3.5%, the share of industry changed from 39% to 31.6% and the share of services increased from cc 53% to almost 65%. The share of Polish trade in relation to GDP value increased in the case of merchandise and commercial services exports and imports from 19.5% to almost 41% respectively from 25.4% to more than 44.2%. In the case of Poland it is possible to see that its market – significantly bigger in comparison with the other Visegrad countries – provides to Poland much bigger potential for internal economy growth in comparison with the Czech Republic, Hungary and Slovakia. Country is not so dependent on foreign trade activities and the impact of global crisis, which affected especially those countries which economies are based on trade performance, did not affected Polish economy so much as it was in other V4 countries.

The last analysed Visegrad country is Slovakia. During the analyzed time period, the share of agricultural value added in Slovakian GDP was reduced from 6.1% to 3.9%, the share of industry became the same (about 35%) and the share of services in relation to GDP value increased from cc 58% to more than 62%. The share of Slovakian trade in relation to GDP value increased in the case of merchandise and commercial services exports and imports from 46% to almost 81% respectively from 49.2% to more than 82.5%.

### 2.2.2 Visegrad Countries Trade Development and Trade Competitiveness

---

The countries of the Visegrad group are representatives of the new member countries of the EU. A general characteristic of such countries is their very significant orientation toward foreign trade, which is primarily significant in the case of the Czech Republic and Slovakia, as well as in the case of Hungary. Poland also likewise significantly engages in foreign trade activities, but nevertheless, the share of foreign trade in the Polish GDP is significantly lower in comparison with the share of foreign trade in the GDP of the Czech Republic, Slovakia and Hungary. If we analyze the commodity structure of goods trade of the V4 countries, we find that it is dominated (both in the case of export – Table 2.8, as well as in the case of import – Table 2.9) by trade in processed industrial products. Further, it is also important to state that the actual territorial structure of goods trade of the V4 countries is distinctly oriented toward EU27 countries. Another interesting finding that pertains to the development of goods trade of the Visegrad group countries is also the fact that the average year-on-year rate of growth of goods trade of the V4 countries significantly exceeds both the average year-on-year rate of growth of the world goods trade, as well as the average year-on-year rate of growth of goods trade of EU countries. Thus, that also shows a significant increase in the value of effected trading operations in the years 2000–2010, when, in the case of exports, there was an increase in value from USD 100 billion to almost 500 billion USD (in the year 2008). In the case of goods imports, the value increased from USD 125 billion to approximately 530 billion (in the year 2008). It is also appropriate to mention that in terms of goods trade – the V4 group leaders are undoubtedly Poland and the Czech Republic.

## Selected Indicators of Economic and Trade Development ...

**Table 2.8** Development of value and structure of foreign trade (export) of Visegrad group countries in the years 2000–2010

Export		Bil. USD	2000	2002	2004	2005	2006	2007	2008	2009	2010	Inter annual growth rate – average value
CR	EU27	Agriculture	0.86	1.19	1.89	2.58	2.88	3.98	5.08	4.45	4.51	1.180
		Fuels and Raw mat.	1.79	2.95	3.42	3.91	4.68	5.95	7.75	6.53	8.12	1.163
		Processed products	22.31	33.62	51.84	60.43	72.4	92.88	108.3	82.51	95.11	1.156
		Total trade	24.96	37.76	57.14	66.92	79.96	102.81	121.12	93.49	107.75	1.157
SR	EU27	Agriculture	0.32	0.43	0.89	1.29	1.56	2.05	2.24	2.3	2.39	1.223
		Fuels and Raw mat.	1.17	1.26	2.52	2.74	3.15	3.76	4.97	3.71	4.69	1.149
		Processed products	9.17	11.25	20.75	23.73	31.47	44.48	52.59	41.6	46.82	1.177
		Total trade	10.66	12.94	24.16	27.76	36.17	50.29	59.8	47.61	53.9	1.176
Hungary	EU27	Agriculture	1.32	1.6	2.52	2.65	2.97	4.67	5.68	4.89	5.25	1.148
		Fuels and Raw mat.	0.9	0.95	1.68	2.09	2.1	2.9	3.68	2.53	3.51	1.146
		Processed products	20.94	26.15	41.87	43.59	53.57	61.12	68.11	53.41	59.38	1.110
		Total trade	23.17	28.71	46.07	48.33	58.63	68.68	77.48	60.84	68.13	1.114
Poland	EU27	Agriculture	1.6	2.03	4.52	6.33	7.94	10.44	13.07	12.04	13.27	1.236
		Fuels and Raw mat.	2.2	2.68	5.29	5.74	6.44	7.4	9.31	5.63	8.61	1.146
		Processed products	21.53	28.12	49.47	56.37	70.77	89.89	108.7	88.91	102.12	1.168
		Total trade	25.32	32.83	59.27	68.44	85.16	107.73	131.08	106.58	124	1.172
CR	World	Agriculture	1.11	1.4	2.18	2.99	3.25	4.37	5.53	4.84	4.94	1.161
		Fuels and Raw mat.	1.91	3.14	3.63	4.19	4.96	6.28	8.13	6.94	8.69	1.164
		Processed products	26.03	39.72	59.96	71.02	86.93	110.25	132.43	101.1	118.51	1.164
		Total trade	29.05	44.26	65.77	78.21	95.14	120.9	146.09	112.88	132.14	1.164
SR	World	Agriculture	0.37	0.49	0.98	1.41	1.69	2.15	2.37	2.39	2.49	1.210
		Fuels and Raw mat.	1.22	1.31	2.59	2.82	3.3	3.89	5.19	3.85	4.84	1.148
		Processed products	10.3	12.67	24.29	27.63	36.69	52.01	62.64	49.31	56.67	1.186
		Total trade	11.88	14.48	27.86	31.85	41.69	58.04	70.19	55.55	64	1.183
Hungary	World	Agriculture	1.96	2.35	3.41	3.63	4.02	5.72	7.12	5.89	6.5	1.127
		Fuels and Raw mat.	1.02	1.12	2.08	2.7	2.87	4.14	5.33	3.46	4.5	1.160
		Processed products	25.12	30.86	49.98	55.94	67.17	84.73	95.76	73.22	83.7	1.128
		Total trade	28.09	34.34	55.47	62.27	74.06	94.59	108.21	82.57	94.69	1.129

## Selected Indicators of Economic and Trade Development ...

Continued Table 2.8

Export	Bil. USD	2000	2002	2004	2005	2006	2007	2008	2009	2010	Inter annual growth rate – average value	
Poland	World	Agriculture	2.43	3.03	6.11	8.36	10.12	12.95	16.13	14.96	16.79	1.213
		Fuels and Raw mat.	2.48	3.02	5.94	6.5	7.34	8.34	11.01	6.66	10.07	1.150
		Processed products	26.05	34.21	61.73	74.52	92.13	117.49	144.72	115.03	130.21	1.175
		Total trade	30.96	40.25	73.78	89.38	109.58	138.78	171.86	136.64	157.06	1.176

Source: Comtrade, own processing, 2012

Table 2.9 Development of value and structure of foreign trade (import) of Visegrad group countries in the years 2000–2010

Export	Bil. USD	2000	2002	2004	2005	2006	2007	2008	2009	2010	Inter annual growth rate – average value	
CR	EU27	Agriculture	1.12	1.55	2.59	3.27	3.93	5.04	5.98	5.65	5.64	1.175
		Fuels and Raw mat.	1.45	3.17	2.8	3.18	3.71	4.81	6.1	4.55	5.18	1.136
		Processed products	21.31	29.33	42.87	48.26	57.66	72.76	81.67	58.23	65.45	1.119
		Total trade	23.89	34.05	48.27	54.71	65.3	82.61	93.76	68.43	76.27	1.123
SR	EU27	Agriculture	0.59	0.73	1.07	1.56	1.7	2.26	3.03	2.63	2.82	1.169
		Fuels and Raw mat.	0.51	0.73	1.43	1.51	1.79	2.06	2.92	2.27	3.22	1.202
		Processed products	7.81	10.75	17.75	18.45	23.07	29.87	37.1	25.07	28.11	1.137
		Total trade	8.91	12.22	20.25	21.53	26.56	34.18	43.05	29.97	34.15	1.144
Hungary	EU27	Agriculture	0.55	0.78	2.02	2.44	2.73	3.45	4.29	3.72	3.82	1.214
		Fuels and Raw mat.	0.84	1.03	1.72	2.17	2.66	2.82	3.86	2.97	3.36	1.149
		Processed products	19.72	22.46	40.35	38.87	48.91	53.68	59.17	40.02	44.57	1.085
		Total trade	21.11	24.26	44.1	43.47	54.3	59.96	67.33	46.7	51.76	1.094
Poland	EU27	Agriculture	1.81	2.04	3.2	3.92	4.59	6.72	9.57	8.03	8.86	1.172
		Fuels and Raw mat.	1.66	1.58	2.83	3.61	4.46	6.62	8.88	5.72	6.18	1.140
		Processed products	29.82	34.29	54.62	57.87	69.69	90.1	109.08	76.58	87.6	1.114
		Total trade	33.29	37.92	60.65	65.41	78.74	103.43	127.53	90.33	102.65	1.119
CR	World	Agriculture	1.56	2.02	3.27	3.99	4.65	5.99	7.1	6.55	6.65	1.156
		Fuels and Raw mat.	4.13	7.96	6.47	7.17	10.9	12.03	18.45	11.88	15.19	1.139
		Processed products	26.55	38.25	56.97	65.37	77.87	98.8	116.28	86.41	103.85	1.146
		Total trade	32.24	48.23	66.71	76.53	93.43	116.82	141.83	104.85	125.69	1.146



Continued Table 2.9

Export	Bil. USD	2000	2002	2004	2005	2006	2007	2008	2009	2010	Inter annual growth rate – average value	
SR	World	Agriculture	0.71	0.89	1.47	2.05	2.24	3.13	3.97	3.76	3.97	1.188
		Fuels and Raw mat.	2.73	2.83	4.78	5.69	7.37	8.05	11.36	7.86	10.55	1.145
		Processed products	9.33	12.91	23.21	26.49	35.15	48.03	57.28	43.53	49.86	1.182
		Total trade	12.77	16.63	29.46	34.23	44.76	59.21	72.61	55.16	64.38	1.176
Hungary	World	Agriculture	0.92	1.17	2.29	2.67	2.97	3.79	4.7	4	4.12	1.162
		Fuels and Raw mat.	2.13	3.41	5.34	7.6	6.79	10.15	10.69	6.78	10.74	1.176
		Processed products	29.03	33.03	52.62	55.65	67.22	80.72	93.39	66.49	72.5	1.096
		Total trade	32.08	37.61	60.25	65.92	76.98	94.66	108.78	77.27	87.36	1.105
Poland	World	Agriculture	2.86	3.21	4.95	6.13	7.27	10.07	13.6	11.58	13.08	1.164
		Fuels and Raw mat.	6.91	6.64	11.11	14.55	16.78	21.16	30.18	18.02	24.18	1.133
		Processed products	38.36	44.41	72.1	80.87	101.59	132.94	166.7	119.96	136.87	1.136
		Total trade	48.13	54.27	88.15	101.54	125.65	164.17	210.48	149.57	174.13	1.137

Source: Comtrade, own processing, 2012

A specific characteristic of goods trade of the V4 countries is the competitiveness of effected goods transactions, both in relation to the market of the EU27 countries, as well as in relation to the market of third countries. In this regard, it is appropriate to emphasize that currently, in terms of the development of the value of effected trade flows, the important thing is primarily the ability to retain comparative advantages in relation to the EU27 market, which represents the main outlet for exports originating from V4 countries. The following Table 2.10 provides information on the development of values of the RCA1 index<sup>5</sup> in the case of individual goods categories traded by the individual V4 countries. The data shows that comparative advantages are being maintained on a long-term basis by all of the monitored countries primarily in the case of trade in processed industrial products, both in relation to the EU market, as well as in relation to the market of third countries. Trade in fuels and mineral resources is, as a whole, uncompetitive on a long-term basis, both in relation to EU countries, as well as in relation to third countries. As regards agricultural trade, there we can state that agricultural trade of the V4 countries is currently uncompetitive, both in relation to the EU market, as well as in relation to the market of third countries. The only exception is Poland. Polish agricultural trade, unlike agricultural trade of the Czech Republic, Slovakia and Hungary, is capable of achieving comparative advantages, and, importantly – it is also capable of amplifying them.

5/ The Revealed comparative advantage index  $RCA1 = (X_j / X_n) / (X_i / X_{nt})$ ; where:  $X$  – represents exports,  $i$  – represents analysed country,  $j$  – represents the analysed economy sector,  $n$  – represents some set of countries or world,  $t$  – represents the sum of all economy sectors. RCA1 measures a country's exports of a commodity (or industry) relative to its total exports and to the corresponding exports of a set of countries, e.g. the world. A comparative advantage is "revealed", if  $RCA > 1$ . If  $RCA$  is less than "one", the country is said to have a comparative disadvantage in the commodity/industry. It is argued that the RCA index is biased due to the omission of imports especially when country-size is important.

## Selected Indicators of Economic and Trade Development ...

**Table 2.10** Competitiveness of commodity structure of goods trade of V4 countries in relation to the EU market and to the global market

Export	RCA1		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
CR	EU27	Agriculture	0.41	0.37	0.35	0.35	0.38	0.44	0.43	0.45	0.45	0.44	0.42
		Fuels and Raw mat.	1.08	1.07	1.31	1.01	0.92	0.79	0.74	0.77	0.73	0.97	0.88
		Processed products	1.05	1.06	1.05	1.07	1.07	1.08	1.08	1.08	1.09	1.07	1.08
SR	EU27	Agriculture	0.36	0.37	0.37	0.33	0.42	0.53	0.52	0.47	0.41	0.45	0.44
		Fuels and Raw mat.	1.66	1.72	1.64	1.40	1.60	1.33	1.10	0.99	0.94	1.09	1.02
		Processed products	1.01	1.01	1.02	1.04	1.01	1.02	1.04	1.06	1.07	1.06	1.07
Hungary	EU27	Agriculture	0.68	0.72	0.62	0.63	0.63	0.63	0.61	0.79	0.79	0.75	0.77
		Fuels and Raw mat.	0.59	0.58	0.56	0.54	0.56	0.58	0.45	0.56	0.54	0.58	0.60
		Processed products	1.06	1.06	1.07	1.07	1.07	1.08	1.09	1.06	1.07	1.07	1.07
Poland	EU27	Agriculture	0.75	0.72	0.69	0.72	0.88	1.06	1.12	1.12	1.08	1.05	1.06
		Fuels and Raw mat.	1.31	1.47	1.37	1.24	1.37	1.13	0.95	0.91	0.81	0.74	0.81
		Processed products	1.00	0.99	1.01	1.01	0.98	0.98	0.99	1.00	1.01	1.02	1.01
Visegrad4	EU27	Agriculture	0.58	0.57	0.52	0.53	0.61	0.70	0.71	0.74	0.72	0.72	0.71
		Fuels and Raw mat.	1.09	1.14	1.17	1.02	1.06	0.92	0.79	0.80	0.75	0.83	0.82
		Processed products	1.03	1.03	1.04	1.05	1.04	1.04	1.05	1.04	1.06	1.05	1.05
		Total trade	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
CR	Others	Agriculture	1.04	0.79	0.50	0.70	0.57	0.65	0.46	0.38	0.31	0.30	0.28
		Fuels and Raw mat.	0.19	0.19	0.20	0.17	0.15	0.13	0.09	0.09	0.06	0.11	0.12
		Processed products	1.16	1.17	1.18	1.18	1.21	1.24	1.28	1.28	1.37	1.30	1.30
SR	Others	Agriculture	0.69	0.65	0.61	0.46	0.42	0.53	0.44	0.23	0.21	0.17	0.16
		Fuels and Raw mat.	0.26	0.28	0.23	0.17	0.12	0.11	0.13	0.09	0.09	0.09	0.07
		Processed products	1.18	1.16	1.16	1.21	1.23	1.26	1.27	1.29	1.37	1.32	1.32
Hungary	Others	Agriculture	2.20	2.08	2.08	1.83	1.62	1.26	1.28	0.72	0.80	0.69	0.76
		Fuels and Raw mat.	0.16	0.15	0.21	0.22	0.26	0.24	0.25	0.25	0.23	0.22	0.19
		Processed products	1.08	1.08	1.06	1.09	1.11	1.17	1.18	1.21	1.27	1.24	1.24

Continued Table 2.10

Export	RCA1		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Poland	Others	Agriculture	2.49	2.24	2.10	2.26	1.87	1.74	1.68	1.44	1.29	1.46	1.72
		Fuels and Raw mat.	0.32	0.34	0.32	0.26	0.28	0.20	0.18	0.16	0.18	0.18	0.22
		Processed products	1.02	1.02	1.04	1.04	1.08	1.14	1.17	1.18	1.25	1.18	1.15
Visegrad4	Others	Agriculture	1.88	1.71	1.49	1.55	1.35	1.26	1.16	0.87	0.81	0.83	0.91
		Fuels and Raw mat.	0.22	0.24	0.25	0.22	0.23	0.19	0.17	0.17	0.16	0.16	0.17
		Processed products	1.09	1.09	1.10	1.11	1.13	1.18	1.21	1.22	1.30	1.24	1.23

Source: Comtrade, own processing, 2012

## Summary

During the last fifty years the global economy changed its structure. The value of individual economy sectors' performance increased significantly. Since 1960 till 2011 the volume and value of global production (GDP) increased their values by more than five times respectively six times. The value of global production increased from 7.2 trill. USD to about 42.5 trill. USD (in 2000 USD constant prices). The growth of global production was even higher than the growth of human population. The result of mentioned trend was constantly increasing GDP per capita and also income per capita. In analyzed time period the global GDP per capita increased its value from about 2 382 USD to about 6 099 USD (in 2000 USD constant prices). The specific element influencing the current global economy development is trade. Trade has been playing an important role in global economy growth and formation. The value of global merchandise trade within the period 1960 and 2011 increased from 123 bill. USD to more than 17.2 trill. USD (according to WB even 18.2 trill. USD). If we take into consideration trade in services (almost 4.3 trill. USD in 2011), we can see that international trade value represents more than 22 trill. USD. The share of trade turnover in global economy performance increased during the period 1960–2011 from about 24 % to about 62 %. The above mentioned development influenced all economies around the World – including Visegrad countries. These countries came through many changes especially during the last two decades which very significantly influenced their political and especially economic character. The events connected with the transition from a centrally planned economy to a market economy, and the subsequent period of preparations for accession to the EU very greatly influenced the economic structure of these particular countries. Together with these changes, there were also important changes in the development of foreign trade territorial and commodity structures.

**Key terms:** Global economy and trade, economy crisis, development, trends, growth rate, commodity and territorial structure, inter-regional, intra-regional, value, volume, current prices, constant prices, evaluation, services, merchandise, manufactures, fuels, mining products, agriculture, influence, impact, Visegrad countries, Czech Republic, Hungary, Poland, Slovakia, export, import, balance, economy, competitiveness, analysis, position, factors



### QUESTIONS FOR DISCUSSION

1. Can you specify the impact of globalization and internationalization on global, regional and intra-regional economy?
2. Is there any relationship between the global and European economy growth and Visegrad countries economy growth?
3. What are the factors of Visegrad countries' economies growth?
4. Can you specify the future development of individual Visegrad countries' economy and foreign trade activities?

### Literature

AHMED, N. 2000. *Export responses to trade liberalisation in Bangladesh: a cointegration*

BARTOSOVA, D. – BARTOVA, L. – FIDRMUC, J. 2008. *EU Enlargement Implications on the New Member States Agri-food Trade*. In International Congress, August 26–29, 2008, Ghent, Belgium 44122, European Association of Agricultural Economists. Available: <http://ideas.repec.org/p/ags/eaee08/44122.html>

BENEŠ, V. et al. 2004. *Zahraniční obchod*. Praha: Grada Publishing. ISBN 80-247-0 558.

BIELIK, P. et al. 2010. *Economics, social policies and citizenship in the Europe of regions*. Nitra : SUA. ISBN 978-80-552-0366-9.

BIELIK, P. et al. 2010. *Economics, social policy and citizenship in the EU – Evidence of V4 countries and perspectives for Ukraine*. Nitra : SUA. ISBN 978-80-552-0448-2.

BLEANEY, M. 1999. *Trade reform, macroeconomic performance and export growth in ten Latin American countries 1979–1995*. In Journal of International Trade and Economic Development, Vol. 8, pp. 89–105.

BOJNEC, Š. – FERTO, I. 2009. *Agro-food trade competitiveness of Central European and Balkan countries*. In Food Policy, Vol. 34, No. 5, pp. 417–425. ISSN 0306-9192.

BOURGUIGNON, F. 2004. *Trade exposure and income volatility in cash-crop exporting developing countries*. In European Review of Agricultural Economics, vol. 31, p. 369–387. ISSN 1464-3618.

BUSSIÈRE, M. – FIDRMUC, J. – SCHNATZ, B. 2008. *EU Enlargement and Trade Integration: Lessons from a Gravity Model*. In Review of Development Economics, Vol. 12, Issue 3, p. 562–576. ISSN 1467-9361

COLEMAN, W. – GRANT, W. – JOSLING, T. 2004. *Agriculture In The New Global Economy*. In Edward Elgar Publishing, p. 224. ISBN 978 1 84376 678 0

DOLLAR, D. – KRAY A. 2004. *Trade, Growth and poverty*. In Economic Journal, Vol. 114, Issue 493, pp. F22–F49.

DRABÍK, D. – BÁRTOVÁ, L. 2008. *An Assessment of the Impact of the EU Enlargement on Agri-food Trade of New EU Member States*. Nitra : SUA. ISBN 978-80-552-0139-9.

FRANKEL, J. A. – ROMER, D. 1999. *Does trade cause growth?* In The American Economic Review, Vol. 89, Issue no. 3, pp. 379–399.

HAMBÁLKOVÁ, M. 2008. *Zahraničný agropotravinársky obchod, súčasnosť a jeho perspektivy*. Nitra: SPU. ISBN 978-80-552-0136-8

HORSKÁ, E. et al. 2011. *European studies on intercultural dimension of international business*. Nitra : SUA. ISBN 978-80-552-0530-4.

HORSKÁ, E. 2008. *Internacionalizácia agropotravinárskych podnikov SROV*. Nitra : SUA. ISBN 978-80-552-0136-8

JOSHI, R. M. 2009. *International Business*. New Delhi and New York : Oxford University Press. ISBN 0-19-568909-7

- IMF (International Monetary Fund). 2010a. World economic outlook database [on-line]. Washington, DC. 2010a [cit. 15-10-2011]. Available at: <<http://www.imf.org/external/pubs/ft/weo/2009/02/weodata/index.aspx>>.
- IRWIN, D. A. – TERVIO, M. 2002. *Does trade raise income? Evidence from the...*
- JENÍČEK, V. 2009. *The role of foreign trade and its effects*. In Agric. Econ., Vol. 55, 2009. p. 211–220. ISSN 0139-570X.
- JENÍČEK, V. 2010. *Population problem in the future – challenges, questions*. In Agric. Econ., Vol. 56, 2010. p. 97-107. ISSN 0139-570X.
- JENÍČEK, V. 2010. *Population problem in the future – challenges, questions*. In Agric. Econ., Vol. 56, 2010, No. 4, p. 97–107. ISSN 0139-570X.
- JENICEK, V. 2010. *World population – development, transition*. In Agric. Econ., Vol. 56, 2010, No. 1, pp. 1–15. ISSN 0139-570X
- JOSHI, V. – LITTLE, I. M. D. 1996. *India's economic reforms 1991–2001*. Oxford: Oxford University Press.
- KRAUS, J. – DYKOVÁ, E. 2006. *WTO and agriculture*. Prague: VUZE. ISBN 80-86671-37-2.
- LUKAS, Z. – MLÁDEK, J. 2006. *Further Expanding Agro-Food Trade of the NMS-4 in Europe*. In The Vienna Institute for International Economic Studies. Report No. 5. ISBN-13 978-3-85209-011-5.
- LUKAS, Z. – POSCHL, J. et al. 2004. *Možnosti a bariéry rozvoje zemědělství v zemích střední a východní Evropy v rámci EU 25*. Praha : Ministerstvo zemědělství ČR. ISBN 80-7084-343-8
- MANKIW, N. G. 2000. *Základy ekonomie*. Praha: Grada Publishing. ISBN 80-7169-891-1.
- MARREWIJK Van, C. 2004. *International trade and the world economy*. Oxford : Oxford University Press. ISBN 0-19-925004-9.
- POKRIVČÁK, J. – DRABÍK, D. et al. 2008. *Agricultural Trade in Central and Eastern Europe*. Nitra : SUA. ISBN 978-80-552-0139-9
- PROUDMAN, J. – REDDING, S. 2000. *Evolving Patterns of International Trade*. In Review of International Economics, Vol. 8, No. 3, pp. 373–396. ISSN 1467-9396.
- SHANGQUAN, G. 2000. *Economic Globalization: Trends, Risks and Risk Prevention*. CDP Background Paper No. 1. 2000. Web. 9 July 2011.
- SCHENK, R. 2014. *Opportunities and Threats of Crowdfunding*. Dissertation. Nitra : SUA, 2014.
- SMUTKA, L. – BELOVÁ, A. 2011. *Vývoj a struktura agrárního zahraničního obchodu zemí Visegrádské skupiny v posledních dvaceti letech*. Praha: Powerprint, p. 226. ISBN 978-80-87415-28-3.
- ŠTIKOVÁ, O. 2009. *Development of food and beverages consumption in CR (in Czech)*. In Research report. Prague : ÚZEI.
- SAMUELSON, P. 2001. *A Ricardo-Sraffa Paradigm Comparing the Gains from Trade in Inputs and Finished Goods*. In Journal of Economic Literature, Vol. 39, 2001, No. 4, p. 1204–1214. DOI 10.1257/jel.39.4.120
- SUMMERS, R. – HESTON, A. – ATEN, B. 2001. *Penn world table version 6.0*. In Center for International Comparisons at the University of Pennsylvania (CICUP).
- SVATOŠ, M. et al. 2009. *Zahraniční obchod – teorie a praxe*. Praha : Grada Publishing. 1<sup>st</sup> edition. ISBN 978-80-247-2708-0.
- SVATOŠ, M. 1999. *Economics of Czech and Slovak Agriculture Integration with the EU*. Prague. ISBN 80-213-0497-9.
- SVATOŠ, M., et al. 2009. *Zahraniční obchod – teorie a praxe*. Praha : Grada Publishing. ISBN 978-80-247-2708-0.
- SVATOŠ, M. – SMUTKA, L. 2010. *Development of agricultural foreign trade in the countries of Central Europe*. In Agric. Econ., Vol. 56, 2010, No. 5, pp. 163–175. ISSN 0139-570X
- THIRLWALL, T. – SANTOS-PAULINO, A. 2004. *The impact of trade liberalisation on exports, imports and the balance of payments of developing countries*. In The Economic Journal, February issue, Vol. 114, 2004, Issue 493, pp. F50–73.



THOMAS, A. 1991. *Economic modelling of the Canada-U.S. free trade agreement*.

TVRDOŇ, J. 2006. *Econometrics*. Praha : ČZU. ISBN 80-213-0819-2.

TWENTIETH century. *Journal of International Economics*, Vol. 58, pp. 1–18.

UN COMTRADE. 2012. *Trade database* [on-line]. cit. 03/05/2012. Available: <http://comtrade.un.org/db/default.aspx>.

VAN MARREWIJK, CH. 2002. *International trade and the world economy*. Oxford : Oxford University Press, 1<sup>st</sup> edition. ISBN 0199250049.

WEISS, J. 1992. *Export response to trade reforms: recent Mexican experience*. In *Development Policy Review*, Vol. 10, 1992, pp. 43–60.

WORLD BANK. 2012. *WDI database* [on-line]. WB 2010 [cit. 19-08-2012]. Available at: <<http://data.worldbank.org/data-catalog/world-development-indicators>>.

WTO. 2010. *International trade statistics 2010*. Ženeva. ISBN 978-92-870-3466.

WTO. 2011. *World trade report 2010*. Ženeva. ISBN 978-92-870-3708-4.

# CHAPTER

## POLITICAL RISK IN INTERNATIONAL BUSINESS

# 3

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Identify the basic forms of political risk.
2. Apply the key steps for political risk assessment.
3. Understand how political risk can affect the foreign direct investments.



- Deputy Prime Minister and Minister of Foreign and European Affairs of the Slovak Republic Miroslav Lajčák visited the seat of the International Visegrad Fund in Bratislava on June, 18, 2014 and met with its Executive Director Karla Wurster and IVF grants and scholarship recipients to declare official political support to Visegrad identity and further cooperation in Visegrad region. **Photo:** Elena Horská, 2014

### Introduction

In this chapter we are pursuing a number of objectives. First, we would like to explain the major factors which must be considered concerning the political environment when firms enter global markets. Second, we would like to explain the terms of access and highlight the importance of these elements in facilitating trade. Third, we would like to explain and highlight the importance of political aspects in global business. The performance of business is usually affected by many factors. Some of these factors are internal factors and some of them are external factors. The primary factors that influence business are economic environment, political environment, social and technological environment.

**Economic environment** – business is mainly affected by the aggregate demand in the economy. For example, during recession business suffers due to the decline in demand, while business benefits during the period of expansion and economic boom. During the period of economic boom, consumers are more likely to spend more on goods and services which increases the profit of firms and results in an increase of employments and income respectively. Governments mainly concentrate on pursuing macroeconomic stability and take steps needed to stimulate growth and to attract foreign direct investments (Brown, 2004).

**Social factors** that influence the economic performance of an economy are the cultural influences. For example: a business man with alcohol products who is doing well in Europe will fail with his business in the Middle East where most of people are Muslims. Another example could be associated with fashion design. Social environments that tend to be more conservative will not support styles that appear to be trendy. The fashion designers' business will suffer if they do not change the clothing style (Brown, 2004).

### 3.1 Political Risk

Political risk is associated with government interference in business affairs of foreign investors and their business. The extent of this interference can range from discrimination treatment to confiscation of assets. The political risk is a top concern for foreign investors no matter if they become from developed or developing countries. Nowadays, since the World economy slowly recovers, developing countries are expected to attract a bigger share of foreign direct investments. These opportunities in emerging countries often are accompanied with huge challenges and political risk. Understanding how investors perceive and cope with political risks helps to draw out the role of political risk instance industry.

Political risk remains one of the main barriers to doing business in developing countries and is likely to continue being so over the near future. Foreign investors surveyed for the political risk among their top free concerns when investing in emerging countries more than other consideration, including macroeconomic stability and access to financial loans. Over the past few years many factors encouraged a relative high tolerance for risk: the most known factors are: growing economies, abundant liquidity and flattening risk premium (Ratha, Dilip, Mohapatra and Silwal, 2009; Hansen and Kenneth, 2004; UNCTAD, 2009a; World Bank, 2006).

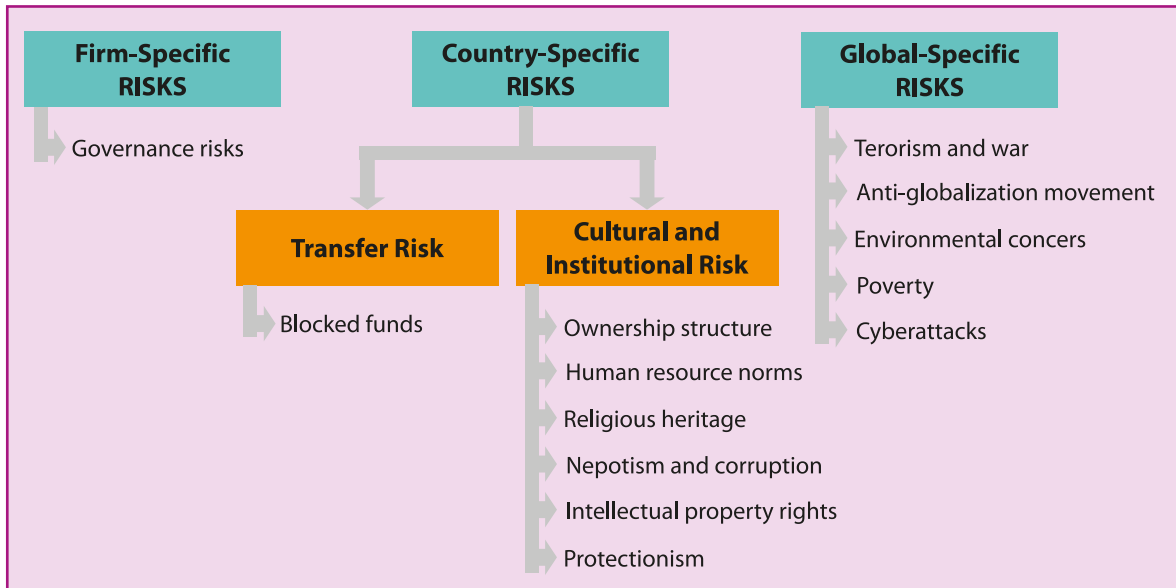
When firms need to recognize, to measure and manage their political risks, they need to define and classify these risks. The political risk is generally classified on three levels: firm related political risk, country related risk and global related risk (Ratha, Dilip, Mohapatra and Silwal, 2009):

- I. Firm-related risks, sometimes it is called micro risks, the risks which affect firms at the project or corporate level. Governance risk, because of the goal conflict between a firm and its host government, is the most known firm related political risk.

Political risk is associated with government interference in business affairs of foreign investors and their business

The political risk is generally classified on three levels: firm related political risk, country related risk and global related risk

- II. Country-related risks, sometimes it is called macro risks. The most known categories at the country level are transfer risk and cultural and institutional risks.
- III. Global-related risks, terrorism, anti-globalization movement, poverty and cyber-attacks are known examples of this type of risk (Figure 3.1)



■ **Figure 3.1** Classification of Political Risk  
 Source: <http://www.aw-bc.com/scp/0321280318/assets/downloads/ch17.pdf>

Depending on the manner in which firms are affected, political risk can be classified into three types (How managing political risk, 2006):

- Transfer risk, which arises from uncertainty about cross-border flows of capital, payments and know-how.
- Operational risk, which is associated with uncertainty about the host country's policies affecting the local operations of multinational companies.
- Control risk, which arises from uncertainty about the host country's policy regarding ownership and control of local operations.

To launch the assessment process, the managers should create and conduct a baseline assessment of the political risks events which influence business strategy and objectives related to effectiveness and operational efficiency. The baseline evaluation of political risks should include four primary categories (How managing political risk improves, 2006):

- I. The macro-political environment. Factors that influence the competitiveness of a firm and its ability to conduct business in a country – such as taxation structures, foreign ownership, privatization, business regulations and corruption.
- II. Economic policies which influence inflation rate, interest rate, economic growth and foreign exchange rates.
- III. Social risks such as social behavior, shifts in demographics and societal conflicts and tensions.
- IV. Security issues, such as governmental institutions preparedness for catastrophic events caused by either natural or human events. The most known events are – environmental disasters, hurricanes, earthquakes, terrorist attacks and bio-security threats.

Normative model of macro political risk assessment is shown in the Table 3.1.

## Political Risk in International Business

**Table 3.1** Normative Model of Macro Political Risk Assessment

	Internal	External
Government-related	<ul style="list-style-type: none"> <li>– Degree of elite repression</li> <li>– Degree of elite illegitimacy</li> <li>– Likelihood that regime change will affect policy</li> </ul>	<ul style="list-style-type: none"> <li>– Likelihood of political violence</li> <li>– Degree of involvement in international organization</li> <li>– Possibility of regulatory restriction on investment, capital or trade</li> </ul>
Society-related	<ul style="list-style-type: none"> <li>– Degree of fragmentation (potential for social conflict)</li> <li>– Sense of nationalism, xenophobia alienation or fundamentalism</li> </ul>	<ul style="list-style-type: none"> <li>– World public opinion</li> <li>– Disinvestment pressure</li> <li>– Regional diversity and incongruent interests</li> </ul>
Economy-related	<ul style="list-style-type: none"> <li>– GDP per capita growth</li> <li>– Income distribution</li> <li>– Likelihood that economic goals will be met</li> </ul>	<ul style="list-style-type: none"> <li>– Future economic policies regarding FDI</li> <li>– Likelihood of balance of payments problems</li> <li>– Likelihood of currency inconvertibility / instability</li> </ul>

**Source:** Alon – Martin, A normative model of macro political risk assessment, *Multinational Business Review*, 1998

One of the most important factors which give a good picture about the political environment and then the rate of political risk are the dimensions of the Governance Indicators (Governance context – government indicators, 2014):

- **Government Effectiveness** includes responses on the competence of civil servants, the quality of public service provision, the quality of the bureaucracy, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies.
- **Rule of Law** involves many indicators which measure the extent to which institutions have confidence in and abide by the rules of society. This includes perceptions of the incidence of crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts.
- **Voice and Accountability** contains a number of important indicators that measure different aspects of the political process, political and human rights, civil liberties measuring the extent to which people of a country are involved in the selection of their government.
- **Absence of Violence and Political Stability** includes several indicators that measure perceptions of the likelihood that the government will be overthrown or destabilized by unconstitutional or violent means, including local violence and terrorism.
- **Control of Corruption** is a measure of the extent of corruption, usually defined as the exercise of public power for private gain. It is based on scores of variables from polls of experts and surveys.
- **Regulatory Quality** which focuses more on the government's economic policies, including measures of the perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development as well as the incidence of market-unfriendly policies such as price controls or inadequate bank supervision, perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development.

Firm – related risks and country – related risks can be divided to risks which are associated with government or with instability. Table 3.2 includes examples of such risks.

**Table 3.2** Examples of political risk

	Government Risks	Instability Risks
Firm – related risks	<ul style="list-style-type: none"> <li>– Discriminatory regulations</li> <li>– “Creeping” expropriation</li> <li>– Breach of contract</li> </ul>	<ul style="list-style-type: none"> <li>– Sabotage</li> <li>– Kidnappings</li> <li>– Firm-specific boycotts</li> </ul>
Country – related risks	<ul style="list-style-type: none"> <li>– Mass nationalizations</li> <li>– Regulatory changes</li> <li>– Currency inconvertibility</li> </ul>	<ul style="list-style-type: none"> <li>– Mass labor strikes</li> <li>– Urban rioting</li> <li>– Civil wars</li> </ul>

**Source:** authors drawing



## 3.2 Political Risk Assessment – Key Steps

Key steps in political risk assessment include (World bank, 2009):

1. **Map the politics.** Create an external political risk profile that provides a cross- country view of portfolio risk and allows the company to manage global investments with a portfolio perspective.
  - Given the natural bias of many internal and external sources of political risk informatics, rely on a broad spectrum of trusted sources for insight, including in country network, on-site management, and internal third parties.
  - Identify the company’s global market presence a tan entity, country, and regional level whether this presence is direct (i. e., ownership interest tor control) or indirect (e.g., dependence on a global supply chain or energy pricing influenced by global trends).
  - Evaluate the organization’s potential exposure in each jurisdiction, particularly with respect to macro-level risks such as regime chase, terrorism, political instability, and weapons proliferation.
2. **Evaluate risks.** Apply the information and insights gained in the political map-ing process to identify specific, prioritized, business-relevant risks to operational performance.
  - Examine the relationship between political stability and major, macro-level performance indicators.
  - Develop a structured and iterative approach to assessing the impact of political stability on business performance and capital values.
  - Analyze the impact of identified political and business risks on the company’s strategy and regulatory compliance and on critical operations and processes.
3. **Assess controls and plans.** Explore the adequacy of the company’s assessment controls procedures, focusing on the degree to which controls are exercised through corporate oversight or local capabilities.
  - Determine the company’s level of preparedness. Examine the quality of existing controls and the adequacy of risk mitigation plans relative to identified business risks.
  - Estimate the impact of political volatility on the company’s sales growth and gross margins.
  - Analyze the degree to which the company integrates political risk management into strategic decision-making and operational practices.
4. **Determine acceptability of residual risk.** Integrate political risk management into strategic decision-making and ongoing monitoring activities.
  - Look at the risks that remain after the organization has taken steps to mitigate its risks and evaluate the process the organization uses to determine the acceptability of these risks.
  - Be proactive in communicating informatics about political risk timely through the organization, especially to decision-makers at the corporate and operating-unit levels who are responsible for areas such as strategic planning, operational processes, and crisis preparedness.
  - Consider formalizing political risk assessments by having internal auditing:
    - a) conduct overall assessments on a regular basis
    - b) focus on political risks in a specific country or region, such as a study of potential regulatory changes, or
    - c) Audit an issue that continues to challenge international operations, such as potential foreign corrupt practices violations.

Non-payment and currency inconvertibility has such forms like inability to convert local currency into foreign exchange as well as delays in acquiring foreign exchange caused by the host government’s actions or failure to act. Confiscation, expropriation and nationalization have such forms like elimination of ownership, control over, or right to the asset/investment. War and civil distribution disturbance

## Political Risk in International Business

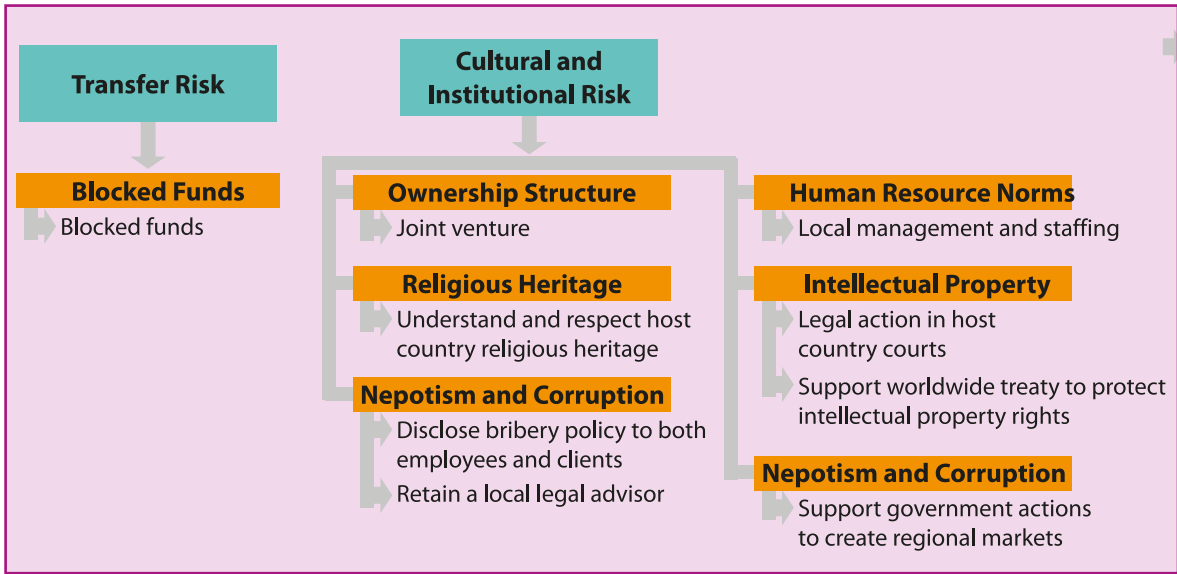
has such forms like loss due to the destruction, disappearance, or physical damage to assets caused by politically motivated acts of war or civil disturbance, revolution and insurrection. Another example is terrorism and sabotage treated selectively. Breach of contract has such forms like breach of repudiation of a contractual agreement with the investor/lenders by host government.

Based on political risk identification and assessment the basic managerial approaches and strategies for country-related risk or situation-related risk could be designed or re-evaluated (Figure 3.2 and Figure 3.3).

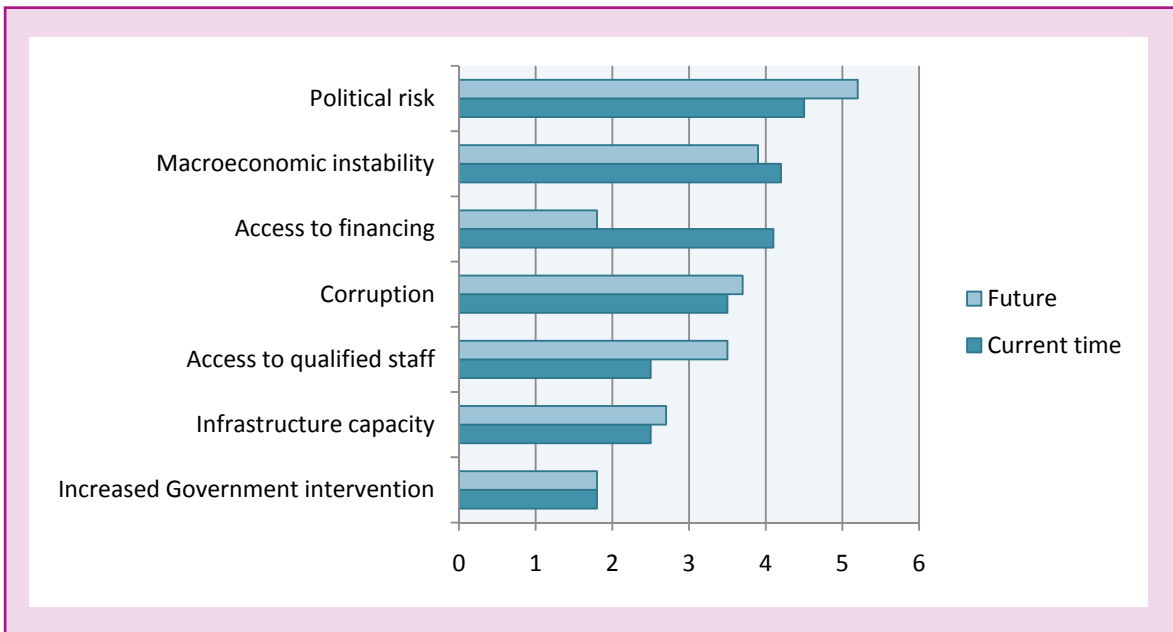


■ **Figure 3.2** On 21 September 2013, unidentified gunmen attacked the upmarket Westgate shopping mall in Nairobi, Kenya. It was just one month before organizing Global “South-South Development expo 2013” in Nairobi, Kenya. So, that was really serious reason for many institutions worldwide to re-think the active participation. Finally, after several days and weeks of doubts and fears the Slovak University of Agriculture in Nitra attended the global exhibition  
**Photo:** Elena Horská, Nairobi 2013

In 2010 the World Bank published a study (World investment and political risk) which seeks to examine the evolution of political risk perceptions. The study says that how investors perceive and deal with these perils will contribute to mapping out the role of political risk insurance in the emerging post-crisis investment landscape, and how it can contribute to a revival of foreign direct investments (Figure 3.4) (World Bank, 2010).



■ **Figure 3.3** Management Strategies for Country-Related Risks  
 Source: <http://www.aw-bc.com/scp/0321280318/assets/downloads/ch17.pdf>



■ **Figure 3.4** Major Constraints on Foreign investment in Emerging Markets  
 Source: according to MIGA-EIU Political Risk Survey 2010, authors drawing

## Summary

When we look to the link between political risk and the foreign direct investments, the findings of most researches showed that political risk is negatively correlated with the flow of foreign direct investments. Some researches found out that political stability increases the probability of a country being selected as an investment location and increases the attractiveness of that country for foreign investors. Some researches explained how different forms of political violence affect foreign direct

investments found that the impact on foreign direct investments is very much determined by whether political violence is anticipated or not, with unanticipated events having a strong negative effect on foreign direct investments. Some researches highlight the importance of amount of capital available for investment at a given point in time and the sensitivity to political risk where their findings say that when foreign direct investment is booming, investors are less sensitive to political risk. Some findings say that political risk in a host country not to be a significant determinant of foreign direct investments for transition economies. At the same time many researchers say that the attractiveness of a country's business environment based on the relative weight of multiple criteria used by companies in their investment decision, and in certain cases many factors have more powerful influence on foreign direct investments than political risk.

**Key terms:** Political environment, Political risk, Foreign direct investments, Political risk assessment



### QUESTIONS FOR DISCUSSION

1. Use various indices of political stability/instability, business and investment attractiveness to evaluate and compare Visegrad countries in terms of their investment attractiveness.

## Literature

BERNSTEIN, P. L. 2001. *The Enlightening Struggle Against Uncertainty*. In Pickford, J. (ed.), *Mastering Risk*, Vol. 1 (Harlow: Financial Times and Prentice Hall), pp. 5–10.

BROWN, Vivian. 2004. *Political Risk Insurance after September 11 and the Argentine Crisis: A Public Provider's Perspective*. In *International Political Risk Management: The Brave New World*, ed. Theodore H. Moran, p. 15–25. Washington, DC: World Bank.

GOVERNANCE context – governance indicators. 2004. [http://nile.riverawarenesskit.org/English/NRAK/Gov\\_L3/html/3\\_3\\_2\\_7\\_indicators.html](http://nile.riverawarenesskit.org/English/NRAK/Gov_L3/html/3_3_2_7_indicators.html)

HANSEN, Kenneth W. 2004. *Investment Promotion and Political Risk Insurance*. In Paper presented at conference, “Encouraging Capital Flows Into Africa,” Johannesburg, South Africa, September 29–30.

RATHA, Dilip – Mohapatra, Sanket – Silwal, Ani. 2009. *Migration and Remittance Trends 2009: A Better than Expected Outcome so Far, but Significant Risks Ahead*. In *Migration and Development Brief 11* (November). Reserve Bank of India. 2009. “Indian Investment Abroad in Joint Ventures and Wholly Owned Subsidiaries: 2009–2010.” Reserve Bank of India (October).

UNCTAD. 2009a. *Historical Perspective, Recent Trends and Elements of Protection in International Investment Agreements*. Unpublished report prepared for MIGA. UNCTAD. 2009b. *Investment Policy Developments in G-20 Countries*. New York and Geneva: United Nations.

WORLD Bank. 2006. *Global Development Finance: The Development Potential of Surging Capital Flows*. Washington, DC: World Bank.

WORLD Bank. 2009. *Global Development Finance: Charting a Global Recovery*. Washington, DC: World Bank.

WORLD Bank. 2010. *World investment and political risk*. Washington, DC: World Bank

AVAILABLE at: <http://www.miga.org/documents/flagship09ebook.pdf>

POLITICAL risk assessment and management, available at: <http://www.aw-bc.com/scp/0321280318/assets/downloads/ch17.pdf>

HOW managing political risk improves global business performance, available at: [http://www.pwc.com/us/en/risk-compliance/assets/PwC\\_PoliticalRisk\\_052006.pdf](http://www.pwc.com/us/en/risk-compliance/assets/PwC_PoliticalRisk_052006.pdf)



# CHAPTER

## CULTURE AND BUSINESS: WITHIN AND BEYOND VISEGRAD BORDERS

# 4

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Discuss how the socio-cultural environment affects the attractiveness of a potential market and implementation of marketing strategy.
2. Understand the culture of V4 countries, cooperating regions and other nations in the world.
3. Define the most important elements of culture and understand the importance of culture to an international marketer.



- There are many situations on the market where material culture as the basic element of culture can be observed. Floating markets in Thailand are one of them. Floating markets Damnoen Saduak by Bangkok. Daily offer of fresh fruits, vegetables and food menu. **Photo:** Peter Paluch, Thailand 2012



### Introduction

Culture has a great impact on international marketing. A marketer must have to study about the local culture in-depth before offering a product to them. Because of every marketing promotion has done to promote the product i.e. communicating product feature to the customers and influence customers to buy it. Cultural awareness should be applied in every aspect of marketing: in selling, label-printing, advertising and promotion of products and many others. It covers language, the lifestyle and the behavioural patterns of the people in the country of interest (Paluchová, 2012). Of course, the company should print in the local language, but that's not where the language barrier ends. The norms of behaviour accepted by the members of the company organization become increasingly important with the company's internationalization. Companies have to be aware of what their brand names will do to their company image on foreign shores.



### V4 MARKETING INSIGHTS



For instance, identity is seen as an important part of Polish culture. Following centuries of invasion, Polish people are proud of their autonomy and cultural identity (Figure 4.1). Poland is also a family-focused society, where trust, honesty and close friendships cross over into business. Compared with Slovak language, Polish words sound humour and many are unusable in marketing practice. Designation of **“fresh milk”** in Polish is in to Slovak to exact opposite as **“spoiled milk”**.



■ **Figure 4.1** Traveling around the Poland, you can find hundreds of restaurants, stands or sections “Polskie Jadło” with typical Polish food and meals  
**Photo:** Johana Paluchová, 2010

### 4.1 Culture and Its Impact on International Marketing Activities

**Culture** includes material and non-material elements, values and attitudes, which creates “behaviour fields” that are specific for particular groups of people. Since their birth, children gradually gain their own set of values, knowledge, preferences and behaviour manners from their parents.

**Culture** also manifests in orientation systems that are typical for nations, companies, organizations or groups of people. Such systems consist of symbols (i.e. speech, gestures, facial expressions, clothing and others). On one hand, culturally specific orientation systems create opportunities and initiatives for dealing with other people; on the other hand, they also determine the conditions and boundaries of our dealings (Nový and Schroll-Machl, 2005). **Culture** can be defined as the identity of people, which creates a pattern of relationships and behaviour in society (Machová, 2006). **Culture** is a way of interaction everything they do from the morning up to go to the bed in late night included their culture (Abdin, 2008).

**Culture** can be defined as the identity of people, which creates a pattern of relationships and behaviour in society

**Fundamental common features of culture are** (Čihovská, 2010):

- culture is a system of values and social norms recognized company or a group of people,
- culture is innate, but there is a learning process,
- culture is transmitted from generation to generation,
- culture is differentiated (cultures differ from each other),
- culture is adaptable (subject to change over time),
- there are manifestations of culture (humour, dance, ethics, language ...).

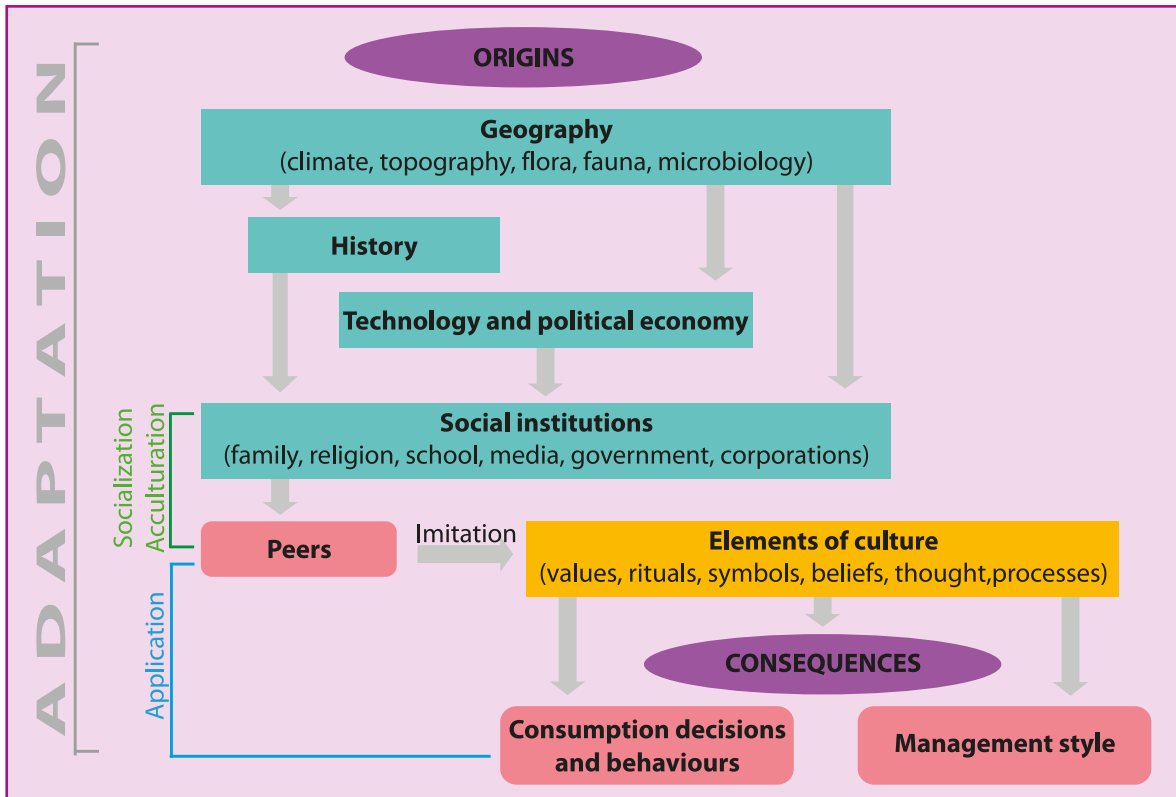
**Cultural elements can be divided into two groups** (Bártová, Bárta and Koudelka, 2004):

- material: cultural artefacts,
- non-material: social regulations, ideas, knowledge and institutions.

**Cultural influences** are dynamic and they change as much as the society itself (Berkowitz, Kerin and Hartley, 1997). They are not necessarily visible but can be quite subtle, and can surface in situations where one would never notice them. It is commonly agreed that a culture must have these three characteristics (Cateora and Graham, 2005):

1. **It is learned:** that is, acquired by people over time through their membership of a group that transmits culture from generation to generation. You have internalized values associated with such functions as:
  - interacting with other members of your family,
  - eliciting rewards and avoiding punishments,
  - negotiating for what you wanted,
  - causing and avoiding conflict.
2. **It is interrelated:** that is, one part of the culture is deeply connected with another part such as religion and marriage, business and social status.
3. **It is shared:** that is, tenets of a culture extend to other members of the group.

The best international marketers not only appreciate the cultural differences pertinent to their business, they also understand the origins of these differences (Figure 4.2). Possession of the latter, deeper knowledge will help marketers notice cultural differences in new markets and for changes in current markets of operations (Cateora and Graham, 2005).



■ **Figure 4.2** Origins, Elements, and Consequences of Culture

Source: Cateora, Philip, R. – Crahan, John, L. 2005. *International Marketing*. p. 98

**Culture** can be thought of as having three other levels. The tangible aspects of a culture – things you can see, hear, smell, taste or touches are artefacts or manifestations of underlying values and assumptions that a group of people share (Hollensen, 2011):

- **the visible daily behaviour:** body language, clothing, lifestyle, drinking and eating habits,
- **values and social morals:** family, values, sex roles, friendship patterns,
- **basic cultural assumptions:** national identity, ethnic culture, religion.

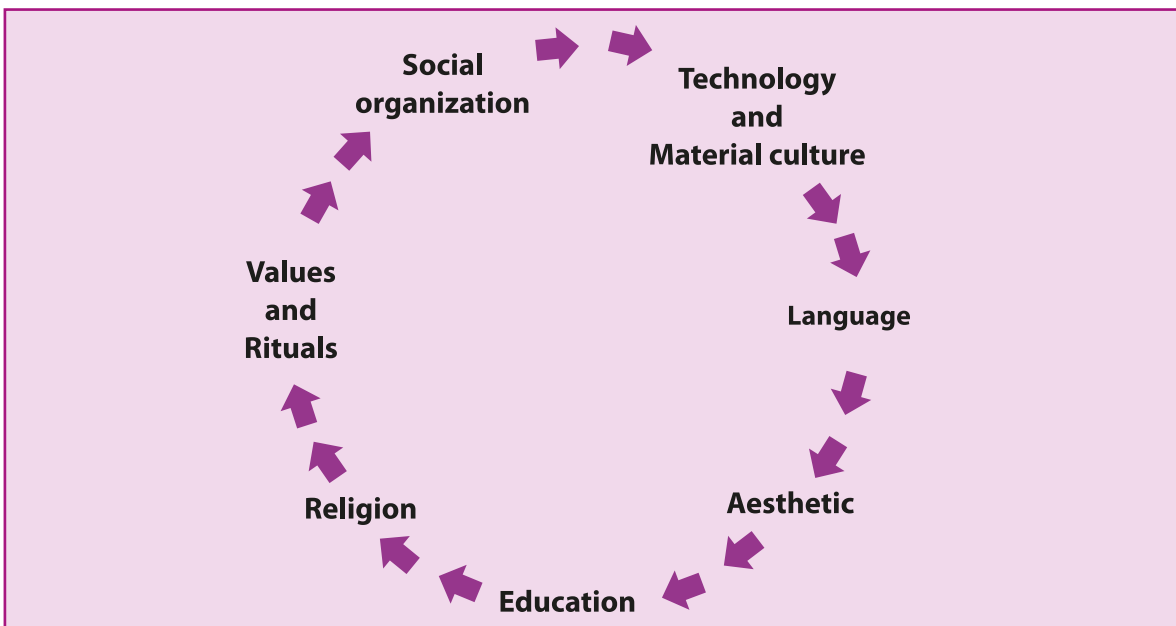
Marketing managers who enter different cultures must learn to cope with a vast array of new cultural cues and expectations as well as to identify which old ones no longer work. Often they experience stress and tension as a result. This effect is commonly called **culture shock**. The following ten tips to deflate the stress and tension of cultural shock (Gillespie and Hennessey, 2011):

- be culturally prepared,
- be aware of local communication complexities,
- mix with the host nationals,
- be creative and experiential,
- be culturally sensitive,
- recognize complexities in host cultures,
- see yourself as a culture bearers,
- be patient, understanding and accepting of yourself and your hosts,
- be realistic in your expectations,
- accept the challenge of intercultural experiences.

## 4.2 Elements of Culture

The manner in which people consume, the priority of needs and the wants they attempt to satisfy, and the manner in which they satisfy them are functions of their culture that temper, mold, and dictate their style of living. Culture is the human-made part of human environment – the sum total of knowledge, beliefs, art, morals, laws, customs, and any other capabilities and habits acquired by humans as members of society (Omarkulova, Paluchová and Uspanova, 2013).

There are a large number of **key cultural elements** that international marketers need to take into consideration when designing products, developing promotions and implementing distribution systems in foreign markets. There are varying definitions of the culture elements, including one that counts 73 cultural universals. The following elements (Figure 4.3) are usually included in the concept of culture.



■ **Figure 4.3** The basic elements of culture

Source: own Figure, by Horská, Elena. 2007. *Medzinárodný marketing*. Nitra: SUA, 2007. p. 27

### 4.2.1 Technology and Material Culture

The tools and techniques of production, the types of technology, the level of technological advancement and the physical attributes of a society are what we call **material culture**. There are those products made by people or bearing some symbolic significance to the members of a community which have relevance to us here.

**Material culture** includes technology and economic aspects of that country. Results from technology and is directly related to how a society organizes its economic activity. It is manifested in the availability and adequacy of the basic economic, social, financial and marketing infrastructures. With technological advancement comes cultural convergence. It includes questions such as (Hollensen, 2011; Fatehi, 1996):

- Is there energy to power our products?
- Is there a transport infrastructure to distribute our goods to consumers?
- Does the local port have large enough cranes to offload containers from ships?
- How quickly does innovation diffuse?
- Also of key importance, do consumers actually buy material goods i.e. are they materialistic?

The tools and techniques of production, the types of technology, the level of technological advancement and the physical attributes of a society are what we call **material culture**

### 4.2.2 Language

**Language is the most obvious and easily identifiable difference between cultures and it reflects the nature and values of a particular culture**

**Language** is the most obvious and easily identifiable difference between cultures and it reflects the nature and values of a particular culture. A country's language is the key to its culture and can be described as the mirror of the culture.

According to Sighamony (2014), more than 70 % of consumers are more likely to buy a product that is sold in their local language; the percentage is 10 % higher when it comes to buying goods online.

**Language** can cause communication problems especially in the use of media or written material. It is best to learn the language or engage someone who understands it well (Horská, 2007; Joshi, 2005).

**Language can be divided into two major elements:**

- 1. The verbal language** (vocal sounds): with language one should consider whether or not the national culture is predominantly a high context culture or a low context culture. In a low context culture spoken language carries the emphasis of the communication i.e. what is said is what is meant (e.g. Australia, Netherlands). Language capability plays four distinct roles in international marketing (Hollensen, 2011):
  - **language is important in information gathering and evaluation efforts** (local managers of a global corporation should be the firm's primary source of political information to assess potential risk, instructions how to use products, information about the ingredients);
  - **language provides access to local society** (firms that translate promotional materials and information are seen as being serious about doing business in the country);
  - **language capability is increasingly important in company communication including marketing communication and brand name creation;**
  - **language provides more than the ability to communicate;** it extends beyond mechanics to the interpretation of context.

In a high context of culture, verbal communication tends not to carry a direct message i.e. what is said may not be what is meant. So with a high context culture hidden cultural meaning needs to be considered, as does body language. Examples of a high context cultures include Japan and some Arabic nations.

- 2. Non-verbal language** (body language): Managers must analyze and become fluent in a diversity of culturally derived behavioural displays. Five key topics: time, space, material possessions, friendship patterns, and business agreements offer a starting point from which managers can begin to acquire the understanding necessary to do business in foreign countries.
  - in Hong Kong, it is futile to set exact meeting times because getting from one place to another may take minutes or hours depending on the traffic,
  - showing indignation or impatience at such behaviour would astonish an Arab, Latin America or Asian,
  - an U.S. manager may after successful completion of negotiations, impulsively give a finger-and-thumb OK sign,
  - in southern France, the manager will have indicated that the sale is worthless,
  - in Japan that a little bribe has been asked for, the gesture is grossly insulting to Brazilians,
  - while Chinese negotiations usually lean back and make frequent eye contact while projecting negativity (Czinkota and Ronkainen, 2012),
  - in the Mideast, Westerners should not show the soles of shoes or pass documents with the left hand,
  - Hungarians are placed in a business setting, touch or contact is more restrained. In these situations, there is very little touching. In fact, probably the only touching that would occur would be a handshake,



## Culture and Business: Within and Beyond Visegrad Borders

- Polish conversation space is closer, that Poles are “close talkers” and they like to talk about money, salary and product prices in the comparison with their country,
- Czechs are known for their cool heads and reserved attitude, communicating with their hands or wild gesticulation is not typical of Czech behaviour.



### GLOBAL MARKETING INSIGHTS

Moving the head up and down means yes. But in the Middle East, when they nod the head down, it indicates agreement.

In Japan and most of Asia including the Philippines, nodding up-and-down is a way to show that someone is listening and is interested with what you are saying (as well as in V4 countries).

In China and Japan, smiling may convey anger or sadness for which it's not acceptable to show off much.

Rundown of rules for different cultures on eye contact:

- Latinos: They typically avoid direct eye contact with authority figures.
- Muslims: Direct eye contact between man and woman is considered bold and flirtatious.
- Arabs: They have greater eye contact than Americans among same gender crowd.
- Southern Europeans: They are comfortable with lingering eye contact.
- British: They engage in less eye contact.

#### Timing:

- For the Mexicans, it's rare to specify an exact time for guests to arrive for dinner.
- American executives tend to get right down to business and finish quickly.
- Japanese executives expect to devote time to social interaction first.
- Slovaks prefer to be in time on dinner or lunch despite of they belong to the nations, who are late.



Because of language importance in doing business internationally, it happened that some marketing slogans or campaigns were wrong translated (see Table 4.1). Sometimes it could be funny translated into local language, but there are situations, where these were disrespectfully or vulgarly translated.

**Table 4.1** Examples of wrong translated marketing slogans

Original Slogan	Translated Slogan
Traficante mineral water found a great reception in Spain's underworld (Italy)	It was translates as "drug dealer" (Spain)
Honda introduced their next car "Fitta" into (Asian countries)	"Fitta" was an old world used vulgar language to refer to a woman's genitals and because was renamed it "Honda Jazz". (Sweden, Norway and Denmark)
American Motors tried to market its new car, the Matador, based on the image of courage and strength (USA/ Europe)	The name means "killer" and was not popular on the hazardous roads in the country (Puerto Rico)
The soft drink Fresca (Arabic countries)	The soft drink Fresca, the sales people were embarrassed as fresca is slang for "lesbian" (Mexico)
Kellogg had to rename its "Bran Buds cereal" (USA)	It discovered that the name roughly translated to "burned farmer" (Sweden)
"Pajero", a well known car (Australia)	It means also "wanker" (Spain)
Hertz's message – "It wanted to put them in the driver's seat" (USA)	It was translated as "Let Hertz make you a chauffeur" (Germany)

Source: own Table

## Culture and Business: Within and Beyond Visegrad Borders

Some countries have two or three languages (see Table 4.2). In Zimbabwe there are three languages – English, Shona and Ndebele with numerous dialects. In Nigeria, some linguistic groups have engaged in hostile activities. In Europe is Switzerland a country where are four official languages – German, Italian, French and Rhaeto-Romance. In Slovakia, there is social problem, because official language is Slovak, but in the south part of Slovakia is mostly Hungarian, and this minority advocated the enactment of the Hungarian language has long been.

**Table 4.2** List of most widely spoken languages (by number of countries and by speakers)

The most spoken languages by countries				The most spoken languages by speakers			
Language	No. of Countries	Language	No. of Countries	Language	Speakers	Language	Speakers
English	67	Russian	11	Mandarin (Chinese)	1 billion +	Arabic	246 million
French	34	Persian	9	English	508 million	Bengali	211 million
Arabic	25	Italian	8	Hindustani	497 million	Portuguese	191 million
Spanish	21	German	7	Spanish	392 million	Malay-Indonesian	159 million
Portuguese	11	Chinese	6	Russian	277 million	French	129 million

**Source:** own elaboration, by Eurostat, World National Bank, World Food Association, 2014 [Online], by Listverse [Online]

### 4.2.3 Aesthetics

**Aesthetics** refer to the ideas in a culture concerning beauty and good taste as expressed in the art, drama or dancing and the particular appreciation of colour, form and as well as it affects to differences in design, colours, packaging, brand names and media messages (Hollensen, 2011). More broadly, scholars in the field define **aesthetics** as critical reflection on art, culture, and nature (Trompenaars and Hampden-Turner, 2009). Customers respond to images, myths, and metaphors that help them define their personal and national identities and relationships within a context of culture and product benefits (Cateora and Graham, 2005).

**Aesthetics** relate to your senses, and the appreciation of the artistic nature of something, including its smell, taste or ambience (Omarkulova, Paluchová and Uspanova, 2013). It's answer on questions:

**Aesthetics** relate to your senses, and the appreciation of the artistic nature of something, including its smell, taste or ambience. .

- Is something beautiful?
- Does it have a fashionable design?
- Was an advert delivered in good taste?
- Do you find the colour, music or architecture relating to an experience pleasing?
- Is everything relating to branding aesthetically pleasing?

Aesthetics is influenced in a practice of international marketing by many components (see Table 4.3).

**Table 4.3** Aesthetics' area in international marketing

Aesthetics' areas	Description and Examples
Product name	PEE Cola: This extremely popular soda, which is bottled in Ghana, means "very good Cola" LUMIA: Nokia's new smart phone translates in Spanish slang to prostitute HUMMUS: Arabic food dip or spread made from cooked, mashed chickpeas blended with tahini, olive oil, lemon juice, salt and garlic (in Slovak: something disgusting or vile) GÓRALKY: Perfect example of very famous Slovak wafer HORALKY tailored named for Polish market (Figure 4.4)

**Continued Table 4.3**

Aesthetics' areas	Description and Examples
<b>Creation of promotion slogan</b>	<p>Some slogans become real hits:</p> <ul style="list-style-type: none"> <li>– “Egypt, where it all begins” is the impressive tourism slogan of Egypt, which intends to highlight Egypt’s historic status as a cradle of civilisations</li> <li>– “Brazil – Sensational!”</li> <li>– “South Africa: It’s Possible!” This slogan gives you no reason to visit South Africa</li> </ul> <p>Some slogans can be vague, unclear and even disturbing:</p> <ul style="list-style-type: none"> <li>– An American T-shirt designer printed shirts for the Spanish market to promote the visit of the Pope. Instead of “I saw the Pope” (el Papa), the shirts read “I saw the potato”</li> </ul>
<b>Sex</b>	<p>Japanese advertisers frequently turn to blonde, blue-eyed foreign models to make the point. In introducing the shower soap “Fa” from the European market to the Middle East, Africa, Asia, Pacific region, and Latin America. The main difference was to have the young woman in the waves do a bathing suit rather than be naked, as in the German original</p>
<b>Colour</b>	<ul style="list-style-type: none"> <li>– Red/ symbol of communism (Slovakia/ Bohemia)</li> <li>– Red/masculinity and angry, yellow/ youth or feminine (England, USA)</li> <li>– Red/ lucky colour (China)</li> <li>– Muted shades, green (high-tech) (Japan)</li> <li>– Green, red, yellow, orange (India)</li> <li>– Red/ death (Turkey)</li> <li>– Yellow/ mourning (Mexico)</li> <li>– White (cleanliness and purity), purple (organic foods, freshness, environmentally friendly, good health, and in wedding (Europe, USA, Australia)</li> <li>– Black (mourning as well as style and elegance), red (danger, warning/alert) (Europe, USA, Australia)</li> <li>– Bright yellow, red, blue (Latin America)</li> <li>– Brown, black, dark blue, green (luck) (Middle East)</li> <li>– Green/ forbidden colour (Indonesia)</li> <li>– Red/ good luck and fortune, purple/ symbol of expense (China)</li> <li>– Yellow is associated with disease in Africa (Omarkulova, Paluchová and Uspanova, 2013)</li> </ul> <p>When American Express sponsored the Chinese New Year Festival. Chinese elders and some members of the Chinese community asked the banners be taken down, changed or replaced. The reason given was that the large blue and yellow sponsorship banners represented the traditional Chinese colours of mourning and death</p>
<b>Gifts</b>	<p>Apparel is not commonly given to the British business where it is considered too personal a gift or in Russia, where it is considered a bribe</p> <p>In France, Russia, Germany, Taiwan and Thailand giving a knife as a gift is inappropriate because it may cut or wound a friendship</p> <p>Handkerchiefs should never be given in Thailand, Italy, Venezuela and Brazil because such a gift is akin to wishing a tragedy upon the recipient</p> <p>Prudence requires one not to give a potted plant for the sick in Japan because the illness may become more severe by taking deeper root. Tea clocks are a poor choice in China and Taiwan (Vasudeva, 2010)</p> <p>To giving a gift to “Nameday” is common in Slovakia or Czech Republic.</p>
<b>Music/ Dancing</b>	<p>In sushi lounge bar is using of Japanese sound better than local music. As well as in Italian ice cream bar, the sea music in the combination with Italian text is internationally</p> <p>Global companies use the general music without text, adapted to all markets (Mobile phone companies, or banks).</p>
<b>Building design</b>	<p>The design of a new office or building should take into account or conform to local ideas of good taste and what is considered acceptable:</p> <ul style="list-style-type: none"> <li>– Starbucks coffee is well-known in green with the white name brand</li> </ul>
<b>Taste</b>	<p>Packaging should at least be sensitive to local preferences. In addition, media or promotional material may need to be changed in appearance, sound, content to suit local standards</p>

**Second Continued Table 4.3**

Aesthetics' areas	Description and Examples
Flowers	<p>In Spain, red roses are associated more with lust than with love. In France, a dozen as well as thirteen yellow roses are inappropriate, yellow suggests infidelity, and cut flowers by the dozen or any other even number are unlucky (the same in Latin America)</p> <p>In Italy, roses serve as tokens of affection when they are sent in odd numbers to women</p> <p>In Japan, on the other hand, men are on the receiving end of Valentine's Day</p> <p>Swiss women do not want flowers with strong scents</p> <p>To Swedish women, a cactus signals the end of a romance (Onkvist and Shaw, 2008)</p>

Source: own Table



## V4 MARKETING INSIGHTS

Production of famous wafer HORALKY started in 1953 in Pečivárne Sereď, Slovakia. In 2007 they were introduced to Polish customers under the original name HORALKY. In despite of fact there are many similarities between Slovak and Polish languages, one key difference is

that where Slovak language uses a "h", Polish often use a "g" (Hora/Gora means a mountain). So, strategically, it was a very good decision to change the product name to "Góralki" in 2012 and rapid growth of sales has been recorded since 2012, too.



■ **Figure 4.4** Góralki made in Slovakia for Polish market  
 Photo: Elena Horská, 2013

### 4.2.4 Education

Education is more than simply going to school, or getting a degree. Education relates to the process of transmitting skills, ideas, attitudes, values and training people in these areas where new skills, ideas and attitudes arise (Čihovská, 2010). **Education** can transmit cultural ideas or be used for change, for example the local university can build up an economy's performance (Machová, 2006).

**Education**, one of the most important social institutions, affects all aspects of the culture, from economic development to consumer behaviour.

**Education** levels, or lack of it, affect marketers in a number of ways:

- advertising programmes and labelling
- girls and women excluded from formal education (literacy rates),
- conducting market research,
- complex products with instructions,
- relations with distributors and,
- support sources – finance, advancing agencies etc.

**Education**, one of the most important social institutions, affects all aspects of the culture, from economic development to consumer behaviour



#### GLOBAL MARKETING INSIGHTS

In Ethiopia only 12 % of the viable age group enrol at secondary school, but the figure is 97 % in the USA. In countries with low literacy levels, advertisers would avoid communications which depended upon written copy, and would favour radio advertising with an audio message or visual media such as billboards. The labelling of products may also be an issue.

In the People's Republic of China a nationwide system of public education is in place, which includes primary schools, middle schools (lower and upper), and universities. Nine years of education is compulsory for all Chinese students.

In Finland school attendance is compulsory between the ages of 7 and 16, the first nine years of education (primary and secondary school) are compulsory, and the pupils go to their local school. The education after primary school is divided to the vocational and academic systems, according to the old German model.



When a new product is being introduced you are influencing a culture and you need to become an educator as well. You will have to show how the product is to be used, train technicians, educate consumers about the uses and benefits of the product. When **Pepsodent** tried to sell its toothpaste to a certain culture in Southeast Asia, it did so by marketing it as toothpaste that “**whitens your teeth**”. The trouble was the local native population went out of their way to blacken their teeth by chewing betel nuts, a characteristic they found attractive.

**Some implications of education will be:**

- if consumers have different levels of literacy, advertising, packaging, labels and instructions will need to be adapted,
- if women are excluded from formal education, programs to educated end users will need to be adapted if women are the primary consumers in the domestic economy,
- market research, questionnaires, sampling, consumer responses may be difficult in communicating your ideas and having access to trained researchers.



### 4.2.5 Religion

**Religion** is a belief system that answers spiritual questions. An international marketer must be able to identify and understand how these belief systems will affect product design, sales practices, and business negotiations

**Religious** beliefs play a significant part in sculpting social behaviour. Differences in their affiliations tend to influence the way people live, the choices they make, what they eat and whom they associate with and that is important in international business as well as in international marketing activities (Světlik, 2003).

**Religion** can be described as the habitual expression of an interpretation of life, which deals with ultimate concerns and values. Institutional religion formalises these into a system which can be taught to each generation (Cloud, 2000). **Religion** is a belief system that answers spiritual questions. An international marketer must be able to identify and understand how these belief systems will affect product design, sales practices, and business negotiations (Kleindl, 2007).

**We should first note what it is we need to highlight about the religions of various countries:**

- What are the salient features that will have a bearing on the way we conduct business internationally?
- What are the implications of dealing with people, not only from another country, but followers of another belief system?
- How does religion affect people attitudes?
- What impact will religion have on the economy?

The main religions and their impact on international marketing and the countries where it dominates are as follows:

- **Buddhism:** had adherents in central and south East Asia, China, Korea, Thailand, Nepal or Japan.
- **Christianity:** is the most widely practised. The majority of them live in Europe, America, and ex-colonies.
- **Hinduism:** primarily in India and areas with large Indian population like Malaysia, Fiji and also Bali in Indonesia.
- **Islam:** is practised mainly in Africa, the Arab countries and around the Mediterranean and in Indonesia.
- **Judaism:** primarily in Israel, but many of them live in U.S.A. or in European countries, such as Poland or England.
- Other religions over the world: Confucianism, Taoism, Shinto, Animism etc.



### V4 AND GLOBAL MARKETING INSIGHTS



Several public holidays are often tied to religion. It can strongly influence shopping habits worldwide. It's common to have opening time in shopping mall from 9 am - 9 pm in Slovakia or Czech Republic, in Poland or Hungary there are more often to close the shops in holiday and in Sunday.

In China in 2007 (which was the year of the pig) all advertising which included pictures of pigs was banned. This was to maintain harmony with the country's Muslim population of around 2 %. The ban included pictures of sausages that contained pork, and even advertising that included an animated (cartoon) pig. Thai culture considers animals to be a form of low life, not respected and not considered "cute" like in some other cultures. When an eyeglass company featured ads with "cute" animals wearing their glasses, the ad was not successful.



### The influence of Religions on Trade and Doing International Marketing

The impact of religion on the value systems of a society and the effect of value systems on marketing must not be underestimated. Protestants believe that one's relationship with God is a personal attitude, and confessions are made directly through prayer.

The impact of religion on consumption patterns usually relates to the restriction of certain foods and beverages, for example, Jews and Muslims do not eat pork, Hindus do not eat beef, and drinking alcohol is frowned upon if not forbidden by Islam and strict Protestants.

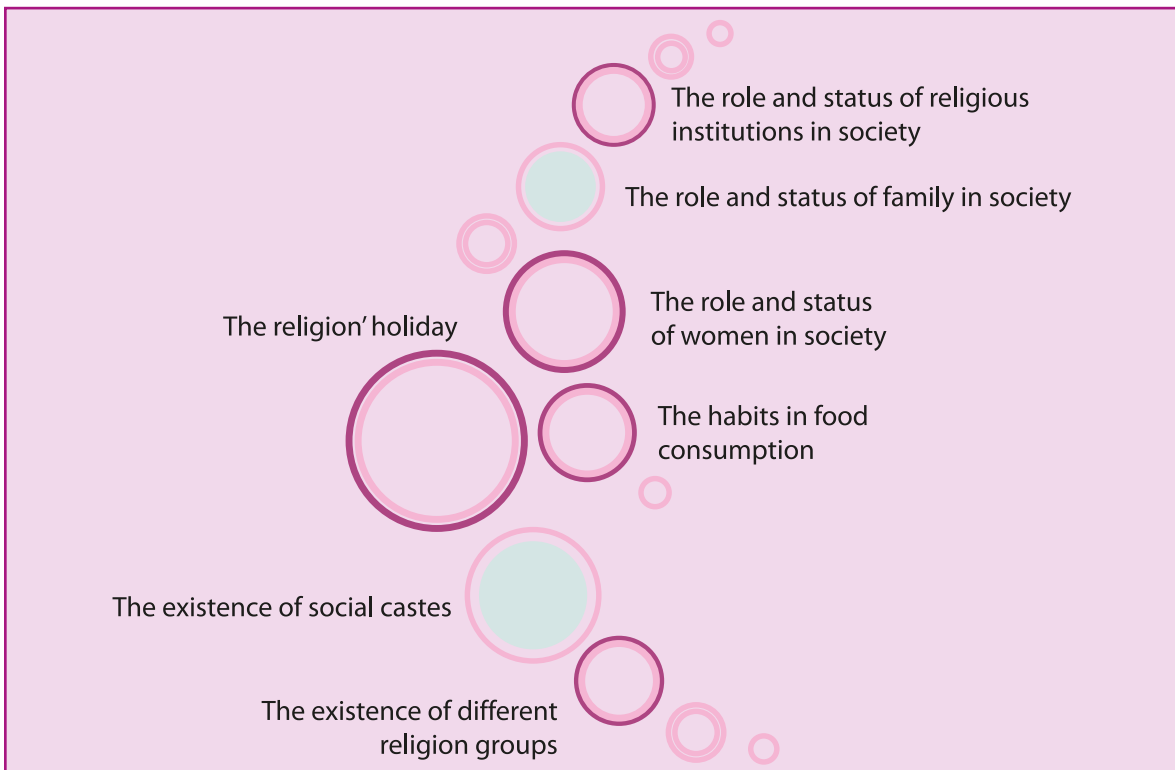
There is no doubt that international marketing is affected by religious beliefs. Saudi Arabian publications will not accept any advertisement that has a picture of a woman in it. Sleeveless dresses are considered offensive to Islamic rules, and all advertisements that include pictures of such dresses are banned in Malaysia.

**Religious beliefs can influence trading behaviour in mainly two ways:**

- 1. First, sharing the same religious belief often implies sharing similar values.** A common religion may therefore enhance trust between trading partner and reduce transaction costs. As a consequence, the trade volume between traders of the same religion should be higher than trade between different religions.
- 2. Second, each religion has its own ethical standpoint towards the activity of trading.** As we will see in the next section in greater detail, some religions perceive trade as a necessity, others as a value creating activity.

There are few areas in which an international marketing firms need to be more sensitive either in the sphere of religion and consequently, in doing marketing internationally (Figure 4.5).

There are few areas in which an international marketing firms need to be more sensitive either in the sphere of religion and consequently, in doing marketing internationally



■ **Figure 4.5** The influence of religion on realization of international marketing activities  
Source: own Figure

### 4.2.5.1 Christianity

#### Christianity Facts

- Christianity is the world's largest religion, with about 2.1 billion followers worldwide.
- It is based on the teachings of Jesus Christ (Christianity's founder) who lived in the Holy Land 2,000 years ago. **Adherents called:** Christians. There are over 300 sub-religions; the various faiths of Christianity include Roman Catholic, Orthodox and Protestant etc.
- **Major concentration:** in Europe (including V4 countries), North and South America, rapid growth in Africa.
- **Sacred text:** Bible (Jewish Bible + New Testament).
- **House of worship:** church, chapel and cathedral. Church and state: separate. Some rules in churches (no crossed legs, to be nicely dressed – no jeans or sport clothes, be absolutely quite, to sit directly to the altar, the entrance is dipped his finger into holy water as a sign of praying, the women sit with men).
- **Main day of worship:** Sunday, is not business day, is not comfortable for doing business, because Christians go to the mass and have day off.



#### GLOBAL MARKETING INSIGHTS

"Jesus is not a brand" and because the global and foreign company's shouldn't illustrate him on the product package or in advertising as a celebrity. The animated Red Bull spots (Figure 4.6) from Italy showed a fourth wise man joining the better-known other three in offering gifts to the baby Jesus. A TV commercial for Red Bull, which ran for only a day in South Africa, has Christians, as well as Muslims, up in arms for its depiction of a hipster Jesus Christ walking on water. For Christians, the ad is deemed offensive because of Jesus' stature as the saviour. For Muslims the ad offends because Jesus is considered the last great prophet before Muhammad. Either way, leaders believe, the commercial is in extremely poor taste.



■ **Figure 4.6** Example of Red Bull energy drink campaign with illustration of Jesus Christ  
**Source:** <http://news.gather.com/viewArticle.action?articleId=281474981191688>, <http://noticias.gospelmais.com.br/comercial-red-bull-causa-polemica-ironizar-milagre-jesus-30656.html>

#### Symbols:

- **A cross:** is the universal Christian symbol, acknowledged by all denominations as the single visual and it represents and memorializes Christ's death. It is used in a production of jewellery, souvenirs and other marketing thinks.

- **Numbers:** One signifies unity, number two represents duality, number three represents the trinity (Father, Son, and Holy Spirit.), four can represent the four evangelists, five symbolizes the five wounds Christ suffered on the cross and by extension represents sacrifice.
- **Colour:** black is symbolic of death, and is therefore the liturgical colour for Good Friday. Black can also represent sin, which results in death. Blue, the color of the sky, is symbolic of heaven. Brown is the colour of spiritual death and degradation. Gray is the colour of ash, so is sometimes used to represent repentance and may be used during Lent. Green is the colour of plant life, abundant in spring. It is used to represent the triumph of life over death.
- **Holidays:** see Table 4.4 the list of Christian holidays with implication to international marketing activities. Process of globalization and acculturation cause some, at least slight changes in people’s behaviour. For example, for many Chinese, Christmas is not regarded as a religious holiday, but simply represents “fun”. The week around Christmas is the top grossing week for movie theatres in China as young Chinese head out to theatres together instead of watching pirated DVDs at home. In Istanbul shopping centres, children stand in line to sit on Santa’s lap and ask for gifts.

**Table 4.4** List of main Christian holidays, their description and impact on Marketing

Holiday	Description	Impact on International Marketing
Sunday	Day off, offices and public place are closed	In Slovakia, there are just three days per year, the shops all close; January 1 <sup>st</sup> , Easter Friday/ Bright Friday and December 25 <sup>th</sup> . On Sunday, you can buy in shopping mall from 9 am to 9 pm. In Switzerland, or Austria the shops are close on Sunday and on holidays too
The season of Advent	In the Western churches, it encompasses four Sundays, beginning with the Sunday nearest to November 30 <sup>th</sup> and ending on Christmas Eve December 6 <sup>th</sup> , it’s giving sweets in to shoes (Slovakia) or it’s giving gifts under the Christmas tree (The Netherlands). In France, Russia, Spain, Greece, Cyprus it’s on January 6 <sup>th</sup>	It’s time for doing aggressive marketing campaigns in TV, print, online, in stores etc. They usually start in October. The highest sale growing is in toys, books, clothes, PC-games etc. segments. (Because of giving gifts under the Christmas tree). The shops’ opening time is longer. It is the highest sale increasing of fish, vegetable, fruit, dry fruits and ingredients for baking. It is a season of the highest sweets giving (not only for children). Many products are packed in Christmas packages of limited edition
Christmas	It is the celebration of the birth of Jesus Christ that is observed on December 24 <sup>th</sup> (East Europe), 25 <sup>th</sup> (in Western Europe and America) or January 7 <sup>th</sup> for Orthodox Christians	From a marketing point of view, Christmas has increasingly become a global phenomenon. The veggie day (all-day consumption of fish or cheese), it is a lent and in the evening they start to eat (but no meat). There’re different names of St. Claus (see end of this table), adapted and translated used in marketing campaign, print ads or on leaflets in stores. From December 26 <sup>th</sup> it is starting of Christmas sales
Good Friday	It is the Friday on which the Christian church keeps the anniversary of the crucifixion of Jesus Christ	It’s a lent day, and after a “big” mass the Christians start to eat too much, to visit a family/ friends
Easter	It is a Christian holiday that celebrates the central event of the Christian faith: the resurrection of Jesus Christ three days after his death by crucifixion	Easter is preceded by the season of Lent, a 40-days period of fasting and repentance culminating in Holy Week, and followed by 50-days Easter Season that stretches from Easter to Pentecost. No meat eating or restrict it. Many products are packed in Easter packages of limited edition
The New Year	In many Christian countries the celebration of a new calendar year is on January 1 <sup>st</sup> in Russia, Ukraine, Belarus, it’s on January 7 <sup>th</sup>	The day off – it is a top of Christmas marketing campaigns and a finalizing of Christmas products production and offering. In V4 countries, the days off are from December 24 <sup>th</sup> to January 6 <sup>th</sup> (in generally), in Russian speaking countries, they are from January 1 <sup>st</sup> to January 10 <sup>th</sup> (in generally)

Continued Table 4.4

Holiday	Description	Impact on International Marketing
	<b>Santa's name in V4 countries</b>	
<b>Country</b>	Slovakia	Ježiško
	Hungary	Mikulas (St. Nicholas)
	Poland	Swiety Mikolaj (St. Nicholas)
	Czech Republic	Ježíšek

Source: own Table

### 4.2.5.2 Islam

#### Islam Facts

- Islam is a monotheistic religion (based on the belief that there is only one God) and was founded in Arabia and based on the teachings of Muhammad, who is called the Prophet, in the 7<sup>th</sup> century A.D. **Followers of Islam** are called Muslims.
- **Adherents called:** Muslims, current adherents: 1.3 billion (expected to exceed Christianity by the years 2025, Indonesia – the largest majority of Muslims), current size rank: 2nd largest with major concentration in Middle East, Southeast Asia.
- **Sacred text:** Qur'an (Koran) and other written authority: Hadith.
- **House of worship:** mosque, with state is integrated. No wears and caps inside temples, to need have a long sleeves (both gender) and for women a scarf on a head too.
- **Main day of worship:** Friday (day off, day of praying).
- **Islamic fashion:** long sleeves, long skirts or dresses and a scarf on the head (see Figure 4.7).



■ **Figure 4.7** Example of local clothing brand, Malaysia – Petronas Tower Shopping Mall Kuala Lumpur  
**Photo:** Johana Paluchová, Malaysia 2012





## GLOBAL MARKETING INSIGHTS

Mecca Cola, an Islamic version of Pepsi or Coca Cola, launched in 2002 after the Muslim boycott to U.S. products. Target markets: Arab Muslim countries and Muslim minorities all over the world. Coca Cola tried so hard to change its “bad” image just for Muslims. In 2008, it jumped on the bandwagon of faith in Allah. Coke released a can design with the internationally known symbol of Islam: The Star and Crescent (see Figure 4.8) adorning the national flags of at least 11 Islamic countries, these symbols have become part of Coca-Cola’s marketing scheme to appeal to Muslims only, but not any other faith group.



■ **Figure 4.8** Coca Cola with an Arabic symbol: the star and crescent on its package  
**Source:** <http://www.barenakedislam.com/2011/10/03/now-that-theres-a-halal-cola-its-time-to-get-the-halal-the-hell-out-of-coca-cola/>

### Five Pillars of Islam

- **Faith/ Shahadah:** is the Muslim profession of faith, expressing the two simple, fundamental beliefs that make one a Muslim and that the Prophet Muhammad is the Messenger of God.
- **Prayer/ Salat:** perhaps the most well-known Muslim practices among non-Muslims are ritual prayer, which is performed five times a day: at dawn, midday, afternoon, sunset and evening (see Figure 4.9 and Figure 4.10).



■ **Figures 4.9 and 4.10** Before entering to Muslim mosque (to take off shoes and to clean your foot), Kirsherir City, Central Turkey. Mosque in Cappadocia  
**Photo:** Johana Paluchová, Turkey 2011

- **Fasting / Sawm:** commemorates the revelation of the Qur’an to humanity during Ramadan, the ninth month of the Islamic year, the observation of fasting during the holy month of Ramadan.

## Culture and Business: Within and Beyond Visegrad Borders

- **Pilgrimage / Hajj:** At least once in his or her lifetime, each Muslim is expected to undertake a pilgrimage to Mecca, the sacred city of Islam in Saudi Arabia. Around 2 million Muslims go to Hajj each year, revenues = 7.44 billion € creates jobs for private sector = less unemployment.
- **Alms / zakat:** is a central activity in Islam. The Qur'an explicitly requires it and often places it alongside prayer when discussing a Muslim's duties, it's welfare contribution to the poor in society. Islam also prohibits the paying or collecting of interest, commercial banks must compete with Islamic banks, which do not offer savings accounts that pay interests. Many Muslims prefer to keep their money in these banks. Dubai-based Ilkone Mobile Telecommunications launched a phone in the Middle East with an internal compass to identify the direction to Mecca and an alarm for prayer times.

### Muslim Beliefs

- In God, Muhammad was a prophet as Quran states.

### Symbols

- **The Star and Crescent:** best-known symbol used to represent Islam; it features prominently on the flags of many countries in the Islamic world.
- **The name "Allah":** is very important in Islam (Muslims hate, if anybody make a joke with him).
- **Mosque:** The imagery of mosques, the sacred place of worship in Islam, is sometimes used as a symbol by Muslims.
- **The Kaaba:** is the most sacred place in Islam, a mosque in Mecca, Saudi Arabia. It is in the shape of a black "cube" and pictures often show Muslims dressed in white walking around it in prayer.

### Consumption habits

- Islamic consumption must be governed by Taqwa, based on conservation of resources and attaining satiable comforts, rather than pursuing insatiable wants.



■ **Figures 4.11** McDonalds' restaurant in Muscat, Oman with visible "100 % HALAL" sign

**Photo:** Elena Horská, Oman 2009

- **Halal:** an Arabic term meaning “permissible” that refers to anything that is rightful and permissible under Islam, and is applied to all areas of a person’s life and includes regulations surrounding food. Every product sold by Nestlé Malaysia is certified halal. The Indonesian government also established halal certification. When it was discovered that the Japanese food company Ajinomoto was using a pork-based enzyme in its halal seasoning products in Indonesia, the company had to pull tons of products off the shelves. The world market for Muslim halal food alone is estimated at 431.77 bil. €, Nestlé with halal sales of 2.23 billion €, the United Arab Emirates imports 80 % of its halal food from countries such as Brazil and Australia (Gillespie and Hennessey, 2011). Also, for any other multinational companies, Halal is like “must have” sign and applied practice (Figure 4.11).
- **Haram:** the opposite of halal, is which means not permissible, that everything a Muslim doesn’t must be halal, totally forbidden food: pork, birds of prey, carnivorous animals, alcohol and any products that contain emulsifiers made from animal fats, particularly margarines, gelatine made from pork or from any other animal. Caffeinated drinks such as coffee or green tea may be considered Haram (because it is very popular to drink white coffee, in the countries such Malaysia, Indonesia, Vietnam and Cambodia. Sea animals which do not have fins or scales are considered undesirable by some Muslims.

### Holidays

- **Birth of Mohammed:** at the end of February or early in March.
- **Islamic New Year:** is celebrated on the first day of Muharram, the month in which Muhammad emigrated from Mecca to Medina in 622 CE.

- **Ramadan – holy month of fasting:**

- Muslims are not allowed to eat, drinking and smoking from dawn to sunset (however young children, pregnant women and the sick are often exempted. But we can not omit the impact of Islamic religion on education, e.g. in the way of toy creation – see Figure 4.12);
- it is the ninth month of the Muslim year, in which “the Qur’an was sent down as guidance for the people”;
- is the major annual shopping season, following the evening meal, most families watch TV with Ramadan programming and advertising slots in the evening during Ramadan command the highest prices of any time during the year;
- the fast is meant to develop self-control and sympathy for the poor, work output falls off markedly;
- the average family actually spends more money on the food consumed at night during it than on the food consumed by day in the other months, sales increases of 20 to 40 % of furniture, cars, jewellery, and other large or expensive items are common;
- firms started that between 35–40 % off all auto sales take place during Ramadan.



■ **Figures 4.12** Fulla doll in a toystore in United Arab Emirates – its dress fits for the purpose of night prayers, dress set version for morning prayers is available too  
**Photo:** Elena Horská, UAE 2009



## Culture and Business: Within and Beyond Visegrad Borders

- **Festival of Breaking the Fast:** is one of Islam’s two major festivals. It marks the end of Ramadan, and is celebrated during the first three days of the month of Shawwal.
- **Festival of the Sacrifice:** is a major Islamic festival that takes place at the end of the Hajj.
- **Remembering Shiite Martyr Husayn:** is an Islamic holiday observed on the 10<sup>th</sup> of Muharram, the first month of the Islamic year.

Summary of basic elements of Islam religion and its impact on marketing activities shows Table 4.5.

**Table 4.5** Selected elements of Islam religion and its impact on marketing activities

Elements	Implications for International Marketing
<b>Usury: cannot charge interest on loans</b>	Avoid direct use of credit as a marketing tool, establish a consumer policy of paying cash for low-value products, for high-value products, offer discounts for cash payment and raise prices of products on an instalment basis
<b>Supremacy of human life</b>	Symbols in advertising and/ or promotion should reflect high human values, use floral designs and artwork advertising
<b>Abstinence: during the month of Ramadan, Muslims are required to fast without food and drink from the first streak of dawn to sunset</b>	Products that are nutritious, cool, and digested easily can be formulated for “Sehr” and “Iftar”
<b>Consumption of alcohol and pork is forbidden, so is gambling</b>	Opportunities for developing non-alcoholic items and beverages and non-chance social games (Scrabble), food products should use vegetable or beef shortening
<b>Obligation to family and tribal traditions</b>	Advertising home-oriented products stressing family roles may be highly effective – electronic games
<b>Obligations toward parents are sacred</b>	The image of functional products should be enhanced with advertisements that stress parental advice or approval, even with children’s products, there should be less emphasis on children as decision makers
<b>Modest dress for women in public</b>	Promotion of products for use in private homes could be more intimate, avoid use of immodest exposure and sexual implications in public
<b>Separation of male and female audiences</b>	Access to female consumers can often be gained only through women as selling agents, salespersons, catalogues, home demonstrations, and women’s specialty shops. Direct marketing to women’s mixed-gender focus groups
<b>Religious holidays</b>	Sales and special promotions, lavish gift periods food distribution and restaurant hours

Source: own Table

### 4.2.5.3 Buddhism

#### Buddhism facts

- Buddhism is a religion founded in India around 525 BC by Siddhartha Gautama, called the Buddha and it is one of the oldest religions in the world. Yet all forms of Buddhism share respect for the teachings of the Buddha.
- The Four Noble Truths are the central ideas behind Buddhism:
  - there is suffering (dukkha),
  - there is a cause of suffering (craving),
  - there is the cessation of suffering (nirvana),
  - there is the eightfold path leading to the cessation of suffering.
- Today, there are over 360 million followers of Buddhism.

### Beliefs

- In karma, reincarnation, in doing good needs, having nice words and thoughts.
- In peace and their ultimate goal in life is to reach for nirvana, which can be described as paradise, enlightenment, and a state of tranquillity.
- In good conduct, honesty, being compassionate, being charitable and selflessness
- Meditation is central to nearly all forms of Buddhism, and it derives directly from the Buddha's experiences and teachings.



### GLOBAL MARKETING INSIGHTS

"Buddha is not a brand", the same as in Christianity. (Yoga Downg, 2014) Starbucks Company "Well, I won't be impressed until that Buddha starts dispensing Frozen Orange Crème, Triple Shot Espresso, soy blended Frappuccinos with whipped cream on the top". Meanwhile, Starbucks is losing no time with a new marketing campaign incorporating Buddha with the slogans, "Forget non-attachment. I want my Starbuck Chai!" and "What would Buddha drink?" (Figure 4.13). There is also a Nepal airline, which called Buddha air.



■ **Figure 4.13** One of the marketing campaign by Starbucks for its branded cans of green chai  
Source: <http://yogadawg.com/news1.htm/>

### Symbols

- **Images symbolizing the Buddha and his teachings**, such as the lotus, the wheel of the law, the Bodhi tree and the Buddha's footprints.
- The central **symbols of Tibetan Buddhism** are the Eight Auspicious Symbols, known in Sanskrit as Ashtamangala.
- **An elephants**: it is a sacred animal, which is in all part of their life protected. If you own a Thai restaurant, an elephant logo is a good way to showcase your cuisine. Imported from Thailand, **Chang Beer** is a premium lager, with slogan "**Like, like you mean it!**" has in their logo two elephants' symbol. In Tanzania or in India too, we can find an elephant on their money.
- **Sacred hand gestures called Mudras**, used symbolically in Buddha images and in practice to evoke particular ideas or Buddha in the mind during Buddhist meditation or ritual. Many restaurant or offices greet their guests with a traditional greeting called "wai" (Figure 4.14). **Males**: Bend the head a little bit





■ **Figure 4.14** McDonald's greeting in entering to the restaurant, Bangkok – Thailand  
**Photo:** Johana Paluchová, Thailand 2012

and raise the hands until the forefingers touch the tip of the nose. Females: Slightly bend the knees or just bend the head like men and raise the hands to the same position.

- **Lotus flower:** is one of the most important images in the faith and one of the most favourite symbols in international marketing. Chinese He Xiang flavoured herbal tea (with lotus flower in the right corner of package), at European market, it is British Twinning's Green Tea flavoured orange and lotus flower.

### Colour

- In Buddhism, especially in Tibetan Buddhism, each of five colours (**panchavarna**) symbolizes a state of mind, a celestial Buddha, a part of the body, a part of the mantra word Hum, or a natural element. (Blue and black are sometimes interchangeable.) **Blue:** coolness, infinity, ascension, purity, healing. **Black:** primordial darkness, hate. White: learning, knowledge, purity, longevity. **Red:** life force, preservation, the sacred, blood, fire. **Green:** balance, harmony, vigour, youth, action. Yellow: rootedness, renunciation, earth.

### Holidays

- **Buddhist New Year:** in Theravadin countries: Thailand, Burma, Sri Lanka, Cambodia and Laos are celebrated for three days from the first full moon day in April. In Mahayana countries, it starts on the first full moon day in January, and Tibetan Buddhists generally celebrate it in March.
- **Vesak:** is the birthday of the Buddha and the most important festival in Buddhism, on the first full moon day in May.
- **Sangha Day or Dhamma Day:** is celebrated on the full moon day of the third lunar month (March) and on the full moon day of the eighth lunar month (July).
- **Observance Day:** refers to each of the four traditional monthly holy days that continue to be observed in Theravada countries – the new moon, full moon, and quarter moon days.
- **Kathina Ceremony:** is held on any convenient date within one month of the conclusion of the three month rains retreat season (Vassa). On this day, the laity (non-monastic) offers new robes and other necessities to the monks and nuns.
- **Festival of Floating Bowls:** at the end of the Kathin Festival season, when the rivers and canals are full of water. People bring bowls made of leaves (which contain flowers), candles and incense sticks, and float them in the water.
- **Elephant Festival:** to mark this saying, Thai Buddhists hold an Elephant Festival on the third Saturday in November.

### Consumerism and rules

- One basic tenet of Buddhism is that of reincarnation and the belief that animals can be reincarnated as humans and vice versa. As a result, Buddhists do not kill animals, and many do not eat meat or fish because this is considered to be bad for their karma.
- Buddhist countries are especially preferred to eat vegetable and fruit food, as well as meat. Tibetans will never eat fish, and usually stay away from fowl.
- Buddhist monks fast completely on certain days of the moon, and they routinely avoid eating any solid foods after the noon hour.
- 90 % of eating is done with the chopsticks, but many restaurant and public place are adapted to foreigners and offer them to eat with “traditional” cutlery.
- Rice is usually held as the traditional food in Buddhist communities and is therefore a constituent of the various diets that may be enforced in the belief system.

### 4.2.5.4 Hinduism

---

#### Hinduism facts

- The first sacred writings of Hinduism, which date to about 1,200 BC. About 80 % of India’s population are Hindus and 30 million more Hindus live outside of India. There are a total of 900 million Hindus worldwide, making Hinduism the 3<sup>rd</sup> largest religion (after Christianity and Islam), with no known founder or known date of origin. The authors and dates of most Hindu sacred texts are unknown.
- You have to born in it, no possible to convert to Hindu.
- **Place founded:** India and main location: India, United Kingdom and United States.
- Hinduism is a polytheistic religion; many Hindus are devoted followers of Shiva or Vishnu. Some Hindu gods have animal characteristics: Ganesh has the head of an elephant. Hanuman takes the form of a monkey.
- **Sacred texts:** Vedas, Upanishads, Sutras, Bhagavad Gita.
- **Spiritual leader:** guru or sage.
- **Place of worship:** temple or home shrine. Some Hindu temples keep sacred animals (Figure 4.15, 4.16).

#### Hindu Beliefs

- In **reincarnation** (existence is a cycle of birth, death, and rebirth, governed by Karma).
- **In value the practice of meditation.**
- In a **Supreme God** (whose qualities and forms are represented by the multitude of deities which emanate from him).
- Fundamental Hindu in the **authority of the Vedas** (the oldest Indian sacred texts) and the Brahmins (priests).
- In **non-human animals** are inferior to human beings.

#### Hindu symbols

- **Aum:** also spelled “Om”, represents a sacred sound.
- **Bindi:** the “dot” on the forehead of the woman pictured to the left. It is worn by married women.
- **Linga:** is the symbol of the god, Shiva.
- **Lotus flower:** represents beauty in Hinduism, and can also carry other meanings.
- **Pratik:** combines two triangles, a rising sun, and a swastika.
- **Swastika:** the connotations of the swastika in the Western world aren’t the same as those in the East.
- **Tilak:** like a bindi, a tilak is a mark on the forehead.
- **Trisula:** this trident is an important symbol in Hinduism.
- **Yantra:** represents the universe.



■ **Foto 4.15** Hinduism is a lot about spirituality. Testing the spirituality bowl in the Kingdom of Dreams, New Delhi  
**Photo:** Elena Horská, India 2012

**Table 4.6** Hindu holidays and international marketing

Holiday description	Implication to International Marketing
<p><b>Diwali: is a Hindu festival of lights lasting five days, it is also New Year's Eve. It is in October and November on the Gregorian Calendar</b></p>	<p>Because of the lights, fireworks and sweets involved it's a great favourite with children. Diwali is very much a time for buying and exchanging gifts: as traditionally sweets and dried fruit</p> <p>The festival has become a time for shopping; leading to anxiety that commercialism is eroding the spiritual side of the festival</p> <p>In most years shopkeepers expect sales to rise substantially in the weeks before the festival</p> <p>Diwali is also traditionally a time to redecorate homes and buy new clothes.</p>
<p><b>Mahashivarati: is the great festival of Shiva and is especially important to Saivites (devotees of Shiva). The day of it is spent in meditation on Shiva and fasting (some may take water or fruit). It is celebrated during the night and day that come just before the new moon</b></p>	<p>The Shiva linga at the temple or in one's home is bathed with milk, honey and water, and offerings are made to Shiva in the form of Bilva leaves, fruits, and other specially prepared foods. Shiva is offered special food made from the fruits of the season, root vegetables, and coconuts, during ritual worship.</p>
<p><b>Holi "Festival of Colours": is an annual festival celebrated on the day after the full moon in the Hindu month of Phalgun. This ritual is said to be based on the above story of Krishna and Radha as well as on Krishna's playful splashing of the maids with water</b></p>	<p>Hindus attend a public bonfire, spray friends and family with coloured powders and water, and generally go a bit wild in the streets</p>

Source: own Table



- **Holidays:** Table 4.6 shows implications of holidays on international marketing activities.
- **The Cow in Hinduism:** is revered as the source of food and symbol of life and may never be killed. It is more accurate to say the cow is taboo in the Hindu religion, rather than sacred. For the Hindus the cow and the bull are sacred and should not be slaughtered. In many European or American countries is usual standard to use a cow in marketing campaign, as “Lila Cow Milka”, or a new limited edition by Nestlé – ice creams under brand “Skinny Cow”, or a long-traditional ice cream brand **Ben & Jerry** with a cow in its logo. The brand “Veselá Kráva” sold in Slovakia or in Czech Republic also reflects on a photo of cow, with emphasizing of “echt” milk product.
- **Caste system:** the distinction is based not so much according to racial or social differences, but birth and family status. Butchery and related jobs are restricted to people of low caste. Each caste preserves its identity by following a strict and complex set of rules. A Hindu is born into a certain caste and changing caste is nearly impossible.
- **Baradari:** or the “joint family”. After marriage, the bride goes to the groom’s home. After several marriages in the family, there is a large joint family for which the father or grandfather is chief authority. In turn, the older women have power over the younger. The elders give advice and consent in family council.
- **Nirvana:** is another important concept, one that Hinduism shares with Buddhism (Keilor, 2013).



- **Figure 4.16** Bali is the only Hindu island in Indonesia. Island is full of spirituality, workshop places and pura – Hindu temples that are at every street and house  
**Photo:** Elena Horská, Bali, Indonesia 2014

### ■ Consumption habits:

- Most of Hindus are vegetarian, no Hindu will eat beef,
- favourite flavour of drinks: as soya bean, minuman laici (fruit), chrysanthemum, grass jelly, water chestnut,
- Hindus do not consume any foods that might slow down spiritual or physical growth,
- the eating of meat is not prohibited, but pork, fowl, ducks, snails, crabs, and camels are avoided,
- dairy products including milk, butter and yoghurt may be eaten,
- foodstuffs such as alcohol, onions and garlic are thought to inhibit the Hindu's quest for spiritual enlightenment, they are therefore avoided or restricted.

When **Kellogg's** first entered India in 1994, it heavily bet on transforming the Indian breakfast cereal market through switching breakfast habits of Indian consumers who were used to hot breakfast foods. The company wanted the Indian consumer to change its traditional habits of having either Idli Dosas or Paranthas in their breakfast and these habits too. It passed through different though difficult phases of life-cycle before it has become the strongest player in breakfast cereal category in India. Presently, Kellogg's is estimated to hold about 60–65 % of India's breakfast cereal market.

### 4.2.5.5 Judaism

---

#### Judaism Facts

- Judaism is one of the oldest religions in the world today, 12<sup>th</sup> largest religion and it is monotheistic, that is, Jews believe in one God, be founded by Abraham in 2,500 BC.
- **Adherents called:** Jews and current adherents: 14 million. Major concentration: in Israel, Europe, USA.
- **Sacred text:** the Hebrew Bible, in Jewish: The Torah (core of Judaism which sets out Jewish law and consists of five books).
- **House of worship:** synagogue, with state: separate. Spiritual leader: rabbi.
- **Main day of worship:** Saturday.

#### Beliefs

- In God, the Messiah, human beings and in the universe.

#### Jewish symbols

- **Star of David:** may have derived from the use of protective amulets that pre-date the 17<sup>th</sup> century. A blue-coloured is presently displayed on the flag of Israel.
- **Chai:** the Hebrew word for “life” is a symbol for the Jewish religion in 18<sup>th</sup> century Europe.
- **Passover Plate:** is one of the most important events in the history of Judaism, when the Angel of Death passed over the Israelites who applied blood to their door, saving their firstborn from death, on the eve of the Exodus.
- **The Torah Scroll:** means “instruction” though the term is also used as a label for the first five books of the Hebrew Bible.
- **The Menorah:** are nine-branched candelabra associated with Hanukkah in Judaism. The eight left and right branches mark the eight-day holiday, while the middle candle is often called “the helper” which is used to light the other branches.
- **Dreidels:** are also associated with Hanukkah in Judaism is a spinning top with four sides, and each side is marked by different letters.

#### Jewish holidays and festivals

- **Sabbath:** the most important Jewish holy day, on which Jews are forbidden to work.



- **Passover:** is a spring holiday commemorating the Exodus. In addition to the special dietary laws described above, work is prohibited on the first two and last two days of Passover. No time for the bread to rise, any leaven may be eaten, unleavened bread – is therefore a central feature of the festival. The Seder meal consists of recited benedictions and explanations, ritual hand washing, four cups of wine, and symbolic foods including matzah, bitter herbs, and crushed fruits. Eating, drinking, and other rituals occur at specified intervals.
- **Sukkot:** is a harvest holiday, comparable in some ways to the American Thanksgiving and is the longest Jewish holiday. Work is forbidden on the first and second days of the festival only.
- **Rosh Hashanah:** means “head of the year” and is commonly known as the Jewish New Year, which falls in September or October. The highest consumption of: Challah bread, fish, Pomegranate. Don't just promote food sales or requests for donations for Rosh Hashanah, promote food sales and donations for the “high holidays”. It is the start of a holiday season that lasts for nearly an entire month so take that into account when planning a marketing, advertising, or PR campaign. Rosh Hashana is a great family oriented holiday and that means large festive meals. In fact, there are many Rosh Hashanah customs surrounding certain foods, such as carrots, honey, fish heads, and apples, which mean elaborate food shopping is a must for the Rosh Hashana family.
- **Yom Kippur:** is the occasion on which otherwise non-observant Jews are most likely to attend synagogue, refrain from work, or fast. Jews must abstain from all work, food, drink (including water) and sex.



### V4 AND GLOBAL MARKETING INSIGHTS



In Slovakia, there are no producers, but in Czech Republic - just two, who distribute wines to Slovak Jewish restaurant. Spirit brand Imperator produces in Slovakia a Kosher spirits in flavour of pear, plums etc. In Hungary and Poland, even there is a kosher supermarket and many kosher products, including bakery, sweet or dairy food.

Kellogg's Frosted Mini Wheats that are traditionally eaten with milk. The rigorously Orthodox make-up about 12 % of Israel's 4, 7 million Jews, but their numbers are growing more rapidly. Israeli food manufactures have expanded their lines of strictly kosher products and have employed packing and advertising in keeping with the more traditional sensitivities of Israel's Orthodox communities.

Elite, a chocolate manufacturer, ran a contest for Orthodox children in whom chocolate wrappers could be exchanged for cards showing prominent rabbis or religious teachers.

Coca Cola ran a separate line of advertisements aimed at Orthodox consumers in Israel. This ads depicted Coke drinkers in conservative dress instead of the scantily clad young people used in ads aimed at the Israeli public in general (Gillespie and Hennessey, 2011).



### Kosher “Jewish dietary law”

Refers to the methods of processing foods according to the Jewish laws. Kosher means that a food is “fit” or “permitted”. Some rules include:

- a Jewish person must prepare grape products, otherwise they are forbidden,
- Jewish laws dictate the slaughter and removal of blood from meat before it can be eaten,
- animals such as pigs and rabbits and creatures of the sea, such as lobster, shrimp, and clams, may not be eaten,
- meat and dairy products cannot be eaten at the same meal or served on the same plate, and kosher and non-kosher foods cannot come into contact with the same plates,

## Culture and Business: Within and Beyond Visegrad Borders

- eating pork and shellfish is forbidden, fish is acceptable as long as it has fins and scales,
- meat and milk may not be eaten together, all meat has to be prepared by a qualified kosher butcher,
- if meat was eaten in the same day, one must wait six hours before consuming any dairy products,
- a kosher kitchen is divided into separate sections one for dairy, meat and pareve,
- the meal can easily be reheated in an oven or microwave but must be kept covered so the guest can see the rabbinic certifications seal is intact,
- no wine, unless its kosher wine.

### 4.2.6 Attitudes and Values

People's **attitudes and values** help to determine what think is right or appropriate, what is important, and what is desirable. People have attitudes and values about work, money, time, family, age, men, women, and a host of other topics that have an impact on business (Keilor, 2007).

People's **attitudes and values** help to determine what think is right or appropriate, what is important, and what is desirable. People have attitudes and values about work, money, time, family, age, men, women, and a host of other topics that have an impact on business

**Values** are enduring beliefs that a certain role of conduct is socially appropriate or preferable to another mode of conduct. **Values** are the ideas; people hold within and are the deepest manifestations of culture. A **value** is a preference for one mode of behaviour over another mode of behaviour. They are organized in a system in which they are ordered according to priority with regard to other values.

A **value system** is a learned organization of principles and rules to help one choose between alternatives, resolve conflicts, and make decisions (Milenkovic, 2009; Kolman, 2001). **Values** are understood to be a belief which guides actions and judgements across every situation in life, so that they can be seen has the roots of every culture.



### GLOBAL MARKETING INSIGHTS

Cereal isn't a preferred choice for breakfast in Asian countries, so there isn't much motivation to produce it in large servings (or boxes).

In 2004, China banned a Nike television commercial showing U.S. basketball star LeBron James in a battle with animated cartoon kung fu masters and two dragons, because it was argued that the ad insults Chinese national dignity.

Procter & Gamble used a TV commercial in Japan that was popular in Europe. The ad showed a woman bathing, her husband entering the bathroom and touching her. The Japanese considered this ad an invasion of privacy, inappropriate behaviour, and in very poor taste.



**Attitudes** are actually linked to values. **Attitudes** are always precursors of human behaviour and so it is essential that research is done carefully on these. A consumer's attitude is a learned tendency to respond consistently toward a given object, such as a brand, for example, the farmer wants his consumers to maintain a positive attitude toward certified organic produce.

**Attitudes** of a person can be explained as the way he/ she acts and feel in a particular way towards an object. Heroes can either be dead, alive or imaginary. A person becomes a hero when he/she has special characteristics which are highly appreciated by the people in a cultural group (Richter, 2012).



### V4 MARKETING INSIGHTS

Tourism Hungary launched its ad campaign entitled **“Wine Hungary. Passion Inside”** oriented to quality value of wine. Another slogan **“Think Hungary – More than expected”**. The campaign featured all the standard icons of Hungary such as nature, deserts, as well as traditional symbols like the Parliament House.

In V4 countries, workers tend to take vacations for the July and August, whilst in the United States employees may only take a couple of week's vacation in an entire year. Except Poland (because it has a sea), V4 inhabitants prefer to travel to sea.

In European countries (including V4), there is a fashion trend to be darker, especially in summer time, but still the consumers are interesting to be darker in winter time, because it is popular to use services of solarium. On the other part of the world, in Asian countries, it's a strategy to be whiter, the sold swimming clothes in China is with long sleeves and long pants, because of sun. At these markets, there are many cosmetics creams that make their skin lighter.



#### There are some attitudes influence international businesses as well as international marketing:

- **Attituded and beliefs:** will influence nearly all aspects of human behaviour, providing guidelines and organization to a society and its individuals.
- **Attitudes toward time:** in Poland, decisions are usually made quickly. In Kazakhstan, cancelling a meeting at the last minute is common, whereas punctuality is strictly observed in Romania. In the U.S. it is a commodity to be planned for and used wisely. Schedules are set and appointment times are interpreted precisely. In many other countries, such as Costa Rica and Saudi Arabia, meetings rarely begin on time.
- **Attitude towards work and leisure:** in individual societies work many more hours than is necessary to satisfy their basic needs for food, clothing and shelter. Are indicative of their views towards wealth and material gains (Vasudeva, 2010). China surpassed the United States to be the world's second largest luxury goods consumer after Japan, from the beginning of 2008 to January 2009, accounting for 25 % of global sales. It was predicted China would become the world's largest luxury market by 2014. This trend is prompted by an emerging middle class that is striving for more and better designer items that represent social status, wealth, personality and taste. However, this market is uneducated on the connotations of the brands and is embracing conspicuous consumption to fit in (Hilliard et al., 2012).
- **Attitudes towards achievement:** in some cultures, particularly those with high stratified and hierarchical societies, there is a tendency to avoid personal responsibility and to work according to precise instructions received from supervisors that are followed by the latter.
- **Attitudes towards change:** the international manager must understand what aspects of a culture will resist change and how the areas of resistance differ among cultures, how the process of change takes place in different cultures and how long it will take to implement change.
- **Showing Emotion:** in affective cultures such as Italy, the U.S. and Arab countries, speakers are allowed even expected-to express emotions more than in non-affective or neutral cultures, such as China, Korea and Japan (Gillespie and Hennessey, 2011).

### 4.2.7 Social Organization

**Social organizations** include family, educational providers, political parties and social organizations. They are concerned with the way people relate to each other, how they achieve harmony in their relations with each other, how they govern themselves and how, in the process, they create norms for acceptable behaviour in the culture. Roles performed and status within the society is influenced by the social institutions

**Social organizations** include family, educational providers, political parties and social organizations. They are concerned with the way people relate to each other, how they achieve harmony in their relations with each other, how they govern themselves and how, in the process, they create norms for acceptable behaviour in the culture. Roles performed and status within the society is influenced by the social institutions (De Búrca and Fletcher, 2004).

**Social institutions** play a significant role in nurturing the cultural heritage, which is reflected in individual behaviour. The status of gender in society, the family, social classes, group behaviour, age groups, and how societies define decency and civility are interpreted differently within every culture.

**Social institutions** are a system of regulatory norms and rules of governing actions in pursuit of immediate ends in terms of their conformity with the ultimate common value system of community.

**Social interactions** establish the roles that people play in a society and their authority/responsibility patterns. Consider the traditional marriage of an Indian woman which is typically arranged by the parents. Social roles are established by culture, for example, a woman can be a wife, a mother, a community leader, and/ or an employee. Most Swiss women consider household work as their primary role, and that makes them procure modern gadgets and machines (Rajagopal, 2010).

### Summary

The study of culture has taken many forms including the anthropological approach, hierarchy of needs, the self reference criterion, diffusion theory, and perception approaches. Culture itself is made up of a number of learned characteristics including aesthetics, education, religion and attitudes and values etc. Ignoring differences, or even similarities, in culture can lead to marketers making and executing decisions with possible disastrous results. Multinational marketers know that cultural differences have implications for product development, personal selling, advertising, packaging and pricing. In this chapter we would like to point out the importance of culture for international marketers to understand customers' personal values and accepted norms of behaviour in order to market to them properly. Classification of cultures is necessary to develop marketing and advertising strategies in the global market-place.

**Key Terms:** Culture, cultural environment, material culture, language, social organization, religion, aesthetics, values and attitudes, adaptation, education, change



### QUESTIONS FOR DISCUSSION

1. Why do you think food is such a culturally sensitive product?
2. When a firm enters a new market, which can manage or "learn" the culture?
3. List the major approaches to the study of culture and show their relevance in international marketing citing examples.
4. Identify some constraints in marketing to a traditional Muslim society. Use some of the examples in the chapter.

### Further Recommended Readings

- OMARKULOVA, Meruert – HORSKÁ, Elena – USPANOVA, Maira et.al. 2013. *Selected Issues in International Marketing*. 1<sup>st</sup> edition. Almaty: Turan University, 2013. p. 227. ISBN 978-601-214-186-3.
- TERPSTRA, Vern – FOLEY, James – SARATHY, Ravi. 2012. *International Marketing*. 10<sup>th</sup> edition. Naper Publishing Group, 2012. p. 518. ISBN-10: 0981729355. ISBN-13: 978-0981729350.
- WARREN, J. Keegan. 2012. *Global Marketing*. 7<sup>th</sup> edition. Prentice Hall, 2012. p. 592. ISBN-10: 0132719150. ISBN-13: 978-0132719155

### Literature

- BÁRTOVÁ, Hilda – BÁRTA, Vladimír – KOUDELKA, Jan. 2004. *Chování spotřebitele a výzkum trhu*. 2<sup>nd</sup> edition. Praha: Vysoká škola ekonomická, 2004. p. 243. ISBN 978-80-245077-81.
- BERKOWITZ, Erik N. – KERIN, Roger A. – HARTLEY, S. William. – RUDELIUS, W. 1997. *Marketing*. Virtual book. 5<sup>th</sup> edition. USA: Irwin/McGraw-Hill, 736 p.
- BRADY, L. Donald. 2011. *Essentials for International Marketing*. New York: M.E. Sharpe, Inc., 2011. p. 394. ISBN 978-0-7656-2475-8.
- CATEORA, R. Philip – GRAHAM, L. John. 2005. *International Marketing*. 12<sup>th</sup> edition. New York: The McGraw-Hill Companies, Inc., 2005. p. 697. ISBN 0-07-283371-8.
- CLOUD, John. 2000. *Defining religion*. [Online]. Available at: <[www.multifaith.net/public/library/religion/definition.html](http://www.multifaith.net/public/library/religion/definition.html)>.
- CZINKOTA, Michael – RONKAINEN, Ikka. 2012. *International Marketing*. 10<sup>th</sup> edition. 2012. Cengage Learning. p. 720. ISBN-10: 113362751X. ISBN-13: 978-1133627517.
- ČIHOVSKÁ, Viera et al. 2010. *Marketingové prostredie jednotného európskeho trhu*. Bratislava: Vydavateľstvo Ekonóm, 2010. p. 272. ISBN 978-80-225-2940-2.
- DASZKIEWICZ, Nelly – WACH, Krzysztof. 2012. *Internationalization of SMEs. Context, Models, and Implementation*. Gdańsk: Gdańsk University of Technology, 2012. p. 109. ISBN 978-83-7348-411-5.
- DE BÚRCA, Seán – FLETCHER, Richard – BROWN, Linden. 2004. *International Marketing. An SME Perspective*. 1<sup>st</sup> edition. Prentice Hall, 2004. p. 756. ISBN-10: 0273673238. ISBN-13: 978-0273673231.
- EUROSTAT 2013. [Online]. Available at <[http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-20112013-AP/EN/3-20112013-AP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-20112013-AP/EN/3-20112013-AP-EN.PDF)>.
- EUROPE POPULATION 2013. [Online]. Available at <<http://www.worldpopulationstatistics.com/europe-population-2013/>>.
- FATEHI, Kamal. 1996. *International Management. A Cross-Cultural and Functional Perspective*. New Jersey: Prentice Hall, 1996. p. 163. ISBN 0-13-099722-6.
- FRIESNER, Tim. 2014. *International marketing and culture*. [Online]. Available at <<http://www.marketingteacher.com/international-marketing-and-culture/>>.
- GILLESPIE, Kate – HENNESSEY, H. David. 2011. *Global Marketing*. 3<sup>rd</sup> edition. USA: South-Western, Cengage Learning, 2011. p. 608. ISBN 13: 978-1-4390-3943-4. ISBN 10: 1-4390-3943-7.
- HOLLENSEN, Svend. 2011. *Global Marketing. A Decision-Oriented Approach*. 5<sup>th</sup> edition. Essex: Pearson Education Ltd., 2011. p. 756. ISBN 978-0-273-72622-7.
- HORSKÁ, Elena. 2007. *Medzinárodný marketing*. 1<sup>st</sup> edition. Nitra: Slovak University of Agriculture, 2007. p. 223. ISBN 978-80-8069-938-3.
- HORSKÁ, Elena – BERČÍK, Jakub – VALACH, Vladislav. 2013. *Light quality and colour perception: a study on consumer reactions and environmental concerns in the supermarkets in Slovakia*. In: Pangborn 2013. 1<sup>st</sup> edition. 89 p. No. 980-12-2202-8. Pangborn sensory science symposium. Rio de Janeiro: Elsevier Editora, 2013. 3 p.



- HILLIARD, Heather – MATULICH, Erika – HAYTKO, Diana – RUSTOGI, Hemant. 2012. *An International Look at Attitude towards Advertising, Brand Considerations, and Market Expertise: United States, China, and India*. In *Journal of International Business Research*, Vol. 11, No.1. [Online]. Available at <<http://www.questia.com/library/journal/1P3-2774750121/an-international-look-at-attitude-towards-advertising>>.
- JOBBER, David – FAHY, John. 2006. *Foundations of Marketing*. 2<sup>nd</sup> edition. Berkshire: McGraw-Hill Education, 2006. p. 376. ISBN 13: 978-0-07-710918-9. ISBN 10: 007710918x.
- JOSHI, R. Mohan. 2005. *International Marketing*. California: Oxford University Press, 2005. p. 750. ISBN 10: 01-9567-1236. ISBN 13: 978-01-95671-230.
- KEILLOR, D. Bruce. 2012. *Marketing in the 21<sup>st</sup> Century and Beyond: Timeless Strategies for Success*. USA: Praeger; Concise edition, 2012. p. 265. ISBN 978-1-4408-2852-2.
- KEILLOR, D. Bruce – WILKINSON, L. Timothy – THOMAS, R. Andrew. 2007. *Marketing in the 21<sup>st</sup> Century. New World Marketing*. 1<sup>st</sup> edition. USA: Praeger Publishers, 2007. p.880. ISBN-10: 0275992756. ISBN-13: 978-0275992750.
- KLEINDL, Brad. *International Marketing*. 1<sup>st</sup> edition. USA: Thomson South Western Cengage Learning, 2007. p. 328. ISBN 13: 978-0-538-72915-4. ISBN 10: 0-538-72915-5
- KOLMAN, Luděk. 2001. *Komunikace mezi kulturami. Psychologie interkulturních rozdílů*. Praha: Česká zemědělská univerzita, 2001. p. 200. ISBN 80-213-0735-8.
- KUBICOVÁ, Lubica. 2013. *Strategický marketing*. 1<sup>st</sup> edition. Nitra: SUA, 2013. p. 169. ISBN : 978-80-552-1001-8.
- MACHOVÁ, Hana. 2006. *Mezinárodní marketing*. Praha: Grada Publishinkg, a.s., 2009. p. 205. ISBN 80-247-1678-X.
- MILENKOVIC, Mirjana. 2009. *Global Advertising in a Cultural Context*. Hamburg: Diplomica Verlag GmbH, 2009. p. 68. ISBN 978-3-8366-6995-5.
- NOVÝ, Ivan – SCHROLL-MACHL, Sylvia. 2005. *Spolupráce přes hranice kultur*. Praha: Management Press, 2005. p. 313. ISBN 80-7261-121-6.
- NOW that there's a Halal Cola, it's time to get the Halal the Hell out of Coca Cola. [Online]. Available at <<http://www.barenakedislam.com/2011/10/03/now-that-theres-a-halal-cola-its-time-to-get-the-halal-the-hell-out-of-coca-cola/>>.
- OMARKULOVA, Meruert – PALUCHOVÁ, Johana – USPANOVA, MAira. 2013. *International Cultural Environment*. Almaty: Turan University, 2013. p. 84. In OMARKULOVA, Meruert – HORSKÁ, Elena – USPANOVA, Maira et.al. 2013. *Selected Issues in International Marketing*. Almaty: Turan University, 2013. p. 227. ISBN 978-601-214-186-3.
- ONKVIST, Sak – SHAW, John. 2008. *International Marketing. Analysis and Strategy*. 5<sup>th</sup> edition. England: Routledge, 2008. p. 736. ISBN 10: 0415772621. ISBN 13: 978-0415772624.
- PALUCHOVÁ, Johana. 2012. *Intercultural Communication*. p. 141–144. In NAGYOVÁ, Ludmila et.al. 2012. *Managerial Communication*. Nitra: SUA, 2012. p. 216. ISBN 978-80-552-0922-7.
- RAJAGOPAL. 2010. *International Marketing. Global Environment. Corporate Strategy. Case Studies*. New Delhi: VIKAS Publishing House PVT., Ltd., 2010. p. 546. ISBN-10: 8125918566. ISBN-13: 978-8125918561.
- RELIGION FACTS. 2014. [Online]. Available at <<http://www.religionfacts.com/buddhism/symbols/mudras.htm>>.
- RICHTER, Tobias. 2012. *International Marketing Mix Management*. Berlin: Logos Verlag Berlin, 2012. p. 90. ISBN 978-3-8325-3098-3.
- SIGHAMONY, Rajiv. 2014. *International Marketing: Why Cultural Awareness Is Important*. [Online]. Available at <<http://www.hongkiat.com/blog/international-marketing-strategy/>>.
- STANTON, L. John – LANG, F. Mark. 2009. *Precision Target Marketing*. Atlantic City: Fidler Doubleday, 2009. p. 221. ISBN 13: 978-096426571-4. ISBN 10: 096426571-0.
- SVĚTLÍK, Jaroslav. 2003. *Marketing pro evropský trh*. 1<sup>st</sup> edition. Praha: Grada Publishing, a.s., 2003. p. 272. ISBN 80-247-0422-6.

TOP 10 MOST SPOKEN LANGUAGES IN THE WORLD. [Online]. Available at <<http://listverse.com/2008/06/26/top-10-most-spoken-languages-in-the-world/>>.

TROMPENAARS, Fons – HAMPDEN-TURNER, Charles. 2009. *Riding the Waves of Culture. Understanding cultural Diversity in Business*. 2<sup>nd</sup> edition. London: Nicholas Brealey Publishing, 2009. p. 265. ISBN 13: 978-1-85788-176-9. ISBN 10: 10-1-85788-176-1.

VASUDEVA, P.K. 2010. *International Marketing*. 3<sup>rd</sup> edition. Excel Books, 2010. p. 618. ISBN 10: 817446817X. ISBN 13: 978-8174468178.

YOGA DOWNG. 2014. *Chi to Chai – Buddha Cries*. [Online]. Available at <<http://yogadawg.com/news1.htm>>

### Review Marketing Concepts

---

Write the letter of the term matches each definition. Some terms will not be used.

1. A system of shared beliefs, values, customs, and behaviours that defines how a group of people
2. An individual who lives or works in a foreign culture.
3. Allows individuals to understand their place in the larger universe.
4. A process that helps people learn about their culture.
5. A theory that explains what influences cultural change.
6. The idea that a culture can be dominated by another group's culture.
7. What people communicate with their bodies?
8. Leads marketers to view the world through their own cultural beliefs.
9. The study of differences existing in physical, biological, and cultural features of the earth.
10. Money or something of value that is given in order to persuade someone else to violate ethics or laws.

- a) Back translation
- b) Belief system
- c) Bribe
- d) Context
- e) Cultural hegemony
- f) Culture
- g) Customs
- h) Diffusion of innovations
- i) Enculturation
- j) Expatriate
- k) Face
- l) Geography
- m) Non-verbal communication
- n) Religion
- o) Self-reference criteria
- p) Values



# PART III

## RESEARCH METHODOLOGY AND EUROPEANIZATION



■ Photo: Elena Horská, Green Week Berlin 2009





# CHAPTER

## INTERNATIONAL MARKETING RESEARCH

# 5

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Define the terms of international marketing research (IMR) and differences between importance to use domestic and foreign research.

---

2. How to match the research design to the research method.

---

3. How a company used a range of different research designs to launch and track the success of a new product.

---

4. Define a new term of multicultural research and approach in IMR trends and their impacts on marketing activities including neuromarketing research.

---

5. Explain the global marketing research scenario and explain the scope of international marketing research.

---




- The meeting at the Joint Research Centre, Brussels and a discussion with the Director General. Prof. Vladimír Sucha about identifying further research opportunities for universities from Visegrad region and neighbouring countries. Photo: Elena Horská, Brussels 2014

## Introduction

Global market research turnover continues to rise reaching US \$33.5 billion (25.31 billion €). That represents a year-to-year increase of 3.8%, and 0.4% after adjustment for inflation. While this creates an overall picture of apparent stability in the global market research business, it should be noted that there were massive gains in some markets while others suffered severely due to economic and political turmoil. Moreover, as media consumption patterns evolve, particularly in light of social and mobile media, the growth trend is expected to continue over the next five years, during which research revenues are forecast to grow 3.0% annually on average, to \$17.5 billion (12.91 billion €) in 2017 (Market research, 2012).

This chapter deals with the problems encountered in gathering information in V4 countries compared with foreign countries for use by international marketers. Emphasis is on those elements of data generation that usually prove especially troublesome when conducting research in an environment other than the EU and V4 countries. The opening up of world markets through globalization, and the increased speed up of business transactions brought about by technological developments, has changed both our understanding of markets, and the tools we use to interpret them. International marketing research can be understood from the perspective of company, which uses a gradual approach to foreign markets, as well as from the perspective of companies using global marketing strategy.

## 5.1 Defining of International Marketing Research

The principal tasks of market analysis is the determination of market size, market dynamics evaluation, research its viability, analysis of distribution systems and market prediction for the future (Kubicová, 2013). This is especially true at the entrances to foreign markets.

The scope of **international marketing research** covers a wide range of marketing and environmental factors that can affect a product's success in a foreign market. These factors can be broadly classified as:

- a) **Socio-economic and political profile of the country:** Information under this category includes a wide variety of data on factors like size of the population, national income and principal sources, political and law regulations etc. It is also necessary to find out political and economic relations of the country with other countries, including the country of the exporting company in the business world.
- b) **Size and trend of the market:** Several factors enter into the analysis of the size and growth trend of the market for specific product groups. These include: data on indigenous production and product-mix; direction and sources of export and import, size and trend of foreign trade, numbers of inhabitants and global – local trends of each country and etc.
- c) **Structure of competition:** The strength of competition is a key factor that must be taken into account before an exporter decides to enter a foreign market. The competition may come from the domestic supplies as well as from other exporters into the same market. For example, for a coffee exporter, other coffee suppliers would be direct competitors and tea or cocoa suppliers would be indirect competitors. In studying the strength and structure of competition, a number of specific factors are to be taken into consideration; such as:
  - What are the competitors' shares of the market?
  - Is the market dominated by a small group of large-scale suppliers or a large number of small suppliers?
  - What are the marketing strategies of the competitors, including product range, pricing strategy, distribution channels, promotional techniques and the like?
  - What are infrastructural and institutional facilities available in the market and their cost; for instance transportation, warehousing, finance, insurance etc.?
  - What are the commercial and business practices, norms, ethical standards etc?
- d) **Rules and regulations:** The rules could be broadly divided into two areas, namely (a) rules governing entry conditions of foreign goods into the country and (b) rules governing internal business practices.

All countries regulate import of foreign goods by various means and various kinds of restrictions on business relationships and dealings between the exporting and importing organisations.



## V4 MARKETING INSIGHTS

The single greatest advantage of international marketing research is the ability to collect vast amounts of data in a single sweep. If Reebok wants to learn about consumer attitudes toward its latest women's aerobics shoe in Hungary, it could ask a sample of Hungarian women about their attitudes toward the shoe. Verbal questioning could be done in person or over

the telephone, whereas written questioning, could be done in person, through the mail, or through forms completed at Reebok's web. The results would then be tabulated, analyzed, and applied to the development of a marketing plan. The telephone interviewing would yield poor results in Bangladesh because only a small percentage of the general population has telephone.



**International marketing research** involves two additional complications. First, information must be communicated across cultural boundaries. That is, executives in Bratislava must be able to translate their research questions into terms that consumers in Poland can understand. Then the Poland answers must be put into terms that Slovak managers can comprehend. Second, the environments within which the research tools are applied are often different in foreign markets. Rather than acquire new and statistics methods of research, the information marketing researcher must develop the ability for imaginative and deft application of tried and tested techniques in sometimes totally strange milieus.

**International marketing research** can be defined as market research conducted either simultaneously or sequentially to facilitate marketing decisions in more than one country. The process calls for studying the various market characteristics for facilitating marketing decisions that can be taken across countries. The studies deal with tracing the various components that are responsible for the marketing the product (Kumar, 2000).

**Marketing research** combines consumers, customers and the public with marketing professionals through information used to identify and determine the marketing opportunities and problem, generates, evidences and evaluates marketing actions, improves understanding of marketing and helps to effective and specific marketing campaigns. The role of research in international marketing is to provide information on decision and solve problems in management and implementation. Type the necessary information to make individual decisions, is shown in the Table 5.1 (Horská, 2007).

**International marketing research** can be defined as market research conducted either simultaneously or sequentially to facilitate marketing decisions in more than one country

**Table 5.1** Role of Research in International Marketing

Marketing Decision	Information Need
1. Enter to international markets or operate only in the domestic market?	– Evaluation of the potential global demand of company's share, company's positioning in the market compared to those of domestic and international competition, opportunities for domestic versus foreign market
2. Which markets to enter?	– Evaluation of global markets by market potential, competition and the local political situation
3. What method used to enter the target market?	– Market size, international trade barriers, transportation costs, and local competition, legislative and political stability
4. How to behave in the target market?	– Consumer behaviour, competitors' behaviour, distribution channels, advertising, media and other support activity, past experience relevant to the company, as well as in other markets

Source: Horská Elena. 2007. Medzinárodný marketing

## 5.2 Marketing Research at Global and European Environment

A country's political stability, cultural attributes, and geographical characteristics are some of the kinds of information not ordinarily gathered by domestic marketing research departments but which are required for a sound assessment of a foreign market. Marketing research is a critical part of such marketing decision making, it helps in improving management decision making by providing relevant, accurate and timely information. Every decision possesses unique needs for information, and relevant strategies can be developed based on the information gathered through marketing research in action. Marketing research alone, however, does not guarantee success; the intelligent use of market research is the key to business achievement (Kleinová, 2012).

Market research turnover increases in 51 countries or sub-regions in 2012. The global market research turnover was in 2012 over 33.540 million USD (25.1 mil. €). North America continues the journey to recovery begun last year, with turnover totalling 11.2 billion USD (8.33 billion €). Latin America, although buoyed by massive gains in Brazil the previous year, relinquishes its position as the fastest growing region, but still reports growth. The North American region (33 %) and Asia Pacific (17 % share) take over and jointly hold the title this year. Europe, still the largest region for global research (42 % share), reports a net decline of 1.3% after inflation, with the Nordic markets, Latvia and outsourcing hub Bulgaria unable to balance out losses in the economically troubled British and southern European markets. Falls also occur in the Middle East and Africa (Esomar, 2012).

In the next Table 5.2 we show the list of the most important players in Slovak IMR industry in the following compared years.

**Table 5.2** Top 10 Players in Slovak IMR Industry (turnover)

Agency	2009 in €	2010 in €	2011 in €	2012 in €
1. GfK Slovakia	–	5 100 000*	5 100 000*	–
2. Ipsos Tambor SR	2 013 000	2 161 000	2 300 000	2 400 000
3. 2Muse	10 000**	785 000	1 125 000	1 250 000
4. MEDIAN SK	700 000	700 000	750 000	739 000
5. United consultants	363 000	680 180	702 716	–
6. ACRC	602 895	727 285	601 000	611 000
7. FOCUS Center for Social and Marketing Analysis	800 000	593 242	530 000	570 000
8. NMS Market Research, branch SR	–	400 000	360 000	390 000
9. Market Vision Slovakia	–	–	300 000	380 000
10. AKO	266 264	334 000	195 000	195 700

\* Unaudited interim statement, \*\*Agency started operations on January 1st, 2010; published turnover refers only to the end of 2009

**Source:** Stratégie, 2012. Tlak na ceny, rýchlosť, efektívnosť. Stratégie, 2013. Záujem o prieskumy mierne rástol. In Special supplement monthly Strategies: Marketing Research, pages 4–5.

In addition to the broad geographic scope of international operations, international marketing decisions are made more complex by the diversity of environments in which these operations are conducted. Diversity occurs particularly in relation to consumer tastes, preferences and behaviour, and to a lesser extent, business-to-business markets. Differences in the nature of the marketing infrastructure as, for example, the availability and reach of media, the banking system, and the structure of distribution add a further level of complexity to strategy development and implementation (Craig and Douglas, 2005).



## GLOBAL MARKETING INSIGHTS

Before enter to Brazilian market in 2007, it done a marketing research: There´s over 50% populations under the age 30 (hits the key of demographic for KFC). The consumer expenditure on food was in 2012 over 199 582.8 USD (150 344.86 €). Brazilians have good culinary sense and strong food and drink traditions. Brazilian economy is in growth – emergence of a larger middle class with higher income/per person. Brazilians are spending more on eating out – seeking convenience. Kentucky Fried Chicken (KFC) entered the Brazilian market with hopes of eventually opening 100 stores. Initial sales of the operation in Sao Paulo were disappointing. In making the decision to enter the market, KFC had not adequately researched possible sources of competition. KFC adapted only in its daily menu the unique dipping sauces to local taste.



The process of **international marketing research** though involves the same disciplines as domestic research, has some differences compared to its domestic version. The major differences are the national differences between countries arising out of political, legal, economic, social and cultural differences and, the comparability of research results due to these differences. In addition, the international marketing researcher may also have to deal with other factors such as differences in the way that products or services are used, differences in the criteria for assessing products or services across various markets and differences in market research facilities and capabilities (Kumar, 2000):

The process of **international marketing research** though involves the same disciplines as domestic research, has some differences compared to its domestic version



## GLOBAL MARKETING INSIGHTS

A US company learned that tomato ketchup was not available in Japan. Anxious to capture first mover advantages, the company immediately shipped a large quantity of its ketchup to Japan without first investigating to market. Japanese consumers preferred soy to tomato-based condiments. A little market research prior to market entry would have avoided the mistake.



The main factors that affect the way in which people from different cultures behave are:

- **Cultural Differences:** A soft drink was introduced into Arab countries with an attractive label that had six-pointed stars on it. The Arabs interpreted this as pro-Israeli and refused to buy it. Another label was printed in ten languages, one of which was in Hebrew and the Arabs did not buy it.
- **Racial Differences:** This would refer to the differences in physical features of people in different countries. For example, the types of hair care and cosmetic products needed in Poland would different from those needed in South East Asia (structure and somatotype of Polish hair).
- **Climatic Differences:** This would include the meteorological conditions like degree of rain and temperature range in the targeted foreign market. For example, the portfolio of chocolate products in Slovakia is much higher than in Malta Islands, because of higher degree of temperature per year.
- **Economic Differences:** The level of economic development in a market can affect the desired properties of a product and in this way can inspire a company to adapt its products in order to meet the needs of the local market.



## International Marketing Research

- **Religious Differences:** Religion has many impacts on products, more particularly on the ingredients, that constitute them. For example, in Slovakia during the Christmas day (December, 24) we eat no-meat meals, but in America – it's also Christian country, they eat (December, 25) meat meal, and have no a lent.
- **Historical Differences:** Historical differences help explain facts such as the playing of cricket in England, as opposed to game of ice hockey in Czech or Slovak Republic. These differences have slowly evolved over time but have a profound effect on consumer behaviour.
- **Language Differences:** Inappropriate use of language could result in loss of market apart from turning out to be a cross cultural gaffe. For instance, U.S. and British negotiators found themselves at a standstill when the American company proposed that they “table” particular key points. In the U.S. “Tabling a motion” means to not discuss it, while the same phrase in Great Britain means to “bring it to the table for discussion.
- **Differences in Actual and Potential Target Groups:** In countries like England and Germany it is possible to do national samples. Small towns and villages can be included because distances are not great. In Spain, interviews can be conducted only in cities with populations of over 100 000 people, as the cost of interviewing people in small towns and villages is prohibitively high.



### GLOBAL MARKETING INSIGHTS

A well known drinks company tried to introduce a two liter drinks bottle into Spain, but found it hard to enter the market - they soon discovered this was because few Spaniards had fridge doors large enough to accommodate the large size bottle.

When PepsiCo advertised Pepsi in Taiwan with the ad “**Come Alive with Pepsi**” they had no idea that it would be translated into Chinese as “Pepsi brings your ancestors back from the dead..”

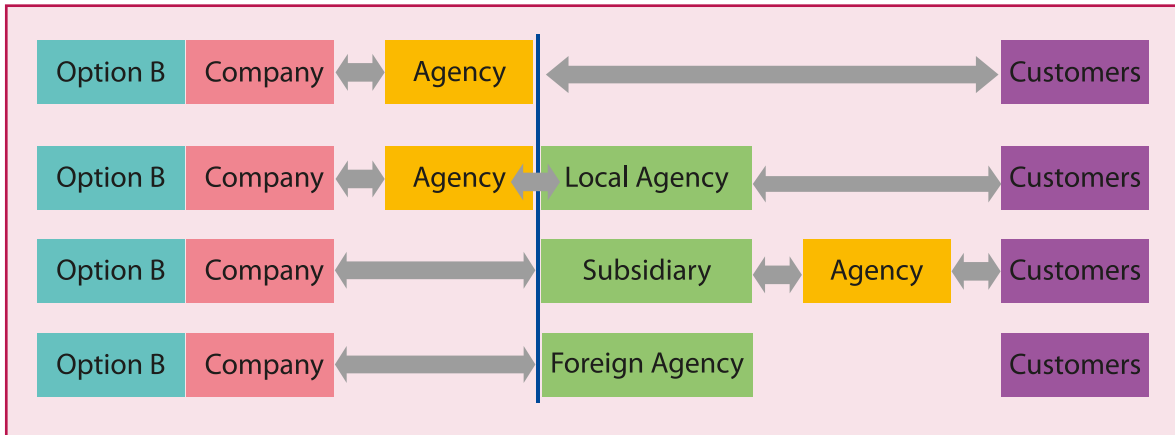


### 5.2.1 Multicultural Research

**Multicultural research** as a broad term which includes the understanding of culture and diversity in the marketplace and focusing on constant learning about the ever-changing European, Hispanic, African American and other cultural and niche segments

As we understand, **multicultural research** as a broad term which includes the understanding of culture and diversity in the marketplace and focusing on constant learning about the ever-changing European, Hispanic, African American and other cultural and niche segments. How these market segments and sub-segments understand, use and approach products and services is our main focus in multicultural markets.

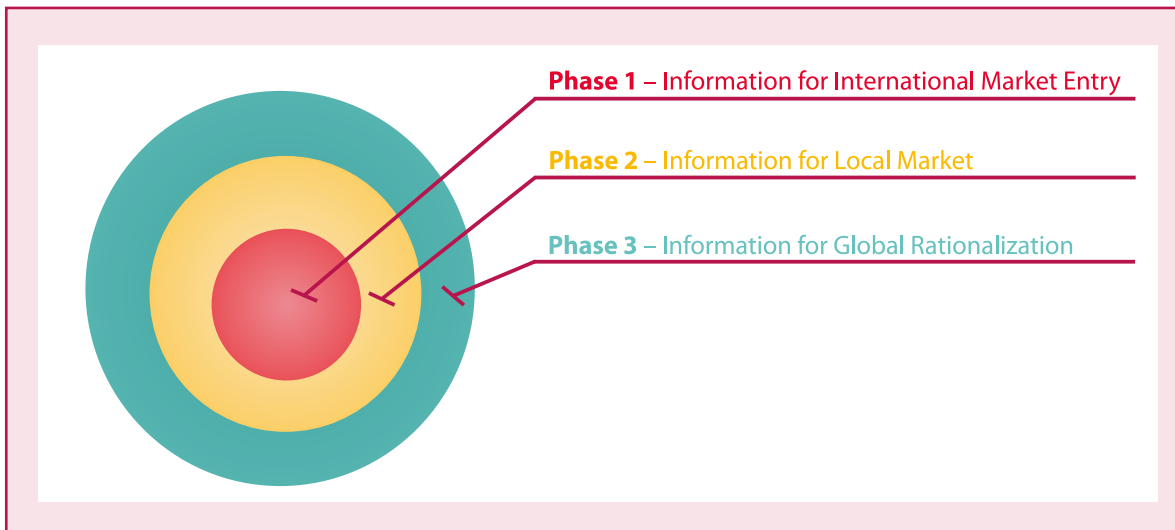
It involves dealing with countries that have different languages, economies, social structures, behaviour, and attitude patterns. An important point to keep in mind in designing research to be applied across cultures is to ensure comparability and equivalency of results. Different methods may have varying reliabilities in different countries. These differences must be taken into account in the design of a multicultural survey. Such differences may mean that different research methods are applied in individual countries (Rama, 2010). An increasingly important issue related to international marketing research is the growing potential for governmental controls on the activity (Cateora, Graham, 2005). Please see Crossing Borders – Figure 5.1 for more details.



■ **Figure 5.1** Managing the Cultural Barrier in International Marketing Research  
**Source:** Cateora, R. Philip – Graham, L. John. 2005. International Marketing

### 5.2.2 Importance of Research for International Marketing Decision

In the initial phase of entry into international markets, information is needed to assess opportunities and risks in different countries throughout the world and to plan international market entry and mode of operation. The global information system is improved by resource allocation across markets and countries and to take advantage of potential synergies through improved integration and co-ordination of international strategies (Figure 5.2):



■ **Figure 5.2** Phases of International Marketing Research Planning  
**Source:** own elaboration, by on Craig, C. Samuel – Douglas, P. Susan. 2005. International Marketing Research

**Phase 1:** In collecting information for initial market entry decisions, management needs data at two different levels. In the first place, management needs information relating to the general business environment in a country or region, for example, the political situation, financial stability, the regulatory environment, market size and growth as well as the market infrastructure. For example, information on a far greater range of factors is necessary to offset the unfamiliar cultural

## International Marketing Research

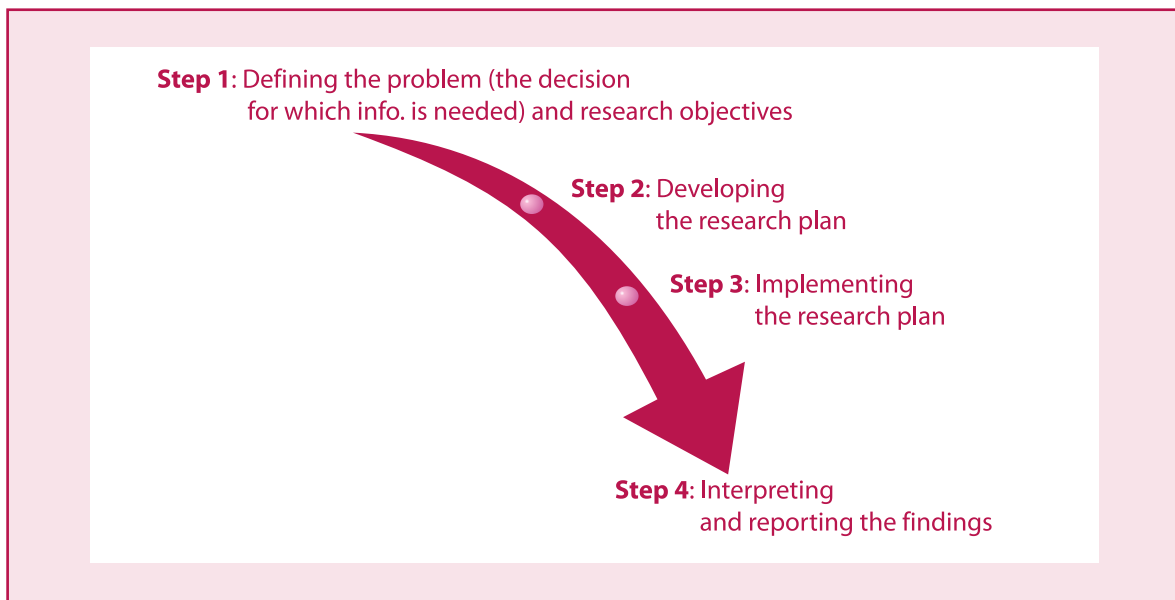
background of the foreign market. Consider proposed research about consumption patterns and attitudes toward hot milk-based drinks. In UK, hot milk-based drinks are considered to have sleep-inducing, restful, and relaxing properties and are traditionally consumed prior to bedtime. People in Thailand, however, drink the same hot milk-based drinks in the morning on the way to work and see them as being invigorating, energy-giving, and stimulating. In USA hot milk-based drinks are frequently associated with cold weather, either in the morning or in the evening, and for different reasons each time of day.

**Phase 2:** Limited management knowledge and experience outside the domestic market often mandate a preliminary phase of information collection in researching international markets. This is intended to help formulate research specifications and research design. Research on local markets is likely to focus primarily on assessing various elements of the marketing mix.

**Phase 3:** As the firm moves into the phase of global rationalization, it faces new information requirements as well as the need to make more effective use of data already collected. While emphasis on local market expansion generated a need for primary data to examine local market characteristics and to assess response to products and marketing stimuli, concern with improved coordination and integration of strategy and management systems across countries requires assessment of the comparability of data collected on a country by country basis (Craig and Douglas, 2005).

### 5.3 Designing of International Marketing Research

Marketing research (Figure 5.3) are the formal studies of specific situations. As discussed in the earlier lectures major issue in decision making is that managers often fail to appropriately understand the issues or problems and hence end up making right decisions for wrong problems.



■ **Figure 5.3** Process of International Research  
Source: own elaboration

Although the steps in a research program are similar for all countries, variations and problems in implementation occur because of differences in cultural and economic development (Cateora, Graham, 2005):

- STEP 1:** Marketing research project may have one of the three types of objectives. The first step in the international marketing research process frequently incorporates a preliminary phase of assessing information needs and availability. There are the key steps in research such as determining key research questions and choosing of academic research.
- STEP 2:** Once research objectives are properly defined the marketer / researcher should then develop the detailed plan for conducting the research. A detailed research plan should include the following five aspects. Developing the research plan:
- Determining specific information needs research objectives must be translated into specific information needs.
  - Plan for gathering secondary information that already exists somewhere, having been collected for another purpose – relevant, current, impartial (objectively collected & reported).
  - Primary data collection plan information collected for the specific purpose at hand research approaches: observation, survey, experiment.
  - Deciding contact method and detailing the sampling plan.
- STEP 3:** Implementing the research plan by data collection phase is generally the most expensive.
- STEP 4:** Researchers and managers must work together at this stage – researchers know methodology better while managers understand problems and possible management solutions better.



### GLOBAL MARKETING INSIGHTS

A US soft drink company conducted research in Indonesia to determine market potential. Rather than conduct research throughout the entire country, it focused on the major urban areas. Unfortunately, there were major differences between rural and urban Indonesia. Sales were disappointing as primarily foreign visitors and tourists purchased the product.

When CPC International (now Best Foods) wanted to introduce its Knorr Swiss soup into the US it conducted test markets. These involved serving passers-by a portion of warm soup made from a Knorr Swiss mix. Based on the taste tests there was considerable interest in purchasing the product. But sales were disappointing. Research should have been designed not only to examine consumer reaction to the taste, but also to determine how receptive consumers were to preparing the soup from a dry mix..



## 5.4 Sources of Market Research – Secondary and Primary Data

The choice of using secondary data and primary data is not mutually exclusive. Very often secondary data is used at a very early stage in the research process, before a decision is made to carry out primary research. It is also the type of research that is easily carried out by the person that requires the information rather than by a market research agency. Secondary data are used by market research agencies as well. The agency may build a desk research programme into a research project to feed in information that supports the survey work. For example, a project that explores the opportunities for coloured road surfacing materials (used for marking cycle and bus lanes) used desk research to show the length of cycle lanes in the different countries in Europe and primary research to find out attitudes of contractors and specifiers to different types of surfacing materials. Secondary data is often used in support of primary data for the generation of the sample. The secondary sources are the lists and directories of respondents that are used to locate respondents in a survey. If, after seeking all reasonable secondary data sources, research

## International Marketing Research

questions are still not adequately answered, the market researcher must collect primary data – that is, data collected specifically for the particular research project at hand. In most primary data collection, the researcher questions respondents to determine what they think about some topic or how they might behave under certain conditions (Rialp, 2007)

### 5.4.1 Secondary Data

Information that is already available because it is published or has been compiled for some other purpose is called **secondary data**. Typical examples of secondary data are:

Information that is already available because it is published or has been compiled for some other purpose is called **secondary data**

- Published market research reports;
- Articles and publications on the internet or in libraries;
- Reports and memos within companies including the reports of sales reps;
- Sales data including trends over time;
- Lists of companies in directories and data on those companies;
- The opinions of experts, possibly those at trade associations or industry bodies.

Because **secondary data** can be readily obtained by just one or two analysts, sat at their desks or in libraries, it is sometimes referred to as desk research. Secondary sources of information can be obtained from different publications and other materials when working with such data: periodicals, statistics, banking and stock market information, price lists and many more (Horská, 2007).

As a practical matter, the following questions should be asked to effectively judge the reliability of secondary data sources:

- Who collected the data? Would there be any reason for purposely misrepresenting the facts?
- For what purposes were the data collected?
- How were the data collected (methodology)
- Are the data internally consistent and logical in light of known data sources or market factors? (Cateora, Graham, 2005)

### 5.4.2 Primary Data and Neuromarketing Research

**Primary data** can be defined as information that is collected first-hand, generated by original research tailor-made to answer specific current research questions

**Primary data** is, as the name suggests, collected solely for the purpose of a survey. Primary data can be defined as information that is collected first-hand, generated by original research tailor-made to answer specific current research questions. To get primary data you will need to question respondents directly or observe their behaviour in some way. It should therefore be a good base for decision making as the questions and the sampling will have been designed specifically to meet the objectives of the survey. Of course, primary data has a higher price tag than secondary data and usually requires a few weeks and sometimes months collecting.

Basic forms of research will be discussed in chapter 6 in more details. In process of creating and finding of new techniques of marketing research, the questions of creativity and innovation connected with all new trends in marketing are becoming more and more important. Among fundamental research approaches (observation, surveys and experiment) there is growing importance of neuromarketing research nowadays. An important attribute of investigation in neuromarketing in connection with neuroscience is that 68% of unplanned purchases are influenced by nerve impulses that arise during the time, when the consumer is in purchase-sale units.

An important attribute of investigation in neuromarketing in connection with neuroscience is that 68% of unplanned purchases are influenced by nerve impulses that arise during the time, when the consumer is in purchase-sale units





## V4 MARKETING INSIGHTS

Kraft Food Mondelez International, to which Oreo belongs, launched in 2011 Oreo biscuits to V4 market. The company offers a wide range of high-quality and attractively priced biscuits, including local brands. Kraft Foods, already number one in the V4 cookie market due to its ownership of brands, is introducing the globally recognized cookie to increase its lead over local competitors, although a specific marketing strategy has not yet been laid out.

Oreo was launched in 2011 to Poland, Slovakia and Czech Republic. They are made in Spain for V4 countries. In present time there's offered the basic type of Oreo biscuit but in the future more because of market research which shows the success of sale. Market research done in 2010 shown that for V4 countries will be success to introduce as first only a basic type of Oreo biscuit, because of price, competitors and American country-of-origin (Figure 5.4).



■ **Figure 5.4** Brand partnership as a part of successful launching of OREO brand in Visegrad countries  
**Photo:** Elena Horská, 2012

Neuromarketing can be implemented in marketing practice in many different ways, whether we are talking about planning, organizing, implementation of business strategy, creating of advertising campaigns or about the whole complex of their impact into decision-making process of the consumer. Another important advantage of neuromarketing is that: it brings compelling sales presentations (POP resources), shortens the sales cycle, increases the percentage of successful trade, creates effective marketing and sales strategies, increases sales and profits of enterprises and radically improves the ability to influence others. Based on empirical research it can be concluded that neuromarketing techniques are used in creating innovations and modifications of products, the choice of pricing strategy, brand strategy, communication mix tools, but also at the level of management of the company, such as building a corporate culture and employee loyalty (Berčík, 2013).

The modern neuromarketing methods and their application in consumer research include the following research techniques (at least):

- **Eye tracking method:** It is a useful method used for analyzing of consumer behavior and thinking as well as the design of POP resources and retail merchandising. This method measure either where the respondent looks (point of view), or the eye movement relative to the head and dilatation of pupils. There are many different techniques suitable for measuring of eye movements by using of video recording while the consumer is looking for suggestions. Modern devices are able to automatically monitor the position of the head in three-dimensional space relative to the camera. The Eye tracking method is also able to reflect and highlight different types of consumer behavior by monitoring the oscillation of eye movements. There are two essential categories of eye movement distinguished by scientists. The first is fixation and the second one is called oscillation.
- **EEG method:** EEG method is based on measurement of subdued extraceluar electrical current which is connected with the activity of many neurons. However, not all cells contribute to the EEG. EEG records the activity from the surface of cortical neurons that are close to the electrode EEG. Such deep structures as: hypothalamus, thalamus and brain stem not contribute to surface EEG activity. Due to the fact the electrical activity comes from neurons located in the underlying part of the brain tissue, it is recorded on the surface via the electrode, and the intensity depends on the orientation and the distance of electrode from the power supply. EEG signal is inevitably distorted by filtration and absorbtion caused by a layer of bone tissue, that behave as resistor and capacitor in an electrical circuit. This is the reason why the EEG amplitude is potentially (in microvolts) much smaller the source voltage in individual neurons (in millivolts) according to Sharma (2010). The EEG method shows typical patterns of activity that can be correlated at different stages of sleep and vigilance. EEG is characterized by a frequency, which is illustrated by amplitude, which shows the electrical activity of the brain. Normal human EEG has activities in the range of 1–30 Hz with amplitude of between 20–100 uV. Compared frequencies were divided into several groups: Alfa (8–13 Hz), Beta (13–30 Hz), Delta (0.5–4 Hz) and Theta (4–7 Hz). Alpha waves are waves of moderate amplitude typical for relaxed vigilance and are mostly reflected in occipital part of the brain. The lower amplitude beta electrical activity is mostly screened in frontal area of brain and also across other parts of intense intellectual activity. Theta and Delta waves are normal for sleepiness and soon sleep, but when they occur during sleep, they represent cerebral dysfunction.

Well-known or less-known companies that operate in developed countries use the results of neuromarketing research very often. These results are usually applied in their management and in process of building a strong position of their brands. This is a strong argument for creating of the sufficient space for exploring this relatively new combination of disciplines. Competitive pressure is constantly growing, so if we want to be successful on contemporary aggressive market, we have to try to keep up with new trends. Researchers and businesses from different countries use the opportunities for scientific and applied interaction during international conferences, seminars or meetings, too (Figure 5.5)



■ **Figure 5.5** Research team of the Slovak University of Agriculture in Nitra during informal discussion at the 10<sup>th</sup> sensory science symposium Pangborn 2013, August 2013, Rio de Janeiro, Brazil. With researchers from Austria, Brazil and Colombia about neuromarketing research results  
**Photo:** Elena Horská, Rio de Janeiro 2013

We found out that the application of selected neuroscience methods in traditional shopping model is a huge shift in the form of revelations connected with the new phenomena called black box in the consumer's mind. At the same time we have to deal with several ethical dilemmas associated with the interference into privacy, subconscious mind and free will of the individuals. Neuromarketing already has its fans and opponents. In any case, there are still many open questions about „the future of neuromarketing“. In the process of answering of these questions the main role will be played by scientists and companies and their further research on the field of neuromarketing.

## Summary

This fifth chapter has examined the nature and role of international marketing research and marketing information system. International Marketing Research thus links the organization with its future markets. It includes activities such as specification, gathering, analysis, and interpretation of information to help the management understand a particular market, identify the market specific problems and opportunities, and develop courses of marketing action. The research activity must recognize the country specific diversity in terms of culture, demographics, economy, etc. to yield a marketing strategy that will be both applicable and successful.

**Key terms:** International Marketing Research, Marketing Decision, Global Environment, Research Agencies, Market's Information, Multicultural Research, Secondary Data, Primary Data





### QUESTIONS FOR DISCUSSION

1. Select a country. From secondary sources found on the Internet compile the following information for at least a three-year period prior to the present: principal import and export, gross national product, major cities and population, average salary, unemployment rate and living standard. Discuss why we should enter to foreign market, and why not. What kind of **V4** products or services could be success or not to be success at foreign markets.
2. Identify some key factors which make international marketing research different from domestic marketing research. Also highlight differences across various world regions with regard to marketing research. What information would you collect if you are planning to export tropical fruits from India to EU?

### Further Recommended Readings

- CZINKOTA, Michael R. 2011. *International Marketing*. Published by: USA, Cengage Learning, 2011. pages 866. ISBN 9781408009239, ISBN 1408009234.
- HORSKÁ, Elena et al. 2011. *European Studies on Intercultural Dimension of International Business: Marketing and Managerial Consequences*. Scientific Monograph. Nitra: SPU, 2011. pages 203. ISBN 978-80-552-0530-4.
- HORSKÁ, Elena – Paluchová, Johana – Prokejinová, Renáta – Moiseva, A. Oľga. 2011. *Vnímanie imidžu krajiny pôvodu potravinárskych produktov a aspekty ich kvality vo vybraných európskych krajinách*. Scientifics Monograph. 1. edition. Nitra : Slovenská poľnohospodárska univerzita v Nitre, 2011. pages 158. ISBN 978-80-552-0686-8.
- KOTLER, Philip – KELLER, Kevin, L. 2013. *Marketing Management*. 14<sup>th</sup> edition. Praha : Grada Publishing, a. s., 2013. pages 814. ISBN 978-80-247-4150-5.

### Literature

- BALHAR, Vítězslav. 2011. *Marketing v procese globalizácie*. Scientifics Monograph. Bratislava : Vydavateľstvo EKONÓM, 2011. pages 98. ISBN 978-80-225-3157-3.
- BERČÍK, Jakub. 2013. *The modern forms of marketing research in selected agri-food businesses*. In HORSKÁ, E. – UBREŽIOVÁ, I. Business management – practice and theory in the 21<sup>st</sup> century : international scientific conference : proceedings of scientific papers, Nitra : Slovak University of Agriculture. p. 154–161. ISBN 978-80-552-1026-1
- CATEORA, R. Philip – GRAHAM, L. John. 2005. *International Marketing*. USA – New York : McGraw-Hill/Irwin, 2005. pages 697. ISBN 0-07-283371-8.
- CRAIG, C. Samuel – DOUGLAS, P. Susan. 2005. *International Marketing Research*. Third edition. West Sussex – England : John Wiley&Sons Ltd., 2005. pages 425. ISBN 0-470-01095-9.
- ČIHOVSKÁ, Viera at al. 2010. *Marketingové prostredie jednotného európskeho trhu*. Scientifics Monograph. Bratislava : Vydavateľstvo EKONÓM, 2010. pages 272. ISBN 978-80-225-2940-2.
- ESOMAR. 2012. *Global Market Research 2012*. An ESOMAR Industry Report in cooperation with KPMG Advisory. [cit. November, 20<sup>th</sup>, 2012]. Available on Internet. <[http://www.esomar.org/uploads/industry/reports/global-market-research-2012/ESOMAR-GMR-2012\\_Preview.pdf](http://www.esomar.org/uploads/industry/reports/global-market-research-2012/ESOMAR-GMR-2012_Preview.pdf)>
- HALE, Jamie. 2011. *The 3 Basic Types of Descriptive Research Methods*. [cit. November, 20<sup>th</sup>, 2012]. Available on Internet. <<http://psychcentral.com/blog/archives/2011/09/27/the-3-basic-types-of-descriptive-research-methods/>>.
- HORSKÁ, Elena. 2007. *Medzinárodný marketing*. 1<sup>st</sup> edition. Nitra : SPU, 2007. pages 223. ISBN 978-80-8069-938-3.

- KLEINOVÁ, Katarína. 2012. *Marketing Research: Implications for the V4 Food Market*. 339–356 pages. In HORSKÁ, Elena et al. 2012. *Food Sciences&Business Studies. Global-Regional-Local Approach*. Book for university students. Nitra : SPU, 2012. pages 410. ISBN 978-80-552-0815-2.
- KLEINOVÁ, Katarína – KRETTNER, Anton. 2011. *Imidž domácich a zahraničných potravín na trhu SR*. Scientific Monograph. Nitra : Slovak University of Agriculture, 2011. pages 98. ISBN 978-80-552-0552-6.
- KUBICOVÁ, Lubica. 2013. *Strategický marketing*. Nitra : Slovak University of Agriculture, 2013. pages 169. ISBN 978-80-552-1001-8.
- KUMAR, V. 2000. *International Marketing Research*. USA : Prentice Hall; 1<sup>st</sup> edition, 2000. 480 pages. ISBN-10: 0130453862. ISBN-13: 978-0130453860.
- MARKET Research Spend Forecast to Rebound in 2012. [cit. March, 9<sup>th</sup>, 2012]. Available on Internet < <http://www.marketingprofs.com/charts/2012/7326/market-research-spend-forecast-to-rebound-in-2012>>.
- MILLS, Melinda – van de BUNT, Gerhard G. – BRUIJN DE, Jeanne. 2006. *Comparative Research*. Persistent Problems and Promising Solutions International Sociology. Vol. 21, No. 5, 619–631 pages. International Sociology. September 2006. Vol 21(5): 619–631© International Sociological Association SAGE (London, Thousand Oaks, CA and New Delhi) DOI: 10.1177/0268580906067833.
- NAGYOVÁ, Ludmila et al. 2012. *Súčasná tendencie vo výrobe a odbyte vybraných poľnohospodárskych a potravinárskych výrobkov v SR*. Scientifics Monograph. Nitra : Slovak University of Agriculture, 2012. pages 120. ISBN 978-80-552-0920-3.
- PROKEINOVÁ, Renáta. 2010. *Využitie SASu ako nástroja kvantitatívnych analýz v dotazníkovom prieskume*. Accepted poster at SAS conference and forum. [cit. September, 2<sup>nd</sup>, 2012]. On January 20, 2010 in Prague Available on Internet: <[http://www.sas.com/offices/europe/slovakia/press/newsletters/feature/academic02\\_2010.html](http://www.sas.com/offices/europe/slovakia/press/newsletters/feature/academic02_2010.html)>.
- RAO, S. Rama. 2010. *Multicultural Research – A Special Problem*. [cit. November, 20<sup>th</sup>, 2012]. Available on Internet <<http://www.citeman.com/9260-multicultural-research-a-special-problem.html>>.
- RIALP, Alex – RIALP, Josep. 2007. *International Marketing Research: Opportunities and Challenges in the 21<sup>st</sup> Century*. Elsevier JAI, 2007. pages 426. ISBN-10: 0762313692, ISBN -13: 9780762313693.
- SHARMA, J. K. et al. 2010. *Neuromarketing – A deep into Customers Mind*. New Delhi : PHI Learning Private. ISBN 978-81-203-3868-5.
- STRATÉGIE. 2012 and 2013. *Tlak na ceny, rýchlosť, efektivitu*. In Zvláštna príloha mesačníka Stratégie: Marketingový výskum. pages 4–5. Bratislava : Ecopress, 2012 and 2013.
- WILD, J. John – WILD, L. Kenneth – HAN, C. Y. Jerry. 2000. *International Business. An Integrated Approach*. USA, New Jersey : Prentice Hall, 2000. pages 573. ISBN 0-13-862186-1.





# CHAPTER

## RESEARCH METHODOLOGY AND PRACTICAL IMPLEMENTATION IN INTERNATIONAL BUSINESS

# 6

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Know how to define business research and understand the difference between basic and applied business research.
2. Understand how research contributes to business success.
3. Know to characterize the terms of qualitative and quantitative researches.
4. Describe the techniques available for international marketing research.

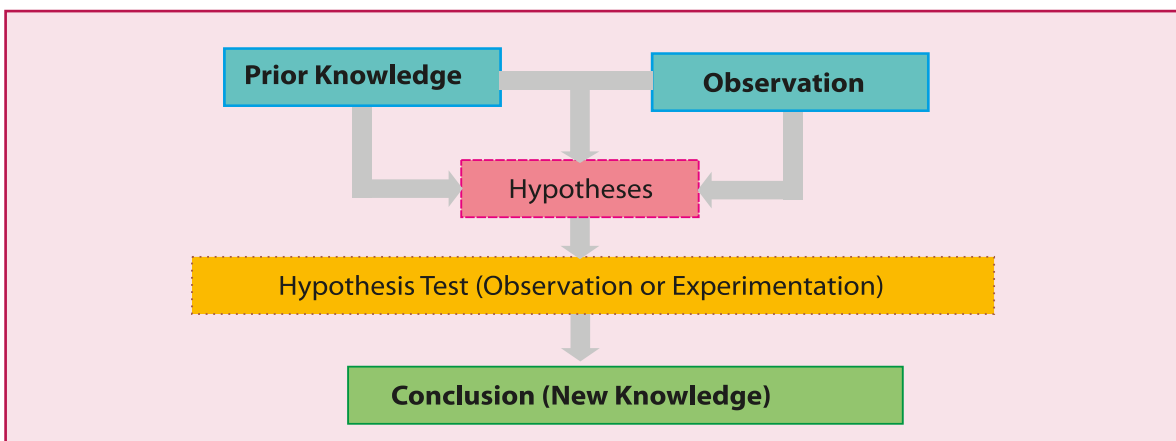


### Introduction

One of the most important issues in international marketing is the collection and analysis of market – related information, and the ability to use and to interpret it. In international marketing, the marketer is faced with a dilemma of having too much data and too little information. The strategy of a research refers to the set of ideas through which the study intends of proceeding in the direction of answering the research questions. General directions of tackling research questions have been provided by literature which includes qualitative strategy, quantitative strategy or a combination of both.

## 6.1 Business Research

**Business research** covers a wide range of phenomena (Figure 6.1); for managers, the purpose of research is to provide knowledge regarding the organization, the market, the economy, or another area of uncertainty. Within an organization, a business researcher may be referred to as a marketing researcher, an organizational researcher, a director of financial and economic research, or one of many other titles. Although business researchers are often specialized, the term business research encompasses all of these functional specialties. While researchers in different functional areas may investigate different phenomena, they are similar to one another because they share similar research methods (Zikmund and Babin, 2010).



■ **Figure 6.1** A Summary of the Scientific Method

**Source:** Zikmund, William G. – Babin, Barry J. – Carr-Mitch Griffin, Jon C. 2010. *Business Research Methods*

**Business research** is the application of the scientific method in searching for the truth about business phenomena. These activities include defining business opportunities and problems, generating and evaluating alternative courses of action, and monitoring employee and organizational performance.

**Business research** is the application of the scientific method in searching for the truth about business phenomena. These activities include defining business opportunities and problems, generating and evaluating alternative courses of action, and monitoring employee and organizational performance. Business research is more than conducting surveys. This process includes idea and theory development, problem definition, searching for and collecting information, analyzing data, and communicating the findings and their implications.

Our definition makes it clear that **business research** is designed to facilitate the managerial decision-making process for all aspects of the business: finance, marketing, human resources, and so on. Business research is an essential tool for management in virtually all problem-solving and decision-making activities. By providing the necessary information on which to base business decisions, research can decrease the risk of making a wrong decision in each area. However, it is important to note that research is an aid to managerial decision making, never a substitute for it.

The internationalization of business **research** places greater demands on business researchers and heightens the need for research tools that allow us to cross-validate research results, meaning that the empirical findings from one culture also exist and behave similarly in another culture (Horská, 2008). A firm can be **product-oriented**, which prioritizes decision making in a way that emphasizes technical superiority in the product. A firm can be **production-oriented**, which means that the firm prioritizes efficiency and effectiveness of the production processes in making decisions. Here, research providing input from workers, engineers, finance, and accounting becomes important as the firm seeks to drive costs down. The third is **marketing-oriented**, which focuses more on how the firm provides value to customers than on the physical product or production process (see Table 6.1). With a marketing-oriented organization the majority of research focuses on the customer.

Our definition makes it clear that **business research** is designed to facilitate the managerial decision-making process for all aspects of the business: finance, marketing, human resources, and so on

**Table 6.1** Business Orientation toward to International Business Research

Product-Oriented Firm	Example
Prioritizes decision making that emphasizes the physical product design, trendiness or technical superiority	– The fashion industry makes clothes in styles and sizes that few can adopt
Research focuses on technicians and experts in the field. Evaluation of global	
Production-Oriented Firm	Example
Prioritizes efficiency and effectiveness of the production processes in making decisions	– Czech auto industry's assembly-line process is intent on reducing costs
Research focuses on line employees, engineers, accountants and other efficiency experts	
Marketing-Oriented Firm	Example
Focuses on how the firm provides value to customers	– Well-known hotel chains are designed to address the needs of travellers
Research focuses on customers	

Source: own elaboration

## 6.2 Quantitative versus Qualitative Researches

The relationships between consumers and market researches call for new qualitative and quantitative approaches to understanding these forms and data. Marketing researchers have also experienced a shift in their whole concept of the consumer. Researchers have moved away from demographic and psychologically informed views of consumers as information processors.



### GLOBAL MARKETING INSIGHTS

Yoplait yoghurt illustrates the benefit of business research. The company's consumer research about eating regular yogurt at school showed that moms and kids in their "tweens" wanted convenience and portability. Some brands, like Colombo Spoon in a Snap, offered the convenience of having a utensil as part of the packaging/delivery system. However, from what Yoplait learned about consumers, they thought kids would eat more yogurts if they could **"lose the spoon"** and eat yogurt anywhere, anytime. Moms and kids participating in a taste test were invited to sample different brand-on-the-go packaging shapes – long tubes, thin tubes, fat tubes, and other shapes – without being told how to handle the packaging. One of the company's researchers said, "It was funny to see the moms fidget around, then

daintily pour the product onto a spoon, then into their mouths". The kids loved the fact that the packaging gave them permission to play with their food, something parents always tell them not to do. Based on their research, Yoplait introduced Go-Gurt in a three-sided tube designed to fit in kids' lunchboxes. Yoplait realized that knowledge of consumers' needs, coupled with product research and development, leads to successful business strategies. As the Yoplait example shows, the prime managerial value of business research is that it provides information that improves the decision-making process.



### 6.2.1 Qualitative Research

In **qualitative research**, if questions are asked they are almost always open-ended or in-depth, and unstructured responses that reflect the person's thoughts and feelings on the subject are sought. Direct observation of consumers in choice or product usage situations is another important qualitative approach to marketing research. **Qualitative research** seeks to interpret what the people in the sample like, their outlooks, their feelings, the dynamic interplay of their feelings and ideas, their attitudes and opinions, and their resulting actions. **Qualitative research** is used in international marketing research to formulate and define a problem more clearly and to determine relevant questions to be examined in subsequent research. It is also helpful in revealing the impact of socio-cultural factors on behaviour patterns and in developing research hypotheses that can be tested in subsequent studies designed to qualify the concepts and relevant relationships uncovered in qualitative data collection (Cateora and Graham, 2005)

**Qualitative research** seeks to interpret what the people in the sample like, their outlooks, their feelings, the dynamic interplay of their feelings and ideas, their attitudes and opinions, and their resulting actions



### GLOBAL MARKETING INSIGHTS

From Japan: You may not know it, but the Japanese are the world champions of bathroom and toilet technology. Their biggest company – Toto, has spent millions of dollars developing and testing consumer products. They collected data on the best features of a toilet, and at the company's human engineering laboratory, volunteers sit in a Toto bathtub with electrodes strapped to their skulls, to measure brain waves and the effects of bathing on the human body.



**Qualitative research** is exploratory and involves using unstructured techniques based on small samples. It helps to find out what it is that people like – or dislike – about a product, service or advertisement, and why they feel that way. The data arising from qualitative research are largely words – the responses from people in the focus groups and depth interviews. Body language may be a further input as this could provide additional clues as to the inner feelings of respondents. Qualitative research is carried out by just one or two researchers who steep themselves in the subject, building their understanding. Qualitative research is used for:

- Exploring and understanding people's needs.
- Testing reactions to concepts such as new products and services, advertising messages, approaches to buying etc.
- Working out what the real issues or problems are.

**Qualitative research** provides an understanding of how or why things are as they are. For example, a Market Researcher may stop a consumer who has purchased a particular type of bread and ask him or her why that type of bread was chosen. Unlike quantitative research there are no fixed set of questions but,



instead, a topic guide (or discussion guide) is used to explore various issues in-depth. As with quantitative techniques, there are also various types of qualitative methodologies. Research of this sort is mostly done face-to-face. One of the best-known techniques is market research group discussions (or focus groups) (Market research, 2012).

**Qualitative research** provides insights and understanding of the consumption and purchase context and the underlying determinants of behaviour, as well as a means of interpreting the results of quantitative research and predicting future trends. Qualitative research techniques offer a number of advantages in international marketing research in so far as they are unstructured and do not entail the imposition of the researcher's pre-specified conceptual model or terminology on the respondent (Craig and Douglas, 2005).

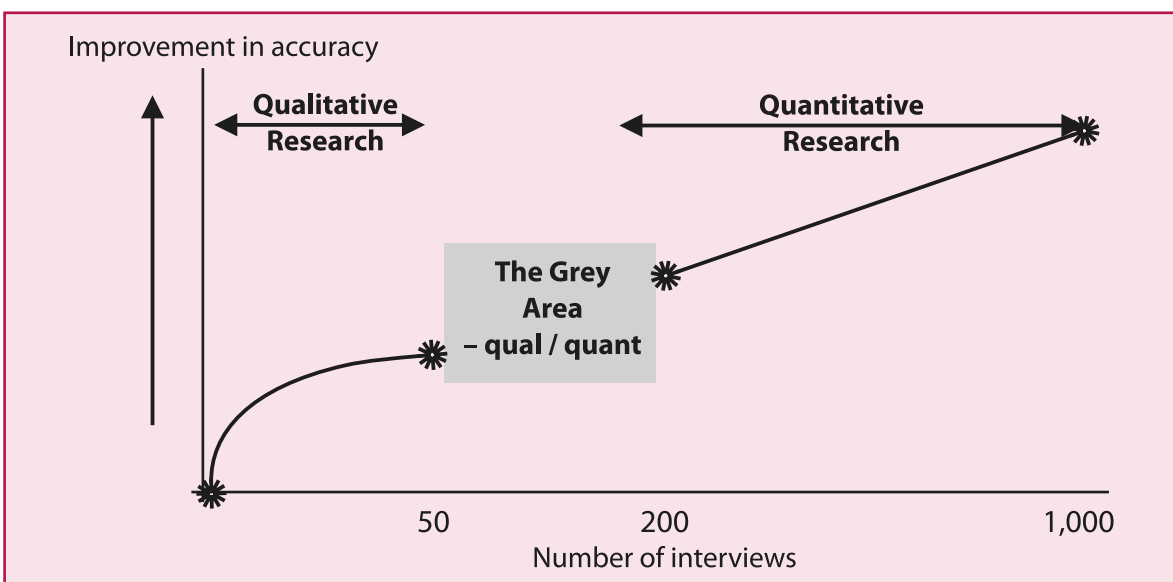
### 6.2.2 Quantitative Research

In **quantitative research**, usually a large number of respondents are asked to reply either verbally or in writing to structured questions using a specific response format (such as yes/no) or to select a response from a set of choices. Quantitative research provides the marketer with responses that can be presented with precise estimations. The structured responses received in a survey can be summarized in percentage, averages, or other statistics (Cateora and Graham, 2005).

**Qualitative research** should not be used when the research objectives require quantification such as determining the proportions of a population that behave or think in a certain way (Kleinová, 2012).

**Quantitative research** is used wherever a head count is needed or where there is an interest in comparing the views and behaviours of people of a different ages, genders or income groups. Although qualitative research can have its problems, it is increasingly valued as a supporting research method and used as preliminary or follow-up research alongside quantitative surveys. Important quality control issues exist and these are being continuously addressed by research agencies, industry representatives and professional bodies. The table below compares quantitative and qualitative research on a number of key issues (Bártová, Bárta and Koudelka, 2004).

**Quantitative research** relates to quantity and is based on enough numbers of interviews to be able to obtain a robust measurement. Large numbers of interviews require considerable structure in the questionnaire, so the interviews are made up of closed questions rather than open and probing questions



■ **Figure 6.2** Numbers of Respondents in Qualitative & Quantitative Research

Source: [http://www.b2binternational.com/assets/ebooks/mr\\_guide/03-market-research-ch3.pdf](http://www.b2binternational.com/assets/ebooks/mr_guide/03-market-research-ch3.pdf)

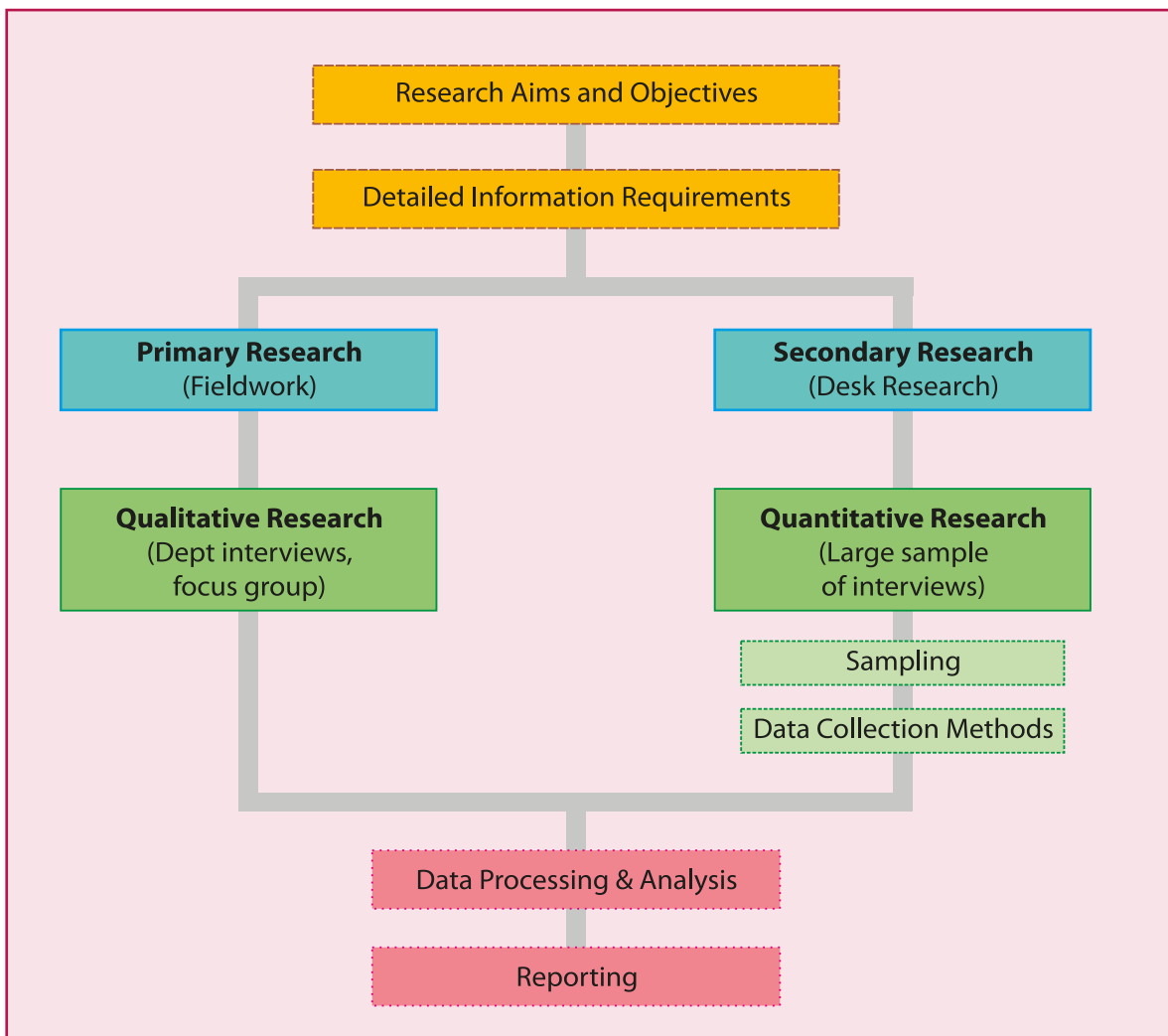
## Research Methodology and Practical Implementation ...

which invite free responses. The numbers of interviews that separate quantitative and qualitative research is not a clear cut but most researchers would accept that sample sizes of 200 or more are most certainly quantitative while those of 50 or less are qualitative. In between is the grey area of qual/quant. See Figure 6.2 (Research design, 2012).

**Quantitative research** is numerically oriented, requires significant attention to the measurement of market phenomena and often involves statistical analysis. For example, a bank might ask its customers to rate its overall service as excellent, good, poor or very poor. This will provide quantitative information that can be analysed statistically. The main rule with quantitative research is that every respondent is asked the same series of questions. The approach is very structured and normally involves large numbers of interviews/questionnaires (Market research, 2012).

**Quantitative research** is numerically oriented, requires significant attention to the measurement of market phenomena and often involves statistical analysis

**Quantitative research** is descriptive and is used by researchers; this method is called as positivism, determining prediction of consumer behaviour. The methods used in qualitative research are e.g. experiments, surveys, or observation. Conclusions are descriptive, empirical and are collected randomly (Schiffman and Kanuk, 2004).



■ **Figure 6.3** Frameworks for Choosing a Research Design  
Source: own elaboration

Scientific research involves a systematic process that focuses on being objective and gathering a multitude of information for analysis so that the researcher can come to a conclusion. This process (Figure 6.3) is used in all research and evaluation projects, regardless of the research method (scientific method of inquiry, evaluation research, or action research). The process focuses on testing hunches or ideas in a park and recreation setting through a systematic process.

### 6.3 Research Methods of Quantitative and Qualitative Research

The techniques of conducting international marketing research can be divided into two broad categories, which are complementary in practice. Whether domestic or international in focus, this is the critical step of any research project. In order to construct the most effective methodology, researchers must have a broad perspective of the many methodological options available. Variations range from primary to secondary research, qualitative and quantitative, experiments, test markets, observations, and surveys, just to name a few. In the international context, the specific unit of analysis is critical and relates to the research design stage. For example, corporate decisions would require more of a global or regional approach; in contrast, tactical marketing mix decisions would require more of a local unit of analysis. Designing the primary methodology is specifically related to how the data will be collected from respondents and analyzed. In this paper, we employ a narrow definition of methodology as it relates to the specific data collection method that will be utilized (e.g., in-person, telephone, mail, Internet survey). The sampling plan and measurement equivalence concepts are also much more complicated in an international market research environment (Young and Javalgi, 2004).



#### V4 MARKETING INSIGHTS

The new modern technique of marketing research is “neuromarketing” and its forms for consumer behaviour’s testing. Neuromarketing (EEG) tests aimed at exploring the emotional involvement of the respondents within the calibration sample for each type of simulated lighting (Figure 6.4). The aim of lighting tests under simulated conditions was the mutual confrontation of the findings of consumer preferences from the questionnaire survey based on visual evaluation of lighting and neuromarketing tests during active movement in a simulated fresh food shops. This proves that lighting has a significant impact on conscious or subconscious consumer reactions. The research results show that most subconscious reactions of the members of the calibration sample were caused by fluorescent lighting which is

commonly used as a primary lighting in almost every shop. As for the emotional impact most members of the calibration sample were affected by the metal halide lighting with the power of 150W, while on the basis of visual evaluation, respondents rated the halogen lighting as the most attractive. On the other hand, the metal halide lighting with the power of 70W and LED lighting was rated as the least attractive. During the tests of unconventional lighting used to illuminate the category of fresh food, the yellow colour was rated most positively based on the examples provided in the simulated conditions. At the same time the yellow colour mostly affected the subconscious of the respondents while the green colour mostly effected their emotions (Horská and Berčík, 2013).





■ **Figure 6.4** EEG tests aimed at exploring the emotional involvement of the respondents within the calibration sample for each type of simulated lighting  
**Photo:** Jakub Berčík, 2013

### 6.3.1 Methods of Quantitative Research

In the following Table 6.2, we illustrate the basic and most used techniques of research, which are popular for several years.

**Table 6.2** List of Main Quantitative Research Methods

Proposal of Quantitative Research	
a) Observation	<ul style="list-style-type: none"> <li>– The observation method involves human or mechanical observation of what people actually do or what events take place during a buying or consumption situation. Observation method is a technique in which the behaviour of research subjects is watched and recorded without any direct contact (Schiffman, Kanuk, 2004). This method can be used independently or in combination with other methods of job analysis. There are three methods of job analysis based on observation are: direct observation, work methods analysis, critical incident technique (Kretter, 2010)</li> </ul>
b) Experiment	<ul style="list-style-type: none"> <li>– It is a methodical procedure carried out with the goal of verifying, falsifying, or establishing the validity of a hypothesis. Experiments provide insight into cause-and-effect by demonstrating what outcome occurs when a particular factor is manipulated (Bártová, Bárta, Koudelka, 2004). In the scientific method, an experiment is an empirical method that arbitrates between competing models or hypotheses. Experimentation is also used to test existing theories or new hypotheses in order to support them or disprove them (Griffith, 2001).</li> </ul>

Continued Table 6.2

Techniques of data collection in quantitative research	
c) Questionnaire	<ul style="list-style-type: none"> <li>– A questionnaire is a quick and efficient way to obtain information from a large number of employees. A questionnaire is a list of written questions that can be completed in one of two basic ways (Horská, 2007). Firstly, respondents could be asked to complete the questionnaire with the researcher not present. This is a postal questionnaire and (loosely) refers to any questionnaire that a respondent completes without the aid of the researcher. Secondly, respondents could be asked to complete the questionnaire by verbally responding to questions in the presence of the researcher. This variation is called a structured interview</li> </ul>
Types of quantitative research methods	
Types of Observation	<ul style="list-style-type: none"> <li>– <b>Informal Observations:</b> These procedures are considered informal because there is typically no systematic plan for timing the observations, nor is there any attempt to verify the reliability of the observations</li> <li>– <b>Indirect Observations:</b> Where the information of interest is obtained from sources other than the consumer. The most common method of indirect observation involves interviewing consumers who know the target purchase well enough to provide meaningful information</li> <li>– <b>Formal Observations:</b> Such methods not only consider the time and duration of the observation period, but also the precise behaviours to be observed and the procedures used to record them. In addition, reliability estimations are typically provided by multiple, independent observers (Block, Block, 2005)</li> </ul>
Types of Experiment	<ul style="list-style-type: none"> <li>– <b>Singular expertise:</b> <ul style="list-style-type: none"> <li>– writing (expert is questioned and he answers writtenly)</li> <li>– and verbal (expert is invited and he answers on questions).</li> </ul> </li> <li>– <b>Discussion with a group of experts</b> (as focus group)</li> <li>– <b>Group discussion with a special scenario and high level of moderator:</b> <ul style="list-style-type: none"> <li>– Brainstorming: is allowed to jump into another language, not allowed to condemn the others</li> <li>– Advocat diaboli: in a group is opponent, who talks the objections (Craig and Douglas, 2005)</li> </ul> </li> </ul>
Types of questionnaire method	<ul style="list-style-type: none"> <li>– <b>Structured questionnaire:</b> uses a standardized list of work activities, called a task inventory, then jobholders or supervisors may identify as related to the job. It must cover all job related to tasks and behaviour. Each task or behaviour should be described in terms of features such as difficulty, importance, frequency, time spent and relationship to performance</li> <li>– Open-ended questionnaire: asks the jobholder to describe the work in his or her own words (Schiffman and Kanuk, 2004; Kretter, 2010)</li> </ul>

Source: own elaboration

### 6.3.2 Methods of Qualitative Research

The important methods of collecting data in qualitative research (see Table 6.3) are in-depth interview, interview in group, projection techniques, and metaphorical analysis. These methods are used in the first research phases by determining of views and attributes target to certain product.

The important methods of collecting data in qualitative research are in-depth interview, interview in group, projection techniques, and metaphorical analysis



**Table 6.3** List of Main Qualitative Research Methods

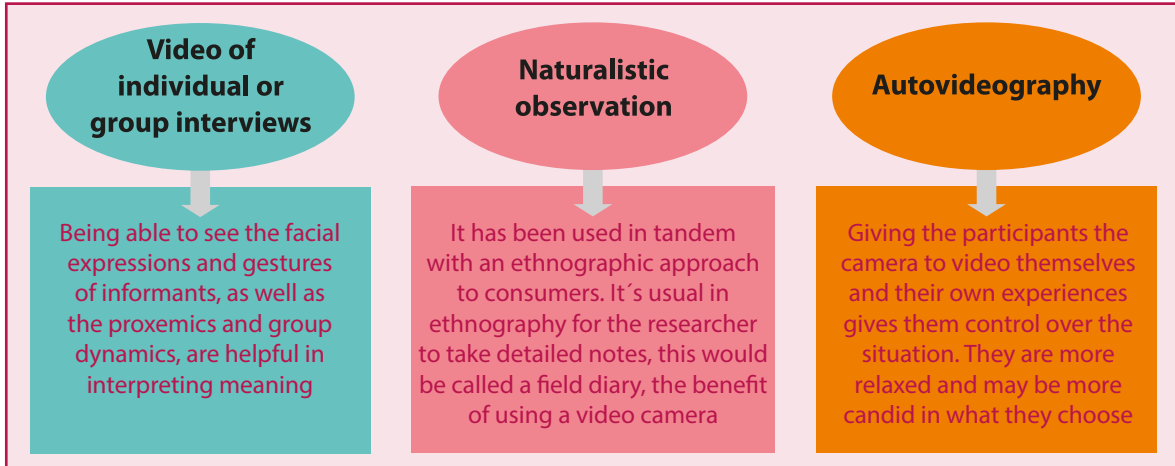
Proposal of Quantitative Research Techniques of data collection in quantitative research	
<b>a) In-depth interview</b>	Is, which proceeds as a confidential and secure conversation between an interviewer and a respondent. By means of a thorough composed interview guide, which is approved by the client, the interviewer ensures that the conversation encompasses the topics that are crucial to ask for the sake of the purpose and the issue of the survey. The method of the in-depth interview is appropriate if you need to gain an insight into individual evaluations of specific material. This method is the right one to choose if the primary objective with the survey, for example is to evaluate a new packaging, an advertisement or a storyboard (Jobber and Fahy, 2006): <ul style="list-style-type: none"> <li>– Personal interview</li> <li>– Telephone interview</li> <li>– Mail or postal survey</li> <li>– Online survey</li> </ul>
<b>b) Group interview</b>	The group interview is a qualitative method of collection of data, where 6 to 12 people are gathered either physically or online to discuss an issue. The respondents in the group interview are composed on the basis of criteria, which are established before the respondents are invited to participate. Therefore it is a relative homogeneous group of people, which achieve a feeling of community around the issue that is the centre of the discussion (Bártová, Bárta and Koudelka, 2004)
<b>c) Projection techniques</b>	In qualitative marketing studies, they are applied so as to provide in-depth knowledge about subjective and often subconscious attitudes towards brands and organisations (Schiffman and Kanuk, 2004). Projective Techniques are indirect and unstructured methods of investigation which have been developed by the psychologists and use projection of respondents for inferring about underline motives, urges or intentions which cannot be secure through direct questioning as the respondent either resists to reveal them or is unable to figure out himself
<b>d) Metaphorical analysis</b>	Metaphor is defined as, “an unconventional way of describing (or representing) an object, event or situation (real or imagined) as another object, event or situation. A metaphor has three life stages. The first stage is when a metaphor is first introduced; it is rejected because literally it does not seem congruent. Stage two of a metaphor is when users suspend their disbelief and draw useful comparisons between the source and target schema. As the metaphor is adopted and used more, it will progress to stage three. In stage three the metaphor takes on literalness, where the users do not consciously compare the schemas. The source and target are now associated unconsciously (Schiffman and Kanuk, 2004)

**Source:** own elaboration, based on list of authors from literature's sources

The Internet can also be used to collect data in a more systematic fashion that is closer in character to more traditional marketing research practice. Subject to the availability of suitable Internet sampling frames, questionnaires can be administered directly over the Internet. Questionnaires are sent via e-mail to respondents and the responses are returned via e-mail. This represents a very quick and totally automated means to conduct a survey over a broad geographic scope. The results are available almost instantaneously as the responses can be checked and analyzed in real-time as they are received. Questionnaires administered via the World Wide Web also have the advantage that product details, picture of products, brands and the shopping environment can be portrayed with integrated graphics and sound (Craig and Douglas, 2005).

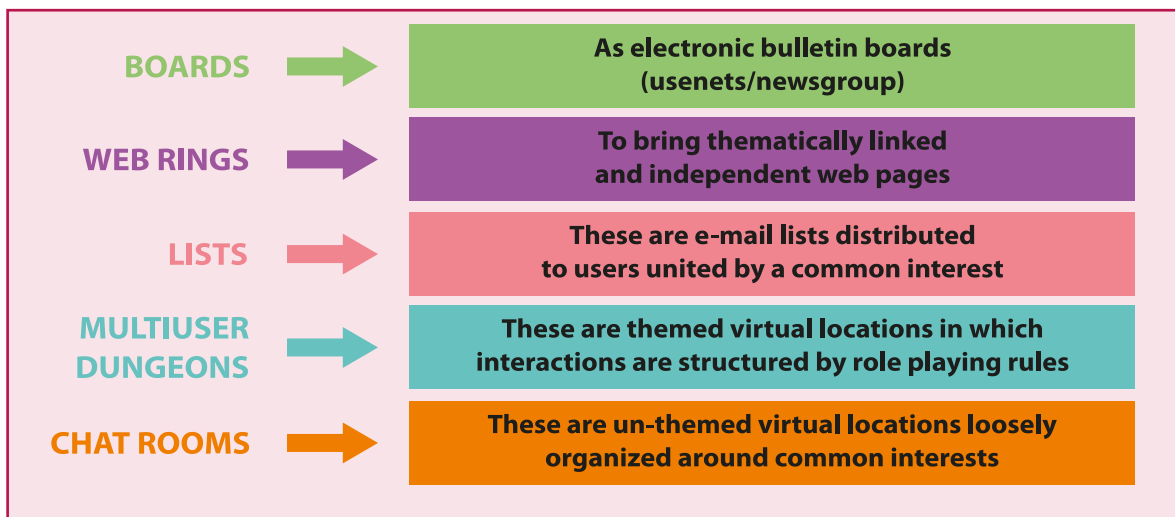
### 6.3.3 New Technologies of International Marketing Research

a) **Videography:** a method which has recently emerged in consumer research, offers considerable diversity, identifies three main applications in consumer research (Figure 6.5):



■ **Figure 6.5** Three forms of videography used as international research methods  
 Source: own elaboration

b) **Netnography and Online Communities:** Netnography is a relatively recent research approach that has been developed largely in the field of consumer research. It adapts ethnographic research techniques to study the cultures and communities that are emerging through computer-mediated communications. When compared the traditional interview format, there are much lower costs to collecting this data in terms of time, Money and the emotional energy required (Parson and Maclaran, 2009). The communities under study in netnography are “online communities” – social aggregations that emerge from the Internet when enough people carry on those public discussions long enough, with sufficient human feeling, to from webs of personal relationships in cyberspace (see Figure 6.6).



■ **Figure 6.6** There's five types of virtual communities  
 Source: own elaboration

- c) **Blogs and Blogging:** it's a type of Web site, usually maintained by an individual, who has own experiences or idea, which he/she wants to share to the others. It's with regular entries of commentary descriptions of events, or other material such as graphics and others. If you want to get found online, a blog is a great way to produce ongoing, fresh and remarkable content to improve your search engine rankings. By maintaining a blog, you can develop thought leadership and engage with your customers, all the while generating valuable leads for your sales team.



### GLOBAL MARKETING INSIGHTS

A few years back, Twitter didn't exist. Today, not only is it ubiquitous, it spawned a whole new level of web innovation and interactivity. Follow the rules and open accounts at Facebook, LinkedIn or Twitter. Every time you make a new post to your blog, let your readers know about it by posting to these popular sites. Update your status with interesting and latest news in product or service offers that fascinates chatters. Blogs are part of social media that can take advantage of viral marketing techniques, which can dramatically increase traffic to your blog in a short amount of time - it's a marketing blogging.



- d) **Data capture and Data Mining:** it's the automated discovery of interesting, non obvious patterns hidden in a database that has a high potential for contributing to the bottom line. Interesting relationships are those that could have an impact on strategy or tactics, and ultimately on an organization's objectives (Parson and Maclaran, 2009). There's a vast array of applications for data mining:

- **Customer acquisition:** are used to discover attributes that predict customer responses to communications such as special offers.
- **Customer retention:** is used to identify customers who both contribute to the company's profits, but who are likely to move to other companies.
- **Customer abandonment:** is applied to the purchase histories of consumers to find which ones are costing the company more than they are contributing, i.e. banking keeping, small deposits, inline retailing.
- **Market basket analysis:** here products and brands purchase affinities are identified from purchase histories, and communications tailored and targeted accordingly.

## Summary

In this chapter an attempt has been made to acquaint you with the scope and issues related to choosing of marketing research methods. Whether the research is qualitative or quantitative it is important that you choose the method that best suits your needs as related to the overall intention of the research, and the engagement of participants. Assessing market opportunity requires a measure of both the overall size of a market and the competitive conditions in the market. In assessing existing demand it is a question of finding out a differential advantage for your product and marketing that differential. In the latent demand situation it is a question of looking at the market and matching products to potential. This could be the case in say exotic fruit marketing to developed countries. Research is the intelligence-gathering function in business. The intelligence includes information about customers, competitors, economic trends, employees, and other factors that affect business success. Business research should be rigorous, but the rigor is always traded off against the resource and time constraints that go with a particular business decision.

**Key terms:** Business Research, Qualitative Research, Quantitative Research, Internationalization of Business, Research Methods, Observation, Experiment, Questionnaire, In-depth Interview, Interview in group, Projection Techniques, Metaphorical Analysis.



### QUESTIONS FOR DISCUSSION

1. Select an industrialized country and a least developed country and state what problem you would anticipate in doing a marketing research study there. Which kind of methods you will choose and why?
2. Which of the following organizations are likely to use business research? Why?

How?

- Manufacturer of breakfast cereals;
- Manufacturer of nuts, bolts, and other fasteners;
- Manufacturer of alcohol or wine?

### Further Recommended Readings

HORSKÁ, Elena – PALUCHOVÁ, Johana – PROKEINOVÁ, Renata – MOISEVA O.A. 2011. *Vnímanie imidžu krajiny pôvodu potravinárskych produktov a aspekty ich kvality vo vybraných európskych krajinách*. Scientific Monograph. Nitra: SPU, 2011. pages 158. ISBN 978-80-552-0686-8.

HORSKÁ, Elena – PALUCHOVÁ, Johana - PROKEINOVÁ, Renáta. 2011. *Consumers' food choice and quality perception: Comparative analysis of selected Central European counties*. In: Agricultural economics. ISSN 0139-570X. Per. 57, No. 10 (2011), pages 493-499.

McDANIEL, Carl. 2011. *Marketing Research Essentials*. Published by: Wiley John & Sons, 2011. pages: 528. ISBN 10: 0470169702. ISBN 13: 9780470169704.

KENNEDY, Anne F. 2012. *Global Search Engine Marketing: Getting Better International Search Engine Results*. Published by: Que, 2012. pages: 297. ISBN 10: 078974788X. ISBN 13: 9780789747884.

### Literature

BÁRTOVÁ, H. – BÁRTA, V. – KOUDELKA, J. 2004. *Chování spotřebitele a výzkum trhu*. Praha: Nakladatelství Oeconomica. Vysoká škola ekonomická, 2004. pages 243. ISBN 80-245-0778-1.

BLOCK, M. P. – BLOCK, T. S. 2005. *Business to Business Marketing Research*. 1<sup>st</sup> edition. South-Western Educational Pub, 2005. pages 288. ISBN-10: 0324222300. ISBN-13: 978-0324222302.

CATEORA, R. P. – GRAHAM, L. J. 2005. *International Marketing*. USA-New York: McGraw-Hill/Irwin, 2005. pages 697. ISBN 0-07-283371-8.

CRAIG, C. S. – DOUGLAS, P. S. 2005. *International Marketing Research*. 3<sup>rd</sup> edition. West Sussex – England: John Wiley&Sons Ltd., 2005. pages 425. ISBN 0-470-01095-9.

GRIFFITH, W. T. 2001. *The Physics of Everyday Phenomena: A Conceptual Introduction to Physics*. New York: McGraw-Hill Higher Education, 2001. page 3. ISBN 0-07-232837-1.

HORSKÁ, E. 2007. *Medzinárodný marketing*. 1<sup>st</sup> edition. Nitra: SPU, 2007. pages 223. ISBN 978-80-8069-938-3.

HORSKÁ, E. et al. 2008. *Internacionalizácia agropotravinárskych podnikov*. Scientific Monograph. 1<sup>st</sup> edition. Nitra: Slovenská poľnohospodárska univerzita v Nitre, 2008. pages 234. ISBN 978-80-552-0136-8.

- HORSKÁ, E. - BERČÍK, J. 2013. *The influence of light on Consumer Behavior at the Food Market*. pages 104–117. In Conference Proceeding. Part 1: International Food Marketing Research Symposium. June, 20-21th, 2013. Budapest-Hungary: Published by Institute of Food Products Marketing. pages 156. ISBN 978-0-9856080-1-9.
- JOBBER, D. – FAHY, J. 2006. *Foundation of Marketing*. 2<sup>nd</sup> Edition. UK: McGraw-Hill Education, 2006. pages 376. ISBN-13 978-0-07-710918-9. ISBN-10 007710918x.
- KLEINOVÁ, K. 2012. *Marketing Research: Implications for the V4 Food Market*. 339–356 pages. In HORSKÁ, Elena et al. 2012. *Food Sciences&Business Studies. Global-Regional-Local Approach*. Book for university students. Nitra: SPU, 2012. pages 410. ISBN 978-80-552-0815-2.
- KRETTNER, A. et al. 2010. *Marketing*. 4<sup>th</sup> edition. Nitra: Slovenská poľnohospodárska univerzita, 2004. pages 288. ISBN 978-80-552-0355-3.
- MACHKOVÁ, H. 2009. *Medzinárodný marketing*. 3<sup>rd</sup> edition. Praha: Grada Publishing, 2009. pages 196. ISBN 978-80-247-2986-2.
- MARKET RESEARCH BY DJS RESEARCH Ltd.2012. [cit. December, 4<sup>th</sup>, 2012]. Available on Internet <<http://www.marketresearchworld.net/content/view/14/38/>>.
- PARSONS, E. – MACLARAN, P. 2009. *Contemporary Issues in Marketing and Consumer Behavior*. 1<sup>st</sup> edition. New York, USA: Butterworth-Heinemann, 2009. pages 219. ISBN 978-0-7506-8739-3.
- RESEARCH DESIGN: B2B International. 2012. [cit. December, 4<sup>th</sup>, 2012]. Available on Internet< [http://www.b2binternational.com/assets/ebooks/mr\\_guide/03-market-research-ch3.pdf](http://www.b2binternational.com/assets/ebooks/mr_guide/03-market-research-ch3.pdf)>.
- ROVNÝ, P. et al. 2010. *Food chain management: European experiences and local solutions*. 1<sup>st</sup> edition. Graz: Mail Boxes Etc., 2010. Pages 170, ISBN published in Austria. ISBN 3-902103-24-8.
- SCHIFFMAN, G. L. – KANUK, L. L. 2004. *Nákupní chování*. 1<sup>st</sup> edition. Brno: Computer Press, 2004. pages 633. ISBN 80-251-0094-4.
- YOUNG, R. B. – JAVALGI, R. G. 2007. *Business Horizons*. pages 113–122. [cit. November, 23<sup>th</sup>, 2012]. Available on Internet< <http://uwacadweb.uwyo.edu/mpeterson/Marketing%20Research/Ch.%207%20Observation/International%20Marketing%20Research.pdf>>.
- ZIKMUND, W. G. – BABIN, B. J. – CARR-MITCHELL, J. C. 2010. *Business Research Methods*. 8<sup>th</sup> edition. Canada: South-Western, 2010. 674 pages. ISBN-13: 978-1-4390-8070-2. ISBN-10: 1-4390-8070-4.



# CHAPTER

## MARKET ENTRY MODES FOR INTERNATIONAL BUSINESSES

# 7

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Understand differences between exporting, contractual and investment modes.
2. Distinguish between direct and indirect exporting modes.
3. Describe and understand four main entry modes of indirect exporting, four main forms of direct exporting, and two main modes of cooperative exporting and main contractual and investment modes of entry.
4. Discuss the advantages and disadvantages of the main entry modes.



- Similarity of cultural environment in Visegrad countries enables to consider markets of Visegrad countries as a whole and supply with Christmas chocolate specialties all of them using direct export. Multi language Visegrad version is the best example how to create standardized product that fits the needs of regional (Visegrad) market. **Photo:** Štefan Horský, 2013

### Introduction

This book takes a very broad understanding of business internationalization by Welch and Loustarinem (1988), who define internationalization as the process of increasing involvement in international business activities. The choice of entry modes (internationalization methods, forms, instruments or ways) depends on both endogenous factors (mainly business potential) as well as exogenous factors (describing the business position in the target market or the industry in which the firm operates). The maturity for internationalization of activities plays a crucial role while considering the entry mode. In the literature, there are different models explaining the internationalization of the firm and the entry modes. The different forms of entry into foreign markets have different efficiency, but also a variety of input costs. It seems that the most common taxonomy distinguishes three fundamental groups, namely: exporting modes; contractual modes; investment modes (Figure 7.1 and Table 7.1).

## 7.1 Exporting Modes

The first group of entry modes concerns the sphere of exchange and is dedicated to international trade, mainly by addressing export and import activities. Import of raw materials from abroad, is usually preliminary to export of products abroad. This phase is associated with low risk. The firm only realizes foreign orders as they are received. In most cases this is the only form of engagement (especially SMEs) in international activities. This phase is a natural consequence of growth and occurs when the firm after reaching all its capabilities in the domestic market and achieving an appropriate volume of production, as well as surplus production, aims to expand its market and start exporting. The motive of entering foreign markets is the ability to make profits in these markets, as the firm gains more and more profits in the domestic market. Exporting activities can take various forms, including: indirect export, direct export, as well as take other specific forms of exporting. A similar effect can be achieved by using international mail ordering (e-commerce), but it is not a typical form of exporting (Czinkota and Ronkainen, 2007).

In indirect export modes the manufacturer uses independent export intermediaries located in its own country, so the manufacturer doesn't have a direct contact with international customers or partners and the transaction is treated as a domestic one

In indirect export modes the manufacturer uses independent export intermediaries located in its own country, so the manufacturer doesn't have a direct contact with international customers or partners and the transaction is treated as a domestic one. There are the following types of indirect export intermediaries (Hollensen, 2007; Cullen and Parboteeah, 2010):

- the **export commission house** (ECH) that is a representative of foreign buyers who is located in the exporter's home country, offering services to the foreign buyers such as identifying potential sellers and negotiating prices,
- the **export/import broker** as a specialist in performing the contractual function, and does not actually handle the products sold or bought, bringing a buyer and a seller together,
- the **export management company** (EMC) that is an intermediary specializing in particular types of products or particular countries or regions,
- the **export trading company** (ETC) that is an intermediary similar to EMC, but it usually takes the claim to the product before exporting.

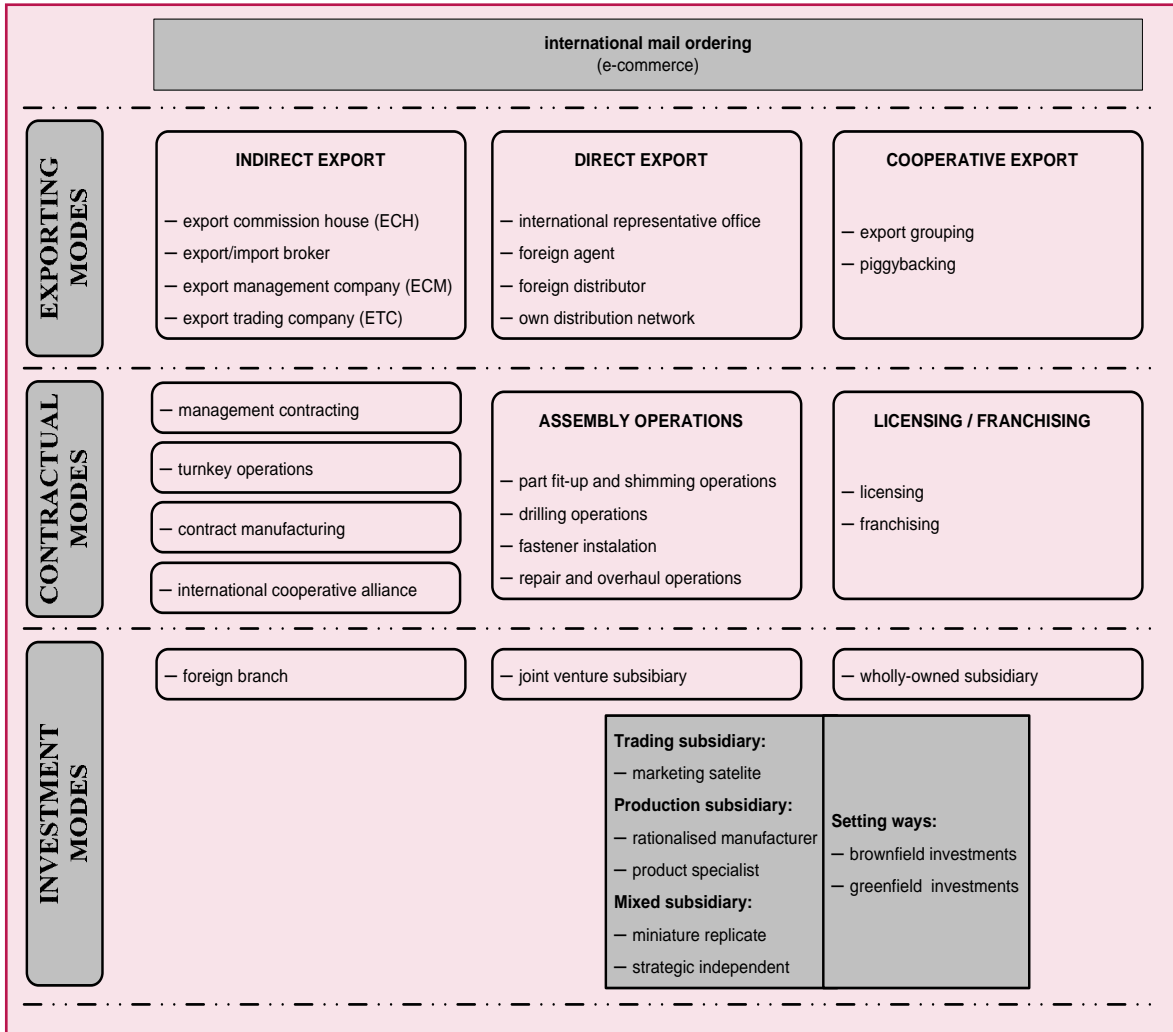
While implementing direct exporting, exporters take on the duties of intermediaries and make direct contact with customers in the foreign market

While implementing direct exporting, exporters take on the duties of intermediaries and make direct contact with customers in the foreign market. Direct exporting can be performed in several ways, most commonly by (Hirsch, 2010; Stone and McCall, 2004):

- an **own representative office** operating on a transfer of rights and obligations of the parent company, since its function is reduced to a mere marketing activities,

## Market entry modes for international businesses

- a **foreign agent** acting on behalf of the exporter and its name,
- a **foreign distributor** acting on its own account and on its own behalf,
- its **own distribution network** abroad, where exporting is combined with foreign direct investment, mostly in the form of a trading or commercial subsidiary.



■ **Figure 7.1** Types of entry modes  
**Source:** own study

The representative office can act as a salesman for foreign trade contracts (negotiating the terms of delivery and conducts market research, which is necessary for direct exporting). A national sales representative can be formed in three ways as:

- an own employee of a business delegated abroad for a given period (working abroad only temporarily),
- an own local employee of a business (employed directly by the parent company abroad),
- a local business partner (representing only the interests of its principal, which is the parent business).

## Market entry modes for international businesses

**Table 7.1** Advantages and Disadvantages of Different Modes of Internationalization

Mode	Characteristics	Advantages	Disadvantages
<b>A. Exporting modes</b>			
<b>Indirect Export</b>	The sale of goods or services through the domestic intermediary	<ul style="list-style-type: none"> <li>– low entry cost</li> <li>– low financial risk</li> <li>– entry difficulties are lied on the domestic intermediary</li> <li>– low staffing requirements</li> <li>– lack of marketing costs</li> <li>– the least complicated mode of internationalization</li> <li>– relatively simple extension of sales markets</li> </ul>	<ul style="list-style-type: none"> <li>– low profitability of the transactions</li> <li>– full dependence on the domestic intermediary</li> <li>– lack of knowledge on the foreign market(s)</li> <li>– inability to gain international experience</li> <li>– the domestic intermediary can find a better provider</li> <li>– an intermediary may itself start the production in the country</li> </ul>
	Direct Export through a <b>foreign agent</b> (as a foreign intermediary)	<ul style="list-style-type: none"> <li>– low entry cost</li> <li>– moderate financial risk</li> <li>– the agent overcomes the difficulties of entry</li> </ul>	<ul style="list-style-type: none"> <li>– low profitability of the transactions</li> <li>– high dependence on the foreign agent</li> <li>– inability to gain international experience</li> </ul>
<b>Direct Export</b>	Direct Export through a <b>foreign distributor</b> (as a foreign intermediary)	<ul style="list-style-type: none"> <li>– relatively low staffing requirements</li> <li>– lack of marketing costs</li> </ul>	<ul style="list-style-type: none"> <li>– an agent can find a better provider</li> <li>– high transport costs</li> <li>– potential trade barriers</li> </ul>
	Direct Export through a <b>representative office</b>	<ul style="list-style-type: none"> <li>– physical presence on foreign markets</li> <li>– direct contact with foreign Customer</li> <li>– the permanent possibility to respond to foreign market signals</li> </ul>	<ul style="list-style-type: none"> <li>– the relatively high costs of maintaining a representative office</li> <li>– high transport costs</li> <li>– potential trade barriers</li> </ul>
	Direct Export through <b>an own foreign distribution network</b>	<ul style="list-style-type: none"> <li>– physical presence on foreign markets</li> <li>– very good direct contact with foreign customers</li> <li>– full control over the sales process</li> <li>– relatively high profitability compared with other forms of exporting</li> </ul>	<ul style="list-style-type: none"> <li>– high entry cost</li> <li>– high cost of maintaining the own distribution network</li> <li>– time-consuming of building up the own distribution network</li> </ul>
	Cooperative export	<ul style="list-style-type: none"> <li>export grouping</li> <li>piggybacking</li> </ul>	<ul style="list-style-type: none"> <li>– distribution of costs for partners</li> <li>– synergy effect</li> </ul>
<b>B. Contractual modes</b>			
<b>Management contracts</b>	An exporter provides management services for a company that is owned by the importer	<ul style="list-style-type: none"> <li>– low capital commitment</li> <li>– low risk</li> <li>– gaining experience on the foreign market(s) by domestic managers</li> <li>– can be regarded as a “substitute” form of foreign market entry</li> </ul>	<ul style="list-style-type: none"> <li>– relatively low profitability</li> </ul>
<b>Turn-key operations</b>	Any complete construction of any industrial plant abroad	<ul style="list-style-type: none"> <li>– potential higher profits</li> <li>– chance of a permanent presence on the foreign market(s) after the completion of the investment</li> <li>– ability to earn returns from technologies in countries where FDI is restricted</li> </ul>	<ul style="list-style-type: none"> <li>– require high costs</li> <li>– a form difficult to implement</li> <li>– high financial risks</li> </ul>

## Market entry modes for international businesses

**Continued Table 7.1**

Mode	Characteristics	Advantages	Disadvantages
<b>Subcontracting</b>	The foreign counterparty shall have a domestic manufacturing company to execute a specific order (components or semi-finished products)	<ul style="list-style-type: none"> <li>– low capital commitment</li> <li>– low risk</li> </ul>	<ul style="list-style-type: none"> <li>– relatively low profitability</li> <li>– inability to gain international experience</li> <li>– weak position of the exporter in negotiations with the consignee</li> </ul>
<b>Licensing</b>	Sales abroad of rights covered by a patent or design or any intellectual property to be used for commercial purposes	<ul style="list-style-type: none"> <li>– low entry costs</li> <li>– low financial risk</li> <li>– ensuring a steady income</li> <li>– a strong presence in foreign markets by commercial brand and logo</li> <li>– the licensee knows the local conditions</li> <li>– does not require a large commitment of staff</li> </ul>	<ul style="list-style-type: none"> <li>– the possibility to lose control over technologies and know-how</li> <li>– lack of control over the maintenance of the quality on the foreign market(s)</li> <li>– the threat of disloyalty of the licensee</li> <li>– relatively low income (royalties) compared to other forms of internationalization</li> </ul>
<b>Franchising</b>	Sales of the rights by the domestic franchisor to conduct commercial activity by a foreign franchisee	<ul style="list-style-type: none"> <li>– low entry cost</li> <li>– the possibility of rapid foreign expansion</li> <li>– the possibility of a simple expansion of both the large and distant markets</li> </ul>	<ul style="list-style-type: none"> <li>– requires some control cost</li> <li>– sharing profits gaining from foreign markets between the foreign franchisee(s) and a domestic franchisor</li> <li>– requires appropriate qualifications of franchisees</li> <li>– the possibility of potential conflicts between the partners</li> <li>– the possibility of difficulties in maintaining uniform standards and quality</li> <li>– the possibility of franchisee(s)' disloyalty</li> </ul>
<b>C. Investment modes</b>			
<b>Branch</b>	The creation of an organizational unit of the parent company on a foreign market, which is an organizational and legal part of that company	<ul style="list-style-type: none"> <li>– full control – holding centralized control</li> <li>– relatively good image of the branch on the local market</li> </ul>	<ul style="list-style-type: none"> <li>– relatively complicated registration procedures</li> </ul>
<b>Joint venture subsidiary</b>	The creation of a foreign subsidiary jointly controlled (minority and majority interests) by the parent company and a foreign partner	<ul style="list-style-type: none"> <li>– synergy effect</li> <li>– a combination of knowledge of the exporter and a local partner</li> <li>– spreading the risk between the exporter and the partner</li> <li>– good image of such a company on the local market (politically acceptable)</li> </ul>	<ul style="list-style-type: none"> <li>– high entry cost</li> <li>– high risk</li> <li>– potential conflicts of interest of the exporter and the partner</li> <li>– complicated registration procedures</li> </ul>
<b>Wholly-owned subsidiary</b>	The creation of a foreign subsidiary wholly owned (100%) by a parent company	<ul style="list-style-type: none"> <li>– full control – holding centralized control</li> <li>– good image of such a company on the local market</li> <li>– potentially the highest profitability</li> </ul>	<ul style="list-style-type: none"> <li>– high entry cost</li> <li>– high risk</li> <li>– complicated registration procedures</li> </ul>

**Source:** (Wach, 2012, p. 101–103).



## Market entry modes for international businesses

Such a representative office can take many forms, while traditional agencies (foreign agents) are the most popular, however there are also marketing offices, technical offices, information offices and consultation offices. Agents and distributors generally obtain territorial exclusivity to sell the goods, usually limited to one foreign market (exclusive importer). A foreign agent can also work on an exclusive basis (exclusive agent), but there are also semi-exclusive agents, who serve at the same time some exporters, but offering uncompetitive goods (Hollensen, 2007).

Cooperative exporting is recommended entry mode especially for small and medium-sized firms, due to their resource constraints (mainly financial and human). They are two basic modes of cooperative exporting, namely export grouping (export consortium) and piggybacking.

Export consortia tend to be most often defined as the voluntary alliances companies tied to foreign joint promotion of products and services of its members (Green, Russo and Papi, 2003). They can be formalized or based on a loose cooperation between enterprises, especially of micro, small and medium size. Their largest advantage is spreading the cost of export activity for members of the consortium, which allows SMEs to overcome one of the main barriers to internationalization, which is their limited financial resources.

Piggybacking (Hollensen, 2007; Terpstra and Chwo-Ming, 1990) is the entry mode where the contract parties are two entities, known as a rider and a carrier. The first one is usually a small entrepreneur, and the other one is of large size. A carrier carries out business in foreign markets offering to a rider its own distribution network. For the access it charges a commission from the firm planning to start export activities. The products offered by the cooperating firms should be complementary. This form of export is beneficial to both parties, but carries certain risks. A carrier can thus complement its product line, but also lower maintenance costs borne by its own distribution network abroad by sharing them with a rider. Risk of low quality products of his co-operator, which may jeopardize his reputation, but also timely delivery, may be potential drawbacks to a carrier. The largest advantage for a rider is the access to the foreign distribution network, and the disadvantage is the loss of control over the distribution of its products. This mode is particularly recommended for micro and small businesses who are not able to make their own foreign investment.

## 7.2 Contractual Modes

The second group of entry modes relates to cooperative relations implemented through contacts with foreign partners, mostly manufacturers

The second group of entry modes relates to cooperative relations implemented through contacts with foreign partners, mostly manufacturers. These modes include **inter alia** international licensing, international franchising, international subcontracting, buy also various assembly operations.

**Management contracting** is a type of a knowledge-based service of management (know-how). A foreign firm acquires operational management services from a domestic firm, that after the execution of the contract usually does not plan to be present in the market, although it may turn out that gained experience will result in permanent presence in foreign markets.

**Turnkey operations** contain an element of co-operation, however they are carried out as **de facto** export of services, but their main feature is contractility. These are agreements between the importer (buyer) of the exporter (seller), under which the latter undertakes to execute the contracted investment in a given period of time in accordance with the requirements of the buyer, as a result, transferring the complete investment (hence the term “turnkey”). Very often, these investments are overseen by the staff of the importer (Onkvist and Shaw, 2004).

**Contract manufacturing**, also known as international subcontracting, is used by firms that hire part of its production outside the country, mainly in order to lower the cost of labour or raw materials. Such a situation in terms of the concept of J. Dunning is associated with the resources seeking and efficiency

seeking motives. Small and medium-sized enterprises are usually and mostly international contractors. Subcontracting may deal with components or semi-finished elements and in this case it takes the form of exporting. Whereas for complete products, it is done as means of production outsourcing, and the parent firm only takes control, marketing and trading, as well as research and development functions (Hollensen, 2007).

**Assembly operations** rely on a specific form of cooperation between firms, where a foreign firm contracts to a domestic firm broadly and strictly defined assembly performance in accordance with its instructions (Onkvist and Shaw, 2004). The modes can be divided into a number of specific variations, such as:

- **part fit-up and shimming operations** during which a semi-product which is sent abroad to continue to undergo various stages of the manufacturing process or treatment, and then returned to their country of origin,
- **drilling operations** as well as **fastener installations**, in which reputable companies outsource their products in accordance with the specifications, based on supplied designs, projects, and sometimes providing materials,
- **repair and overhaul operations**, where goods are sent abroad to have it repaired and then return to their country of origin.

International **licensing** is a contractual agreement between a domestic licensor and a foreign licensee (licensor usually has a valuable patent, technological know-how, trademark, or company name that it provides to the foreign licensee) (Cullen and Parboteeah, 2010).

International **franchising** by its nature acts similarly as licensing, however, concerns the sphere of trade and distribution in the wider services sector. Due to the much lower start-up costs of such activities, this form is particularly popular among SMEs, especially among self-employed or micro-enterprises, especially in the European Union (Stone and McCall, 2004).

### 7.3 Investment Modes

A common typical feature of investment modes is the physical and the constant presence of international businesses in foreign markets by making the investment in the form of setting up their foreign branches or foreign subsidiaries (partially or fully depended). These modes are based on foreign direct investment. They provide lower production costs and a direct presence in a foreign market. Foreign investment can be created in two ways, as:

- **brownfield investment** that is the mergers and acquisitions (M&A) of local firms,
- **greenfield investment** that is by investing from the beginning (Figure 7.2).

As for the organization term, the investment modes are usually divided into two basic types (Czinkota and Ronkainen, 2007):

- a foreign branch,
- a subsidiary.

The concept of a subsidiary is not clearly defined in the literature. In practice, it refers to a company in which the parent company holds a majority of shares or other resources that are controlled. In the case where the subsidiary is 100% owned by the parent company is called a **wholly-owned subsidiary**, otherwise we talk about a **joint venture subsidiary** (minority interests, joint control, majority interests).

A foreign **branch** is entirely owned by the parent company. It does not have a separate legal status, because it is an integral part of the parent company, and thus subject to both the laws of the country of origin and the host. The division operates under the management of the parent company, and its

A common typical feature of investment modes is the physical and the constant presence of international businesses in foreign markets by making the investment in the form of setting up their foreign branches or foreign subsidiaries

## Market entry modes for international businesses

commitment is entirely consistent with the parent company. The scope of activities of the branch can not be greater than this of the parent company, although in practice it is frequently narrower. Branches are early modes of hierarchical forms of internationalization, which as a result of their success very often lead to the transformation into subsidiaries (Hollensen, 2007).



■ **Figure 7.2** As a part of VUSG project “International Marketing: A Visegrad Perspective, Nr. 61100001” students visited Business Park in Znojmo, Czech Republic as an example of greenfield investment due to good location, and qualified and relatively cheap labor source  
**Photo:** Johana Paluchová, Znojmo 2013

A **subsidiary** has a separate legal status and is a separate entity operating under the laws of its country of legal foreign location. However, in legal terms, subsidiaries are created in one of the legal forms of economic activities occurring in the law of the host country.

Due to the range of activities and the degree of freedom, Poynter and White (1984) distinguish five fundamental activities of affiliated entities:

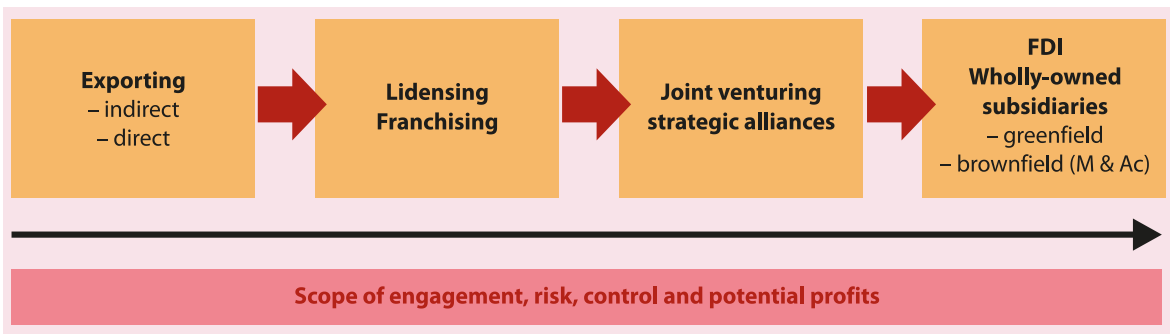
- a miniature replicate, when all or most of the activities of the parent company are covered by a subsidiary,
- a marketing satellite, when the subsidiary sells in the local market to foreign products produced centrally (trading or commercial subsidiary),
- a rationalized manufacturer, when a subsidiary produces a specific set of parts or products for use in the international markets,
- a product specialist, when a subsidiary produces a limited range of products for the global market (production specialization),
- a strategic independent (an independent subsidiary), when a subsidiary has a strategic independence of its operations from the parent company.

## 7.4 Entry Mode Choice

Discussed entry modes (exporting, contractual and investment forms) differ in many ways (Figure 7.3). The most important of them, which may be the criteria for their selection are (Baorakis, Katsiolouides and Hadjidakis, 2007):

- scope of capital commitment,
- scope of management commitment,
- scope of control,
- scope of risk,
- scope of potential profits,
- scope of input costs.

These criteria are a natural way to determine the choice of entry mode. Issues related to financing (capital resources), in case of small and medium-sized enterprises in particular, make it impossible to chose more advanced modes of presence in foreign markets.



■ **Figure 7.3** Basic characteristics of entry modes  
 Source: adopted from (Baorakis, Katsiolouides and Hadjidakis, 2007, p. 238)



### V4 MARKETING INSIGHTS

**Comarch S.A.** (plc.) was established in Kraków in 1991. The internationalization process began in 1999 as a result of the establishment of the first subsidiary of **Comarch Global Inc.** based in Washington, DC, in which **Comarch S.A.** had 90% of shares. In 2000, a group of foreign troops, joined an affiliate **Comarch Software AG**, located in Frankfurt am Main. One year later, following the acquisition of all shares by **Comarch S.A.**, changed the legal nature of the related party, resulted in becoming a wholly-owned subsidiary. Meanwhile **Comarch S.A.** contracted a number of significant cooperation contracts. The first consisted of co-operation with Nokia Networks, in joint research and software development. The second and third one were carried out in the United Arab Emirates in a consortium with local partners to provide a billing system for **Dubai Internet City**. Very

soon the company gained three major customers, namely **Terra Telecommunications Corp.** (a large telecommunications company in the U.S.), **Enitel Nicaragua** (the largest national operator), DTMS AG (the German market leader in business phone services). The presence on the French market was initiated by taking co-operation with **Steria**. However, in the eastern markets a foreign branch was established in Moscow in 2003. This resulted in the creation of representative offices in Kiev, Bratislava, Dubai and Panama, and two years later in Vilnius. In the following years the company noted very dynamic growth on German and French markets. **Comarch**, as a Kraków based holding, registered two companies in the Far East, specifically in China and Vietnam, not planning deeper greater investment. The main reason for this decision is the difficulty caused by the



## Market entry modes for international businesses

reluctance of Chinese local companies to Western partners, as well as the controversial actions of the local government. Therefore, at the beginning of 2010, the talks on the creation of a joint venture

with a leading provider of IT infrastructure in China, the company Inspur, started, in order to take advantage of local expertise.



Hollensen (2007) suggests a more complex model of entry mode choice taking into account four determinant groups of decision-making, namely (Figure 7.3):

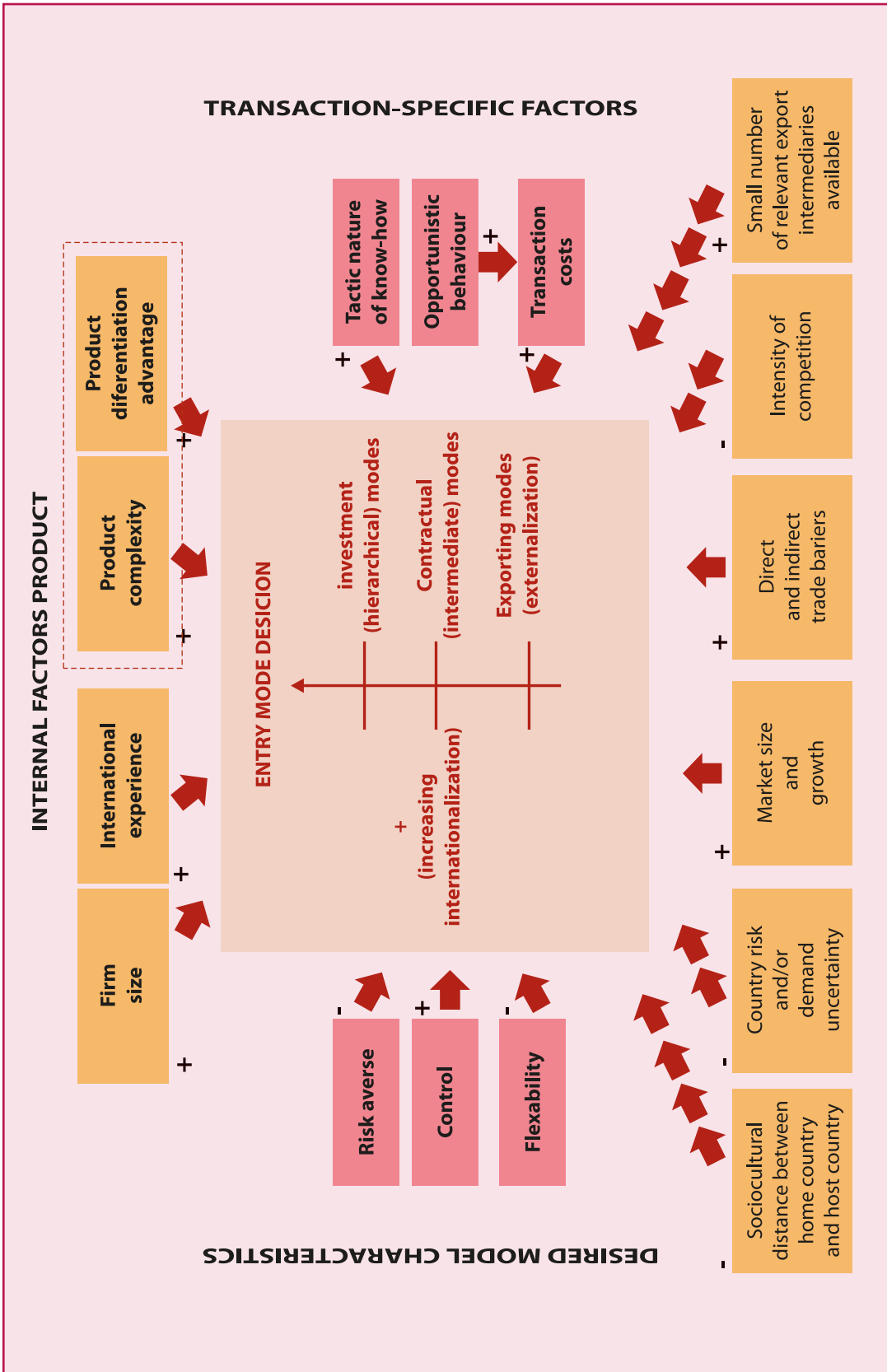
- internal factors associated with the firm, including the product and its advantage as a subgroup of these factors,
- external factors dealing with the environment of the host country, as well as the home country (Figure 7.4),
- specific characteristics of different modes that has been discussed above (Figure 7.5 and Table 7.2),
- transaction-specific factors.

In total, Hollensen distinguishes 16 different determinants, which have bipolar impact on the process of internationalization, that is increasing (+) or decreasing (-) the intensity of internationalization (the latter increase the externalization at the same time).



- **Figure 7.4** While discussing the opportunities and barriers of exporting biscuits products to Central Europe the large distance and its impact on price increase was identified as the basic obstacle for more intensive mutual business relations with Maltese companies. In Consolidated Biscuit, Co. Ltd. Birkirkara, Malta  
**Photo:** Štefan Horský, 2010





■ **Figure 7.5** Factors affecting market entry choice  
 Source: adapted from (Hollensen 2007, p. 298) with the modified layout.

## Market entry modes for international businesses

**Table 7.2** Strategic determinants of entry mode choice

Entry modes		Indirect export	Direct export	Licensing and/or franchising	Joint venture subsidiary	Wholly-owned subsidiary
Exporter's situation						
Strategic intent	Immediate profit	✓✓✓	✓✓✓	✓✓	✓	✓
	Learn the market			✓	✓✓	✓✓✓
Need for control	High				✓✓	✓✓✓
	Low	✓✓✓	✓✓	✓		
Company resource	International expertise		✓		✓✓✓	✓✓✓
	Strong financial position				✓✓	✓✓✓
Product	Easy to adopt		✓✓	✓✓	✓	✓✓
	Difficult to adopt				✓✓✓	✓✓✓
Transport	Easy to transport	✓✓		✓✓	✓✓	✓✓
	Difficult to transport		✓✓	✓✓	✓✓✓	✓✓✓
Local government	Favourable regulatory environment		✓	✓	✓✓	✓✓✓
	Unfavourable regulatory environment	✓✓✓	✓			
Geography	Long distance between markets			✓✓	✓✓	✓✓
	Short distance between markets	✓✓	✓✓✓			
Culture	Large cultural distance	✓✓	✓	✓✓	✓✓✓	✓
	Small cultural distance	✓✓✓	✓✓✓		✓	✓✓✓

**Source:** adopted from (Cullen, Parboteeah, 2010, p. 296).

### Summary

The chapter is devoted to entry modes into foreign markets, as well as determinants affecting the choice of a particular entry mode. The modes are discussed in three main groups, namely exporting modes, contractual modes (also known as non-equity modes, cooperation modes or intermediate modes) and investment modes (also known as hierarchical modes or equity modes). The direct and indirect exporting, as the most popular modes, are focused in the chapter. However cooperative exporting like export consortium and piggybacking is also described. As for the contractual modes, the chapter elaborates the following ones: managerial contracting, turnkey operations, contract manufacturing, as well as assembly operations. Finally the investment modes as a foreign branch, a joint venture subsidiary and a wholly-owned subsidiary are discussed.

**Key terms:** Entry mode, indirect export, direct export, export grouping, piggybacking, agent, distributor, licensing, franchising, assembly operations, contract manufacturing, branch, subsidiary, joint venture, brownfield investment, greenfield investment



### QUESTIONS FOR DISCUSSION

1. Point out as many entry modes as you are able to and give a brief characteristics of them as well as advantages (strengths) and disadvantages (weaknesses), please.
2. What are the differences between particular investment modes? Which of them are used in what situations?
3. Which entry modes are most often used by SMEs and large corporations? Explain why?
4. What determinants should be taken into consideration while selecting an entry mode? In what way do these factors affect the entry mode choice?

### Further Recommended Readings

DASZKIEWICZ, N. – WACH, K. 2012. *Internationalization of SMEs. Context, Models and Implementation*. Gdańsk : Gdańsk University of Technology Publishers, 2012

### Literature

- BAORAKIS, G. – KATSILOUDES, M. I. – HADJIDAKIS, S. 2007. *Entering the International Market* (chapter 8) [w:] M.I. Katsioloudes, S. Hadjidakis, *International Business. A Global Perspective*, Elsevier, Burlington MA.
- CULLEN, J. B. – PARBOTEEAH, K. P. 2010. *International Business. Strategy and the Multinational Company*, Routledge, New York.
- CZINKOTA, M. R. – RONKAINEN, I. A. 2007. *International Marketing*. 8<sup>th</sup> edition, Thomas South-Western, Mason, OH.
- GREEN-CLOWES, M. et al. 2000. *Transforming Europe: Europeanization and Domestic Change*. red. M. Green-Cowles, J. Caporaso, T. Risse, Cornell University Press, Ithaca – London.
- HISRICH, R. D. 2010. *International Entrepreneurship. Starting, Developing and managing a Global Venture*. Sage, Los Angeles – London.
- HOLLENSSEN, S. 2007. *Global Marketing: A Decision-Oriented Approach*. 4<sup>th</sup> Edition, Pearson Education, Harlow.
- ONKVIIST, S. – SHAW, J. J. 2004. *International Marketing. Analysis and Strategy*. 4<sup>th</sup> edition, Routledge, New York – London.
- POYNTER, T. A. – WHITE, R. E. 1984. *The Strategies of Foreign Subsidiaries: Responses to Organisational Slack*. *International Studies of Management and Organisations*, vol. 14, no. 4, pp. 91–106.
- STONE, A. – McCALL, J. B. 2004. *International Strategic Marketing. A European Perspective*. Routledge, London.
- TERPSTRA, V. – CHO-MING, Y. 1990. *Piggybacking: A Quick Road to Internationalisation*. In *International Marketing Review*, vol. 7, no. 4, s. 52–63.
- WACH, K. 2012. *Europeizacja małych i średnich przedsiębiorstw. Rozwój przez umiędzynarodowienie [=Europeanization of small and medium-sized enterprises. International growth]*. Warszawa : PWN.
- WELCH, L.S. – LOUSTARINEN, R. 1988. *Internationalization: Evolution of a Concept*. In *Journal of General Management*, vol. 14, no. 2, pp. 36–64.



# PART IV

## INTERNATIONAL MARKETING PROGRAM







# CHAPTER

## INTERNATIONAL PRODUCT POLICY AND INNOVATIONS FOR VISEGRAD COUNTRIES

# 8

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Explain differences between standardization and adaptation of product.
2. Characterize basic brand strategies used in international marketing and occurrence the country of origin effect.
3. Define general notion of innovation and product innovation.
4. Indicate examples of new product classification and understand the factors of success and failures of new products both on the home and international market.



■ Czech traditional store in the centre of Prague, Czech Republic. Shop window invites tourists to buy through the well-known Czech food and drinks. **Photo:** Johana Paluchová, Prague 2013

## Introduction

A characteristic feature of international marketing activity of an enterprise is matching individual elements of marketing mix to the requirements of the countries in which the enterprise wants to operate. In view of the above, international marketing usually cannot be correlated with the domestic marketing. Marketing knowledge and skills acquired in one's own country not always can be applied on international markets.

## 8.1 Product Strategies on International Market

Product policy realized by a company on the international market is usually quite different than the one realized on a domestic market. It is affected by the fact that in this case both the macro-environment of the company and its competitive environment may be extremely different from the domestic environment. Decisions concerning a product on foreign markets are the first step of a firm in planning the whole composition of marketing-mix, comprising also an assessment, distribution and promotion.

The effectiveness on international markets depends on proper balancing the proportions between the elements of product which may be universal and those which require adjustment to specific requirements of different markets (Mazurek-Łopacińska).

The aim of the company activities concerning a project is developing its features and functions in such a way as to increase chances to gain competitive advantage on the international market. The success is conditioned by a sufficiently strong connection of these features with the needs and expectations of potential purchasers, which are partly universal and partly diversified across countries and regions. Prior to making decision about the proportions between the product features which may be global and those which should be considered as specific, diversified requirements of potential clients, all reasons for the product standardization or its adaptation should be analyzed in-depth (Mazurek-Łopacińska, 2014).

Standardization means offering by the company the same or similar product on all foreign markets, whereas adaptation (individualization) relies on its adjustment to the requirements resulting from cultural, social, political and economic differences occurring between foreign markets. The scope of these differences determines selection of a suitable strategy and introducing necessary changes in the product (Duliniec, 2009). Division of product strategies on the international market due to the degree of changes in the product is shown in the Figure 8.1.

Standardization means offering by the company the same or similar product on all foreign markets, whereas adaptation (individualization) relies on its adjustment to the requirements resulting from cultural, social, political and economic differences occurring between foreign markets



■ **Figure 8.1** Division of product strategies on the international market due to the degree of changes in the product

Source: own elaboration based on Adamczyk and Witek, 2008

The use of standardization strategy allows to (Wiktor, Oczkowska and Żbikowska, 2008):

- achieve economies of scale – extension of production lines leads to diminishing unit costs,
- decrease in funds for research and development – which may be allocated to seeking new solution or product and not on adjusting a product to the predilections and preferences of final consumers,
- savings in promotion budget resulting from harmonization of strategies,
- strengthening consumer loyalty – if a product can be bought during a foreign trip (e.g. Hilton hotel services, Coca-Cola or Wrigley chewing gum).

Unfortunately, not all products are equally suited for standardization. Among consumer goods, durable products are easier to standardize than non-durable ones. The products which are more than other susceptible to standardization comprise e.g. electronic equipment, household goods, luxury goods (jewelry or perfumes), sports equipment, computers or mobile phones (Adamczyk and Witek, 2008). Foodstuffs are more difficult to standardize – they are adapted to tastes, styles and habits of local consumers.

An example of the company which uses standardization strategy on the international market is IKEA which offers the identical assortment of furniture and other interior design products all over the world. Beside shops the firm has also its own manufactures. The designs are created in the firm main seat, whereas its products are manufactured on commission of IKEA in its own factories or in over 150 manufactures in 50 different countries on 5 continents (Grzegorzcyk, 2005).

Adaptation of material product features to the specificity of foreign market may result from the conditionings whose sources are different elements of the international environment. Some of them are imposed by e.g. legal regulation or some objective physical conditions. The others should be taken into consideration as specific requirements of competitiveness on a given market (Duliniec, 2009). The adaptation strategy is supported by the following premises (Gwiazda, 1998; Wiktor, Oczkowska and Żbikowska, 2008):

- different specificity of the market (consumer tastes and preferences in respective countries which differ from consumers in other countries),
- different conditions of use (e.g. climatic and physical conditionings),
- legal regulations concerning the labeling, packaging or the use of particular raw materials,
- demand for additional varieties of product (Figure 8.2)
- activities of competition,
- firm's internal factors.



■ **Figure 8.2** Demand for additional varieties of the product is one of the reasons for adaptation. Taste of local drink Buratino was used to develop a special variety of Fanta “Buratino” for Russian and Kazakh market

**Photo:** Elena Horská, Almaty 2011, 2012

## International Product Policy and Innovations for Visegrad Countries

Adaptation strategy may be forced or voluntary therefore its two varieties should be mentioned (Adamczyk and Witek, 2008):

- **Strategy of market-driven individualization** – is an adjustment of product features to foreign market requirements, irrespectively of the fact if the firm wants to make these changes or not; the reason for the changes in the product are usually legal regulations or technical conditions (e.g. the European Union regulations on environmental pollution enforced a change of cosmetic aerosol manufacturing technology; the other European union regulations determine the kind and quantity of preservatives in foodstuffs).
- **Strategy of voluntary individualization** – to a considerable extent may be controlled by the firm; its application is predominantly influenced by cultural and economic factors, e.g. income level, education level or consumer tastes in respective countries.

Adaptation may refer to various elements of product (Grzegorzczuk, 2005):

- **Packaging** – for instance in Africa it is still possible to buy cigarettes per item, therefore the packaging must be properly adjusted; Coca-Cola withdrew its two-liter bottles from Spain because they did not fit the fridges of majority of consumers; for purchasers with low incomes the packaging itself should be a stimulus or one of the factors favoring the product acquisition.
- **Size** – for instance Philips adjusted the size of fridges and coffee grinders to the size of Japanese flats and kitchens. In Mexico, Campbell company is selling canned soups serving 4–5 persons because the families in Mexico are usually numerous, while in Europe the same product is sold in cans serving 2 persons.
- **Product symbol** – for instance, in some Asian countries using animals as symbols is undesirable because animals are regarded there as lower level of the hierarchy of beings.
- **Colour** – for instance in most countries black is the colour of mourning (in China it is white); in South-Eastern Asia yellow teeth are the sign of social prestige, therefore selling teeth whitening toothpaste in that region would be nonsensical.

## 8.2 Branding on the International Market

While entering international markets, enterprises should adjust their offer and marketing tools appropriately to specific character of these markets. One of the most important and clearly visible tools of marketing influence on the market and consumers is brand. The essence of brand comprises its abilities to create certain concepts and convictions among customers, which should lead them to make purchase. It exists in consumer minds as information, and experiences connected with it. Brand is a psychologically added value: reputation, associations, experiences, convictions, dreams but also illusions associated with a product (Zboralski, 2000). The elements which may contribute to create positive associations and link a brand with customer's mind include: name, logo, advertising

One of the most important and clearly visible tools of marketing influence on the market and consumers is brand

slogans or catch phrases and proper associations. A set of these assets makes up the content of a brand. The name should be short and energetic, excluding any possibility of a spelling mistake, understandable for the international environment. If a brand is to fulfil its mission on international markets, it cannot be difficult to pronounce or remember, its wording cannot be either ridiculing or derogative, it must evoke positive associations (Rudzewicz and Strychalska-Rudzewicz, 2013).

Brand is an important strategic resource of a company operating in conditions of internationalization and globalization of economy. For companies operating on the international market, branding of their products is a problem more complicated than for the businesses operating on the domestic market. A firm may take into consideration four kinds of activities on the international market with reference to brands (Urbanek, 1998):

- branding or not branding its products,
- using the producer's or distributor's brand,
- using one or several brands on the same market,
- using global brand or local brand.



## International Product Policy and Innovations for Visegrad Countries

A company operating on the international market and using its own brand may consider four kinds of activities as Figure 8.3 shows (Wiktor, Oczkowska and Żbikowska, 2008):

- using one brand on all markets (global brand or multinational brand),
- using one brand modified for individual markets (global brand portfolio) (Figure 8.4),
- using the company's name or a single brand as an umbrella brand under which brands of individual products appear (umbrella brand strategy),
- using various local brands on different markets (portfolio of local brands).



■ **Figure 8.3** Brand strategies on the international market  
Source: Wiktor, Oczkowska and Żbikowska, 2008



■ **Figure 8.4** Maspex company from Poland changed the name of its popular carrot based juice whilst keeping the same logo and packaging: from Kubuś (in Poland) to Kubik (in Slovakia and the Czech Republic), Kubu (in Hungary) and Tedi (in Russia, Kazakhstan and Romania)

**Photo:** Elena Horská, Moskva 2010

## International Product Policy and Innovations for Visegrad Countries

Global brand strategy on all markets is particularly useful when a firm offers one product and the brand name sounds good on local markets. This strategy of brand standardization is used among others by Coca-Cola, Sony, Heineken, Phillips, McDonald's, Nokia, Toyota or Ford. These companies are selling their products under one name, with no adaptation to the local markets. Using this strategy increases the degree of the product identification with its manufacturer, facilitates distinguishing a company's product from the competition products, helps to gain better efficiency of promotion on a wide world scale. Another benefit from standardization of brand strategy is improvement of consumer loyalty for the brand in different countries (Wiktor, Oczkowska and Żbikowska, 2008).

A portfolio of global brands is developed by firms in order to improve the efficiency of their operations on world markets

A portfolio of global brands is developed by firms in order to improve the efficiency of their operations on world markets. They assume that a brand is worth more if it is a part of a bigger portfolio owned by the company. For example, Nestle company offered instant coffee in Great Britain under the name of Nescafe Gold Blend, whereas in Germany as Nescafe Gold (Wiktor, Oczkowska and Żbikowska, 2008).

Transnational corporations often use the firm name as an umbrella brand for their products. Some of them offer products only with the company's name, as e.g. Shell or Imperial Chemicals Industries (ICI). The other, e.g. Unilever promote mainly the names of their product brands, without the emphasis on the company's name (Wiktor, Oczkowska and Żbikowska, 2008).

Portfolio of local brands is a strategy of diversifying brands on individual markets. The selection of this strategy is influenced among others by language diversification. The sound of brand is important. It should be easy to pronounce and should not evoke the wrong associations. For instance, Algida company uses the strategy of product individualization, adjusting to economic, cultural and technological conditions on individual markets, which translates to brand strategy. In Poland Algida brand is functioning, Langnese in Germany, in Austria and in Hungary – Eskimo, in Spain, Belgium and Holland – Ola and in Great Britain – Walls's. Products of L'Oreal firm are sold in various countries as Elseve, Elvive or Elvital (Adamczyk and Witek, 2008). Details of advantages and disadvantages of using either global or local brand are described in the Table 8.1.

**Table 8.1** Advantages and disadvantages of global and local brand

	Advantages	Disadvantages
Local brand	<ul style="list-style-type: none"> <li>– fast penetration of the local market</li> <li>– possible adjustment of the quantity and quality to individual markets</li> </ul>	<ul style="list-style-type: none"> <li>– higher marketing costs</li> <li>– loss of the economies of scale</li> <li>– fuzzy image</li> </ul>
Global brand	<ul style="list-style-type: none"> <li>– maximum marketing effectiveness</li> <li>– reduction of advertisement costs</li> <li>– uniform image on all markets</li> <li>– desired for prestige goods; free of cultural collocations</li> <li>– easily identified by travellers</li> </ul>	<ul style="list-style-type: none"> <li>– assumption of market homogeneity</li> <li>– problems with “black market”</li> <li>– possible negative associations</li> <li>– required constant quality level</li> <li>– legislative problems</li> </ul>

Source: Górska-Warsewicz and Pałaszewska-Reindl, 2002

A very important issue when entering foreign markets is legal protection of a brand. There is international legislation in this area, giving exclusive right to use a brand after its registering. Brand registration entitles to use the international ® symbol (Registered). Its use is not obligatory (it is not always placed beside the trademark). If, for some reason the brand has not been registered but the company regards it as its exclusive property (under protection, even by unfair competition act), the ™ (Trade Mark) may be put beside it. This practice is most popular among American companies, which very often bring new products and brands onto international markets (Szwajca, 2009).

There are hundreds of companies earning billions of dollars, although their names mean nothing to an average purchaser, who is even unable to say to which brand they belong. The most valuable are

companies which, apart from exorbitant turnover also maximized the awareness of their brands among customers. The fact has been evidenced by various kinds of annual brand rankings. According to the investigations conducted, among others by a London based Interbrand company, a renowned brand may constitute even over 70% of the company market value. Decisions concerning brand strategy may be therefore crucially important for the success on international markets.

### 8.3 Country of Origin Effect

Foreign products may encounter various barriers which make difficult or even impossible their functioning on other markets. The image of the country of origin is significantly important for developing purchasers' attitudes towards foreign products. The phenomenon of country of origin effect has been known for years. The country of origin effect describes the influence which a given country's image has on consumer evaluation of products or brands which originate from it. Companies which want to sell their products on foreign markets must take into consideration that the image of a product country of origin may dominate the image of the product itself. Information about product origin affects its perception and evaluation, translating into real consumer market behaviours.

The image of the country of origin is significantly important for developing purchasers' attitudes towards foreign products

Country of origin effect may have various foundations, it may formed on rational, affective or normative basis. The rational basis is knowledge about potential and experiences of a given country in manufacturing individual product categories. Aiming at diminishing the purchasing risk, consumers choose industrial products from highly developed countries, known for their technological advantage. Positive attitudes towards these products have a significant influence on the image of their country of origin. The phenomenon not always bases on rational arguments and often has affective foundation connected with symbolic and emotional value which information of the country of origin brings.

The following responses to domestic and foreign products may be distinguished from the consumer perspective: (Smyczek, 2006):

- consumers preferring domestic products (Figure 8.5),
- consumers consciously preferring foreign products (the phenomenon called consumer "internationalism"),
- consumers for whom product country of origin is of no importance, whereas the other product features are important (these are cosmopolitan consumers).



- **Figure 8.5** Russian (and Ukrainian) customers are very loyal to local/national food brands. Local brand "Prostokvashino" has been selected as the Choice Nr. 1 in Ukraine and Russia during several last years. Famous cartoon "Prostokvashino" was created in 1978 and in 2009, 2010, 2011 the brand "Prostokvashino" was selected as the LOVE BRAND in Russia and in 2013 sales increased by 23 %. By the way, brand belongs to portfolio of Danone company that is a great example how multinational company is willing to support local traditions and values where economic/market benefit is visible clearly behind)

Photo: Elena Horská, Moskva 2013

Consumers preferring domestic products (ethnocentric consumers) are guided by rational, emotional and moral motives while making a purchase; moreover, they think that domestic products are better than foreign ones. On the other hand, in their choice cosmopolitan consumers regard many features which guarantee them the best advantage. The third group – internationalists – like ethnocentric consumers, while considering the guaranty of better quality, purposefully choose foreign products (Sajdakowska, 2003).

The problem of distinguishing between the product and brand is not easy and sometimes arouses many controversies. At times when domestic and foreign capitals mingle and products are manufactured in a multitude of different places, and continuous changes occur in the economy, the border between domestic and foreign products vanishes (Smyczek and Sowa, 2005).

Distinguishing whether a given product is domestic or foreign seems almost impossible in the world today. From consumer perspective it is important on the basis of which criteria a purchaser would be willing to regard a given product as domestic. The most important factors affecting the classification of product recognition as domestic or foreign are: (Figiel, 2004):

- deep roots in history,
- product brand wording,
- presence of national elements in advertisements,
- brand emotional load,
- product quality.

The other factors to a lesser extent influencing the “domestic- foreign product” classification are (Figiel, 2004):

- place of manufacturing,
- origin of raw materials,
- origin of labour force,
- capital ownership.

However, an average consumer is unable to recognize these factors at a glance, therefore he is guided by the brand or product wording.

The concept of “country of origin effect” bases on the assumption that consumer behaviour is affected by notions about a country, which remain beyond the perceived product features. In the purchasing decision making process consumers unconsciously associate the product country of origin with collocations of the type: Italy – beauty, France- luxury, Germany – quality. A consumer may at the same time perceive a brand image and a country image, however sometimes a brand image is replaced by a country image, whereas in some other cases a synergy effect appears, i.e. the images supplement each other. There is also a situation in which brand image and country image are different (Smyczek and Sowa, 2005).

A country image life cycle may be divided into three phases (Figiel, 2004):

- Phase 1** – a consumer has had no contact with a given product but has certain opinion about a country image considering the product category (“halo effect”).
- Phase 2** – brand has been placed on the market in small number, still a consumer who has already tested the product is better aware of this product existence (the product image is based on advantages, at that time intensively decreasing importance of the country of origin is observed)-
- Phase 3** – a consumer knows and uses many brands of products originating from the same country and then the image of country of product origin is a resultant of knowledge of these brands.

The country of origin effect has the strongest effect when a consumer does not have plenty of information about a given product. It applies particularly to attitudes towards a new product only just being marketed, where a consumer must choose in conditions of limited information (Figiel, 2004).

According to Dutch researchers P. Verlegh and J. Steenkamp, information about the place of product manufacturing may affect consumers on (Roslan, 2007):

- **cognitive level** – where it can be a guideline for product quality,

- **emotional level** – when the attitude towards the place of manufacturing results from experience and is marked by emotions.
- **normative** – determines preferences of some places of manufacturing due to ideological reasons, while in a negative form it may be manifested as a feature of “consumer boycott”.

Image of a given country may be associated with a greatly subjective evaluation in a given society, it may cause positive or negative associations, or be a neutral factor causing no specific emotions. Such image may also change constantly under the influence of various events, even over a very short period of time (Mikołajczyk, 2010).



### V4 MARKETING INSIGHTS

Here are some practical examples of good practice, following from our research in Visegrad region:

1. Change of brand name or change of logo for some rational reasons. In one case the Slovak producer of breakfast cereals has been willing to use private brands in Poland, Czech Republic and Hungary because of their good image and national market penetration. In another case, new brand was created, tailored made for Polish customers according to their aesthetic feelings and traditions.
2. Different brand names for different markets (case of successful drink “KUBIK-KUBUŠ-TEDDY” made in Poland).
3. Change of brand name, no change in logo (we can name this approach as a middle of the road strategy) where brand accounts some sort of local feature and logo accounts global/regional feature (case of nationally successful Hungarian brand that adopted global logo).
4. Modification of package, which was related to:
  - modification of graphical design of package,
  - obligatory adaptation – change of label information, different language mutations depending on target markets (Hungarian and Croatian version, Polish and Ukrainian version, Russian and English version, Slovak and Czech version),
  - technological modifications which allow longer durability of food product (for Czech and Austrian business partner).
8. Change of qualitative parameters and introduction of new or innovative products (different flavour for different Visegrad markets,

product modification: different assortment for Czech, Polish and Slovak market).

6. Combination of relatively standardized product with slightly adapted marketing communication (using local actors, local humours, local language/slang or official one).
7. Introduction of seasonal products that fits tradition of whole region (e.g. chocolate products for Christmas or Easter season).
8. Regional “Ingredient” branding based on quality, image or any other strength of one ingredient that will attract customers (e.g. chocolate with “Krówka” feeling as Krówka is well known in whole Visegrad region as traditional and very tasty Polish candy).

The respondents identified these products with a prospect to be established in foreign markets:

- Regional specialties (milk and meat products), sweets, organic products.
- Products of microbreweries, small wine production facilities and products from oilseeds.
- The responses often included rational nutrition products, cereal products, and products for diabetics, gluten-free diet and soft drinks.

The quality was also stated as one of the reasons of the success of these promising products, but more often than in the case of existing successful products there were differentiation factors such as a healthy diet, originality and innovation, tradition, respect for demand and competitiveness in a form of differentiation. The current megatrends in the European food market create conditions for the formation of rational, functional and comfortable food.

(Adapted from Horská, 2014)

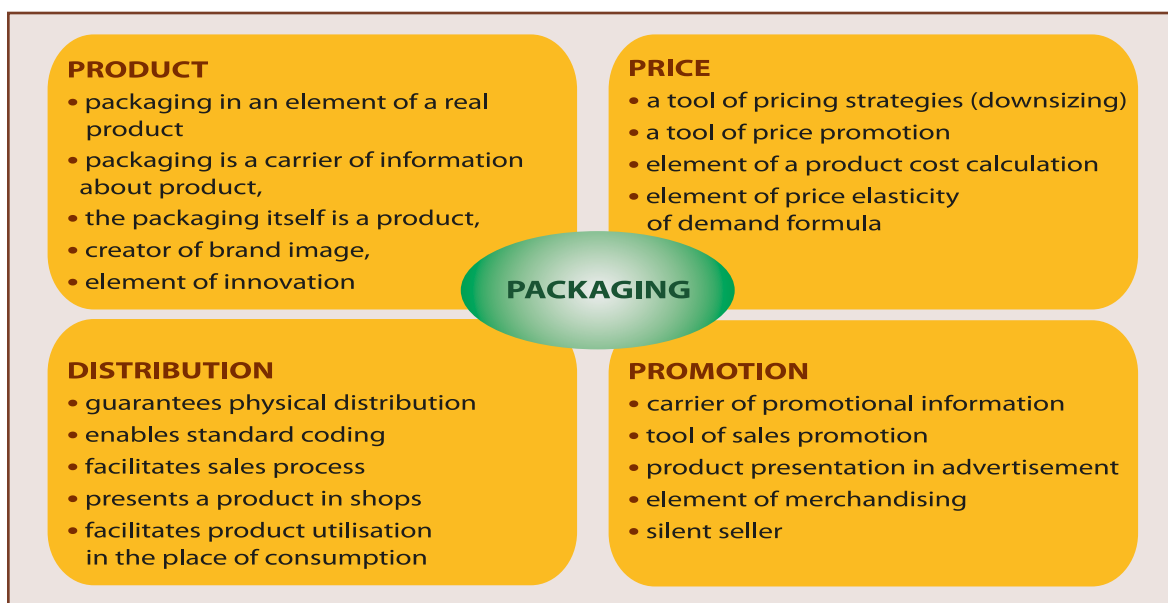




## 8.4 Product Packaging

Offering products on international markets requires adjustment of packaging to specific economic, cultural or civilisational conditions but also to legal regulations

Packaging also becomes very important in international exchange. Offering products on international markets requires adjustment of packaging to specific economic, cultural or civilisational conditions but also to legal regulations. Packaging constitutes an integral element of a product. It is a visual means of communication, which should be attractive, point to the producer and inform a customer about the contents. External characteristics of packaging are extremely important, because a vast majority of purchasers responses most strongly to visual stimuli. The relationship of packaging with the other elements of marketing mix has been illustrated by the Figure 8.6 below.



■ **Figure 8.6** Relationship of packaging with other elements of marketing mix

**Source:** own elaboration based on: <http://opakowania.com.pl/Wiadomości/Opakowania-w-dzialaniach-marketingowych-26420.html>

Currently structural form, material and the kinds of applied packaging have been undergoing a certain unification all over the world. In view of the above, adjustment of packaging to foreign market conditions comprises decisions about the size, shape or possible re-use, but also decisions concerning the content of information on the packaging.

The attributes which distinguish them include also artwork and colouring of packaging. The colouring of packaging is to enable a product identification, but it may be also change due to different meaning of colours in various cultures. For instance, packaging of product sold in various countries may contain common logo and artwork, however the colouring of the packaging may differ depending on the country.

In the processes of choice and making purchasing decision, the impressions caused by packaging become transformed in consumer's mind into feelings about the kind and quality of the product. Only the goods, whose packaging fulfil the needs, preferences and tastes of consumers will be accepted on the market in a given country. Modern, original design meets far better developed aesthetical requirements of the customers and helps to make a product well visible on the market. However, one should remember about differences in the area of customer aesthetical needs in individual countries.

## 8.5 The Term of Innovation and Classification of Product Innovations

Innovations may be regarded in many aspects and using various different research methods. The term innovation may indicate the product or process but also marketing or organizational activity of an enterprise. In enterprise strategies the product and its development play a crucial role. A firm operating under conditions of market economy must adjust its products to constantly changing and growing consumer needs and requirements. It must also follow changes and progress which concern both the manufacturing methods and competitors' products (Matuszak, 2012).

A manufacturing enterprise aims at introducing product innovation on the market mainly in order to improve its competitive position, which entails improvement of sales efficiency. However, a firm introducing innovation must be aware of a risk, because a high percentage of new products introduced on the market fail and are withdrawn only within several months (Antonides and van Raaij, 2003).

Firms which set out to develop new products (in most cases these are market leaders), reach specific benefits, e.g.:

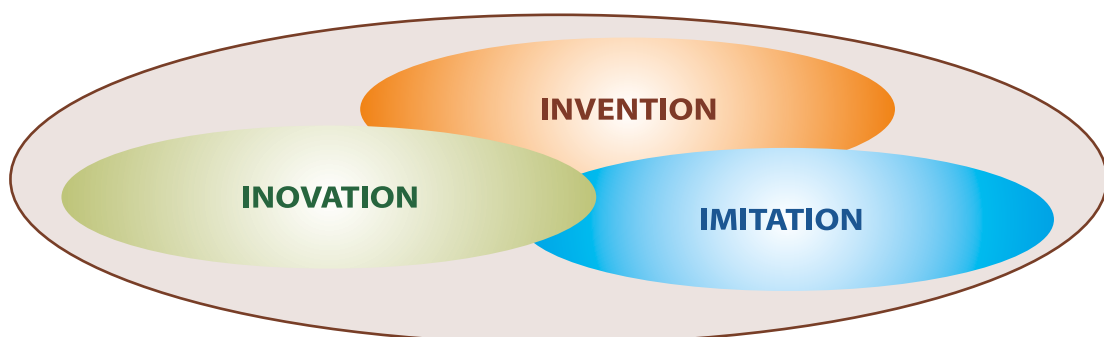
- possibility to widen the range of offered products,
- renewal of "basket" of products
- a chance to acquire new customers on the existing and new market segments,
- profits of being the first on the market,
- gaining experience in running marketing activity as a result of introducing novelties.

The term innovation derives from a Latin word *innovare* (renew) or from late Latin *innovatio* (renovation) and denotes a change which relies on introducing something of new quality in any sphere of life, particularly in economy (Kowalczyk, 2011). In current market reality innovations are not loner an option, but an indispensable requirement for enterprises operation.

Theoretical background for understanding the clue of innovations as a phenomenon, constituting the driving force for progress and development, was created by J.A. Schumpeter. He was the first one to introduce the term of innovation to the subject literature in 1911. He also made tripartite division (Figure 8.7), today regarded as classic, into (Sojkin, Małecka, Olejniczak and Bakalarska, 2009):

- **inventions** – which are scientific or technological fact, providing motivational opportunities; unbroken stream of invention constitutes a potential technical progress, which is a prerequisite crucial, however insufficient for the appearance of development process,
- **innovations** – which are the result of invention application giving possibilities of development,
- **imitations** – which are the outcome of dissemination of innovations through adaptation and diffusion.

A manufacturing enterprise aims at introducing product innovation on the market mainly in order to improve its competitive position, which entails improvement of sales efficiency



■ **Figure 8.7** Schumpeter's triade  
 Source: Sojkin, Małecka, Olejniczak and Bakalarska, 2009

Changes of inventive or imitative character occur continuously, whereas innovations are changes of a typically non-continuous character.

According to Oslo Manual (containing the methodology and international standard concerning statistical research on innovations in industries and market services sector) **innovation** may be regarded implementation of a new or significantly improved product (article / service), process or a new marketing method, or new organizational method in economic practice, organization of a workplace or in relation with the environment (Oslo Manual, 2008).

The following distinguishing features should be considered the most important characteristics of the term of innovation (Baruk, 1992):

- innovation is a purposeful and beneficial change in the previous state suggested by a man,
- the change must find its first practical application in a specified community (the smallest community is an enterprise),
- the object of changes are articles, processes, organization, management methods and market,
- the outcome of changes should be specified technical, economic and social benefits,
- innovations are the means for realization of development aims of economic organizations,
- innovations become a technical progress medium if they bring positive economic results,
- innovations require some specific resources of technical, market, economic and socio-psychological knowledge.

There are numerous reasons which cause that enterprises introduce innovations on the market. The most important include among others:

- Enterprises' striving after creating a positive image which will help to distinguish themselves against the background of their competition, constantly developing new products and repositioning the existing ones.
- Businesses aiming at reaching determined levels of sales and profits.
- A necessity of firms' adaptation to fast changes in technologies causing changes of competition conditions and a necessity to adjust to them.
- A necessity of enterprises' adjustment to evolving demographic and socio-psychological factors of the purchasers which determine their new needs.
- State regulations which introduce laws prohibiting manufacturing products negatively affecting the environment.

A product innovation is the introduction of products or services which are new or significantly improved with respect to their characteristics or intended uses. This includes serious improvements in technical specifications, components and materials, incorporated software, user friendliness or other functional characteristics (Oslo Manual, 2008).

A general model of market for innovative products comprises three components, i.e. (Kowalczyk, 2011):

- producers of innovations,
- consumers of innovations,
- organization and functioning of the market.

All blocks indicated above form an area in which diffusion and acceptance of innovation occur. The term of diffusion applies to dissemination of innovation on a given market. On the other hand, the term of acceptance is applied to consumer (or consumer group) behavior involving approval or rejection of the innovation (Kowalczyk, 2011).

Product innovations comprise a greatly diversified term. Division of product innovations may be made into a number of categories, considering various criteria of this division.

Product innovation may be both absolutely new product, unique in a world scale, introducing entirely new quality and standards on the market, but also "an old" product and well known to the consumers

on one market, which introduced to another turn out to be an innovation. While identifying products according of the criterion of novelty for the market, Booz, Allen & Hamilton Firm used a division of new products in six groups (Sojkin, Kall, Szymczak and Urbaniak, 2003):

- new products on a world scale,
- new product lines, owing to which a firm may enter the already functioning market,
- additional products, i.e. supplement of previous company's lines,
- upgraded products, whose advantage may be improved quality or aesthetic values,
- repositioned products, i.e. existing products introduced to new markets,
- lower cost products.

New to the world products are those which are innovative from the perspective of a society and establish a completely new market. New product lines are made of articles which are new for the enterprise and allow it to enter the already functioning market for the first time. New additional products (extending product lines) are composed of articles supplementary for the product lines already functioning in the enterprise. Product upgrading relies on a replacement of already existing product by its improved version. Repositioned products are those which become used in a different way than hitherto, e.g. aiming other market segments or quite new markets, whereas in case of cost reducing products it happens that a more expensive product is replaced by a cheaper one, which fulfils similar functions, but its manufacturing is cheaper (Earle, Earle and Anderson 2007). It is estimated that radical innovations, or so called "new to the world products" constitute between 6 and 10% of all innovative products (Kall and Sojkin 2008).

Another division of products considering the criterion of product technological novelty scale and novelty of markets connected with the enterprise goals allows to identify nine categories of innovations (Rutkowski, 2007):

- new products sustaining the enterprise activity without technological changes, destined for the functioning markets,
- new, improved products in which small quality changes were made or the external design was changed to maintain its quality and optimal costs balance, destined for the functioning markets,
- new products replacing the hitherto ones, in which new components and materials were used, and new manufacturing technology, destined to the functioning markets,
- new products subjected to remerchandising for which changes were made leading to increased sales through modification of distribution and promotion range and price policy,
- new improved products, in which significant quality changes were introduced improving their usable values and product attractiveness,
- new products extending the existing offer, manufactured from new materials and according to new technology, destined for the functioning and new markets,
- new products with new applications on new markets, in which the name and price were changed, distribution and promotion channels were modified, owing to which they found new users,
- new modified products in which their quality, appearance, price, promotion and availability were improved thus fulfilling the requirements of new market segments,
- new diversified products (totally new), manufactured basing on new technology, using the latest materials, components, etc. destined for specified markets.

A division of product innovations, which do not change the essence of product may be also made and the following may be identified on this basis (Sojkin, Małecka, Olejniczak and Bakalarska, 2009):

- innovations which involve product modification – this kind of innovation relies on introducing variants of important product feature, through its intensification or reduction,
- innovations involving a change within the product – in this case the change concerns alterations of quantity, size or volume of product,

## International Product Policy and Innovations for Visegrad Countries

- innovations basing on a change of packaging – product wrapping may influence the way of perceiving benefits, functions or opportunity for the product consumption,
- innovations which base on a change of a product design – in this case the essence of the product remains the same, only its design and appearance are modified, so the product may be adjusted to various purchaser segments,
- innovations which rely on supplements to the product – adding a new component to its basic version to create a variety of this product,
- innovations basing on decreasing the outlays and efforts made by consumers – in this case innovations base on modification of outlays and consumer risk involved in purchase.

A selection of product novelties is significantly affected by observation of customer behaviours. E. N. Berkowitz, R. A. Kerin and W. Rudelius determined three groups of new products, whose introduction on the market to a various extent contributes to a change of a canon of consumer behaviour (Sojkin, Kall, Szymczak and Urbaniak, 2003):

- **Continuous product innovations** – implementation of these innovations does not mean a change in customer conduct; a consumer continues its consumption behaviour, whereas the changes concern only the benefits which the product offers (e.g. improved washing powder).
- **Continuous, dynamic product innovations** – their introduction influences a certain change of consumer conduct; owing to applied product innovations consumers change their habits of consumption style (e.g. electric toothbrush).
- **non-continuous product innovations** which cause radical changes of consumer behaviours, create a new type of consumer behaviour pattern and often require a long lasting process of learning (e.g. personal computer).

Another classification may be mentioned, which identifies original product innovations (the ware of a manufacturer which patented it) and imitative product innovations, which develop owing to copying, appropriation of patent or dissemination of original products.

Irrespective of the fact whether product innovations are radical or evolutionary, they should be always characterized by higher standard and technical quality, provide economic benefits for consumers, fulfil the criteria ensuring the user and environment safety and match current fashion, trends and aesthetics. These are basic criteria, whose fulfilment allows regarding the product as innovative.

## 8.6 Sources of Ideas for New Products

The idea for a new product is a creation, concept, project or suggestion that a product should possess specified attributes. Ideas for new products may come from various sources both inside an enterprise and outside it. Literature of the subject identifies two basic groups of sources of ideas for new products, i.e. internal sources and external sources (Table 8.2).

**Table 8.2** Sources of ideas for new products

Sources of ideas	
Internal	External
<ul style="list-style-type: none"> <li>– research and development (R &amp; D)</li> <li>– marketing and sales</li> <li>– manufacturing</li> <li>– supply (procurement and supplies)</li> <li>– technical services and customer services</li> </ul>	<ul style="list-style-type: none"> <li>– customers</li> <li>– suppliers</li> <li>– competition</li> <li>– distributors and suppliers</li> <li>– scientific research institutes</li> <li>– technical consultants</li> <li>– exhibitions, salons, fairs and conferences</li> </ul>

Source: Sojkin, Kall, Szymczak and Urbaniak, 2003



The primary source of information and creating the idea of a new product in an enterprise is a research and development unit (R&D). The scale of these activities is extensive, since it comprises the range of problems from creating the idea through development of a technology to integrating activities with the other departments of the firm to develop a concept of a new product (Sojkin, Kall, Szymczak and Urbaniak, 2003).

The other important internal source of information, particularly useful in the processes of product upgrading and extending the product line, is department of marketing and sales. Its employees have especially good opportunities to contact clients and conduct market observation. The people employed in this department are best knowledgeable about current market trends, consumer expectations or market gaps. The share of the persons employed in the marketing and sales department in creation of new product concepts results from the information from the external sources which they have at their disposal (Sojkin, Kall, Szymczak and Urbaniak, 2003).

The importance of manufacturing sphere in creating new ideas for products has been visibly growing in recent times. Engineers and technologists participating in the stages of preparation and manufacturing of a product may considerably accelerate the product development cycle, provide ideas for many new products or introduce modifications thus increasing their price and quality competitiveness (Sojkin, Kall, Szymczak and Urbaniak, 2003).

The other internal sources of gaining ideas for new products are departments of procurements, customer service and technical services. Their constant contacts with market participants and own observations may be a potential source of ideas for new products (Sojkin, Kall, Szymczak and Urbaniak, 2003).

The second group of ideas for innovations concerning products are external sources of information, such as customers, competitors, distributors and suppliers, as well as scientific research backup. Market success of new products usually has its source in understanding the needs and expectations of market participants, particularly purchasers and consumers. The use of their opinions (even negative ones), propositions and hints may be a significant impulse for creating new products, developing and upgrading the products in the enterprise (Sojkin, Kall, Szymczak and Urbaniak, 2003).

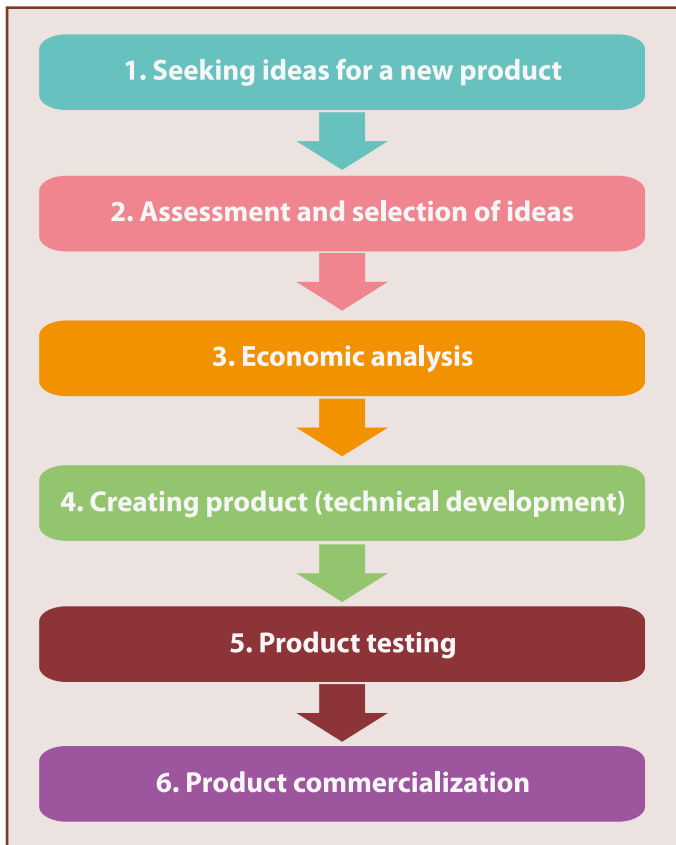
Distributors and suppliers of raw materials and components are usually a valuable source of information about industrial markets. Drawing ideas for a product from the source such as consumers or distributors does not guarantee success, but after an analysis and confrontation with the market provides prerequisites for undertaking appropriate tasks. Competition is one of the most reliable and verified sources of information, since it may provide the source of inspiration and imitation (Sojkin, Kall, Szymczak and Urbaniak, 2003).

The last important external sources of information area scientific research units, universities, patents, licences, technical consultants, as well as exhibitions, fairs and conferences. External sources of this kind are especially important for small and medium sized enterprises which do not have their own research and development units (Sojkin, Kall, Szymczak and Urbaniak, 2003).

## 8.7 Process of New Product Development

Developing an innovative product is a long lasting and multi-stage process involving designing, analyses, preparation of production, determining cost absorption and introducing a new product on the market. Full implementation process comprises seven stages of new product development, i.e. seeking ideas, analysis and assessment of ideas, developing a concept and testing, economic analysis, product development, market research of the product and commercialization (Figure 8.8)

Developing an innovative product is a long lasting and multi-stage process involving designing, analyses, preparation of production, determining cost absorption and introducing a new product on the market



■ **Figure 8.8** Process of new product development  
Source: Garbarski, 2011

The process of new product development in an enterprise should be compatible with its goals and consider its potential (resources and skills). The process starts with seeking ideas for a new product (**stage 1**). In practice the inspiration for these ideas are usually technical progress and the market (purchasers' requirements). At this stage also internal research in the enterprise is used (employees' ideas, conclusions drawn from the recipients' complaints), but also investigations conducted among the purchasers and analysis of competitive products. The other sources of ideas for the product are: professional journals, shows, exhibitions, consultants, scientific research centres, marketing research agencies, etc. (Garbarski, 2011).

Assessment and selection of ideas for a new product (**stage 2**) is the stage whose goal is confrontation of these ideas with the aims and resources of an enterprise. At this phase ideas impossible to realize for technical, organizational or financial reasons should be eliminated. Assessment of the

ideas for new products may use (Rutkowski, 2006):

- **Criteria associated with products**, which for example may comprise uniqueness of the product, the use of existing competencies and skills of the enterprise, position of a patent (innovativeness of a new solution), additional services maturity, technical elasticity, technical know how, legal conditions, seasonality, the influence of changing economic conditions, impact on ecology, availability of raw materials, etc.
- **Criteria connected with the market**, which should comprise at least the following factors: market size, its potential growth, purchasers' (customers') needs, influence of the existing product line, distribution n requirements, product life cycle, competitive advantage, etc.
- **criteria connected with financial assessment**, which should consider such factors as, e.g. costs of introduction on the market, profit level, results of monetary means flow, payback period, payback quantity.

At the next stage of the new product development process (**stage 3**) economic analysis is conducted, i.e. benefits for a firm are determined. These benefits are assessed among others from the viewpoint of estimated sales volume, costs, receipts and profits. At this phase designed are also the other instruments of marketing mix, crucial for introducing a product for sale and the costs of their use are calculated. All these analyses aim to estimate future effects of a product sales and reduce the risk of manufacturing an off the mark product (Garbarski, 2011).

The idea of a product chosen in the economic analysis is transformed into a technical project and subsequently in a product prototype or a testing batch. At the stage of product creating (**stage 4**) its

structure is polished, it receives the name corresponding to the idea and concept of the product and various versions of packaging are designed. All these elements together form a composition offered for sale (Garbarski, 2011).

Subsequently the product prototype is tested (stage 5) in laboratory conditions considering its safety for the user and establishing parameters possible for realization from the technology viewpoint. Consumer tests of product constitute an important phase of product testing prior to its introduction for sale. In these tests the product parameters and properties become confronted with the expectations of its potential users. The tests allow the producer to learn purchasers' opinions about the product characteristics, its good points and faults, superiority of the new product over the hitherto used methods to fulfil the needs and compare the new product with competitive products (Garbarski, 2011).

The final stage of new product development process is product commercialization (stage 6). It is in the first place connected with planning marketing activities which comprise marketing goals, target market (market segments), marketing strategy, plans of activity (e.g. sales plan), as well as monitoring system and control tools (Figiel, Kozłowski and Pilarski 2001).

### 8.8 Factors of New Product Failure and Success on the Market

Introducing new products involves the outlays, risk and uncertainty. These factors are present both during product manufacturing and implementation on a given market. The process depends on the amount of financial and human capital in an enterprise and potential external activities connected with development of a new product. It should be emphasized that the risk of introducing unsuccessful products to the market is increasing continuously (Żurawik, 1991).

**Table 8.3** Factors inhibiting development of new products and causes of new products' failure on the market

Factors inhibiting successful development of new products	The reasons for the most frequent failures of products on the market comprise
<ul style="list-style-type: none"> <li>– deficiency of valuable ideas for a new product in some areas – there may be already many ways for their improvement on the market of some basic products</li> <li>– market dispersion – enterprises must target their products at some smaller market segments, which may mean lower sales and lower profits from each product</li> <li>– administrative and social constraints – new products must satisfy some social criteria, such as consumer safety and environment protection</li> <li>– high cost of a new product development – in order to create several good products an enterprise must accumulate many ideas and bear the costs of research and development, production and marketing incorrectly conducted market segmentation</li> <li>– lack of capital – enterprises not always are able to acquire financial means necessary for the realization of innovative products</li> <li>– time of creating innovations – many competitors may have the same idea, at the same time, therefore enterprises must shorten the time of developing innovations</li> </ul>	<ul style="list-style-type: none"> <li>– discontinuation of market research or wrong identification of consumer needs, insufficient test sample, too positive forecasts concerning demand for the product</li> <li>– technical difficulties frequently connected with the projects and production</li> <li>– ill-timed date of the product premiere on the market, which may be due to changes in market needs, which were not taken into consideration during the product development</li> <li>– incorrectly conducted market segmentation</li> <li>– ignorance for the competitors' activities</li> <li>– unsatisfactory compatibility of the project with the technical and marketing estimate</li> <li>– unreliable recognition of cost category, ignorance of costs, wrong calculation</li> </ul>

**Source:** <http://www.eduteka.pl/doc/dylemat-rozwoju-nowego-produktu>; Pilarczyk and Mruk 2006

## International Product Policy and Innovations for Visegrad Countries

Crucial elements of the right product development include: knowledge about technical progress. Together with a financial factor they form a basis to create products which enjoy a good reputation on the market.

The aim of each enterprise is developing and preparation of a product which would be willingly purchased by consumers. Crucial elements of the right product development include: knowledge about needs and preferences of purchasers and information about technical progress. Together with a financial factor they form a basis to create products which enjoy a good reputation on the market. To make new products successful on the market, several conditions must be fulfilled, for example (Pilarczyk and Mruk 2006):

- the enterprise is capable to recognize consumers needs,
- the enterprise has the pioneer leadership on the market owing to the fact that its products were the first on the market,
- the enterprise reached a higher profit from their products' sales than assumed at the phase of their planning,
- know-how is reasonably used in the enterprise,
- the enterprise is able to conduct marketing and technical research of the novelty it manufactures prior to its introduction on the market,
- a compatible cooperation of all organizational units of the enterprise is observed.



■ **Figure 8.9** Market hit in South-East Asia in 2014 made by Japanese producer Kracie Popin Cookin: “Happy Kitchen” – having a fun with preparation of a very small portion/micro-portion of the food (e.g. do it yourself mini hamburger in microwave or lemonade in powder and toilet bowl replacing a glass to mix and drink the lemonade.). The greatest value is represented with having a fun, not having enough food to eat. If you think it is a crazy idea, just ask your kids how many children and teenagers in the world are talking about it including Let’s players and instruction videos on youtube

**Photo:** Elena Horská, Singapore 2014

On the other hand the factors affecting the fast adaptation of innovations, which may contribute to its success, comprise (Kowalczyk, 2011):

- perceiving benefits from the use of innovations (extent to which current and potential users' expectations are fulfilled) (Figure 8.9),
- market information (promotional activities of suppliers whose goal is informing customers about the new product which may in another way effectively fulfil the existing or newly created need),
- the level of activity of the product use and degree of its wear,
- other users' opinion about the new product,
- economic affordability of a new product for its potential users
- indefectibility (no insecurity during exploitation),
- offered novelty is a modification of well-known products,
- ease of handling and access to information about the terms of exploitation,
- safety for the users and the environment.

### 8.9 Strategies of Product Innovation in the International Environment

Conditions on the international market may impose application by a company of a new product marketing strategy, i.e. innovation strategy. It is the kind of strategy most difficult for the realization, yet it makes possible to reach a competitive advantage on the market.

Innovative activities relatively frequently end with a failure. It is due to wrong marketing activities (e.g. erroneous assessment of potential market, wrong estimation of promotion and distribution costs, choice of unsuitable distribution channels, too low or too high evaluation), technical immaturity of a new product, too long implementation period of the innovation in production, etc.

Innovation strategy relies on launching a new product on the international markets. Considering the degree of innovation originality, two types of this strategy (see Figure 8.10) may be distinguished (Wiktor, Oczkowska and Żbikowska, 2008):



■ **Figure 8.10** Division of product innovation strategies on the international market according to the degree of innovation originality

**Source:** own elaboration based on Wiktor, Oczkowska and Żbikowska, 2008



## International Product Policy and Innovations for Visegrad Countries

- innovative leadership strategy involving an ongoing and systematic launching new products on the international market,
- imitation strategy, i.e. response to the activities of another firm which is an innovator.

Innovative leader strategy relies on systematic launching new products on the international market.

Innovative leader strategy relies on systematic launching new products on the international market. While realizing this strategy a company may, among others strengthen its position on the market, improve its image, impose some determined standards, and achieve advantageous financial results (owing to higher prices). Realization of the innovative leadership strategy is evidenced as (Grzegorzcyk, 2005):

- purposeful shortening of the product life cycle by suspending the production or sale of older product lines to other companies (the company does not wait to reach the saturation or decline in sales stage but sells the license at the final phase of sale growth),
- sale of license for new products,
- forming alliances with other firms in order to work jointly on creating new products.

The strategy may be used by the companies which are capable to maintain an innovative advantage over a longer period of time. It allows to reach benefits exceeding the costs of creating and marketing of a product. The expected results of this strategy are in the first place a possibility of strengthening the market position and establishing technical and quality standards in the sector (Taranko).



### V4 MARKETING INSIGHTS

As examples of innovation towards creating a functional product, we can mention some muesli and cereal products enriched with vitamins, minerals, Echinacea and the move into the segment of nutritional supplements, innovative products for the gluten-free diet, dairy and meat products with added probiotic cultures or a functional segment of mineral water. Another possibility of innovation lies in the orientation on market segments representing children, youth, specific lifestyle and the interest in obtaining the entertainment when consuming the product. The innovation in this case is represented in adding an imaginary or real value, which does not have to be related to the nature of the food product. This includes adding toys, stickers, interesting and attractive packaging or a combination of a major and minor product. Such products are mainly imported in the Visegrad region as in the Visegrad region there is no strong "regionally recognized" character and in some cases they cause "mass and one-way consumption in the given segment".

Famous sport men should fulfil this position and be used in marketing communication as one of alternative (hockey team, cyclist, tennis players, football teams, winners from different championships and Olympic Games). Another alternative is to create brand new character or spoke man (e.g. case of KUBUŠ) with no history and relation to any Visegrad country, so children everywhere can adopt him as a new symbol. In many cases, the added value is greater than the value of the product itself, but it is the added value that creates the shopping impulses. Sustainable aspects of food products, good breeding practice, hygiene, safety food, healthy effect and sensory product features are becoming more and more important (Haščík, Kačániová, Vavrišinová, 2014). Question of quality and tradition are those ones that could increase value perceived from side of business or final customer (Nagyová, Sedliaková, Holienčinová, 2014) (Figure 8.11).

(Adapted from Horská, 2014)





■ **Figure 8.11** Example of good practice from the Polish market: how to connect tradition with new items in company assortment

**Photo:** Elena Horská, 2013

Imitation strategies are company's response to activities of the market leader. They may assume various forms depending on the goals of the company, its market position, resources and possibilities (Limański and Drabik, 2010).

Strategy of creative imitation relies on winning a strong position for a new product on developing market in result of innovation diffusion process caused by the innovator (innovation diffusion on the international scale is a process of new product dissemination among consumers on foreign markets). The company using this strategy makes use of innovator's experiences and of its new product in order to launch on the market products upgraded in comparison with the innovator's products or possessing alternative features (substitutes). The strategy requires from the firm well developed research base, high outlays on the product research and well prepared marketing activities (Grzegorzczak, 2005).

Early imitation strategy involves supplying new products to the market owing to possibly early acquisition of licenses, patents, know-how or copying solutions used by other firms. Application of this strategy involves relatively high outlays on acquisition of new technology and require also a considerable efficiency in undertaking manufacturing of new products (Limański and Drabik, 2010).

## International Product Policy and Innovations for Visegrad Countries

Flexible specialization strategy relies on modification of features and properties of products previously offered by an innovator and adjusting them to the needs of specific market segments (Taranko). This strategy is applied by medium-sized and small enterprises because they possess relatively small resources and should seek market niches (Grzegorzczak, 2005).

Commissioned innovation strategy is introducing innovation on commission from other firms applying it to a new product or its part (according to models and prototypes of the client). The company which realizes such strategy participates indirectly in marketing of new products on foreign markets but not always of its own initiative (Limański and Drabik, 2010).

Late innovation strategy is introducing progressive, small improvements supported by other product diversifying activities, yet greatly delayed in relation to the innovator. A firm competes mainly by its price and the strategy may be efficacious for the market segments which accept novelties late, so called marauders. It may be applied on the markets in countries with lower level of technological development (Grzegorzczak, 2005).



### V4 MARKETING INSIGHTS

Consumers are not always aware of novelties appearing on the market. Therefore, an idea was formed to create a programme promoting product innovations among potential purchasers. "Product of the Year" is a marketing programme created for and addressing manufacturers and distributors of products, which belong to Fast Moving Consumer Goods (FMCG) branch. These comprise in the first place: food products, cosmetics, household chemicals, small household articles. Each manufacturer or distributor, who marketed a new product or significantly modified the existing one, can take part in the programme. The idea behind "Product of the Year" programme is a large, independent study, in which the

consumers play the role of the "jury". „Product of the Year" serves as the standard of consumer confidence in 40 countries and growing.

In Poland at the beginning of each year a research enterprise conducts a survey on a sample of over 5000 consumers of 3300 households. These are direct interviews conducted with the highest possible number of household members (with each respondent separately), which refer to consumer attitude towards the novelty and its price, their assessment and choice of the best, in their opinions, products in various categories. Photographs and descriptions of products are published in a special catalogue ([http://www.produktroku.pl/index.php?page=co\\_to\\_jest](http://www.produktroku.pl/index.php?page=co_to_jest), 2012).

Manufacturers whose products prove best in their category get the right to use the programme logo in their marketing communication for 12 months.



■ **Figure 8.12** Logo of Programme "Product of the Year. Consumers'Vote" – Polish edition  
Source: <http://www.produktroku.pl/index.php?page=logotyp>, 2012



### Summary

Marketing knowledge and skills acquired in one's own country not always can be applied on international markets. This concerns among others product strategy, which is the most important issue in the marketing mix. Product policy realized by a company on the international market is usually quite different than the one realized on a domestic market. It is affected by the fact that in this case both the macro-environment of the company and its competitive environment may be extremely different from the domestic environment. Decisions concerning a product on foreign markets are the first step of a firm in planning the whole composition of marketing-mix. The most important issues associated with shaping product policy in the international marketing include decisions involved in product standardization or adaptation, branding, packaging, innovation strategies. Standardization means offering by the company the same or similar product on all foreign markets, whereas adaptation (individualization) relies on its adjustment to the requirements resulting from cultural, social, political and economic differences occurring between foreign markets. Brand is an important strategic resource of an company operating on the international market. A company must decide what kind of brand strategy will implement and what are the strengths and weaknesses of this decision. Packaging constitutes an integral element of a product. It is a visual means of communication. Offering products on foreign markets requires adjustment of packaging to specific conditions but also to legal regulations on these markets. The term "innovation" may indicate the product or process but also marketing or organizational activity of an enterprise. Product innovation is the introduction of product or service which is new or significantly improved with respect to its characteristics or intended uses. Division of product innovations may be made into a number of categories, considering various criteria of this division. Developing an innovative product is a long lasting and multi-stage process involving designing, analyses, preparation of production, determining cost absorption and introducing a new product on the market. It is necessary to remember, that introducing new products is linked to the risk and uncertainty. Successes and failures of new products depend of many different factors.

**Key terms:** standardization and adaptation of product, branding in international marketing, term of innovation, product innovation, classification of new products, process of new product development, successes and failures of new products



### QUESTIONS FOR DISCUSSION

1. Give examples of domestic products which could be sold on international markets unchanged and the products which should be adapted.
2. Give example of different brand strategies on the international market.
3. Characterize the occurrence of country of origin effect.
4. Give examples of new products introduced on the market, which found their imitators in a short time.
5. What do FMCG product modifications concern most frequently?
6. Think about the examples of FMCG products which have not been accepted on the market.
7. What kind of factors decide about faster acceptance of new products among consumers?
8. How can product innovations on FMCG market be promoted among potential buyers?
9. Describe the strategies of product innovation in the international environment.

### Further Recommended Readings

DURÉNDEZ, A. – WACH, K. 2014. Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics. Cartagena 2014, 244p. ISBN 978-84-942562-0-2

### Literature

ADAMCZYK, J. – WITEK L. 2008. *Marketing międzynarodowy*. Rzeszów: Oficyna Wydawnicza Politechniki Rzeszowskiej. 2008. ISBN 978-83-7199-480-7

ANTONIDES, G. – VAN RAAIJ, W. F. 2003. *Zachowanie konsumenta*. Podręcznik akademicki. Warszawa: PWN. 2003. ISBN 83-01-13960-9

BARUK, J. 1992. *Innowacje czynnikiem efektywnego rozwoju przedsiębiorstwa*. Lublin: Wyd. Uniwersytetu Marii Curie-Skłodowskiej. 1992. ISBN 83-227-0518-2.

BENNETT, R. – BLYTHE, J. 2002. *International marketing: strategy planning, market entry & implementation*. London: Kogan Page Limited. 2002. ISBN 0749438088

DULINIEC, E. 2000. *Marketing międzynarodowy*. Warszawa: Polskie Wydawnictwo Ekonomiczne. 2009. ISBN 978-83-208-1787-4.

EARLE, M. – EARLE, R. – ANDERSON, A. 2007. *Opracowanie produktów spożywczych: podejście marketingowe*. Warszawa: Wyd. Naukowo-Techniczne. 2007. ISBN 978-83-204-3076-9

FIGIEL, A. 2004. *Produkty krajowe czy zagraniczne*. Warszawa: PWE. 2004. ISBN 83-208-1491-X

FIGIEL, Sz. – KOZŁOWSKI, W. – PILARSKI, S. 2001. *Marketing w agrobiznesie. Marketing produktów żywnościowych*. Olsztyn: Wyd. Uniwersytetu Warmińsko-Mazurskiego. 2001. ISBN 83-7299-128-6

GARBARSKI, L. (red.). 2011. *Marketing, koncepcja skutecznych działań*. Warszawa: PWE. 2011. ISBN 978-83-208-1947-2

GÓRSKA-WARSEWICZ, H. – PAŁASZEWSKA-REINDL, T. 2002. *Marka na rynku produktów żywnościowych*. Warszawa: Wyd. SGGW. 2002. ISBN 83-7244-350-5

GRZEGORCZYK, W. 2005. *Marketing na rynku międzynarodowym*. Kraków: Oficyna Ekonomiczna. 2005. ISBN 83-89355-65-5

GWIAZDA, A. 1998. *Globalna strategia produktu*. Marketing i Rynek, 1998, no. 1. ISSN 1231-7853

HAČŠÍK, P. – KAČÁNIOVÁ, M. – VAVRIŠINOVÁ, K. 2014. *Vplyv probiotických preparátov na jatočné ukazovatele a senzorickú kvalitu masa výkrmových kurčiat*. Nitra : SUA, 2014.

<http://opakowania.com.pl/Wiadomości/Opakowania-w-działaniach-marketingowych-26420.html>; dated 2014

[http://www.produktroku.pl/index.php?page=co\\_to\\_jest](http://www.produktroku.pl/index.php?page=co_to_jest); dated 2014

<http://www.produktroku.pl/index.php?page=logotyp>; dated 2014

HORSKÁ, E. 2014. Specifics of International Marketing and Management in Visegrad Countries – Qualitative Analysis of Selected Case Studies. In: DURÉNDEZ, A. – WACH, K. 2014. *Patterns of Business Internationalisation in Visegrad Countries – In Search for Regional Specifics*. Cartagena 2014, pp. 161–178. ISBN 978-84-942562-0-2

KALL, J. – SOJKIN B. 2008. *Zarządzanie produktem – teoria, praktyka, perspektywy*. Poznań: Akademia Ekonomiczna. 2008. ISBN 978-83-7417-353-7

KOWALCZUK, I. 2011. *Innowacyjna żywność w opinii konsumentów i producentów*. Warszawa: Wyd. SGGW. 2011. ISBN 978-83-7583-289-1

LIMAŃSKI, A. – DRABIK, I. 2010. *Marketing międzynarodowy*. Warszawa: Difin. 2010. ISBN 978-83-7641-235-1

MATUSZAK, M. 2012. *Badanie nowego produktu*. In *Badania marketingowe w zarządzaniu organizacją*, red. W. Popławski, E. Skawińska. Warszawa: PWE. 2012. ISBN 978-83-208-2024-9

MAZUREK-ŁOPACIŃSKA, K. 2014. *Uwarunkowania marketingowej strategii produktu w warunkach globalizacji*. [http://www.wiedzainfo.pl/wyklady/694/uwarunkowania\\_marketingowej\\_strategii\\_produkту\\_w\\_warunkach\\_globalizacji.html](http://www.wiedzainfo.pl/wyklady/694/uwarunkowania_marketingowej_strategii_produkту_w_warunkach_globalizacji.html); dated 2014



- MIKOŁAJCZYK, A. 2010. *Strategia adaptacji marki globalnej do rynków lokalnych*. Gdańsk: Studia Gdańskie, t. VII. ISSN 1731-8440
- NAGYOVÁ, L. – SEDLIAKOVÁ, I. – HOLIENČINOVÁ, M. *Application of new trends in trends in marketing communication in the field of food industry*. In *New trends in management in the 21<sup>st</sup> century – Cross-Atlantic perspective*. Częstochowa: Sekcja Wydawnictw Wydziału Zarządzania Politechniki Częstochowskiej, 2014, p. 328–346. ISBN 978-83-63500-78-8 (broż.).
- OSLO MANUAL 2008. *Guidelines for Collecting and Interpreting Innovation Data*. 3<sup>rd</sup> edition. 2008. Warszawa. 2008. ISBN 978-83-61100-13-3
- PILARCZYK, B. – MRUK, H. 2006. *Kompendium wiedzy o marketingu*. Warszawa: PWN. 2006. ISBN 978-83-01-14837-9
- ROŚLAN, M. 2007. *Znaczenie miejsca wytwarzania produktów w wyborach konsumenckich*. Warszawa: TNS OBOP 2007. [http://biznespolska.pl/upload/files/reports/zachowania%20konsumenckie\\_raport%20TNS%20OBOP.pdf](http://biznespolska.pl/upload/files/reports/zachowania%20konsumenckie_raport%20TNS%20OBOP.pdf), dated 2014
- RUDZEWICZ, A. – STRYCHALSKA-RUDZEWICZ, A. 2013. *Strategie produktów innowacyjnych*. Olsztyn: UWM. 2013. ISBN 978-83-63041-89-2
- RUTKOWSKI, I. P. 2006. *Produkt w koncepcji marketingu*. In *Kompendium wiedzy o marketingu*, red. Pilarczyk B., Mruk. H. Warszawa: PWN. 2006. ISBN 978-83-01-14837-9
- RUTKOWSKI, I. P. 2007. *Rozwój nowego produktu, metody i uwarunkowania*. Warszawa: PWE. 2007. ISBN 978-83-208-1691-1
- SAJDAKOWSKA, M. 2003. *Etnocentryzm konsumencki – czynnik wpływający na decyzje nabywcze konsumentów na rynku żywności*. In *Acta Scientiarum Polonorum, Technologia Alimentaria*, Vol. 2, 2003, no. 1. ISSN 1644-0730
- SMYCZEK, S. 2006. *Etnocentryzm konsumencki na rynku produktów finansowych*. In E. Kieźel (red.), *Konsumencki proces decyzyjny i jego determinanty*. Katowice: Wyd. Akademii Ekonomicznej. 2006. ISBN 83-7246-884-2
- SMYCZEK, S. – SOWA, I. 2005. *Konsument na rynku: zachowania, modele, aplikacje*. Warszawa: Difin. 2005. ISBN 83-7251-488-7
- SOJKIN, B. – KALL, J. – SZYMCZAK, J. – URBANIAK, M. 2003. *Zarządzanie produktem*. Warszawa: PWE. 2003. ISBN 83-208-1425-1
- SOJKIN, B. – MAŁECKA, M. – OLEJNICZAK, T. – BAKALARSKA, M. 2009. *Konsument wobec innowacji produktowych na rynku żywności*. Poznań: Wyd. Uniwersytetu Ekonomicznego. 2009. ISBN 978-83-7417-405-3
- SZWAJCA, D. 2009. *Pozycjonowanie marki na rynku globalnym – możliwości i ograniczenia*. In *Economy and Management*, 2009, no. 1. ISSN 2080-9646
- TARANKO, T. 2014. *Strategia nowego produktu i związane z nią ryzyko*. <http://akson.sgh.waw.pl/~ttaran/Materialy%20do%20wykładu/07%20Strategie%20nowego%20produktu.pdf>; dated 2014
- URBANEK, G. 1998. *Zarządzanie markami na rynkach zagranicznych*. In *Marketing i Rynek*, 1998, no. 2. ISSN 1231-7853
- WIKTOR, J. W. – OCZKOWSKA, R. – ŻBIKOWSKA, A. 2008. *Marketing międzynarodowy. Zarys problematyki*. Warszawa: PWE. 2008. ISBN 978-83-208-1788-1
- ZBORALSKI, M. 2000. *Nazwy firm i produktów*. Warszawa: PWE. 2000. ISBN 83-208-1275-5
- ŻURAWIK, B. 1991. *Strategia rozwoju nowego produktu*. In *Businessman*, 1991, no. 2. ISSN 0867-1389



# CHAPTER

## INTERNATIONAL PRICING POLICY

# 9

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Define price policy and the basic factors influencing it in international marketing.
2. Differentiate pricing strategies and explain export price escalation and transfer pricing.
3. Describe countertrade types and payment methods in international trade.
4. Describe the effect of exchange rate fluctuations on the development of business activities.



- Hamé, food processing company from the Czech Republic, runs 7 production plants in the Czech Republic, one in Caracal in Romania and one in Bogoljubovo in the Russian Federation. Its products are of high quality, with reasonable price and there are available in 37 countries in the world. External - uncontrollable variables as Russian sanctions in the form of total ban on food imports from the EU, Norway, US, Canada and Australia can affect significantly not only business results, but also its development plans and supply situation on Visegrad and EU market including pricing. **Photo:** Elena Horská, 2012

### Introduction

Price policy is an essential part of the marketing mix. Its importance in international marketing is based on the fact that through achieved prices the economic benefits of various transactions among the partners are divided. In other words, the level of reached prices directly influences the profitability of the transactions (Horská, 2007).

Pricing globally is much trickier than pricing in the home market, due to issues such as problems of currency fluctuations and devaluations, price escalation through tariffs, difficult-to-assess credit risks, and different quotations, dumping charges, transfer prices and price controls. In addition, the price is then compared and analysed by competitors, distributors and consumers. In global marketing, the level of price is sometimes less important than currencies quoted, methods of payment and credit extended (Johanson, 2009).

Price is often misunderstood and overlooked, especially, when a product's price does not reflect the quality/value the consumer perceives in the product (Ghauri and Cateora, 2006). Consumers want a fair price which can be either high or low as long as it reflects the perceived value of the product. However, this is often not the case (Onkvisit and Shaw, 2009).

## 9.1 Definition of Pricing and Related Terms

Despite the fact that today the importance of price as the main criteria when choosing products is decreasing, the price stays the most flexible, independent and controllable tool of the marketing mix (Kleinová and Kretter, 2011; Doole and Lowe, 2008).

Price plays a major role in international marketing management, because pricing changes result in an immediate response in the market (Doole and Lowe, 2008).

Experts involved in international marketing confirm that pricing can be one of the most challenging aspects of selling to international markets and pricing decisions are difficult to make. This happens also due to the fact that only few companies recognize the importance of the strategic role of pricing in international marketing. However, many of the fundamental principles are similar to domestic pricing decisions (Delphos, 1994).

When planning the international pricing policy, it is essential to do it with great care, especially when collecting all the relevant data which may affect the development of such policy. Mistakes can happen, they usually occur due to inadequate understanding of market attitudes and conditions. What companies do not realize is that often the cost of mistakes outweighs the cost of research of such policies (Majaro, 2013).

International market and trade brings additional cost issues unique to that particular market. These issues (including after-sales service and guarantees, modifications, promotion/ advertising, packaging and direct marketing expenses) should be addressed prior to pricing a product. The cost issues associated with the marketing effort vary from country to country and therefore affect pricing issues.

If there is proactive approach to coordinating the pricing decisions across international markets, a company has to select the appropriate strategy. This has to be determined by two factors: the level of local resources available and the level of environmental complexity (Doole and Lowe, 2008).

People travelling abroad are often surprised to find goods that are relatively inexpensive in their home country priced outrageously higher in other countries. It is also possible that goods priced reasonably abroad may be priced enormously high in the home market. This happens due to different factors influencing the price setting for the foreign market (Ghauri and Cateora, 2006). These factors are the challenges an international marketing firm must react to (Paul and Kapoor, 2008). Horská (2007) groups these factors into 4 areas (see Table 9.1).

International market and trade brings additional cost issues unique to that particular market

**Table 9.1** Factors influencing the price setting for the foreign market

<b>Company factors</b>	– strategic objectives
	– elements of marketing mix (4Ps)
	– the structure of costs
<b>Product factors</b>	– product life cycle
	– product range and differentiation, unique selling propositions
	– substitute products
	– product features
	– payment conditions
<b>Market factors</b>	– customers (perceptions, expectations and ability to pay)
	– government interventions
	– possibility of product adaptation
	– distribution channels
	– trade barriers
<b>Environmental factors</b>	– competition
	– exchange rate, currency fluctuations, tariffs
	– grey market
	– macroeconomic factors
	– socio-cultural and psychological issues influencing consumer attitudes

**Source:** Horská (2007), p. 129

According to Ghauri and Cateora (2006) these factors include mainly the objective of the firm in a particular market, price escalation, competition, target customer segment and pricing control.

The first step in setting the price of a product for the international market is to decide on the overall pricing policy **objectives**. After considering competitors, demand and total costs, the price must be low enough to stimulate consumer interest and high enough to make it profitable (Delphos 1994).

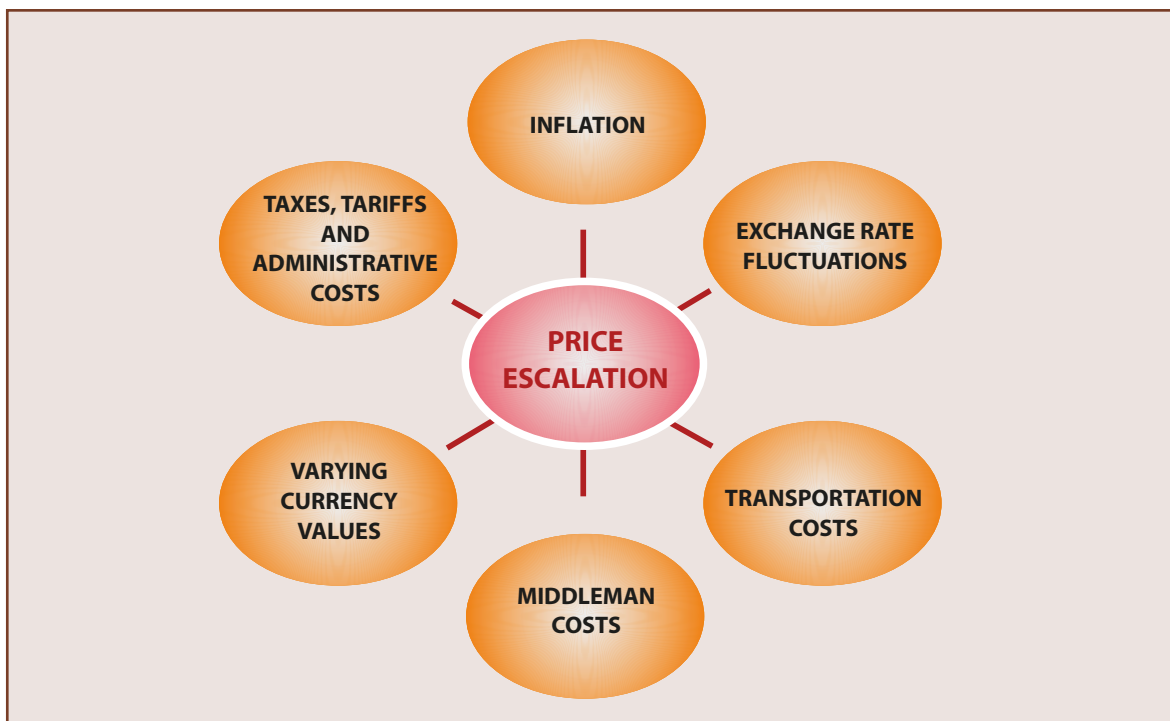
**Price escalation:** disproportionate difference in price between the exporting country and the importing country due to added costs incurred as a result of moving goods from one country to another. These costs are related to shipping, transportation, insurance, packing, tariffs, longer distribution channels (i.e. many middlemen), special taxes, administrative costs and exchange rate fluctuations (see Figure 9.1) (Ghauri and Cateora, 2006).

For some expensive products, exporters should consider means to keep prices reasonable to ensure repeated business, by adapting their products. For example, larger shipments can lower freight costs, local manufacturing can eliminate expensive freight (Onkvisit and Shaw, 2009).

**Taxes** include tariffs and together they affect the final consumer price, paid by the consumer. A **tariff**, or duty, is a special form of taxation, a fee charged when goods are brought into a country from another country, with the aim of protecting a market or for increasing government revenue. A **specific duty** is a flat charge per physical unit imported, such as 15 cents per bushel of rye. **Ad valorem** duties are levied as a percentage of the value of the imported goods, such as 20 per cent of the value of imported watches. **Combination tariffs** include both previously mentioned types, such as €1 per camera plus 10 percent of its value (Ghauri and Cateora, 2006).

**Price escalation:** disproportionate difference in price between the exporting country and the importing country due to added costs incurred as a result of moving goods from one country to another





■ **Figure 9.1** Factors influencing price escalation  
Source: Ghauri and Cateora (2006), p. 444

In addition, a variety of **administrative costs** is directly associated with exporting and importing a product, such as export and import licences and other documents, with the physical arrangements for moving the product (Ghauri and Cateora, 2006).

The impact of the **exchange rate** is quite crucial in international marketing. For billing purposes, the seller has more benefits from billing in a strong currency, but for a buyer a weak currency is an advantage. European firms can also minimize exchange risk by using euros instead individual currency for quotation and billing (Onkvisit and Shaw, 2009).

When taking into account **costs**, the essential question focuses on what kind of costs to consider and to what extent (Onkvisit and Shaw, 2009).

When calculating the international price of a product, we can use either the marginal-cost method or the cost-plus method (Delphos, 1994).

The **cost-plus (full cost) method** should be used in pricing a product for the overseas market. All costs must be paid for by all other countries, including domestic marketing costs (e.g. sales and advertising expenses, marketing research costs) and fixed costs (e.g. research, development and engineering). The calculation therefore begins with a domestic price and then adds international expenses (e.g. documentation fees, promotion costs, freight charges, customs duties, packing, and insurance). This pricing practice is highly centralized and ethnocentric. With an allowance for transportation costs and tariffs, the same price exists everywhere in the world Onkvisit and Shaw (2009).

Despite its simplicity, this method has a major disadvantage: as it does not take into account possible specific conditions abroad, it is easy to establish a price that may be too high to be competitive in a particular foreign market (Onkvisit and Shaw, 2009; Delphos, 1994).

On the other hand, **marginal-cost pricing** is more polycentric and decentralized. This pricing method is oriented more toward incremental costs. The calculation includes the actual production costs (with any modification costs) plus foreign marketing costs. The price cannot be set below this floor price without incurring a loss. Overhead, research, development and other costs of production should be

proportionally allocated between domestic and foreign production, while it is common that these costs had already been accounted for in the home market (Delphos, 1994).

The advantage here is the sensitivity to local conditions, therefore subsidiary or affiliate companies are allowed to set their own prices. However, in the long run, it is dangerous to be price competitive without being cost competitive (Onkvisit and Shaw, 2009).

Companies operating internationally must consider all the above mentioned factors and tailor them for each specific market, integrated and coordinated within a wider regional or global strategy (Doole and Lowe, 2008). Due to world financial crisis the concept of so called “popularly positioned products” has been applied not only for developing markets, but also for the EU markets, Visegrad countries including (Figure 9.2).

Companies operating internationally must consider all the above mentioned factors and tailor them for each specific market, integrated and coordinated within a wider regional or global strategy



■ **Figure 9.2** Popularly positioned products usually offer good quality, very affordable price and other features of sustainability business behind (e.g. using local production sources, high nutrition contents, etc.). PASSATEMPO (20 grams wafer) made by Nestlé available at Brazilian market  
Photo: Elena Horská, 2013

Examples of three pricing strategies are a **low-price strategy**, a **moderate-price strategy** and a **high-price strategy**. The best alternative depends on the product, market and the overall objectives of a company’s operations, as each strategy has its advantages and disadvantages. A low-price strategy (generally considered a short-term strategy) can be used when a company wishes to dispose of excess or obsolete inventory. As a result, it discourages new competition and might even reduce the market share of existing competitors. In opposite, a high-price strategy is designed for a company selling a new or unique product, or trying to establish a high quality image. The moderate-price strategy may enable to meet the competition, retain adequate profit margins and develop market share and achieve a long-term position in the market. However, it might encourage existing suppliers to present tough price competition (ibid).



### V4 MARKETING INSIGHTS

To keep market share during the crisis, companies and brands are experimenting in different fields. One concept is called as “popularly positioned products.” On the one hand, they continue to produce big packages with aggressively low pricing to keep their customers loyal, and on the other hand, they are developing

new products with smaller sizes and low prices to attract new customers or bring back old ones who have abandoned the brand. The idea is to create products that make sense for a buyer on a budget. Several years ago, giant food conglomerate Nestlé started to think about changing its products and its supply to help consumers on a budget. The

crisis of 2008 accelerated the pace of development, although the Swiss company says its response was not opportunistic. Now Nestlé started offering a range of “popularly positioned products” (PPP) to the most budget-conscious consumers in wealthy countries. The products were initially developed for emerging countries. In 2012 Nestlé introduced in Czech and Slovak market a chocolate bar with caramel fillings KARMEN that belongs to the PPP category because of very good ratio quality and price. Usually, size of such products is smaller and

producers try to decrease the costs of packaging (if possible, mainly in the situations when the shelf life is shortened). In 2014 the offer in the PPP category was enriched with traditional brand Mila and Nugáta (Figure 9.3) (Adapted from article: Mini-Size Me: Consumer Goods Shrink In Volume To Adapt To Crisis. Available online at: [http://www.worldcrunch.com/business-finance/mini-size-me-consumer-goods-shrink-in-volume-to-adapt-to-crisis/nestl-unilever-danone-sizing-crisis/c2s9673/#.U\\_Rmjvl\\_uSp](http://www.worldcrunch.com/business-finance/mini-size-me-consumer-goods-shrink-in-volume-to-adapt-to-crisis/nestl-unilever-danone-sizing-crisis/c2s9673/#.U_Rmjvl_uSp))



■ **Figure 9.3** Karmen, Milena and Nugáta – popularly positioned products available at the Slovak and Czech market  
**Photo:** Elena Horská, 2014

## 9.2 Pricing Strategies

Before selecting a pricing strategy, it is necessary to obtain information from market research, potential customers and competitors

Pricing strategies are essential part of company factors influencing price setting. Before selecting a pricing strategy, it is necessary to obtain information from market research, potential customers and competitors (Delphos, 1994). Depending on the level of competition, the innovativeness of the product and market characteristics, firms can follow a skimming or a penetration pricing policy (see Table 9.2) (Ghauri and Cateora, 2006).

In order to capture a sizeable market share, an international firm may adopt the strategy of keeping its prices initially lower than the competition in the international markets, in order to gain market share immediately, which is called **market penetration strategy**. Such a move will often result in instant acceptance of the firm's product by penetrating the price-conscious

segment of the market, supported with other marketing mix and promotion elements to communicate information about the new product for all levels of customers (Majaro, 2013; Paul and Kapoor, 2008). A full understanding of the relationship between the price and the product life cycle is inevitable for a successful penetration policy.

A full understanding of the relationship between the price and the product life cycle is inevitable for a successful penetration policy

**Table 9.2** Skimming versus penetration strategy

		PROMOTION	
		High	Low
PRICE	High	Rapid-skimming strategy	Slow-skimming strategy
	Low	Rapid-penetration strategy	Slow-penetration strategy

**Source:** Ghauri and Cateora (2006), p. 441.

However, in country markets experiencing rapid and sustained economic growth and where middle-income class is growing quickly, penetration pricing may be used to stimulate market growth even with minimum competition (Ghauri and Cateora, 2006).



### GLOBAL MARKETING INSIGHTS

Sony came to the conclusion that its portable disc player, which was priced at \$600 in the United States, could still gain a better market share if the price was brought down. The management of Sony decided to cut the price by half and take advantage of the economies of scale to penetrate the American market. The reduced price, in the range of \$300, assured larger sales volumes, to offset the price reductions and gain better market share (Adapted from Paul and Kapoor, 2008).



On the other hand there is the **market skimming strategy**, where the aim is to set a high price to maximise profit in the early stages of a product's introduction, to reach a relatively price-inelastic segment of the market which is willing to pay a premium price for the value received, until competition forces a lower price (Ghauri and Cateora, 2006).

When the seller is willing to penetrate the market more deeply, he can lower the price, especially if it is proved that demand elasticity exists. Skimming objective is appropriate when the product is new or innovative, the firm has production limitations and it is not fully aware of the market situation (Majaro, 2013).

While some goods can be marketed with standardised strategy, many require careful positioning according to target groups (Rugman and Hodgetts, 2003). Therefore, the question whether firms should aim for a broadly standardised price structure, or whether prices should be adapted in each country, still remains (Doole and Lowe 2008).

Compared to product decisions, pricing decisions are typically much more dissimilar from country to country. After discussing the factors influencing pricing decisions on international markets and the mentioning of some pricing strategies, the international nature of competition leads to the question of whether firms should aim for a broadly standardised price structure across the markets, or whether prices should be adapted in each country. There are three approaches to international pricing strategies (Gilligan and Hird, 2013; Doole and Lowe, 2008; Paul and Kapoor, 2008; Kaynak, 1991):

- 1. An ethnocentric pricing policy, or standardization:** the price of an item is the same all over the world (each customer pays the same price for the product as it leaves the factory), but they are expected to



## International Pricing Policy

pay transport and import duties themselves, either directly or indirectly, and this leads to considerable differences in the price to the final consumer. This type of pricing strategy is often used when selling a product with a low degree of differentiation.

For the firm, this is a low-risk strategy as a fixed return is guaranteed and the international buyer takes all the exchange rate risk. However, there is no adapting to local conditions in each national market and so no effort is made to maximize either profits or sales volume.

- 2. A polycentric pricing policy, or adaptation:** it allows the local subsidiary or affiliates to establish whatever price they consider to be most appropriate for local conditions, and no attempt is made to coordinate prices from country to country. The only constraints relate to transfer pricing within the corporate structure. The weakness of this policy is the lack of control the headquarters have over the prices set by the subsidiary operations. Significantly different prices must be set in adjacent markets, and this can reflect badly on the image of multi-national firms.

It also encourages the creation of grey markets (discussed below), whereby products can be purchased in one market and sold in another, benefiting from the price difference. It is very difficult for firms marketing on the Internet to pursue such strategies, because of the free flow of information across markets.

- 3. A geocentric pricing policy, or invention:** it takes an intermediate position by neither fixing a single price worldwide, nor allowing a complete freedom of local decision.

Whilst the need to take account of local factors is recognised, particularly in the short term, the firm still expects local pricing strategies to be integrated into a company-wide long-term strategy.

The choice of pricing policy is influenced also by the **centralized or decentralized decision making** in the particular company. An ethnocentric pricing policy requires centralized decision-making, whereas the opposite is true for a polycentric pricing policy (Kaynak, 1991).

Different local factors in each market make it very difficult to apply and achieve the seemingly easy and preferable theory of **price standardization**. The applicability is related to the nature of the product and its stage in the life cycle (e.g. certain hi-tech products where limited competition exists). Doole and Lowe (2008) identify five characteristics of the product that are important in pricing:

- **Degree of necessity:** if a product is essential for its users, price changes are unlikely to affect the market, except in countries with extreme poverty where people cannot afford even the most basic necessities.
- **Frequency of purchase:** frequently purchased products (e.g. petrol, tea and bread) tend to be very price-sensitive in all markets, whereas occasional purchases are not.
- **Unit price:** high-priced products (such as holidays and cars) are evaluated in greater detail in terms of the consumer's perceptions of value for money, so many aspects are extremely important to consumers besides price (e.g. reliability, style and features).
- **Degree of comparability:** consumers are less price-conscious about insurance policies than grocery products, because the alternatives are more difficult to compare. The same is the situation with certain services, such as advertising, consultancy and accountancy, which have a different perceived value from country to country.
- **Degree of fashion or status:** the high prices of luxury goods are perceived as a mark of their quality, and it is usually the goods with prestige image (even often created in other countries) that are not price-sensitive.

The standardised strategy may be adopted for each region to ensure no price differentials exist which could encourage **grey market** operations (or **parallel imports**) have undergone unprecedented growth in the past few years. The topic of grey markets is widely discussed among marketing experts (e.g. Majaro, 2013; Kotabe and Helsen, 2010; Paul and Kapoor, 2008; Doole and Lowe, 2008; Onkvisit and Shaw, 2004). Grey marketing refers to trademarked goods being legally sold through unauthorized channels



of distribution (despite no authority to sell the goods by the trademark holder). We highlight the word legally, because it is really the practice of buying a product in one market and selling it in other markets to benefit from the price differential.

The reasons of charging different prices for the same product in different countries include differences from country to country in purchasing parity, local exchange rates and discounts and other quantity incentives offered by the international marketing firm (Paul and Kapoor, 2008). This could occur within a country but more and more it is becoming common across countries and causes many problems, especially for global marketers trying to manage a coordinated marketing strategy across different markets (Doole and Lowe, 2008).

Typically, products notably affected by this method of operation include high-priced branded goods such as watches, cameras, jewellery, automobiles and perfumes, which have low costs of arbitrage such as transportation, tariffs, taxes and the costs of modifying the product (Kotabe and Helsen, 2010).

However, uniform prices can sometimes lead to price discrimination such as allegations of **dumping** because of charging different prices for the same product in various markets while the price in a foreign market is lower than that of the same goods of domestic firms (Gilligan and Hird, 2013; Onkvisit and Shaw, 2009). According to another approach, dumping happens if the products are sold below their cost of production.

Dumping practices are subject to severe penalties and fines. World Trade Organization (WTO) rules allow for the imposition of a dumping duty. A **countervailing duty** or **minimum access volume (MAV)**, which restricts the amount a country will import, may be imposed on foreign goods benefiting from subsidies whether in production, export, or transportation, when producers in the importing country are being directly harmed by the dumping (Cateora and Graham, 2005).

For the vast majority of companies, however, a **differentiated policy**, reflecting each market's different economic development, competitive structures, legal environment, channel structures, market opportunities, diffusion processes, perceptions of the product and stage reached on the product life cycle, becomes essential (Gilligan and Hird, 2013).

Grey marketing refers to trademarked goods being legally sold through unauthorized channels of distribution



### GLOBAL MARKETING INSIGHTS

By the time a £3 bottle of whisky makes it through Japan's complicated import and distribution system to their consumer, it costs more than 10 times as much. Most of the mark-up goes into the importer's pocket, although wholesalers, retailers and the government all also take minor sum. As an example, a bottle of Scotch whisky that costs about 900 yen (about £3) to import will eventually retail for 10,000 to 11,000 yen (£34–38).

The cost is boosted by liquor tax and import tariffs (about 1,900 yen); miscellaneous transaction charges (up to 900 yen); importer's margin (up to 4,500 yen); wholesaler's margin (up to 800 yen); and retailer's margin (about 2,000 yen).

The markups for whisky in the distribution stages account for 65–73 per cent, with the importer's margin 35–40 per cent, compared with 23 per cent for domestic products.

(Gilligan and Hird, 2013; note: from a study of the performance of 59 items imported into the Japanese market)



When companies set up their prices differently, while taking into account the different local specifics of markets, they have adopted a local pricing strategy. The international customers can get the same product at different rate differentials across borders of neighbouring countries. This strategy is also known as the tailor-made pricing strategy, created to suit the market differentials of each market (Paul and Kapoor, 2008).

The international customers can get the same product at different rate differentials across borders of neighbouring countries

## International Pricing Policy

Prices of goods transferred from operations or sales units in one country to a company's units elsewhere are known as **transfer pricing** or **intracompany pricing**

Price plays an important role in product differentiation by enhancing the perceived value of the product and helping consumers to distinguish between offers from different competitors.

Prices of goods transferred from operations or sales units in one country to a company's units elsewhere are known as **transfer pricing** or **intracompany pricing**. They may be adjusted according to the objectives of the company (Ghauri and Cateora, 2006).

The objectives of the transfer pricing system include:

- maximising profits for the corporation as a whole,
- strengthening parent-company control,
- coordinated management at all levels and creating an adequate basis for maintaining, developing profitability (Horská, 2007).

The benefits of transfer pricing are as follows:

- lowering duty costs by shipping goods into high-tariff countries at minimal transfer prices so duty base and duty are low,
- reduction of income taxes in high-tax countries by overpricing goods transferred to units in such countries; profits are eliminated and shifted to low-tax countries,
- promoting dividend repatriation when it is curtailed by government policy,
- to show more or less profit in crucial times (e.g. new emission, government rules, to please shareholders or to show the good performance of new/old management) (Cateora and Graham, 2005; Ghauri and Cateora, 2006).

The tax and financial manipulation possibilities of transfer pricing are observed by government authorities. Transfer pricing can be used to hide subsidiary profits and to escape foreign market taxes, while profit is taken in the country with the lowest tax rate (Cateora and Graham, 2005).

In recent years, price competition is being highlighted more and more. Sales promotion, pre-sale and post-sale service, advertising and product differentiation and product quality no longer depend on exclusivity. A small decrease in price can be an effective way of increasing penetration in many foreign markets, especially wherever there is considerable price consciousness and products are not highly differentiated (Gilligan and Hird, 2013).

According to Kleinová and Kretter (2011), with the growing salary the significance of food price is decreasing. It is also important to realize that for the consumer the subjective evaluation of the price means more than the objective price of the product. The customer accepts price differences if he is sure that there is a relation between the price and the function. The short-term tactical use of pricing such as discounts, product offers and seasonal reductions is often emphasized by managers, at the expense of its strategic role.

### 9.3 Payment Methods and Delivery Terms

An essential element of pricing policy are payment and delivery terms, including insurance against risks (Horská, 2007).

The price quotation must include terms of sale, it is recommended to use **Incoterms (International Commercial Terms)** published by the International Chamber of Commerce (ICC). Incoterms are a set of pre-defined commercial rules used in foreign trade transactions which define the tasks, costs and risks of transportation and delivery of goods under sales contracts, therefore it reduces uncertainties by eliminating misinterpretations of foreign trade terms (Onkvisit and Shaw, 2009).

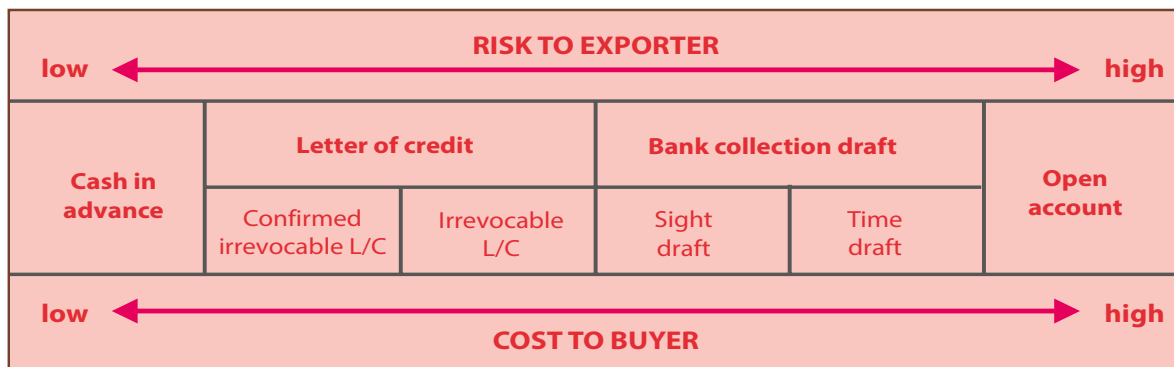
The eighth published 11 pre-defined terms of Incoterms 2010 are subdivided into two categories based only on method of delivery. The larger group of seven rules applies for general (any mode of)

transport (EXW – Ex Works, FCA – Free Carrier, CPT – Carriage Paid To, CIP – Carriage and Insurance Paid to, DAT – Delivered at Terminal, DAP – Delivered at Place, DDP – Delivered Duty Paid). The smaller group of four involves sea and inland waterway transportation (FAS – Free Alongside Ship, FOB – Free on Board, CFR – Cost and Freight, CIF – Cost, Insurance and Freight) (ICC, 2011).

Payment terms include agreement about the method and time of payment for delivered goods while the aim of payment instruments is to eliminate risks related to agreed terms (e.g. risk of failure to pay, currency-exchange rate risk) (Horská, 2007).

The risk of insufficient customer credit worthiness can be mitigated by **credit insurance** which covers the buyer's inability to pay. The advantages are protection against buyer insolvency, greater borrowing power and higher sales. However, the insurance does not cover the buyer's unwillingness to pay (e.g. because of his dissatisfaction with the goods). Onkvisit and Shaw (2009). Figure 9.4 shows payment methods according to their relation to costs and risk.

Payment terms include agreement about the method and time of payment for delivered goods while the aim of payment instruments is to eliminate risks related to agreed terms



■ **Figure 9.4** Payment methods  
Source: own elaboration, 2014

### ■ Cash in advance

Preferable for the seller, especially if the buyer is financially weak or has unknown credit risk, when there are unstable economic/political conditions in the buyer's country or the seller is not interested in assuming credit risk. It enables immediate use of money and gives maximum protection for sellers, on the other hand, the buyer is usually not eager to bind money (Onkvisit and Shaw, 2009).

### ■ Letter of credit (L/C)

Frequently used in international trade. The seller can be sure that if he acts in compliance with agreed terms he receives the paid claim after submitting documents to the bank, and at the same time the buyer has the certainty the bank pays the particular value of L/C to the seller after submitting certain documents about meeting the undertaking (trade, insurance and transport documents, specified time period, until the transaction shall be carried out, description of the goods and further conditions as requested) (Horská, 2007).

The bank agrees to allow the seller to collect payment from the correspondent bank abroad. The importer can repay the bank by either making an appropriate cash deposit or borrowing all or part of the money from the bank.

Several banks may be involved in the process. The **issuing bank** issues L/C for its current customers only, even if collateral is offered by someone else. The **advising bank** is the bank which notifies the exporter that an L/C has been issued. The issuing bank forwards the L/C to the (usually closest to the beneficiary) advising bank (its foreign correspondent). The **confirming bank** has similar services as the advising bank but also becomes liable for payment (Onkvisit and Shaw, 2009).

## International Pricing Policy

The disadvantage of this method is its lack of flexibility and complexity, and it does not work well with unusual transactions (Onkvisit and Shaw, 2009).

Several types of letters of credit include revocable, irrevocable, confirmed, unconfirmed, standby, back-to-back and transferable L/C.

### ■ Revocable letter of credit

Without prior notification to the seller, the issuing bank can cancel or modify its obligation at any time before payment – even after shipment has already been made (minimum protection to the seller) (Onkvisit and Shaw, 2009).

### ■ Irrevocable letter of credit

A much preferred type. Once the L/C is accepted by the seller, it cannot be amended in any way or cancelled by the buyer or the buyer's bank without all parties' approval. The irrevocable and confirmed L/C ensures maximum security and earliest payment for the seller (Onkvisit and Shaw, 2009).

### ■ Confirmed letter of credit

The confirmation of the L/C through a bank in the exporter's country gives an additional guarantee of payment from the confirming bank. It is more desirable for the exporter when payment is guaranteed by two banks instead of one (Onkvisit and Shaw, 2009).

### ■ Unconfirmed letter of credit

In this case, the L/C is not confirmed by a bank in the seller's country, therefore the certainty is less and payment slower. It is acceptable as long as the issuing foreign bank is financially strong (Onkvisit and Shaw, 2009).

### ■ Standby letter of credit (bid or performance L/C)

Its purpose is to guarantee a seller's obligation under a contract or agreement, for performance bond, bid bond, surety bond and loan agreement. Here, the buyer requires the seller to open an L/C naming the buyer as a beneficiary (it is thus a bank's guarantee to the beneficiary that a payment will be received by the beneficiary under certain conditions (Onkvisit and Shaw, 2009).

### ■ Bill of exchange (draft)

It is a request for payment, an unconditional order in written form from one person (drawer, usually the exporter) requiring the person to whom it is addressed (drawee, usually the buyer) to pay the payee or bearer on demand or at a fixed or determinable time. The payee may be the exporter or his bank, the bearer, or any specified person. The bill of exchange allows banks to make adjustments by debiting or crediting accounts maintained in buyer or seller names with other banks.

The two main types of bill of exchange are sight and time. A **sight draft** is paid when it is first seen by the drawee and is commonly used for either credit reasons or for the purpose of title retention. A less secure **time (usance or date) draft** is for financing the sale or temporary storage of specified goods for a specified number of days after sight. It specifies payment of a stated amount at maturity. Compared with an open account, this has a negotiable instrument evidencing the obligation. Since this document may be sold to factors and discounted immediately, the seller can obtain cash before maturity.

A variation of this kind of draft is **documents against payment (D/P)** when bills of lading, invoices and the like accompany the draft. If financial documents are omitted or if bills of lading come from countries where drafts are not used, it is a case of **cash against documents**. Frequently, the draft terms may read "90 days sight D/A" or **documents against acceptance**. The acceptance of draft enables the buyer to receive the documents and the merchandise while not being obliged to make payment until the draft matures (Onkvisit and Shaw, 2009).

■ **Bankers' acceptance**

This is a time draft with maturity less than six months, where the bank endorses the time draft as “accepted” and it becomes the bank’s obligation to pay at maturity and a negotiable instrument that may be bought or sold in the market like a certificate of deposit (CD) or commercial paper. Drafts drawn on and accepted by nonbank entities are called **trade acceptances** (Onkvisit and Shaw, 2009).

■ **Open account**

It is similar to selling with an invoice at the domestic market. The buyer orders goods and states the maturity date on the invoice (Horská, 2007).

The buyer can pick up goods without having to make payment first. The advantages include export in shortest time possible, simplicity and no credit charges to banks. In return the seller expects that the invoice will be paid at the agreed time. A major weakness is the absence of safeguard against default and the lack of payment instrument, therefore the buyer often delays payment until the merchandise is received.

Precautions should be taken, such as credit investigation. Several organizations can provide credit information (commercial credit agencies, chambers of commerce and trade associations, government sources, even commercial banks and their overseas branches or correspondent banks). In addition, the importing country’s political risk and economic conditions should be considered, too (Onkvisit and Shaw, 2009).

## 9.4 Countertrade Operations

Countertrade belongs to the oldest forms of trade where products are exchanged for other products instead of cash (Ghauri and Cateora, 2006).

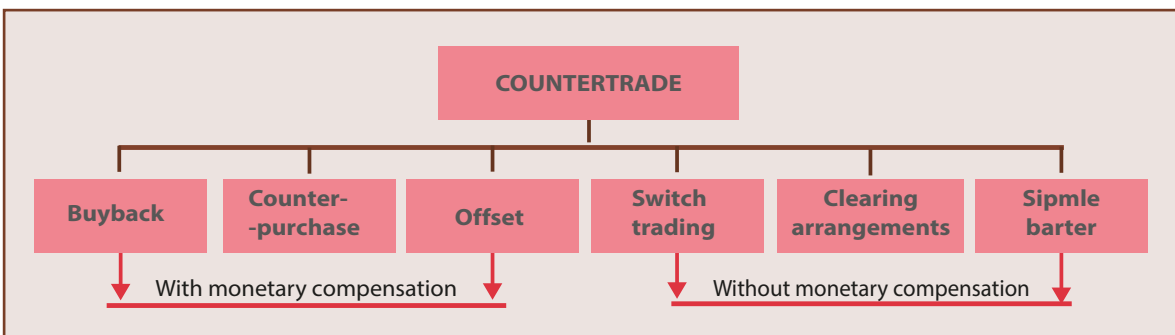
Countertrade may involve multiple deals (separable transactions linked with a contract), several products moving at different points in time while involving several countries, and it may or may not include monetary compensation (Onkvisit and Shaw, 2009).

As its main advantage, countertrade provides benefits in market access, foreign exchange and pricing (Onkvisit and Shaw, 2009).

Various types of countertrade are often used nowadays in international trade, such as a trade alternative to countries with international debt and liquidity problems, and their use is to increase substantially, especially in trading with emerging countries (Ghauri and Cateora, 2006; Onkvisit and Shaw, 2009).

Countertrade has several types: buyback, counterpurchase, offset, switch trading, clearing arrangements and barter. Figure 9.5 provides a classification of countertrade operations.

Countertrade belongs to the oldest forms of trade where products are exchanged for other products instead of cash



■ **Figure 9.5** Classification of countertrade operations  
 Source: own elaboration, 2014



The simplest form of countertrade is **barter**, a one-time direct and simultaneous exchange of products of equal value without the use of any money (Onkvisit and Shaw, 2009). Usually, no third party is involved to carry out the transaction. A single contract covers the entire transaction (Kotabe and Helsen, 2010). Bartered goods can range from hams to iron pellets, mineral water, furniture or olive oil (Ghauri and Cateora, 2006).

Though one of the oldest forms of countertrade, it is very seldom used these days. It is most common in deals that involve subsistence economies. Barter is also sometimes introduced into existing contracts to recover debt through goods when the debtor cannot pay cash (Kotabe and Helsen, 2010).

Barter makes it possible for cash-tight countries to buy and sell (Onkvisit and Shaw, 2009).

A **clearing agreement** is a clearing account barter between two governments with no currency transaction required. Each party sets up an account in its own central bank, the trade in this case is continuous, until the exchange reaches an agreed value or volume of trade tabulated or calculated in nonconvertible “clearing account units” (Onkvisit and Shaw, 2009).

Imbalances at the end of the contract period are cleared through payment in hard currency or goods (Kotabe and Helsen, 2010).

A variant of clearing arrangements is **switch trading** which is a triangular trade agreement. When goods, all or part, from the buying country are not easily usable or saleable, it may be necessary to involve a third party (a specialized trader – switch trader) to dispose of the merchandise. The third party pays hard currency for the unwanted merchandise at a considerable discount. The price differential (surplus credit or margin) is accepted as being necessary to cover the costs of doing business this way (Onkvisit and Shaw, 2009).

The third party uses then the credits to buy goods from the deficit country (Kotabe and Helsen, 2010).

The remaining forms involve two parallel agreements (with use of money): the original sales agreement and a second contract where the supplier commits himself to purchase goods in the customer’s country (Kotabe and Helsen, 2010).

**Counterpurchase (parallel barter)** is the most popular form of countertrade. Here, two parallel contracts for two separate transactions are negotiated – each with its own cash value. The seller agrees to sell a facility or a product at a set price to a buyer and receives payment in cash (first contract) while at the same time the original seller orders a specified amount of goods from the buyer within a specified period (second contract). The goods to be purchased in the second contract are generally of greater variety (Kotabe and Helsen, 2010; Onkvisit and Shaw, 2009; Ghauri and Cateora, 2006).

**Offset** is a variation of counterpurchase. In an offset, a foreign supplier is required to manufacture or assemble the product locally (may not be economically optimal) and / or purchase local components as an exchange for the right to sell its products locally. Offset is very common with defense contracts, in purchases of aircraft and military equipment (Onkvisit and Shaw, 2009).

With direct offset, the supplier agrees to use materials or components sourced from the importing country. Indirect offset is a contractual arrangement containing goods or services unrelated to the core goods to be exported (Kotabe and Helsen, 2010).

A **compensation trade (buyback)** is much more mutually beneficial than the other forms of countertrade. It requires a company to provide technology, machinery equipment, factories, or turnkey plants and to buy products made from this machinery over an agreed period. The two contracts here are highly related. Under a separate agreement, the seller either agrees to accept as partial payment a certain portion of the output, or he receives full price initially but agrees to buy back a certain portion of the output (Ghauri and Cateora, 2006; Onkvisit and Shaw, 2009; Kotabe and Helsen, 2010).

**Export leasing** as an alternative option to direct selling is an important financing method especially when buying equipment with costly investment. Leasing represents a particular form of a lease contract where the lessee (tenant) pays the rental fee for a fixed period for the right to use the leased subject (Horská, 2007). Terms of the leases usually run one to five years, with payments made monthly or

annually. The rental fee includes servicing, repairs and spare parts. Often happens that lease contracts that include maintenance and supply parts can lead to heavy losses towards the end of the contract period due to inflation in the country (Cateora and Graham, 2005; Ghauri and Cateora, 2006).

### Summary

Pricing is one of the most complicated areas encountered by international marketers. It covers dealing with various market conditions, competitors, different cost factors and government regulations, often for each market within a country where the company operates. Several factors must be taken into consideration in price setting, including company, product, market and environmental factors, such as company objectives, costs, demand and supply, product image, market share, product life cycle, price escalation, competition, target customer segment and pricing control. Based on these factors, various pricing strategies can be created. Payment methods and delivery terms add even more complexity into pricing. The growth of the less developed markets with their lack of investment capital has increased the importance of countertrades, making it an important tool to include in pricing policy.

**Key terms:** Pricing, Price escalation, Tariffs, Costs, Cost-plus pricing, Marginal-cost pricing, Market penetration, Market skimming, Standardisation, Adaptation, Grey market or Parallel imports, Dumping, Transfer pricing, Countertrade, Buyback, Counterpurchase, Offset, Switch trading, Clearing arrangement, Barter



### QUESTIONS FOR DISCUSSION

1. Define pricing and related terms. Which factors influence pricing?
2. Explain the difference between various types of pricing strategies: cost-plus pricing vs. marginal-cost pricing, market penetration vs. market skimming, standardization vs. adaptation.
3. Explain these terms of countertrade: barter, clearing agreement, switch trading, offset, counterpurchase and buyback.
4. Which payment methods exist in international trade?

### Further Recommended Readings

NESTLÉ PPP strategy. 2010. Available online at: [http://www.nestle.com/asset-library/documents/r\\_and\\_d/news/ppp-fact-sheet.pdf](http://www.nestle.com/asset-library/documents/r_and_d/news/ppp-fact-sheet.pdf)

MINI-SIZE Me: Consumer Goods Shrink In Volume To Adapt To Crisis. 2012. Available online at: [http://www.worldcrunch.com/business-finance/mini-size-me-consumer-goods-shrink-in-volume-to-adapt-to-crisis/nestl-unilever-danone-sizing-crisis/c2s9673/#.U\\_Rmjvl\\_uSp](http://www.worldcrunch.com/business-finance/mini-size-me-consumer-goods-shrink-in-volume-to-adapt-to-crisis/nestl-unilever-danone-sizing-crisis/c2s9673/#.U_Rmjvl_uSp)

### Literature

BEST, R. J. 2012. *Market-Based Management: Strategies for Growing Customer Value and Profitability*. 6<sup>th</sup> ed. Pearson, Prentice Hall, 576 p. ISBN 978-0-13-038775-2.

CATEORA, P. R. – GRAHAM, J. L. 2005. *International Marketing: International Edition*. 12<sup>th</sup> ed. New York : McGraw-Hill/Irwin, 697 p. ISBN 0-07-283371-8.

- DELPHOS, W. A. (Ed.) 1994. *International Marketing Resource Guide*. Alexandria : Braddock Communications, 335 p. ISBN 978-0-788124105.
- DOOLE, I. – LOWE, R. 2008. *International Marketing Strategy: Analysis, Development and Implementation*. London : Cengage Learning, 462 p. ISBN 978-1-84480-763-5.
- GÁLOVÁ, J. – HORSKÁ, E. 2013. Sustainability in Business: Global Challenges in International Business. In HORSKÁ, E. – YESPOLOV, T.I. et al. 2013. *Sustainability in Business and Society: Global Challenges – Local Solutions*. Kraków : Wydawnictwo Episteme, s. 111–132. ISBN 978-83-7759-015-7.
- GHAURI, P. N. – CATEORA, P. 2006. *International Marketing*. 2<sup>nd</sup> ed. London : McGraw-Hill, 659 p. ISBN 0-07-710830-2.
- GILLIGAN, C. – HIRD, M. 2013. *International Marketing: Strategy and Management*. RLE International Business. Vol. 17. 324 p. ISBN 978-0-415-64113-5.
- HORSKÁ, E. – PALUCHOVÁ, J. – PROKEINOVÁ, R. – MOISEVA, O.A. 2011. *Vnímanie imidžu krajiny pôvodu potravinárskych produktov a aspekty ich kvality vo vybraných európskych krajinách*. Nitra : SUA, 158 p. ISBN 978-80-552-0686-8.
- HORSKÁ, E. 2007. *Medzinárodný marketing*. Nitra : SUA, 223 p. ISBN 978-80-8069-938-3.
- HORSKÁ, E. et al. 2011. *European studies on intercultural dimension of international business : marketing and managerial consequences*. Nitra : SUA. 203 p. ISBN 978-80-552-0530-4.
- ICC (International Chamber of Commerce). RAMBERG, J. 2011. *ICC Guide to Incoterms 2010: Understanding practical use*. ICC Publication No. 720E. ISBN 978-92-842-0226-3. [online]. Available from: <http://store.iccwbo.org/content/uploaded/pdf/ICC-Guide-To-Incoterms%20AE-2010.pdf>
- JOHANSON, J. K. 2009. *Global Marketing: Foreign Entry, Local Marketing and Global Management. International Edition*. 5<sup>th</sup> ed. Singapore : McGraw-Hill, 690 p. ISBN 978-007-126362-7.
- KAYNAK, E. 1991. *International Marketing: Sociopolitical and Behavioral Aspects*. Binghamton : Haworth Press, Taylor and Francis, 416 p. ISBN 978-0-86656-951-0.
- KLEINOVÁ, K. – KRETTTER, A. 2011. *Imidž domácich a zahraničných potravín na trhu SR*. Nitra : SUA, 98 p. ISBN 978-80-552-0552-6.
- KOTABE, M. – HELSEN, K. 2010. *Global Marketing Management*. 5<sup>th</sup> ed. Hoboken, NJ : John Wiley. 726 p. ISBN 978-0-470-38111-3.
- KOTLER, P. – ARMSTRONG, G. 2010. *Principles of marketing*. New Jersey: Pearson Education, 637 p. ISBN 0-13-700669-1
- KOTLER, P. – KELLER, K. L. 2006. *Marketing Management*. New Jersey : Pearson Education. 674 s. ISBN 0-13-145757-8.
- MAJARO, S. 2013. *International Marketing: A Strategic Approach to World Markets*. RLE International Business. Vol. 25, 2013. 312 p. ISBN 978-0-415-64336-8.
- OMARKULOVA, M. – GÁLOVÁ, J. – HORSKÁ, E. 2013. Pricing and Distribution in International Environment. In OMARKULOVA, M. – HORSKA, E. – USPANOVA, M. et al. 2013. *Selected Issues in International Marketing: Textbook*. Turan University: Almaty, pp. 109–121. ISBN 978-601-214-186-3.
- ONKVISIT, S. – SHAW, J. 2004. *International Marketing: Analysis and Strategy*. London : Routledge, 619 p. ISBN 0-415-31132-2.
- ONKVISIT, S. – SHAW, J. J. 2009. *International Marketing: Analysis and Strategy*. 4<sup>th</sup> ed. London: Routledge (Taylor and Francis), 594 p. ISBN 978-0-415-31133-0.
- PAUL, J. – KAPOOR, R. 2008. *International Marketing: Text and Cases*. New Delhi : Tata McGraw-Hill, 379 p. ISBN 978-0-07-063588-3.
- RUGMAN, A. M. – HODGETTS, R. M. 2003. *International Business*. 3<sup>rd</sup> ed. Harlow : Pearson Education, Prentice Hall, Financial Times, 628 p. ISBN 0-273-67374-2.

# CHAPTER

## DISTRIBUTION POLICY IN THEORY AND PRACTICE

# 10

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Understand importance of distribution in the marketing-mix.
2. Define decision making parameters.
3. Understand the types of distribution channels from international perspective and marketing actions of current distribution formats.



- "Best domestic food products" is the marketing message of the Slovak retail chain COOP Jednota. Retail competition in Slovakia is very intensive, mainly due to strong international retail chains operating at the Slovak retail market, but also growing internet retailing. This leads to increased advertising efforts and intensive price promotion. **Photo:** Elena Horská, Nitra 2014

### Introduction

Based on several writers the place as on of the 4Ps has crucial importance which is not always taken into consideration as it should. The place/distribution is the tool to get closer to the defined consumer segments and make possible the real aims of marketing:

- Sell more.
- More often.
- To more people.
- More efficiently.
- For more money (Garrison, 2006).

Distribution is the ways to make customers and consumers get their products right on time wherever and whenever they want to use them. It is the potential to make sure that consumers prefer those products which they need, want, desire and possibly purchase in case it is in the channel and time they are ready to buy them. Why do we need the marketing channels and the distributors? The answer is quite complex.

The **producers** need the intermediaries for the following reasons:

- They do not have or limited marketing background.
- They do not have or limited financial background.
- They do not have or limited market knowledge.
- They do not have or limited market network and relationships.
- They do not have or limited market experiences.
- They do not have or limited labour forces.

The **consumers** need the distribution channels for the reasons as follows:

- Broader assortment.
- Saving time.
- More services.
- Convenience.

Distribution policy in international marketing must be considered from two aspects: not only from the viewpoint of the entry mode of the company to the foreign market, but also the selection of the right distribution channel on the particular market

Within marketing infrastructure this is the task of distribution channels. International distribution channels, on the other hand, are different from similar routes of goods which do not cross country borders. Distribution policy in international marketing must be considered from two aspects: not only from the viewpoint of the entry mode of the company to the foreign market, but also the selection of the right distribution channel on the particular market. After solving these problems comes the issue of logistic decision-making.

## 10.1 Levels and Types of Distribution

As time is important to both parties (consumers and manufacturers) producers try to set their distribution strategy to get as close to the consumers as possible.

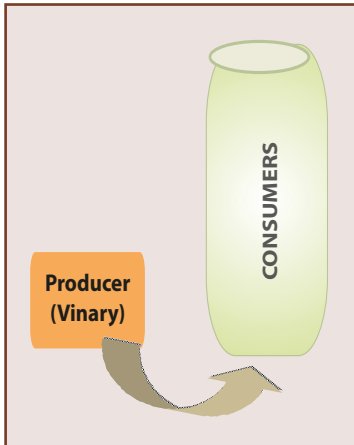
We can distinguish **four major types** depending on how we can reach the potential buyers:

- **Zero-level distribution.**
- **1 level distribution.**
- **2-level distribution.**
- **3/Multiple-level distribution.**

At **zero-level distribution** the consumer buys the products from the producers and we often call it direct channels as well. It is a regularly used strategy for smaller amount of goods and it is also perfect for image



creation because the consumer can meet the producers personally and exchange information, opinion (Figure 10.1 and 10.3). **1-level distribution** is needed for larger amount of products, where the direct selling from producer is not convenient to set or in case of having no possibility for the direct selling. The main advantages of this type are the broader consumer segments, better geographical approach and the possibility to tailored distribution (Figure 10.2).



■ **Figure 10.1** Zero-level distribution



■ **Figure 10.2** 1-level distribution

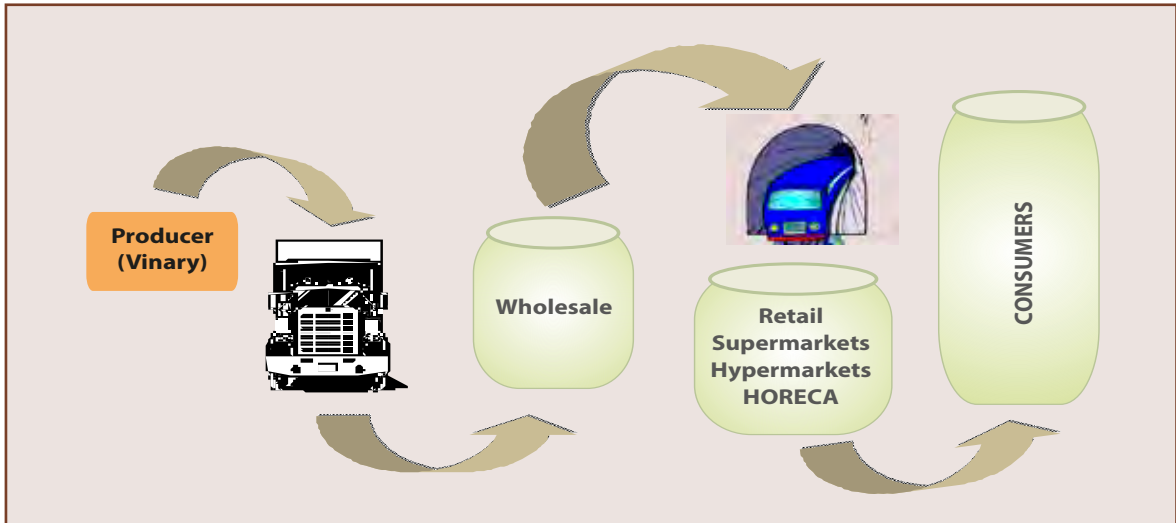


■ **Figure 10.3** Producer of delicious noodles, directly in the centre of open-air market in Antioch (modern Turkish city Antakya) accounts zero-level distribution. Taste, quality and tradition make such business viable also nowadays, in the era of mass production and modern supermarkets as professor Elif Hatun Kilicbeyli said

**Photo:** Elena Horská, Antakya 2011

## Distribution Policy in Theory and Practice

**2-level distribution** is used at the companies where the production volume is large and they have several consumers' segments to supply. In these circumstances with the help of the wholesalers and the retail the products can be delivered to those channels and places where the consumers would like to meet and buy them in a convenient way (Figure 10.4). In case of **3/multiple distribution** jobbers (small-scale wholesalers) are used for special markets and products.



■ **Figure 10.4** 2-level distribution



■ **Figure 10.5** Exclusive distribution is strategy typical for high quality, special and luxury goods retailers. LOUIS VUITTON on Champs-Élysées in Paris is a good example  
Photo: Elena Horská, Paris 2013

- **Intensive distribution** means the producer’s products are stocked in the majority of outlets. This strategy is common for basic supplies, snack foods, magazines and soft drink beverages.
- **Selective distribution** means that the producer work together with a few intermediaries to carry their product. This strategy is commonly observed for more specialised goods that are carried through specialist dealers, for example, brands of professional appliances/tools.
- **Exclusive distribution** means that the producer selects only very few intermediaries or even one. Exclusive distribution is often characterised by exclusive dealing where the reseller carries only that producer’s products to the exclusion of all others. This strategy is typical of high quality, special and luxury goods retailers (Figure 10.5).

## 10.2 International Distribution Channels

Each country has its own unique distribution system that has evolved over time and changes very slowly. These channel systems as well as the relative significance of different members or elements of a channel system can vary significantly across countries. Intercountry variations are partly due to history, tradition, legal conditions, and economic reasons behind effectiveness and efficiency. Thus global marketers must usually adapt their channel strategies to the existing structures within each country (Kotler et al., 1999).

It is impossible to prescribe a single distribution method that is ideal for all products and markets because of many types of intermediaries. A number of factors (such as product type, regulations, customs, and intermediary loyalty) must be taken into account in designing and developing an international channel of distribution. These factors determine how long, how wide, and how many channels are appropriate (Onkvisit and Shaw, 2004).

Horská (2007) presents the **basic** factors when selecting the distribution channel, divided into external and internal factors, which are named the **theory of 11C** (Table 10.1).

A number of factors (such as product type, regulations, customs, and intermediary loyalty) must be taken into account in designing and developing an international channel of distribution. These factors determine how long, how wide, and how many channels are appropriate

**Table 10.1** Factors Influencing the Selection of the Distribution Channel (“11C”)

External factors	Internal factors	
– customer characteristics	– company objectives	– coverage
– culture	– character	– control
– competition	– capital	– continuity
	– cost	– communication

Source: Horská (2007). p. 155.

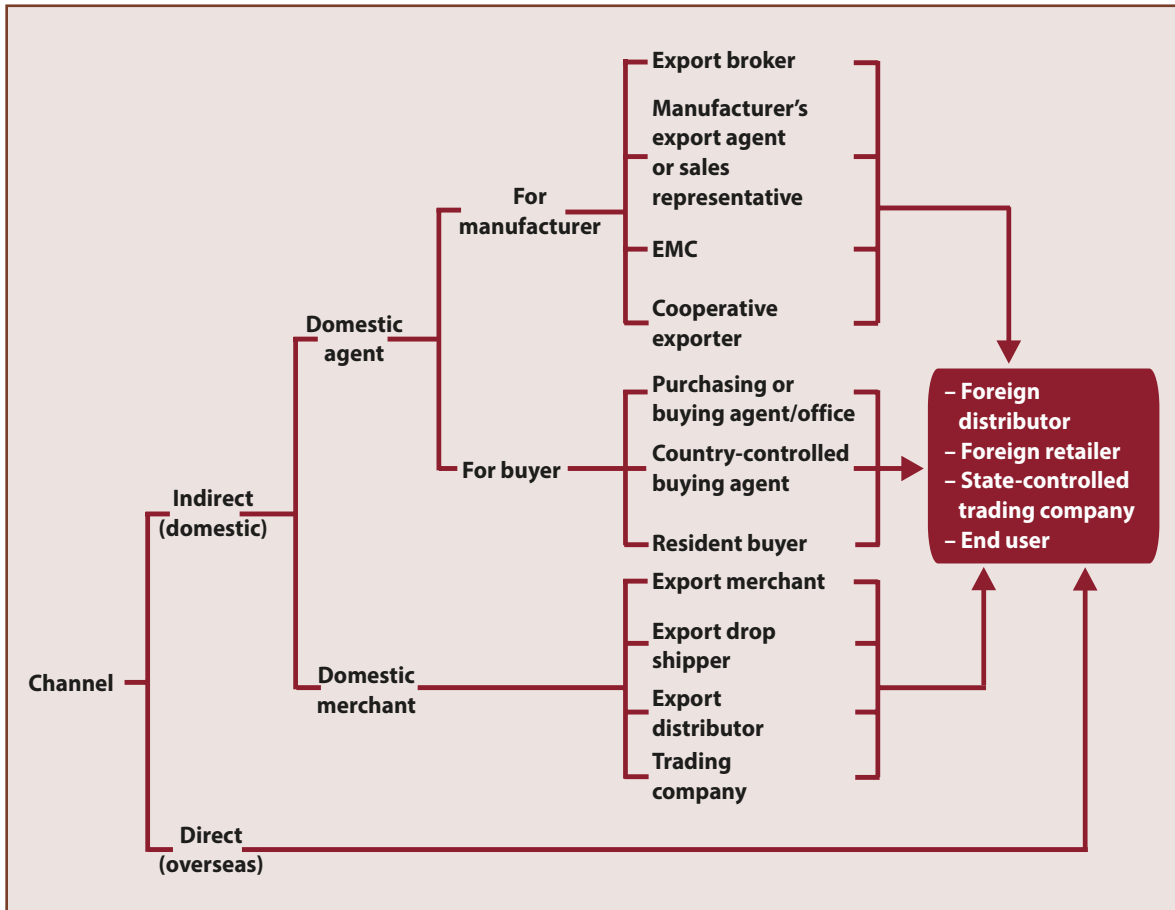
Cultural variables may greatly influence distribution strategies. With lifestyle changes, Avon, the U.S. cosmetics maker, has been forced to fine-tune its direct selling model. In Taiwan and China, Avon experimented with alternative distribution modes for selling its products. Some of the alternatives include the use of kiosks, small counters in department stores, the Internet, and selling products on homeshopping TV channels (Kotabe and Helsen, 2010).

The manufacturer has the option of selling or charging sales responsibility to **intermediaries** in its own country and letting them decide about reselling the product elsewhere. Another option is to bypass intermediaries and deal directly with foreign buyers, if the manufacturer has enough expertise, market familiarity, resources, and commitment. There are several types of intermediaries associated with both the direct

There are several types of intermediaries associated with both the direct and indirect channels

## Distribution Policy in Theory and Practice

and indirect channels. Figure 10.6 compares the two channels and lists the various types of domestic and foreign intermediaries.



■ **Figure 10.6** International channels of distribution  
 Source: Onkvisit and Shaw (2004), p. 349



## GLOBAL MARKETING INSIGHTS

There is a difference in distributing and marketing Conditioner FRUCTIS OIL REPAIR and AL-RABIH Eau de roses Rose water (Figure 10.7). OIL REPAIR is an innovative products developed for needs of Indian and Arabic women with long hair. In order to familiarize rural customers with new products in rural India there were used principles of rural marketing, including personal selling, word-of-mouth evidence, and door-to-door selling. In case of ROSE WATER there is no need for introductory phase and education of customers as it accounts very traditional product. In Iran, it is also added to tea, ice cream, cookies and other sweets in small quantities, and in the Arab world, Pakistan and India it is used to flavour milk and dairy-based dishes such as rice pudding. It is also a key ingredient in sweet lassi, a drink made from yogurt, sugar and various fruit juices, and is also used to make jallab. In Malaysia and Singapore, rose water is mixed with milk, sugar and pink food colouring to make a sweet drink called bandung. Rose water is frequently used as a halal substitute for red wine and other alcohols in cooking (Rose water, 2014).





■ **Figure 10.7** Conditioner OIL REPAIR versus Rose water  
 Photo: Elena Horská, 2014

In the following part of the chapter, we focus on the basic terms related to international distribution channels, as adopted according to Kotler et al. (1999):

- A distribution channel is a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer or business user (ibid). Marketing channels perform many key functions: information gathering and dissemination, promotion, contact work, matching offers to buyers' needs, negotiation, physical distribution, financing, and risk taking.
- Marketing channels face continuous and sometimes dramatic change. The three most important trends are the growth of vertical, horizontal and hybrid marketing systems.
- Channel design begins with assessing customer channel-service needs and company channel objectives and constraints. The company then identifies the main channel alternatives in terms of intermediary types (from wholesalers, brokers, and agents to retailers), the number of intermediaries and the channel responsibilities of each.
- Wholesaling includes all the activities involved in selling goods or services to those who are buying for the purpose of resale or for business use. Wholesalers perform many functions, including selling and promoting, buying and assortment building, bulk-breaking, warehousing, transporting, financing, risk bearing, supplying market information and providing management services and advice.
- Retailers perform activities involved in selling goods and services directly to final consumers for their personal use. There are many types of retailer, which differ in the amount of service they provide, product line sold, and their relative price emphasis (Figure 10.8).
- More business firms are now paying attention to physical distribution or marketing logistics. Logistics is an area of potentially high cost savings and improved customer satisfaction. Marketing logistics involves coordinating the activities of the entire supply chain to deliver maximum value to customers. The primary logistics functions include order processing, warehousing, inventory management and transportation.





■ **Figure 10.8** Economic and cultural variables vary not only internationally, but also locally. Each town, each city, each region has its own specifics. GUM in Moscow – Main Universal Store or State Department Store in Moscow is a symbol of history, wealth, quality and high class target customers  
**Photo:** Elena Horská, Moscow 2011

Firms have two options for international distribution systems:

1. Decision to sell directly to customers abroad by using its own local salesman or internet.
2. Decision to use the resources of independent intermediaries, mostly at the local level.

Dell and Hewlett-Packard are two examples of multinational companies in the same personal computer industry with different distribution systems. Dell distributes its PCs directly from its assembly factories to end-users anywhere in the world, while Hewlett-Packard uses international agents and retailers. Dell customers may have to wait several days or weeks to get a PC, whereas Hewlett-Packard customers can walk away from a retailer with a PC immediately. In deciding which distribution channels to adopt, a firm needs to consider the cost of meeting customer needs. Therefore, a firm needs to evaluate the impact on customer service and cost as it compares different international distribution options (Kotabe and Helsen, 2010).

Distribution channels that use (one or more) intermediaries, agents, or merchants between the manufacturer and customers can often have several levels, each with its own specific purpose within the channel. The use of intermediaries can be a relatively easy, quick and low-cost entry strategy into a new foreign market, therefore they are frequently used by many (particularly small-to-medium) companies that do not have the resources to operate their own marketing and distribution system in a foreign market (Kotabe and Helsen, 2010). The difference between **agent** and **merchant** is the legal ownership of goods. An agent does not take ownership, it only distributes on behalf of the principal company in exchange for a percentage of the sale price. Merchants operate in their own right as independent businesses.

### 10.3 Selected Aspects of Retailing Across the World

Retail competition in Central Europe and Visegrad countries is very intensive. Top retailers in the region include global players Metro, Rewe, and Tesco among others, representing the intensifying competition between large shop formats and discount stores. There are currently several major trends in Central European retail (Retail in Central Europe, 2014) which are to a certain extent common/similar to all Central European countries:

- **Consumers prefer larger shop formats.** This change of market structure is most prominent in the Czech Republic, while small businesses in Poland, for example, still keep a market share of about 50% in rural areas.

Retail competition in Central Europe and Visegrad countries is very intensive. Top retailers in the region include global players Metro, Rewe, and Tesco among others, representing the intensifying competition between large shop formats and discount stores



#### V4 MARKETING INSIGHTS

Wine producing companies, distribution and retailing: Market research in Hungary  
According to ACNielsen Piackutató Kft. the quantity of wine sold in retail trade continuously increased throughout the year in terms of each store type, region and packaging. At national level, bottled wines of 0.75 l comprise 40–45 % of the wine market. In recent years, besides the producer's brands, commercial brands have appeared in the case of wines, too. Coop, Spar and Tesco, Metro chains have commercial brands.

28.7 % of the total retail turnover conducted in food stores is realised in stores located near the residential places. In each store type, the extent of wine selection depends upon the demand and the business policy. As for the responding dealers, the traditional stores of small basic area offer a modest wine selection (approx. 30). Here the consumers primarily expect a standard wine choice. In the supply, the proportion of quality categories changes by store types. Special wine shops primarily offer quality wines and wines of

special quality; their consumers mainly look for these products, they do not deal with table wines. On the other hand, in traditional shops of a smaller basic area table and regional wines may reach as much as 50 %, which largely depends upon the consumer environment, the demand of the given unit. On the basis of the consumers' demands and the supply, domestic wines comprise the major part of commercial turnover. Foreign wines are primarily distributed by the dealers to extend the assortment. Consumers know these wines less (Szakál, 2008).

The companies based on the 72 interviews can be placed in four groups. The size is not always the best tool of measuring and grouping, but the questioned ones showed notable differences which could be originated in size. Bases on this we differentiate minor, small, medium and large wine producing (WP) companies. During the analysis of the research we point out the factors where the size plays an important role.

If we take into account the different sizes of the enterprises we can observe that the information from the colleague is mainly important for the small WPCs, while the one for the minor WPC the nearest competitor's is the most important.

The medium-size WPCs acquire their information from the restaurants, sales representatives and from different professional magazines mostly. From the point of view of the large WPCs the traders, conferences and international data bases were taken as reliable and important.

According to the evaluation of the different distribution channels there is a sizable difference to observe as well. The minor WPCs prefer to distribute their products through the wine specialty shops and gastronomy taken into consideration their image building or strengthening capability. For the small WPCs to the wine specialty shop and the gastronomy comes the DM (at the vinery) channel. In the case of the medium size WPC the just mentioned three are positively taken, meanwhile at the large WPCs the gastronomy is the most important and here is the ranking of the hypermarkets the highest on the base of the additional service and image building capability.

In evaluating the distribution channels the relation between gross retail price and added services are

considered to be important factors. It is clearly to be seen that in added services wine specialty shops and gastronomy took the leading place. The wine producers find it crucially important to conquest these channels not only because of the higher profit rate, but their image building capability as added service. Both channels are respected by the professionals due to their professional knowledge, services and role in influencing the consumers' opinion. The other end is the low quality pubs with minimal service and relatively high prices. At the petrol stations we can hardly find services connected to the wine; however the gross retail prices compared to them are also relatively high. The petrol stations according to the wine producers are seen as a distribution channel with low possibility in image building, but in long-term due to its practicum this channel will be more appreciated. The ABCs and the supermarkets have low contribution to the added services. From the image point of view the different companies can differ very much from each other and defined by the certain store. From price point of view they represent the medium way, lower that the other distribution channel with higher added services and in added services they provide more than the ones with fewer possibilities. From price point of view, based on their volume, market power and company strategy the hypermarkets are the most favourable for the consumers. On the other hand in the field of added services they represent the medium way. Of course we can observe major differences according to their corporate culture, image and strategy.

The process of selecting the distribution channel from the point of view of the producers considered the influencing factors separated in three groups: WPCs side, distribution side and consumers' side.

To the unchangeable factors of the consumers' side belongs the region, the demographic characteristics where the family life-cycle is of key importance. Other important factors are motives that define the consumer's life style, the attitudes, the personality and the values they represent. The buying and consuming behaviour belong to the changeable factors, but it is a great challenge for the producers and the distributors and takes time. The distribution side can also be separated





into two parts the basic functions and the added services. The basic functions consist of the distributed quantity, target group, reachability, product placement and logistics. The added value factors are the image, professional knowledge, services, and system of connections, distribution experience and the EDI. These together build the attractiveness of the distribution channel. The WPC side has very complex characteristics. It can be divided into changeable and unchangeable, company and wine-grower/producer elements. Unchangeable from company point of view are the wine region, soil and the regulations. From personal side personality and cultural characteristics are unchangeable.

From company viewpoint size, experience, image, quality, technology, grape types, market conditions, distribution strategy, and company strategy can be changed. From the wine-grower/producer point of view psychological and behavioural characteristics can be taken as changeable ones.

From the above mentioned company factors strategy is the most important from both company and producers' side. It defines or influences the most the future image and success of the company. It also has an impact on the involvement of the staff that can help to survive

for instance the tough periods of the market. All these factors together build the requirements towards the distribution channels by the WPCs. Based on the three pillars' (WPCs, Consumers, Distributors) requirements and characteristics will the right distribution channel selected.

In Hungary we can observe the international trends as well (Lehota, 2007). For being successful in the competition the given sector and the entrepreneurs must use the right means of marketing which are adequate and satisfying the company's requirements.

There is a higher and higher distance between the producers and consumers. This trend reevaluates the importance of a marketing tool which is not taken as serious as it should. This is the distribution. In the domestic and international trade retail is the player that very much influences the possibilities and the operational conditions of the wine producing companies.

The other major influencing factor is the changing consuming and buying behaviour. We must understand the dynamics of the change in consumers' purchasing behaviour and habits and able to analyse it on national levels as well. Based on selected publication in the field of hypermarkets (Szabo, 2000, 2001, 2011).



- **Discount stores push super- and hypermarkets out of their position.** Partly because of lower levels of income, price is still a determining factor for a large part of customers in CE. Discount stores are likely to gain bigger shares of the market and to expand further into more CE countries. To offer affordable ratio “price – quality” they introduce “private retail brands” in several categories: discount brands, standard brands and premium brands to fit the needs of majority of customers (Nagyová and Sedliaková, 2014) (Figure 10.9).
- **Cities are reaching the point of saturation.** Retail chains are exploring opportunities in rural areas, bolstering sales and converting consumer habits.
- **“Polarization” of customers is continuing.** The number of shoppers who choose the best quality products, the quality of services provided as well as ease and comfort of shopping instead of the least expensive products and services is increasing.
- **Besides local/regional trends** we have to consider local differences, specifics, and global trends in the same time (convenience, ready to eat meals, originality, authenticity) (Figure 10.10 and 10.11).
- **Possible combination** of retailing with e-retailing as the sale of goods or service through the Internet (e-tailing). Good example of such approach in Visegrad countries is TESCO.



■ **Figure 10.9** Private brands of the Slovak retail chain COOP JEDNOTA tailored made for different market segments: “Traditional quality” for standard market segment, “Good quality for good price” for discount market segment and “Mother’s goodness” for market segment appreciated specialties and traditions. Brand “MOJA (in English MY) is a new private brand of TERNO supermarkets  
**Photo:** Elena Horská, 2014



■ **Figure 10.10** Refreshment or fast food from vending machines? For Visegrad countries unusual, for Singapore standard offer: Mashed potatoes, instant noodles, hotdogs and of course, coffee. Everything from vending machines  
**Photo:** Elena Horská, Singapore 2014





■ **Figure 10.11** Nothing is hidden. Customers can observe how Taiwan Pineapple Cakes are being prepared and can place their order immediately. There is no doubt that this kind of show contributes a lot to emotional shopping and can be considered as a part of visual and “living” merchandising  
**Photo:** Elena Horská, Marina Bay Sands Shopping Mall, Singapore 2014

## Summary

The setting up of distribution strategy is a complex marketing task. It is influenced not only by macro, but also by micro environment elements. The challenge is the acquisition of the adequate and relevant information about the targeted market and market segment.

The strategy is highly depended on the aims and objectives of the company, but also on the production and the consumer side the firm will face unchangeable and changeable factors and of course the company has requirements against the distribution channels. The result of a multi-dimensional decision making procedure the final distribution mix can be defined, but taken into the consideration the potential and possible changes of the market circumstances. Regarding this we can conclude that distribution is the way to the heart, brains and guts of the target group we must use to realise the company’s business goals.

**Key terms:** Distribution, market research, distribution channel, factors, retailing, foreign market



### QUESTIONS FOR DISCUSSION

1. What factors must be taken serious when setting business decisions in a foreign country?
2. What factors are crucial in creating distribution strategy?
3. What are the success elements in international distribution?

### Further Recommended Readings

SZABÓ Z. 2000. *Comparing results on wine consuming habits in Dutch hypermarkets, according to different methods*. In Vladimír Gozora, Peter Bielik, Olga Roháčiková, Monika Hudáková (szerk.), Young Science 2000. Nitra, Slovakia, 2000 12.07–12.08. Nitra : SUA, pp. 194–197. ISBN 80-7137-859-3.

SZABÓ, Z. – LAJOS, A. 2000. *Consumer Habits of the Young Generation in Dutch Hypermarkets*. In Vladimír Gozora, Peter Bielik, Olga Roháčiková, Monika Hudáková (szerk.), Young Science 2000. Nitra, Slovakia, 2000 12.07–12.08. Nitra: SUA, pp. 173–175. ISBN 80-7137-859-3.

SZABÓ, Z. 2002. *The role of communication and information in setting up assortment and marketing strategies at Hungarian wine producing companies*. In: Vladimír Gozora, Peter Bielik, Olga Roháčiková, Marek Dvorák (szerk.) International Scientific Days, Nitra 2002: Management and Marketing. Nitra, Slovakia, 2002 05.16–05.17. Nitra : SUA, pp. 336–339. ISBN 80-8069-027-8.

SZABÓ, Z. 2003. *Comparing wine consuming habits in hypermarkets of The Netherlands and Hungary*. In 14<sup>th</sup> International Farm Management Congress 2003 Perth, Western Australia, pp. 666–672

LEHOTA, J. – FEHÉR, I. 2007. IN LEHOTA, J. – FEHÉR, I. – KOMÁROMI, N. – PAPP, J. – KONKOLY, M. – SZABÓ, Z. – SZEDLÁK, A. – SZOLNOKI, G. – LEHOTA, J. – FEHÉR, I. (szerk.) 2007. *Marketing export du vin (Borexport-marketing)*, France, pp. 1–211. (1; 1.) 1., 1. ISBN 978-963-502-889-4.

SZABÓ, Z. 2011. *A bor disztribúciós csatornáinak marketing szempontú értékelése*. Szent István Egyetem Gazdálkodás és Szervezéstudományok Doktori Iskola Ökonómiai Tanulmányai; 7., Agroinform Kiadó Budapest, 2011. 147 p. ISBN 978-963-502-931-0

SZABÓ, Z. – KOMÁROMI-GERGELY, A. 2011. *Turisztikai és vendéglátó marketing – Esettanulmány Budavári Borfesztivál*. Szent István Egyetemi Kiadó Gödöllő, 180 p. ISBN 978-963-269-245-6

### Literature

DELPHOS, W.A. (Ed.) 1994. *International Marketing Resource Guide*. 335 p. 1994. ISBN 978-0-788124105.

DOOLE, I. – LOWE, R. 2008. *International Marketing Strategy: Analysis, Development and Implementation*. 462 p. 2008. ISBN 978-1-84480-763-5.

GARRISON, P. 2006. *Exponential marketing*. HVG Kiadói Zrt. Budapest, 2006. p. 226.

GILLIGAN, C. – HIRD, M. 2013. *International Marketing: Strategy and Management*. RLE International Business. Vol. 17, 2013. 324 p. ISBN 978-0-415-64113-5.

HORSKÁ, E. – PALUCHOVÁ, J. – PROKEJNOVÁ, R. – MOISEVA, O. A. 2011. *Vnímanie imidžu krajiny pôvodu potravinárskych produktov a aspekty ich kvality vo vybraných európskych krajinách*. 158 p. 2011. ISBN 978-80-552-0686-8.

HORSKÁ, E. 2007. *Medzinárodný marketing*. 223 p. 2007. ISBN 978-80-8069-938-3.

KAYNAK, E. 1991. *International Marketing: Sociopolitical and Behavioral Aspects*. 416 p. 1991. ISBN 978-0-86656-951-0.

- KLEINOVÁ, K. – KRETTNER, A. 2011. *Imidž domácich a zahraničných potravín na trhu SR*. 98 p. 2011. ISBN 978-80-552-0552-6.
- KOTABE, M. – HELSEN, K. 2010. *Global Marketing Management*. 726 p. 2010. ISBN 978-0-470-38111-3.
- KOTLER, P. – ARMSTRONG, G. – SAUNDERS, J. – WONG, V. 1999. *Principles of Marketing*. 1036 p. 1999. ISBN 0-13-262254-8.
- LEHOTA, J. – FEHÉR, I. 2007. IN LEHOTA, J. – FEHÉR, I. – KOMÁROMI, N. – PAPP, J. – KONKOLY, M. – SZABÓ, Z. – SZEDLÁK, A. – SZOLNOKI, G. – LEHOTA, J. – FEHÉR, I. (szerk.) 2007. *Marketing export du vin (Borexport-marketing)*. France, 2007. pp. 1–211. (1; 1.) 1., 1. ISBN 978-963-502-889-4.
- MAJARO, S. 2013. *International Marketing: A Strategic Approach to World Markets*. RLE International Business. Vol. 25, 2013. 312 p. 2013. ISBN 978-0-415-64336-8.
- NAGYOVÁ, L. – SEDLIAKOVÁ, I. 2014. *Privátne značky: Fenomén označovania výrobkov 21. storočia na európskom trhu*. Nitra : SPU, 2014. 167 p. ISBN 978-80-552-1172-5
- ONKVISIT, S. – SHAW, J. 2004. *International Marketing: Analysis and Strategy*. 619 p. 2004. ISBN 0-415-31132-2.
- PAUL, J. – KAPOOR, R. 2008. *International Marketing. Text and Cases*. 379 p. 2008. ISBN 978-0-07-063588-3.
- RETAILING in Central Europe. 2014. Available online: [http://www.deloitte.com/view/en\\_BG/bg/services/consulting/4fabf721de5fb110VgnVCM100000ba42f00aRCRD.htm](http://www.deloitte.com/view/en_BG/bg/services/consulting/4fabf721de5fb110VgnVCM100000ba42f00aRCRD.htm)
- ROSE water. 2014. Available online: [http://en.wikipedia.org/wiki/Rose\\_water](http://en.wikipedia.org/wiki/Rose_water)
- SZABÓ, Z. 2011. A bor disztribúciós csatornáinak marketing szempontú értékelése. In *Szent István Egyetem Gazdálkodás és Szervezéstudományok Doktori Iskola Ökonómiai Tanulmányai; 7.*, Agroiinform Kiadó Budapest, 2011. 147 p. ISBN 978-963-502-931-0.
- SZAKÁL, Z. 2008. *Presentation of retail and wholesale trading related to Tokaj wine specialities in Budapest and the Észak-alföldi region*. In ACTA Beregsasiensis, a II. Rákóczi Ferenc Kárpátaljai Magyar Főiskola Tudományos Közleménye, Ukrajna, Beregszász



# CHAPTER

## MARKETING COMMUNICATION IN THEORY AND PRACTICE

# 11

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Define marketing communication; international marketing communication and integrated marketing communication.

---

2. Explain tools of marketing communication.

---

3. Aim at practical implications of marketing communication locally, regionally (V4) and internationally.

---




- The International Green Week Berlin is the internationally leading public exhibition for the food, agriculture, and gardening industry. Attractive “Czech stand” with typical town streets and local pubs offering favorite Czech beer. **Photo:** Elena Horská, Berlin 2009



### Introduction

Many companies today sell their products nationally as well as internationally and deal with international companies as either suppliers or competitors, which make their involvement in international issues more significant. Further, the increasing use of the Internet, English as an international language and the modernization of countries and regions around the world also promote the growth of international marketing communication.

The basic principles and practices of marketing communication do not change when marketing internationally. They do, however, need to be integrated with the various and differing social and cultural factors and languages in a foreign country. Marketers face the challenge of ensuring that all brand communications are strategically consistent when presenting brand messages.

In international markets, companies cannot create and communicate a consistent message about a product and deliver it across all markets if they want to be successful. They must ensure that their brand communication and advertising campaigns fit the tastes and sensitivities of each culture and its target market segments. They must respond to the trends and complexities of foreign markets to gain and maintain competitive advantage in different international markets (Omarkulova, Nagyová and Kádeková, 2014).

## 11.1 Marketing Communication, International Marketing Communication and Integrated Marketing Communication

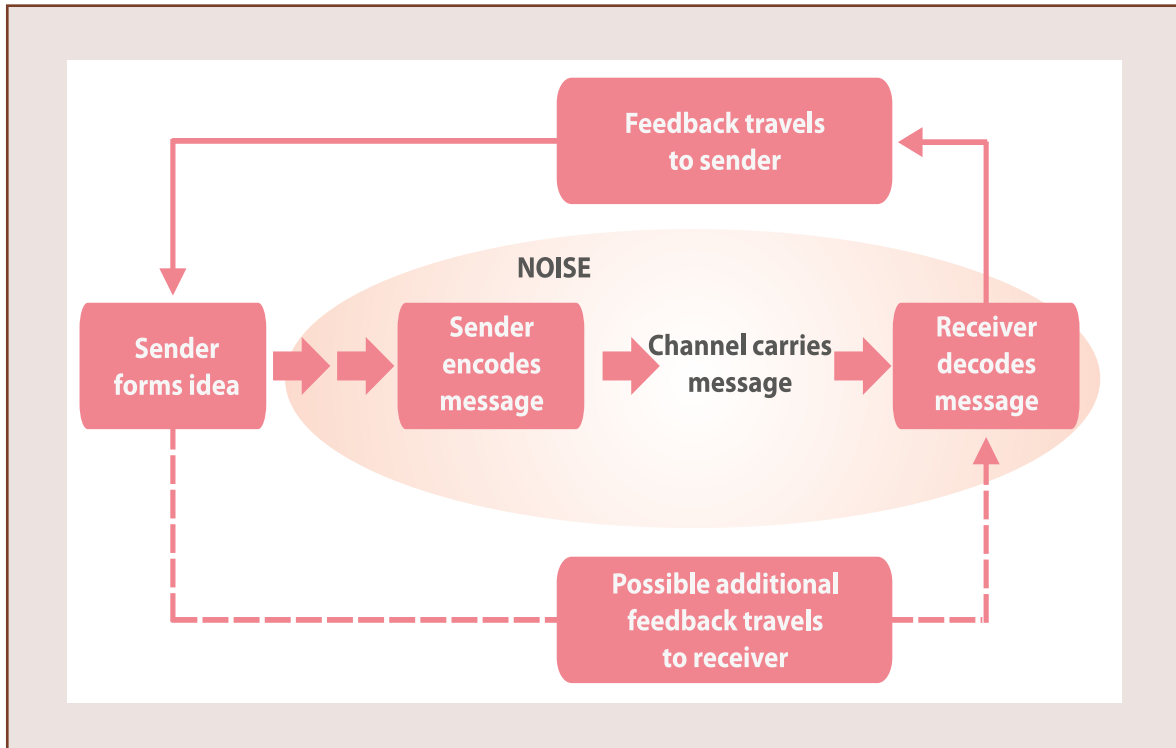
As it is written by Fill (2006), there is no universal definition of marketing communication and this is why we can find many different interpretations of the subject. Some definitions draw out the added value, which the marketing communication can provide through enhanced product and organisational symbolism; some interpretations understand that marketing communication occurs within a particular context, which impacts upon the meaning and interpretation given to such messages; and others stress the need to change attitudes or behaviour, or indeed both.

What we can say in general is the fact, that communication is seen as a controlled, integrated program of communication methods and means for the presentation of the company and its performances to potential customers, which mediates the characteristics of products and their ability to meet the needs with the aim of stimulation of sales and thus contribute to the long-term profit. It represents a set of different methods, which stimulate the purchase operation, which may be oriented on final consumers, as well as on intermediaries.

Communication is a process that effectively mediates the flow of information between the company, its target market and the general public through words, written text, symbols or characters.

The communication begins with the sender (communicator), who wants to send a set of symbols in the form of reports. The idea is converted into symbolic form (coding), sent by communication channels (media) to the recipient. Actual receipt of the information does not mean that the recipient (target audience, the audience) will decode it correctly and that he will understand it. The decoding means the process of attributing the meaning of the symbol broadcasted by the sender. If the recipient understood the message correctly, he can react and send a reply to the sender (feedback). The whole process of communication is affected by communication barriers – noise as it is seen on Figure 11.1 (Ferjenčík, 2001).

Communication is a process that effectively mediates the flow of information between the company, its target market and the general public through words, written text, symbols or characters



■ **Figure 11.1** Communication Process in generally

**Source:** Guffey, M. E. – Almonte, R. 2009. *Essentials of Business Communication*. p. 7

The starting points of the communication system are initial objectives (business, marketing), which include:

- establishment of the enterprise market,
- improvement of the image and goodwill of the company,
- increase the market share of the company,
- increase in total sales,
- putting new products on the market,
- improvement of the efficiency of sales.

The process of international communication, as well as the impact of internal elements and environmental factors on the communication process is illustrated in the Figure 11.2.

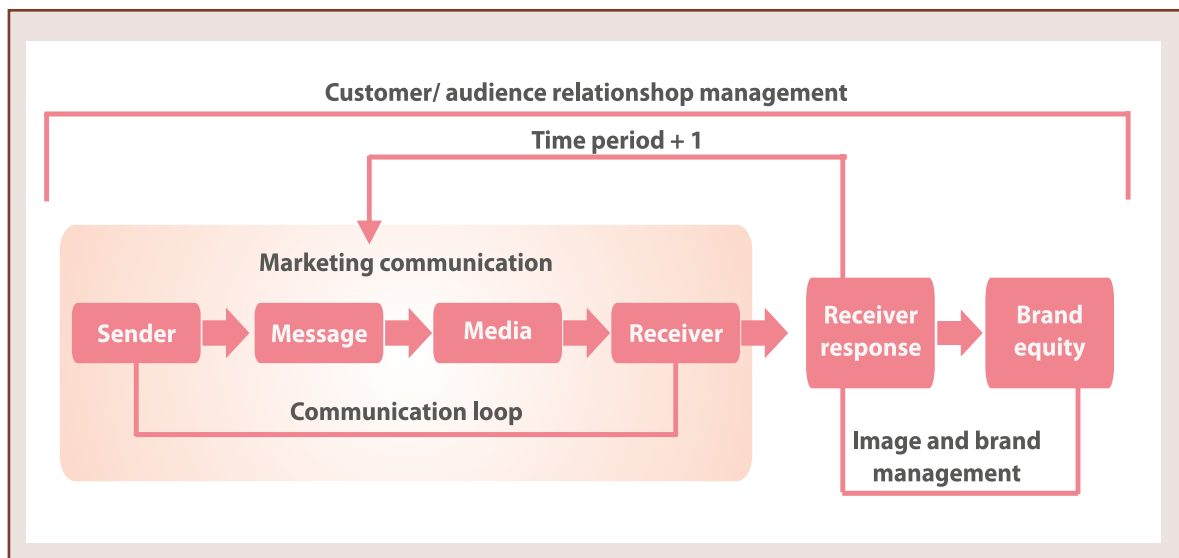
In international communication, it is important to realize that this process generally takes place in two different cultural environments – in one cultural environment is the message encoded into the signal and in the second one is the message decoded by recipients. The diversity of cultural backgrounds increases the likelihood of misunderstanding. The area of proper understanding, of different cultures, of domestic and foreign environment is also one of the weakest points of companies in the process of international communication. Therefore, some experts on creating communication messages emphasize that “effective communication requires the existence of a psychological overlap between sender and receiver” (Horská, 2007).

The definition of integrated marketing communication (Figure 11.3), used by the American Association of Advertising Agencies, says that it is a concept of marketing communications planning, that recognizes the added value of a comprehensive plan that evaluates the strategic roles of a variety of communications disciplines, like for example general advertising, direct response, sales promotion and public

In international communication, it is important to realize that this process generally takes place in two different cultural environments – in one cultural environment is the message encoded into the signal and in the second one is the message decoded by recipients



■ **Figure 11.2** Process of International Marketing Communication  
Source: Horská, E. 2007. Medzinárodný marketing. p. 176



■ **Figure 11.3** The Integrated Marketing Communication Process Model  
Source: Pickton, D. – Broderick, A. 2005. Integrated Marketing Communications. p. 7

Many changes and new trends highlight the need to integrate the marketing communication. The result of the above mentioned changes are the following facts, which emphasized integrated marketing communication (Kramárová and Achimská, 2010):

- small differentiation of products and brands,

- fragmentation of the audience and focus on individual customer (the emphasis is on benefit to the consumer), the fragmentation of media coverage and overlap of audience, saturation of the audience by the mass advertising and the loss of confidence in the advertising from the position of customer and the company creates a space for the use of BTL communication mix tools,
- preference of individual and interactive forms of communication on the part of the customer (due to fragmentation of media is increasing the importance of accurately targeted communication methods – use of the Internet, databases and telecommunication development is the key to the media's ability to head the communication message to specific groups of customers of the direct mail, online services, telemarketing, cable and satellite television, direct response television, digital television, etc.),
- technological revolution, increase of customer awareness of technology, its communication skills, awareness and changes in customer's market conduct
- growth of price of media and the associated need to increase the efficiency and effectiveness of promotion,
- increasing demands on suppliers of marketing communications, whose offers should include diverse promotional services – integrated marketing communication,
- growing need for a higher level of social responsibility of the enterprise,
- need to develop stronger customer loyalty and awareness of the importance of relationship marketing and database marketing,
- globalization of marketing strategies and so on.

### 11.2 Tools of International Marketing Communication

The concept of international marketing communications suggests the need of careful combination of communication tools so, that they should form a coordinated communication mix, considering the differences/similarities of different foreign markets. The list of tools is here: advertising, public relations, sponsorship, sales promotions, direct marketing, exhibitions and trade fairs, personal selling, electronic communication.

**Advertising** is non-personal mass communication using mass media (such as TV, radio, newspapers, magazines, billboards, etc.), the content of which is determined and paid for by a clearly identified sender/the company (De Pelsmacker, Geuens and van den Bergh, 2010). Advertising has many forms, and therefore it is not easy to generalize its unique qualities. As a form of mass communication, it has to consider cultural features of target mass audience (at the local market). Advertising has several positive features:

- Advertising can affect masses of buyers at various places of the world, with low costs per person. For example, TV advertising can hit a huge audience; outdoor advertising can hit people walking around every day (Figure 11.4 and 11.5).
- Extensive advertisement also says something positive about the size, popularity and success of the seller.
- Due to the public nature of advertising, consumers tend to perceive advertised products as standard and legitimate – buyers know, that the purchase of a product will be, by the community, understood and accepted.
- Advertising allows the seller to repeat the message for several times and the buyer to receive and to compare the message from various competitors.

The concept of international marketing communications suggests the need of careful combination of communication tools so, that they should form a coordinated communication mix, considering the differences/similarities of different foreign markets

**Advertising** is non-personal mass communication using mass media



■ **Figure 11.4** Nowadays reality: tradition Christmas market with the billboard of INTIMISSINI underwear on the historical building behind. Krakow, Rynek Główny  
**Photo:** Elena Horská, Krakow 2012

- Advertising is also very eloquent and allows the company to dramatize its products by sophisticated use of visual elements, print, sound and colour.
- On the one hand, it is possible to use advertising for building up long-term image of a product (as in the case of advertising on Mercedes-Benz cars). On the other hand, the advertising can trigger an immediate increase in sales (as when department stores Debenhams and Selfridges advertise weekend sales).

Advertising has also downsides:

- Although it gets to many people really quickly, it is impersonal and cannot be as convincing as corporate sellers.
- Advertising is capable of only one-way communication with the audience and the audience does not feel that it has to pay attention or even respond to it.
- In addition, advertising can be very costly. Although some forms of advertising, such as newspaper advertising and advertising on the radio, can be realized with a small budget, other forms, such as TV advertising, require very high budget (Kotler, Wong, Saunders and Armstrong, 2007).

Public relations consist of all the communications a company instigates with its audiences or stakeholders

Public relations consist of all the communications a company instigates with its audiences or stakeholders. Stakeholders are groups of individuals or organisations with whom the company wants to create goodwill. Press releases and conferences, some of the major public relations tools, should generate publicity. Publicity is



impersonal mass communication in mass media, but it is not paid for by a company and the content is written by journalists (De Pelsmacker, Geuens and Van den Bergh, 2010).

Public relations, also known as PR, have several unique characteristics. They mean all the activities, which are performed by the organization to communicate with the target audience and for which it do not directly pay.

- Public relations are very authentic: various newspaper articles, sponsorships and promotions seem to readers more realistic and credible than advertisements.
- Public relations can reach many potential consumers, that are avoiding dealers and advertisements, because the message gets to the consumer within “news“ and never as a message which is focusing on the implementation of sales.
- Same as advertising, PR can also achieve dramatic effect in terms of the company or its products. Body Shop is one of the few international organizations, which use public relations as a more effective alternative to mass television commercials.
- Vendors tend to underestimate the importance of public relations, or use it somehow additionally. Nevertheless, a thought out PR campaign may be in combination with other elements of the communications mix very effective and economical (Kotler, Wong, Saundders and Armstrong, 2007).



- **Figure 11.5** There are a total of 12 million people living in Brazil's favelas. They spend around US\$27 billion per year and are part of an increasingly expanding market. Telephone company Claro has been selling cable TV services and using unusual – but tailored made form of mobile advertising for favelas – on the motorcycle taximan´s vest

**Photo:** Elena Horská, Favela Rocinha in Rio de Janeiro 2013

**Sponsorship** means is a situation where a company acquires the ability to combine their corporate or product brand with selected events organized by third parties, or with the name of selected institutions, sport teams, individuals, and so on. For this connection, the company provides the third-party with financial or non-financial support.

Sales promotions are sales-stimulating campaigns, include a variety of tools – price cuts, coupons, loyalty programmes, competitions, free samples, contests, discounts, special offers, free merchandise

**Sales promotions** are sales-stimulating campaigns, include a variety of tools – price cuts, coupons, loyalty programmes, competitions, free samples, contests, discounts, special offers, free merchandise, etc. They all have many unique qualities:

- They are attracting the attention of consumers and provide information that may lead to a purchase.
- They offer strong incentives to purchase through suggestions and benefits, which provide consumers with greater value (Figure 11.6).
- In addition, promotion tools cause and reward a quick response. While the advertisement says: “buy our product”, promotion urges consumers to “buy immediately”.



■ **Figure 11.6** Supermarket Giant in VivoCity Shopping Centre in Singapore, full of strong incentives to buy immediately

**Photo:** Elena Horská, Singapore 2014

Commercial companies use promotion tools to cause a stronger and quicker response. It can be used for dramatization of offered products and for recovery of declining sales. Effects of promotion, however, are usually short-term and in the process of obtaining long-term preferences for that brand, these tools are often not as effective as advertising or personal selling. To be effective, the traders selling campaign must the promotion carefully plan and offer a genuine value to the target customers (Kotler, Wong, Saundders and Armstrong, 2007).



**Direct marketing communications** are a personal and direct way to communicate with customers and potential clients or prospects. Personalised brochures and leaflets (with feedback potential), direct mailings, telemarketing actions, direct response advertising, etc. are possible ways of using direct marketing communications (De Pelsmacker, Geuens and Van den Bergh, 2010).

**Exhibitions and trade fairs** similarly to private sales, do not belong to new marketing communication tools. Their emergence is dated to ancient historical times, when the markets were held mainly in the immediate vicinity of temples at the time of worship. Over time, the markets were separated from worship, but their original purpose, namely to serve as a place where sellers meet directly with buyers, remained unchanged until nowadays.

It was not so long ago, when many of people predicted that, thanks to the development of information technology, fairs and exhibitions will become a history and will be replaced in the communications mix by the internet communication and virtual fairs held on the Internet. However, it turns out, that personal contact between trading partners plays in the today's world of modern technology still an important role and, that they are not easy to be replaced by virtual contacts mediated by modern technology. Fairs and exhibitions continue to maintain the position of one of the key communication tools, mainly for B2B and international markets, because they allow a personal contact between business partners and an immediate comparison of offers all over the world.

Fairs and exhibitions provide their visitors and exhibitors a number of advantages that elevate them (fairs and exhibitions) above other communication tools. Most of these benefits are based on the fact, that fairs are based on concentration of supply and demand also of relatively geographically distant locations in one place and at one time. Fairs and exhibitions are still considered to be traditional and time – proven way of gaining customers and maintaining contacts with existing customers (Figure 11.7).

Closing the trade at fairs is generally less expensive than gaining customers by personal selling. This is especially because customers are on the exhibition, or on the fair concentrated in space and time. Also customers perceive fairs more positively – most of them are going to fairs because they are looking for new information and business partners (they are more opened for contracts as in the case, when they are asked for the contract outside the fair, e.g. by a personal seller).

The motivation, for visitors, to visit the fair is primarily their effort to obtain new information about existing products, about new developing products, about the competition and to find out potential suppliers. In the case of exhibitors, it is the possibility of concluding new business, increasing product knowledge among potential customers, introducing new products and their marketing, testing of interest in new products, strengthening of customer relationships, or the support of traders in the territory and the strengthen relations with them. An important benefit which fairs bring for exhibitors is the interest of media (Karlíček and Král, 2011).

**Personal selling** is the oral presentation and/or demonstration of one or more salespersons aimed at selling the products or services of a company. It is a personal contact between a company representative and a prospect or client (De Pelsmacker, Geuens and Van den Bergh, 2010).

Fairs and exhibitions continue to maintain the position of one of the key communication tools, mainly for B2B and international markets, because they allow a personal contact between business partners and an immediate comparison of offers all over the world



■ **Figure 11.7** The Slovak University of Agriculture can not be absent and prepare own interactive exposition at the International Agricultural and Food Exhibition Agrokomplex every year  
**Photo:** Lujza Záhorská, 2014

**Personal selling** is the oral presentation and/or demonstration of one or more salespersons aimed at selling the products or services of a company

## Marketing Communication in Theory and Practice

In some parts of the buying process, particularly in obtaining preferences, creating opinions and persuasion to action, is the most effective tool the personal selling. Personal selling, especially when it is compared with the advertising, has several unique advantages:

- There is personal interaction between two or more people, it means that each person can take into account needs and characteristics of his opponent and convert immediate adaptation.
- Personal selling also allows the creation of all sorts of relationships, from an objective relationship between buyer and seller to a deep personal friendship. Proper vendor has at heart the interests of his customers to create with them a long-term relationship.
- Finally, in the case of personal selling, the buyer usually has a greater need to listen and respond, even if his reaction would be just a polite refusal.

These unique qualities also cost something. The use of sellers is a longer term issue as advertising – here it is possible to start and to stop when it is needed, but the number of sellers is harder to be changed. Personal selling is also the most expensive communication tool, it is necessary to issue an average of a few hundred euros for a business contact (Kotler, Wong, Saundders and Armstrong, 2007).

We can state that personal selling as a part of marketing communication is interconnected with managerial communication, and formal and informal personal communication as well (Figure 11.8). Especially, it is very visible in a high context cultures. Informal communication is more important than formal one very often.



■ **Figure 11.8** Lunch and informal communication in the Kuwait restaurant, Muscat, a capital of Oman after successful business meeting. No doubt that Europeans have to adopt local way of eating the food

Photo: Elena Horská, 2008

**E-communications** offer new ways to communicate interactively with different stakeholders. The internet, together with e-commerce, combines communicating with selling. Mobile marketing uses the possibilities of text, video and sound transfer to mobile phones.

## 11.3 Media Planning, Media Plan and Budget Plan

Where is your product marketed is as important as to whom is it marketed. Whether your brand is international or only in the corner grocery store- the role of geography is an important strategic issue when it comes to the **media planning**. How you define where you want to advertise and how much weight you give to the market are the key elements in resource usage decision (Kelley and Jugenheimer, 2008).

Choosing of correct media or type of advertising, which has to be used is sometimes “tricky” for small companies with limited budgets and know-how. Large market television and newspapers are often too expensive for a company, which services only a small area; magazines, also local, usually cover too much territory to be cost efficient for a small company; metropolitan radio stations present the same problem as television and newspapers, however, in smaller markets can local radio station and newspaper cover a small company’s audience. This is, why it is important to put together a **media plan** for an advertising campaign, which will cover following components:

1. Defining the marketing problem – here is important to answer following questions:
  - a. Do you know where your business is coming from and where the potential for increased business lies?
  - b. Do you know, which markets offer the greatest opportunity?
  - c. Do you need to reach everybody or only a selected group of consumers?
  - d. How often is the product used?
  - e. How much product loyalty exists?
2. Translating the marketing requirements into attainable media objectives – if you want to reach a lot of people in a wide area, you have to choose mass media, like newspaper and radio. On the other hand, if your target market is a select group in a defined geographic area, then the best bet will be the direct mail.
3. Defining a media solution by formulating media strategies- certain schedules work best with different media (for example – the rule of thumb is that a printed advertisement has to run three times before it gets noticed) (<http://www.entrepreneur.com/encyclopedia/media-planning>).

As it is written by Kotler and Keller (2012) “**one of the most difficult marketing decisions is determining how much to spend on marketing communications**”. This is especially because, there are numerous factors, which are influencing the decision about communication budget and of course numerous methods of its creation.

One of the most difficult marketing decisions is determining how much to spend on marketing communications

According to Kotler and Keller (2012), we can speak about four basic methods for making the decision on the communication budget:

1. **Affordable method.** This method completely ignores the role of promotion as an investment and the immediate impact of promotion on sales volume; it leads to an uncertain annual budget, which makes long range planning more difficult.
2. **Percentage – of sales method.** This method is based on setting communication expenditures at a specified percentage of current or anticipated sales or of the sales price (for example- automobile companies usually budget a fixed percentage based on the planned car). This method has a number of advantages – at first, communication expenditures vary with that the company can afford; second, it encourages managers to think of the relationship among communication cost, selling price and profit per unit; third, it encourages stability when competing companies spend approximately the same percentage of their sales on communication.
3. **Competitive – parity method.** Few companies set their communication budget to achieve share of voice parity with competitors. This is especially because competitor’s expenditures represent the collective wisdom of the industry and that maintaining competitive parity prevents communication wars. Unfortunately, there are no grounds for believing competitors know better (the reputation of the



## Marketing Communication in Theory and Practice

company, its resources, opportunities and objectives differ so much, that communication budgets are hardly a guide).

**4. Objective-and-taks method.** This method calls upon marketers to develop communication budges by defining specific objectives, determining the tasks that must be performed to achieve these objectives and estimating costs of performing them. The sum of these costs is the proposed communication budget.

And we can talk about following factors, which are influencing company's decision about communication budget:

- a. Stage in the product life cycle. While new products typically require large advertising budgets to build awareness and to gain consumer trail, established brands usually require lower advertising budget, which are measured as a ratio to sales.
- b. Market shares and consumer base. While in the case of high market share brands are usually required lower advertising expenditures, in the case of increasing market size, where we are just trying to build a share, are required larger/ higher expenditures.
- c. Competition and clutter. In the case of market with a large number of competitors and high advertising spending a brand has to advertise more heavily to be heard. Even simple clutter from advertisements not directly competitive to the brand creates a need for heavier advertising.
- d. Advertising frequency. This means the number of repetitions needed to put the brand's message across to consumers. And what is important connected to this factor is the fact, that it has an obvious impact on the advertising budget.
- e. Product substitutability. Brands in less differentiated or commodity like product classes require heavy advertising to establish a unique image (Kotler and Keller, 2012).

But how do the company make its decision about the mentioned budget? Forbes has tried to set few steps, which are needed to be done it the process of formulating solid communication budget. These steps are:

- 1. Organize financial information.** In this point it is important to realize how much money the company makes on a monthly basis and the variations that might exist. Any expense that the company must pay each month should be subtracted from the revenue before trying to create a marketing budget. A realistic budget plan will always focus on income that exceeds the expenses, not the total revenue that comes in. When the company / its management has determined the amount of disposable income available for the company, it is needed to determine where the money will go (marketing is only one area of focus that you need to incorporate in a budgeting plan).
- 2. Determine where you want to spend marketing funds.** Three main factors contribute to how to spend marketing funds – the budget size, past experiences, where can be reached the right audience.
- 3. Assess data and make appropriate changes.** The final step of building a solid marketing budget is the analysis of the plan and adjustment that improve revenue production. If the strategy does not bring in new revenue in excess of the cost, then it is better to remove that strategy and try something different (Forbes, 2013).

As a part of the theory of “four degrees of adaptation” (Rehman, 2008) there are 4 options offered for international marketers:

- non-customization (fully leverage global branding and marketing),
- adjusting the message (customize marketing messages and language),
- adjusting the portfolio (customize mix of product and services based on local needs),
- custom product design (create market-specific products and services).

Offered options create possibilities for different solutions in the sphere of product policy, but also in the sphere of marketing communication. The theory of adaptation and standardization can be applied in this field as it was discussed in the Chapter 1.



## V4 MARKETING INSIGHTS

La Festa Hot Chocolatta represents the unique flavor of chocolate found in a hot beverage produced by Maspex Wadowice Group, Poland. La Festa Hot Chocolatta "Laffy Brown" is an ideal product for relaxing and day dreaming moments. La Festa Hot Chocolatta benefits now of a NEW and different concept, that is Laffy Brown, and also of a NEW, modern and attractive design (Figure 11.9), through the animated characters and stories presence. Let's read the basic personal information about Laffy Brown and get in touch with a perfect hot chocolate: "I'm 26 years old. I have brown eyes, long brown hair and... I really like being myself. I'm a flight attendant. I travel around the whole world meeting

*the most amazing people and tasting all kinds of my favourite hot chocolate. We, Hot Chocolate La Festa and I, are almost inseparable. Hot chocolate is my signature and a secret recipe for a good mood. Who could worry while having a delicious and aromatic hot chocolate? I love fashion, shopping and gossiping over a cup of hot chocolate. Maybe we'll meet over a cup of La Festa?"*

La Festa Hot Chocolatta Laffy Brown is available for Polish, Slovak, Ukrainian, Russian and Romanian customers. Concept of Laffy Brown presents the beauty, attractiveness, freedom, style and independence of young women, main target market of La Festa Hot Chocolatta.

(Adapted from [www.laffybrown.com](http://www.laffybrown.com))



■ **Figure 11.9** Laffy Brown concept is available on the attractive package, on the website ([www.laffybrown.com](http://www.laffybrown.com)) and on the facebook. It is available in Polish, Ukrainian, Russian, English and Romanian languages

**Photo:** Elena Horská, Russia 2013

## Summary

The basic principles and practices of marketing communication do not change when marketing internationally. They do, however, need to be integrated with the various and differing social and cultural factors and languages in a foreign country. Marketers face the challenge of ensuring that all brand communications are strategically consistent when presenting brand messages.

**Key words:** Message, media, marketing communication, advertising, direct marketing, sales promotion, personal selling, public relations, planning



### QUESTIONS FOR DISCUSSION

1. Name several examples how multinational companies apply practically the approaches of adaptation and standardization at creating advertising for local markets.

### Further Recommended Readings

REHMAN, A. A. 2008. Dubai & Co. *Global Strategies for Doing Business in the Gulf States*. McGrawHill, 333 p. ISBN 978-0-07-149413-7

### Literature

ADVANTAGES and Disadvantages of Electronic Communication. 2013. [online]. [cit. 15.10.2013] Available at: <http://docommunication.weebly.com/1/post/2013/03/advantagesanddisadvantagesof-electronic-communication.html>

BLYTHE, J. 2009. *Principles & Practice of Marketing*. 2<sup>nd</sup> edition. South-Western/Cengage Learning. 745 p. ISBN 978-1408011478.

DE PELSMACKER, P. – GEUENS, M. – VAN DEN BERGH, J. 2010. *Marketing Communications. A European Perspective*. 4<sup>th</sup> edition. Edinburg: Pearson Education Limited. 2010. 689 p. ISBN 978-0-273-72138-3.

FERJENČÍK, J. 2001. *Komunikácia v organizáciách*. Bratislava: Ekonóm. 140 p. ISBN 80-225-1415-2.

FILL, Ch. 2006. *Simply Marketing Communications*. Harlow: Pearson Education. 410 p. ISBN-13: 978-0-273-70405-8.

FITZGERALD, M. 2000. *Marketing communications Classics: An International Collection of Classic and Contemporary Papers*. 1<sup>st</sup> edition. London: Cengage Learning EMEA. 524 p. ISBN 1-86152-507-9.

FORBES. 2013. *Three steps to a solid marketing budget*. [online]. [cit. 2013-10-12]. Available at: <http://www.forbes.com/sites/davelavinsky/2013/06/07/three-steps-to-a-solid-marketing-budget/>

GREIN, A. F. – GOULD, S. J. 1996. Globally integrated marketing communications. In *Journal of Marketing Communications*. Vol. 2, 1996, Issue 3, pp. 141–158. ISSN 1352-7266.

GUFFEY, M. E. & ALMONTE, R. 2009. *Essentials of Business Communication*. 6<sup>th</sup> Edition. USA: Cengage Learning. 529 p. ISBN-13: 978-0-17-64335-8.

GREIN, A. F. – GOULD, S. J. 1996. Globally integrated marketing communications. In *Journal of Marketing Communications*. Vol. 2, 1996, Issue 3, pp. 141–158. ISSN 1352-7266.

HALL, D. E. 2009. *Criminal Law and Procedure*. 5<sup>th</sup> edition. New York: Cengage Learning. 768 p. ISBN 1-4283-4059-9.

HORSKÁ, E. 2007. *Medzinárodný marketing*. 1<sup>st</sup> ed. Nitra: SUA. 223 p. ISBN 978-80-8069-938-3.

HORSKÁ, E. – UBREŽIOVÁ, I. 2001. *Management and Marketing in International Environment*. 1<sup>st</sup> ed. Nitra: SUA. 383 p. ISBN 80-7137-884-4.

JEDLIČKA, M. 2000. *Propagačná komunikácia podniku*. 1<sup>st</sup> ed. Trnava: Magna. 343 p. ISBN 80-85722-09-7.

JEDLIČKA, M. 2004. *Marketingové komunikačné stratégie*. 1<sup>st</sup> ed. Trnava: Univerzita sv. Cyrila a Metoda. 249 p. ISBN 80-89034-72-1.

KARLÍČEK, M. – KRÁL, P. 2011. *Marketingová komunikace*. 11<sup>st</sup> ed. Praha: Grada Publishing, a.s. 2011. 213 p. ISBN 978-80-247-3541-2.

- KELLEY, L. D. – JUGENHEIMER, D. W. 2008. *Advertising Media Planning: A Brand Management Approach*. 2<sup>nd</sup> edition. New York: M.E.Sharpe. 192 p. ISBN 978-0-7656-2032-3.
- KLEINOVÁ, K. – ÜRGOVÁ, J. 2011. Country Image and Branding of Slovakia. In *Zeszyty Naukowe Szkoły Głównej Gospodarstwa Wiejskiego w Warszawie – Polityki Europejskie, Finanse i Marketing*. Vol. 54, 2011, Issue 5, pp. 50–59. ISSN 2081-3430.
- KUBICOVÁ, L. – KÁDEKOVÁ, Z. 2011. Marketing strategy of the new product introduction on the market. In *Polityki europejskie*, [online]. [2013-10-15] Available at pp. 78 – 90. ISSN 2081-3430.
- KOTLER, P. 2003. *Marketing Management*. 11<sup>th</sup> ed. New Jersey: Prentice Hall, 2003. p. 346-356. ISBN 0-13-033629-7.
- KOTLER, P. 2005. *According to Kotler: The World's Foremost Authority on Marketing Answers Your Questions (Paperback)*. New York: AMACOM, 2005. 192 p. ISBN 978-0814472958.
- KOTLER, P. – ARMSTRONG, G. 2007. *Marketing an Introduction*. 8<sup>th</sup> edition. New Jersey: Prentice Hall. 522 p. ISBN 0131687158.
- KOTLER, P. – ARMSTRONG, G. 2011. *Principles of Marketing*. 14<sup>th</sup> edition. New Jersey, USA : Prentice Hall. 744 p. ISBN 0132167123.
- KOTLER, P. – KELLER, K. L. 2006. *Marketing management*. USA: Pearson Education, Inc. 729 p. ISBN 0-13-145757-8.
- KOTLER, P. – KELLER, K. L. 2012. *Marketing management*. 14<sup>th</sup> edition. New Jersey: Pearson Education, Inc. 812 p. ISBN-13: 978-0-13-210292-6.
- KOTLER, P. – WONG, V. – SAUNDERS, J. – ARMSTRONG, G. 2005. *Principles of Marketing*. 4<sup>th</sup> European edition. Pearson Education, Inc. 955 p. ISBN 0273684566.
- KOTLER, P. – WONG, V. – SAUNDERS, J. – ARMSTRONG, G. 2007. *Moderní marketing*. 4<sup>th</sup> Europ. ed. Praha: Grada Publishing, a.s. pp. 834–837. ISBN 978-80-247-1545-2.
- KRAMÁROVÁ, K. – ACHIMSKÁ, V. 2010. Integrovaná marketingová komunikácia – teória a prax. In *Zborník z medzinárodnej vedeckej konferencie: Globalizácia a jej sociálno-ekonomické dôsledky*. Žilina: Žilinská univerzita. pp. 275 – 279. ISSN 1336-6878.
- KRETTNER, A. et al. 2008. *Marketing*. Nitra: SUA. 137 p. ISBN 978-80-552-0134-4.
- LABSKÁ, H. 1998. *Marketingová komunikácia*. Bratislava: Ko&KA. 616 p. ISBN 80-7152-007-1.
- LAFFY Brown. Available at: <http://www.laffybrown.com/lang.php>
- MARKETING Communication: Channels and Promotion Tools. 2012. [online]. [2013-10-15] Available at: <http://museum-madness.blogspot.sk/2011/12/marketing-communication-channels-and.html>
- MEDIA planning. 2013. *Entrepreneur*. [online]. [cit. 28.10.2013] Available at: <http://www.entrepreneur.com/encyclopedia/media-planning>
- NAGYOVÁ, L. 2008. Communication Policy. In KRETTNER, A. et al. 2008. *Marketing*. Nitra: SUA, 2008. p. 137. ISBN 978-80-552-0134-4.
- NAGYOVÁ, L. – KÁDEKOVÁ, Z. 2011. To reach the customer's attention in the most shocking way is always worthwhile. In *Marketing & komunikace*, Vol. 21, 2011, No. 2. p. 18–19. ISSN 1211-5622.
- NOVAK, G. J. – PHELPS, J. 1994. Conceptualizing the integrated marketing communications' phenomenon: an examination of its impact on advertising practices and its implications for advertising research. In *Globally integrated marketing communications*. In *Journal of Marketing Communications*. Vol. 2, 1994, Issue 3, pp. 141–158. ISSN 1352-7266.
- OMARKULOVA, M. – HORSKÁ, E. – USPANOVA, M. – GÁLOVÁ, J. – SMUTKA, L. – MAITAH, M. – PALUCHOVÁ, J. – MATYSIK-PEJAS, R. – KRASNODEBSKI, A. – NAGYOVÁ, L. – SEDLIAKOVÁ, I. – KÁDEKOVÁ, Z. 2013. *Selected Issues in International Marketing*. Almaty : Turan University, 2013. 227 p. ISBN 978-601-214-186-3
- ONKVISIT, S. – SHAW, J. J. 1987. Standardized international advertising: a review and critical evaluation of the theoretical and empirical evidence. In *Globally integrated marketing communications*. In *Journal of Marketing Communications*, Vol. 2, 1987, Issue 3, pp. 141–158. ISSN 1352-7266.

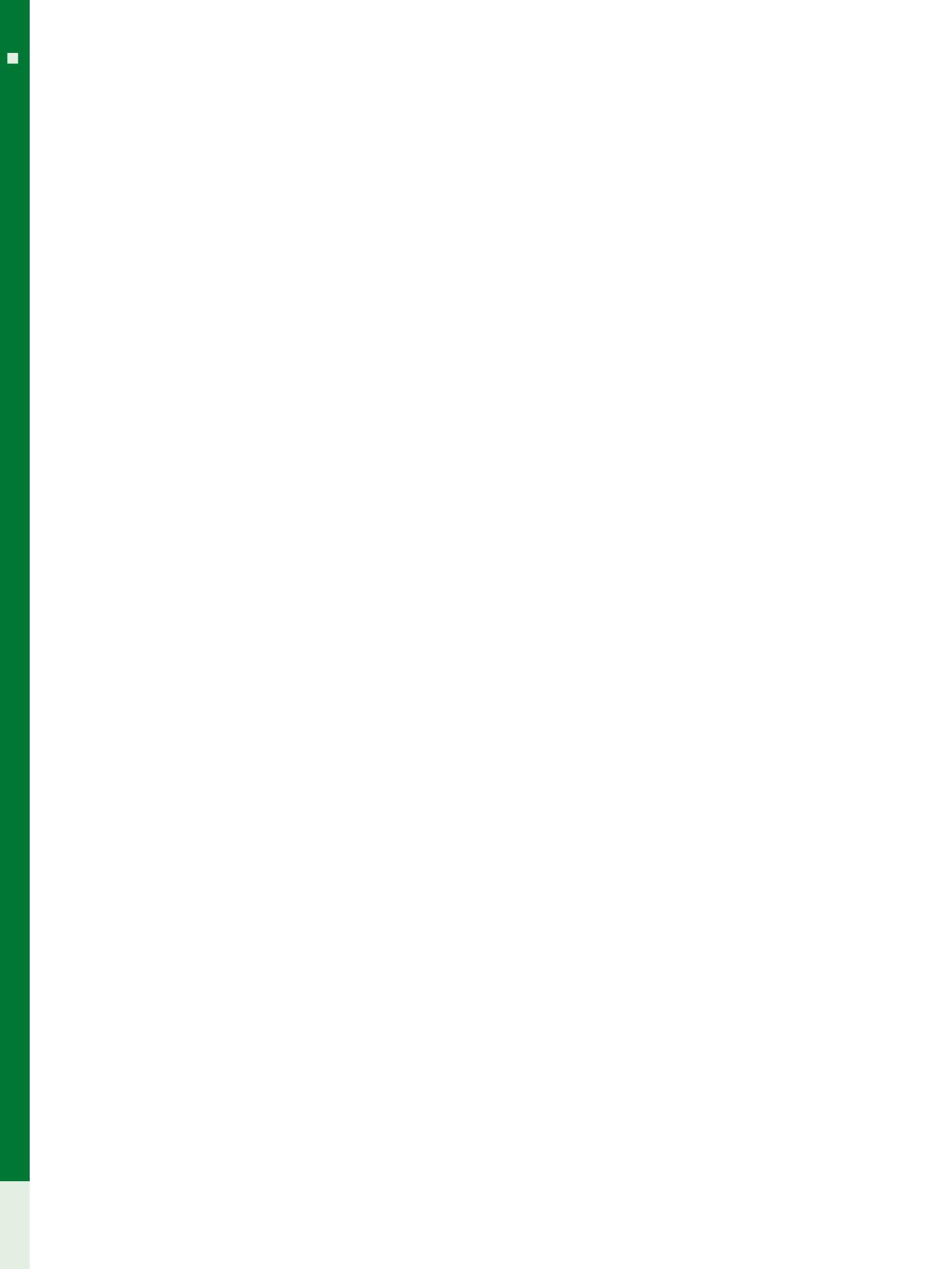
- PHELPS, J. – PLUMLEY, J. – JOHNSON, E. 1994. Integrated marketing communications: who is doing what? In Globally integrated marketing communications. In *Journal of Marketing Communications*, Vol. 2, 1994, Issue 3, pp. 141–158. ISSN 1352-7266.
- PICKTON, D. – BRODERICK, A. 2005. *Integrated Marketing Communications*. 2<sup>nd</sup> edition. London: Pearson Education Limited. 761 p. ISBN 0 273 67645 8.
- PRIDE, W. M. 2010. *Marketing*. 15<sup>th</sup> edition. New York: South Western College. 2010. 736 p. ISBN 0547167474.
- REHMAN, A. A. 2008. Dubai & Co. *Global Strategies for Doing Business in the Gulf States*. McGrawHill, 333p. ISBN 978-0-07-149413-7
- SCHULTZ, D. E. – TANNENBAUM, S. I. – LAUTERBOR, R. F. 1993. *Integrated Marketing Communications: Putting It Together & Making It Work*. 1<sup>st</sup> edition. McGraw-Hill. 218 p. ISBN-13: 978-0844233635.
- SMITH, P. 2000. *Moderní marketing*. 1<sup>st</sup> ed. Praha: Computer Press, 2000. 518 p. ISBN 80-7226-252-1.
- ŠIMO, D. – KRETTNER, A. – VICEN, M. 2000. *Marketing*. Nitra: SUA. 2000. p. 118-138. ISBN 80-7137-712-0.
- THE Perfect Media Plan in 7 Steps. 2013. *Avenueright*. [online]. [cit. 28.10.2013] Available at: <http://avenueright.com/entries/86/the-perfect-media-plan-in-7-steps>
- THREE Steps To A Solid Marketing Budget. 2013. *Forbes*. [online]. [cit. 28.10.2013] Available on the Internet: <http://www.forbes.com/sites/davelavinsky/2013/06/07/three-steps-to-a-solid-marketing-budget/>
- TORTORICI, A. J. 1991. Maximizing marketing communications through horizontal and vertical orchestration. In Globally integrated marketing communications. In *Journal of Marketing Communications*, Vol. 2, 1991, Issue 3, pp. 141–158. ISSN 1352-7266.
- WIND, Y. 1986. The myth of globalization. In Globally integrated marketing communications. In *Journal of Marketing Communications*, Vol. 2, 1986, Issue 3, pp. 141–158. ISSN 1352-7266.



# PART V

## COORDINATION OF MARKETING ACTIVITIES INTERNATIONALLY





# CHAPTER

## PLANNING, ORGANIZATION AND CONTROL OF THE INTERNATIONAL MARKETING OPERATIONS

# 12

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Discuss the issues in international marketing planning and develop a framework for international planning.
2. Discuss the different types of formal plans for global marketing and examine the merits and demerits of each type.
3. To know the organizational structures that may be used to support international marketing and to understand how organizational structure affects the role of international marketing in the firm.
4. Describe the different methods of control in global marketing and the variables which can affect the control mechanism.



- Juice and instant food producer Maspex from Poland employs some 150 staff in its Russian plant and Russian production facilities are used to supply not only Russian market, but also neighbouring markets, e.g. market in Kazakhstan. **Photo:** Elena Horská, 2012

## Introduction

The integrated European market provides great opportunities for market success not only at the local market, but also on regional and global ones. Besides identifying the differences between markets, the new perspective devotes attention to identifying common target groups, common practice and possibilities for standardized approach (Horská and Maitah, 2011). In spite of the apparent simplicity and logic of the process described in the last chapters, marketing planning remains one of the most baffling subjects, both for academics and practitioners alike. The purpose of this chapter is to remove some of the figures and facts which surround this very complex area of marketing management and to explain why much of what passes for planning; organization and the final control are effectively in marketing department of companies. An organization structure that effectively integrates domestic and international marketing activities has yet to be devised. The control operations in international operation follow similar logical sequence as that in domestic markets though; the implementation may vary greatly, according to the needs of markets chosen. **“The most important decision is what to focus on”.**

## 12.1 Planning of the International Marketing Operations

When you analyse markets, you should determine what the customers want, what are the benefits that turn them on – and no one can do that better than your marketing team. That is why the marketing plan, as well as other business component plans, should be developed along-side of the marketing plan.

**Marketing planning** is a systematized way of relating to the future. It is an attempt to manage the effects of external, uncontrollable factors on the firm’s strengths, weaknesses, objectives, and goals to attain a desired end

**Marketing planning** is a systematized way of relating to the future. It is an attempt to manage the effects of external, uncontrollable factors on the firm’s strengths, weaknesses, objectives, and goals to attain a desired end. Further, it is a commitment of resources to a country market to achieve specific goals. In other words, planning is the job of making things happens that may not otherwise occur. International planning at the corporate level is essentially long-term, incorporating generalized goals for the enterprise as a whole (Cateora, 1996).

On the country level; the marketing plan resembles any **domestic marketing plan** in the sense that it lays down the strengths, weaknesses of the organization and opportunities and threats faced by it. It proceeds to define the organisation objective along with the assumptions. Having undertaken the above steps it lays down the broad action plan, the organisation structure and control system necessary for accomplishing the above plan.

The **international marketing plan** is more than a mere integration of the country plans, for it seeks to direct and co-ordinate the activities of the corporation on a global basis and at country levels. This involves a number of variables visualisations.

- **knowledge of the market:** customers, competitors and government;
- **knowledge of the product:** the formal product, its technology and its core benefit;
- **knowledge of the marketing systems** (Czinkota and Ronkainen, 2003).

**International marketing planning** is a response to environmental changes and challenges, in pursuit of organizational goals. Planning is the process of establishing organizational goals and the determination of methods to attain those goals. International marketing planning is the alignment of organizational capabilities with

the present and anticipated future environmental changes, in the pursuit of goal attainment (Fatehi, 1996).

**Marketing plan typically includes the following sections:**

- **Executive summary and content:** a brief summary of the main goals and recommendations for the top management (**company formation, history, goals: to share 20% of milk market**).

The **international marketing plan** is more than a mere integration of the country plans, for it seeks to direct and co-ordinate the activities of the corporation on a global basis and at country levels



- **Situation analysis:** contains information on the current sales, cost, market, competitors (“**We are the fifth luxury world cosmetics company**”), company shall compile this information for realization of SWOT analysis.
- **Marketing strategy:** defining the mission, marketing and financial objectives (**company Heineken Slovakia: “We are proud maltsters and brewers of quality beer brands, which offer customers a unique experience. We create lasting value, respect for colleagues, partners, environment and society”**), but also needs to meet the company, including its competitive positioning. All this cannot be realised without data from other departments such as purchasing, production, sales, finance, etc.
- **Financial projection:** includes sales forecast, plan and cost analysis of a break-even point. On the revenue side, the planned sales volumes and product categories and the other costs are expected costs of marketing; (**the incremental marketing expense can be considered to be all costs that are incurred after the product leaves the factory, other than costs involved in physical distribution, the costs of which usually represent a discrete subset**).
- **Risk analysis:** working with three estimates - optimistic, realistic and pessimistic, for each unknown affecting the profit, with certain assumptions, the marketing environment and strategies during the period of the plan (Kotler and Keller, 2013).

Research into the efficacy of formalized **marketing planning** has shown that marketing planning can make a significant contribution to commercial success. The main effects within organizations are:

- the systematic identification of emerging opportunities and threats,
- preparedness to meet change,
- the specification of sustainable competitive advantage,
- improved communication among executives,
- reduction of conflicts between individuals and departments,
- the involvement of all levels of management in the planning process,
- more appropriate allocation of scarce resources,
- consistency of approach across the organization,
- a more market-focused orientation across the organization (McDonald, Malcolm and Wilson, 2011).

### 12.1.1 Types of Planning in Marketing Business Activities

In turn, marketing planning strategy is the set of planned actions taken by managers to help a company meet its objectives. The key to developing an effective strategy, then, is to clearly define company’s objectives and carefully plan how it will achieve those goals (Wild, Wild and Han, 2000).

In the practise of marketing daily activities, the companies do and prepare for future the planning of their business activities, which are dependent mainly on types of product or service made by company. In generally there are three types of marketing planning, used internationally too (Horská, 2007; Cateora and Graham, 2005):

- **Strategic planning:** It is conducted at the highest levels of management and deals with products, capital, and research, and long-and short-term goals of the company.
- **Tactical planning:** It pertains to specific actions and to allocation of resources used to implement strategic planning goals in specific markets. Tactical plans are made at the local level and address marketing and advertising questions.
- It is essentially long term, incorporating, and generalized goals for the enterprise as a whole.

The principles of planning are not in themselves different, but the indication of the operating environments of the multinational corporation (host country, home, and corporate environments), its organizational structure, and the task of controlling a multi-country operation create differences in the



complexity and process of international planning (see Table 12.1). Planning allows for rapid growth of the international function, changing markets, increasing competition, and the ever-varying challenges of different national markets.

**Table 12.1** Domestic vs. international planning

Domestic Planning		International Planning	
1.	Political factors relatively unimportant	1.	Political factors frequently important (internal rules, regulations for permitted ingredients in food etc.)
2.	Relatively homogeneous market	2.	Fragmented and diverse markets
3.	Freedom from government interference	3.	Involvement in national economic plans; government influences business decisions
4.	Uniform financial climate	4.	Variety of financial climates ranging from over-conservative to wildly inflationary
5.	Single currency or Euro currency	5.	Currencies differing in stability and real value
6.	Management generally accustomed to sharing responsibilities and using financial controls	6.	Management frequently un-autonomous and unfamiliar with budgets and controls
7.	Data available, usually accurate and collection easy	7.	Data collection a large task requiring significantly higher budgets and personnel allocation
8.	Relatively stable business environment	8.	Multiple environments, many of which are highly unstable (but may be highly profitable)
9.	Single language and nationality	9.	Multilingual/multinational/multicultural, adaptation to domestic language
10.	Individual corporation has little effect on environment	10.	"Gravitational" distortion by large companies
11.	Business "rules of the game" mature and understood	11.	Rules diverse, changeable and unclear

Source: own elaboration

### 12.1.2 The International Planning Process

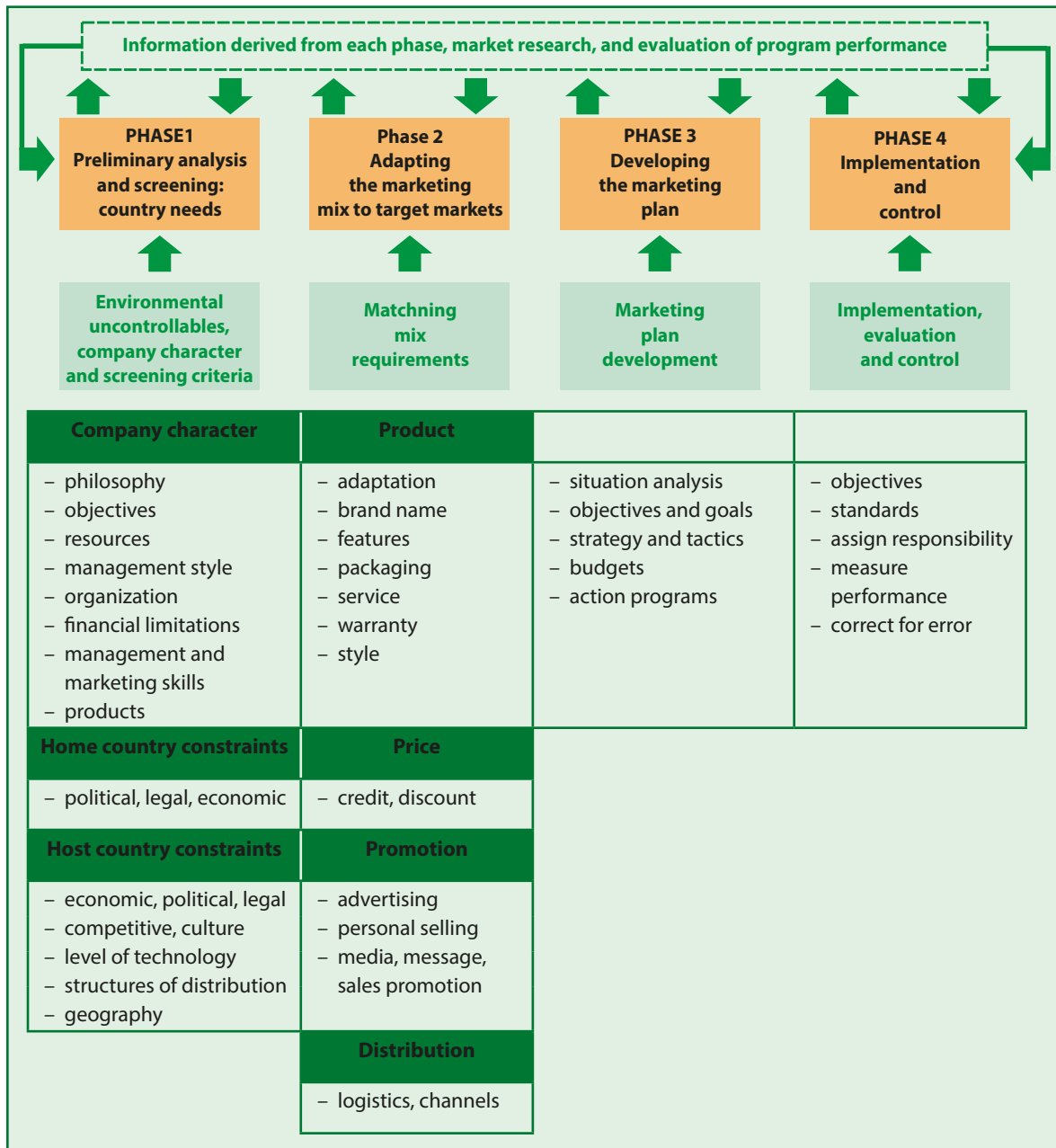
Whether a company is marketing in several countries or is entering to the foreign market for the first time, because a planning is a major factor of success. The first-time foreign marketer must decide what products to develop, in which markets, and with what level of resource commitment (see Figure 12.1).

**Phase 1 Goal Setting:** whether a company is new to international marketing or heavily involved, a calculation of potential markets is the first step in the planning process. A critical first question in the international planning process is deciding in which exiting country market to make an investment.

**Phase 2 Situation Review:** when target markets are selected, the market mix must be evaluated in light of the data generated in phase 1. Incorrect decisions at this point lead to costly mistakes through efficiency loss from lack of standardization.

**Phase 3 Strategy Formation:** at this stage of the planning process, a marketing plan is developed for the target market – whether a single country or a global market set. It begins with a situation analysis and culminates in a specific action program for the market.

**Phase 4 Resource Allocation and Monitoring:** decision in phase 3 of implementation of specific plans and anticipation of successful marketing. However, the planning process does not end at this point. All marketing plans require coordination and control during the period of implementation (Cateora and Graham, 2005).



■ **Figure 12.1** International process of planning

Source: Cateora, R. Philip – Graham, L. John. 2005. International Marketing

By the process planning we should look at:

- **Standardization versus adaptation:** another important production issue of strategic planning is deciding whether the production process will be standardized for all markets or adapted to manufacture products modified for different markets (McDonald, Wilson and Hugh, 2011).
- **Influence of national business environments:** consumers in different national markets often demand products that reflect their unique tastes and preferences. Cultural, political, legal and economic environments (Figure 12.2) have a great deal to do with the preferences of both consumers and industrial buyers worldwide (McDonald, Wilson and Hugh, 2011).



■ **Figure 12.2** Strong catholic roots in Poland are good reason for producing seasonal chocolate products that are very often used as a small “sweet” gift on the occasion of the first Holy Communion  
**Photo:** Elena Horská, 2013



## V4 MARKETING INSIGHTS

V4 cooperation at the third markets is focused on the purposeful action of CEE countries to distant markets. The aim of the joint marketing activities is to strengthen the position and gain competitiveness of countries and their enforcement at the third markets.

The V4 countries undertake joint marketing and promotional activities in overseas markets since 2003. The priority markets currently include the United States, Japan, China and the Asian part of the

Russian Federation. The V4 countries jointly present six product groups: capital cities, historic towns, UNESCO heritage, Jewish monuments, and spas. Marketing and promotion of tourism undertaken by the country selected instruments: participation in tourism fairs and exhibitions, organizing info-trips for journalists, carrying out sightseeing trips for tour operators, printing and distribution of joint promotional materials and maps, internet and the exchange of statistical data.



## 12.2 Organization of the International Marketing Operations

The marketing organization we like to define as an entity encompassing marketing activities that cross a firm's internal and external customer value-creating business processes and networks for the purposes of satisfying the needs and wants of important stakeholders. In a modern marketing organization, the organization system provides a structural framework within which marketing analysis, planning, implementation, and control activities are effectively coordinated and carried out. In small firms, one person performs these activities. Then, as the firm grows larger, the work is divided into functional activities, such as sales and market research, which are assigned to people who specialize in these activities.

In building an **organization**, important considerations include the level of policy decisions, length of chain of command, staff support, source of natural and personnel resources, degree of control, centralization, and type or level of marketing involvement. A company may be organized by product lines but have geographical subdivisions under the product categories. Both may be supplemented by functional staff support (Cateora and Graham, 2005).

For achieving this it becomes necessary to develop a plan for an **organisational** structure. Such a plan is usually undertaken at the corporate level and is long run in nature. While planning a structure for international marketing normally the following parameters are considered.

- company growth and dynamic nature,
- geographical distance,
- governmental regulations,
- level of policy decision,
- length of chain of command,
- degree of control,
- degree of involvement in the marketing functions (Czinkota and Ronkainen, 2003).

**Organizational** goal achievement is depending on the effective combination of the contributions and work output of the individual members. The organizing function involves designing the skeleton and the structure that delineate the nature and extent of formal relationships among various internal components, including tasks, jobs of the organization (Fatehi, 1996).

**Organizational** structure is the way in which a company divides its activities among separate units and coordinates activities between those units. If a company's organizational structure is appropriate for its strategic plans, it will be more effective in working toward its goals (Wild, Wild and Han, 2000).

Organizational structure is the way in which a company divides its activities among separate units and coordinates activities between those units



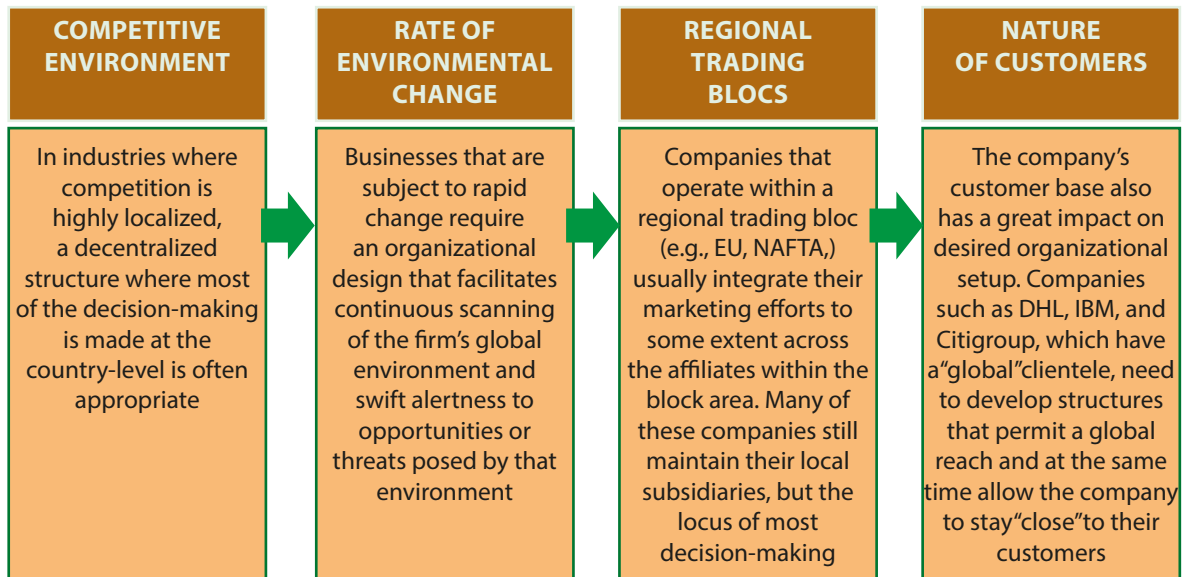
### GLOBAL MARKETING INSIGHTS

Nestle and Unilever, for example, have always been highly decentralized multinational companies. A lot of their decision-making authority has always been made at the local level. When Unilever realized that its marketing efforts required a more pan-European approach to compete with the likes of Procter & Gamble, the company transformed its organization and revised its performance measures to provide incentives for a European focus. One of Unilever's senior executives, however, noted that the changeover "**Comes hard to people who for years have been in an environment where total business power was delegated to them**".

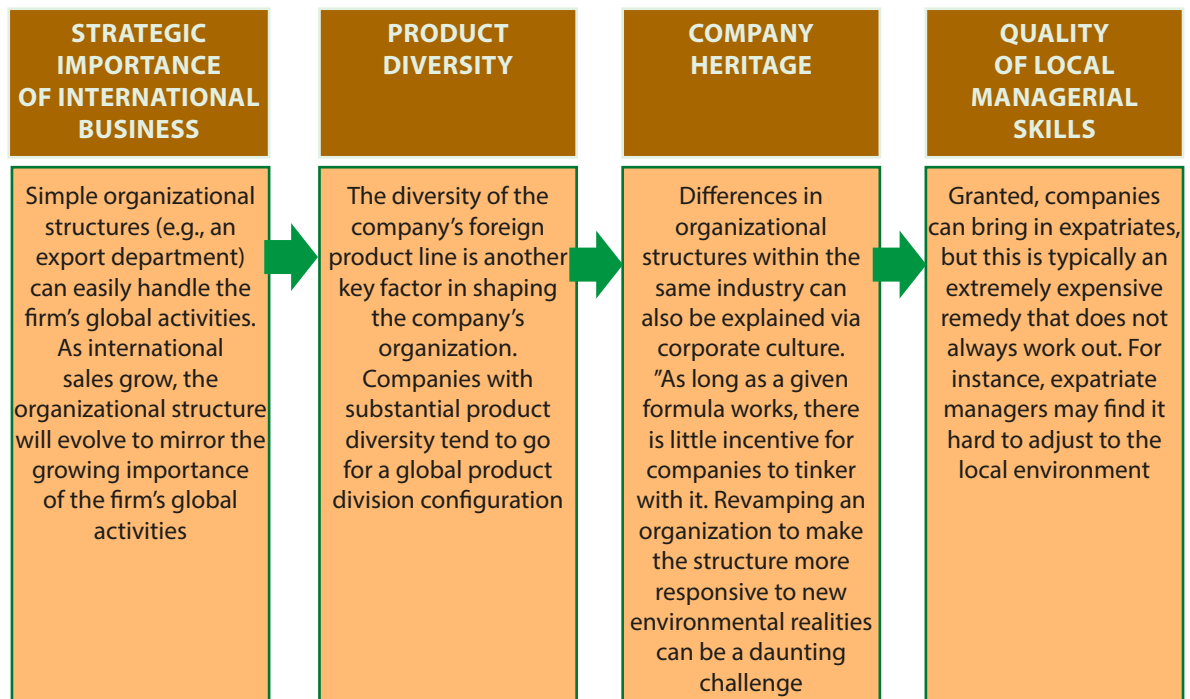


**Key criteria in global marketing organization**

Yet there are some factors that companies should consider when engineering their global organizational structure, namely environmental factors (Figure 12.3) and firm specific factors (Figure 12.4).



■ **Figure 12.3** Environmental factors in global marketing organization  
 Source: own elaboration based on Onkvisit, Shaw (2009), Brady (2011) and Šimo and Rovný (2010)



■ **Figure 12.4** Firm Specific Factors in Global Marketing Organization  
 Source: own elaboration based on Onkvisit and Shaw (2009), Brady (2011) and Kretter(2010)



## 12.2.1 Types of Organisation in Marketing Business Activities

There are two types of marketing organization:

1. **CENTRALIZED:** Chief advantages of centralization are the availability of experts at one location, the ability to exercise a high degree of control on both the planning and implementation phases, and the centralization of all records and information (Machková, 2009). It is a degree to which decision making is centralized at a high level in one location such as headquarters (Wild, Wild and Han, 2000).
2. **DECENTRALIZED:** Some companies effect extreme decentralization by selecting competent managers and giving them full responsibility for national or regional operations. These executives are in direct day-to-day contact with the market but lack a broad company view, which can mean partial loss of control for the parent company. It is a degree to which decisions are made at lower levels, such as in international subsidiaries. Naturally, decentralized decision making gives subsidiaries greater autonomy in managing their activities (Machková, 2009)



### V4 MARKETING INSIGHTS

Motorola was the transition from analogue to digital mobile phones 18<sup>th</sup> month delaying, and thus provide companies Nokia and Sony Ericsson big lead. Nestlé missed interested consumers to coffee from coffee shop, as chain

Starbucks offers. Coca-Cola took a long time until it realized the trend of drinking beverages with fruit flavour as Gatorade brand or sold flavoured mineral waters.



In our discussion of centralization versus decentralization of decision making, it is important to remember two points as companies rarely centralize or decentralize all decision making. Rather, they seek the approach that will result in the greatest efficiency and effectiveness; and international companies may centralize decision making in certain geographic markets while decentralizing it in others.

Following from Kotler and Keller (2013) and Wild, Wild and Han (2000) we can define several types of organizational structure:

- **International division structure:** That separates domestic from international business activities by creating a separate international division with its own manager. In turn, the international division is typically divided into units corresponding to the countries in which a company is active (Indonesia, Thailand, China...).
- **International area structure:** That organizes company's entire global operations into countries or geographic regions (Figure 12.5). The greater number of countries in which a company operates the greater likelihood that it will organize into regions (Asia, Europe).
- **Global product structure:** That divides worldwide operations according to company's product areas. It is suitable for companies offering diverse sets of products or services.
- **Global matrix structure:** That splits the chain of command between product and area divisions. Each manager reports to two bosses – the president of the product division and the president of the geographic area.

In our discussion of centralization versus decentralization of decision making, it is important to remember two points as companies rarely centralize or decentralize all decision making. Rather, they seek the approach that will result in the greatest efficiency and effectiveness



■ **Figure 12.5** Many companies consider Dubai as a gateway to the markets of Arabian Gulf states. Local businessmen after the meeting with representatives of Central European milk processing company at the lobby of the Emirates Office Towers  
**Photo:** Elena Horská, Dubai 2008

## 12.3 Control of the International Marketing Operations

Control, broadly defined, means making something happen the way it was planned to happen. It requires a clear understanding of the expected results of a particular action (for example, a price change designed to increase sales by 10%), a way to measure the extent to which these expected results materialize, and alternatives for corrective action. An effective control system monitors the entire spectrum of environmental variables, including customers, competitors, channel participants, and both controllable (price, products, promotions) and uncontrollable (political and economic forces).

Factors like distance, culture, language and practices create barriers to effective control. Yet without **marketing control** over international operations, the degree to which they have or have not been successful cannot be judged. Plans are the prerequisite to control, yet these are developed in the midst of uncertain forces both internal and external to the firm. Basically control involves the establishment of standards of performance, measuring performance against standards and correcting deviations from standards and plans.

**Marketing control** is the final stage in the marketing planning process. The aim of control systems is to evaluate the results of the marketing plan so that corrective action can be taken if performance does not match objectives. Short-term control systems can plot results against objectives on a weekly, monthly, quarterly and/or annual basis. Where this kind of long-term control perspective is lacking this may result in the pursuit of plans that have lost strategic credibility (Jobber and Fahy, 2006). For example, Irn-Bru is the market leader in the soft drinks market in Scotland. However Coca Cola successfully stopped Irn-Bru being distributed through McDonald's fast food restaurants in favour of Coca Cola. Coke was able to apply control over that channel of distribution due to their global relationship with McDonald's.

**Marketing control** is the final stage in the marketing planning process. The aim of control systems is to evaluate the results of the marketing plan so that corrective action can be taken if performance does not match objectives

**Organizational control** refers to the process of monitoring and evaluating the effectiveness and efficiency of organisational performance, and taking corrective action when performance falls short of expectations. There are four major components to a control system:

- spell out the intended results, and establish standards against which organizational activities and accomplishments could be measured,
- monitor and collect information on organizational activities that are aimed at goal accomplishment could be measured,
- evaluate organizational performance and results for effectiveness,
- make necessary adjustments to correct deficiencies during and after the implementation of the strategy (Fatehi, 1996).

While control of multinational operations is far more formidable and poses additional challenges, few business firms exercise control on international operations as thoroughly as they should. The additional difficulty in control of international activities emanates from a number of reasons. The rate of environmental change in a multinational company is a factor dependent upon each of the markets in which the company operates (Czinkota and Ronkainen, 2003).

The requirements of an international marketing control system are similar to those of the domestic system, the specific challenges posed by the former necessitate that some consideration may be given to the following:

- International control can seldom be as complete as that of domestic operations; the tools used therefore need to be reasonable and realistic, a cumbersome or complex system is soon likely to become non functional.
- The cost of control system must be commensurate with the benefits accruing from it.
- In order to be effective in meeting the challenges posed by rapidly changing, heterogeneous market places, the control system must be sensitive and fast so that the organisation retains the flexibility to react to environmental opportunities and challenges.



### 12.3.1 Types of Controls in Marketing Business Activities

---

As Kotler and Keller divided the marketing control to fourth big groups:

- **Control of year-plan:** This control monitors whether the company is on the way to meet its targets for sales, profit. Firstly, management sets monthly or quarterly goals. Secondly, it monitors the performance of the market. Thirdly, identify the causes of variations in performance. Fourth, take corrective action to reduce the gap between the target and actual performance.
- **Control of profit:** Companies are finding profitability of their products, territories, customer groups, segments. And then check whether or not a particular product or marketing activities expand, restrict or eliminate.
- **Control of effectiveness:** In the event of any problems during product sales, is looking for the opportunity to increase of efficiency. Examines compliance with plans of profit, help brand managers with the preparation of the budget, measure the effectiveness of communication, analysis of production costs, assessment of profitability and geographic areas.
- **Strategic control:** This control is implemented in the practice through marketing audit and evaluation of marketing skill (Kotler and Keller, 2013).

#### The other types of marketing control are divided into formal and informal control methods

---

##### FORMAL (“Bureaucratic”) CONTROL METHODS:

- **Planning and budgeting:** The first step of the control process is to set standards (metrics). These standards should be driven by the company’s corporate goals. There are essentially two types of standards: behaviour- and outcome-based. Behaviour-based control involves specifying the actions that are necessary to achieve good performance. The budget spells out the objectives and necessary expenditures to achieve these objectives. Control consists of measuring actual sales against expenditures. If there is tolerable variance then no action is usually taken. **Imagine that headquarters want country A to increase its market share by 3% points over a one-year period. Country A could take different approaches to achieve this target. One path is to do a lot of promotional activities - couponing, price promotions, trade deals, and so on. Another route is to spend more on advertising. Both paths could achieve the desired outcome. However, with the first option – heavy dealing – the company risks tarnishing its brand image. With the second option, the subsidiary would invest in brand equity. Thus, the same outcome can be realized through two totally different behaviours, one of which can ruin the long-term viability of the company’s brand assets.**
- **Evaluating performance:** Formal control systems also need mechanisms to monitor and evaluate performance. It is evaluated by measuring actual against planned performance. The problem is setting a performance standard. Usually it is based on historical performance with some kind of industry average. Problems of international comparison inevitably occur like how does one plan in an environment where exchange rates fluctuate quite often during the budget period. **For example, two-thirds of the bonuses payable to Unilever’s senior executives in Europe are driven by Unilever’s performance in that region. In practice, however, it is tremendously hard to gauge managers’ contributions to the regional or global well-being of the firm.**
- **Influences on marketing budgets:** in preparing a budget or plan, the following factors are important: market potential – how large, can it be tested, competition, impact of substitute products – packaging can be substituted in many ways, process – headquarters may impose an „indicative planning“ method or guidance. If actual performance does not meet the set standard, the company needs to analyze the cause behind the divergence.
- **Other performance measures:** include share of market, image, position or corporate acceptance.

### INFORMAL CONTROL METHODS:

- **Variables influencing control:** A number of factors may influence the control methods. These include:
  - the product: the more technological the product the easier it is to implement uniform standards,
  - domestic practices and values of standardisation: these may not be appropriate,
  - communication systems: have a heavy influence on control mechanisms – electronic control measures may not always be available,
  - distance: the greater the distance, the bigger the physical and psychological differences,
  - subsidiary performance: the more a subsidiary does, or reports, a non variance, the less likely is there to be headquarters interference,
  - size of international operators: the bigger and greater the specialisation of headquarters staff the more likely will extensive control be applied,
  - environmental differences: the greater the environmental differences the greater the delegation of responsibility and the more limited the control process,
  - environmental stability: the greater the instability in a country the less relevance a standardised measure of performance has;

### Summary

In this chapter, we have taken a broad-ranging review of marketing and of the special of planning, organization and marketing control. Today, the trading conditions, which are more bleak and competitive, call for more analytical and strategic approach that marketing planning and organization and the last control can provide. In every marketing plan there must be provision for organising, implementing and controlling marketing organisations. This is particularly important when marketing globally, due to the many possible pitfalls which can occur, described in the preceding chapters. Depending on the size of the export or global operations a decision has to be made on the type of organisation, whether it be area, product, function or matrix based; on what type of marketing plan, be it standardised or decentralised and on what method of control to install. International marketing planning presents the challenge of responding to different environment variables and integrating national, regional and international planning inputs into an overall plan that best utilises organisational resources to exploit opportunities. Formal methods of control include budgets and informal methods include elements of auditing but this depends to a great extent on environmental differences, distance of the market to the seller, the product and other characteristics, not least of which is the size of the international organisation.

**Key terms:** Marketing planning, Domestic, International, Plan, Organization, Marketing activities, Marketing strategy, Effectiveness, Organizational structure, Planning process, Marketing operation, Factors, Global, Control, Centralized organization, Decentralized organization, Multinational, Formal control methods, Informal control methods



### QUESTIONS FOR DISCUSSION

1. In phase 1 and 2 of the international planning process, countries may be dropped from further consideration as potential markets. Discuss some of the condition in each phase that may exist in a country that would lead a marketer to exclude a country.



2. Describe the factors which have to be considered when deciding on the form of marketing control in international operations. By reference to any source of your choice, identify and describe the different possible forms of marketing control applicable to global operations.
3. Select any three organizations operating in international markets. Analyse their marketing plans for the previous years to analyse how the marketing plans have been affected by
  - a) reasons for entering international markets,
  - b) corporate strengths,
  - c) marketing infrastructure available.
4. Match the statement in the first column with the section of the marketing plan where it would most likely appear, which is listed in the second column.

1.	Initially, distribution will be through agents and brokers in the host country.	a) Strategies and tactics
2.	At the end of the first quarter, any necessary changes will be made in the marketing mix elements to bring performance in line with planned expectations.	b) Objectives
3.	Budgeted expectations are for a 10% return on investment at the end of year 2.	c) Provision for control
4.	The promotion campaign will focus initially on generating distribution through a "pull" strategy of generating demand among end-users.	d) Marketing mix
<b>Results:</b> 1.d), 2.c), 3.b), 4.d)		

### Further Recommended Readings

- BLYTHE, J. – MEGICKS, P. 2010. *Marketing Planning: Strategy, Environment and Context*. UK, Harlow: Publisher Pearson Publication Limited, 2010. p. 288. ISBN 10: 02-737-24711. ISBN 13: 978-0-273-724711.
- McDONALD, M. 2008. *On Marketing Planning: Understanding Marketing Plans and Strategy*. USA: Publisher Kogan, 2008. p. 197. ISBN 0-749-45-1491.
- HOLLENSEN, S. 2010. *Marketing Planning*. UK: Publisher Non Basic Stock Line, 2010. p. 517. ISBN 0-077-12-7137.

### Literature

- BRADY, D. L. 2011. *Essential of International Marketing*. USA: M.E.Sharpe, Inc., 2011. p. 475. ISBN 978-0-7656-2475-8.
- CATEORA, R. P. 1996. *International Marketing*. 9<sup>th</sup> edition. The McGraw-Hill Companies, Inc., 1996. p. 772. ISBN 0-256-13950-4. ISBN 0-256-20682-1.
- CATEORA, R. P. – GRAHAM, L. J. 2005. *International Marketing*. USA-New York: McGraw-Hill/Irwin, 2005. pages 697. ISBN 0-07-283371-8.
- CZINKOTA, R. M. – RONKAINEN, A. I. 2003. *International Marketing*. 7<sup>th</sup> edition. South-Western College Pub, 2003). p. 736. ISBN 10: 0324190468. ISBN 13: 978-0324190465.
- FATEHI, K. 1996. *International Management. A Cross-Cultural and Functional Perspective*. New Jersey: Prectice Hall, Upper Saddle River, 1996. p. 643. ISBN 0-13-099722-6.
- JOBBER, D. – FAHY, J. 2006. *Foundation of Marketing*. 2<sup>nd</sup> edition. UK: McGraw-Hill Education, 2006. p. 376. ISBN-13 978-0-07-710918-9. ISBN-10 007710918x.
- HORSKÁ, E. 2007. *Medzinárodný marketing*. 1<sup>st</sup> edition. Nitra: SUA, 2007. p. 223. ISBN 978-80-8069-938-3.

- HORSKÁ, E. – MAITAH, M. 2011. *Homogenization, Regionalization and Localization in Theory and Practice of International Business*. In HORSKÁ, E. et al. 2011. *European Studies on Intercultural Dimension of International Business: Marketing and Managerial Consequences*. Scientifics Monograph. Nitra: SUA, 2011. p. 203. ISBN 978-80-552-0530-4.
- KOTLER, P. – KELLER, K. L. 2013. *Marketing Management*. 14<sup>th</sup> edition. Praha: Grada Publishing, a.s., 2013. p. 814. ISBN 978-80-247-4150-5.
- KRETTNER, A. et al. 2010. *Marketing*. 4<sup>th</sup> edition. Nitra: SUA, 2004. p. 288. ISBN 978-80-552-0355-3.
- MACHKOVÁ, H. 2009. *Medzinárodný marketing*. 3<sup>rd</sup> edition. Praha: Grada Publishing, 2009. p. 196. ISBN 978-80-247-2986-2.
- MCDONALD, M. – WILSON, H. 2011. *Marketing Plans: How to prepare them, how to use them*. 1<sup>st</sup> edition. Trento/ Italy: Printer Trento, 2011. p. 575. ISBN 978-0-470-66997-6.
- NAGYOVÁ, L. *Obchodné kategórie*. 2<sup>nd</sup> chapter. p. 65–97. In HORSKÁ, E. – NAGYOVÁ, L. – ROVNÝ, P. *Merchandising a event marketing*. 2010. Nitra: SUA, 2010. p. 329. ISBN 978-80-552-0469-7.
- ONKVISIT, S. – SHAW, J. J. 2009. *International Marketing: Strategy and Theory*. 5<sup>th</sup> edition. Oxon/ USA: Routledge, 2009. p. 710. ISBN 10: 0-203-93006. ISBN 13: 978-0-203-93006-9.
- ŠIMO, D. – ROVNÝ, P. 2010. *Agrárny marketing*. Nitra: SUA, 2010. p. 279. ISBN 978-80-552-0472-7.
- WILD, J. J. – WILD, L. K. – HAN, C. Y. J. 2000. *International Business. An Integrated Approach*. USA, New Jersey: Prentice Hall, 2000. p. 573. ISBN 0-13-862186-1.

### CASE STUDY I

#### Marketing Planning and Organization Activities one of the Biggest World Coffee Franchising – Starbucks Coffee in V4 Countries

From the beginning, Starbucks set out to be a different kind of company. One that not only celebrated coffee and the rich tradition, but that also brought a feeling of connection. The mission to inspire and nurture the human spirit: one person, one cup, and one neighbourhood at a time. Today, with more than 18 000 stores in 62 countries, Starbucks is the premier roaster and retailer of specialty coffee in the world. And with every cup, it strives to bring both its heritage and an exceptional experience to life. Its coffeehouses have become a beacon for coffee lovers everywhere. It can use its scale for good, and catalyze change across entire industries so that Starbucks and everyone they touch can endure and thrive. On a global level, it is trying to be innovative in how they think about communities. It goes beyond the impact of a single company, to energize and activate its employees – who they call partners – along with its customers, suppliers and non-profit partners. Its annual global month of service is a great example, with more than 230 000 hours of service and 2 100 projects completed in 2012, and with plans to expand in new directions in 2013.

#### Short marketing plan of company

##### ■ Current Situation

Starbucks is the premier roaster, marketer and retailer of specialty coffee in the world, operating in more than 50 countries, (Starbucks Corporation). Starbucks currently holds approximately 33% of the U.S. coffee market share (O'Farrell), with net revenues in 2011 of \$11.7 billion (8.8% billion €, Starbucks Corporation). In addition to the U.S. market share, Starbucks ended 2011 with over 17 000 stores in 55 countries globally, with another 800 planned for 2012 (Starbucks Corporation). Starbucks has also focused on expanding its portfolio of products, all to expand market share.

### ■ Competitor and Issues Analysis

Starbucks continues to face growing competition in the coffee market, both in the U.S. and globally. Competitors such as McDonald's have recently introduced "gourmet," coffee shop style offerings to their product mix. Some competitors have effectively targeted customers looking for "lower-priced" and "on – the-go" options, made available by drive thru services. One element favouring Starbucks over competitors is its ability to be "flexible when it comes to its store size and layout". This allows Starbucks to alter each individual store based on location, and to expand in to alternate territories such as grocery stores, rest stops, and so on (Figure 12.6).



■ **Figure 12.6** Arabic Starbucks Coffee in Dubai  
Photo: Johana Paluchová, Dubai 2011

### ■ Marketing Objectives

Moving forward, Starbucks is going to attempt to tell the company's story through various marketing campaigns through various outlets including advertising, in store campaigns, social media, etc.

### ■ Marketing Strategy (4 P's)

**Product:** While coffee remains the core product and focus of Starbucks, the introduction of various new products has expanded the Starbucks product portfolio. For example, the acquisition of Tazo Tea has allowed Starbucks to provide new offerings such as tea-only stores. Also, as part of the marketing campaign, Starbucks is making a push for its store employees to provide customer with exceptional customer service. For example, part of the campaign is highlighting Starbucks willingness to remake a drink for a customer if it is not satisfactory. This will ensure that Starbucks is always putting the best product forward. Pricing: Starbucks has always offered a range of products that vary in price.

With the economy slowing starting to gain momentum, Starbucks' main objective must be to keep prices on par with competitors. In addition, a market opportunity presented itself during the recession – at home coffee drinkers. In order to capitalize on this market segment, Starbucks must price there at home coffee selections closely to competitors such as Dunkin' Donuts, while also balancing economic factors such as distribution costs, fair-market costs, and more.

**Promotion:** Starbucks will continue to adopt new promotional outlets in order to reach consumers. An active participation on Web 2.0 platforms, televisions advertisements, and email marketing will all be utilized to promote products and initiatives. Initiating contests for customers to participate in will be a main focus. These can range from coffee bag design contests, to social media contests integrating platforms such as Instagram and Twitter. One more promotional opportunity that will be utilized is participation in “Daily Deal” sites such as Groupon and LivingSocial, in order to associate the Starbucks brand with affordable deals.

**Placement:** The traditional methods of distribution will continue to operate the placement of Starbucks products to its consumers. One area which shall be investigated further is how to better penetrate alternate retail outlets such as grocery stores, in order to attract the market of at home coffee drinkers. Also, other potential sites for warehouses shall be scouted and considered in order to anticipate for potential growth.

### ■ Action Programs

Initiate television ad campaign for new product launches, initiate coffee bag design contest, organize free in store tastings for new products, develop “Daily Deal” site offering that will require email list registration.

**Budget:** In order to compete with the large marketing budgets of competitors, Starbucks will increase its marketing budget from \$94.4 million (70.99 mil. €) to \$150 million (112.81 mil. €). If these increased yields significant result, then more funding could be proposed in future years.

### ■ Measurements

To measure the success of various campaigns, Starbucks will engage in metrics analysis tools to monitor lead generation, customer engagement, and sales curate. For online campaigns, Starbucks will implement the use of highly rated, industry-standard metrics monitoring software as well as a Customer Relationship Management database to effectively manage all Starbucks customers and leads. To track the ROI of in-store and offline marketing efforts, Starbucks will monitor and analyze sales results during specific campaign time frames. For example, during the free in store tasting days, Starbucks will monitor and analyze store traffic and sales trends, including referencing criteria such as geography in results.

### ■ Global Responsibility

- 1. Being a Responsible Company:** They are also helping farmers run the businesses in an environmentally mindful way, by adjustments to ensure the viability of businesses despite shifting growing conditions. They are working to engage and activate these individuals with our Youth Leadership Grants program. Its effort now reaches more than 50,000 young people each year, creating innovative and positive solutions to local needs while empowering young people. At Farmer Support Centres, they work one-on-one with farmers to help them manage their businesses more effectively, improve the quality and productivity of their crops, and provide social services to their workers.
- 2. Let’s help our communities thrive:** Join it in reaching our goal of 1 million community service hours per year by 2015. Each Community Store works directly with a trusted non-profit that offers services aimed to meet the needs of that individual community. This unique funding model creates a reliable stream of resources for the non-profit organization, raises awareness of their work, and creates a space for community dialog and engagement.
- 3. Farming Communities:** Starbucks invests in programs designed to strengthen local economic and social development. It is working collaboratively with nongovernmental organizations that have experience and expertise in working with farming communities. In addition to social investments, they also support communities through farmer loans and ethical sourcing programs with Conservation International and Fairtrade, among others. In Indonesia’s Aceh province,

Starbucks has teamed with Save the Children to improve children's health and education in coffee-growing communities through BLEND (Better Living, Education, Nutrition, and Development).

- 4. Ethical Sourcing:** Its success is linked to the success of the farmers and suppliers who grow and produce its products. Helping these people thrive helps ensure the long-term sustainability of the premium products it provides. Whether it's coffee, tea, cocoa or manufactured goods, we're committed to offering ethically purchased and responsibly produced products of the highest quality.
- 5. Environment:** As a company that relies on an agricultural product with the potential to be severely impacted by changes in climate, is committed to reduce its operating costs and increase shareholder value through energy and water efficiency, and believes we should reflect the values of our customers and our partners, we believe it simply makes good business sense.
- 6. Building Greener Stores:** Beyond the proactive efforts within control, the realities of climate change are a growing challenge, and it felt the impact during 2012 - the hottest year on record. From coffee-growing conditions in Costa Rica to the increased electricity needed to power its stores, they need to consider the global impact of our actions. Some business operations: LEED® Certified Stores or Energy Conservation & Renewable Energy.
- 7. Recycling and Reducing Waste:** It's committed to significantly reducing and diverting the waste of stores generate. Recycling is just one way we do this. Cup and Food Material have offered a cup with 10% post-consumer recycled paper fibre since 2006 and keep working to decrease the materials used in packaging, find new ways to encourage reusable materials and implement recycling solutions for cups.

The Central Europe region is definitely seen as a very good opportunity, a very healthy market that can provide great opportunities. The Czech, Polish and Hungarian markets are still very new. The coffee culture is on a very good level but can still be increased. The expansion announcements in Central Europe follow on the heels of a pull back in the U.S. In 2008, Starbucks announced it would be closing 600 underperforming stores in the U.S. over the next 18 months.

### **The World Starbucks Tour: Starbucks in Czech Republic**

The first Starbucks opened in Prague was in 2008. There are eight stores in downtown Prague. One Starbucks is at the airport. Another three stores are in more neighbourhood-like locations within the city of Prague. The most recent store opening in Prague was at Dejvicka in October 2010. Generally speaking, the food offerings in Starbucks throughout Prague are high quality, include some local selections, and have a lot of variety. It remains to be seen whether Starbucks will live up to its promise, and attract Czechs to pay more than the average for a mug of premium coffee. There's certainly been a lot of anticipation leading up to Starbucks' arrival, but will it prove to have been anything more than a storm in a coffee cup.

Czech Republic - in a country where people are used to drinking their unfiltered "Turkish coffees" in small ceramic cups, Starbucks' first 18 months have made something of a splash.

The Seattle-based chain has announced plans to double its stores in the former Eastern Europe over the next five years, according to a Starbucks representative.

Independent research by the British based firm Euromonitor appears to substantiate those lofty claims. Czechs are falling in love with coffee shops, according to Euromonitor's 2008 report. In terms of value, sales at specialist coffee shops saw 24 percent growth in 2007. Truth be told, there has always been something of a cafe culture in the Czech Republic. Coffee houses were common gathering spots of the urban bourgeoisie before communist leaders systematically closed them or converted them into state-run facilities after 1948.

But while Starbucks first entered the European market in Britain in 1998, according to the company's official website, it held off on Prague for another decade. Now the Czech Republic's per capita GDP



is on the up and up. With more money to spend, Czechs are splurging on premium brands at high-end coffee boutiques. The prices in the Czech Republic Starbucks start at minimum over 50 crowns (1.94 €) for the smallest coffee, and more than double depending on the drink. The company is successful and it is going to open more stores. The feedback from the customers for the demand is very high. And in a location such as this - in the centre of Prague, obviously, there will be people who know Starbucks from all over the world, and I'm sure will pop in for a cup of coffee. There's a choice of more than 87 000 products that you can choose from in terms of beverages. Often, people customize in different ways, people prefer sweeter products like vanilla lattes in some parts of the world, and low fat caramel macchiato in other parts. With lunchtime, people tend to like their own breads, so there are tomato breads here, and there's that mix of different types of hams, different types of chickens, and there a mixture there of traditional favourites from the Czech market, and also some modern trends on wellness. So, low-fat, low-calories products as well.

### **The World Starbucks Tour: Starbucks in Hungary**

After much anticipation, in 2010 Starbucks opened its first store in Hungary. Hungary is known for its café culture and the city has many great old fashioned coffee houses, famous for their architecture, ambiance, coffee and delicious pastries, so be sure to include them on your itinerary. It has great respect for the longstanding and colourful Hungarian coffeehouse culture and is excited to become a part of the community, said Vladan Armus, Starbucks Brand President for Central and Eastern Europe. Over the past few years, coffeehouses have regained their popularity in Hungary, and we look forward to introducing our customers to our high quality coffees and the unique Starbucks Experience. West End Mall is a vibrant and dynamic location in the heart of Budapest where people love to shop and meet, it will be an ideal location for people to enjoy a place where they can rest, relax and chat with friends over a great cup of coffee. In Hungary, people rarely invited friends into their home. People met in coffee houses. They spent their days there, eating breakfast, lunch and dinner, reading newspapers and playing chess. Writers wrote books and artists drew sketches. It was a congenial place to meet.

Customers in Budapest will be able to enjoy Starbucks full range of offerings including hot and cold beverages made from 100% Fairtrade certified espresso, brewed coffee, and a full range of Tazo Teas. Starbucks will also offer a selection of 16 different varieties of the world's finest whole bean Arabica coffees sourced from farms across Latin America, Africa and Asia Pacific. Starbucks offers traditional coffeehouse fare like cakes, muffins, donuts, sandwiches and salads. Exclusive to Starbucks Hungary will be a selection of local favourites including Reform Triangle Sandwiches, Sausage Sandwiches and Pick Salami Sandwiches. Starbucks Hungary is very proud to feature Cheese Pogácsa and Almond Nougat Cake baked by the treasured local patisserie, Gerbeaud Confectionery.

In Hungary one can find lot of places where they sell coffee but there is not such as big coffeehouse chain as Starbucks with its typical wide range products and services. It is known that worldwide, Europeans drink the most coffee. Almost every adult in Hungary drink minimum 1 cup of coffee every day. This fact leads us to conclusion that Starbucks could provide high quality products and services to Hungarians.

Starbucks has agreed to a partnership with Apple to collaborate on selling music as part of the coffeehouse experience. Apple announced that customers would be able to browse the iTunes Store at Starbucks via Wi-Fi in Hungary (with no requirement to login to the Wi-Fi network), targeted at iPhone, iPod touch, and MacBook users. The iTunes Store will automatically detect recent songs playing in a Starbucks and offer users the opportunity to download the tracks. Some stores feature LCD screens with the artist name, song, and album information of the current song playing. These technical details could also lead to a big success of Starbucks in Hungary.

Prices of Starbucks coffeehouse compared to other coffeehouses are almost at the same level. It is a new brand in Hungary that sets new standards in the field of coffee market. Taking this into consideration, the price is really an important feature in ensuring the reception of the coffee and

also making sure the Starbucks products garners a reasonable market share when comparing it to existing coffeehouses. When introducing Starbucks products there should be discounts for some products which are not popular in Hungary to let people know about them and as the time passes new consuming habits can develop. The main aim is to bring high quality products and services on affordable price.

The best location for a new Starbucks will be in capital of Hungary, Budapest. The reason is that capital cities are densely populated and also lot of foreigners lives there. It should be located in a place which everyone knows and is easy to reach by car and also by public transportation. Pedestrian zones and large shopping malls are preferred. The building of Starbucks needs to be unique that everyone know about it and also can attract people who never heard about Starbucks. Street looks like the best option where to open Starbucks. This street has historical background and is one of the well-known streets in Budapest. After a long sightseeing tour in the city or a never-ending shopping Starbucks will be the best solution to refresh our customers' bodies and mind.

Starbucks can be advertised in television, radio, newspaper, on billboard, in cinema and via Internet. „Premium games“ should be organized in media. It means that a game is organized in some sort of media and somebody can win a gift, in this case, the gift would be Starbucks coupon with a date when the winner can drink and eat as much as he wants, thereby creating awareness.

### **The World Starbucks Tour: Starbucks in Poland**

Starbucks Coffee International Inc. opened its first coffeehouse in Poland in Warsaw in 2009. A second store is set to open in Wroclaw. Starbucks waited a long time to find the right opportunity to enter Poland, a country that has enthusiastically embraced the coffeehouse culture. The coffeehouse market in Poland is growing faster than other culinary segments, according to restaurant industry data cited by Starbucks. Starbucks and AmRest formed the Polish partnership in 2007.

Poland, as well as the rest of Central and Eastern Europe, represents significant growth areas for Starbucks, says president of Starbucks Europe, Middle East and Africa. To leverage existing strategic business partnerships to accelerate our growth outside the U.S., it is essential that we enter Poland with a strong and trusted partner, who understands the market and shares our values and passion for people, quality and service. In Poland, there are about 500 cafes. Coffee market in Poland recorded a six times increase in the last 10 years. Polish coffee market is estimated for 1.5–2 billion Polish zloty (36–48 million €). Now there are 9 cafes in Poland. Among the fans of this drink as much as 76% declared commitment to pre-ground coffee. Poland isn't the first Eastern European country to get a Starbucks. There are nine stores in the Czech Republic, with the first one having opened in 2008, and more than 1,550 locations in 27 countries throughout Europe, the Middle East and Africa. It appears global Starbucking is in full swing. You either love it or you don't.

The store will serve all the Starbucks requisites – café latte, café macchiato, and traditional espressos – plus a selection of pastries and cakes, sandwiches, salads, bagels and other food items. What's wondering is whether the food offerings will be Polish – heaping helpings of bigos and a pastry case filled with Polish confections like kolaczki, chrusciki and babka – or American fare like chocolate chip cookies, carrot cake and all-bran muffins. According to horcanet.pl, a restaurant industry report, coffeehouses are the fastest-growing segment of the culinary market in Poland.

For coffee connoisseurs weary of the ubiquitous Starbucks experience, it might come as a surprise to see the lines snaking out the door of the company's new cafe in Poland. In contrast to the United States, where Starbucks is no longer a novelty, the signature green logo has been met with an enthusiastic welcome in Warsaw. It seems incredible that, in a country where the average yearly wage is just \$17 000 (12 784 €), people would be so eager to pay the equivalent of \$4 (3.01 €) for a cup of coffee (a grand latte 3.73 €). But to many in formerly communist Poland, Starbucks symbolizes the attainment of a Western brand of prosperity, where sipping an imported brew is one of the first signs of having made it. Many people move to Warsaw from poorer places, and a cup from Starbucks is

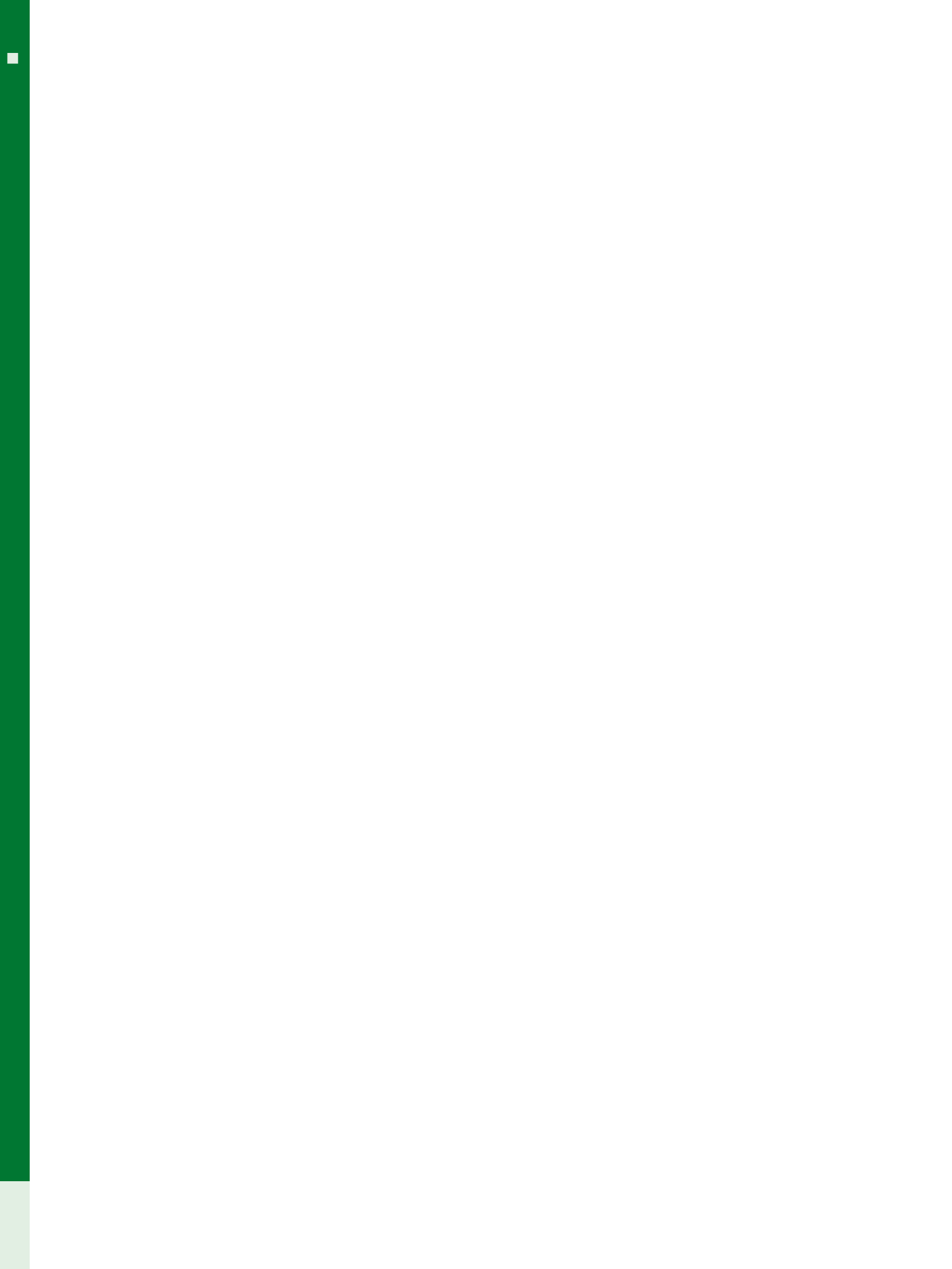
a relatively cheap way to mark their social status. The coffee is awful compared with a lot of traditional cafes, but it's not about coffee.

Local companies have been imitating Starbucks for nearly a decade, doing their part to build the Western coffee bar into a status symbol. Polish brand Coffee Heaven advertises its specials in English, suggesting that by stepping into the shop, customers are buying into a piece of America. The model seems to work; on the street where Starbucks stands, there are six other cafes almost exactly like it. It remains to be seen whether the crowds here will continue to flock to Starbucks. But considering Poland's longstanding love affair with the American cafe, Poles will probably be sipping Frappuccinos for a long time to come.

### Questions for discussion

1. Starbucks coffee company can honestly guard its ethical and responsible behaviour. Does it communicate effectively this sustainable campaign to the public? Do the consumers believe that Starbucks is a responsible company? Why do or why don't?
2. Prepare accurate marketing plan of this company for V4 countries. Don't forget on: market summary (demographic, geographic data, market needs), customer services, competitive pricing, market trends (in coffee, market forecast, market growth). SWOT, marketing strategy for V4 (try to target into Slovakia too, mission statement, marketing objectives, target marketing, positioning), marketing mix: adaptation vs. standardization, controls (problems and solutions in marketing and business of company), marketing organization.

**Sources:** Starbucks coffee company official web site: <http://www.starbucks.com/>. Bruce I. Konviser, 2010. Starbucks is a-brewing in Prague on web: <http://www.globalpost.com/dispatch/czech-republic/090910/starbucks-gets-the-czechs-brewing>. Starbucks opens its first heritage store in the Czech Republic, 2010. on web: <http://www.bestcg.com/starbucks-opens-its-first-heritage-store-in-the-czech-republic/>. Budapest to Wake up to Starbucks, 2010. on web: [http://news.starbucks.com/article\\_display.cfm?article\\_id=401](http://news.starbucks.com/article_display.cfm?article_id=401). Introducing starbucks to hungarian market **on web:** <http://www.essay.uk.com/free-business-essays/introducing-starbucks-to-hungarian-market.php>. Starbucks Comes to Poland-What's Your Opinion? By Barbara Rolek, About.com Guide April 9, 2009. On web: <http://easteuropeanfood.about.com/b/2009/04/09/starbucks-comes-to-poland-whats-your-opinion.htm>. Poland: Starbucks conquers again By Hilary Heuler, Contributor, August 6, 2009. on web: <http://www.csmonitor.com/World/Global-News/2009/0806/poland-starbucks-conquers-again>



# PART VI

## CHALLENGES FOR VISEGRAD AND THE WORLD: LESS DEVELOPED AND EMERGING MARKETS



■ Photo: Elena Horská, Kenya 2013





# CHAPTER

## SELECTED ISSUES OF DOING BUSINESS AND MARKETING IN LESS DEVELOPED AND EMERGING MARKETS

# 13

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Discuss the opportunities and threats of doing business in less developed and emerging markets.
2. Design business and marketing strategy in approaching less developed and emerging markets including sustainability and social business issues.



■ Ceremony in Mukuyuini at opening the third pavilion of the St. Cyril and Metod Lions Hospital thanks to donation of Lions Club, Slovakia. **Photo:** Elena Horská, Kenya 2013

### Introduction

Economic globalization pushes the boundaries of international business and creates opportunities for entry to distant markets. In this respect, Visegrad companies find their business opportunities not only in the European Union but also beyond. In addition to the countries of Central and Eastern Europe and the European Union as a whole, they operate in other regions and countries in Africa, Amerika, Asia or Australia. Some of them are very developed, some of them are less developed, or so called emerging markets.

The classification of countries according to their stage of development is not so easy due to several reasons, which include the move of a country from one type to another over time, or some countries may also belong to other categories at the same time (e.g. the “less developed countries” may belong to countries in transition, or even newly industrialized countries, all of which are vulnerable to economic cycles).

The World Bank (2013a) publishes each year the revised classification of the world’s economies for its own purposes, based on estimates of gross national income (GNI) per capita for the previous year. The World Bank income classifications by GNI per capita are as follows (here, low- and middle-income economies are sometimes referred to as developing economies):

- Low income: \$1,035 or less.
- Lower middle income: \$1,036 to \$4,085.
- Upper middle income: \$4,086 to \$12,615.
- High income: \$12,616 or more.

Huang (2007) follows the World Bank classification broadly, and presents six main types of countries:

- Main industrial nations (mainly the countries in Europe, North America and Japan).
- Smaller industrialized countries (Australia and New Zealand).
- Countries in transition (members of the former Comecon – Council for Mutual Economic Assistance).
- Newly industrialized countries.
- Less developed countries.
- Emerging markets – countries where there is a great deal of incentive and interest to invest.

Khanna and Palepeu (2006) in a study of Crittenden and Crittenden (2010) focus on a structure inside of markets including 4 stages: bottom (people who can afford only the cheapest products), local (consumers satisfied with products of local quality and local prices), glocal (there is willingness to buy customized products of near-global standards but not to pay the global standard price), and global (consumers who want products of the same quality as that found in developed countries and who are willing to pay global prices).

### 13.1 Basic Characteristics and Classification of Emerging Markets

In 1971, the World Bank reorganized its Central Economics Staff into three units: the Economics Department, the Economic Program Department, and the Development Research Center (The World Bank, 2013b). The Development Research Centre focused primarily on research reports on economies in the process of rapid development. The resulting findings enabled a categorization of such developing economies by similar stage of development and potential growth outlook. As Gaeta (2012) continues, during the next period several group terms were used for these countries, such as Third World economies, least developed countries, less economically developed countries, newly industrializing countries, rapidly developing economies, or high performing (Asian) economies. In 1981, the World Bank’s fund manager Antoine van Agtmael created the term “emerging markets” to describe developing countries, from Brazil to China (Agtmael, 2007). Since most other terms were considered too negative or too exclusive, and

no economy wants to be called Third World or less economically developed, thus the terms emerging or developing economy are used, more or less synonymously. These emerging or developing economies are neither the poorest countries nor a developed economy (traditionally the United States, Western Europe, and Japan), but they are in a transitional phase toward becoming a fully developed (or high income) economy. Huang (2007) claims that most of these countries have applied market friendly reforms to open their economy to trade and investment. They can also catch up quickly by adopting technology and know-how from developed countries.

According to Peng, Wang, and Jiang (2008), we distinguish two issues related to international business and emerging economies: it is important to identify what drives firm strategy in international business, and what determines the success and failure of firms around the world. These authors also try to find the method to the adaptation to the changing and not completely known rules of business environment. According to Olsson (2002), emerging markets are “those countries which have started to grow but have yet to reach a mature stage of development and where there is significant potential for economic or political instability”. Those countries here refer to less developed countries. Two key words can be found in this statement – potential and problem. Potential for development is essential for future perspective of emerging markets – if a country does not have it, it can be considered only as a developing country, but not as “emerging market”. The second key fact from the definition is that emerging markets are markets with problems as well.

Emerging markets are „those countries which have started to grow but have yet to reach a mature stage of development and where there is significant potential for economic or political instability

Yet the definition of emerging markets is difficult, despite the growing literature on the topic, because “emerging market” is still a general and dynamic concept – frequently in daily usage but rarely defined, or with not universally accepted definition. However, in spite of this uncertainty of the concept the business community still moves on in their business into emerging markets. Pauwels, Erguncu, and Yildirim (2013) say that companies from mature markets are willing to satisfy the needs and gain the sales in emerging markets, which will account for most of the economic growth in the coming decades – Huang (2007) expects the economies of developing countries to account for over 65 % of the world’s production (as measured by GDP) in the next decade. He adds that experts estimate the economic growth will create nearly 50 mega cities in emerging market economies over the next 50 years.

From geographical point of view, emerging markets usually refer to locations in Asia, Middle East, Latin America, Central Europe and Africa. The term “emerging markets” means markets that are “emerging on the horizon” (Huang, 2007), and it includes a wide variety of political, social, economic and financial as well as cultural terms.

Crittenden and Crittenden (2010) discuss a typology of emerging countries by Coussy (2009), which suggests 3 characteristics of emerging economies: they are latecomers to development, attain very high growth rates (about 10 %), and their growth challenges the economic situation of developed countries. They present nearly 85 % of the world’s population.

A well-established and widely accepted concept is LDC (less developed countries), and the indicator regarded for being qualified as emerging market can be per capita real income. A comparison of per capita income of less developed countries with that of the developed countries can be striking, as there is a clear difference between them. However, the problem here is on what terms is income per capita calculated (the issue of foreign exchange rate). The development level of countries depends on many other factors, such as the quality of life which is regarded as an important index of development. It is a composite index with factors (except income) such as life expectancy, education and literacy rates, the level of nutrition, consumption of energy per capita, pollution index for environment, etc. As Gaeta (2012) and Wilson and Sputnytska (2007) continue, based on fundamental criteria (such as accessibility, regulations, liquidity, size, and transparency), several groupings of investible emerging markets were created, a few of them are as follows:

- BRIC (Brazil, Russia, India, China).
- BRICS (Brazil, Russia, India, China + South Africa).
- BRICM (Brazil, Russia, India, China + Mexico).



## Selected Issues of Doing Business and Marketing...

- BRICK (Brazil, Russia, India, China + South Korea).
- Next Eleven (Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam).
- CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa).
- BEM – big emerging markets (Brazil, China, Egypt, India, Indonesia, Mexico, Philippines, Poland, Russia, South Africa, South Korea, and Turkey).

Huang (2007) adds BRICT to the list, which covers Brazil (Figure 13.1), Russia, India, China and Turkey. Brazil, Russia, India and China (abbreviated as BRIC) are considered to be the biggest and fastest-growing economies from the developing world (Sousa and Lengler, 2011; Zou and Fu, 2011).



■ **Figure 13.1** Rocinha is the largest favela in Brasil, located in Rio de Janeiro. With over 70 000 inhabitants it is the most populous favela in Brasil and most developed. Rocinha has a quite well developed infrastructure and hundreds of businesses such as banks, medicine stores, bus lines, cable television, including locally based channel TV ROC (TV Rocinha)

**Photo:** Elena Horská, Rio de Janeiro 2013

As Kvint (2009) confirms, the indexes summarize the opinion of several professional publications and should not be ignored. It is essential for strategists to have both theoretical and practical knowledge, to be able to compare the rankings of different agencies, find discrepancies, and understand the reasons behind them. However, all of the agencies and organizations mentioned above lack clearly defined country-classification systems upon which to base their ratings, forecasts, or evaluations, and this makes it difficult to come to general conclusion about various rankings. On the other hand, the relative rank of a country compared with others can help to understand the differences between markets. The direct and positive impact of rating agencies is that once the country appears on the list, its assets will immediately increase in market value.



### 13.1.1 Market Potential Index (MPI)

There are many discussions along the development level of countries, however, “The Economist” regularly publishes data of 27 (considered the most active) countries and puts them under the category of emerging markets (Huang, 2007). Emerging markets have many similarities in political, economic and financial terms, and share common symptoms and problems, which they experienced during their development. Their evolution indicates that these economies are still vulnerable to internal and external difficulties. The market potential of these emerging markets is what has attracted attention both from the business and academic community.

**Table 13.1** Market Potential Index (MPI) for Emerging Markets 2013

Rank	Country	Market Size	Market Growth Rate	Market Intensity	Market Consumption Capacity	Commercial Infrastructure	Economic Freedom	Market Receptivity	Country Risk	Score
1	Singapore	1	86	74	66	80	83	97	100	62
2	Hong Kong	1	44	100	58	100	90	100	92	61
3	China	100	100	1	70	39	8	4	54	56
4	South Korea	9	40	56	100	87	82	18	65	49
5	Israel	1	39	65	79	70	78	22	66	43
6	Czech Republic	1	11	45	95	88	88	16	71	43
7	Poland	3	33	55	82	72	81	8	63	41
8	Turkey	6	73	65	79	52	53	5	49	41
9	India	37	74	28	78	22	52	3	42	41
10	Chile	1	40	48	35	60	100	15	79	38
11	Hungary	1	1	58	88	77	78	20	37	37
12	Malaysia	3	60	29	58	63	52	21	61	37
13	Russia	19	45	36	68	73	17	4	43	36
14	Peru	2	76	40	56	40	70	6	50	35
15	Mexico	9	31	53	49	47	63	21	53	35
16	Indonesia	10	68	28	77	32	54	3	39	34
17	Brazil	18	36	42	37	56	60	1	55	34
18	Argentina	4	68	49	67	60	45	4	11	33
19	Saudi Arabia	4	68	15	0	56	15	14	67	32
20	Thailand	3	19	31	66	47	49	17	48	30
21	Egypt	4	33	58	83	47	27	4	10	30
22	Colombia	3	44	42	31	45	62	4	52	29
23	Philippines	4	24	52	58	31	51	5	37	28
24	Pakistan	5	37	66	83	1	32	1	1	25
25	Venezuela	3	40	36	67	44	1	8	10	24
26	South Africa	5	29	40	1	25	66	5	50	22

Source: Based on <http://globaledge.msu.edu/knowledge-tools/mpi>, own processing 2013

## Selected Issues of Doing Business and Marketing...

The data provided in Table 13.1 compares selected emerging markets classified by “The Economist” with each other on dimensions indicating market potential index (MPI). These emerging economies comprise more than half of the world’s population, account for a large share of world output and have very high growth rates; all indicators of enormous market potential (MPI, 2013). The biggest emerging markets display the factors that make them strategically important: favorable consumer demographics, rising household incomes and increasing availability of credit, as well as increasing productivity resulting in more attractive prices (Czinkota and Ronkainen, 2007).

Eight dimensions are chosen to represent the market potential of a country over a scale of 1 to 100 (see Table 13.2). Each dimension is measured using various indicators and is weighted in determining its contribution to the Overall Market Potential Index (MPI, 2013).

**Table 13.2** Dimensions and Measures of Market Potential for 2013

Dimension	Weight	Measures Used	Measure from Year	Source
Market Size	10/50	Urban population (million)	2011	World Bank World Development Indicators
		Electricity consumption (billion kwh)	2010	U.S. Energy Information Administration International Energy Annual
Market Growth Rate	6/50	Average annual growth rate of primary energy use (%)	Between 2006–2011	U.S. Energy Information Administration International Energy Annual
		Real GDP growth rate (%)	2011	World Bank World Development Indicators
Market Intensity	7/50	GNI per capita estimates using PPP (US Dollars)	2011	World Bank World Development Indicators
		Private consumption as a percentage of GDP (%)	2011	World Bank World Development Indicators
Market Consumption Capacity	5/50	Percentage share of middle-class in consumption/income	2010	World Bank World Development Indicators
Commercial Infrastructure	7/50	Main Telephone lines (per 100 habitants)	2011	International Telecommunication Union ICT Indicators
		Cellular mobile subscribers (per 100 habitants)	2011	International Telecommunication Union ICT Indicators
		Number of PC’s (per 1000 habitants)	2012	Euromonitor International Global Market Information Database
		Paved road density (km per million people)	2012	Euromonitor International Global Market Information Database
		Internet users (per 100 habitants)	2011	International Telecommunication Union ICT Indicators
		Population per retail outlet	2012	Euromonitor International Global Market Information Database
		Percentage of Households with TV	2012	Euromonitor International Global Market Information Database

Continued Table 13.2

Dimension	Weight	Measures Used	Measure from Year	Source
Economic Freedom	5/50	Economic Freedom Index	2013	Heritage Foundation The Index of Economic Freedom
		Political Freedom Index	2012	Freedom House Survey of Freedom in the World
Market Receptivity	6/50	Per capita imports from US (US Dollars)	2012	U.S. Census Bureau Foreign Trade Division Country Trade Data
		Trade as a percentage of GDP (%)	2011	World Bank World Development Indicators
Country Risk	4/50	Country risk rating	2012	Euromoney Country Risk Survey

Source: Based on <http://globaledge.msu.edu/knowledge-tools/mpi>, own processing 2013

### 13.1.2 S & P Emerging BMI

Gaeta (2012) considers the next index for classifying markets the S & P Global BMI (Broad Market Index), which consists of the S & P Developed BMI and S & P Emerging BMI. It is a comprehensive, rules-based index measuring global stock market performance. For each country, S & P Dow Jones Indices calculates size benchmark indices consisting of three basic components: large-cap, mid-cap, and small-cap. The classifications are made on the basis of total market capitalization, including all of the company's share classes. Then, within each country, float market capitalization is accumulated to 70% for large-cap, the next 15% for mid-cap and the final 15% for small-cap. Changes are not made intra-year, unless the company's size halves or doubles due to corporate activity. To avoid unnecessary turnover, a 3% buffer zone is maintained between size classifications at the time of annual reconstitution (S & P, 2013). Table 13.3 enumerates the countries that are currently designated as emerging economies by S & P.

**Table 13.3** S & P Emerging Broad Market Index for Emerging Markets 2013

S & P Emerging BMI	Country	Large	Mid	Small
Europe	Czech Republic	1	2	5
	Hungary	2	1	2
	Poland	11	10	31
	Russia	14	15	60
	Turkey	14	19	63
Asia Pacific	China	88	115	364
	India	46	49	166
	Indonesia	18	26	67
	Malaysia	35	24	81
	Philippines	16	11	30
	Taiwan	69	118	381
	Thailand	20	21	67
Latin America	Brazil	33	32	130
	Chile	13	14	35
	Colombia	9	4	12

**Continued Table 13.3**

S & P Emerging BMI	Country	Large	Mid	Small
Latin America	Mexico	9	8	38
	Peru	5	3	11
Mid-East and Africa	Egypt	7	6	10
	Morocco	5	4	11
	South Africa	26	24	89
<b>Total</b>	<b>2,600</b>	<b>441</b>	<b>506</b>	<b>1,653</b>

Source: S & P (2013), own processing 2013

### 13.1.3 FTSE International Country Classification

Emerging markets can be classified based on a number of criteria and principles, the next is the UK stock index by FTSE International Ltd. (Financial Times and the London Stock Exchange). FTSE's country classification process exists for eight years, it is a transparent and objective mechanism of classifying markets in a way that meets the needs of institutional investors. The index company established this classification framework for markets in general, and specifically including frontier markets after a public consultation with many global investment organizations.

As of August 2012, 73 countries have been classified. Of them, 25 are developed, 26 are frontier markets, 10 are advanced emerging, and 12 are secondary emerging. The emerging markets are shown in Table 13.4. The specific criteria for the FTSE classifications are listed in Table 13.5. Most of them are quantitative and can be measured, but some require judgment.

**Table 13.4** FTSE Emerging Countries Classification 2012

Americas	Europe, Africa and Middle East	Asia
<b>Advanced Emerging</b>		
Brazil	Czech Republic	Malaysia
Mexico	Hungary	Taiwan
	Poland	Thailand
	South Africa	
	Turkey	
<b>Secondary Emerging</b>		
Chile	Egypt	China
Columbia	Morocco	India
Peru	UAE	Indonesia
		Pakistan
		Philippines
		Russia

Source: FTSE (2012). pp. 10, own processing 2013

**Table 13.5** FTSE Country Classification Criteria

Criteria	Developed	Advanced Emerging	Secondary Emerging	Frontier
<b>World Bank GNI Per Capita Rating 2011</b>				
<b>Market and Regulatory Environment</b>				
Formal stock market regulatory authorities actively monitor market	X	X	X	X
Fair and non-prejudicial treatment of minority shareholders	X	X		
No or selective incidence of foreign ownership restrictions	X	X		
No objection or significant restrictions or penalties applied to capital investment or repatriation	X	X	X	X
Free and well-developed equity market	X	X		
Free and well-developed foreign exchange market	X	X		
Non or simple registration process for foreign investors	X	X		
Criteria	Developed	Advanced Emerging	Secondary Emerging	Frontier
<b>Custody and Settlement</b>				
Settlement – Rare incidence of failed trades	X	X	X	X
Custody – Sufficient competition to ensure high quality custodian services	X	X	X	
Clearing and settlement – T + 3, T + 5 for Frontier	X	X	X	X
Stock Lending is permitted	X			
Settlement – Free delivery available	X			
Custody – Omnibus account facilities available to international investors	X	X		
Criteria	Developed	Advanced Emerging	Secondary Emerging	Frontier
<b>Dealing Landscape</b>				
Brokerage – Sufficient competition to ensure high quality broker services	X	X	X	
Liquidity – Sufficient broad market liquidity to support sizeable global investment	X	X	X	
Transaction costs – implicit and explicit costs to be reasonable and competitive	X	X	X	
Short sales permitted	X			
Off-exchange transactions permitted	X			
Efficient trading mechanism	X			
Transparency – market depth information / visibility and timely trade reporting process	X	X	X	X
Criteria	Developed	Advanced Emerging	Secondary Emerging	Frontier
<b>Derivatives</b>				
Developed derivatives	X			

Source: FTSE (2012). pp. 9, own processing 2013



## Selected Issues of Doing Business and Marketing...

FTSE (2013) conducts an annual review of the market status of all countries and assigns them to Developed, Advanced Emerging, Secondary Emerging, or Frontier categories. Gaeta (2012) explains what it means for a country to be classified according to the previously mentioned criteria:

- **Developed:** high-income countries with developed market infrastructure.
- **Advanced Emerging:** upper-middle-income countries with developed market infrastructure or high-income countries with lesser-developed market infrastructure.
- **Secondary Emerging:** lower middle income and low income countries with reasonable market infrastructure and upper middle income countries with lesser developed market infrastructure.
- **Frontier:** lower-income countries with a stock market that meets a minimum set of criteria.

FTSE with its external advisory committee of investment professionals focuses mainly on working with markets on the Watch list, which comprises a set of markets that are close to promotion to the next category, or occasionally, demotion from their existing country classification category (FTSE, 2013). The FTSE country classification is approved by a large part of the investment community as it offers a benchmark for defining market status.

### 13.1.4 MSCI Emerging Markets Indices

One of the most commonly used index providers is Morgan Stanley Capital International (MSCI). MSCI launched the first comprehensive Emerging Markets Index in 1988. The emerging market (EM) equity universe spans large, mid and small cap securities, and can be segmented across styles and sectors (MSCI, 2013a). Resulting from this framework, MSCI EM Index recognizes 23 emerging markets, listed in Table 13.6.

**Table 13.6** MSCI Emerging Markets Index – Current Country Coverage

Emerging Markets		
Americas	Europe, Middle East & Africa	Asia
Brazil	Czech Republic	China
Chile	Egypt	India
Colombia	Greece <sup>1</sup>	Indonesia
Mexico	Hungary	Korea
Peru	Poland	Malaysia
	Qatar <sup>2</sup>	Philippines
	Russia	Taiwan
	South Africa	Thailand
	Turkey	
	United Arab Emirates <sup>2</sup>	

**Source:** Based on [http://www.msci.com/products/indices/country\\_and\\_regional/em/](http://www.msci.com/products/indices/country_and_regional/em/), own processing 2013

**Notes:** <sup>1</sup> – Effective November 2013, Greece is reclassified from Developed Markets to Emerging Markets, and Morocco is reclassified from Emerging Markets to Frontier Markets. <sup>2</sup> – Effective November 2014, Qatar and the United Arab Emirates are reclassified from Frontier Markets to Emerging Markets

MSCI regularly reviews and examines with the investment community each country's economic development, size, liquidity, and market accessibility, in order to be classified in a given investment section. The classification framework is shown in Table 13.7 (MSCI, 2013b).

**Table 13.7** MSCI Classification Framework

Criteria	Frontier	Emerging	Developed
<b>Economic development</b>			
Sustainability of economic development	No requirement	No requirement	country GNI per capita 25% above World Bank high income threshold <sup>1</sup> for 3 consecutive years
<b>Size and Liquidity Requirements</b>			
Number of companies meeting the following Standard criteria	2	3	5
Company size (full market cap) <sup>2</sup>	USD 516 mm	USD1032 mm	USD 2065 mm
Security size (float market cap) <sup>2</sup>	USD 37 mm	USD 516 mm	USD 1032 mm
Security liquidity	2.5 % ATVR	15 % ATVR	20% ATVR
<b>Market Accessibility Criteria</b>			
Openness to foreign ownership	At least some	Significant	Very high
Ease of capital inflows / outflows	At least partial	Significant	Very high
Efficiency of the operational framework	Modest	Good and tested	Very high
Stability of the institutional framework	Modest	Modest	Very high

**Source:** Based on [http://www.msci.com/resources/products/indices/global\\_equity\\_indices/gimi/stdindex/MSCI\\_Market\\_Classification\\_Framework.pdf](http://www.msci.com/resources/products/indices/global_equity_indices/gimi/stdindex/MSCI_Market_Classification_Framework.pdf), own processing 2013

**Notes:** <sup>1</sup>High income threshold for 2011: GNI per capita of USD 12,475 (World Bank, Atlas method).

<sup>2</sup> Minimum in use for the May 2013 Semi-Annual Index Review, updated on a semi-annual basis



■ **Figure 13.2** As a museum ship, the cruiser Aurora became one of the many tourist attractions of Leningrad (now Saint Petersburg), and continued to be a symbol of the October Socialist Revolution and a prominent attribute of Russian history. But history is over and Russia belongs to emerging markets, with attractive market for international business. As seen on the photo, behind historical attraction “Aurora” sign “SAMSUNG” is very visible

**Photo:** Elena Horská, St. Petersburg 2013

## Selected Issues of Doing Business and Marketing...

Often criticised, but still valid, there is a definition of a developing country, also called a less-developed country. It is a nation with a lower living standard, underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries

Often criticised, but still valid, there is a definition of a developing country, also called a less-developed country. It is a nation with a lower living standard, underdeveloped industrial base, and low Human Development Index (HDI) relative to other countries. List of developing countries according to the International Monetary Fund's World Economic Outlook Report (April 2014) and World Bank data includes over 100 countries, many of which belong also to category of emerging markets or least developed markets, e.g. Bangladesh, Bulgaria, Brazil, Croatia, Egypt, Ghana (Figure 13.3), Hungary, Kazakhstan, Kenya, India, Indonesia, Kuwait, Malaysia, Oman, Philippines, Poland, Thailand, Ukraine, Cuba ...).



■ **Figure 13.3** Local market in the city of Accra, capital of Ghana  
Photo: Elena Horská, 2008

Countries are often placed into five categories of development (Developing country, 2014):

- Developed countries, and their dependencies.
- Newly industrialized countries or NICs, nations with economies more advanced and developed than those in the developing world, but not yet with the full signs of a developed country. NIC is a category between developed and developing countries, and it includes South Africa, Mexico, China, Indonesia, Malaysia, Brazil, India, the Philippines, Thailand, and Turkey.
- Countries with an economy consistently and fairly strongly developing over a longer period: Some parts of Pakistan, Iran, much of South America, the Caribbean (except Jamaica belongs to category 2) several of the Persian Gulf States, the countries of the former Warsaw Pact and others. (See Emerging markets.)

- Countries with an inconsistent record of development: most countries in Africa including (North Africa), Central America, Southeast Asia (Examples: Laos or Cambodia), South Asia (Example: Bangladesh) and Central Asia (Example: Tajikistan); and some countries of the Middle East. 76% of the world's countries fall under this category.
- Countries with long-term civil war or large-scale breakdown of rule of law or non-development-oriented dictatorship ("failed states") (e.g. Afghanistan, Haiti, Somalia, Myanmar, Iraq, North Korea); they sometimes also have low resources. (Developing country, 2014).

### 13.2 Poverty and Least Developed Markets

It is always risky to enter an emerging market – private western investors who took this risk ran up against massive social problems – poverty, intense corruption, high unemployment, and also high emigration rates to developed countries, says Kvint (2004). These investors encountered a new situation – they had a personal interest in solving these problems, because investment requires stability and customers who can afford to buy products and services. As the author continues, in emerging countries macroeconomic stability co-exists with high unemployment rates and a majority of the people living below the poverty line. Kvint (2009) later continues that foreign companies should pay special attention to the local communities where they do business. Assistance on local social issues can be a relatively cheap way to create an environment friendly foreign business and to avoid potential conflicts.

Sen (1999) shifts the conceptual framework by defining poverty as a deprivation of human capabilities, where the solution is the introduction of basic freedoms – people must be guaranteed essential rights and liberties. Birdsall and Graham (2000) further focus on this definition of people's capabilities to participate as productive members of society rather than focusing only on their incomes. This opportunity to convert personal incomes into capabilities depends on various personal and other circumstances, such as age, gender, and health status, and also the physical environment or the state of available public services.

Broussard and Joseph (2009) recognise two common poverty measures: absolute and relative poverty. The first one, absolute poverty refers to the minimum amount of money to meet basic human needs (food and shelter), while relative poverty is based on the comparison with other members of the society where people live. Neutel and Heshmati (2006) interpret the facts from a 2003 report by the United Nations Development Group (UNDG) that the World Bank measures poverty in relative terms by the share of the population living below the national poverty line. In absolute terms poverty is measured by the share of population living below one dollar a day and two dollars a day. (The proportion of population below \$1 per day is the percentage of the population living on less than \$1.08 a day at 1993 international prices; the proportion of population below \$2 per day is the percentage of the population living on less than \$2.15 a day at 1993 international price.) As the authors continue, the \$1 a day and \$2 a day poverty lines are compared to consumption or income per person, and include consumption from own production and income in kind. This poverty line has fixed purchasing power across countries, therefore the \$1 and \$2 a day poverty line is often called an "absolute poverty line".

Federal Register (2013) distinguishes two slightly different versions of the federal poverty measure: the poverty thresholds and the poverty guidelines. The poverty thresholds are updated each year by the Census Bureau and used mainly for statistical purposes. All official poverty population figures are calculated with it. On the other hand, the poverty guidelines are issued each year in the Federal Register by the Department of Health and Human Services (HHS). The guidelines are a simplification of the poverty thresholds for administrative purposes, such as determining financial eligibility for certain federal programs. Table 13.8 shows the 2013 poverty guidelines.



**Table 13.8** Poverty Guidelines by Persons in Family / Household

2013 Poverty Guidelines for the 48 Contiguous States and the District of Columbia	
Persons in family / household	Poverty Guideline
1	\$ 11,490
2	\$ 15,510
3	\$ 19,530
4	\$ 23,550
5	\$ 27,570
6	\$ 31,590
7	\$ 35,610
8	\$ 39,630

**Source:** Federal Register (2013). pp. 5182–5183, own processing 2013.

**Note:** For families/households with more than 8 persons, add \$ 4,020 for each additional person. There are separate poverty guidelines for Alaska and Hawaii.

A least developed country (LDC) is a country exhibits the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings of all countries in the world

Besides emerging markets or less developed market the classification of market, unfortunately names also category of “a least developed countries.” A least developed country (LDC) is a country exhibits the lowest indicators of socioeconomic development, with the lowest Human Development Index ratings of all countries in the world. A country is classified as a Least Developed Country (e.g. Niger, Ethiopia, Madagascar, Rwanda, Somalia, South Sudan, Angola and others) if it meets three criteria (Least developed countries, 2014):

- Poverty (adjustable criterion: three-year average GNI per capita of less than US \$992, which must exceed \$1,190 to leave the list as of 2012).
- Human resource weakness (based on indicators of nutrition, health, education and adult literacy).
- Economic vulnerability (based on instability of agricultural production, instability of exports of goods and services, economic importance of non-traditional activities, merchandise export concentration, handicap of economic smallness, and the percentage of population displaced by natural disasters)

### 13.3 Emerging and Less Developed Markets as a Challenge for Marketing and Business

There are several reasons for considering mainly emerging, but also less developed countries as a challenge for territorial expansion, business and marketing

There are several reasons for considering mainly emerging, but also less developed countries as a challenge for territorial expansion, business and marketing (Emerging markets, 2014):

- **Leading emerging markets will continue to drive global growth**

Estimates show that 70% of world growth over the next few years will come from emerging markets, with China and India accounting for 40% of that growth. Adjusted for variations in purchasing power parity, the ascent of emerging markets is even more impressive: the International Monetary Fund (IMF) forecasts that the total GDP of emerging markets could overtake that of the developed economies as early as 2014.

The forecasts suggest that investors will continue to invest in emerging markets for some time to come. The emerging markets already attract almost 50% of foreign direct investment (FDI) global inflows and account for 25% of FDI outflows. The brightest spots for FDI continue to be Africa, the Middle East, and



Brazil, Russia, India and China (the BRICs), with Asian markets of particular interest at the moment. By 2020, the BRICs are expected to account for nearly 50% of all global GDP growth. Securing a strong base in these countries will be critical for investors seeking growth beyond them.

### ■ Emerging market leaders will become a disruptive force in the global competitive landscape

As emerging market countries gain in stature, new companies are taking center stage. The rise of these emerging market leaders will constitute one of the fastest-growing global trends of this decade. These emerging market companies will continue to be critical competitors in their home markets while increasingly making outbound investments into other emerging and developed economies. Working to serve customers of limited means, the emerging market leaders often produce innovative designs that reduce manufacturing costs and sometimes disrupt entire industries. A case in point: India's Tata Motors' US\$2,900 Nano, priced at less than half the cost of any other car on the market worldwide. A version is set to go on sale in Europe this year (Figure 13.4). Many emerging market leaders have grown up in markets with "institutional voids", where support systems such as retail distribution channels, reliable transportation and telecommunications systems and adequate water supply simply don't exist. As a result, these companies possess a more innovative, entrepreneurial culture and have developed greater flexibility to meet the demands of their local and "bottom-of-the-pyramid" customers.



■ **Figure 13.4** India's Tata Motors' US\$2,900 Nano, priced at less than half the cost of any other car on the market worldwide

**Photo:** Elena Horská, New Delhi 2011

### ■ Rising population and prosperity drive new consumer growth and urbanization

Between now and 2050, the world's population is expected to grow by 2.3 billion people, eventually reaching 9.1 billion. The combined purchasing power of the global middle classes is estimated to more than double by 2030 to US\$56 trillion. Over 80% of this demand will come from Asia. Most of the world's new middle class will live in the emerging world, and almost all will live in cities, often in smaller cities not yet built. This surge of urbanization will stimulate business but put huge strains on infrastructure. Physical infrastructure, such as water supply, sanitation and electricity systems, and soft infrastructure, such as recruitment agencies and intermediaries to deal with customer credit checks, will need to be

built or upgraded to cope with the growing urban middle class. Addressing such concerns in Asia alone will require an estimated US\$7.5 trillion in investments by 2020. Meeting these needs will likely entail public-private partnerships, new approaches to equity funding and the development of capital markets.

### ■ Emerging markets will become the new battleground

The BRICs are having a major impact on their regional trading partners and more distant, resource-rich countries, an increasing number of which are being pulled into their economic orbit. In 2009, emerging-to-emerging (E2E) trade reached US\$2.9 trillion. This massive flow of investment among emerging markets is well on its way to creating a second tier of emerging market leaders. As pressure for resources increases, we expect a battle for first-mover advantage among emerging heroes, global players and emerging market governments in regions such as the Middle East and Africa.

### ■ Global influence grows

Billions of new middle-class consumers in the emerging markets represent new markets for developed-world exports and companies based in developed countries (Figure 13.5). Emerging market corporations are another big new market: business-to-business sales to China and India, for example, are a key factor in Germany's strong export economy. Nowadays, China has emerged from being a money-losing back-water for luxury brands to become the world's second-largest luxury market (Figure 13.6). Even middle-class Chinese aspire to buy luxury products, as Japanese housewives did before. It is not uncommon to see secretaries who make 800 USD a month buying 1 000 USD bag Gucci or any other exclusive brand (Rein, 2014).



■ **Figure 13.5** Supermarkets in United Arab Emirates are full of global brands offering products adapted to local needs and climate conditions

Photo: Elena Horská, UAE 2008





■ **Figure 13.6** Japanese, Chinese and Korean cultural features used in exterior of shopping centre in Singapore  
 Photo: Elena Horská, Singapore 2014

## 13.4 Marketing in Poverty

As Prahalad and Hart (2002) have expressed, the success for businesses may be found not in the wealthy developing world, or the emerging middle-income consumers. Low-income markets present the great opportunity for the world's wealthiest companies, because of the billions of aspiring poor in their opening market economy.

According to Prahalad (2006), the task of converting the poor into consumers is one of market development, which involves both the consumer and the private-sector firm. First of all, it is necessary to create the capacity to consume. The consumer at the bottom of the pyramid does not have much cash and has a low level of income; therefore he has to be accessed differently.

Encouraging consumption and choice happens by unit packages that are small and, therefore, affordable. It is a logical decision, because the poor have unpredictable income streams. They tend to make purchases only when they have cash and buy only what they need for that day, as many of them has daily wages. Single-serve packaging (e.g. shampoo, ketchup, tea and coffee, or even aspirin) is well suited to these consumers.

Narayan, Pritchell and Kapoor (2009) suggest that poor producers and consumers face three problems while selling or buying in free markets: the problem of scale, influence, and resilience. Poor people buy and sell in small quantities, thus even a small change in fixed costs (e.g. in the price of inputs, or the cost of transportation) has a much higher impact on them. Then small scale leads to the other two problems – those of influence and resilience.

Besides traditional marketing concept of the 4Ps – Product, Price, Place, Promotion - two of the most prominent alternative paradigm existing in the marketing literature is that of the 4Cs – Customer value, Customer costs, Customer convenience, and Customer communication (Kotler, 2003) and the 4As – Awareness, Availability, Affordability and Acceptability. Concept of the 4As is more tailored

Low-income markets present the great opportunity for the world's wealthiest companies, because of the billions of aspiring poor in their opening market economy

Concept of the 4As is more tailored made for rural consumers, where consumers simply cannot consume what is not affordable, and where convenience is not as valued as it is by the urban consumers

made for rural consumers, where consumers simply cannot consume what is not affordable, and where convenience is not as valued as it is by the urban consumers. Many marketers have adopted the 4As strategy to cater to the requirements of the rural population. Some key features which discriminate rural market from its urban counterpart Choudhary (2013) defines as follows:

- Agrarian society.
  - Variation in consumption pattern.
  - Consumption linked to harvest.
  - Economic diversity in terms of income.
- Low population density.
  - Heterogeneous population composition.
  - Different languages.
  - Low awareness of brands.
  - Low literacy rate.
  - Media dark region.
  - Less electricity connections.
  - Irregular power supply.
  - Poor transportation facilities (it is tough to access the market).

Description and reasons for use of the 4 As' show "why" and "how" this concept of rural marketing (Choudhary, 2013) can work. It can work under the conditions we distinguished between rural and urban marketing in Africa. Fundamental rules of the 4 As 'are as follow:

- **Awareness:** Rural consumer is not much aware about brands. They rely more on local brands. To develop reliability factor in them towards new brands it is necessary to publicize the brand awareness by NGOs working actively in the region. This can be done through mouth publicity by any known resident of the same village also. Illiteracy makes them unable to read basic text about the brand identification. Therefore packaging plays an important role. It is better to give short name of the product in local language. Pictorial representation on packaging will also help.
- **Availability:** Due to poor access to rural markets, poor infrastructure and irregular or no power supply to rural areas it is a difficult task for firms to make products available all the time in the reach of the rural consumers. Firms cannot stick to any one supply chain model. They have to be flexible to use all possible means of transport according to the terrain's requirement to achieve maximum operational efficiency. Trucks, auto rickshaws, cycle rickshaws and hand carts to even camel carts and mules in the hilly areas can be used to deliver products to the market.
- **Affordability:** A product which caters to the need or want of consumers and is within paying capacity of the consumer can be sold in rural market. There is no need to provide sophisticated packaging but value packs need to be provided.
- **Acceptability:** Firms have to understand rural customers' need. Rural consumers prefer utility oriented products. At the same time product should be compatible with the infrastructure available in rural areas. Human interaction, personal evidence and word of mouth are the best ways how to promote a product (Hollis, 2008).

The most basic elements of marketing are the same around the world. Issues of price, value, quality, distribution and packaging must be addressed wherever you do business. These fundamentals must be approached differently in developing countries, where customers have relatively low incomes and have not been exposed to a wide variety of brands and products (Horská, Mwaura and Krasnodebski, 2014). Targeting particular segments require particular capabilities and knowledge, and simply different price points. For product market segmentation we can use market segmentation (Table 13.9) proposed by Khanna and Palepu (2010) that include also "bottom of the pyramid market."

**Table 13.9** Market segments: Implication for Africa

Product feature	Market segment				
	Global	Emerging	Middle class	Local	Bottom of the pyramid market
Price	Global	Global	Local	Local	Lowest
Quality	Global	Global	Global	Local	Lowest
Features	Global	Local	Local	Local	Fewest
Advantage	Multinationals Importers	Battleground Multinationals Importers Domestic	Battleground Multinationals Importers Domestic	Domestic Popularly positioned products made by multinationals for local market	Domestic Popularly positioned products made by multinationals for local market

**Source:** Adapted from Khanna and Palepu (2010)

As an example of food products successfully launched in less or least developed countries for example in Africa we can mention several brands of food products made in India, United Arab Emirates and South Africa (intra-regional trade) that fit the need of local emerging, middle class, low income and bottom of the pyramid market segments. Also food products imported from V4 countries to Africa (milk products, cheese, confectionery and biscuits) belong to the market segments, mentioned above. In most cases they are highly harmonized with global standards and trends, so they fulfil criteria to play certain role in global market segments in Africa (Figure 13.7).



■ **Figure 13.7** Parle G – biscuits made in India and successfully positioned in all Arabic countries and many African countries as well. Biggest advantage: high energy contents, good price, good taste and attractive promotion. Glucose Parle G biscuits makes you genius! As bought in Nairobi, Kenya **Photo:** Elena Horská, Kenya 2013



## Selected Issues of Doing Business and Marketing...

Pack size can make a huge difference in making brands accessible to people at affordable prices. In Nigeria, Kenya, Ghana and several other countries there are many products sold in small pack sizes (toothpaste, washing powder, breakfast cereals, waffles and many others. Interesting fact is that this kind of “popularly positioned products” is now visible not only in Africa, Asia or South America, but due to financial crisis also in Europe (mainly in Greece, Spain, but also in the Czech Republic and Slovakia). Main idea is to decrease final consumer price (due to smaller size, less expensive packaging material, shorter shelf life, change in qualitative aspects and recipes) and in this way make a product more accessible to final consumers.

Excellent example of tailored made offer for African market is provided from side of Danmar Tractors Ltd, providing Kenyan and Nigerian market with the multifunctional Danmar Mini Tractors. These mini tractors are very versatile for agricultural operations such ploughing, planting, fertilizer application, etc. and municipal waste management operations (street cleaning) (Figure 13.8).



■ **Figure 13.8** Danmar Tractors, s.r.o. operating in emerging markets of Africa, Asia and Latin Amerika  
Photo: DanmarTractors



## V4 MARKETING INSIGHTS

Despite the low trade volume, the most important trading partner for Slovakia is South Africa (growth indices show sustain growth of trade exchange). The situation is similar in other V4 countries. South Africa is the only country that appears significantly in the foreign trade statistics of V4 countries. Nevertheless, there are several emerging countries of Asia and Latin America in their list of the most important trading partners. It is the case of Hungary, Poland and Czech Republic. Further, in case of the Czech agrarian trade there is monitored the group of less developed countries as a whole and among emerging markets we can see e.g. Russia, India, Turkey, but no country from Africa (Pohlová, 2013). In case of Africa there is the interesting finding that from the foreign trade exchange with Africa almost 30 % belongs to bilateral trade exchange with South Africa (35 million EUR out of 95 million EUR in case of import and 346 million EUR out of 1000 million EUR in case of export in 2013). In terms of volume, whole trade of Hungary with Africa is similar to the trade volume with Bulgaria or Croatia (in case of Slovakia total trade with Africa accounts similar volume as the trade with one single country, e.g. Finland or Portugal). We know that Africa is a producer of several agricultural products, fruits, spices and flowers that are consumed in Slovakia, but they are not imported directly. This fact strengthens trade statistics of the Netherlands for example. There are companies there they further distribute the products to other European countries. This is the evidence of functioning laws of economies of scale and long term business relationships.

In analysing the level of internationalization is important to consider not only foreign trade exchange but also the level of the foreign direct investments. This is rather difficult for Visegrad countries comparing to other developed world countries that are places of origin of the biggest multinational players. For instance, to date, no Slovak companies have invested in South Africa, while three South Africa companies, MONDI, SASOL and SA Breweries have direct investments in Slovakia. One example of successful internationalization is provided by ESET products. ESET NOD32 Antivirus and ESET Smart Security, commonly known as NOD32, are antivirus packages made by the Slovak company ESET. Arit of Africa is the exclusive distributor of ESET

products in Nigeria and Ghana (Slovak companies, 2013). Slovak firms also report successes in the military sphere. Engineering company Way Industries from Krupina produces the Božena vehicle which has been used for demining in several military missions in Europe, Africa, America and Asia. Generally speaking, Slovakia exports to different African countries cars, various electrical equipment, medicaments, chemical fertilizers, craft paper and paperboard, pneumatic tires, steel, lamps, telephones, and agricultural products. Import includes agricultural products (cocoa beans, bananas, pineapples), fruit juices, cut flowers, petroleum oils, natural rubbers, mineral products, food products (The Observatory, 2010).

Although Polish business has so far rather ignored the potential and missed the opportunities related to Africa's rapid growth, Polish government is now making a lot of effort to promote and encourage Polish investment and exports to Africa. First outcomes are already visible, yet a lot more has to be done in order for Polish business to capitalize on African emerging markets. The most important destinations which are of special interest to Polish investors are Nigeria and South Africa. Although the "Go Africa" programme was initiated in 2013, some Polish companies have been present in certain African countries for a couple of years now, while the others have very recently signed lucrative contracts, pushing this year's Polish-African trade value up. The first Polish investor to invest in Africa was Poland's richest man, Jan Kulczyk who put his money in oil fields in Nigeria. Also the state-controlled natural gas giant PGNiG has been exploring gas and oil in Central Africa. Spirits producer Polmos Bialystok sells alcohol products, Pamapol exports TV dinners and processed foods, Mokate supplies coffee and tea. The most spectacular forays of Polish capital into the African markets have been the two recent deals concluded by ZCh Police chemical company and Ursus, a tractor manufacturer. ZCh Police bought 55% of Senegalese African Investment Group shares at the end of August 2013, thus gaining access to calcium phosphate fields in Sud Saint Louis and Lam Lam and Kebemer regions. Ursus, Warsaw-based tractor manufacturer, signed a contract with Ethiopian "METEC" agricultural company to supply 3,000 tractors for USD 90 mln (Polish business, 2013).

Hungary has also the potential to reformulate its past image as an exporter of technologies, in particular in the fields of agriculture, water purification and management, and cartography. In addition, Hungary's positive image as a non-colonial power and the good experience of Africans with former Hungarian products—such as the Ikarus buses or Hajdu washing machines, and even the Elzett locks and Globus meat cans—hold extra credits for fostering and refining relations. Ganz and Company of Budapest built several streamlined diesel rail cars for the Egyptian State Railways, which carried passengers between Cairo and Suez. From the MÁV M40 series (nicknamed as Humpback) built between of 1966–1970, thirty were sold to Egypt. Still today many people refer to the older type of rail cars as “magari,” which in Hungarian is “Magyar;” also indicating a nostalgic feeling and sense of reliability. The trade balance is currently in Hungary's favour. “Trade is dominated by large corporations in the automotive, ITC, electronics and medical sectors (Tarrósy and Morenth, 2013).

The rationale for exploring the possibility of closer cooperation of the Czech Republic with Africa is also clear. Companies based in the Czech Republic have the capacity, know-how and products that allow them to compete globally in their respective niches of the market. The country is home to globally recognised brands such as Skoda (Skoda Auto is a part of the Volkswagen Group), Bata footwear, Barum tyres, Moser glass, several metal processing companies, Bohemian crystal and Pilsner Beer, which was acquired by South Africa's SAB-Miller in 1999. Czech Republic and South Africa have concluded several bilateral legal instruments, including an investment protection treaty (1998), a double taxation treaty (1995) and an economic cooperation agreement (2006). Companies from the Czech Republic mostly operate in South Africa through their local partners. However, several companies have shown an interest to step up their presence by creating a local branch or forming a joint venture (Czech companies, 2012).



They are manufactured to a high standard and have been adjudged as one of the best solution for small to medium-scale mechanised farming. As in Nigeria and Kenya a farm with over 5 hectares of land is considered as the large farm, these tractors are really tailored made for local farmers. Tractors has been offered also in Bahrain, Kongo, Namibia, Mosambik, Angola and Nicaragua and management of the company has been considering the possibility of shifting production and assembly facilities to Qatar. In harmony with principles of rural marketing and governmental regulations in target African countries, management of company always starts to build up business relations with official state representatives or local authorities, considering local governmental food production programs and their territorial focus. Company provides in one package mini tractors and training programs how to use and maintain them. In the second stage the attention is concentrated on building a small to medium-scale manufacturing plant that will provide benefits for the local society that include availability of tractor components and spares, affordable tractor components and spares, employment opportunities for youths at the grassroots level, transfer of technology, technical skills and competences. It is supposed that location for the manufacturing plan will be provided by the government of the state or region in close proximity to accessible roads and with good infrastructure as electricity, communication, water and waste disposal. It is recommended that the construction work be bid for by local companies, with consideration for using local materials, in harmony with ISO standards. A selection of key employees of the Tractor Production Plant is invited to production facilities in the Slovak Republic to be trained in Agro services and it is expected that this training activity might be supported from the State government, too. The whole project can help in agriculture development, reducing unemployment and development of local expertise, too. And as we know, agriculture is very important for economic and social development in many countries (Bielik, 2014). In doing business with less developed and emerging markets we have to consider needs of local communities. Talking about mutual benefits we can use example of the needs of local African communities:

1. Export of horticulture products, tea, and coffee as the potential for certain income for smallholder farms who produce most of these commodities and of high value. EU market accounts main destination market for these products, following by America and Asia. By the way, during the Kenya Trade Mission in Slovakia on July, 16, 2013 in Bratislava, representatives of Kenya said that i.e. export of fresh flowers accounts over 25 % of Kenyan export to Europe. Kenya's flower exports account for almost half of the country's horticulture export earnings.
2. Implementation of the International Food safety standards – often consumer driven, need for negotiated implementation, sharing of costs of implementation if possible.
3. Increasing benefits of value chain for the producers – especially equal and fair distribution of the price at the level of primary agricultural producer. Farmers need to be linked to input/output market, financial services, training possibilities and storage facilities (ongoing research projects on increasing the value in value chain for apples, macadamia and mango organized by the Kenyan Agricultural Research Institute in Nairobi, Kenya).
4. Investments in public services such as roads, piped water, schools and health system as part of CSR programmes.
5. Provide possibilities for employment, means of production for small farmers (B2B businesses). Investment in manufacturing and industries which can source their raw material locally. The African peoples' ability to engage to economic activities and creative initiatives that generate wealth are inhibited by mass-produced, imported goods. They are often sold at prices cheaper than those of local goods, marginalizing homegrown businesses that cannot compete with giant transnational corporations and large sums of foreign capital (Maathai, 2010).
6. Sustainable use of environmental resources. Industries must be guaranteed to be environmentally friendly and over 50 % of products can be exported (investment and investment incentives requirement in many countries).
7. Creating value addition closer to producer areas. Developing food security, support of export potential of locally grown agricultural products (e.g. cassava) in large volumes for global market. Research and development of use of untraditional agricultural products and invention of food products with ability to satisfy the needs of local or international market (e.g. baobab products that are being developed by the World Agroforestry Institute in Nairobi, Kenya, development of vaccines for East Coast fever of cattle beef by the International Livestock Research Institute in Nairobi, Kenya).
8. Branding and marketing of local product. Increase the value of locally produced products. Let us take example of the Nyambene Coffee group companies in Kenya that have always been value driven. "We are currently processing and marketing about 12–15 % of Kenya coffee and our market share is continuously increasing. We also procure process and market coffee to over 100 co-operative societies and 87 coffee estates mainly in the central Kenya highlands and western Kenya. Our intention is to be more involved in marketing and value added processes and in such a way to increase the benefit for local farmers and communities. Use of own producer's label is the best way how to market high quality coffee from Kenya in the Europe, for instance", stated Mr. Lawrence C. Njeru, Chairman & CEO of the Nyambene Coffee Marketing Ltd, during Kenya Business Mission in Bratislava, in July 16, 2013.
9. The involvement of the private sector at the Bottom of Pyramid can provide opportunities for the development of new products and services (Pralhad, 2014).

Export of horticulture products, tea, and coffee as the potential for certain income for smallholder farms who produce most of these commodities and of high value

Implementation of the International Food safety standards

Increasing benefits of value chain for the producers

Investments in public services such as roads, piped water, schools and health system as part of CSR programmes

Provide possibilities for employment, means of production for small farmers

Sustainable use of environmental resources

Creating value addition closer to producer areas

Branding and marketing of local product

The involvement of the private sector at the Bottom of Pyramid can provide opportunities for the development of new products and services



### Summary

Chapter shows global opportunities for international marketing and business related to latest trends approaching emerging markets (and less and least developed markets too).

**Key words:** Emerging markets, least developed market, less developed market, challenge, global trends, business, marketing, poverty, development



### QUESTIONS FOR DISCUSSION

1. What are the opportunities for Visegrad countries in doing business in less developed and emerging countries?
2. Advice how to apply social marketing and CSR as a part of marketing strategy at less and least developed countries.

### Further Recommended Reading

PRAHALAD, C.K. 2014. *The Fortune at the Bottom of the Pyramid*. Prentice Hall. 407 p. ISBN 978-0-13-382913-6.

REIN, S. 2014. *The End of Cheap China*. Wiley. 224 p. ISBN 978-1-118-926802.

HORSKÁ, E. – MWAURA, F. O. – KRASNODEBSKI, A.. 2014. The role of cross-border heterogeneity, location specificity and distance related variables: lessons learnt from V4 marketers. In Knežević, B. – Wach, K. 2014. *International Business from the Central European perspective*. University of Zagreb: Zagreb. pp. 129-146. ISBN 978-953-8025-89-3.

### Literature

ABRAMOVITZ, M. 2009. Women in a bind – The decline of marriage, market, and the state. In BROUSSARD, C.A. – JOSEPH, A.L.C. (Eds.) 2009. *Family Poverty in Diverse Contexts*. New York : Routledge. 228 p. ISBN 978-0-7890-3741-1.

ADDRESSING POVERTY. 2013. [online]. Retrieved [2013-06-28]. Available from: <<http://icatsprogram.com/images/wbcspd.png>>.

AFRICA ATTRACTIVENESS SURVEY. 2013. [online]. Retrieved [2014-02-04]. Available from: <[http://www.ey.com/Publication/vwLUAssets/The\\_Africa\\_Attractiveness\\_Survey\\_2013/\\$FILE/Africa\\_Attractiveness\\_Survey\\_2013\\_AU1582.pdf](http://www.ey.com/Publication/vwLUAssets/The_Africa_Attractiveness_Survey_2013/$FILE/Africa_Attractiveness_Survey_2013_AU1582.pdf)>.

AFRICA. 2013. [online]. Retrieved [2014-02-04]. Available from: <<http://en.wikipedia.org/wiki/Africa>>.

AGTMAEL, A. V. 2007. *The Emerging Markets Century: How a New Breed of World-Class Companies Is Overtaking the World*. New York : Free Press. 384 p. ISBN 978-0-7432-9457-7.

BECK, U. 2004. *Čo je globalizácia?* 189 p. ISBN 80-8061-190-4.

BEER IN AFRICA. 2014. [online]. Retrieved [2014-02-04]. Available from: <[http://en.wikipedia.org/wiki/Beer\\_in\\_Africa](http://en.wikipedia.org/wiki/Beer_in_Africa)>.

BENNETT, A. G. 2010. *The Big Book of Marketing (Lessons and Best Practices From the World's Greatest Companies)*. 481 p. ISBN 978-0-07-162125-0.

BIELIK, P. 2013. *Sustainable development and agribusiness*. Warsaw : Vies Jutra. 219 p. ISBN 978-83-934173-1-5.



- BIRDSALL, N. – GRAHAM, C. 2000. Mobility and markets: conceptual issues and policy questions. In BIRDSALL, N. – GRAHAM, C. (Eds.) 2000. *New Markets, New Opportunities? Economic and Social Mobility in a Changing World*. Washington D.C. : Brookings Institution Press. 331 p. ISBN 978-0-8157-0917-X.
- BLYTHE, J. 2006. *Principles & Practice of Marketing*. 744 p. ISBN 1-84480-120-9.
- BROUSSARD, C.A. – JOSEPH, A.L.C. 2009. Introduction – the poverty context. In BROUSSARD, C.A. – JOSEPH, A.L.C. (Eds.) 2009. *Family Poverty in Diverse Contexts*. New York : Routledge. pp. 1-8. ISBN 978-0-7890-3741-1.
- CHOUDHARY, V. 2013. Marketing mix from 4 P's to 4 A's. [online]. Retrieved [2014-02-14]. Available from: <<http://www.mbaskool.com/business-articles/marketing/5455-marketing-mix-from-4ps-to-4as.html>>.
- COUSSY, J. 2009. cited in CRITTENDEN, V.L. – CRITTENDEN, W.F. 2010. Strategic management in emerging economies: a research agenda. In *Organizations and Markets in Emerging Economies*, 2010, Vol. 1, No. 1(1). pp. 9-23. ISSN 2029-4581.
- CRITTENDEN, V.L. – CRITTENDEN, W.F. 2010. Strategic management in emerging economies: A research agenda. In *Organizations and Markets in Emerging Economies*, 2010, Vol. 1, No. 1(1). pp. 9-23. ISSN 2029-4581.
- CZECH companies seek SA partners in Electra. 2012. [online]. Retrieved [2014-02-04]. Available from: <<http://www.miningweekly.com/article/czech-companies-look-for-sa-partners-at-electra-2012-08-31>>.
- CZINKOTA, M.R. – RONKAINEN, I.A. 2007. *International Marketing*. 720 p. ISBN 978-0-324-31702-2.
- DANGOTE, A. 2013. *Nigeria, world's best kept investment secret*. Embassy of Nigeria, Vienna.
- DEVELOPING COUNTRY. 2014. [online]. Available from: <[http://en.wikipedia.org/wiki/Developing\\_country](http://en.wikipedia.org/wiki/Developing_country)>
- DOOLE, I. – LOWE, R. 2008. *International Marketing Strategy: Analysis, Development and Implementation*. 462 p. ISBN 978-1-84480-763-5.
- EROKHIN, V. – IVOLGA, A. 2012. International trade with agricultural products: influence of market globalization and integration. In HORSKÁ, E. et al. 2012. *Food Sciences & Business Studies : Global-Regional-Local Approach*. Nitra : SUA. 410 p. ISBN 978-80-552-0815-2.
- FEDERAL Register. 2013. Poverty guidelines by persons in family / household. In *Federal Register*, Vol. 78, No. 16, January 24, 2013. [online]. pp. 5182-5183. Retrieved [2013-06-28]. Available from: <<https://www.federalregister.gov/articles/2013/01/24/2013-01422/annual-update-of-the-hhs-poverty-guidelines>>.
- FOREIGN trade. January – December 2010, 2011, Zakład wydawnictw statystycznych, Warszawa.
- FOREIGN trade. January – December 2011, 2012, Zakład wydawnictw statystycznych, Warszawa.
- FOREIGN trade. January – December 2012, 2013, Zakład wydawnictw statystycznych, Warszawa.
- FRIEDMAN, T.L. 2005. *The World Is Flat: A Brief History of the Twenty-first Century*. 488 p. ISBN 978-0374292881.
- FTSE. 2012. *FTSE Country Classification Process. August 2012*. [online]. 11 p. Retrieved [2013-06-28]. Available from: <[http://www.ftse.com/Indices/Country\\_Classification/Downloads/Sept%202012/FTSE\\_Country\\_Classification\\_Paper\\_August\\_2012.pdf](http://www.ftse.com/Indices/Country_Classification/Downloads/Sept%202012/FTSE_Country_Classification_Paper_August_2012.pdf)>.
- FTSE. 2013. *Country Classification in FTSE Global Benchmarks*. [online]. Retrieved [2013-06-28]. Available from: <[http://www.ftse.com/Indices/Country\\_Classification/index.jsp](http://www.ftse.com/Indices/Country_Classification/index.jsp)>.
- GAETA, G. 2012. *Opportunities in Emerging Markets: Investing in the Economies of Tomorrow*. Singapore : John Wiley. 350 p. ISBN 978-1-118-24717-4.
- GHEMAWAT, P. 2007. *Redefining Global Strategy*. Boston : Harvard Business School Publishing Corporation.
- GHEMAWAT, P. 2009. *Redefining Global Strategy: Crossing Borders in A World Where Differences Still Matter*. 257 p. ISBN 978-1-59139-866-0.
- GOLDIN, I. – REINERT, K. A. 2007. *Globalization for development*. 308 p. ISBN 978-0-8213-6929-6.
- HAČŠÍK, P. – KAČÁNIOVÁ, M. – VAVRIŠINOVÁ, K. 2014. *Vplyv probiotických preparátov na jatočné ukazovatele a senzorickú kvalitu masa výkrmových kurčiat*. Nitra : SUA.
- HAUGHTON, J. – KHANDKER, S.R. 2009. *Handbook on Poverty and Inequality*. Washington DC : The World Bank. 446 p. ISBN 978-0-8213-7613-3. [online]. Retrieved [2013-06-28]. Available from: <<https://openknowledge.worldbank.org/handle/10986/11985>>.

- HENNIS, M. 2005. *Globalization and European Integration: The Changing Role of Farmers in the Common Agricultural Policy*. 223 p. ISBN 0-7425-1889-2.
- HOLIS, N. 2008. *The Global Brand*. New York : Palgrave Macmillan.
- HOLLENSSEN, S. 2008. *Essentials of global marketing*. 494 p. ISBN 978-0-273-71784-3.
- HORSKÁ, E. – MWAURA, F.O. – KRASNODEBSKI, A. 2014. The role of cross-border heterogeneity, location specificity and distance related variables: lessons learnt from V4 marketers. In KNEŽEVIC, B. – WACH, K. 2014. *International Business from the Central european perspective*. University of Zagreb: Zagreb. pp. 129-146. ISBN 978-953-8025-89-3.
- HORSKÁ, E. – NAGYOVÁ, L. – FELIXOVÁ, I. 2010. Cage distance framework among Visegrad countries, Ukraine and Russia and lessons for international business. In BIELIK, P. et al. 2010. *Economics, Social Policy and Citizenship in the European Union : Evidence of V4 Countries and Perspectives for Ukraine*. 263 p. ISBN 978-80-552-0448-2.
- HORSKÁ, E. – UBREŽIOVÁ, I. – KEKÄLE, T. 2007. Product adaptation in processes of internationalization: case of Slovak food – processing companies. In *Baltic Journal of Management*, 2007, Vol. 2, No. 3. pp. 319-333. ISSN 1746-5265.
- HUANG, W.-X. 2007. *Institutional Banking for Emerging Markets: Principles and Practice*. The Wiley Finance Series. Chichester : John Wiley. 274 p. ISBN 978-0-470-03076-9.
- INTERNATIONAL trade statistics 2012. [online]. Retrieved [2014-02-14]. Available from: <[http://www.wto.org/english/res\\_e/statis\\_e/its2012\\_e/its2012\\_e.pdf](http://www.wto.org/english/res_e/statis_e/its2012_e/its2012_e.pdf)>.
- KHAN, H. 2008. Poverty, environment and economic growth, exploring the links among three complex issues with specific focus on the Pakistans case. In *Environmental Development Sustainability*, Vol. 10, No. 6, 2008, pp. 913-929.
- KHANNA, T. – PALEPU, K. 2006. Cited in CRITTENDEN, V.L. – CRITTENDEN, W.F. 2010. Strategic management in emerging economies: a research agenda. In *Organizations and Markets in Emerging Economies*, 2010, Vol. 1, No. 1(1). pp. 9-23. ISSN 2029-4581.
- KHANNA, T. – PALEPU, K. 2010. *Winning in Emerging Markets*. Boston : Harvard Business Press.
- KOTLER, P. - KELLER, K. L. 2006. *Marketing Management*. 674 p. ISBN 0-13-145757-8.
- KOTLER, P. 2003. *Marketing Management*. 13<sup>th</sup> ed. Pearson Education Harlow.
- KOTLER, P. 2007. *Moderní marketing*. 1041 p. ISBN 978-80-247-1545-2.
- KRETTNER, A. et al. 2010. *Marketing*. 287 p. ISBN 978-80-552-0355-3.
- KVINT, V. 2009. *The Global Emerging Market: Strategic Management and Economics*. New York : Routledge. 456 p. ISBN 978 0-415 98840-7.
- KVINT, V. L. 2004. *The Global Emerging Market in Transition – Articles, Forecasts, and Studies 1973–2003*. 2<sup>nd</sup> ed. New York : Fordham University Press. 724 p. ISBN 0-8232-2348-5.
- LANG, K. 2007. *Poverty and Discrimination*. New Jersey : Princeton University. 408 p. ISBN 978-0-691-11954-0.
- LEAST DEVELOPED COUNTRY. 2014. [online]. Available from: <[http://en.wikipedia.org/wiki/Least\\_developed\\_country#Current\\_LDCs](http://en.wikipedia.org/wiki/Least_developed_country#Current_LDCs)>
- MAATHAI, W. 2010. *Challenge for Africa*. London : The Random House Group.
- MINISTER enthusiastic about sea transport of flowers from Kenya. 2013. [online]. Retrieved [2014-02-15]. Available from: <<http://www.wageningenur.nl/en/show/Minister-enthusiastic-about-sea-transport-of-flowers-from-Kenya.htm>>.
- MINISTERSTVO hospodárstva SR. [online]. Retrieved [2014-02-14]. Available from: <<http://www.economy.gov.sk/vysledky-zahranicneho-obchodu-6739/128424s>>.
- MPI. 2013. [online]. Retrieved [2013-06-28]. Available from: <<http://globaledge.msu.edu/knowledge-tools/mpi>>.
- MSCI. 2013a. *MSCI Emerging Market Indices*. [online]. Retrieved [2013-06-28]. Available from: <[http://www.msci.com/products/indices/country\\_and\\_regional/em/](http://www.msci.com/products/indices/country_and_regional/em/)>.

- MSCI. 2013b. *MSCI Market Classification Framework*. [online]. Retrieved [2013-06-28]. Available from: <[http://www.msci.com/resources/products/indices/global\\_equity\\_indices/gimi/stdindex/MSCI\\_Market\\_Classification\\_Framework.pdf](http://www.msci.com/resources/products/indices/global_equity_indices/gimi/stdindex/MSCI_Market_Classification_Framework.pdf)>.
- NARAYAN, D. – PRITCHETT, L. – KAPOOR, S. 2009. *Moving Out of Poverty, Volume 2 – Success from the Bottom Up*. Washington DC : Palgrave Macmillan, The International Bank for Reconstruction and Development / World Bank. 460 p. ISBN 978-0-8213-7215 9.
- NEUTEL, M. – HESHMATI, A. 2006. *Globalisation, Inequality and Poverty Relationships: A Cross Country Evidence*. IZA Discussion Paper No. 2223, July 2006. [online]. 39 p. Retrieved [2013-06-28]. Available from: <<http://ftp.iza.org/dp2223.pdf>>.
- OLSSON, C. 2002. *Risk Management in Emerging Markets: How to Survive and Prosper*. Financial Times/ Prentice Hall. 256 p. ISBN 978-0273656180.
- ONKVISIT, S. – SHAW, J. 2004. *International Marketing: Analysis and Strategy*. 619 p. ISBN 0-415-31132-2.
- PAUL, J. – KAPOOR, R. 2008. *International Marketing: Text and Cases*. 379 p. ISBN 978-0-07-063588-3.
- PAUWELS, K. – ERGUNCU, S. – YILDIRIM, G. 2013. Winning hearts, minds and sales: How marketing communication enters the purchase process in emerging and mature markets. In *International Journal of Research in Marketing*, March 2013, Vol. 30, No. 1, pp. 57-68.
- PENG, M. – WANG, D. – JIANG, Y. 2008. cited in CRITTENDEN, V.L. – CRITTENDEN, W.F. 2010. Strategic management in emerging economies: a research agenda. In *Organizations and Markets in Emerging Economies*, 2010, Vol. 1, No. 1(1). pp. 9-23. ISSN 2029-4581.
- PENG, M. 2014. *Global Business*. 3<sup>rd</sup> ed. Mason : South-Western Cengage Learning.
- POHLOVÁ, K. 2013. *Agrarian Foreign Trade Yearbook*. Praha : Ústav zemědělské ekonomiky a informací.
- POLISH BUSINESS ADVANCES IN AFRICA. 2013. [online]. Retrieved [2014-02-15]. Available from: <<http://msp.gov.pl/en/polish-economy/economic-news/4833,Polish-business-advances-in-Africa.html>>.
- PRAHALAD, C.K. – HART, S.L. 2002. The Fortune at the Bottom of the Pyramid. In *Strategy + Business*, Issue 26, First quarter 2002. [online]. 16 p. Retrieved [2013-06-28]. Available from: <<http://www.cs.berkeley.edu/~brewer/ict4b/Fortune-BoP.pdf>>.
- PRAHALAD, C.K. 2006. *The Fortune at the Bottom of the Pyramid: Eradicating Poverty Through Profits. Enabling Dignity and Choice Through Markets*. Upper Saddle River : Pearson Education. 273 p. ISBN 978-0-13-187729-0.
- PRAHALAD, C.K. 2014. *The Fortune at the Bottom of the Pyramid*. Prentice Hall. 407 p. ISBN 978-0-13-382913-6.
- PRIDE, W.M. – FERRELL, O.C. 2012. *Marketing*. 653 p. ISBN 978-1-111-526191.
- REIN, S. 2014. *The End of Cheap China*. Wiley. 224 p. ISBN 978-1-118-926802.
- RUSSIAN CRUISER AURORA. 2014. [online]. Available from: <[http://en.wikipedia.org/wiki/Russian\\_cruiser\\_Aurora](http://en.wikipedia.org/wiki/Russian_cruiser_Aurora)>
- S&P. 2013. *S&P Global BMI Equity Indices*. S&P Dow Jones Indices, McGraw Hill Financial. [online]. 5 p. Retrieved [2013-06-28]. Available from: <<http://www.spindices.com/indices/equity/sp-emerging-bmi-us-dollar>>.
- SEN, A. 1999. *Development as Freedom*. Oxford : Oxford University Press. 366 p. ISBN 0-19-28933-0-7.
- SIX GLOBAL TRENDS SHAPING THE BUSINESS WORLD. 2014. [online]. Available from: <<http://www.ey.com/GL/en/Issues/Business-environment/Six-global-trends-shaping-the-business-world---Emerging-markets-increase-their-global-power>>
- SLOVAK COMPANIES SUCCEEDING ABROAD. 2013. [online]. Retrieved [2014-02-15]. Available from: <[http://spectator.sme.sk/articles/view/52093/3/slovak\\_companies\\_succeeding\\_abroad.html](http://spectator.sme.sk/articles/view/52093/3/slovak_companies_succeeding_abroad.html)>.
- SMUTKA, L. – MAITAH, M. 2011. Facts and Figures on International Trade Development. In HORSKÁ, E. et al. (Eds.) *European Studies on Intercultural Dimensions of International business: Marketing and Managerial Consequences*. Nitra : SUA, pp. 33–65.
- SOUSA, C.M.P. – LENGLER, J. 2011. Examining the determinants of interfunctional coordination and export performance: an investigation of Brazilian exporters. In ZOU, S. – FU, H. 2011. *International Marketing: Emerging markets*. “Advances in International Marketing” Series, Volume 21, pp. 189-206. ISBN 978-0-85724-447-5.

- SVATOŠ, M. – SMUTKA, L. – ROSOCHATECKÁ, E. et al. 2011. *Globalizační procesy v zemědělství a role EU v rámci globálního trhu*. 140 p. ISBN 978-80-87415-26-9.
- TARRÓSY, I. – MORETH, P. 2013. Global Opening for Hungary: A New Beginning for Hungarian Africa Policy. In *African Studies Quarterly*, Vol. 14, No. 1 & 2, Nov. 2013. [online]. Retrieved [2014-02-15]. Available from: <<http://www.africa.ufl.edu/asq/v14/v14i1-2a5.pdf>>.
- THE OBSERVATORY OF ECONOMIC COMPLEXITY. 2010. [online]. Retrieved [2014-02-15]. Available from: <<http://atlas.media.mit.edu//>>.
- UNILEVER LAUNCHES NEW ROYCO CUBES. 2013. [online]. Retrieved [2014-02-15]. Available from: <<http://telegraphng.com/2013/10/unilever-launches-new-royco-cubes/>>.
- VERINI, J. 2013. War about Nigeria. In *National Geographic*, 11/2013, Praha : Sanoma Media. pp. 74–99.
- WACH, K. 2012. *Europeizacja małych i średnich przedsiębiorstw*. (Europeanization of SME). Warsaw : Wydawnictwo Naukowe PWN. pp. 10-42.
- WEF. 2012. BILBAO-OSORIO, B. – BLANKE, J. – CROTTI, R. – HANOUS, M.D. – FIDANZA, B. – GEIGER, T. – KO, C. – SERIN, C. 2012. Assessing the Sustainable Competitiveness of Nations. In SCHWAB, K. (Ed.) 2012. *The Global Competitiveness Report 2012–2013: Full Data Edition*. World Economic Forum : SRO-Kundig, Switzerland. ISBN 978-92-95044-35-7. [online]. 545 p. Retrieved [2013-06-28]. Available from: <[http://www3.weforum.org/docs/WEF\\_GlobalCompetitivenessReport\\_2012-13.pdf](http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2012-13.pdf)>.
- WILSON, D. – STUPNYTSKA, A. 2007. The N-11: *More Than an Acronym*. *Global Economics Paper N:153, Goldman Sachs*. [online]. 24 p. Retrieved [2013-06-28]. Available from: <<http://www.chicagobooth.edu/alumni/clubs/pakistan/docs/next11dream-march%20'07-goldmansachs.pdf>>.
- WORLD BANK. 2013a. *New Country Classifications*. [online]. Retrieved [2013-06-28]. Available from: <<http://data.worldbank.org/news/new-country-classifications>>.
- WORLD BANK. 2013b. World Bank Historical Chronology: 1970-1979. [online]. Retrieved [2013-06-28]. Available from: <<http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTARCHIVES/0,,contentMDK:20035661~menuPK:56317~pagePK:36726~piPK:437378~theSitePK:29506,00.html>>.
- YIN, R. 2009. *Case Study Research – Design and Methods*. 4<sup>th</sup> ed. Sage : Thousand Oaks.
- ZOU, S. – FU, H. 2011. *International Marketing: Emerging markets*. “Advances in International Marketing” Series, Volume 21. 307 p. ISBN 978-0-85724-447 5.



# PART VII

## SELECTED ISSUES OF VISEGRAD PROFILE: POLAND, SLOVAK REPUBLIC, HUNGARY, CZECH REPUBLIC







# CHAPTER

## SELECTED ASPECTS OF DOING BUSINESS IN VISEGRAD COUNTRIES

# 14

### LEARNING OBJECTIVES

After studying this chapter you should be able to:

1. Describe and understand economic and socio-cultural conditions of doing business in Visegrad countries.
2. Describe and understand different legal forms of doing business in Visegrad countries.
3. Understand selected opportunities, threats and other specifics in doing business in Visegrad.
4. Design appropriate marketing program tailored made based on market information and consumer studies in individual Visegrad countries.



- Visegrad countries are considered many times from side of large retailers and multinational companies as one single market that simplifies and makes more effective their marketing actions (label, advertising, consumer information on the package). **Photo:** Elena Horská, 2014

## 14.1 Rzeczpospolita Polska – Republic of Poland



<b>Accession to the EU:</b>	2004
<b>Political system:</b>	parliamentary republic
<b>Form of government:</b>	unitary state
<b>Administration division:</b>	16 voivodeships (województw), 314 powiats (powiatów), 2478 gminas (gmin)
<b>Capital city:</b>	Warszawa (1.8 million inhabitants) (Warsaw agglomeration 2.5 million inhabitants)
<b>Main cities:</b>	Krakow, Łódź, Wrocław, Poznań (Figure 14.1), Gdańsk
<b>Time zone:</b>	Central European Time CET/CEST (UTC + 1 h)
<b>Official language:</b>	Polish (locally also the languages of the minorities)
<b>Land:</b>	312 685 km <sup>2</sup> (6 <sup>th</sup> in the EU, 68 <sup>th</sup> in the world)
<b>Population:</b>	38 536 869 (6 <sup>th</sup> in the EU, 32 <sup>nd</sup> in the world)
<b>Density:</b>	98 persons / km <sup>2</sup>
<b>Population growth:</b>	-0.05%
<b>Life expectancy:</b>	men – 70.0 years old; women – 79.2 years old
<b>Ethnic groups:</b>	Polish (96.7%, including the Silesian minority 0.5%), Germans (0.4%), Belarusians (0.1%), Ukrainians (0.1%), and others (2.7%)
<b>Religious denominations:</b>	Catholicism (90.2%, including Roman Catholicism 89.8%), Eastern Orthodox (1.6%), Protestantism (0.4%), Jehovah Witnesses (0.3%), others and undetermined (7.5%)
<b>Currency:</b>	złoty (PLN)
<b>Real GDP growth:</b>	4.3% (2011)
<b>GDP per capita in PPS in relation to EU-27 (100%):</b>	64% (2011)
<b>Public debt:</b>	54.7% of GDP (2011)
<b>Budget deficit:</b>	-4.7% of GDP (2011)
<b>Inflation rate:</b>	3.7% (2012)
<b>Employment rate:</b>	64.8% (2011)
<b>Unemployment rate:</b>	10.6% (2012)

**Poland** is located in Central Europe between the Baltic Sea and the Carpathians as well as the Sudeten. It is bordered by the Czech Republic (658 km), Ukraine (526 km), Germany (456 km), Slovakia (444 km), Belarus (407 km), Russia (Kaliningrad) (206 km) and Lithuania (91 km). Poland is a parliamentary republic and a unitary state. The head of state is the president elected every five years in the universal and direct election. The Legislature is a bicameral parliament, which creates the 460-seat Sejm (the Lower House) and the 100-seat Senate (the Upper House). The Executive is conducted by the government, chaired by the Prime Minister. The official currency of Poland is new Polish zloty (1 PLN = 100 groszy).

Poland is a member of many international organizations and multilateral cooperation agreements, including: the United Nations (since 1945), the World Trade Organization WTO (since 1995), the Weimar Triangle (since 1991), Visegrad Group V4 (since 1991), the Council of the Baltic Sea States (since 1992), the Organization for Economic Cooperation and Development OECD (since 1996), the Organization

for Security and Cooperation in Europe, OSCE (since 1973), the Central European Initiative (since 1991/1992 – continued membership in the Six Initiative since 1991), the G6 – the six largest EU countries (since 2006), the European Union EU (since 2004), the Council of Europe (since 1991), the European Economic Area EEA (since 2004), the North Atlantic Treaty Organisation NATO (since 1999). Poland has the status of the associate member of the Western European Union WEU (since 1992). Poland has the observer status of the Organization of the Black Sea Economic Cooperation BSEC (since 1992).



■ **Figure 14.1** Poznań is one of the major trade centers in Poland. The Poznań International Fair is the biggest industrial fair in Poland. Typically, there are about 13,200 exhibitors including about 3,000 foreign companies from 70 countries of the world participate in 80 trade fair events organized on the grounds of the Poznań fair every year. Euro-Reklama GIFT EXPO – International Trade Fair of Advertising Goods and Services  
**Photo:** Jakub Berčík, Poznan 2012

### 14.1.1 Macroeconomic Overview of Polish Economy

Polish economy, in opposite to other European economies, experienced only a velvet crisis, a slowdown in the economy. Paradoxically, the global crisis and the debt crisis in Europe has made Polish economy better. As it was even announced by “Der Spiger” Poland “has become the most astonishing success story in Eastern Europe” (Follach and Puhl, 2012). For example in 2009 Poland was the only EU country with positive GDP growth and that is why it was announced a ‘green island’ in the EU. However, it does not mean that Polish economy is free of any structural problems. It still needs further restructuring especially for public debt (relatively low to other EU countries) as well as employment (Table 14.1).

On the one hand, the benchmarking helps to improve the comparing indicators with the best performers, but on the other hand, sometimes it is just unfair to compare developing or developed economies to well developed economies. Thus, it is justified and well-founded to compare similar economies, that is why the comparison among V4 countries is very welcome. What is more, taking the initial conditions index, it is worth mentioning that such conditions positioned Polish economy in one of the lowest position among Central European countries at the beginning of economic transformation

## Selected Aspects of Doing Business in Visegrad Countries

(Ickes, von Hagen and Traistaru, 2003). In the 1990s Poland didn't note spectacular achievements, starting from the very unbeneficial comparing position. Nevertheless, the decade of 2000s changed the situation and after having reached a certain level of economic development, the Polish economy started to note quite good economic achievements in comparison to other Central and Eastern European countries.

**Table 14.1** Dynamics of basic indicators of Polish economic situation in 2004–2011

Indicator	2004	2005	2006	2007	2008	2009	2010	2011
GDP growth (constant prices) <sup>1</sup>	105.3	103.6	106.2	106.8	105.1	106.6	103.9	104.3
Domestic demand (constant prices) <sup>1</sup>	106.2	102.5	107.3	108.7	105.6	98.9	104.6	103.6
Exports of goods <sup>1</sup>	125.6	119.6	123.1	115.8	114.1	84.5	122.6	113.6
Imports of goods*	118.2	113.8	124.2	119.5	118.3	75.5	124.8	113.7
Balance of payments in % GDP	-5.3	-2.4	-3.8	-6.8	-6.6	-3.9	-4.6	-4.3
Employment in national economy <sup>1</sup>	99.6	100.9	101.2	103.5	104.1	99.2	99.7	100.6
Unemployment rate (registered)	19.0	17.6	14.8	11.4	9.5	11.9	12.3	12.5
Average nominal monthly salary [in enterprises] in PLN	2,273 [2,438]	2,360 [2,516]	2,475 [2,644]	2,672 [2,889]	2,942 [3,186]	3,101 [3,325]	3,224 [3,435]	3,399 [3,605]
Labour productivity <sup>1</sup>	105.6	102.4	104.7	103.2	100.9	102.6	104.0	103.4
State budget balance in % GDP	-4.5	-2.9	-2.4	-1.4	-1.9	-1.8	-3.2	-1.7

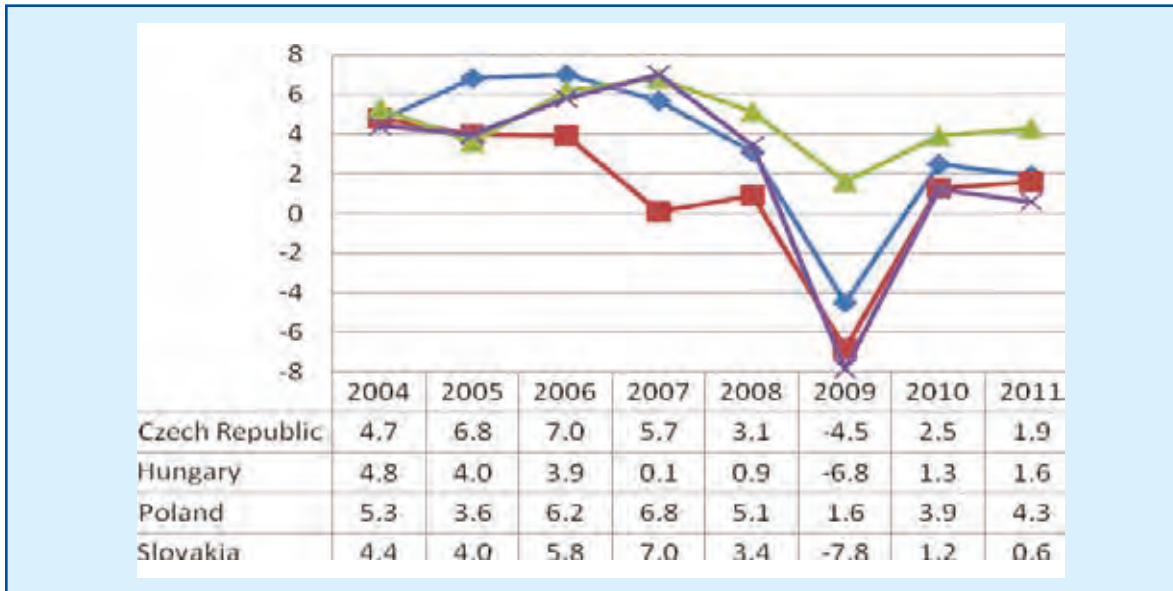
**Source:** own compilation based on data of Polish Ministry of Economy (Piątkowska et al, 2012, p. 20–21)

**Note:** <sup>1</sup> previous year = 100%

One of the most significant achievement of Polish economic transformation and current economic situation is its annual real GDP growth, especially in comparison to other EU member states including four countries of the Visegrad Group (Figure 14.2). However, the GDP per capita comparing to the average for all EU member states, which is amounted to 64% of the EU average measured as 100%. The same indicator for Hungary is 66%, Slovakia – 73%, the Czech Republic – 80% in 2011 (for example for Luxembourg it is 271% and for Germany – 121%). It means that Polish economy still must catch up its other European partners.

For now, Poland offers to its international trade partners and international investors a very stable economy and a very stable political system. The economy is growing and the main economic indicators are improving year by year. In 1997 (much earlier that this problem was aroused in the European public debate) Poland included in its Constitution the prudential thresholds for public debt, which limits the public gross debt to 60% of GDP. The legal acts, based on the Constitution, strengthened existing prudential and remedial procedures that are applied if debt exceeds the thresholds of 50%, 55% and 60% of GDP. If it exceeds 50% limit, the budget proposal for the next mustn't include higher government deficit than in the previous year. If it exceeds 55% limit, the budget deficit in the budget proposal must be lower than in the previous year and the government must propose a restructuring plan. If it exceeds 60% limit, the budget proposal mustn't include any deficit at all, which means a lot of cuts. In this case the government must propose a restructuring plan as well as mustn't give any guarantees.





■ **Figure 14.2** Real GDP growth in V4 countries the years 2004–2011  
 Source: own compilation based on Eurostat data

### 14.1.2 Socio-Cultural Aspects of Doing Business in Poland

Socio-cultural conditions play an important role in doing business in Poland. The Polish communication style is reported to be mysterious as the Poles can ring all the changes between a matter-of-fact pragmatic style and a wordy, sentimental, romantic approach to a given subject. Polish business culture is a mix of Western or Northern business accuracy and pragmatic with Eastern and Southern sentimentalism and expressionism. The Poles as the Slavs understand other Central European nations very well and have good relations with the Slovaks or the Czechs, but also other Western Balkans nationals (the Slovenian, the Croatians, the Serbs, the Bulgarians). At the same time the Poles can quite easily adopt to very though formal environment in the East (e.g. in Ukraine or Russia, however in the latter case the institutional relation are much more worse, than the personal connections). What is more, because of the common history, the Poles have very good relations with the Hungarians. Poland is a mix of tradition and conservatism on the one hand and modernity and progress on the other hand. The religion plays quite important role in the public life. The Roman Catholicism has always been a source of national identity and power. Officially the religions and the state are independent, but the Church has more than moderate impact on social aspects of life in Poland. It doesn't mean that all Poles go to church regularly, but the conservative values are rather important. Taking it into account, Poland can be divided in two parts – more conservative Easter Poland and more liberal and progressive Western Poland with largest cities. Both parts of Poland, despite of being a unitary state, are diverse as for economic, cultural, historical and entrepreneurial factors.

It is really hard to draw a profile of a typical Pole, as it is difficult to draw a profile of any other EU nation, however it is possible to mention the typical characteristics of Polish business culture, which is as follow (Table 14.2):

- The Poles are rather low context culture, but with the upper limit. Polish people say what they think rather directly, the most important is the message, however the context of saying something is also important.
- The Poles are very formal, so social status and formal language is appreciate. During the last decade the Poles have become more and more informal. The youth and journalists more often use the mix of formal and informal language (For example a proper Mr Kowalski that is using a surname is replaced by Mr Adam that is a mix of a formal way of addressing with using first names). The Poles, comparing to its neighbors (the Slovaks and the Ukrainians, the Germans), are much less formal.

## Selected Aspects of Doing Business in Visegrad Countries

- The Poles are both reserved (as the Germans) and expressive (as the Italians). At the beginning the Poles are rather reserved, but afterwards the Poles are becoming very expressive, it depends on the length of knowing somebody or other circumstances. Touching each other is possible even in public, so clapping the shoulders is very common.
- The Poles have moderate orientation towards time. Poles are rather relaxed about time, but not necessary unpunctual. At universities and in colloquial life 'an academic quarter', as it is called, is accepted, however in business the punctuality is required (but not bang on time as for the Germans). The Poles are very well-known for their flexibility. They do not follow the business meeting agenda strictly, and it is quite popular to adopt to any circumstances. Poles are used to and love to improvise.
- The Poles are rather relationship-focused (than deal-focused). Personal connections and friendly atmosphere is really important, however in large international corporations the deal-focused attitude is used much more often.

**Table 14.2** Socio-cultural characteristics of the Poles from the V4 comparative perspective

Dimension	The Czechs	The Slovaks	The Poles	The Hungarians
Business vs. relationship orientation	Deal-focused culture	Moderate deal-focused culture	Moderate relationship-focused culture	Moderate deal-focused culture
Social status, hierarchy, power and respect	Ceremonial culture	Ceremonial culture	Ceremonial culture	Ceremonial culture
Attitude to time and schedules	Rigid-time culture	Moderate rigid-time culture	Moderate fluid-time culture	Diverse culture
Non-verbal communication	Reserved culture	Diverse culture	Variable expression culture	Expressive culture
High vs. low context culture	Low context culture	Moderate low context culture	Moderate low context culture	Moderate low context culture
Organization culture	Mechanistic approach based on coordination	Mechanistic approach based on coordination	Organic approach based on personal relations	Organic approach based on personal relations
Leadership culture	Moderate top-down management style with the individualistic leader	Moderate top-down management style with the individualistic leader	Participation management style	Top-down management style with the individualistic leader

Source: own study based on (Mole, 2003; Gesteland, 2005)

### 14.1.3 Legal Forms of Business Units

In Poland legal forms of business are governed by the following legislation:

- Commercial Code (commercial partnerships and commercial companies).
- Civil Code (a civil partnership, an individual entrepreneur).

An entrepreneur starting a business is free to select any legal forms of business, subject to any specific provisions which may exclude a particular legal form of business (e.g. banks). Generally speaking, business units operating in Poland can be divided into three types as far as the legal status is concerned (Table 14.3 and Figure 14.3):

- individual businesses (individual entrepreneurs and partners of civil partnerships),
- legal status businesses (limited liability company, joint stock company, other entities having legal personality),
- organizational entities without legal status (general partnership, professional partnership, limited partnership, a partnership limited by shares).

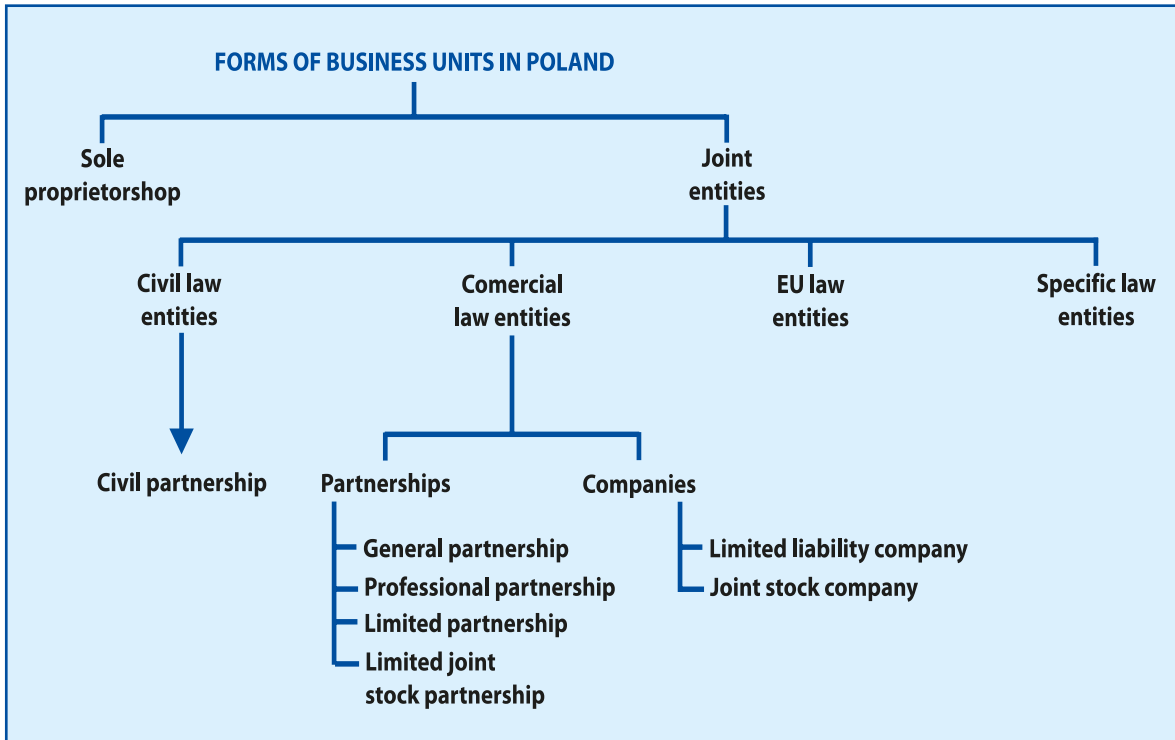
Table 14.3 Characteristics of legal business forms in the Polish legislation

Form Criterion	Civil forms			Comercial partnerships			Companies	
	Sole proprietorship	Civil partnership	General partnership	Professional partnership	Limited partnership	Limited joint-stock partnership	Limited liability company	Joint stock company
Polish name	Działalność gospodarcza na własny rachunek	Spółka cywilna	Spółka jawna	Spółka partnerska	Spółka komandytowa	Spółka komandytowo-akcyjna	Spółka z ograniczoną odpowiedzialnością	Spółka akcyjna
Legal abbreviation	-	s.c.	sp. j.	sp. p.	Sp. k.	S.K.A.	sp. z o.o.	S.A.
Purpose	Any economic activity	Any economic activity	Any economic activity	performing at least one liberal profession	conducting business under its own name	conducting business under its own name	any purpose permitted by law	Not determined by law
Founders (partners)	Natural person - owner	At least 2 natural persons	At least 2 natural or legal persons	At least 2 natural persons	At least 2, including: a general partner, and a limited partner	At least 2, including: a general partner, and a shareholder	At least 1 (but not other sp. z o.o.)	At least 1 (but not a single sp. z o.o.)
Legal status	Individual business partner status	Individual business partner status	organizational entity without legal status	organizational entity without legal status	organizational entity without legal status	organizational entity without legal status	Legal status	Legal status
Founding act	No	Written agreement	Written agreement	Agreement in the form of a notarial deed	Agreement in the form of a notarial deed	Memorandum of association and articles of association in the form of a notarial deed	Memorandum of association and articles of association in the form of a notarial deed	Memorandum of association and articles of association in the form of a notarial deed
Minimal share capital	Not determined by law	Not determined by law	Not determined by law	Not determined by law	Not determined by law	50,000 PLN	5,000 PLN	500,000 PLN
Minimum contribution or share	Not determined by law	Not determined by law	Not determined by law	Not determined by law	Not determined by law	Not determined by law	50 PLN	0.01 PLN

**Continued Table 14.3**

Form Criterion	Civil forms			Commercial partnerships			Companies	
	Sole proprietorship	Civil partnership	General partnership	Professional partnership	Limited partnership	Limited joint-stock partnership	Limited liability company	Joint stock company
<b>Structure</b>	not required	not required	not required	not required (but the agreement can introduce the board of directors)	not required	annual general meetings of shareholders – Management Board – Supervisory Board (only when at least 26 shareholders)	annual general meetings of shareholders – Management Board – Supervisory Board – komisja rewizyjna	annual general meetings of shareholders – Management Board – Supervisory Board – komisja rewizyjna
<b>Representation</b>	The owner	Each partner	Each partner (agreement may provide otherwise)	Each partner (agreement may provide otherwise)	each general partner (agreement may provide otherwise)	each general partner (agreement may provide otherwise)	The management board	The management board
<b>Profit sharing</b>	the entire profit generated for the owner	equal among partners (the contract may provide otherwise)	equal among partners (the contract may provide otherwise)	equal among partners (the contract may provide otherwise)	proportionally to the contributions (the contract may provide otherwise)	proportionally to the contributions (the contract may provide otherwise)	in relation to the shareholding	on the value of the shares (the contract may provide otherwise)
<b>Liability</b>	To all owner's assets,	To all partner's assets, jointly and severally with other partners	To all partner's assets, jointly and severally with other partners	each partner for their actions	each general partner with all their assets, each limited partner only to the limited sum	each general partner with all their assets,	To the share limit and the company's assets	To the company's assets

**Source:** own study based on Ustawa z dnia 15 września 2000 r. Kodeksu spółek handlowych (Dz. U. Nr 94, poz.. 1037 z późn. zm.)



■ **Figure 14.3** Typology of business legal forms in Poland  
 Source: own study

Sole proprietorship is the most popular legal form of doing business in Poland. If two single entrepreneurs would like to cooperate they form a civil partnership. The rest of the forms can be divided into commercial partnerships and commercial companies. The specific law entities include a cooperative, a foundation or an association. In Poland, like in other EU member states, it is also possible to register one of the EU legal forms like the European Company (SE), European Cooperative Society (SCE) or European Economic Interest Grouping (EZIG).

In 2012 among all registered business units in Poland there were:

- 91.6% of sole proprietorships,
- 1.4% of civil partnerships,
- 0.4% of commercial partnerships (altogether four types of them),
- 5.9% of limited liability companies,
- 0.1% of joint stock companies.
- 0.6% of other specific forms of public, cooperative and NGO law.

An **individual entrepreneur** (sole proprietorship) means doing business in the form of a single individual private business. It is one of the simplest forms of doing business in Poland. The concept of sole proprietorship is very precisely defined in the Civil Code. Such activity is carried out on own behalf and on own account. This means such an entity exists under the name of the entrepreneur, and any business name is optional. Such a self-employed entrepreneur takes full responsibility for any losses and liabilities, and is individually responsible for capital. The biggest advantage of this legal form is its simplicity and inexpensive registration procedure, but the biggest drawback is unlimited liability for the debts of the business.

A **limited liability company** is governed by the Commercial Code (articles 151–300). It can be formed by at least one shareholder for any purpose permitted by law. The memorandum of association and the articles of association must be in the form of a notarial deed. The minimum share capital amounts



## Selected Aspects of Doing Business in Visegrad Countries

to 5,000 PLN. There is a possibility of in-kind contribution. The minimum amount of one share is 50 PLN. The company is registered in the commercial register maintained by the district courts. There are three statutory bodies of the company as the management board, the supervisory board and the annual meeting of shareholders. The company is a legal entity.



■ **Figure 14.4** Royal capital city of Krakow is the second largest and one of the oldest cities of Poland. In 2012, almost 9 million tourists came to Krakow thanks to its history, pleasant atmosphere, but also thanks to well-developed city marketing where each generation can find its objects of interests and joy

**Photo:** Elena Horská, Krakow 2012

### 14.1.4 Formal and Fiscal Aspects of Doing Business in Poland

In Poland there is dualism in business registration. Sole proprietorships and partners of civil partnerships must register online in the Central Registration and Information on Business CEIDG (<http://firma.gov.pl>) for free. The online application (form CEIDG-1) provides:

- business registration,
- application for granting a business number,
- application to the tax office (tax payer registration, granting NIP number which is number of tax identification, the choice of the taxation form),
- payer notification to the national social security system.

Additionally the entrepreneur can register as VAT payer, but with the charge of 170 PLN. The entrepreneur must also notice their existence to the Labour Inspection if he/she is planning to employ

workers as well as to the National Sanitary Inspection when dealing with food industry (both notifications are free of charge).

Commercial partnerships and companies must register in the National Court Register in districts courts. It is also possible to register a standard limited liability company online when the standard articles of association form is used. According to the report of the World Bank entitled “Doing Business 2013” Poland was the global top improver in the past year. It enhanced the ease of doing business through four institutional or regulatory reforms, making it easier to register property, pay taxes, enforce contracts, and resolve insolvency. Nevertheless, Poland locates the third position after Slovakia and Hungary, being ahead of the Czech Republic only (Table 14.4).

**Table 14.4** Comparison of the ease of doing business in V4 countries in 2013

Criteria	Czech Republic	Hungary	Poland	Slovakia
<b>General indicators</b>				
<b>Doing Business 2013 Rank</b>	65	54	55	46
<b>Detailed ranks</b>				
<b>Starting a Business</b>	140	52	124	83
– Number of Procedures	9	4	3	6
– Time (in days)	20	5	32	16
– Cost (% of income per capita)	8.2	8.9	14.4	1.8
– Paid-in Min. Capital (% of income per capita)	29.7	9.4	13.0	21.3
<b>Dealing with Construction Permits</b>	74	55	161	46
<b>Getting Electricity</b>	143	109	137	100
<b>Registering Property</b>	27	43	62	8
<b>Getting Credit</b>	53	53	4	23
<b>Protecting Investors</b>	100	128	49	117
<b>Paying Taxes</b>	120	118	114	100
<b>Trading Across Borders</b>	68	73	50	98
<b>Enforcing Contracts</b>	79	16	56	69
<b>Resolving Insolvency</b>	34	70	37	38

Source: World Bank 2012

In 2013 the VAT rates are applied according to a special regime and they amount to as follow: standard rate of 23% and reduced rates of 8% and 5% (regular rates are as follow: 22%, 7% and 5%), Personal income tax (PIT) is applied in two brackets and the rates amount to 18% and 32%. PIT is applied to natural persons and to individual entrepreneurs. Corporate income tax (CIT) is a flat rate of 19%. In Poland they are 14 special economic zones, which can operate till 2020. Obtaining a permit to conduct activities in these zones results in the following benefits:

- eligibility for income tax exemption,
- plot of land prepared for an investment project at a competitive price,
- free assistance in dealing with formalities,
- exception from real estate tax,
- grants for employees training programmes,
- grants for the creation of new jobs.

## 14.2 Slovenská republika – Slovak Republic



<b>Official name:</b>	Slovenská republika (in English: Slovak Republic)
<b>Establishing of country:</b>	January 1 <sup>st</sup> , 1993
<b>Accession to the EU:</b>	2004
<b>Political system:</b>	parliamentary republic
<b>Administration division:</b>	8 regions (Bratislava, Trnava, Nitra, Žilina, Trenčín, Banská Bystrica, Prešov, Košice) and 79 cantons
<b>Capital city:</b>	Bratislava (since 1993)
<b>Main cities:</b>	Trnava, Nitra, Žilina, Trenčín, Banská Bystrica, Prešov, Košice
<b>Time zone:</b>	Central European Time CET/CEST (UTC + 1 h)
<b>Official language:</b>	Slovak
<b>Land:</b>	49 033 km <sup>2</sup> (126 <sup>th</sup> in the world)
<b>Population:</b>	5 415 949 (at the end of 2013; 116 <sup>th</sup> in the world); women 51.3 %
<b>Density:</b>	109/ km <sup>2</sup>
<b>Life expectancy:</b>	women 79.4 years old; men 72.5 years old
<b>Ethnic groups:</b>	Slovak (85.8 %), Hungarian (9.7 %), Roma (1.7 %), Czech (0.8 %), others (2.0 %)
<b>Religious denominations:</b>	Catholicism (68.9 %), Protestant (6.9 %), Greek catholic (4.1 %), reformed Christian (2.0 %), undetermined (13.0 %)
<b>Currency:</b>	EUR (since 2009)
<b>Inflation rate:</b>	3.9 % (2011); 3.6 % (2012); 1.4 % (2013); 1.3 % (January 2014)
<b>GDP:</b>	68,974.2 mil. € (2011); 71,096 mil. € (2012); 72,134.1 mil. € (2013)
<b>Standard of living:</b>	76 % of European average (2013)
<b>Unemployment rate:</b>	13.5 % (2011); 14.0 % (2012); 14.2 % (2013); 14.1 % (1. Q. 2014)
<b>Average monthly nominal wage:</b>	786 € (2011); 805 € (2012); 824 € (2013)
<b>Minimum wage:</b>	237.2 € (2012); 337.7 € (2013); 352 € (2014) 1.88 €/ per hour (2012); 1.941 €/ per hour (2013), 2.023 €/ per hour (2014)
<b>VAT:</b>	standard 20 % (reduced VAT: 10 % applies to books, food, pharmaceutical and medical goods, admission to cultural event)

After independence in 1993, market reforms made **Slovakia** one of Europe's most attractive destinations for capital. Slovakia joined the European Union and NATO in 2004 and adopted the euro as its currency in 2009. Slovakia is now a truly transformed liberal democracy and functioning market economy, with legislation fully harmonized with the EU. The main sources of Slovak growth are its skilled and educated labor force, low taxation and progressive entrepreneurial and investment legislation. Major multinational companies are gravitating to Slovakia because of its low production and labor costs, strong government support, highly educated labor force, strategic location and rich cultural environment.

Economic integration has been one of the main economic developments affecting world markets since the Second World War. Some integration efforts have had quite ambitious goals, such as political integration; some have failed as a result of perceptions of unequal benefits from the arrangement or a parting of the ways politically.

Bordered by Poland, Ukraine, Hungary, Austria and the Czech Republic, its developed infrastructure gives businesses quick access to other high-growth regions in Europe as well as developed nations to the west. The stable political and economic environment (since 1993) is also appealing to firms looking to expand in Slovakia, with positive scores received from international rating companies. In general, to most export products from Slovakia belong these: cars (16 %), video displays (9.6 %), vehicle parts (5.3 %), refined petroleum (5 %), and vehicle parts (2.4 %). To the most imported products to Slovakia belong vehicle parts (7.6 %), crude petroleum (5.7 %), petroleum gas (4.1 %), broadcasting accessories (3 %) and cars (2.3 %). Top export destinations of Slovakia include Czech Republic, Hungary, Poland, Germany, Austria and France. Top import destinations include Germany, Poland, Hungary, Czech Republic, Russia, South Korea and China.

### Reasons for investing in Slovakia include:

- absence of tax on dividends and profit shares,
- low labor and production costs,
- availability of a highly skilled workforce,
- strategic location,
- satisfaction of established investors,
- integration with the world economy,
- simplified company setup any new company has to be registered within ten days,
- governmental incentives,
- euro currency, member of European Union,
- stable macroeconomic environment, large inflow of foreign capital, stable GDP growth,
- potential in the area of research and development,
- fast adoption of quality standards by big companies,
- skilled work force and high level in the area of technical education,
- harmonized legislation with EU,
- multitude of airports in territory of SR.

All business entities must be registered in the Slovak Commercial Register. The legal forms available are:

- enterprise or branch office of a foreign company,
- joint stock company,
- limited liability company,
- limited partnership,
- general partnership,
- cooperative.

For enterprises and branch offices, all of these forms constitute Slovak legal entities. There is no limit to the percentage interest a foreign investor may have in a Slovak legal entity, or are there any legal requirements for local participation. Foreigners may establish both joint ventures and wholly owned subsidiaries in Slovakia.

Slovakia has become one of the leading car producers in Central Europe, mainly owing to the presence of three world class automotive companies: Volkswagen Slovakia (Bratislava); PSA Peugeot Citroën Slovakia (Trnava), Kia Motors Slovakia (Žilina).

Currently dominant players and new investments are in the electronics industry, such as Sony Slovakia (Trnava), Samsung Electronics Slovakia (Galanta), Panasonic, Emerson Leoni BSH Drives and Pumps (Michalovce), Delphi Slovensko (Senica), SE Bordnetze Slovakia. On the other hand, some big companies, such as Slovnaft, Matador, Duslo, Chemolak and the former Slovakofarma, have managed to develop and grow rapidly. At the same time, many new, small and well prepared companies have become important players on the market. The strongest players in the chemistry sector were traditional



## Selected Aspects of Doing Business in Visegrad Countries

chemical companies such as Duslo Šaľa, Novaky chemistry company, Chemko Strážske, Chemosvit Svit and Slovnaft. IT technology is an attractive market for international companies, which operate at Slovak market, they are: DELL, HP, IBM, Lenovo, NESS, Siemens PSE, Soitron, T-system. The value of Slovak cultural heritage (Figure 14.5) is documented in the four unique locations registered on the UNESCO World Heritage list, such a Spa and wellness, mountains, or big cities.



■ **Figure 14.5** Eurosheep farm in Michalova gives the chance to learn how to prepare the best homemade cheese products  
**Photo:** Dávid Bielík, 2012

### 14.2.1 Selected Aspects of Consumer Behavior at the Food Market in Slovakia

The changes in the socio-economic indicators after 1989 led to a transformation of the Slovak consumer behavior. Slovak consumer is more informed, he meets with a cosmopolitan group of services, and he more to adapt to his rights, which also seeks. He's classified into similar groups of European consumers, influenced by price factor, as the most important decision contour purchasing process. In Table 14.5 we illustrate the factors of consumer behavior and their short explanation. After the interventions to the EU in 2004, the Slovak economy and the enhancement of progeny earnings, with the result that on the one side, consumers can afford more "better" buy. On the other side, despite the mergers salaries and preferences to buy food based on quality, now is not the same with consumer behavior in Western Europe and intensive price factors' impact on purchase decisions, which affects more than half of Slovaks. In the case of food for Slovaks are very important freshness and quality of goods and certainly the price. Most Slovaks say, they purchase based on quality, but often times the situation has changed to the point



of purchase and must be decided by price. On customers very positive impact the “red prices”, which are marked with discounted goods.

**Table 14.5** Comparison of chosen European consumers by their quality perception

SLOVAKIA	
<b>Importance of price</b>	– Slovak consumer is typical prototype of price sensible consumer, but he’s also “researcher” of quality in rational price
<b>Country-of-origin (COO) perception</b>	– Rather the Slovaks buy more expensive goods, but more intensive perceive COO than bio or other... They join product quality with some of COO perception
<b>Food consumer preferences</b>	– The knowledge of foreign brands we know very well in the comparison of other nationalities. Slovaks love brands and brand products
<b>Shopping places</b>	– Slovaks buy in hypermarkets, spend their leisure time and are most of time in shopping centers
<b>Quality symbol on the product packing</b>	– Symbol of quality has very low perception by Slovaks. A lot of them don’t know the food name, which has the symbol on the packing. The promotion is weakest in the comparison of Poland or Bohemia
<b>Purchase decision according to the purchase price factor</b>	– Juice and soft drinks, Noodles and sauces, Chocolate and sweets
<b>Purchase decision according to the purchase quality factor</b>	– Milk products, Meat products, Fruit and vegetable

**Source:** own Table and own research

The most significant slowdown in price growth was during the year 2013 for food and non-alcoholic beverages. While early Slovaks paid in 6 % more, at the end of the year-on-year price growth experienced by only 2 %. These two categories are the most popular among the Slovaks, expenditure not constitute 15–25 % of the total expenditure Slovak households. Slower price increase was affected by relatively high unemployment, a decline in agricultural commodity prices on world markets.



### V4 MARKETING INSIGHTS

TNS Slovakia implemented in May 2013 on a sample of 500 respondents, the online survey, in which investigated information about shopping in individual retail chains. Survey finds inter alia, in which stores are the best buys. The survey showed that most shop at the chain Kaufland. Thus was expressed almost a third (36%) of the population of Slovakia. According quarters are generally worth the buy in Lidl (26%) or in store Tesco (25%).

Over the past year, most consumers prefer small supermarkets and hypermarkets as the main shopping place. Hypermarkets have long been the market leader. Customers have not only drawn a wide range of great prices, but also the

proximity of the trading venue. The data resulting from the survey Shopping Monitor Slovakia 2012/2013. Small supermarkets are preferred more by consumers over 39 years. Supermarkets as the main shopping place indicated especially people over 50. When choosing a shopping place people make decisions according to several criteria. For example, wide range and a large selection, distance to home, discount offers and competitive prices.

**Source:** InStore Slovakia. Najvýhodnejšie nákupy robíme v Kauflande [online]. GfK, Shopping Monitor Slovakia. 2013. GfK about purchasing behavior of Slovaks. The small stores influence customers, distance to home decides [online].





■ **Figure 14.6** In the historical city centre of Bratislava, the capital of the Slovak Republic  
Photo: Elena Horská, 2013

From the latest Eurobarometer research in 2013 still shows that price and quality are the most important shopping factors for Slovaks (then, they are influenced by brand in 66 %, or country-of-origin in 80 %). They don't like food quality in supermarkets, but nevertheless Slovaks by underprice influencing. In time when every seventh Slovak is unemployed and every eighth employed earn around 400 €/ brutto; the factors such as price and quality are the most important in Slovak consumer behavior (Pri nákupe potravín..., 2013). Between Slovaks after the o crisis, expanded uncertainty of the financial situation was started, but also to strengthen materialism-people want more (Czwitkovics, 2013).

Purchase basket in 2012/2013/2014 is based from these products categories that are the most consumed by Slovak consumers:

- meat products, bread and cereals, milk, cheeses, eggs, alcohol drinks, soft drinks, sugar/ jam/ honey/syrup/chocolate/sweets (Statistical Office, 2014).

Retail chains are favorite because, customers can buy various goods, which often offer special price. Shopping Monitor Survey Slovakia 2012, was conducted by GfK reported that consumers in Slovakia (1,000 respondents were addressed) in its purchases most favored hypermarkets (30%), supermarkets have preferred 24% of Slovaks and discount stores 13% of respondents.

### Actual list of food retails in Slovakia:

- **Ahold Group:** entry to Slovakia in 2001, in 2006 a decision about leaving from Slovakia, but the superiority of decision changed, today operates in 20 Hypernova and 4 Albert stores).
- **Tesco Stores:** in 1996 entry into the Slovak market for the purchase of seven priorities since the U.S. company-Kmart, now operates over 150 stores of various formats (hypermarkets, supermarkets, express stores, department stores).

- **REWE Group:** in 1990 first opening Billa supermarkets, currently 122 stores.
- **COOP Jednota Slovakia:** is not only the largest food retailer in Slovakia, as well as chain stores with the largest number of stores (2,229); divided into three retail formats: Tempo supermarket (18 plants), COOP supermarket (386 stores), Food COOP (1,856 stores).
- **CBA:** was established in 2003, operates two wholesale stores and over 340 retail outlets, managed in formats: CBA Food (300 plants), Cent Supermarket CBA (16 plants), Discount CBA (24 operations).
- **SCHWARZ Group:** on Slovak market operates as Lidl and Kaufland stores. Lidl entered in 2004 and has currently 107 stores. First Slovak Kaufland opened in 2000, today are in Slovakia 52 Kaufland stores.

Up to 91% of people visit the shop again because of good quality. Strong factors for the customer are the price and the staff. 76 % of respondents answered by stating, that the companies still do not do everything possible to keep a customer. Up to 56 % of people said complaint process as the key weakness. The survey brought information that the average food purchases in Slovakia represents a value of approximately 8 €. Clothing and footwear is favorite up to 15 % of the respondents. The customers prefer a pleasant surprise for them prepare traders for purchase. Revolution in trade can be called using the electronic labels, which resulted in increased operational efficiency of retail operations. A new phenomenon in the store becomes mobile marketing. Mobile applications are changing business. Meet the requirements of modern customers and the trend in his wishes. Trader is always close to the customer; communication is online, serve to strengthen the brand, sales support, reporting, etc (INCOMA research, 2013).



- **Figure 14.7** Shopping centre Mlyny in Nitra city centre provides space for placement of billboards. "Choice of the Inner Voice" is a new advertising of Billa in several countries, using different media, outdoor media including  
**Photo:** Elena Horská, 2014

## 14.3 Magyarország – Hungary



<b>Accession to the EU:</b>	2004
<b>Political system:</b>	unicameral parliamentary representative democratic republic
<b>Form of government:</b>	unitary state
<b>Administration division:</b>	16 counties (megye), 198 townships (járás)
<b>Capital city:</b>	Budapest (1.74 million inhabitants) (2.5 million in metropolitan area)
<b>Largest cities:</b>	Debrecen, Miskolc, Szeged, Pécs, Győr, Nyíregyháza, Kecskemét, Székesfehérvár
<b>Time zone:</b>	Central European Time CET/CEST (UTC+1h)
<b>Official language:</b>	Hungarian
<b>Land:</b>	93,030 km <sup>2</sup> (12 <sup>th</sup> in the EU, 109 <sup>th</sup> in the world)
<b>Population:</b>	9,879,000 (13 <sup>th</sup> in the EU, 87 <sup>th</sup> in the world)
<b>Density:</b>	107 persons / km <sup>2</sup>
<b>Population growth:</b>	-0.12 %
<b>Life expectancy:</b>	men – 71.5 years old; women – 79.19 years old
<b>Ethnic groups:</b>	Hungarians (83.7 %), Romani (3.2 %), Germans (1.9 %), 14.7 % undeclared (2011)
<b>Religious denominations:</b>	Catholicism (39 %), including Roman Catholicism (37.1 %) and Eastern Orthodox (1.8 %), Protestantism (11.6 %), others (20.8 %), undetermined (27.2 %)
<b>Currency:</b>	forint (HUF)
<b>Real GDP growth:</b>	1.1% in 2013 (-1.7 in 2012, 1.6 in 2011)
<b>GDP per capita in PPS in relation to EU-27 (100%):</b>	67 % (2012)
<b>Public debt:</b>	78.8 % of GDP (2013)
<b>Budget deficit:</b>	2.2 % of GDP (2013)
<b>Inflation rate:</b>	0.37 % (2013)
<b>Employment rate:</b>	63.2 % (2013)
<b>Unemployment rate:</b>	10.2 % (2013)

The economy of **Hungary** is a medium-sized, structurally, politically and institutionally open economy in Central Europe and is part of the European Union's (EU) single market. The economy of Hungary experienced market liberalization in the early 1990s as part of the transition from a socialist economy to a market economy, similarly to most countries in the former Eastern Bloc. Hungary is a member of the Organisation for Economic Co-operation and Development (OECD) since 1995, a member of the World Trade Organization (WTO) since 1996, and a member of the European Union since 2004.

### 14.3.1 Economic Indicators of Hungary

The private sector accounts for more than 80% of the Hungarian GDP. Foreign ownership of and investment in Hungarian firms are widespread, with cumulative foreign direct investment worth more than \$70 billion. Hungary's main industries are mining, metallurgy, construction materials, processed foods, textiles, chemicals (especially pharmaceuticals), and motor vehicles. Hungary's main agricultural products are wheat, corn, sunflower seed, potatoes, sugar beets; pigs, cattle, poultry, and



dairy products. The economy showed signs of recovery in 2011 with decreasing tax rates and a moderate 1.7 percent GDP growth. From November 2011 to January 2012 all three major credit rating agencies downgraded Hungarian debt to a non-investment speculative grade, commonly called “junk status”. In part this is because of political changes creating doubts about the independence of the Hungarian National Bank. Interest rates on new government bonds increased to near 10%. European Commission President José Manuel Barroso wrote to Prime Minister Viktor Orbán stating that new central bank regulations, allowing political intervention, “seriously harm” Hungary’s interests, postponing talks on a financial aid package. Orbán responded “If we don’t reach an agreement, we’ll still stand on our own feet”.

The European Commission launched legal proceedings against Hungary on 17 January 2012. The procedures concern Hungary’s central bank law, the retirement age for judges and prosecutors and the independence of the data protection office, respectively. One day later Orbán indicated in a letter his willingness to find solutions to the problems raised in the infringement proceedings. On 18 January he participated in plenary session of the European Parliament which also dealt with the Hungarian case. He said “Hungary has been renewed and reorganised under European principles”. He also said that the problems raised by the European Union can be resolved “easily, simply and very quickly”. He added that none of the EC’s objections affected Hungary’s new constitution. For detailed information see Table 14.6 and 14.7.

**Table 14.6** Hungary in numbers – Economy

<b>GDP</b>	\$198.1 billion (2011 est.)	<b>Gini coefficient</b>	28 (2005)
<b>GDP growth</b>	1.7% (2011 est.)	<b>Labour force</b>	4.2 million (2009 est.)
<b>GDP per capita</b>	\$19,800 (2011 est.)	<b>Labour force by occupation</b>	agriculture: 4.7%; industry: 30.9%; services: 64.4% (2010 est.)
<b>GDP by sector</b>	agriculture: 3.3%; industry: 30.8%; services: 65.9% (2010 est.)	<b>Unemployment</b>	10.9% (May 2012)
<b>Inflation (CPI)</b>	4.2% (Nov 2010)	<b>Average gross salary</b>	880 € / 1,188 \$, monthly (2006)
<b>Population below poverty line</b>	13.9% (2010 est.)		

**Source:** [http://en.wikipedia.org/wiki/Economy\\_of\\_Hungary#cite\\_note-3045t\\_blamell\\_klet\\_tabl-66](http://en.wikipedia.org/wiki/Economy_of_Hungary#cite_note-3045t_blamell_klet_tabl-66)

**Table 14.7** Hungary in numbers – External data

<b>Exports</b>	\$82.49 billion (2009 est.)
<b>Export goods</b>	machinery and equipment 61.1%, other manufactures 28.7%, food products 6.5%, raw materials 2%, fuels and electricity 1.6%
<b>Main export partners</b>	Germany 25.4%, Italy 5.2%, Romania 5.1%, Austria 4.7%, Taiwan 4.5%, Slovakia 4.5%, France 4.5%, UK 4.4% (2008)
<b>Imports</b>	\$75.93 billion (2009 est.)
<b>Import goods</b>	machinery and equipment 51.6%, other manufactures 35.7%, fuels and electricity 7.7%, food products 3.1%, raw materials 2.0%
<b>Main import partners</b>	Germany 24.6%, Russia 8.7%, China 7.2%, Austria 6%, Taiwan 4.9%, Netherlands 4.4%, France 4.2%, Italy 4.1% (2008)
<b>FDI stock</b>	\$238.5 billion (31 December 2009 est.)
<b>Gross external debt</b>	\$150.3 billion (31 December 2009 est.)
<b>Public finances</b>	
<b>Public debt</b>	79.6% of GDP (2010 est.)
<b>Revenues</b>	\$54.8 billion (2009 est.)
<b>Expenses</b>	\$59.86 billion (2009 est.)

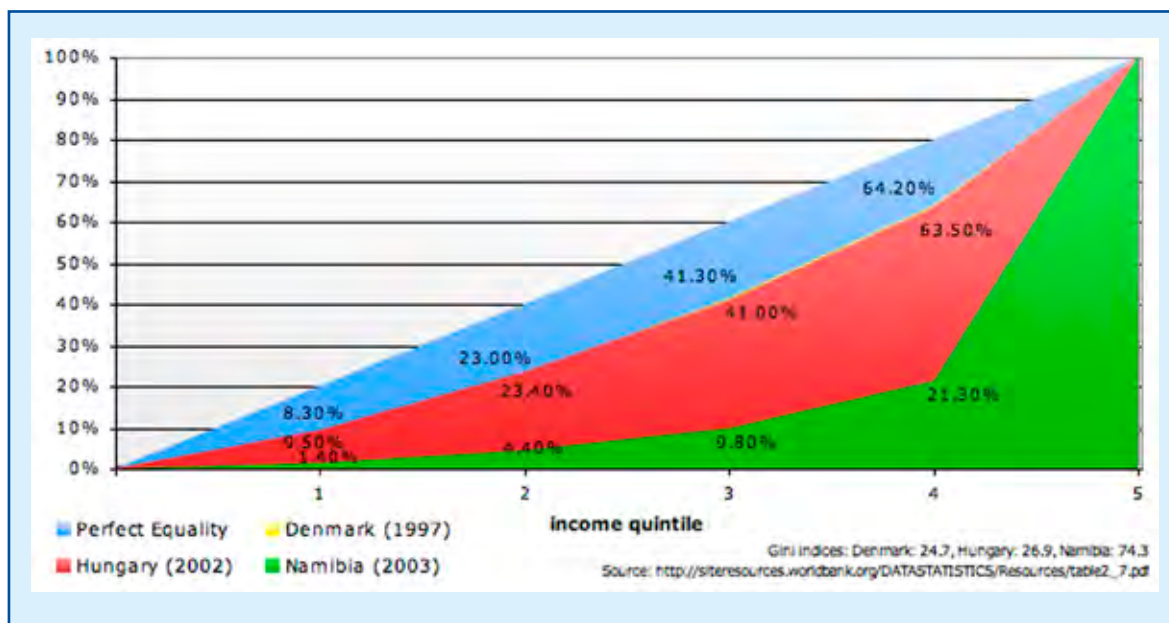
**Source:** [http://en.wikipedia.org/wiki/Economy\\_of\\_Hungary#cite\\_note-3045t\\_blamell\\_klet\\_tabl-66](http://en.wikipedia.org/wiki/Economy_of_Hungary#cite_note-3045t_blamell_klet_tabl-66)



### 14.3.2 Demographic Indicators of Hungary

As most post-communist countries, Hungary's economy is affected by its social stratification in terms of income and wealth, age, gender and racial inequalities.

Hungary's **Gini coefficient** of 0.269 ranks 11<sup>th</sup> in the world. The graph (Figure 14.8) on the right shows that Hungary is close in equality to the world-leader **Denmark**. The highest 10% of the population gets 22.2% of the incomes. According to the business magazine *Napi Gazdaság*, the owner of the biggest fortune, 300 billion HUF, is Sándor Demján.



■ **Figure 14.8** Lorenz curve of Denmark, Hungary, and Namibia  
 Source: [http://en.wikipedia.org/wiki/Economy\\_of\\_Hungary#Human\\_capital](http://en.wikipedia.org/wiki/Economy_of_Hungary#Human_capital)

On the other hand, the lowest 10% gets 4% of the incomes. Considering the standard EU indicators (Percentage of the population living under 60% of the per capita median income), 13% of the Hungarian population is stricken by poverty. According to the **Human Development Report**, the country's **HPI-1** value is 2.2% (3<sup>rd</sup> among 135 countries), and its **HDI** value is 0.879 (43<sup>rd</sup> out of 182).

The fertility rate in Hungary, just like in many European countries, is very low: 1.34 children/women (205<sup>th</sup> in the world) Life expectancy at birth is 73.3 years., while the expected number of healthy years is 57.6 for females and 53.5 for males. The average life expectancy overall is 73.1 years.

Hungary's **GDI (gender-related development index)** value of 0.879 is 100% of its **HDI** value (3<sup>rd</sup> best in the world). 55.5% of the female population (between 15 and 64) participate in the labour force, and the ratio of girls to boys in primary and secondary education is 99%.

### 14.3.3 Doing Business in Hungary

In Hungary the foundation of business is quite well organised. The different requirements can be seen in Table 14.8.

In Hungary the main industries are as follows:

- Automotive industry (Audi, Mercedes-Benz, Suzuki).
- Electronics (Bosch, Videoton, Siemens, Samsung, Lear, Nokia, Elektrolux, TDK).
- Pharmaceuticals.
- ICT sector.
- Food industry.
- **Tourism** (Investing Guide Hungary 2012).

**Table 14.8** Founding business in Hungary

	Limited partnership	Limited liability company	Private company limited by shares	Public company limited by shares
<b>Main characteristics</b>	<ul style="list-style-type: none"> <li>- business association with legal personality</li> <li>- at least one member with unlimited liability</li> <li>- at least one other member is only obliged to provide a capital contribution (limited liability)</li> </ul>	<ul style="list-style-type: none"> <li>- business association with legal personality</li> <li>- established with an initial capital contribution, the amount of which is predetermined by law</li> <li>- the members are only liable up to the amount of their capital contribution (limited liability)</li> </ul>	<ul style="list-style-type: none"> <li>- business association with legal personality</li> <li>- established with share capital consisting of shares of a pre-determined number and face value</li> <li>- invitations to the public to subscribe for shares are prohibited</li> </ul>	<ul style="list-style-type: none"> <li>- business association with legal personality</li> <li>- only existing private companies limited by shares can be transformed into this type of business association</li> <li>- the shares can only be subscribed publicly</li> </ul>
<b>For whom recommended</b>	founders who do not have the minimum capital required for a limited liability company	generally recommended because of limited liability	founders who have the required minimum capital and intend to provide different rights to the members of the company in the form of preference shares (i.e. preferred dividends, preference related to voting rights, etc.)	it is usually recommended only if the company's activity requires public founding
<b>Minimum numbers of founders</b>	two	one	one	two
<b>Minimum amount of initial capital</b>	HUF 1/member	HUF 3,000,000 (cca EUR 10,000)	HUF 5,000,000 (cca EUR 16,667)	HUF 20,000,000 (cca EUR 66,667)

**Source:** PWC (2014). Investing Guide Hungary 2014



### V4 MARKETING INSIGHTS

Tourism employs nearly 150 thousand people and the total income from tourism was 4 billion euros in 2008. One of Hungary's top tourist destinations is **Lake Balaton**, the largest freshwater lake in Central Europe, with a number of 1,2 million visitors in 2008. The most visited region is **Budapest**, the Hungarian capital attracted 3,61 million visitors in 2008.

Hungary was the world's 24th most visited country in 2011. The Hungarian spa culture is world-famous, with thermal baths of all sorts and over 50 spa hotels located in many towns, each of which offer the opportunity of a pleasant, relaxing holiday and a wide range of quality medical and beauty treatments.

In Hungary the tourism is one of the most important sectors and its potential is also promising in the long-run following the worldwide trend. The tourism has several types and in Hungary wine tourism as well as thematic tourism plays an important role (Lehota, J., Szabó Z., Gergely A., 2010; Szabó Z., Komáromi-Gergely A., 2011). One of the most important wine regions in Hungary is Tokaj, which faces several challenges according to Szakal and Karpati (2009):

- The current position of Tokaj Wine Specialities in gastronomy and culture makes their frequent consumption difficult.
- The tourism developments of the given region would considerably promote the popularity of consumption on site. Conscious investments would enhance the weight of sale on site on the sales market of Tokaj Wine Specialities.
- The Austrian example shows that expertness in wine largely affects the sale of Tokaj Wine Specialities and similar products. Higher life standard also favourably influences the turnover of Wine Specialities.
- The current position of Tokaj Wine Specialities in gastronomy and culture makes their frequent consumption difficult.

Wine tourism is one of the most important ways to introduce wines to the consumers. It is an effective method to improve the wine culture. **Tokaj** is one of the leading wine regions in Hungary and has a great role to strengthen the image of the domestic wines through the concepts of wine marketing elements. The Tokaj producers have great responsibility – just like the

other Hungarian wine producers – to re-engineer wine culture, quality wine consumption and increase the role of wine events. **Wine tourism** as an outstanding wine marketing element contains the wine festivals and wine fairs that are able to affect the entire wine culture positively and influencing the next generation's wine consuming behaviour.

Tokaj-Hegyalja, was declared one of the world heritages site in 2002 and as producer of the world's oldest botrytized, basically sweet/dessert wines. Characteristics to the region are the number of unparalleled assets like the incomparable soil and microclimate (clay or loess soil on top of volcanic subsoil), the microclimate determined by the sunny, south-facing slopes and the proximity of the Tisza and Bodrog rivers, conducive to the proliferation of *Botrytis cinerea* (noble rot) and the subsequent shrivelling of the grapes (that leads to the development of aszú vine).

The region has gone through the privatization and we can observe stronger market orientation, quickly changing conditions (changing corporate environment, technological changes, transformation of ownership relations). Small- and medium-scale enterprises have a decisive role in corporate structure of the grape-vine and wine sectors (barriers to information gathering, deficiencies of strategic planning and way of thinking, limited human resources). The life-cycle of grape-vine- and wine production technology is long (slow adaptation, high demand for capital). There were important foreign investments. The research and innovation activities are fragmented, state involvement and support is decreased. A well organised extension and knowledge transfer institution is missing.

#### Possible ways to orient marketing strategy:

- Drafting a detailed concept for the international awareness of Hungarian wines (possibly focused on a prioritized vine growing region and, by all means, in line with the National Wine Marketing Strategy).
- Establishing communication and organizational modalities for the Society for the Admirers of the Hungarian Wine.
- Establishing new and developing former measurement methods for sales and distribution performance of Hungarian wines.

- Exploring the relationship between wine consumer choice and individual environmental concerns.
- Special focus on integrated tourism development.
- Developing auxiliary activities related to the wine industry (barrel production) or product for tourism (handicrafts).

The festival or fair is a selected place, event or situation to introduce a certain company's product in order to attract consumers to reach the targeted aims. (Papp, 1998) The festival and fair are such simulated market situation where the supply and demand are concentrated in space and time.

**Main elements of the tourism development:**

- Decreasing seasonal fluctuation, winter and spring time very few visitors.
- Positive changes recently:
    - improved offer for tourists,
    - important development in infrastructures for receiving more and more visitors,
    - several and well established cellars can be visited by the tourists,
    - hotel capacity is increased,
    - regular, yearly repeated events are organized.
  - Missing an integrated and harmonized marketing system.

More coordination is needed between the township in the field of marketing plans to increase the staying period in the region for better using the colorful natural and cultural attractions, this is the basic factor for the competitiveness towards Hungarian and foreigner tourists.



■ **Figure 14.9** Tasty food, good wine, typical langosch – gastronomic attractions to visit Hungary  
 Photo: Elena Horská, Green Week, Berlin 2009

### 14.4 Česká republika – Czech Republic



<b>Accession to the EU:</b>	2004
<b>System of government:</b>	a republic
<b>Political system:</b>	parliamentary republic
<b>Population:</b>	10 509 377 (as of 31 March 2010)
<b>Area:</b>	78 864 sq.km
<b>Capital city:</b>	Praha (Prague)
<b>Largest cities:</b>	Brno, Ostrava, Plzeň a Liberec
<b>Official Language:</b>	Czech
<b>Time zone:</b>	Central European Time CET/CEST (UTC+1h)
<b>Highest peak:</b>	Sněžka (Snow) Mountain (1602 m above sea level)
<b>Time zone:</b>	Central European Time GMT + 1, summer time GMT + 2
<b>Monetary unit:</b>	1 Czech crown (Kč/CZK) = 100 halers
<b>Internet domain:</b>	.cz
<b>GDP per capita:</b>	26,706 (as of 2012)

**The Czech Republic's** economic freedom score is 70.9, making its economy the 29<sup>th</sup> freest in the 2013 Index. Its overall score is 1.0 point better than previous years, with substantial increases in labor freedom and the management of government spending offsetting a decline in freedom from corruption. The Czech Republic is ranked 15<sup>th</sup> out of 43 countries in the Europe region, and its overall score is higher than the regional and global averages.

The Czech economy's ongoing transition to greater openness and flexibility has been facilitated by a decade of substantial restructuring. Open-market policies have sustained global trade and investment flows and enabled the economy to capitalize on regulatory efficiencies achieved through earlier reforms. Competitive tax rates have encouraged the development of a growing entrepreneurial sector. The government is placing a high priority on fiscal discipline and striving for budgetary balance after years of fiscal deficits.

The Czech Republic has weathered the impact of the global economic downturn and the European sovereign debt turmoil relatively well, with the economy demonstrating a high degree of resilience. However, lingering corruption increases the overall cost of doing business, and continued reform to strengthen the foundations of economic freedom will be indispensable in ensuring vibrant economic development in coming years. The President of the Czech Republic is Miloš Zeman.

The income tax rate is a flat 15 percent, and the standard corporate tax rate is 19 percent. Other taxes include a value-added tax (VAT) and an inheritance tax. The overall tax burden equals 34.9 percent of total domestic income. Government spending has stabilized at about 43.4 percent of total domestic output. The budget has been in deficit, driving public debt to over 40 percent of GDP. The euro crisis forced deficit-cutting measures on the government in 2013.

The streamlined regulatory process has become more supportive of entrepreneurial activity. Recent reforms have reduced both the cost and the number of procedures required to launch a company, although the pace of reform has slowed in comparison to other comparable economies. The labor market is relatively flexible. Inflation decelerated as the economy contracted in 2013, but some goods and services remain subject to price controls.





■ **Figure 14.10** Culture of drinking beer and innovative approaches in Czech pubs  
**Photo:** Jakub Berčík, Brno 2014



■ **Figure 14.11** Hluboka – neogothic castle of the former noble family of Schwarzenberg in Southern Bohemia, near České Budějovice  
**Photo:** Gabriela Slivinská, 2014

As with other European Union countries, the trade-weighted average tariff rate is a low 1.6 percent. The investment regime is relatively competitive, and foreign and domestic firms are treated equally. Most major state-owned companies have been privatized with foreign participation. The financial sector, diversified and competitive, has shown its resilience in maintaining capital levels and liquidity.

### 14.4.1 The Business Environment in Czech Republic

For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares with the regulatory environment in other economies.

Doing Business provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 189 by the ease of doing business index. For each economy the index is calculated as the ranking on the simple average of its percentile rankings on each of the 10 topics included in the index in Doing Business 2014: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. The ranking on each topic is the simple average of the percentile rankings on its component indicators (see the data notes for more details). The employing workers indicators are not included in this year's aggregate ease of doing business ranking, but the data are presented in this year's economy profile (Table 14.9). The Czech Republic is ranked 6 with an Economic Complexity Index (ECI) of 1.67932

**Table 14.9** The easy of doing business in the Czech Republic and selected countries

Countries	Czech republic	Italy	Hungary	Slovak republic	Poland	Germany	UK
Rank	75	65	54	49	45	21	10

Source: Doing Business database



## V4 MARKETING INSIGHTS

### Where does Czech republic export to and import from?

Export Destinations	Percent	Import destination	Percent
Germany	29.68%	Germany	26%
Slovakia	7.42%	China	11%
Poland	5.29%	Poland	7.30%
France	5.27%	Slovakia	6.40%
UK	4.96%	Russia	4.90%
Austria	4.56%	Italy	4%
Netherlands	4.23%	Netherladns	3.80%
Russia	4.17%	Austria	3.20%
Italy	3.77%	France	3.20%
Belgium	2.78%	Hungary	2.50%

Source: OEC. 2014. <<http://atlas.media.mit.edu/profile/country/cze/>>



## V4 MARKETING INSIGHTS

<b>Top 5 Products exported by The Czech Republic</b>	Cars (10%), Vehicle Parts (6.8%), Computers (6.3%), Rubber Tires (1.6%), and Telephones (1.6%)
<b>Top 5 Products imported by The Czech Republic</b>	Vehicle Parts (5.3%), Computers (5.1%), Petroleum Gas (3.5%), Crude Petroleum (3.3%), and Office Machine Parts (2.2%)
<b>Top 5 Export destinations of The Czech Republic</b>	Germany (30%), Slovakia (7.4%), Poland (5.3%), France (5.3%), and United Kingdom (5.0%)
<b>Top 5 Import origins of The Czech Republic</b>	Germany (26%), China (11%), Poland (7.3%), Slovakia (6.4%), and Russia (4.9%)



## Literature

- CZINKOTA, M. – RONKAINEN, I. et al. 1996. *Global Marketing Imperative*. South-Western: McGraw-Hill. p. 339. ISBN(10) 0844230103. ISBN(13) 9780844230108.
- CZWITKOVICS, T. 2013. *Akí sú Slováci spotrebiteľia? Ešte si doprajú. Napriek kríze*. [online]. Available at: <<http://www.etrend.sk/trend-archiv/rok-2013/cislo-19/este-si-doprajeme-napriek-krize.html>>.
- EUROSTAT. 2014. [online]. Available at: <<http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>>.
- FOLLACH, E. – PUHL, J. 2012. *Poland Emerges as a Central European Powerhouse*. The Miracle Next Door. “Der Spiegel”, 25.05.2012.
- GESTELAND, R.R. 2005. *Cross-Cultural Business Behavior: Negotiating, Selling, Sourcing and Managing Across Cultures*. Copenhagen : Copenhagen Business School Press.
- GFK Shopping Monitor Slovakia. 2013. *GFK about purchasing behavior of Slovaks. The small stores influence customers, distance to home decides*. [online]. Available at: <<http://tlacovespravy.wordpress.com/2013/03/12/gfk-zverejnil-hlavne-zistenia-tykajúce-sa-nakupneho-spravania-a-spotrebiteľských-preferencií-slovakov/>>.
- GLOWIK, M. – SMYCZEK, S. 2011. *International Marketing Management: Strategies, Concepts and Cases in Europe*. R Oldenbourg Verlag GmbH. p. 338. ISBN(10) 3486597493. ISBN(13) 978-3486597493.
- HAUSMANN, R. – HIDALGO, C.A. – BUSTOS, S. – COSCIA, M. – CHUNG, S. – JIMENEZ, J. – SIMOES, A. – YILDIRIM, M. 2011. *The Atlas of Economic Complexity*. Cambridge MA : Puritan Press.
- HOLLENSEN, S. 2011. *Global Marketing: A Decision-Oriented Approach*. 5<sup>th</sup> ed. England : Pearson Education. p. 756. ISBN 978-0-273-72622-7.
- HORSKÁ, E. – ÜRGEOVÁ, J. – PROKEJNOVÁ, R. 2011. *Consumers’ Food Choice and Quality Perception: Comparative Analysis of Selected Central European Countries*. In *Agricultural Economics International Scientifics Magazine*, Vol. 57, No. 10. pp. 493-499. Praha : Ústav zemědělských a potravinářských informací. ISSN 0139-570X.
- ICKES, B.W. – VON HAGEN, J. – TRAISTARU, I. 2003. *Central and Eastern Europe: Economic Developments, Reforms, and Geography*. In SCHWAB, K. (Ed.) *The Global Competitiveness Report 2002–2003*. Oxford – New York : Oxford University Press.
- INCOMA research. [online]. Available at: <[http://www.incoma.sk/slovak-retail-summit-2013/Slovak\\_Retail\\_Summit\\_2013](http://www.incoma.sk/slovak-retail-summit-2013/Slovak_Retail_Summit_2013)>.
- INSTORE Slovakia. 2013. *Najvýhodnejšie nákupy robíme v Kauflande*. September 2013. [online]. Available at: <<http://www.instoreslovakia.sk/survey>>.

- KLEINDL, M. 2007. *International Marketing*. Thomson South-Western. p. 328. ISBN(10) 0538729155. ISBN(13) 978-0538729154.
- LABANC, M. 2014. *Nákupné centrá budú naďalej pribúdať*. In Magazine Obchod. Vol. 19, No. 1/2014, Feb. 2014, p. 12. Bratislava : Ecopress.
- LEHOTA, J. – SZABÓ, Z. – GERGELY, A. 2010. Possible marketing techniques to promote the Szatmár-Bereg Plum Tour. In ÁRVA, L. – DELI-GRAY, Zs. (Eds.) *Cases in Tourism Marketing*. Budapest : Műegyetemi Kiadó. pp. 125-138. ISBN 978-963-313-012-4.
- MOLE, J. 2003. *Mind Your Manners: Managing Business Cultures in the New Global Europe*. 3<sup>rd</sup> ed. London – Yurmouth : Nicholas Brealey.
- OBCHOD Magazine. 2013. *Pri nákupe potravín značka príliš nerozhoduje*. Vol. 18, No. 12, Dec. 2013. p. 10. Bratislava : Ecopress.
- OECD (The Observatory of Economic Complexity). 2014. *Learn More About Trade in The Czech Republic*. [online]. Available at: <<http://atlas.media.mit.edu/profile/country/cze/>>
- PIĄTKOWSKA A. et al. 2012. *Poland 2012*. Report on Economy. Warsaw : Ministry of Economy.
- POZNAN Interantional Fair. [online]. Available at: <[http://en.wikipedia.org/wiki/Pozna%C5%84\\_International\\_Fair](http://en.wikipedia.org/wiki/Pozna%C5%84_International_Fair)>.
- PRI NÁKUPE potravín značka príliš nerozhoduje. 2013. In Magazine Obchod. pg. 10. Dec.2013. Vol. XVIII., No 12.
- PWC. 2014. *Investing Guide Hungary 2014*. Published by PricewaterhouseCoopers Hungary Ltd. in cooperation with Hungarian Investment and Trade Agency. [online]. Available at: <[http://www.pwc.com/hu/hu/publications/investing-in-hungary/assets/investing\\_guide\\_en\\_2014.pdf](http://www.pwc.com/hu/hu/publications/investing-in-hungary/assets/investing_guide_en_2014.pdf)>
- SARIO. 2012. *Invest in Slovakia*. [online]. Available at: <[http://www.brema.sk/dokumenty/12\\_08\\_Invest\\_in\\_Slovakia.pdf](http://www.brema.sk/dokumenty/12_08_Invest_in_Slovakia.pdf)>.
- SIMOES, A. J. G. – HIDALGO, C.A. 2011. *The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development*. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence.
- STATISTICAL Office of Slovakia. [online]. Available at <<http://portal.statistics.sk/showdoc.do?docid=194>>.
- STRATEGIE Magazine. 2013. Vol. 19, No. 5, May 2013. p. 54. p. 56–57. ISSN 1335-2016. Bratislava : Ecopress HN.
- STRATEGIE Magazine. 2014. Vol. 20, No. 5, May 2014. p. 42, p. 45. ISSN 1335-2016. Bratislava : Ecopress HN.
- STRATEGIE Magazine. May 2012. p. 62. p. 64-65. ISSN 1335-2016. Bratislava : Ecopress HN.
- SZABÓ, Z. – KOMÁROMI-GERGELY, A. 2011. *Turisztikai és vendéglátó marketing – Esettanulmány Budavári Borfesztivál*. Gödöllő : Szent István Egyetemi Kiadó. 180 p. ISBN 978-963-269-245-6.
- SZAKÁL, Z. – KÁRPÁTI, L. 2009. *Marketing characteristics of Tokaj wine specialities based on factor and cluster analyses*. Wageningen : Apstract.
- WORLD Bank. 2012. *Doing Business 2013. Smarter Regulations for Small and Medium-Size Enterprises*. Washington, DC : World Bank. October 2012.
- WORLD Bank. 2013. *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*. Washington, DC : World Bank Group. 111 p. DOI: 10.1596/978-0-8213-9615-5. License: Creative Commons Attribution CC BY 3.0. [online]. Available at: <[http://www.doingbusiness.org/data/exploreeconomies/czech-republic/~media/giawb/doing%20business/documents/profiles/country/CZE.pdf?ver=2](http://www.doingbusiness.org/data/exploreeconomies/czech-republic/~/media/giawb/doing%20business/documents/profiles/country/CZE.pdf?ver=2)>.



## List of Authors



### prof. Dr. Ing. Elena Horská

Professor of Marketing and Management at the Department of Marketing, Faculty of Economics and Management, Slovak University of Agriculture in Nitra. Vice-dean for international relations at the Faculty of Economics and Management in 2003–2010 and vice-rector for international relations of the Slovak University of Agriculture in Nitra in 2010–2014. In 2011 she was awarded with title “Professor Honoris Causa” from side of the Delhi School of Professional Studies and Research, New Delhi, India. Her main research orientation includes internationalization within and beyond EU borders, identifying opportunities for doing business in neighbouring (Visegrad), European, less developed and emerging markets (focus agribusiness and agri-food market), consumer studies, neuromarketing and visual merchandising. In 2011 she was a visiting professor at the Delhi School of Professional Studies and Research in New Delhi, India, in 2011 and 2012 a visiting professor at the Kazakh National Agrarian University in Almaty, Kazakhstan, Erasmus teacher in Finland, Italy, Portugal, Spain and Ireland and CEEPUS teacher in Croatia, Hungary, Austria and Poland. She has been a successful project coordinator of 6 national or international research projects and 22 international educational projects (Grundtving, Jean Monnet, Leonardo da Vinci, Tempus, Mundus, Erasmus plus, Visegrad University Studies Grant). She is an author of more than 200 publications, including 6 national/international books for students, 10 national/international monographs published in Slovakia, Czech Republic, Poland, Austria, Spain, Romania and Croatia, and conference papers presented during the international conferences in Thailand, China, Malta, Ghana, Hungary, Crete, Poland, Czech Republic, Austria, Brasil, Indonesia, USA and Singapore. She is a coordinator of the double-degree program “Agrarian Marketing and Trade” organized jointly with the Russian State Agrarian University – Moscow Timiryazev Academy in Moscow, Russia and a member of the European Accreditation Agency for the Life Sciences Board (with EAALS Secretariat in France). **E-mail: Elena.Horska@gmail.com**



### Ing. Renáta Benda Prokeinová, PhD.

Assistant professor at the Department of Statistics and Operations Research, Faculty of Economics and Management of the Slovak University of Agriculture in Nitra. During her tenure at the department is a research focused on the quantitative analysis of several aspects of sustainability. In addition to her own research is actively involved in cooperation at various marketing research tasks at the Department of Marketing. **E-mail: renataprokein@gmail.com**



### Ing. Jana Gálová

PhD Student and assistant lecturer at the Department of Marketing, Faculty of Economics and Management of the Slovak University of Agriculture in Nitra, Slovakia. Her dissertation topic is devoted to international marketing strategies for emerging markets, with focus on Ukraine where she was on a research stay during September 2013. She has published about the topic of doing business in emerging markets scientific papers and chapters, as co-author in international scientific monograph published in Kraków, Poland and international textbook published in Almaty, Kazakhstan. She is also the project manager of the mobility network CEEPUS entitled “Applied Economics and Management”. **E-mail: galovajanka@gmail.com**



### Ing. Zdenka Kádeková, PhD

Assistant professor at the Department of Marketing, Faculty of Economics and Management of the Slovak University of Agriculture in Nitra, Slovakia. Her professional teaching activities are focused on the following subjects: Marketing, Management of the Business Company, Commercial Operations and Merchandising, Strategic Marketing, within the MBA program teaches Marketing and Social Networks in English. The results of her scientific – research work were published in the scientific papers published in several foreign and domestic scientific proceedings, journals and monographs. **E-mail: zdenka\_kadekova@yahoo.com**





### **Dr hab. inż. Andrzej Krasnodębski**

Associate professor at the Department of Management and Marketing in Agribusiness at the Faculty of Agricultural and Economics of the University of Agriculture in Krakow, Poland. Vice-dean for study branches Economics and Management since 2012. The focus of his research includes the economic aspects of milk production, factors of unemployment in agricultural regions, business planning, sustainable development, and rural agribusiness and SME development. He teaches Agricultural economics, Business economics, Business finance, Entrepreneurship, Economics of livestock production, Strategic management, Process management and SME management and marketing. **E-mail: rkrasno@cyf-kr.edu.pl**



### **Assoc. prof. Ing. Mansoor Maitah, Ph.D. et Ph.D.,**

Associate Professor of macroeconomics and international economics at the Department of Economics, Faculty of Economics and Management, Czech University of Life Sciences Prague. The focus of his recent research is macroeconomics, political economy and international trade relations. Mansoor Maitah received his first Ph.D. from University of Economics, Prague, his second Ph.D. from Charles University in Prague and his Master of Science degree was completed at the Czech Technical University – ČVUT. **E-mail: maitah@pef.czu.cz**



### **Dr inż. Renata Matysik-Pejas**

Academic teacher in the Department of Management and Marketing in Agribusiness at the Faculty of Agricultural and Economics of the University of Agriculture in Krakow. Author of over 80 publications, including journal articles, chapters in books, chapters in academic textbooks. Her research interests include: marketing in the field of agribusiness, the impact of marketing instruments on the behavior of food buyers, innovative aspects of consumer behavior. **E-mail: rmatysi@cyf-kr.edu.pl**



### **prof. Ing. Eudmila Nagyová, PhD.**

Professor of Marketing and Management and the head of Department of Marketing at the Faculty of Economics and Management of the Slovak University of Agriculture in Nitra. Her professional teaching activities are focused on Marketing, Market Research, Marketing Communication, European Consumer and Consumer Behaviour and Retailing and Merchandising. Author a lot of publication, including the scientific monographs published on foreign and domestic level, scientific articles, university textbooks and books. Coordinator and the member of the research teams VEGA, KEGA and applied research in the area of food quality policies at European and national level, socially responsible marketing, consumer behaviour, globalization in retails, consumer behaviour and neuroscience. **E-mail: ludmilanagyova@hotmail.com**



### **Ing. Johana Paluchová, PhD.**

Assistant professor at the Department of Marketing, at the Faculty of Economics and Management of the Slovak University of Agriculture in Nitra. Her teaching experiences are in the area of International Marketing, Services Marketing, Managerial Communication and Consumer Behavior. She teaches in Slovak and English language too. In the last years, she attended a lecture stays at BOKU (Wien), FH Joanneum (Graz), SGGW (Warsaw), Agriculture University (Krakow), Mendel University (Brno), University of National and World Economy (Sofia), Russian State Agrarian University – Moscow Timiryazev Academy (Moscow), SPbGAU (St. Petersburg), National University of Environmental and Life Science (Kiev) and others. **E-mail: johana.paluchova@gmail.com**



### **Associate professor Meruert Omarkulova, CSc.**

Associate professor at the Kazakh National Agrarian University in Almaty, Kazakhstan, delivering lectures in Marketing, Strategic Marketing, Project Management at the Department of Agri-food Economics and Management. In 2012 she was awarded with the award “The Best Teacher” of the university and in 2013 she was the visiting teacher at the Slovak University of Agriculture in Nitra. **E-mail: meruertob@mail.ru**

**Ing. Martin Přibyl, PhD.**

Assistant professor and the head of the Department of Marketing and Trade at the Private College of Economic Studies, Znojmo, Czech Republic where he teaches courses focusing on communication, marketing, public relations and presentation skills. He also deals with project management and consulting and lecturing. He is also active in the position of the Secretary of the Institute of Lifelong Learning at the Mendel University in Brno. **E-mail: martinpribyl@centrum.cz**

**doc. Ing. Euboš Smutka, PhD.**

Associate professor of economics at the Czech University of Life Sciences in Prague, Czech Republic. His area of specialization includes: international economics, foreign trade, agrarian policy, economic policies, business economics and management, world trade with agrarian products and world agricultural economy. Also having international experience in Royal Veterinary and Agricultural University in Copenhagen (Denmark), in University of Debrecen (Hungary) and in International Centre for Land Policy Studies and Training, Taiwan. He is an author of more than 200 papers, monographs, student books etc. (world trade, European foreign trade, Czech foreign trade, world agricultural production and consumption, agricultural trade etc.), which were presented and published in the Czech Republic and abroad (Hungary, Ukraine, India, Indonesia, Mexico, Slovakia, France and Poland). More than thirty publications are recorded in WoS and over forty are recorded in SCOPUS. **E-mail: smutka@pef.czu.cz**

**Dr. habil. Zoltan Szabo, PhD., MBA**

Associate professor, a head of Marketing Management Department at the Szent Istvan University Gödöllő, Hungary. He created his PhD in wine marketing at SZIU and did an MBA at Webster University as well in 2007. He has done the habilitation in 2013. With different subjects he is involved in educating at BA, MSc, MBA and PhD levels. He participated at several international research projects like Leonardo da Vinci, ENDURE. He is involved in several FAO, ERASMUS, CEEPUS and V4 programs. **E-mail: Szabo.Zoltan@gtk.szie.hu**

**Prof. UEK dr hab. Krzysztof Wach**

Associate professor of international entrepreneurship at the Cracow University of Economics, Poland, head of the Centre for Strategic and International Entrepreneurship, Habilitated doctor (DEcon) of economics (international entrepreneurship), PhD in management (strategic entrepreneurship), the author of several books and over 100 articles, the editor-in-chief of the scientific quarterly 'Entrepreneurial Business and Economics Review' (EBER), the member of editorial boards of several scientific journals, including the annual 'Entrepreneurship – Education' and 'Horizons of Politics,' an OECD and European Commission national expert for entrepreneurship, participant of various international education and research projects (e.g. Atlantis, Jean Monnet, IVE, CEI, Erasmus Mundus, Socrates Minerva, Erasmus+, CEEPUS), visiting professor in various American and European universities, including Grand Valley State University (USA), Roosevelt University in Chicago (USA), University of Detroit Mercy (USA), Loyola University Chicago (USA), Northumbria University at Newcastle (UK), Technical University of Cartagena (Spain). **Email: wachk@uek.krakow.pl**

**Elena Horská et al.**

**International Marketing: Within and Beyond Visegrad Borders**

Published as the textbook by WYDAWNICTWO EPISTEME in Krakow

Cover design ■ Peter Vince

Typography ■ Tatiana Šmehilová

Number of copies ■ 200

Print ■ WYDAWNICTWO EPISTEME

AQ-PQ ■ 28.12-28.57

**ISBN 978-83-7759-039-3**