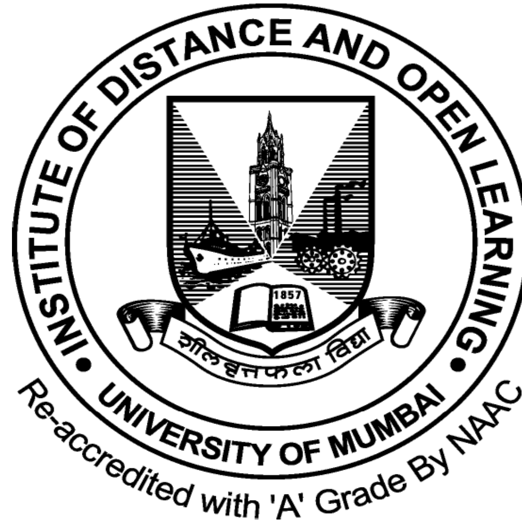
162



M. COM. (PART-II)

BUSINESS MANAGEMENT

PAPER - IV

INTERNATIONAL MARKETING

© UNIVERSITY OF MUMBAI

Dr. Sanjay Deshmukh
Vice Chancellor,
University of Mumbai

Dr. Ambuja Salgaonkar
Incharge Director
Institute of Distance and
Open Learning
University of Mumbai, Mumbai

Dr. D. Harichandan
Incharge Study Material,
Institute of Distance and
Open Learning
University of Mumbai, Mumbai

Programme Co-ordinator : **Mrs. Nilam Panditrao**
Lecturer-cum Assistant Director
(Accounts IDE)

Course Co-ordinator : **Dr. Gopinathan S.**
M. Com. MIB (IIFT), M. B. A. (HR), Ph. D.
Professor & Head of the Demaprtment of Commerce,
S. S. & L. S. Patkar College,
S. V. Road, Goregaon (West),
Mumbai - 400 062
e-mail ID : gopi4438@rediffmail.com

Course Writer : **Dr. A. M. Bhende**
M. Com., DHE, Ph. D.
Vice-Principal - P. D. Lions College,
Sunder Nagar, Malad (West),
Mumbai - 400 064

Reprint December 2015, M. Com (Part-II), Paper-IV, Business Management, International Marketing

Published by : Incharge Director
Institute of Distance and Open Learning ,
University of Mumbai,
Vidyanagari, Mumbai - 400 098.

DTP Composed : **Shree Graphic Centre**
28,Mangal Wadi, Mumbai - 4

Printed by : **Printography Systems (India) Pvt. Ltd.**
13/D, Kurla Industrial Estate, Nari Seva Sadan Road,
Narayan Nagar, Ghatkopar (W), Mumbai -400 086.

CONTENTS

Unit No.	Title	Page No.
1.	Introduction to International Marketing :	01
2.	International Marketing Environment	14
3.	International marketing strategy	53
4.	Procedural and policy framework	105
5.	Case Study Analysis	160

SYLLABUS

M.COM (PART-II) PAPER -IV
BUSINESS MANAGEMENT
INTERNATIONAL
MARKETING

Introduction :This course on International Marketing will enable the students to have an understanding of International Marketing practices, trends, strategies along with the procedural and policy framework involved in export trade.

Course Objectives :

1. To understand the trends and functioning of International Markets.
2. To understand the prevailing environment in International Market.
3. To understand the development of marketing plans and strategies in international trade.
4. To understand the procedural and policy framework involved in export trade.

Module-1
Introduction to International Marketing :

Meaning, features, reasons for entering international markets, trends in international trade, challenges of international marketing, driving and restraining forces in intentional marketing, maintenance international marketing decision, methods of payment in international trade, international trade theories, role of MNC's in international marketing, overview of India's foreign trade and problems of India's export sector.

Module-2

International Marketing Environment

Global economic environment, social and cultural environment, political, legal and regulatory environment in International market, trade barriers, trade blocs, WTO (incl. new developments at WTO) financial environment) incl. role of IMF, IBRD, IDA, IFC)

Module-3

International marketing strategy

Market entry strategies, selection of markets, product decision, pricing 'decisions, physical distribution, promotion strategies) incl. advertising and e-marketing).

Module-4

Procedural and policy framework

Foreign tade policy, export-import procedure, procedure inexport financing, procedure in export shipping, bank formalities, export risk insurance, export benefits and incentives, export documentation, service export, SEZ's (benefits and export obligations).

Module-S

Case Study Analysis

Suggested references

International Marketing-Philip R Cateora and John Graham
International Marketing-Varshney and Bhattacharya
International Marketing-P.K. Vasudev.
International Marketing & Export Management – Edwin Duerr, Jesper Strandskov Gerald Albaum.
International Marketing-Rathore.
International Marketing Management-Subhash Jain.
International Marketing-Francis Cherunilam
International Marketing-Analysis & Strategy-John Shaw & Sak Onkvisit
Global Marketing-Johansson.
Global Marketing Management- Warren Keegan.
Handbook of Global Marketing-D Lamont
Pepsi handbook of Indian Exports- Global Business Press.

1

INTERNATIONAL MARKETING

Learning Objectives :

i) Introduction
ii) Meaning
iii) Features
iv) Trends
v) Challenges
vi) Methods of Payments
vii) Role of MNCS in International Marketing
viii) Problems in export Sector.

Module-1

1.1 INTRODUCTION

Due to globalization, exports have become vital for economic development. No country can afford to remain isolated from the rest of the world. The world in fact, has become a global village. International Marketing is growing day by day, Since no country can claim to be self sufficient, it has to depend upon some other countries to reach its needs and requirements. International Marketing calls for Identifying needs and requirements of overseas buyers and meeting them. Since there is competition even from smaller countries for exports, there is a need to bench work the practices and performances against best of companies from other part of globe.

1.2 MEANING AND FEATURES

International Marketing calls for management of various activities from the receipt of copies export orders till it is executed.
International Marketing is defined as :
According to Hesi and Cateora "International Marketing is the performance of business activities that direct the flow of goods and services to consumers or uses in more than one nation".

According to Walsh "International Marketing is the marketing of goods and services across national frontiers".

The essential features of International Marketing are as follows

1. **<u>It is a process</u>**
   International Marketing is a lengthy process. It involves in entertaining and executing in international orders. For this

purpose it calls for process of production and distribution of goods and services. It also involves other marketing functions like pricing, branding, warehousing, advertising etc.

2. <u>It is a lengthy and time consuming process :</u>

International bus9ness calls for satisfaction of needs and requirements of International buyers. The goods should be tailor made as per their requirements, discovery of new markets, sales promotional activities, suitable pricing policy packing and packaging as per product requirements is a lengthy procedure.

3. BULK OPERATIONS:

International business is quite risky, Unlike domestic because it flows across the national boundaries, while domestic business can be carried on retail basis with lesser risk International business is not so is carried on wholesale basis.

4. DOMINANCE OF MULTINATIONAL CORPORATIONS (MNCs):

International Marketing is dominated by multinational Corporate. Earlier their presence was felt only in the pharmaceutical and medical fields Today, they play a dominant role in international marketing. They have wide contact through out the world through their network of branches/offices etc.

5. TARIFF AND NON-TARIFF BARRIERS:

Each nation wants to protect itself from products imported from other nations. For this purpose, various trade barriers (Tariff and Non-Tariff) are imposed. Due to globalization, there is relaxation in the imposition of tariff and Non-Tariff barriers.

6. TRADING BLOCS

Trading Blocs are formed in several countries for mutual benefit and economic development. The maintenance purpose of forming such blocs is to reduce or, culminate trade barriers among member nations. Regional blocs like EU, SARRC, ASEAN, NAFTA encourage free trade among member nations. Trade barriers are imposed by all nations.

7. FOREIGN EXCHANGE REGULATIONS.

International Marketing is subject to Foreign Exchange regulation imposed by countries. The regulations relate to payment and receipt of export proceeds. Under our constitution, the export process (in respect of consumer goods) should be realized within a period of 180 days from the day of shipment of goods.

8. INTERNATIONAL MARKETING RESEARCH

International Marketing is involved in creating new markets and exploring exports. Its purpose is to conduct research about

competitors, customers dealers etc. It should be noted that International Marketing research is quite different from domestic research.

9. RESEARCH & DEVELOPMENT :

In order to make product export worthy constant R & O in the filed of product, ingredients used, much be taken.

10. NEED FOR SUITABLE MARKETING MIX:

International Marketing calls for right marketing mix. Marketing mix is a construction of 4 Pcs-Product, price, place and promotions. It involved exporting right products at the right price. It the right place with right promotion.

NEEDS FOR EXPORTS :

International Marketing calls for services of experts in the import export trade, their services are required for meeting import export requirement. At time the exporters require experts to advertise their products in the importers country.

1.3 TRENDS IN INTERNATIONAL TRADE

As its seen earlier, due to globalization, the worlds has become a global village. The trends in International business have undergone a change from time to time. International business is curried on in Unusual conditions. Different countries have different political, legal and cultural aspects which greatly affect business activities. Such aspects do not influence domestic trade.

International business is greatly influenced by some of the factors mentioned below :-

a) Technological considerations.
b) Emergence of supportive institutions.
c) Competitive search from organizations
d) Improvement in financial policies.

(a) **TECHNOLOGICALCONSIDERATIONS :**

International business, over a period of time has undergone a sea change due to technological Advancements. Now a days many organizations the world over make use of advanced and sophisticated technology to update product and manufacture it in less time. (In the 1950 and 605 Japan did it and now China is doing the same. Once Technology is used then the organizations require bigger markets with lesser costs. This leads to expansion of business and in turn creation of demand the world over. The organization in China follow the same example to dominate the entire globe. They can also offered to sell the product at lesser price in a globalised economy and maximize profits.

(b) EMERGENCE OF SUPPORTIVE INSTITUTIONS :

To help International business, many supportive institutions like Exim Bank have been established. There are many financial institutions abroad which help domestic institutions to meet their financial difficulties. In many countries apart from EXIM Bank, International Bank for Reconstruction and Development assist different institutions to meet financial problems.

(c) COMPETITIVE SPIRIT FROM ORGANISATION :

Competition in organization from different countries is also one of the major reasons for International business. In the past we had heard of multinationals from West- USA, U.K. France, dominating the International business. But now the situation has reserved. The Indian Multinationals like TATAS, Mittals, Birla's have taken over several consumer and steel companies and dominate International business competitions is a term used when organizations find it different to adjust to the present day conditions in terms of product pricing, quantity, delivery, profit etc. Many organizations import raw materials and semi furnished goods only to convert them into finished ones and selling them in International marketing at competitive rates to earn profits. Some time these organizations establish offices abroad minimize risk, costs and make profits.

1.4 CHALLENGES IN INTERNATIONAL MARKETING

Since International Marketing operates in diverse environments, it has to face a large number of challenges during its operations. These challenges includes :

(a) PROBLEMS OF TRADING BLOCS :

Because of existence of trading blocs like NAFFA, EU, ASEAN, SAARC, the non member countries face challenges with member of Trading bloc regarding reduction of trade barriers from member nations. These trade barriers (Tariff & Non Tariff) are imposed because of protective policies of these nations.

(b) MULTIPLE TAXATION SYSTEM :

International transactions come across multiple taxation systems. The import export transactions invite taxation at each stage which is quite complicated. Besides they reduce the profits of exporter.

(c) PAYMENT DIFFICULT:

International Marketing also faces foreign exchange risks due to fluctuation in exchange rate. Different countries have different currencies and the exporter is to be paid in the currency of his country. In the common wealth, International transactions need to be settled through the dollars etc. Crude oil prices are fluctuating on day today basis, which changes making payments.

(d) POLITICAL ENVIRONMENT:

It involves Political stability, peace with trading nation risk of expropriation etc. All these aspects need to be properly analysed. It is also necessary for times to carefully analyse the investment ratings of countries they wish to invest.

(e) DIVERSE LANGUAGE, CUSTOMERS AND TRADITIONS :

When International trade takes place, an exporter has to watch diversities in language, customs and traditions e.g. In Japan most of Japanese speak their own language and have their own traditions and customs. Similarly in China widely spoken and understood language is Chinese.

(f) DOCUMENTATION FORMALITIES:

International marketing invoices clearance of different documents at different levels. Documents need to be cleared to meet customs formalities. Reserve Bank of India for obtaining foreign exchange, bill, loading for clearance of cargo from ship etc. Hence the exporters entrusts this work to agents.

(g) DISTANCE :

International Marketing is separated by distance. Neither the exporter can met the importer or vice verse because of distance. Distance increases transport costs. Similarly the risk of meeting the transaction is more. Delays in supply of goods is more.

Module-II

2.1 METHODS OF PAYMENT IN INTERNATIONAL TRADE

International transactions are settled depending upon methods of payment because each method of payment involves varying degree of risk for the exporter.

These are five methods of payments :

a) Payment in advance
b) Open account
c) Payment against shipments on consignment.
d) Documentary bills.
e) Letter of Credit.

(a) Payment in advance :

Under this method, the buyer is not given any credit facility. He must make payments immediately Sometimes, the exporter will request the importer to make certain percentage say 50% in advance and the rest on receipt of consignment. This method is followed when:

i. There were no past dealings between importer and exporter.
ii. When the consignments is full of risks.
iii. When the credit worthiness of buyer is not properly known.
iv. When the political/economic situation in the buyers country is unstable.
v. When the price of the commodity is highly fluctuating.

(b) Open Account:

Under this method, the exporter forwards all shipping documents to the buyer and waits for payment. If no condition is allowed then the importer has to pay immediately. There is no need to draw a bill of exchange in this case. This method is followed when there is a proper understanding between exporter and buyer regarding the terms of credit, rate of interest. This method is followed when :-

i. Buyer's financial standing and reputation is known to the exporter.
ii. Long and established relationship between exporter and buyer.
iii. No exchanger fluctuation in the importers country.
iv. Foreign exchange regulations in exporters country permit such payment.
v. Political environment in quite stable in importer's country.

(c) Payment against Shipment on Consignment:

This method is followed when the exporter has his own establishment abroad or appoints an agent to sell good on his behalf. In India, prior permission from RBI is required from exchange centers department. The exporter has to enter into legal contract with the agents who will sell goods when demand and

send the payments to the exporter. This method should be made to trust worthy agents only because.

i. Distance to be covered by the consignment.
ii. Consignment exports is full of risks.
iii. Price to be realized depending upon market conditions.

(d) Documentary Bills:

Under this method an exporter agrees to submit relevant documents of title along with the foreign bill of exchange. The documents required are :

i. Bill of lading
ii. Marine Insurance Policy
iii. Service and other documents.

Documentary bills are of two types :-

i. Documents against payment (DIP)
ii. Documents against acceptance (DIA)

In case of DIP the exporter sends negotiable documents to the buyer through the bank. The buyer is expected to make payments on serving the d9cuments. Therefore it is known as payment made against "Sight Draft". This method is risky as the buyer may refuse accepting documents and making payments.

Under DIA the importer can collect documents only when he gives in writing his acceptance to make payments as per terms of export contract. The credit is allowed for a specific period of time say 60, 90 or 180 days. Documents are released against the Time draft.

(f) Letter of Credit (L/C):

One of the most popular methods of making international payments in recent times is through letter giving.

On importer's request his bank given a written understanding to the bank of the exporter that if the exporter present certain shipping documents covering the goods within a fixed period the bank can make payment to the exporter.

A letter of credit can be defined as "an understanding by importer's" bank stating that payment will be made to the exporter if the required documents are presented to the Bank within the validity of the *UC.:*

Parties to letter of Credit :

i.	Opener/Applicant	Importer
ii.	Opening/Issuing Bank	Importers Bank
iii.	Beneficiary	Exporter
iv.	Negotiating Bank	Exporters bank to which the Exporter presents documents for payment.
v.	Addressing Bank	Opening bank's branch or corresponding bank in the country. exporter.

OPERATION OF LETTER OF CREDIT :

The following steps are involved in the process of opening of letter of credit.

1. Contractor of Sale :

The transaction in UC originals when both the parties importer and exporter enter in a contact of sale. The contract covers all the particulars of product, mode of payment, date of shipment etc.

10. Request from importer.
11. The importer request his bankers to open a *UC* in favour of exporter. It can instruct his bankers on depositing cash in advance or by saving sufficient balance in his current account.
12. Issue of L/C
    The issuing bank opens the L/C and forwards in directly to negotiating bank to the addressing bank.

iv. **Receipt of L/C :**

The exporter takes possession of L/C. The exporters prefer confirmed L/C. Therefore exporters has to see that L/C is confirmed.

v. Shipment of Goods :

After shipment of goods through customs, the exporter presents relevant set of documents to the negotiating bank.

vi Scrutiny of documents:

The negotiating bank then scrutinizes documents and if they are in order make payment to the exporter.

Vii Realisation of Payment :

The issuing bank with the imbusses the work (which is paid to the exporter) to the negotiating bank.

Viii Documents to importer :

The documents sent by the negotiating bank to the issuing bank is now handed over to the importer.

2.2 ROLE OF MNCS IN INTERNATIONAL MARKETING

A firm is said to be a multinational firm (MNC) If it owns or controls and enterprise in one or more countries.

In a globalized economy business growth is possible through different methods such as expansion, diversification, strategies, alliances, Joint Venture and foreign collaboration. Multinational co-operation are huge corporation with it head quarters located in country of original but, conducting a varieties of activities in several other countries. Presently well known MNCS like IBM, Pepsi-Cola, !Siemens, Sony, Honda, etc. are operate in several countries including ours. Conversely Indian Multinational like TATA, Birlas, Mittal etc. operate in other countries. They operate at Global level and dominate Global Marketing.

a) Direct Foreign Investment:
MNCS have huge financial Recourses at their disposal. They invest this resources in other countries through equity participation or establishing new manufacturing companies. In our country they have done so in Pharmaceutical companies or directly investing in bottling plants like Pepsi-cola, Coco-cola, etc. Some of Global Auto Manufacturing units like Honda, Toyota, have establish their plants for Manufacturing purposes. The profit made by them are re-invested for further expansion. After taking a percent of profit to their parent Company.

2. TRANSFER OF TECHNOLOGY :

In our developing country like ours, small manufacturer find it difficult to have direct excess to technology because of cost involved. MNCS help such companies in developing countries for technology transfer.They also allowed them to participate in research and development. Along with such services, consultancy services are also provided to them.

3. LICENSING :

In developing countries the companies are permitted by government to enjoy patents trade marks etc. for innovation. Such patents are a monopoly of company and is granted to others on payment of fees.

4. TURNKEY PROJECT :

MNCs also undertake completion of projects on turnkey Project basis. Such projects are supplied on turnkey or cost plus fee services basis. In India major steel plants like Bhilai, Bokaro, were installed on turnkey basis. Similarly ours construction company have undertaken re building Infrastructure in Iraq after the war.

5. ESTABLISHMENT OF FOREIGN OFFICES & SUBSIDIARIES :

MNCs, in some cases establish in some foreign offices and subsidiaries in developing countries through which they try to supply their own product. Thought their subsidiaries they also advertise their products and adopt said promotional activities.

6. DOMINATE GLOBALLY:

MNCs, dominate globally. The manufacture goods with the help of local labours and raw materials. In this process they also create employment opportunities while carrying on manufacturing activities. Such products are manufacture on a mass scale', Thus they expand their activities.

7. MERGES AMALGAMATION, ACQUISITION ETC.

In order to have monopolistic claims over markets. The MNCS also use techniques of Mergers, amalgamation and acquisition, Cococola took over Parle, Thumps up , Pepsi Cola took over Dukes, Mangola.

8. INVOLVEMENT IN SERVICES SECTOR.:

MNCs expand their activities by providing services in developing countries. Such services are provided in Banking, Tourism, Hospitality Sectors.

2.3 PROBLEMS OF INDIA'S EXPORT SECTOR

Unlike domestic Marketing International Marketing is quite complicated because, it involves trading between different nations.; Some of the problems faced by International Marketing are :

1. **Political and Legal Systems** :

Political and Legal Systems defers from country to country e.g. India having business relations with China but ours is a democratic Country and China a Communist one. Similarly the legal systems in different countries is quite different. While India has democratic .legal stems, Gulf countries have Islamic Law in operation.

2. **Cultural Environment** :

International business is also influenced by culture and cultural affinities .While countries like India use more and more Spice, Western Countries may not make use of it. Due to climatic and cultural reasons. Similarly use of perurme is not much prevalent in our Country, While in the Gulf the local make use of it *every* time. While offering prayers in mosque.

3. **Financial Systems** -

International Marketing is also dependent upon financial systems. Financial systems differ from country to country. All nations do not hare same financial systems.

4. **Foreign Exchange Rate** -

Since Currencies differ from country to country. Their exchange rates also *very.* The country carrying on business faced difficulties in settling transaction due to fluctuating exchange rate.

5. **Language Problem** -

While Western Countries mostly follow English, Countries like Japan, China, Germany etc. follow their own language. The Language prObke acts as a barriers is international Marketing.

6. **Infrastructure** -

A lack of Infrastructure crate difficulties. In International Marketing. In the service sectors due to growth of Aviation sectors lack of Infrastructure offers little rooms for business to grow. Hence the government has decided to modernize existing airports as well as construction of the new ones.

Similarly the Market Infrastructure and use of Advertising Media differ from Country to Country. While they are

developed in advanced countries. They are not so much develop in others countries.

7. **Cost of Transportation** -

International Marketing calls for distance in transporting goods, hence the cost of transaction risks involved in transportation are more.

8. **Customs formalities** -

Customs formalities also differ from country to country. The documents to be clear taxes to be paid also create problems in International Marketing.

2.5 OVERVIEW OF INDIA'S FOREIGN TRADE

International Marketing is not a new phenomenon in business History. "Export or Perish" was the catchy slogan coined by Jawaharlal Nehru during early sixties. It spoke volume of important of International business. Development is not full fledged if import export business in on limited. Scale.

Before Globalization, the economy was regulated and insular. It is only when we opened up our economy, liberalization, privatization became buzz words. It is not correct that surplus economics only can enter into import export trade. Many advantages such as profits, dominance, pride, in the world business necessitates to go in for import export trade. An example of the same is of Japan and now China. In the 60s and 70s Japan rehabilitated its economy due to Patriotic nature of Japanese people. As it is well known Japan was destroyed by Americans during the 2nd World Ward. Similarly Chinese Economy was a closed one till it was opened up in 1974 and now it dominates the world.

International Marketing is affected by many factors such as socials, economy, risks, etc. Different country apply different methods in International Marketing. In the past developing countries impose tariffs to make foreign goods costly in domestic market. Thus promoting domestic goods.

International Marketing will be on the upswing in the years to come. The attack by Terrorist on World Trade Centre left an impact on Global Economy. However, inspite the slowdown, International Marketing is growing at a high rate. Some facts like growing technology, competitive spirit amount organization, growth of information technology out sources in the service sector, globalizations there to stay.

SUGGESTED QUESTIONS : –

1. Define International business and explain its features ?
2. What are challenges faced in International Marketing;?
3. Explain the methods of making payment in International Marketing?
4. Explain the role of Multinational Co-operation in International business.?
5. What problems are faced in International Marketing ?

2

INERNATIONAL MARKETING ENVIRONMENT

Learning Objectives:

1. To understand Global Economic Environment influencing International Marketing;
2. To understand socio cultural environment influencing International Marketing;
3. To understand the political environment that influence Global Trade;
4. To develop and understanding on legal and regulatory environment that influence World Market;
5. To have a brief understanding of Trade Barriers and trading Blocs that influence International trading;
6. To understand the Organisation, Role, Functions And the recent developments at WTO;
7. To have a brief understanding of the financial environment including role of IMF, IBRD, IDA, IFC.

Module.(i) (i): GLOBAL ECONOMIC ENVIRONMENT

A business firm closely interacts with its economic environment. Economic environment is generally related to those external forces, which have direct economic effect upon business.

Economic environment is a sum total of ::

- Economic conditions in the foreign market
- Economic policies of the government.
- Economic system of the country

(a) **Economic Conditions in the Market** The economic conditions consist of demand factors on one side and supply factors on the other side.

The demand factors include :

- Level of income
- Level of savings
- Level of spending

The Supply factors include :

- Number of suppliers
- Extent of competition
- Nature of supply (regular or irregular)

The economic conditions relating to market have a direct impact on the profitability of any enterprise. In a developing country like India,

the low per capita income is one or the reasons for low demand in the market. A business firm can stimulate demand by supplying goods at reduced or reasonable price. Again, due to low income and low savings people find it difficult to buy expensive items such as consumer durables. So firms can come up with various schemes to increase the sales such as :

- Sales promotion techniques like free gifts, discounts, sale on instalment basis, trial offers, etc.
- Hard sell advertising where reasons are given to buy and benefit from the purchase of goods.
- Extended warranties.
- Penetration pricing strategies, especially in the case of FMCG items and even in case of consumer specially items like footwear, clothing etc. This is because; Indian customers are price sensitive.
- Effective after sale-service etc.

A study of supply factors will help the existing firms to plan properly in respect of expansions of markets, introduction of new products and so on. It can also help a potential business firm to take a decision in respect of whether to enter in the market or not, in which market to enter, which product to sell, and so on.

b) **Economic Policies:** The economic policies of the Government have a direct effect on the working of a business unit. Therefore, business firms need to understand the implications of the various government policies such as :

- Industrial Policy
- Fiscal policy
- Monetary policy
- Export import policy, etc.

The economic policies provide a framework of economic environment and business firms are expected to operate within the prescribed limits. A minor change in the economic policies can bring about a major shift in business decisions.

c) **Economic Systems:** The economic systems are classified on the basis of freedom enjoyed by private businessman. **A good knowledge of economic system of various countries help importers and exporters to plan their foreign trade activities more effectively.** Mainly there are three economic systems, such as:

- Free market economy or capitalist economy
- Centrally planned or socialist economy
- Mixed economy.

In a **free economy** an entrepreneur is free to invest and produce goods of his choice. The government exercises minimum control in Planning and regulating the working of market.

In case of **centrally planned or socialist economy,** the government has absolute control over various factors of production and its allocation among various units. The government in centrally planned economy decides what to produce and what should be consumed. The concept of communist economy is becoming a thing of past. The downfall of Soviet Union has brought an end to communist philosophy, with an exception of China and Cuba.

Mixed economy is a combination of capitalist and communist economic system. This type of system allows investments by private and public sectors, India has adopted the mixed economy as a system for economic development.

Module-(i)(ii) :
SOCIAL AND CULTURAL ENVIRONMENT

Culture is a set of traditional beliefs, norms, values and customs that are transmitted and shared in a given society. Culture is also the total way of life and thinking patterns that are passed from generation to generation.
The cultural environment affects :

- The consumption patterns
- The thinking process
- The communication process

An analysis of the cultural environment helps to frame marketing this strategies. An organisation considering to enter a foreign location should assess a wide variety of cultural factors. The following are the cultural factors :

1. **Values and Attitudes :** Values are shared beliefs or group norms that have been internalised by individuals. Attitudes' are evaluations of alternatives based on these values. Some countries like Japan, feel that buying foreign product is unpatriotic. Thus, it becomes difficult for the international marketers to self their products in such a cultural environment.

   The more rooted values and attitudes, the more cautiously the international marketer has to move. Attitude towards change is basically positive in industrialised countries, whereas in more tradition bound societies, change is viewed with great suspicion, especially when it comes from a foreign entity.

2. **Manners and customs :** Changes occurring in manners and customs must be carefully monitored, especially in cases that seem to indicate narrowing of cultural differences between people. Understanding manners and customs is especially important in negotiations, because interpretations based on one's own frame of reference may lead to a totally incorrect conclusion. To negotiate effectively abroad, one needs to read correctly all types of communication.

   The international marketer must also be concerned with the different ways the products are used. For example, Tang is positioned as a break fast drink in the U.S. whereas in France, orange juice is not usually consumed at breakfast. Tang is positioned as it refreshment. Thus, the international marketer should have a knowledge or such cultural variables to survive in the international market.

3. **Language :** Language difficulties have been the source of many problems in the way of effective international marketing. Language provides people with an important means of communication. The issue of how to communicate when different languages are spoken is a key question that international companies must address. Communication would take place at many levels in the organisation i.e. communication between :
   a) headquarters and managers in foreign locations
   b) headquarters and foreign partners
   c) headquarters and foreign suppliers
   d) headquarters and foreign creditors
   e) foreign managers and employees, etc.
   Each of these is likely to involve more than one language.

4. **Religion :** Religion is closely associated with the development of cultural values and affects many day-to-day activities in a society. International companies, therefore, need to understand the role of religion in the societies where they operate.

   In a country where religion plays a relatively minor role, people will be more flexible in terms of religious adherence and tolerant of religious mistakes that foreigners make Converse may be true in the country where religion plays a fundamental role. This factory may affect the company's activities – e.g. scheduling extra work on religions day is possible in the former case but may not be possible in the latter.
   Companies therefore. should investigate the religious make up of any country where they expect to conduct business.

5. **Education :** Education plays a major role in international marketing. This is visible in a Company's relationships with employees. When a company decides on stalling policies, local educational systems will determine availability of prospective employees with desired skills they will define the degree and type of training that must be undertaken, they will influence the degree of decentralization that is possible and the communication systems that are employed. It also plays a major role in decisions regarding customers of consumers.

6. **Social Systems :** It includes diverse activities such as courting and marriage rituals, entertaining practices, interaction amongst people of higher and lower classes, etc.

   Global Companies have to function within the confines or the established social systems in a particular location. This means accommodating these systems or attracting local employees who are willing to accept alternative systems. The manager needs to gather information on the social systems in foreign locations, assess the impact on operations, then decide if and how much to adopt the organisation's traditional practices to accommodate the new social systems.

Module-(i)(iii) : POLITICAL ENVIRONMENT

Political Environment is a comprehensive term and includes political system, political parties, government agencies, and pressure groups that influence and control individuals and organizations in a society. These factors may vary considerably between different nations. So, the international marketer have to consider the political environment in the domestic, foreign and international markets..

- **Political System :** A country can have either Parliamentary (open) form of government or Absolutist (closed) form of government.

  - **Parliamentary governments** consult with citizens from time to time for knowing their opinion and preferences. Most industrialised nations follow this pattern.
  - **Absolute system** dictates government policy without considering citizen needs and opinions. Mostly, the newly formed nations or those undergoing some kind of political transition adopt this system.

However, there are many countries' political systems that do not fall under either of the above categories, e.g. Saudi Arabia and North Korea.

- **Number of Political Parties :** On the basis of number of political parties, there are four type of government : two-party system, multi party system, single-party system and dominated one party system.

  - In a **two-party system,** there are several political parties, none take turns in controlling the government, although other parties are allowed,
  - In a **multiparty system,** there are several political parties, none of which are strong enough to gain control of the government.
  - In a **single party system,** there may be several parties, but one party is so dominant that there is little opportunity for others to elect representatives to govern the country.
  - In a **dominated one-party system,** the dominant party does not allow any opposition, resulting in no alternative for the people. Such a system may easily transform itself into a dictatorship.

- **Economic Systems :** Economic Systems provide another base for classification of governments. There can be three economic systems :
  i) Capital Economy.
  ii) Socialist Economy,
  iii) Mixed Economy

- **Political Risks :** An international marketer may be faced by a number of political risks such as :-
  - **Confiscation** is a process of a government's taking ownership of a property with some compensation.
    Expropriation involves government ownership and it is the government that operates the business being taken over.
  - **Nationalisation** involves government ownership and it is the government that operates the business being taken over.
  - **Domestication** is a political risk wherein foreign companies relinquish control and ownership either. completely or partially to the nationals.
  - **General Instability Risk** is a related to the uncertainty about the future viability of a host country's political system.
  - **Operation Risk** proceeds from the uncertainty that a host government might constrain the investor's

business operations in all areas including production, marketing and finance.

- **Transfers Risk** applies to any future acts by a host government that might constrain the ability of a subsidiary to transfer payments, capital or profits out of the host country back to the parent firm.

An international marketer may be tempted to enter a foreign market where there is political stability. Democratic political system is a pre-requisite for political stability. The sources of political instability include:

- Social unrest in the country;
- Inhospitable attitude of the nationals;
- Unfriendly foreign policies of the government.

Module-(i)(iv):LEGAL AND REGULATORY ENVIRONMENT

The regulatory environment means those laws, rules, regulations and procedural formalities prescribed by the government to control the planning and functioning of business activities. It consists of government policies relating to registration, licensing, foreign investments, employer-employee relations, foreign trade and many other issues that prescribe the limit within which business firm is expected to conduct its business.

An international marketer should keep an u-to-date and detailed knowledge about rules and regulations of the foreign market governing production, distribution and consumption of goods and services. For instance, German laws are very strict. A company require legal counsel before framing its advertising strategy.
There may be laws with respect to every element of marketing mix in each country. A company has to watch for rules regarding the following :

- Product quality
- Price control
- Packaging
- After sales commitment
- Cancellation of Agreements, etc.

An international marketer should also possess good knowledge of labour laws and laws relating to consumers in the international market.

An international marketing firm has to concern itself with the following legal issues :

- Protecting property rights
- Methods of entering into contracts
- Methods of seeking recourse
- Tax laws
- Foreign exchange

Every country has a different legal system as the legal systems are not harmonized all over the world. The following are some **unethical and illegal issues** in international marketing :

- Grey markets
- Bribery
- Infringement
- Counterfeiting, etc.

The degree of unethical and illegal issues differ in different countries. Some countries have strict legal system, and they may have stringent punishment or penalties while some countries ignore such issues, accepting them as a part and parcel of business.

Module-(i) (v) : TRADE BARRIERS

Trade barriers are imposed not only on imports but also on exports. The trade barriers can be broadly divided into two broad groups :
(a) Tariff Barriers, and (b) Non-Tariff Barriers.

TARIFF BARRIERS

Tariff is a customs duty or a tax on products that move across borders. Tariff is an international trade barrier as it creates problems for the smooth flow of goods between nations.
The most important of tariff barriers is the customs duty imposed by the importing country. A tax may also be imposed by the exporting country on its exports. However, governments rarely impose tariff on exports, because, countries, wasn't to sell as much as possible to other countries. The maintenance important tariff barriers are as follows:

1. **Specific Duty** : Specific duty is based on the **physical characteristics** of goods. When a fixed sum of money, keeping in view the weight or measurement of a commodity, is levied as tariff, it is known as specific duty.

   For instance, a fixed sum of import duty may be levied on the import o every barrel of oil, irrespective of quality and value. It discourages cheap imports. Specific duties are

easy to administer as they do not involve the problem of determining the value of imported goods. However, a specific duty cannot be levied on certain articles like works of art. For instance, a painting cannot be taxes on the basis of its weight and size.

2. **Ad valorem Duty :** These duties are imposed **"according to value".** When a fixed percent of value of a commodity is added as a tariff, it is known as ad valorem duty. It ignores the consideration of weight, size or volume of commodity.

   The imposition of ad valorem duty is more justified in case of those goods whose values cannot be determined on the basis of their physical and chemical characteristics, such as costly works of art, rare manuscripts, etc. In practice, this type of duty is mostly levied on majority of item.

3. **Combined or Compound Duty:** It is a combination of the specific duty and ad valorem duty on a single product. For instance, there can be a combined duty when 10% of value (ad valorem) and Re.1/- on every meter of cloth is charged as duty. Thus, in this case, both duties are charged together.

4. **Sliding Scale Duty :** The import duties which vary with the prices of commodities are called sliding scale duties. Historically, these duties are confined to agricultural products, as their prices frequently vary, mostly due to natural factors;. These are also called as seasonal duties.

5. **Countervailing Duty :** It is imposed on certain imports where products are subsidized by exporting governments. As a result of government subsidy, imports become more cheaper than domestic goods. To nullify the effect of subsidy, this duty is imposed in addition to normal duties.

6. **Revenue Tariff :** A tariff which is designed to provide revenue to the home government is called revenue tariff. Generally, a tariff is imposed with a view of earning revenue by imposing duty on consumer goods, particularly, on luxury goods whose demand from the rich is inelastic.

7. **Anti-dumping Duty :** At times, exporters attempt to capture foreign markets by selling goods at rock-bottom prices, such practice is called dumping. As a result of dumping, domestic industries find it difficult to compete with imported goods. To offset and dumping effects, duties are levied in addition to normal duties.

8. **Protective Tariff :** In order to protect domestic industries from stiff competition of imported goods, protective tariff is levied on imports. Normally, a very high duty is imposed, so as to either discourage imports or to make the imports more expensive as that of domestic products.

Note : Tariffs can be also levied on the basis of international relations. This includes single column duty, double column duty and triple column duty.

Module (i)(vi): NON-TARIFF BARRIERS

A non tariff barrier is any barrier other than a tariff, that raises an obstacle to free flow of goods in overseas markets. Non-tariff barriers, do not affect the price of the imported goods, but only the quantity of imports. Some of the important non tariff barriers are as follows:

1. **Quota System :** Under this system, a country may fix in advance, the limit of import quantity of a commodity that would be permitted for import from various countries during a given period. The quota system can be divided into the following categories :

   (a) Tariff/Customs Quota (b) Unilateral Quota
   (c) Bilateral Quota (d) Multilateral Quota

   * **Tariff/Customs Quota :** Certain specified quantity of imports is allowed at duty free or at a reduced rate of import duty. Additional imports beyond the specified quantity are permitted only at increased rate of duty. A tariff quota, therefore, combined the features of a tariff and an import quota.
   • **Unilateral Quota :** The total import quantity is fixed without prior consultations with the exporting countries.
   • **Bilateral Quota :** In this case, quotas are fixed after negotiations between the quota fixing importing country and the exporting country.
   • **Multilateral Quota :** A group of countries can come together and fix quotas for exports as well as imports for each country.

2. **Prior Import Deposits :** Some countries insist that importers should deposit even upto 100 per cent of their imports value in advance with a specified authority, normally their Central Bank. Only after such deposits, the importers are given a green signal to import the goods.

3. **Foreign Exchange Regulations :** The importer has to ensure that adequate foreign exchange is available for

import of goods by obtaining a clearance from exchange control authorities prior to the concluding of contract with the supplier.

4. **Consular Formalities :** A number of importing countries demand that the shipping documents should include consular invoice certified by their consulate stationed in the exporting country.

5. **State Trading :** In some countries like India, certain items are imported or exported only through canalizing agencies like MMTC. Individual importers or exporters are not allowed to import or export canalized items directly on their own.

6. **Export Obligation :** Countries, like India, impose compulsory export obligation on certain importers. This is done to restrict imports. Those companies, who do not fulfill export obligation (to compensate for imports) have to pay a fine or penalty.

7. **Preferential Arrangements :** Some nations form trading groups for preferential arrangements in respect of trade amongst themselves. Imports from member countries are given preferences, whereas, those from other countries are subject to various tariffs and other regulations.

8. **Other Non-Tariff Barriers :** There are a number of other non-tariff barriers such as health and safety regulations, technical formalities, environmental regulations, embargoes, etc .

TRADING BLOCS

Module (ii) (i):

Certain countries from economic, units for their mutual benefits and are popularly known as Trade Groups or Trading Blocs. Trading Bloc is a group of countries which are geographically close to each other and have similar trade policies, which can with their mutual cooperation ensure free flow of goods among them.

Important Trading Blocs :

1. **European Union :** The efforts toward regional economic integration were first initiated by Western European Nations in 1948 with the establishment of Organisation for European Economic Co-operation (OEEC). The OEEC intended to achieve European economic unity. The efforts of the OEEC countries led to the formation of European Coal and Steel Community (ECSC) in 1952. The ECSC was established to

develop a common market in coal, steel and iron ore. The six countries which signed the ECSC agreement were France, Italy, West Germany, Belgium, Netherlands and Luxembourg. The success of ECSC led to the formation of European Economics Community (EEC) in 1958.

In 1973, Denmark, Ireland and U.K. joined EEC and in 1982 Greece became its full member. In 1986, EEC admitted two more countries. Spain and Portugal as its full members. At present, there are.15 full fledged members including Finland, Austria and Sweden.

The EEC (now called on European Union (EU) is the second most powerful trading bloc after NAFTA.

The EU members formed the so called "Europe 1992", i.e. Europe without frontiers. It has now transformed from the status of common market to a single market. EU has a common currency called EURO, a supra government at Brussels, and common laws, rules and regulations with reference to production and trade.

2. **ASEAN :** The Association of South East Asian Nations was established in August, 1967 at Bangkok. The original five countries includes Malaysia, Philippines, Singapore, Thailand and Indonesia, Brunei joined this group in 1984. Recently Vietnam has been included in the ASEAN group.

ASEAN's original purpose was to preserve peace among its member countries and to respond to the communist threat in the region from China. During the first nine years of its existence, ASEAN's primary focus was political.

The economic cooperation began at the first ASEAN Summit in Bali in 1976, when the Declaration or ASEAN Accord was signed. Under the Accord, ASEAN member countries agreed to cooperate in the supply and purchase of basic commodities, the establishment of preferential trading arrangements, and the stabilization of prices and promotion of export earnings from production of regional commodities.

Apart from its tourism potential, this group has substantial natural resources. It produces about 80% of world's natural rubber. It is also rich in sugar, coffee, timber, petroleum, nickel, bauxite and coal. These items have earned the group members valuable foreign exchange by way of exports to other countries. During the 1990s, this group has emerged as a new center of world economic power.

However in the late 1990s. ASEAN countries faced a severe economic crisis.

3. **SAARC :** Seven nations in the Indian sub-continental region have joined hands to form the South Asian Association for Regional Co-operation (SAARC) in 1985,. The SAARC members includes India, Pakistan, Sri Lanka, Bangladesh, Nepal, Bhutan and Maldives. The SAARC's initial interests were limited to cooperation in the areas such as agriculture, rural development, telecommunications, postal services, transport, science and technology, meteorology, tourism and sports Important areas such as formation of free trade zone, or common market have been omitted.

   After ten years, SAARC signed an agreement called South Asian Preferential Trade Agreement (SAPTA), in May 1995. SAPTA may give way to the formation of South Asian Free Trade Agreement (SAFTA).

4. **NAFTA :** The North American Free Trade Agreement was signed in 1992 by U.S.A., Canada and Mexico. NAFTA came into operation in 1994. NAFTA is the most powerful trading bloc in the world.

Objectives of Trading Blocs:

In general, the maintenance purposes of forming regional groups are as follows :

- To reduce or if possible to **eliminate trade barriers** among member nations.
- To **promote free transfer** of labour, capital and other factors of production.
- To maintain better **cultural, social and political ties** with each other.
- To **assist member nations** in any possible way with special reference to international trade.
- To promote **growth of the region** through mass production and marketing of goods.
- To **bargain collectively** with the non-members by means of their collective strength.
- To impose **common external tariff and non-tariff barriers** on non members

---

Module -(ii)(ii) WORLD TRADE ORGANIZATION (WTO)

The GATT and the WTO are different. The WTO is the GATT and several other things. In other words, the WTO is an

incremental change from the GATT. The GATT as an international institution is a dead, and its place has been taken over by the WTO. The GATT, the agreement, still exists, but is no longer the maintenance set of rules for internal trade. The GATT has been updated. The updated GATT, referred to as "GATT 1994", which still deals with trade in goods exists along with the new General Agreement on Trade in Services (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The WTO brings the three together under a single umbrella, a single set of rules and a single system for resolving disputes. Thus, the WTO is not a simple, extension of GATT, it is much more. The GATT's major principles like non-discrimination, transparency and predictability have been adopted by the GATS and the TRIPS.

GATT and WTO A Companson

GATT	WTO
1. The GATT was ad hoc and provisional. The GATT was never ratified in members' parliaments, and it contained no provisions for the creation of an organization.	1. The WTO and its agreements are permanent. As an international organization, the WTO has a sound legal basis because members have ratified the WTO agreements, and the agreements themselves describe how the WTO will function.
2. The GATT had "contracting Parties. 3. The GATT dealt with trade in goods. 4. The GAIT's dispute settlement mechanism was weak the be 5. The GATT functioned inter- mittently and in spurts, resulting Thereby in several rounds of Negotiations.	2. The WTO has "members". 3. The WTO covers services and Intellectual pr9operty as well 4. The WTO's dispute settlement System is faster, more automatic than the old GATT system. Its rulings cannot blocked. 5. The WTO provides a permanent and continuous forum of negotiations.

Functions of WTO

The WTO aims at conducting international trade smoothly, freely, fairly and predictably. It does this by :

- Administering trade agreements.
- Acting as a forum for trade negotiations.
- Settling trade disputes.
- Reviewing national trade policies.
- Assisting developing countries in trade policy issues through technical assistance and training programmes.

- Cooperating with other international organizations.

Structure

The WTO has 146 members, which account for more than 90% of world trade. Several others are negotiating membership.

The entire membership makes decisions, typically through consensus. Consensus is deemed to exist, if no member present at the meeting when the decision is taken, formally objects to the proposed decision. A majority vote is also possible but it has never been used in the WTO. The WTO's agreements have been ratified in all members' parliaments, as mentioned earlier.

The WTO's top-level decision making body is the Ministerial Conference, which meets at least once in every two years. In addition, mini Ministerials. are held.

W.T.O's Ministerial Conferences

Year	Place/Name	Subject Covered	Countries
First December 9-13, 1996	Singapore	Agreements concluded on telecommunication services, IT and financial services.	134
Second: May 18 And 20, 1998	Geneva	soth Anniversary of the GATT celebrated. Implementation of various agreements Declaration on global a-commerce and review of trade related issues.	134
Third : November 30-December 3, 1999	Seatltle (US)	New negotiations on agri cultural, implementation issues, market access issues, investment, competition policy, systemic issues, and trade and labour standards.	Not available
Fourth: November 10-14 2001	Doha	TRIPS and public health implementation issues, agriculture, services, trade and environment, Singapore issues, market Access for non-agricultural products, special and differential treatment	142

Fifth (to be Held): September 10-14 2003	Cancun (Mexico)	of developing countries, labour, dispute, settle ment understanding.

Source : Sabade, 2001, Websites of WTO and Ministry of Commerce and Newspapers.

Below this is the General Council (normally ambassadors and heads of delegation in Genera, but sometimes officials sent from members' capitals), which meets several times a .year at the Geneva headquarters. The General Council also meets as the "Trade Policy Review Body and the Dispute Settlement Body.

At the next level, the Goods Council, Services Council and Intellectual Property Council report to the General Council.

Numerous specialized committees, working groups and working parties deal with the individual agreements and other areas like environment, development, membership applications and regional trade agreements.

The first Ministerial Conference in Singapore in 1996 added three new working groups to this structure. They deal with the relationship between trade and investment, the interaction between trade and competition policy and transparency in government procurement. At the second Ministerial Conference in Geneva in 1998 Ministers decided that the WTO would also study the area of electronic commerce, a task to be shared out among existing councils and committees.

Module-(ii)(iii) SECRETARIAT (WTO)

The WTO Secretariat, headed by a Director-General, is based in Geneva .and has around 500 staff. The Secretariat is small compared to the task it expected to perform as also compared to the staff strength of many other international organizations. It has no branch office outside Geneva. Since decisions are taken by members themselves, the secretariat does not have the decision making role that other international organizations are given.

The Secretariat's maintenance duties are to provide technical support for the various councils, committees and the ministerial conferences, to give technical assistance for developing countries, to analyze world trade, and to explain WTO affairs to the public and the media.

The secretariat also gives some forms of legal assistance in the dispute settlement process and advises governments wishing to become members of the WTO

Articles

The Agreement establishing the WTO contains 16 Articles and six Annexes (Annex.1A, Annex 1B, Annex 1C, Annex 2, Annex 3 and AnnexA).

Articles of the Agreement Establishing the WTO

Articles No.	What is provides for
Preamble	Broad indication of the purpose of the WTO
I.	Establishment of WTO
II.	Scope of the WTO
III.	Functions of the WTO
IV.	Structure of the WTO
V.	Relations with other organizations.
VI.	The Secretariat
VII.	Budget and contributions.
VIII.	Status of the WTO
IX.	Decision making
X.	Amendments
XI.	Original membership
XII.	Accession
XIII.	Non-application of multilateral trade agreements between particular members
XIV.	Acceptance, Entry into Force and Deposit.
XV.	Withdrawal
XVI.	Miscellaneous Provisions

Module-(iii)(i) : Principles of WTO Trading System

The WTO agreements are based on a few simple principles, which are fundamental to multilateral trading system. These principles are as under :

Trade Sans Discrimination

Under the WTO Agreements, a country is not permitted to discriminate between its trading partners. If it grants a special favour to someone, it has to do the same to all other WTO members. This is called the Most Favoured Nation (MFN) principles. The principle is very important, and it constitutes the first article of the GATT. MFN is also important for GATS where it appears in Article 2 and the Agreement on TRIPS where it comes in Article 4. However, the application of the principle varies some

what in each of the three agreements. Some exceptions permitted under strict conditions are :

- Developed countries can give tariff preference to developing countries
- Countries entering into regional free trade agreements do not need to extend the preferences negotiated in this context on an MFN basis.
- A country can invoke temporary "safeguard" protection to one of its industries suffering serious injury due to a surge of imports.
- A country with serious balance of payment (BoP) problems can invoke temporary quantitative restrictions.

National Treatment

Another form of trade without discrimination under the WTO rules is that a country should not treat the imported and domestically produced goods unequally – at least after the foreign goods have come into the domestic market. This principle of "national treatment" exists in all the three main agreements : In Article 3 of the GATI in Article 17 of the GATS and Article of the TRIPS. As observed earlier, the application of the principle varies from agreement to agreement.

Freer Trade

The ".WIO believes in freeing trade gradually through negotiations. Lowering both tariff and non-tariff barriers is one of the most important means to promote freer trade.

Predictability

The WTO attempts to make the trading system stable and predictable, which, in turn, encourages market security and investments, promotes employment and benefits consumers. This is done by asking the members to "bind" their commitments. For goods, these bindings amount to ceilings on customs tariff rates. While in developed countries, the rates actually changed are the :"bound" rates, in developing countries, the former is below the latter. A country can change its bindings, but only after negotiating with its trading partners and compensating the latter for the losses. The WTO ensures such transparency through regular surveillance of national trade policies through Trade Policy Review Mechanism. The disputes settlement mechanism of the WTO adds. further transparency to this process.

Promoting Fair Competition

The objectives of the WTO is to secure fair conditions for trade, be it MFN or national treatment or anti dumping and subsidies rules. Since the issues are too complex and several

governments are involved rule based approach ensures fairness in trade.

Encouraging Development and Economic Reform

Over 75% of the WTO members are developing countries and countries in transition to market economies. The WTO tries to give more benefits to these economics by allowing them more time to adjust, greater flexibility and special privileges.

Single Undertaking

The WTO members must accept all of the obligations of the GATT, GATS,TRIPS and any other corollary agreements. This ends the "free ride" of some developing countries, which under the old GATT could receive the benefits of some trade concessions without having to join in and undertake their full obligations.

Module-(iii)(ii) : WTO AGREEMENTS AND DISPUTE SETTLEMENT SYSTEMS

The WTO Agreements encompass goods, services and intellectual property. They deal with the principles of liberalization and the allowed exceptions. They contain individual country's commitments top reduce customs tariffs and other trade barriers and to open and continue to keep open services markets. They spell out procedures for settling dispute. They prescribe special treatment for developing countries. They wasn't that governments should make their trade policies transparent by notifying the WTO about laws in force and measures adopted, and through regular reports by the Secretariat on countries trade policies.

The table of contents of "The Results of the Uruguay Round of Multilateral Trade Negotiations: The Legal Texts" is a long list of about 60 agreements, annexes, decisions and understandings. The Agreements fall into the following simple structure :

Structure of WTO Agreements

Basis Principles	Goods	Service	Intellectual property	Disputes
GATT	GATS	TRIPS	Dispute Settlement	
Additional	Other goods Agreements And annexes.	Services annexes		
Market Access	Countries' schedules of	Countries' schedules of		

Commit ments	commitments	commitments (and MFN exemptions)

(Source : WTO 2001)

The goods and services agreements are based on a three part common outline as follows :

- They start with broad principles : the GATT and the GATS. The agreement on TRIPS also belongs to· this category although it has no additional parts at present.
- Next are additional agreements and annexes dealing with special needs of specific sectors of issues.
- Finally come the details and lengthy schedules (or lists) of commitments made-by individual countries allowing specific foreign products or service providers access to their markets. For the GATT these mean binding commitments on tariffs for goods and quota for some agricultural goods. For the GATS, the commitments state how much access foreign service providers are allowed for. specify sectors, and they include lists of types of services where individual countries say they are not applying the MFN principle of non discrimination.

The "additional details "agreements and annexes deal with the following specific sectors or issues :

- Agriculture
- Health regulations for farm products.
- Textiles and clothing.
- Product standards.
- Investment measures,
- Anti-dumping measures
- Customs valuation methods.
- Pre-shipment inspection
- Rules of origin.
- Import licensing.
- Subsidies and counter measures
- Safeguards.

The GATS annexes are "

- Movement of natural persons.
- Air transport
- Financial services
- Shipping
- Telecommunication.

Two other types of important agreements not shown in the diagram are (a) the agreement on trade policy reviews and (b) "plurilateral" agreement not signed by all members : civil aircraft and government procurement.

Module-(iii)(iii) :DISPUTE SETTLEMENT

It general although trade goes on smoothly there are occasions when a member is nor happy with the way some other members are conducting trade with it., i.e. not in conformity with the WTO rules. In such case, the former may choose to use the WTO's dispute settlement mechanism.

Dispute settlement procedures of the WTO plays a pivotal role in timely resolution of the trade conflicts in accordance with the WTO's established rules. Once a dispute is notified to the WTO, an established timetable of 'automatic' steps is initiated. The immediate priority is to settle the disputes through consultations. Otherwise, the members in the WTO's Dispute Settlement Body (DSB) refer a dispute to a panel of experts, Panelists are appointed by agreement between the parties, and by default, by the WTO's Director General. A panel's recommendations are automatically adopted unless there is a consensus against adoption by all WTO members who together comprise the DSB. A first instance panel report may be appealed, but the decision by the second instance appellate body is final.

The long term result of the dispute settlement process must be complete restoration of full compliance with the WTO law. However, if a member fails· to implement a WTO ruling there are two temporary measures that can be taken. Either the offending members can offer 'compensation' for the harm done to the trade interests of another member or the DSB can authorize a level of retaliatory sanctions. However, this generally does not happen. The vast majority of more than 239 disputes brought to the WTO so far have been settled rather peacefully (WTO). Since the maintenance objective of the WTO dispute settlement mechanism is to contain unilateral imposition of trade sanctions, unilateral retaliation by powerful trading entities is subject to multilateral WTO control.,

The WTO's dispute settlement mechanism is equitable with it giving a fair chance to a small members. By September 2001, developing countries as a group initiated 79 of the 239 disputes. India, Brazil Mexico and Thailand were prominent. The US and the EU have used the systems. most, 69 and 56 times respectively and are also the most frequently

challenged by other governments as not being in accordance with the WTO rules (WTO).

The higher rate of notification of disputes is indicative of :

- Greater confidence of members in the efficacy of the new dispute settlement mechanism.
- The wider range of WTO rules and their greater specificity.
- The wider range of issues covered by the WTO agreements including services and TRIPS, all of which are governed by their same dispute settlement system.
- The larger number of WTO members' increasing levels of trade and the greater importance of trade in the economies of members.

Prior to the WTO, the dispute settlement system was not binding, resulting in frequent violation of decisions. The new system is working well, but any improvement is possible and welcome. The smaller countries lack capacity to take their disputes to WTO. Therefore, the WTO has actively supported the creation of the Geneva based Advisory Centre on WTO Law, and independent centre that provides developing countries with legal counsel at lower costs.

Module-(iii)(iv) WTO AND DEVELOPING COUNTRIES

Of the 146 members of the WTO, almost two-thirds are from developing countries (WTO, 2001). The developing countries are of importance to the WTO not only because they are large in number nut also because they are emerging as significant players in the global economy. The requirements of these countries, recognized as special by the WTO, are met by the following ways:

- The WTO agreements have special provisions on developing countries.
- The work in this area is overseen by the Committee on Trade and Development of the WTO.
- The WTO Secretariat provides technical assistance for developing countries.

Special Provisions in the Agreements

The. WTO agreements contain several provisions aimed at developing and least developed countries. For example, the GATI includes a Special Section (Part-4) on Trade and Development, which has provisions on the concept of non reciprocity in trade negotiations between developing and developed countries when developed countries grant trade concessions to developing countries they should not expect the developing countries to reciprocate by granting similar concessions. Similarly under

"special and differential treatment" rule of the GATT, members are enabled to grant special concessions to developing countries without granting the same to other members. Similarly "Economic Integration" (Part 5 of GATS) permits developing countries some preferential treatment.

Other areas where the WTO agreements show special concern for the developing countries are :

- Extra time for developing countries to fulfil their commitments.
- Provisions for increasing countries' trading opportunities through greater market access (.e.g. textiles, services and technical barriers to trade).
- Provisions requiring WTO members to safeguard the developing countries' interests while taking some domestic or international measures (e.g. in anti/dumping safeguards, and technical barriers to trade).
- Provisions for several means of supporting developing countries (e.g. dealing with commitments on animal and plant health standards, technical standards and strengthening domestic telecom sectors).

Committee on Trade and Development

The mandate given to the WTO Committee on Trade and Development covers a wide spectrum. The broad areas of priority handled by it include implementation of provisions for developing countries, guidelines for technical cooperation, greater participation of developing countries in the trading system and the status of least developed countries. Members are also to inform the WTO about special programmes of trade concessions for products from developing countries and about regional arrangements among developing countries. The Committee has handled notifications of :

- Generalized System of Preferences programmes in which developed countries lower their trade barriers preferentially for products from developing countries.
- Preferential arrangements among developing countries, . such as, MERCOSUR (the Southern Common Market in Latin America), the Common Market for Eastern and Southern Africa (COMESA) and the ASEAN Free Trade Area (AFTA).

The Committee has an import5ant sub-committee called the Sub-committee on Least developed Countries, which focuses on the following twin issues :

- Ways of integrating least developed countries into the multilateral trading system.
- Technical cooperation.

The sub committee also assesses periodically the implementation of special provisions for the least developed countries.

Technical Cooperation

The WTO's technical cooperation is aimed at enabling developing countries and countries in transition from centrally planned economics to operate smoothly in the multilateral trading system. This is done by helping these countries to build necessary institutions. and train officials in the areas of trade policies and effective negotiations. The WTO organizes regular training programmes on trade policy in Geneva. Besides, until early 1999, the WTO held about 300 cooperation activities including seminars and workshops in various countries and courses in Geneva. Seminars have also been organized in Asia, Latin America, the Caribbean, Middle East and Pacific. Technical Co-operation receives funding from (a) the WTO's regular budget, (b) voluntary contributions from the WTO members and (c) cost sharing either by the host country of an event or by other countries. The WTO has also initiated the WTO Reference Centre programme aimed at creating a network of computerized information centres in developing and least developed countries. The WTO secretariat has special legal advising for assisting developing countries in any WTO dispute and for imparting them legal counsel. Several members have availed of this facility.

Module- (iv)(i) : FINANCIAL ENVIRONMENT

Access to adequate export finance at competitive rates is crucial for the successful completion of an export transaction. Finances are required to complete an export trade cycle right from the receipt of export order to the realization of final payment from the importer, as indicated in Figure 14.1. A firm has to procure raw materials, inputs spares, or capital equipment for export production. Many a time, an exporting firm may have to import inputs or spares required for export production and, in such cases finances are needed in advance.

In order to be competitive in the international markets, exporters are expected to officer attract ice credit terms to their overseas buyers. Extending such credits to foreign buyers puts considerable strain on the liquidity of the exporting firm. It makes the procurement of adequate trade finances from external sources at competitive terms during the post shipment stage extremely important. Unless competitive trade finance is available to the exporters, they often by to quote lower prices to compensate their inability to offer competitive credit terms. Therefore, finances are proved to the exporters generally at concessional rates, by the

national government, both at pre-shipment and post-shipment stages, through commercial banks.

Pre-shipment Credit –

Pre-shipment credit means any loss or advance granted by a bank for financing the purchase, processing, manufacturing or packing of goods prior to shipment. It is also known as packing credit. As the importer makes the final payment, some proof of his creditworthiness is important to the bank. The banks often insist upon the letter of credit or any other evidence, such as a confirmed and irrevocable order, before granting export credit. The banks reduce the risk of non payment by the importer by asking for collateral or supporting guarantee.

Period of Advance

The period of packing credit given by the banks varies from case to case depending on the exporter's need for procurement, processing or manufacturing and shipping of goods. Primarily, the individual banks decide the period of packing credit for exports. However, the Reserve Bank of India provides refinance to the banks only for a specific period of time, which should not exceed 180 days, If pre-shipment advances are not adjusted by the submission of export documents within a period of 360 days from the date of advance, the advance ceases to qualify for concessive rate of interest ab initio.

Liquidation of Packing Credit

The pre-shipment credit. granted to an exporter is liquidated out of the proceeds of the bills drawn for the exported commodities on its purchase, discount, etc. This converts pre-shipment credit into post-shipment credit. The packing credit may also be repaid or prepaid out of remaining balance in Exchange Earners' Foreign Currency (EEFC) Account.

Running Account Facility

Generally, pre-shipment credits is given to the exporters after the submission of the letter of credit or export order. It has also been observed that in some cases the availability of raw materials is seasonal whereas the time taken for manufacture and shipment of goods is more than the delivery schedule mentioned in the export contract. Besides, in many cases, an exporters has to procure raw materials manufacture the export products and keep the same ready for shipment in anticipation of the receipt of firm's export orders or letter of credit from the overseas buyers. In view of the difficulties faced. by the exporters in arranging pre-shipment credit running. account facility. Such running account facility is extended in respect of any commodity without insisting on the prior.

submission of the firm's export order or letter of credit depending upon the bank's judgment retarding the need to extend such a facility subject to the following conditions.:

- Banks extend the running account facility to those exporters whose track record has been good and also to export oriented units (EOUs)/units in free trade zones/export processing zones (EPZs) and special economic zones (SEZs).
- In all cases where pre-shipment credit running account facility has been extended, letters of credit or firm's export orders are required to be produced within a reasonable period of time.
- Banks mark off individual export bills as and when they are received for negotiation or collection against the earliest outstanding pre-shipment credit on first in first out (FIFO) basis. Banks also ensure that concessive credit available in respect of individual pre-shipment credit does not go beyond the period of sanction or 360 days from the date of advance, whichever is earlier.
- Parking credit can also be marked off with proceeds of export documents against which the exporter has drawn no parking credit.
- If it is noticed that the exporter is abusing the facility, the facility may be withdrawn.
- In case where exporters have not complied with the terms and conditions, the advance attracts commercial lending rate ab inito.
- Running account facility is not granted to sun-suppliers.

Pre-shipment export credit is offered at concessional rates of interests, as shown in Exhibit 14.1

Pre-shipment credit is also available to specific sectors or segments, such as :

- Manufacturer. suppliers for exports routed through STC, MMTC, other export houses or agencies
- Sub-suppliers
- Construction contracts
- Consultancy services
- Service and software
- Floriculture, grapes and other agro based products
- Processors, exporters in agri-export zones.

Post-Shipment Credit –

Post-shipment credit means any loan or advance granted or any other credit provided by a bank to an exporter of goods from the date of extending credit after the shipment of goods to the date of

realization of export proceeds. It includes any loan or advance granted to an exporter in consideration of any duty drawback allowed by the government from time to time. Thus, the post shipment advance can mainly take the form of :

- Export bills purchased, discounted, or negotiated
- Advances against bills for collection
- Advances against duty drawback receivable from government

Post shipment finance can be categorized in the following manner :

- Advances against undrawn balances on export bills
- Advances against retention money
- Exports on consignment basis

Interest rate structure of Export Credit in Indian Rupee

Type of Credit	Interest Rate
1. **Pre-shipment Credit** (From the date of advance)	
(i) * Upto 180 days	Not exceeding bank's primary lending rate (BPLR) minus 2.5 percentage points
* Beyond 180 days and upto 360 days	Free
(ii) Against incentives receivable from government (covered by ECGC Guarantee) upto 90 days.	Not exceeding BPLR minus 2.5 percentage points
2. **Post-shipment Credit** (From the date of advance)	
(i) On demand bills for transit period (as specified by FEDA)	Not exceeding BPLR minus 2.5 percentage points.
(ii) Against usance bills (for total period comprising usance period of export bills, transit period as specified by FEDAI and grace period, wherever applicable	
*Upto 90 days	Not exceeding BPLR minus 2.5 percentage points.

*	Beyond 90 days and upto 6 months from the date of shipment.	Free
*	Upto 365 days for exporters under the Gold Card Schemes	Not exceeding BPLR minus 2.5 percentage points.
(iii)	Against incentives receivable from Government (covered by EXGC Guarantee) upto 90 days	-do-
(iv)	Again stun drawn balances (upto 90 days)	-do-
(v)	Against retention money (for supplier portion only) payable within one year from the date of shipment)upto 90 days)	do-
3.	**Deferred Credit**	
	Deferred credit for the period beyond 90 days	Free
4.	**Export Credit Not Otherwise Specified : (ECNOS)**	
	(i) Pre-shipment credit	Free
	(ii) Post-shipment credit	Free

- Exports through the warehouse cum display centres abroad
- Export of goods for exhibition and sale
- Post-shipment credit on deferred payment terms
- Advances against approved deemed exports

Post-shipment credit has to be liquidated by the proceeds of export bills received from abroad in respect of goods exported.

Period of Post-Shipment Credit –

In the case of demand bills, the period of advance is the **normal transit period (NTP)** specified by the Foreign Exchange Dealers association of India (FEDAI). Normal transit period means the average period from the date of negotiation, purchase, or discount to the receipt of bill proceeds in the Nostro account of the bank concerned, as prescribed by FEDAI from time to time. It is not to be confused with the time taken for the arrival of goods at the overseas destination.

MODULE - (iv) (ii) ROLE OF INTERNATIONAL MONETARY FUND

The International Monetary Fund (IMF) resulted from length discussions of separate American, British, Canadian and French proposals drafted during World War II. The British "Keynes Plan" envisaged an international clearing union that would create an international means of payment called **"bancor".** Each country's central bank would accept payments in bancor without limit from other Central banks. Debtor countries could obtain bancor by using automatic overdraft facilities with the clearing union. The limits to these over drafts would be generous and would grow automatically with each member country's total of imports and exports. Charges of 1 or 2 percent a year would be levied on both creditor and debtor positions in excess of specified limits. This slight discouragement to unbalanced positions did not rule out the possibility of large imbalances covered by automatic American credits to the rest of the worked, perhaps amounting to many billions of dollars. Part of the credits might eventually turn out to be gifts because of the provision for canceling creditor-country claims not used in international trade within a specified tie period. The rival American plan took its name from Harry Dexter White of the U.S. Treasury. White rejected the overdraft principle and then possibility of automatic American credits in vast and only loosely limited amounts. Instead, he proposed a currency pool to which members would make definite contributions only and from which countries might borrow to tide themselves over short term balance of payments deficits. Both plans looked forward to a world substantially free of controls imposed for balance of payments purposes. Both sought exchange rate stability without resorting an international gold standard and without destroying national independence in monetary and fiscal policies. According to the usual interpretation, the British plan put more emphasis on national independence and the American plan on exchange rate stability reminiscent of the gold standard. The compromise finally reached resembled the American proposal more than the British.

The Articles of Agreement of the International Monetary Fund (and also the articles of its sister Institution, the International Bank for Reconstruction and Development subsidiary of the World Bank were drafted and signed by representatives of forty-four nations at Bretton Woods, New Hampshire, in July, 1944. By the end of 1945, enough countries had ratified the agreement to bring the fund into existence. The board of governors first met in March, 1946, adopted bye-laws and decided to locate the funds headquarters in Washington, D.C. One year later the fund was ready for actual exchange operations.

According to its articles of Agreement, the purposes of the International Monetary fund are to promote international monetary cooperation, facilitate the expansion of international trade for the sake of high levels of employment and real income, promote exchange rate stability and avoid competitive depreciation, work for a multilateral system of current international payments and for elimination of exchange controls over current transactions, create confidence among member nations and give them the opportunity to correct balance of payments maladjustments while avoiding measures destructive of national and international prosperity and make balance of payments disequilibrium's shorter and less severe than they would otherwise be.

Recognizing that these goals could not all be achieved promptly, Article XIV of the agreement provided for a post war "transitional period" during which the member countries might violate the general ban on exchange controls over current account transactions. No definite length for the transition period was stated, but countries maintaining exchange controls more than five years after the start of fund operations (that is, beyond 1952) were expected to consult the fund about them every year. Actually, consultations about general economic policies have become an annual routine with all members, not just with members in violation of the standard decontrol obligations. Such consultations, requiring voluminous documentation, have even become the maintenance activity of the fund, the one using up the most man hours.

The "purposes" just mentioned are vague More pacifically, the fund provides drawing rights (in effect loans) to help its members meet temporary deficits without resort to exchange controls, exchange rate adjustments, or internal deflation. Member countries are supposed to "live with" or "ride out" purely temporary deficits, drawing on the fund when necessary to supplement their own accumulated reserves of gold and foreign exchange. The fund is not meant to use up its resources. However, hopelessly palliating "fundamental disequilibrium". A country faced with at "fundamental" deficit is in its international transactions may be expected to seek a remedy in devaluing its currency. An opposite situation of "fundamental" balance of payments surplus would presumably call for upward revaluation. Such adjustments were expected to be infrequent.

Balance of Payments Deficits and IMF Adjustment Programs : A description of the conceptual role of IMF financing programs in the context of balance of payments accounts.

The balance of payments (BOP) account is a statistical record of the economic transactions during a given year between residents

(individuals, businesses and governments) of one country and residents of the rest of the world. The BOP account consists of the current account, the capital account and foreign currency reserves. The current account primarily records a country's net exports of goods and services. The current account is the cash flow element of the BOP account. If a country exports more than it imports, the current account is in a surplus position and the country has a positive cash flow. If a country imports more than it exports, the current account is in a deficit position and the country has a negative cash flow - the country's residents are not earning enough foreign currency through their exports to pay for what they buy from other countries through their exports to pay for what they buy from other countries. Countries, like people, can spend more than they take in only if they draw down their savings or borrow funds. A current account deficit, therefore, must be financed either by drawing down a country's foreign currency reserves or by borrowing funds from abroad. The capital account records a country's foreign borrowing. When a bond is sold to residents of another country, the payment, a capital inflow, is entered as a credit in the capital account. If a country's total receipts (exports plus capital inflows) fall short of its total payments (imports plus capital outflows), it has a BOP deficit and must draw on its foreign currency reserves to meet its obligations for the remaining payments. Persistent current account deficits eventually exhaust a country's credit and foreign currency reserves, just as a persistent negative cash flow for consumers eventually exhausts their credit cards and savings account.

If a country, say Brazil, has a BOP deficit- for example. U.S. dollar receipts from abroad are less than U.S. dollar payments due abroad – Brazil can, for a time, draw on its dollar reserves. Alternatively, Brazil can borrow dollars from the IMF by exchanging Brazilian reals for U.S. dollars. The IMF uses as analytic framework, known as financial programming, to determine the amount of the loan and the macroeconomic adjustments that are needed to eventually establish BOP equilibrium. Typically, the amount of the loan is equal to a country's upcoming foreign debt obligations and the macroeconomic adjustments are intended to reduce imports and increase exports to enable the country to earn sufficient foreign exchange in the future to pay its bills, including the newly incurred IMF debt.

Conceptually, therefore, IMF loans come at the price of "conditionality", the policy adjustments that IMF officials believe will correct a recipient's country BOP deficit. The usual strategy for correcting a BOP deficit is to reduce domestic demand, and thus imports, through the imposition of credit ceilings, reductions in government spending and tax increase. In addition, the IMF calls for the removal of export barriers. Currency devaluations are also

used to promote net exports. For example, reducing the exchange rate for one Brazilian real from $4 to $2 reduces imports by making U.S. goods twice as expensive in local real prices and increases export by making Brazilian goods half as expensive in U.S. Dollars. Conceptually, IMF adjustment programs seek to rapidly correct BOP deficits.

Module-(iv)(iii) INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT- IBRD (WORLD BANK)

The IBRD was established in December, 1945, Initially it was concerned with post to war reconstruction in Europe, since then its aim has been to promote the economic development member nation by making loans where private capital is not available on reasonable terms to finance productive investments. Loans are made either direct to the governments or to private entrepreneurs with the guarantee of their governments. The world Bank as it is commonly known, comprises the IBRD and the International Development Association (IDA). The affiliated groups of institutions comprising the IBRD, the IDA, the International Financial Corporation (IFC), the Mutual Investment Guarantee Agency (MIGA) and the International Centre for Settlement of Investment and Disputers (ICSID), is now referred to as the world Bank group. IBRD officers and staffs serve concurrently as officers and staffs in the IDA. The World Bank has officers in Brazil, Newyork, Paris, London and Tokyo, regional missions in Nairobi, and Abidjan for Western Africa and resident mission in more than 70 countries (Seventy).

Functions (Activities) of IBRD :

1. **Financial Operations -** IBRD capitalize derives from members" subscriptions to capital shares, the calculation of which basis based on their quotas in the International Monetary Fund. At 30th June, 1999 the total subscribed capital of IBRD Quota. $188200 millions of which the paid portion was 11395 millions. The remainder is subject to call if required. Most of IBRD's lentable funds come from its borrowing on commercial terms in world capital markets and also from its own retained earnings and the flow of repayments of its own loans. IBRD loans carry a variable interests rates rather than a rate fixed at the time of borrowings.

IBRD loans usually have grace period of five years and are repayable over 50 years or fewer Loans are made to governments or must be guarantees by government concern and are normally made for projects likely to offer a commercially viable rate of return.

In 1980 the world Bank introduced structural adjustment lending which instead of financing specific projects supports programmes and changes necessary to modify the structure of an economy so that it can restore and maintain its growth and viability in its balance of payments over the medium time.

The IBRD and IDA together made 276 new lending and investment commitments totaling $26994.1 Million during the year ending 30-trh June, 1999 compared to 286 commitments amounting to $28593.9 Million during the previous year. IBRD operations are supported by medium and long term borrowings in International Capital Markets.

World Bank's primary objectives are the achievement of sustainable economic growth and the reduction of poverty in developing countries. In the contexts of stimulating economic growth the bank promotes both private sector development and human resource development and has attempted to respond to the growing demands by developing countries for assistance in these areas. The bank's efforts to reduce poverty comprise to maintenance elements; the compiling of countries specific assignments and the formulation of country assistance strategies. In 1996-97 the bank established a Poverty Sector Board within the reduction and economic management network. In March, 1997 the Board of Executive Directors a endorsed a strategic compact providing of a programme of reforms to be implemented for a period of 30 months to increase the effectiveness of the bank in achieving its central objective of poverty reduction.

The reforms, which end to increase the propionate of projects rated as satisfactory in development terms from 66% to 75% included greater de entralization of decision making, and investment in frontline operations, enhancing the administration of loans, and improving access to information and coordination of bank activities through a knowledge management system. During 1997:-98 the extreme financial difficulties confronting several Asian economies trusted the bank capacity to respond effectively to major financial of challenges and accelerated its process of internal reforms. A special financial units was established to help to alienate the consequences of the crisis in all effected countries, while collaboration with external partners was enhanced.

In June, 1995 the world bank joins with other international donors including regional Development Banks, other UN Bodies Canada, France, Netherlands, and USA in establishing a consultative groups to assist the poorest which was a channel fund to the most needy through grass route agency and initial credit of approximately $200 Millions was committed by the donors. In September, 1996 the World Bank /IMF development Committee

endorsed a joint initiative to assist heavily debted poor countries to reduce their debt burden to sustainable level in order to make more resources available for poverty reduction and economic growth.

2. Technical Assistance

The provision to a Member country has become a major component of world bank activity. The economic sector and project analysis undertaken by the bank in the normal course of its operations the vehicle for considerable technical assistance. In addition, project loans and credits may include funds earmarked specifically for feasibility study recourse survey management or planning advise, and training.

The banks serves as an executing agency for project financed by UN Development Programme. It also administrative projects financed by various trust fund. Technical Assistance is also extended to countries that do not need bank financial support for example for training and transfer of technology. The bank encourages the use of local consultant to assist with projects and stimulates institutional capabilities.

Project Preparation Facility (PPF) was established in 1975 to provide cash advances to prepare projects that may be financed by the Bank. In December, 1994 the PPF Commitment Authority was incr3ased from $220 Millions to $250 Million. In 1992 the Bank established an Institutional Development Fund (IDF) which become operational on 1st July; the purpose of the fund was to provide rapid small scale financial assistance to a maximum value of $5 lacs for capacity building proposals.

In 1993 a task force was established to consider measures to reduce poverty in sub-Saharan Africa in consultation with' local and national experts, non governmental organizations and government officials. The Task force published its assessment of the situation in December, 1996 and recommended that the bank revised its lending strategy to emphasize poverty to reduction objectives and strengthen systematic monitoring of Poverty situation in all Sub-Sharan African countries conceiving world Banking Assistance. In April, 1999 the world Bank and IMF conveyed a International Meeting of governments and agencies to review the immediate response of the International community to meet the humanitarian. economic and financial needs of the Six Balkan Countries most affected by the conflict in Kosovo and Metohija a Southern province of Siberia. The meeting also aimed to consider the area for future cooperation and measures to promote economic recovery and growth in those countries.

3. **Economic Research and Studies-** In the 1990's the World research, conducted by its own Research staff, was increasingly concerned with providing information to reinforce bank expanding advisory role to developing countries and to improve policy in the Bank's borrowing countries. The principles area of current research focus on issues such as maintaining sustainable growth while protecting the environment and the poorest sectors of the society, encouraging the development of private sector and reducing the and decentralizing government activities.

Consultative Groups on International Agricultural Research (CGIAR) established in 1971 under the sponsorship of World Bank, FAO & UNDP. The bank is chairman of the group (which includes a Governments, Private Foundations, and Multi-lateral Development Agencies) and provides its secretariat. In February, 1995 UNEP was invited to become the fourth sponsoring member. The group was formed to raise financial support for international agricultural research work for improving crops and animal productions in the developing countries; it supports sixteen Research Centres.

4. **Cooperation with other Organisations :** The world bank cooperate closely with other UN bodies, at the project level, particularly in the design of social funds and social action programmes; It collaborates with IMF in implementing economic adjustment programmes in developing countries. The banks holds regular consultation with European Union and OCEB on development issues, and the bank – NGO committee provides an annual forum for discussion with non-government organizations (NGOs). In December, 1995 the Bank initiated the information for development programme with the aim of fostering partnership between the governments multi lateral institutions and private sector experts in order to promote reforms and invest the deviling countries through improved access to information technology. The group established a development a new development facility which became operational in October, 1997 to support partnership initiative and to coordinate all the bank's grant-making activities. Also in 1997 the bank in partnership with the IMF, UNCTAD, UNDP, the WTO and International Trade Commission established an integrated frame work for trade related assistances to least developed countries at the request of the WTO, to assist those countries to integrate into the Global Trading Systems and improve basic trading capabilities.

Strengthening cooperation with external partners was a fundamental element of the comprehensive development frame work which was adopted in 1998-99. During that year the bank consolidated new partnership in order to extend an effective international response to the financial crises which had effected

several Asian countries from Mid 1997. The bank administered a $40 Million trust fund established by the Asia Europe Meting and collaborate closely with the Japanese government in its provision of assistance under the so called Miyazawa initiative. In July, 1999 the world bank and the European commission organized an international conference to mobiles funds for post conflict rehabilitation in Kosovo.

Global Environmental Facility (GEF) founded in 1990 by the World Bank, UNDP and the UN Environment Programmes a three year pilot programme designed to provide grants for investment projects and technical assistance. The aim of the Global Environmental Facility is to assist to developing countries in implementing projects that benefit the Global (not just the local environment). At the UN Conference on Environment and Development in June, 1992 the Global Environmental Facility was recognized in Agenda 21 as source of funds to assist with activities benefiting the global environmental and was designated as the operator of the financial mechanism having the conventions on climate change and biological diversity. In March, 1994, 87 Industrialized and Developing Countries agreed to restructure and replenish the Global Environmental facility for a further three year period from July of that year. Funds amounting to $2000 Million were to be available by 26 Donor countries.

The world Bank's operation Evaluation department studies and publishes the results of projects after a loan has been fully disbursed. So as to identify problems and possible improvements in future activities. A quarrel assurance group monitors the effectiveness of the bank's operations and proportions. In September, 1993 the Bank's board of Executive Directors agreed to establish an independent panel, consistent with bank's objective of improving project implementation and accountability. The panel, which became operational in September, 1994 was to conduct independent investigations and report on complaints concerning the design, appraisal and implementation of development projects supported by the Bank. By the end of 1999 panel had received 14 formal requests for inspection. The three projects received in 1999 concerned Land reforms in Brazil, diamond mining in Lesotho and a property reduction schemes in the Peoples Republic of China.

Module-(iv)(iv): INTERNATIONAL D-EVELOPMENT ASSOCIATION (IDA)

The International Development Association began operational in November, 1960 Affiliated to the IBRD. IDA advanced capital to the poorer developing member countries on more flexible terms than those offered by the IBRD.

Organization – Officers and Staff of the IBRD serve concurrently as officers and staff of IDA.

Activities – IDA assistance is aimed at the poorer developing countries (i.e. those with an annual GNP per head of less than US $925 in 1997 dollars in 1998/99). Under IDA lending conditions, credits can be extended to countries whose balance of payments could not sustain the burden of repayment required for IBRD loans. Terms are more favourable than these provided by the IBRD, are for a period of 35 to 40 years, with a grace period of 10 years and carry no_________ charges. At 30th June, 1999. 81 countries were eligible for IDA assistance, including several small island economic with GNP per head greater than $925 but which would otherwise have little or no access to Bank funds.

IDA total development resources, consisting of members subscriptions and supplementary resources (additional subscriptions and contributions) are replenished periodically by contribution from the more affluent member countries. In November, 1998 representatives of 39 donor countries agreed to provide $11600 million for the 12th replenishment of IDA funds, enabling total lending to amount to an estimated $20500 million in the period July, 1999-June, 2002. The new IDA – 12 resources were to be directed towards the following objectionable investing in people promoting good governance promoting broad based growth and protecting the environment.

During the year ending 30 June, 1999 IDA credits totaling US $6811.8 m. (excluding a development grant of $150 m) were approved of total IDA assistance during that year $2063.5 m. was for Africa and $ 1512.0 m. (26.6%) for South Asia The largest borrowers of IDA credits were Bangladesh ($1020.7 m for six projects) and India ($554.8 m) for four projects). IDA administers a Trust Fund which was established in November, 1996 as part of a World Bank/IMF initiative to assist heavily indebted poor countries (HIPCs see IBRD) During 1998-99 an IDA development grant of $150m was extended to Mozzambique under the HIPC initiative in support of an economic management project.

Module-(iv)(v): INTERNATIONAL FINANCE CORPORATION (IFC)

International Finance Corporation founded in 1956 as a member of the World Bank group to stimulate economic growth in developing countries by financing private sector investments., mobilizing capital in international financial markets and providing technical assistance and advise to governments and businesses. IFC has 174 Members. IFC is a separate legal entity in the World Bank

group. Executive Directors of the World bank also serves as Directors of IFC. The President of the World Bank is Ex-Officio Chairman of the IFC Board of Directors. Subject to the overall supervision of the President/Chairman the day to day operation of IFC are conducted by its staff under the direction of the Executive Vice President.

Functions (Activities) of IFC.
IFC provides financial supports and advise for private sector ventures and projects and assist government in creating conditions that stimulate the flow of domestic and foreign private savings and investments. Interestingly IFC has work to mobilize additional capital from other financial institutions. In all its activities IFC is guided by three major principles:

a) The Cartelistic principles- IFC should seek above all to be a cartelistic in helping private investors and markets to make good investments .

b) business principles- IFC should functions like a business in partnership i = with private sector and take the same commercial risks so that its although backed by public sources are transferred under Market Disciples

c) The principles of special contribution – IFC should participate in an investment only when it makes a special contribution that supplements or compliments the role of market operators.

IFC's authorized capital is US$2450 Millions at 30th June, 1999 its paid up capital was US$2349.8 Million. The world bank was originally the principles source of borrowed funds, but IFC also borrows from private capital markets To be eligible for financing, projects must be profitable for investors, must benefit the economy of country concerned and must comply with IFC's environmental guidelines. IFC may provide finance for a project that is. partially state owned, provided that there is partici9pation by the private sector and that project is operated on a commercial basis. Projects approved during 1998-99 were located in 77 countries and regions. During that year IFC approved its largest ever location totaling some US$250 Million in support of the establishment of $750 Million Asia Opportunity fund, which aimed to assist the corporatory structure in Asian Countries affected by financial instability. During1996-97 IFC inaugurated a three pilot programme extending IFC's reach' which aimed to encourage private investment in 16 countries and regions where adverse political condition and previously limited IFC's interventions. IFC has expanded its field basis activities in those countries in order to enhance local knowledge, strengthen relationship with government

authorities and local businesses and improve access to IFC products and services.

IFC offers risk management services, assisting institutions in avoiding financial risks that arise from changes in interest rates, in exchange rates or in commodity prices. In 1998-99 IFC approved 8 risk management projects for companies and banks bringing the total number of projects approved since the introduction of the service in 1990 to 83 in 35 countries. IFC provides advisory services, particularly in connection with privatization, and corporate restructures, private infrastructure and development of capital market. Under the technical assistance trust funds programes established in 1988, IFC mands the resources contributed by the various governments and agencies to provide finance for feasibility studies project identification studies an other types of technical assistance relating to project preparations.

IFC has helped to establish several regional facility with aim to assist small scale entrepreneur to develop business proposals and generate funding for their projects. The dissolution of USSR in 1991 and transition to market economy there and in other central and other European country led to an increase in (IFC activities in the region during the 1990s. In order to facilitate the privatization projects in that region and IFGC has conducted several single enterprise advisory assignments and has undertaken work to formulate model that can be easily replicate, notably for small scale privatization and the privatization agricultural land in Russion Ukraine, Belarus.

3

INTERNATIONAL MARKETING STRATEGY

Learning Objectives :

i) To understand different Market entry strategies adopted by International marketers;
ii) To develop and in depth knowledge in the market selection process in International marketing;
iii) To familiarize with product related decisions, pricing decisions etc.
iv) To know the supply chin management and physical distribution process in International market;
v) To become familiar with the promotion strategies including a-marketing in International business.

Module (i)(i): MARKET ENTRY STRATEGIES:

International business may be affected by the global market in which many companies of different countries are involved to exchange their products with the capital of the customers. The customers may belong to different countries. This exchange of product and capital can affect the position of a company in the foreign exchange market. Position of a company in the foreign exchange market also determine the profit of the company. This earns if a company has a good position in the foreign exchange market, then it how that the company is earning profit There are many reasons apart from obtaining good position in the foreign exchange market that inspire a company to enter the global market. Some of the reasons are :

- To acquire new opportunities for increasing life cycle of their product
- To secure required resources for producing desired product
- To get raw materials for their product development that are not available in their country
- To achieve low cost for producing a product which can be possible due to the low cost of land and labour in another country

When a company acquires globalization, the it enjoys many benefits which are as follows :

- Involvement of a company in the global market increases the economy of scale of its product,Increased economy of scale provides a good position in the global market to a company.
- When a company establishes its branches across the world, then there is a need to combine many activities such as product development, marketing and purchasing related to the product into a single unit. Unification of many activities into one unit saves cost of the company.
- Globalization of a company exposes its employees to the international environment that helps the employees to gain international experience in specific fields such as marketing and disturbing.

Module-(i)(ii): ALTERNATIVES FOR MARKET ENTRY STRATEGY:

A company can use one of the following alternatives to formulate a strategy to enter the global market :

- Exploring
- Contractual agreements
- Strategic international alliances (SIA)
- Joint Ventures
- Consortia
- Turnkey project
- Subsidiary

Exporting:

Exporting means selling a product from one country to another country. Exploring is of two types,: Indirect and direct. In the indirect exporting, a company sells its product to a distributor in its home country. Distributor delivers the product to the customers in other countries. While in direct exporting, a company directly delivers its product in foreign country with the help of various shipping companies. Exporting has the following advantages :

- It helps in achieving good economy of scale.
- It is never concerned with the cost related to manufacturing of the product.

Exporting has the following disadvantages :

- It causes more competition with foreign companies
- It requires more cost for transportation of the product to foreign countries

- It also requires creative marketing representatives in **foreign countries.**

A Company that has a high productive capacity may use an export strategy which focuses on product quantity and quality.

Contractual Agreement :
Contractual agreement are responsible for transferring technologies and human skills, processes and trade marks. Licensing and franchising are two different contractual agreements that are mostly used to enter the global market.

Licensing is a term which is generally used in business that refers to legal establishment of a company in a foreign market. A company can use its own trade marks and technologies in the global market after getting license. Franchising refers to a process in which accompany named as franchiser provides a standard package of product and services to a representative known as franchise. Franchise provides capital personnel involvement and knowledge about local market to the franchiser. The maintenance advantage of the franchising process is that a company may easily enter a well established market using a creative franchise, because be provides effective knowledge such as the type of services required by the customers of the market. The main disadvantage of franchising is the loss of control i.e. a franchise may misuse the trademark and eservices of the company in a specific market. To avoid such type of problem, a franchiser has to collect the following information related to franchisee :

- Description about the appearance of the franchise
- Documents to provide identification of a person as franchise
- information about experience related to the required job of the franchisee
- Historical information about litigation
- Historical information about bankruptcy
- Details about financing arrangement related to the contract of franchise and franchiser
- Details about obligation to purchase
- Details about initial and recurring funds that has to be paid by the franchisee.

Strategic International alliance :

SIA is used as a competitive strategy to enter the global market. SIA refers to a business relationship between two or more than two companies that is required to achieve a common goal of the companies. All the companies that are involved in SIA also share

risks that occurs during the process of achieving specific goals. The following are the advantages of SIA :

- SIA provides gliding to the weakness and increases the competitive strengths of the companies;
- SIA provides better opportunities to expand in different markets of the world, access new technologies and achieve more efficient cost of the product.

JOINT VENTURE :

Joint venture is also a type of SIA that is used to undertake an economic activity by a group of companies involved in the SIA. The entire group of companies create an entity related to equity of the companies which share their revenues, expenses and control. A group of company may use a joint venture only for a single project.

Joint venture provides a less risky way to enter the global market, because it decreases barriers related to culture and economy of the country that creates hurdle in achieving specific goals of the group of company. The maintenance difference between SIA and joint venture is that joint venture is specially used to generate a separate legal entity of a group of companies, while SIA is used to develop strong relationship between different companies. A joint venture has the following features :

- Joint ventures are used to establish a group of companies which creates a separate legal entity in the global market;
- Different companies, which perform joint venture, have to acknowledge each other after using the policies of joint ventures.
- Joint venture is always used by incorporated entities such as chartered organizations, companies and government of the countries.
- Every partner of a joint venture has it own equity position.

Consortia:

Consortia which are similar to joint ventures are used to reduce different risks that arise during the establishment in the global market. It also helps different partners in using different financial and managerial resources. Consortia have two unique characteristics .:

- Consortia are established among a large numbers of participants.
- Consortia are never operated in the country which is related to any participant of the consortia.

Turnkey Project :

Turnkey project refers to that project which is developed in foreign countries. These projects are always based on a principle "Build", Operate and transfer. By producing Turnkey projects a company may easily establish itself in the global market. Turnkey projects are specially used in the UAE where projects related to construction are given to foreign countries. Turnkey project has the following features :

- These projects help earn money on the basis of knowledge
- These projects have fewer risks than direct investment in foreign market.
- These projects never earn long term interest
- These projects may introduce many competitors in foreign countries.

Subsidiaries :

Subsidiary refers to a sub-branch of a company located in another country. The maintenance branch of the sub-branch company is known as the parent company of the subsidiary. Maintenance branch of the company controls all its subsidiaries which are related to any countries. The subsidiaries are controlled by the maintenance branch which holds the maximum share of the company. A maintenance branch may have a number of subsidiaries are called group. When ownership of a subsidiary is not sharable, then it is called as wholly owned subsidiary. The various advantages related to subsidiaries are as follows :

- Subsidiaries can easily handle risks related to technical competence
- Subsidiaries help in providing good performance for different operations in order to achieve good position in the global market due to well controlled policies.
- Subsidiaries can easily handle marketing of the product in different countries in the world using local employees who never face problems of different culture and language.

SELECTION OF MARKETS :

Module-(il)(i)

One of the most important decisions in international marketing is marked selection..

The global market, made up of well over 200 independent nations with their own distinctive characteristics, is too vast indeed.

It would be very difficult for a company to operate in all these markets. There are barriers which make entry to a number of markets impossible or very difficult. There may be markets which are not profitable or are not worth the trouble. Further, there may be markets which are very risky due to political or other reasons.

Moreover, the Company resources may not permit the operation in a large number of countries. There are, of course, companies which opiate in majority of the countries of the world. These companies have not achieved with a massive expansion overnight. It has been a gradual expansion achieved over a long period. Further, all types of business do not lend themselves for such substantial international expansion.

A company which wants to enter many market should do it systematically, Too fast an expansion without the resource and orgnisational strength for such an expansion could be suicidal. The Bulova Watch Company expanded into over one hundred countries. It spread itself too thin, made profits in only two countriesand lost around $ 40 million.

All these factors highlight the need for market selection. Even a Company with ambitious plans and good prospects for global expansion has got to rank the markets for prioritisation of the expansion plans.

Market selection is based on a thorough evaluation of different markets with reference to certain well defined criteria, given the company resources and objectives. Marketing research, therefore becomes necessary to obtain the data required for evaluating the markets, important source of information are given in the chapter International Marketing Intelligence.

It is also necessary to prepare a profile of the selected markets to help the company to formulate the mark4ting strategy. It may be noted that many of the items of information contained in the market profile are collected for the purpose of evaluation of the markets for market selection.

Module-(ii)(ii): MARKET SELECTION PROCESS

The market selected to serve a particular International marketing objects need not necessarily be the best suited to achieve some other international marketing objective. Different international marketing objectives have been described in Chapter I. Various markets may have different degrees of attractiveness from the point of view of different objectives. More about this is stated under the subtitle Firm Related Factors little later in this chapter.

Parameters for Selection :

For proper evaluation and selection of the markets, it is essential to clearly lay down the parameters and criteria for evaluation. Important parameters often used for market selection are shown in the evaluation matrix described elsewhere in this chapter.

Preliminary Screening :

After determining the criteria for market selection the next important step in market selection process is to conduct a preliminary screening of the markets. The objective of the preliminary screening process is to eliminate the markets which are obviously not potential enough as revealed by a cursory look.

The parameters used for the preliminary screening may vary from product to product. However, parameters like the size of population, per capita income structure of the economy, infrastructural factors, political conditions etc. are commonly used Information about. some of the factors would enable a company to eliminate certain markets from its consideration. For example, in a country where there is no telecasting, there is obviously no market for TV sets. Similarly if the rural areas are not electrified, there may be no demand for electrical pump sets. If the household income of the majority of a country with a small population is very low, the demand for costly consumer durables will be limited. Further, there may be countries which should be omitted due to political reasons, including government policies.

A lot of information required for the preliminary screening is available from such publications as the Statistical Year Book of the United Nations and the World Bank's World Development Report.

Short-listing of Markets :

Preliminary screening enables to eliminate markets which obviously do not merit consideration at the very outset. There would be a large number of markets left even after the preliminary screening. They are further screened with the help of more information than used at the. preliminary screening stage. The objective is to distill out a small number of markets which are likely to satisfy the company's criteria for market selection for a detailed analysis for ranking them and final selection.

Evaluation and Selection :

A thorough evaluation of the short listed markets is done 'with reference to the specific parameters and criteria and the markets are ranked on the basis of their over all attractiveness.

One or more market(s) is/are selected from the rank list. For further details, see the section evaluation matrix.

DETERMINANTS OF MARKET SELECTION :

The market selection is normally based on two sets of factors viz. The firm related factors and the market related factors.

Firm related factors refer to such factors as the objectives, resources product mix, international orientation etc. of the firm.

Firm Related Factors :

A Firm whose export objectives is only to sell out a marginal surplus will select a foreign market suited to serve this purpose. Another firm with the same product which wants to export a very large quantity, forming a very significant share of its total output, may have different considerations than the first firm in market selection. In the case of the second firm, as the total quantity involved is large and as it forms a significant share of its total output market diversification would be important to minimize the risk. If we think of a third firm which also wants to export the same product as the first two firms, but which wants to export several other products also. The markets which selects may perhaps be different from what the first two firms have chosen, would give more importance to the total exports of all Its products than that of any single product. Further, the market selection may be influenced by other objectives like growth. When business growth is an important objective, growth potential of the market will be an important criterion for selection.

The planned business strategy may also influence the market selection. For example a market considered the most important from the point or view of exporting need not necessarily be the one that would be selected for locating production base or a sales. office. A company that has plans for large expansion of foreign business may choose a market, to start with which can serve as a hub of international business.

The market selection is also influenced by the international orientation (refer Chapter I for details)of the company.

Another very important determinant is the company resources comprising financial hum, technological and managerial factors.

The dynamism and philosophy of the top management and the internal power relations may also influence the market selection decision.

Market Related Factors :

These are a number of market related factors which need to be carefully evaluated for market selection. The market related factors may be broadly grouped into general factors and specific factors. General factors are factors general to the market as a whale where as the specific factors are factors which are specific to the industry concerned.

General Factors –

(i) *Economic Factors* – Include factors like economic stability, GOP growth trends income distribution, per capita income, sectoral distribution of GOP and trends, nature of and trends in foreign trade and Bop, Indebtedness etc,

(ii) *Economic Policy* : Includes industrial policy, foreign investment policy, commercial policy, monetary policy, fiscal policy and other economic policies.

(iii) *Business regulations* : Regulations of business like industrial licensing; restrictions on growth, takeovers, mergers etc. restrictions on foreign remittances, repatriations etc. tax laws, import restrictions and local content stipulations; export obligations and so an.

(iv) *Currency Stability* : Stability of the national currency is another very important consideration in the market selection.

(v) *Political Factors* : Character of the political system including the nature and behaviour of the ruling party/parties and opposition party/parties, the government systems etc. And political stability are among the most important determinants of market selection.

(vi) *Ethnic Factors :* Ethnic factors like ethnic characteristics, including ethnic differences and their implications for the business, ethnic harmony etc., should also be analysed.

(vii) *Infrastructure* : Infrastructural facilities seriously affect business. For example, power shortage could cause considerable production losses. Shipping and other communication bottle necks could cause lot of delays and loss of business in addition no high costs

(viii) *Bureaucracy' and Procedure :* The nature and behaviour of the bureaucracy and the procedural system or styles are also important factors to be considered.

(ix) *Market Hub :* The ability of a market to act as a hub, a base from where the Company can operate in a contiguous region or countries, is a very important factor in the market selection of a company with plans for expansion of international business. South Africa for example, could be such a hub for the entire Sub-Saharan Africa.

A large number of Indian companies have opened offices in Singapore to use it as a hub to trade with the booming markets of South-east and the Pacific. Singapore is attractive for Indian companies because of its infrastructure, tax incentives and the large Indian population. A company which sets up an operational head quarters (OHQ) in Singapore has to pay only 10 per cent corporate tax against the normal 30 percent.

Indian Industrialists feel that Sweden could be used as a base for exporting to third countries, especially the Baltic states. They also feel that the Swedish Industrialists could use Indiaas a sourcing ground to manufacture goods for export to the Asia Pacific.

Specific Factors –

Besides the general factors, there are a number of factors specific to the industry which need to be analysed for evaluating the market. Important specific factors are :

(i) Trends in domestic production and consumption and estimates for the future of the product (s) concerned.

(ii) Trends in imports and exports and estimates for the future.
(Iii) Nature of competition.
(iv) Government policy and regulations pertaining to the industry;
(v) Infrastructure relevant to the industry.
(vi) Supply conditions of raw materials and other inputs.
(vii) Trade practice and customs.
(viii) Cultural factors and consumer characteristics.

Evaluation Matrix :

An evaluation matrix is often used for ranking the markets with reference to their attractiveness for the Company.

The evaluation matrix will include the relevant general and specific factors. These factors will be expressed in such specific terms so that they lend themselves for clear measurement and evaluation.

The countries to be evaluated may be listed on the horizontal axis and the factors on the vertical axis. Each factor is assigned a raw score and a weight age. The weighted score is

obtained by multiplying the raw score with the respective weight age Markets are ranked by comparing the total weighted scores.

MARKET PROFILE

Profiles of selected markets are prepared to help formulate appropriate marketing strategies.

The term marked profile is used in two contexts. It may refer to the over all profile of a market i.e. the general characteristics of a nation like the demographic characteristics, economic characteristics political characteristics, economic policies and business regulations in general nature and pattern of foreign trade etc.

In other case, the market profile is a description of relevant characteristics of the market for a specific product in a country. Even the market profile for specific product usually includes, in the beginning a brief general profile of the country.

The market profile of product is a fairly detailed account of relevant market characteristics. It provides those information which are needed for the formulation of the marketing strategy. A market profile, will, for example, help in the formulation of appropriate product strategy pricing strategy distribution strategy and promotion strategy.

The market profile for a product should contain the following :

1. Trends in the domestic production, demand, imports and exports and the forecasts of the same for the future.
2. Competitive characteristics - the competitors, their competitive strategies and strengths and weakness of the competitors.
3. Market segment characteristics the number of segments and their size, the success factors in each segment, determinants of demand In each segment, competitive characteristics of each segment growth potentials of the segments etc.
4. Customer characteristics including tastes and preferences, attitudes buying habits usage characteristics, etc.
5. Channel characteristics including trade practices.
6. Promotion characteristics
7. Factors relevant to pricing, laws related to product, price, promotion, distributi9on imports etc.

MODULE-(ii)(iii):. MARKET SEGMENT SELECTION

A firm has also to make a strategic decision about the segment/segments of the foreign market that it should enter.

The segment/segments that a firm may enter depends on a number of factors like the firm related factors (the size and resources of the firm, its product mix, marketing characteristics of the firm etc.) product related factors (tor e.g. whether it is an innovative product or a 'me too' product) competitive factors (the strength and weaknesses of the competition, the extent of competition in the different segments etc) and other market related factors like the size and characteristics of different segments, growth prospects of different segments etc.

A firm with an innovative product and marketing strength may choose the most lucrative segment/segments of the market first and may then spread to other segments. However, a small firm with a 'me too' product may not be in a position to compete directly with large established firms.

Small and new firms, therefore, often look for riches for an entry into the market. A market niche is a segment of the market which is ignored by the major plaer5s and where there is a need gap to till. The advantage of niche marketing is that there would not be direct confrontation with the major players. There may not also be any other powerful market. As there exists a gap to be filled, there would be reasonable chances of success.

After having established a position· of strengthen in the niches, the firm may move to other segments. This has been a strategy employed by several now sell known Japanese Companies in the foreign markets like the U.S.

Potential market niches often exist for many products in many markets. Willard and Savara observe, on the basis of a study of the success of the foreign firms in the U.S. market, that "in free markets, conditions frequently arise which invite additional competition to enter. Sometime these conditions result from the failure of incumbent manufacturers to adequately serve all segments of the market. The dangers of defining one's market too narrowly have been recognized since Leggett's classic article on 'marketing myopia' but the practice persists. Their study reveals that first, U.S. manufacturers created a "window of opportunity" which allowed – perhaps even invited – non-domestic manufacturers into the U.S. market. Secondly U.S. manufacturers were either slow to recognize or were unable or unwilling to respond quickly and effectively to the competitive challenge of imports. Then, having established an initial presence, non- domestic manufacturers moved quickly to consolidate their position with the U.S consumers. Only after the entry position had been secured did they move up market In several industries this strategy has worked sufficiently well that no domestic competition have

established major - and in some cases dominant – positions in the U.S market.

Several Indian companies have also been employing similar entry strategies.

PRODUCT DECISIONS

Module-(iii) (i)

Corporate Functioning :

One of the first areas to consider is the corporate functions that can be globalised or in other words where standardization is easier., Among all the corporate functions, marketing Is the most complex and difficult area for standardization. This is because, cultural differences limit the scope of standardization of marketing mix in different countries. Manufacturing, finance and purchase are more easily standardized. Firms c an adopt standard manufacturing technology, practices, policies and procedures in different parts of the world. Hence, is not uncommon to come across head quarters controlling functions other than those of marketing.

- Products

in selecting products for the world markets, the marketer should know that ones that enjoy high economies of scale and are not culture bound can be globalised much more quickly. Though local cultures are under attack from other cultures and cross acculturation is now more a rule rather than exception, there are stili core beliefs which customers in different countries are not willing to compromise. For example, the U.S. last food chain Burger King has difficulty in entering the Indian Market. For, Indians, mainly the vast Hindu majority, beef is not acceptable as it hurts their religious belief. This is true for all - educated and elite. Hindu customer and his or her less educated low income counterpart. Burger King has been using beef for making its burgers. Now if the chain has to enter India it has to adopt its product to a local culture belief. Will the Burger King do that ?

In examining cultural and scale barriers, the marketer may be able to rank markets from a low to high. A country or market's place on this scale can help the market decide whether to pursue a standardization or a differentiation strategy.

Another factor to be considered is the brand and head quarter country's Image in different markets. Once again this varies not only across markets but even over a time period. Nothing better illustrates this fact than Japanese products. In 1960s and

early 70s, Japanese products were the bench mark for inferior or low quality products. But today, the pendulum has swung to the other end in favor of Japanese products. Today they are the final word in quality and reliability. Japanese cars, telecommunication products and similar other products have out beaten U.S products so much so that an average American too does not perceive these (U.S) products as reliable and dependable. Image change is a difficult, time consuming and expensive proposition. But that is the way out for many firms head quarters in India.

Module-(iii)(ii): MARKETING COMMUNICATION

Another dimension in decision making is that of marketing communication. Global firms know that communication is highly culture specific. A word or a symbol may have different meanings in different cultures. Also, some visuals in T.V commercials may be found to offend local cultures. For example, a male model kissing his female counterpart in appreciation of her dress may offend the Indian consumer because he or she has come to accept that one communicates appreciation through words and non verbal signs like eye contact and to ne of the voice. Pepsi adapted its T.V commercial to Indian market by including Indian pop singer Remo Fernandes and Indian Cinestar Juhu Chawla and later Amir Khan and Sharookh Khan. This was a deviation from its global strategy of using pop singer Michael Jackson in its commercials. This was because among the vast majority of Indians, these Indian cinestars have a much greater away than Michael Jackson. However, the brand theme of Pepsi remained unchanged except for its translation in Hindi and other Indian languages. It even used the modern Hindi and Hindustani English like "Ye hi hai right choice, Baby Ah ha".

So while in marketing communication the these can be standardized for the world market implementation both in creative execution and media will have to be localized.

- Distribution

Distribution differs across countries both in terms of availability of channels and infrastructure like transportation, warehousing and telecommunication. While markets in North America(mainly U.S and Canada) or the western parts of Europe have similarly on the above dimensions in distribution planning, the same is not true for other countries. Hence the marketer will have to decide whether to adopt a standard or a differentiated strategy in distributing the product in a market.

Countries

For a global firm, it is not necessary that its affiliates are equally effective in all country markets. If this were to happen it will

have its implication on the firn's structure in terms of decision making authority. A global firm is more likely to decentralize decision making to markets where it is where its affiliates are effective than where they are not. For example, Maruti Udyog has shown to Suzuki that they are effective and can manufacture. cars and vans to Suzuki's tough quality standards. Satisfied, Suzuki today has given greater decision making power to Maruti than to any of its other affiliates. So much so that Maruti is allowed to be marketed outside India in Europe and Asia.

Another factor that the global firm has to consider is that large markets with strong local managements are less likely to accept global programmers. Yet, these markets represent the highest corporate investments. A global strategy will have to consider the needs of a larger market rather than the smaller markets. British American Tobacco (BAT) has accepted deviations in corporate strategy from its Indian affiliate, I.T.C. (makers of Wills) mainly because India is too big a market which BAT can little afford to lose.

A global firm will also have to take into account national priorities of its major country markets and their governments. To this extent global strategy will need to be localized.

Decision Making for Global Marketing :

As one will make out from the preceding sections, one of the major decisions on global marketing is that of standardization as opposed to differentiation and localization of marketing mix.

Standardisation

Standardrised marketing mix involves developing a standard product and marketing It across the national border with the same communication, pricing and distribution strategy. With the advent and standardization of technology and more specifically that of communication, customer needs are globally getting homogenized. This process of homogenization of needs is getting accelerated as trade barriers come down one after another leading to globalization of markets. The world wide communication has raised customers' expectations and demands for better living standards work life and entertainment. This cuts across cultures and religious. Nothing better confirms this than the success of brands like Coke, Pepsi, Levis jeans, Benetton ready made garments, Sony and Panasonic electronic items and even Hollywood films and soap operas made in the U.S in different parts of the Worlds that have diverse culture and religions. These commonalities in customer preferences lead conclusively to the standardisation route in corporate strategy.

Standardisation helps the firm not only reduce its costs but also ensure superior quality and consistent brand image across the world market It helps the firm achieve economies of scale which is not possible in any other approach Japanese !inns have relentlessly pursued this strategy and gained substantial scale economies often at the expense of their arrivals Global ferns compete in different national markets through a standarisation strategy and offer appropriate volume – the best combination of price, quality, reliability and delivery of their products.

However, there are pitfalls in this decision. A study shoed that the success of a global firm is based on how global decisions are conceptualized, refined, internally communicated and implemented across the world market. It concludes that !inns which lose out in the global marketing ware fare are the ones that insufficiently used marketing research, had tendency to over standardize, did poor follow up and had narrow global perspective.

Differentiation

As opposed to standardization is the differentiation strategy. This involves responding to differences in customer preferences arising out of cultural, social and religious barriers that divide nations. This strategy does help in building up sales volumes, but the cost is prohibitive, when done at a global level. Imagine Levis Benetton, Coke, McDonald Burger King, Taco bell and their like having to differentiate there marketing mix to suit different cultural preferences. They will not be able to derive economies of scale and hence their cost of operations in a market will be much higher than now. This will push up prices for consumers or else they will be out of business. Further, these global firms will never be able to ensure identical brand image across the world market This goes against the thesis of globalization.

Nonetheless, local preferences and conditions will need to be woven in the marketing mix. The more acceptable route is one of localizing marketing mix. This involves decentralizing decision making at the local affiliate level. This is useful especially when it comes to areas like marketing communication, distribution and to a limited extent in the packaging area. For example, Sun silk shampoo from Unilever could achieve a higher penetration in the toiletries market in South Asia only when it introduced sachet packs for single use and priced at an affordable level of about Re.1 in India and around this level in other south Asian countries. Maggi noodles, marketed by Nestle, could achieve a resounding success only when it included cooking instructions in its T.V. commercials and on the pack and also added taste makers to suit Indian taste buds. However, these !inns and other successful global firms do not leave critical decisions like brand image, brand identity, product focus or positioning to local affiliates.

A study showed that two of the successful global firms Nestle and Coca Cola standardized their product decisions but adapted their advertising sales promotion distribution and customer service to suit local country. preferences and conditions. The authors of this study maintain that local aspirations and strong managements in major country markets must be respected and they be persuaded to accept standardized products. Even the head quarters needs to listen to local managers and do not rigidly implement its standardized marketing mix in countries showing distinctive customer preferences or needs. The success of global marketing is based on gaining cooperation from affiliate managers in implementing the strategy. The approach of the head quarters towards affiliates has to be to focus on both the means and the ends and the head quarters has to decide its level of intervention for each business function, product communication and other elements of marketing mix and the country markets. The global marketing can be localized through the following five decisions :

1. Encouraging affiliate managers to generate ideas. This is useful in A &D Successful global firms like Unilevers, P & G, British, American Tobacco etc. Reward local ideas by globalizing them and giving such managers seat o their global board of directors.

2. Involve affiliate managers in the development of the "1arketinq strategies and programmers for global brands. In other words, approach me planning process from a bottom up perspective than using a top down approach.

3. Maintain a product portfolio that includes, wherever scale economics permit, local regional and global brand Hindustan Levers in India now has such a portfolio in its detergent products.
4. Letting local affiliate managers control their marketing budgets so that they can effectively respond to local customer preferences and competition.

5. Consider giving profit centre responsibilities to local affiliate managers.

This localizing global marketing through respecting local markets and affiliates can help a global firm succeed and win, than the one that gives no autonomy to its local affiliates and rigidly adopts standardisation strategy.

Module-(iii)(iii) :PRODUCT STRATEGY FOR GLOBAL MARKETS

We shall now turn to the most important element in global marketing namely product decisions and strategy options. For, it's the products that are globalised and other elements of marketing mix follow suit. We shall consider here decisions like product development and brand vs generic strategy options.

Product Development

Global marketing rests on the concept of a *universal product idea.* In developing a universal product, one of the principal routes is the "lead country model" Here the firm identifies its lead country markets, which differ in terms of customer preferences and government policies, but still demand the same product. These are generally those markets which will account for 80% of the firm's sales. The best way to visualize this process is to consider Nissan's strategy for U.S, Europe and Japan. Here is what Mr. Yutaka Kuma, President of Nissan has to say :

:Developing lead country car models has helped Nissan halve the number of basic models needed to cover the global markets and at the same time, to cover 80% of our sale with cars designed for specific national markets. Not to miss the remaining 20%, however, we also provided to each country manager with a range of additional model types that could be adapted to the needs of the local segment. ...(helped in).......our resources on each of our target core markets and, at the same time, provide a part of supplemental designs that could be adapted to local preference...Maintenance challenge was to avoid the trap of pleasing no one well by trying to please every one half way.

The success of Nissan's Maxima, 240 SX and Pathfinder in the U.S confirms that the lead market model strategy has been successful.

The development of lead market model involves the following steps :

(a) Identify the major markets where the firm wishes to compete

(b) Research customer preferences, local laws and other environmental conditions that are going to affect product diffusion in these markets

(c) Carefully analyse competitor products and particularly that of the market leader in these markets.

(d) Incorporate these local market conditions in the product design
(e) Allow for customer choices in terms of colors and other aesthetic preferences.

The lead market model helps the marketer understand the fact that marketing in a borderless world is not the game of average. Customer tastes in most product categories are not universal and hence localizing the product is important. However, there are certain product categories where one may have a universal product because the customer needs are identical. Dry cell batteries and' battery powered products like watches cameras, pocket calculators and even entertainment electronics like VCRs, Video games and television sets can be standardized. But again, entertainment electronics like the high performance music systems, microwave ovens and even white goods like washing machines are designed after considering not only customer preferences but even his or her life style and the kind of house he or she lives in different countries. So, Sony offers both kinds of music systems one that has large speakers that rise from the floor of living rooms and dens like the structural columns for the American market (for Americans have large spaces and hence prefer such products) and the other that is more compact and portable for Asian and European markets where people have a space constraint and hence live in smaller houses. This strategy has paid rich dividends to Sony.

Another route to developing a global product has been termed *insiderisation.* There are products like Coke, Levis jeans Reebok sneakers etc. where one finds a universal product. When one examines their strategy one finds that these firms have tried to push their products by developing a world wide distribution net work in each country. These firms became "insiders" to understand how the distribution system worked in each of their target market and then adapted their systems to suit each market requirement, without changing their product design or composition. The reason for success of Coke is the up from investment that it makes in its markets in route sales force, vans, franchises and franchised vending machines in Asian markets. By involving local bottlers and using their capital, Coke has been able to re-create the kind of sales force and distribution it uses in U.S.A. It is through this network that the company can now successfully market other products like fruit juices in different markets.

The process of "insiderisation" demands playing a series of "domestic games" against well defined global and local. competitors in different markets. It calls on the firm to out beat this competition by using "local cues" in distribution, promotion and even pricing. Hence, this is the strategy of having a "local mask" to your "global face".

However, there are niche products like fashion products (designer wares) where a marketer can market them in a standardized manner across the world market. For these products satisfy the same need (status) of a small but the core elite customer group across different markets, who are willing to pay a premium price. But for this, one needs a strong brand image. Branding is critical and so are other parameters of brand equity like brand awareness, brand positioning, brand extension in complimentary product categories (e.g. St. Yves Laurent's range of cosmetics or garments and even foot-wears) and brand image.

Module-(iii)(iv): BRAND VS GENERIC STRATEGY

Should the firm adopt a brand or a generic product strategy and promote the product in world market on other attributes like the firm's competencies and country image ? Until now we have built up the case for global branding strategy. Though global brand dominance is the key to global marketing, the marketer is confronted with the daunting task of creating a global brand. Today it is an expensive proposition particularly when one considers the costs and the task involved in it. Today, the cost of creating a global brand can run into millions of U.S. Dollars. To this is added another dimension of media, where one finds customer fragmentation occurring with multiple print media and T.V channels. Increasingly, the marketer finds that there is no single media vehicle and option that can deliver the goal of helping him or her reach to the lop of the mind awareness. Besides, global brands are under increasing pressure from private and store brands in countries like U.S., Canada, Europe and even Japan. The store or the shelf space is at a premium and the retail organization in these countries gain bargaining power over the manufacturers. Added to this is the fact that the customer is becoming indifferent to the brand. Branch equity is diffused. Brand's life cycle also is getting shorter as technology progress and competitors have access to the same technology in the world market.

A way out of this is, today, shown by China, Taiwan, Hongkong and garment and tea exports from India and Sri Lanka through the strategy of *generic product.* This strategy is based on the following competencies of the firm :

(a) Adherence to buyers time schedule
(b) Ability to be in the market when the buyer wants the product
(c) Conformance to quality and other product specifications laid down by the buyer,
(d) The Inter-relationships between producing firms and the international trading houses or buyer organizations.

The generic product strategy succeeds only when the firm and the country has been able to create a credible image in the

customer's mind. This will also succeed if there are no conflict of interests between the buying organization and the manufacturing firm and the latter has been able to establish in roads in the retail organizations in the target markets. Generic strategy works only when the market is characterized by product as opposed to brand loyalty as in the false of commodities like tea and coffee.

This strategy will deliver results in a highly price sensitive but brand indifferent markets. For example, the customer wants to buy a shirt for office going, or crockery and cutlery sets for home etc. Here, these are not feature based product and one does find that customer awareness of brands here is low and often price becomes the basis for purchase. In such kinds of situations, the most important watch word for the marketer Is "deliver quality and performance at the lowest price". Strong inter relationships with retail chains world over is another key component to generic strategy.

Finally, we turn to the global competitive strategy.

Global Competitive Strategy

A global competitive marketing strategy is based on the strategic intent of a global firm. Hamel and Prahlad found that their sample firms had three strategic intents, as mentioned below :

(a) building a global presence
(b) defending a domestic position
(c) overcoming national fragmentation

The authors studies the world television industry and found Japanese firms focus on building a global presence, U.S firms wanting to defend their domestic position in the U.S. market against the Japanese onslaught; and the European firms fighting to overcome national fragmentation. They also found that in each of thesae firms different strategies were like a loose brick each of which helped them achieve their goal.

In developing a global competitive marketing strategy, the firm needs to adopt an innovative approach to valuing the market share in different countries. Competitiveness of a firm will vary in different markets. Hence the firm needs to expand its concept of a product line. Hamel and Paroled wants the markets and the firm to redefine the relevant product family – "one that is continuous in distribution channels and shares a global brand franchise". The firm can then map up all competitive offers in the channels and evolve either a frontal attack, retaliatory or defensive strategy. It can also help the firm understand resources requirement to build up a competitive muscle in the market.

ORGANISING FOR GLOBAL MARKETING

We have so far been discussing the roles of head quarters and local affiliate management teams. Winners in global marketing reveal that while central product management is useful in directing a global marketing programmer and ensuring universal brand appeal, the problem is that often it is far removed from ground realities of the local market. Local initiative and decision making can help the firm overcome the same problems. And the best way is to let local product managers decide on the product promotion in their respective countries. Also, listening to their ideas can help the central product management teams come up with either a more aggressive global marketing strategy or a new global product, both of which can help the global firm achieve higher market penetration. Therefore, striking a balance between central control and local affiliate's autonomy is important to succeeding a highly competitive world market.

Module-(iv)(i) : PRICING DECISIONS FOR INTERNATIONAL MARKETS :

LEARNING OBJECTIVES ;

- To explain the significance of pricing in international markets
- To examine various pricing approaches in international markets
- To explain the terms of payment
- To discuss the terms of delivery
- To discuss various forms of counter trade
- To understand the concept of dumping in international markets
- To describe transfer pricing in international markets
- To explain the concept of grey marketing

Pricing is the only component of a marketing mix decision that is often adopted in international markets with least commitment of firm's resources. Price is the sum of values received from the customer for the product or service. We generally refer to price in terms of amount of money, but it may also include other tangible and intangible items of utility.

Pricing decisions become crucial for international marketing firms from developing countries primarily because of their inability to influence prices in international markets. This chapter examines the significance of pricing decisions in international markets with special reference to developing countries. The major pricing approaches for international markets such as cost based pricing and market based pricing have been examined. The concepts of

marginal cost pricing vis a vis full cost pricing have also been dealt with so as to provide a sound understanding of international pricing concepts. Various factors influencing pricing decisions in international markets, such as cost, competition, buyers' purchasing power and foreign exchange fluctuations have also been explained.

Payment terms are an integral part of an international transaction. The chapter also deals with major terms of payment, such as advance payment. open account consignment and documentary credits. International commercial Terms (INCOTERMS) define the costs, risks and obligations of buyers and sellers in an international transaction which are an integral part of an international price quotation, have also been dealt with in detail in the chapter.

Dumping is a widely used marketing tool in international business as it makes strong economic sense to sell goods at lower price. in international markets than in the domestic market. The concept of dumping has been explained, besides major variants of dumping. Non-cash commitments are also prevalent as a part of pricing decisions under the practice of counter trade. This chapter discusses various forms of counter trade, such as barter, counter purchase, buy-back and offset, The price of an international transaction between related parties, often referred to as transfer price, has also been dealt with in details. in the chapter.

Dumping is a widely used marketing tool in international business as it makes strong economic sense to sell goods at lower price in international markets than in the domestic markets. The concept of dumping has been explained, besides major variants of dumping. Non-cash commitments are also prevalent as a part of pricing decisions under the practice of counter trade. This chapt4rdiscusses various forms of counter trade, such as barter, counter purchase, buy back and offset. The price of an international transaction between related parties, often referred to as transfer price, has also been dealt with in detail.

The firm has to take care of grey marketing channels while fixing prices as they can otherwise defeat the firms' strategic intent of international pricing. This chapter also examines various issued related to grey marketing and its types.

PRICING DECISIONS :

As environmental influences are far more complex in international markets, price determination becomes even more complex. The demand in overseas markets is affected by a number of factors :

Pricing decisions in international markets are extremely significant for developing and least developed countries primarily because of the following reasons :

- The lower production and technology base often results in higher cost of production
- As the market share of developing countries is relatively lower and these countries are marginal suppliers in most product categories, they have little bargaining power to negotiate. This compels them to sell their products in international markets often below the total cost of production.
- Since the majority of products from developing and least developed countries are sold in international markets as commodities with marginal value addition, there is limited scope for realizing optimal prices;
- In view of fiercely competitive markets and complex pricing strategies adopted by multinational marketers, formulation of appropriate pricing strategies with innovation becomes a pre-condition for success in international markets.

PRICING APPROACHES FOR INTERNATIONAL MARKETS

The various strategies used for pricing decisions in international markets are as follows :

Cost based Pricing :

Costs are widely used by firms to determined prices in international markets especially in the initial stages. Generally, new exporters detuning export prices on 'ex-works' price level and add a certain percentage of profit and other expenses depending upon the tens of delivery. However, such cost based pricing methods are not optimum because of the following reasons "

- The price quoted by the exporter on the basis of cost calculations may be too low vis-a-vis competitors, thus allowing importers to earn huge margins.
- The price quoted by the exporters may be too high, making their goods in competitive and resulting in outright rejection of the offer.

It is a popular myth that costs determine the price. In fact, it is the interaction of a variety of facts, such as costs, competitive intensity, demand, structure, consumer behvio9ur, etc., that contributes to price determination in international markets. However costs serve as useful indicators of the profitability of a firm in international markets. Therefore, a market based pricing

approach is generally preferred to a cost based pricing approach.

Full Cost Pricing –

It is the most common pricing approach used by exporters in the initial stages of their internationalization. It includes adding a mark up on the total cost to determine price. The major benefits of the full cost pricing approach are as follows ;

- It is widely used by exporters in the initial phases of international marketing
- It ensures fast recovery of investments
- It is useful for firms that are primarily dependent on international markets and register very low or negligible sales in domestic markets
- It eases operation and implementation of marketing strategies.

However, the following bottlenecks are also associated with the full cost pricing approach.

- It often overlooks the prevailing price structure in international markets that may either make the product uncompetitive or prevent the firm from charging higher prices.
- As competitors often use price cutting strategies to penetrate or gain share in international markets, the full cost pricing approach may result in making the product price uncompetitive in international markets.

Marginal Cost Pricing:

In view of the huge size of international markets as compared to the domestic market, export activities are regarded as outlets for the disposal of surplus production that a firm finds difficult to sell in the domestic markets (as explained later in Figure 10.5). As the intensity of competition in international markets is much higher than in the domestic market, competitive pricing becomes a precondition for success. Therefore, a large number of firms adopt the marginal cost pricing approach (Figure 10.1) for pricing decisions in international markets.

Marginal cost is the cost of producing and selling one more unit. It sets the lower limit to which a firm can reduce its price without affecting its overall profitability. As depicted in Figure 10.1, a firm realizes its fixed cost from the domestic market and uses variable costing approach for international markets. The major reasons for adopting pricing based on marginal cost are as follows :

- In cases where foreign markets are used to dispose of surplus production, marginal cost pricing provides an alternate market outlet.:
- Products from developing countries seldom compete on the basis of brand image or unique value; marginal cost pricing is used as a tool to penetrate international markets;
- Marginal cost pricing provides some advantage that the firm would forego if it does not export at the marginal cost based price as explained in Exhibit 10.1.

Why it makes sense to use Marginal Costing in Export Pricing

Turnkey illuminations is a Kolkata based firm with an installed capacity of producing 10,000 units of designer lamps per annum with a fixed cost of US $ 500,000. The variable cost is US$ 100 per unit. It sells 5,000 units In the domestic market at Rs.230 per unit. Using the total cost approach per unit cost can be worked out as follows:

Total Cost = Fixed Cost + Variable cost
= US$ 500,000 +US$ 5000 x j00
= US$ 500,000 + US$ 500,000
= US$1,000,000

Therefore total cost per unit = $\frac{1.000,000}{5,000}$
= US$ 200

The firm receives an export order for 40,000 units @ US$ 130 per unit. Apparently, it does not cover the total cost of US$ 200 per unit as depicted above. Now the firm has to decide whether it would be able to export 40000 units as US$ 130 per unit. The implications of accepting this order are as follows :

- The firm would receive a contribution of US$ 30 per unit for export

Contribution = Selling price -Variable Cost
= US$130-US$100
= US$30

It works out a total contribution on 40,000 units as US$ 1,.200,000. It would lose this contribution in case the firm does not accept the export order.

The firm finds It difficult to sell beyond 5,000 units in the domestic market; so it has to look for alternate marketing opportunities overseas;

- There is idle installed capacity of 5,000 units alter meeting the domestic demand of 5,000 units.

Therefore, it makes sense to export using the marginal cost pricing approach till full capacity utilization is achieved.

However the major limitations of the marginal cost pricing approach are as follows :

- In case the firm is selling most of its output in international markets, it cannot use marginal cost pricing as the fixed cost also has to be recovered.
- Pricing based on marginal cost may be charged, as dumping in overseas markets is liable to action and subject to investigations.
- Such pricing tends to trigger a price war in the overseas market and leads to price undercutting among suppliers.
- Use of marginal cost pricing with little information on prevailing market prices leads to unrealistically low price quotations.

Market based Pricing-

As developing countries are marginal suppliers of goods in most markets, they rarely have market shares large enough to influence prices in international markets. Thus, the exporters in developing countries are generally price follower rather than price setters. Besides, the products offered by them are seldom unique so as to enable them to dictate prices. In which market situations, pricing decisions by price followers from developing countries involve assessment of prevailing prides in international markets and a top down calculation as follows :

- Establish the current market price for comparative and/or substitutive products in the target market;
- Establish all the elements of the market price, such as VAT margins for the trade and the importer, import duties, freight and insurance costs, etc.
- o Make a top down calculation, deducting all the elements of the expected market price of the product(s) in order to arrive at the 'ex-works', 'ex-facto!)" or 'ex-warehouse' **price;**
- o Assess if this can be met;
- o If not, re-calculate the cost price by finding ways to decrease costs in the facto!)' or organization or to decrease the marketing budget, which also burden export market price;

- Estimate total sales over a three year period, add total planned expenses, including those of the export department and the traveling and canvassing efforts.
- Make a bottom up calculation per product item, dividing thesupport9ing budgets over the total number of items to be sold.
- Set the final market price.
- Test the price (through market research)

Top-down Calculation for International Pricing

Consumer price	1,160		
VAT	160	+	16%
MARKET PRICE MINUS vat	1,000		
Margin retailer	250	=	25%
Price to retailer	750		
Margin wholesaler	90	+	12%
Price to wholesaler	660		
Margin to import4r	33	+	5%
Landed cost price	627		
Import duties :	110	+	**20%**
Other costs (storage, banking)	17		
CIF (port of destination)	500		
Transportation costs	130		
Insurance costs	6		
FOB (port of shipment)	364		
Transportation costs factory to port	34		
Export price ex-works (EXW)	330		
Factory cost price	300		
Export pr5ofit(per unit)	30		

Such top down calculation enable a firm to determine if it can meet competition market prices at the cost price level. In the above calculation, the 'ex-works' price, i.e. US$ 330 is 28.4% of the price paid by the consumer i.e. US$ 1160. It works out to a 'multiplier' of 3.5 The multiplier is used as a calculating aid while offering price quotations in international markets. However, the firms should estimate their total sales in the planned year and also carry out bottom up calculations for preparing a price quotations based on an estimated ex-works price.

This may be followed up by carrying out a 'feasibility calculation' so as to assess the export feasibility on the basis of the price estimates as given in Exhibit 10.3

Thus, the firm may estimate the gross profits from exports based on the market size, share, growth and various expenses.

Bases on this, suitable modifications may be done in the product design, costs and price before deciding upon entering overseas markets.

Module-(iv)(ii) : TRANSFER PRICING IN INTERNATIONAL MARKETS

The concept of transfer pricing, which was earlier limited to foreign multinational companies, is becoming increasingly, significant for Indian companies as a result of their increasing internationalization. Indian firms enter international markets by way or joint ventures, wholly owned subsidiaries etc. Companies own distribution systems in international markets, which makes transfer pricing crucial for formulating an international pricing strategy.

concept of transfer pricing

The price of an international transaction between related parties is called transfer price. The objectives of transfer pricing are as follows :

- Maximizing overall after-tax profits
- Reducing incident of customs duty payments
- Circumventing the quota restrictions (in value terms) on imports
- Reducing exchange exposure, circumventing exchange controls and restricting profit repatriation so that transfer firms affiliates to the parent can be maximized;
- Transferring of funds in locations so as to suit corporate working capital policies;
- Window dressing' operations to improve the apparent (i.e. reported) financial position of an affiliate so as to enhance its credit ratings.

The objects of transfer price apparently seems simple allocation of profits among the subsidiaries and the parent company, but the differences in the taxation patters in various markets makes it a complex phenomenon. Transfer prices come under the scrutiny of taxation authorities when it is different from the arm's length priced to unrelated parties. Transfer pricing involves the following stakeholders:

- Parent company
- Foreign subsidiary or joint venture or any other strategic alliance
- Strategic alliance partners
- Home country and overseas managers
- Home country governments

- Host country government

International transactions based on intra-company transfer pricing involves conflicting interests of various stakeholders. Therefore, in view of the diverse interests of stakeholders transfer pricing decisions become a formidable track. The factors influencing transfer pricing include :

- Market conditions in the foreign country
- Competition in the foreign country
- Reasonable profit for the foreign affiliate
- **Home country income taxes**
- Economic conditions in the foreign country
- Import restrictions
- Customs duties
- **Price controls**
- Taxation in the host country, e.g. withholding taxes
- Exchange controls, e.g. repatriation of profits.

Types of Transfer Pricing –

- *Market-based transfer pricing* : It is referred to as arm's **length pricing, wherein the sales transactions occur** between two unrelated(arm's length) parties. Arm's a length pricing is preferred by taxation authorities. Transfer pricing comes under the scrutiny of tax authorities when it is different from the anm's length price to unrelated firms.
- *Non-market pricing-* Pricing policies that deviate from market based arm's length pricing are known as non marketing based pricing
- *Pricing at direct manufacturing costs :* It refers to the intra firm transactions that take place at the marketing cost.

A number of transnational corporations have re-invoicing centers at low tax countries (popularly known as tax heavens) such as Jamaica, Cayman Islands, Bahamas, etc. to coordinate transfer pricing around the world. These re invoicing centers are used to carry out intra corporate transactions between two affiliates of the same parent company or between the parent and the affiliate companies. These re-invoicing centers take title of the goods sold by the selling unit and resell it to the receiving units. The prices charged to the buyer and the prices received by the seller are determined so as to achieve the transfer pricing objections. In such cases, the actual shipments or goods take place form the seller to the buyer while the two stage transfer is shown only in documentation. The basic objective of such transfer pricing is to siphon profits away from a high tax parent company or its affiliate to

low tax affiliates and allocate funds to locations with strong currencies and virtually no exchange controls.

Module-(v)(i): PHYSICAL DISTRIBUTION

LEARNING OBJECTIVES :

- To explain the concept of international logistics
- To discuss channels of distribution in international markets
- To describe various channel intermediates in international markets
- To understand the structure of distribution channel in international markets
- To explain international retailing
- To learn how to manage logistics and cargo shipping

In order to offer value to its customers, a firm needs to manage its logistics, operations marketing, and services functions in an integrated manner. The efficiency and effectiveness of a firm to procure raw materials and inputs in order to make its finished product available to the ultimate customers in the most cost effective and efficient manner is crucial to a firm's competitive advantage in international markets. The chapter explains the concept of logistic and its significance in value chain.

In order to make its goods available to ultimate customers in international markets, a firm employs a number of market intermediaries. As the marketing system varies considerably from country to country and an exporting limn has little information about overseas marketing systems, it is much more complex to conceptualize and manage distribution channels in international markets. An international market in firm has an option to those either an indirect or a direct marketing channel. Affirm does not come in direct contact with an overseas marketing intermediary in case of an indirect marketing channel, whereas it deals directly with an overseas market intermediary while using a direct marketing channel.

The breakthrough in information and communication technology has revolutionalized the international marketing channels and facilitated direct marketing through a-channels. A firm may select a marketing channel depending upon its objectives in international markets, financial resources, organizational structure, resources, experience in international markets, existing distribution systems. channel availability in target market, required speed of market entry, legal implications, and specific product need, if any.

This Chapter also carries out a cross country examination of structure of distribution channels in international markets. The European and American channels are relatively shorter, whereas the Japanese marketing channels are characterized by multi level market intermediaries at horizontal level. Thus, the distribution system in Japan is viewed as a considerable marketing barrier. The global trend indicates a decline in the number of retail outlets but an increase in their average size. Besides, the share and role of global retailers is also on the rise, which strengthens their capability to negotiate with the suppliers and build private labels.

As the pnc1ng decisions are dependent on the cost of logistics and the sales contracts go hand in hand with shipping contracts, managers wanting to operate in international markets need to develop a thorough understanding of international logistics. This chapter explains in detail the issues related to logistics management and various options for cargo shipping and contract terms used in a charter party.

INTERNATIONAL LOGISTICS :

The word 'logistics' is derived from a French word 'loger' that means the art of transport, supply and quartering of troops. Thus, logistics was conceptually designed for use in military so as to ensure meticulous planning and implementation of supply of weapons food, medicines, and troops in the battlefield However logistics has presently become an integral part of business.

Conceptualization, design and implementation of a system for direct flow of goods and services across national borders is termed as 'international logistics'. Thus, logistics consists of planning and implement the strategy for procuring inputs for the production process to make goods and services available to the end customers. As depicted in Figure 11.1 logistics has two distinct components, i.e. materials management and physical distribution.

Materials Management

It involves procurement of inputs such as raw materials and components for processing or value addition by the firm. This is also known as inbound logistics.

PHYSICAL DISTRIBUTION

It involves all the activities such as transportation, warehousing and inventory carried out to make the product available to the end customers. This is also known as outbound logistics.

Module-(v)(ii): LOGISTICS AND THE VALUE CHAIN CONCEPT

The objective of any business firm is to create value by way of performing a set out activities such as to conceptualize, design, manufacture, market and service its market offerings. This set of interrelated activities is termed as value chain. To gain competitive advantage over its rivals, a firm must provide comparable buyer value by performing activities more efficiently than its competitors (lower cost) or by performing activities in a unique way that creates greater buyer value and commands a premium price (differentiation) or accompanist both. Figure 11.2 gives the basic framework of Michael Porter's concept of value claim to carry out these interrelated activities. The primary activities include inbound logistics, operations (manufacturing) outbound logistics marketing and sales and after sales services, whereas the support activities include firm's infrastructure (finance, planning etc), human resource management, technology development and procurement.

As distribution is an integral part of the marketing mix decision, it has been discussed in the first part of this chapter Managing logistics is also crucial to a firm's competitive advantage as explained in Figure 11.2 and it is impossible to create efficient and effective marketing channels without a thorough understanding of international logistics International logistics has been discussed in the latter part of this chapter.

CHANNELS OF INTERNATIONAL DISTRIBUTION :

Once a firm has decided to enter interpretational markets and identified the markets and the products, it has to ensure smooth flow of goods from the place of manufacture to the ultimate customers. For making the goods available from the producer or manufacturer in one country to an overseas customer, a number of market intermediaries are involved for physical transfer of goods. Besides, the firm receives the payment through the channel of such intermediaries. Channels of distribution or marketing channels are the set of interdependent organizations involved in the process of making a product or service available for use or consumption. The distribution channels play a crucial role to make the products or service reach the end consumers.

Channel of distribution is defined as an organization of network of agencies and institutions, which, in combination, perform all the activities required to link producers with users to accomplish marketing task. The major functions performed by distribution channels include :

- Physical flow of goods from the producer or manufacturer to the ultimate customers
- Transfer of ownership to the ultimate customer
- Realization of payment that flows from the ultimate customers through market intermediaries to the producers· or manufacturers.
- Regular flow of information from the ultimate customers and within the channel intermediaries
- Promotion flow from the manufacturers to the end customer and gathering customer feedbacks.

Channels of international marketing distribution may be defined as a set of interdependent organizations networked together to make the products or services available to the end consumers in international markets.

Managing distribution channels in international markets is much more complex than managing them in domestic markets due to a number of factors, including the following :

- The distribution system to international markets varies significantly from one country to another. Therefore, a firm has to develop a thorough understanding of the distribution channels in the target markets. For instance, prior to *perestroika,* the marketing channels in the erstwhile USSR were controlled by the government. The Foreign Trade Organization (FTO), a huge government body, was involved in bulk import and distribution through a government controlled distribution network. However, after the disintegration of USSR, the private distribution channels were largely non existent in CTS markets and international firm were required to create their own distribution networks.
- Firms are more familiar with the marketing channels in their home market. Therefore selection of distribution channels in overseas markets is a complex decision.
- Collecting information about the distribution channels in overseas markets requires relatively more resources, both managerial and financial.
- Managing distribution channels in overseas markets is much more complex because of the physical distance and also due to the marketing systems distance in the target markets.
- Since a firm commits substantial resources to its overseas· marketing operations, the long term commitment of channel members is an important aspect in channel design but one which is difficult to assess.

Module- (v)(iii)- SELECTING CHANNELS OF INTERNATIONAL DISTRIBUTION

Selection of a distribution channel is one of the most crucial decisions a firm has to make while entering international markets.
A firm may use the following criteria for the selection of channels of international distribution :

- International marketing objectives of the firm
- Financial resource
- Organizational structure
- Experience in international markets
- Firm's marketing image
- Existing marketing channels of the firm
- Channel availability in the target market
- Speed of market entry required
- Legal implications
- Specific product need, if any
- Synergy with other elements of marketing mix.

Depending upon the firm's objectives and need, appropriate weights may be assigned to each of the above criteria and final ratings based on weight age may be carried at for final selection of an appropriate international distribution channel.

A firm has the following alternative channel strategies in terms of market coverage.

Exclusive Distribution –
The firm opts for a single or a few market intermediaries.
Selection Distribution
The firm has limited coverage of the market in terms of area and has a select number of intermediaries.
Intensive Distribution
The firm deals with as many numbers of intermediaries and outlets in the market as possible.

Module- (v)(iv): TYPES OF INTERNATIONAL DISTRIBUTION CHANNELS

The International Distribution channels may broadly be divided into two categories namely direct and indirect channels, as depicted in Figure 11.3. A firm has got the option to make its products available in the international market through either of the channels or a combination thereof.

Indirect Channels :

Indirect channels, an international marketing firm has to deal with domestic agents or market intermediaries without any direct dealing with a foreign based firm. Vas the firm is not required to deal directly in overseas markets, indirect marketing channels offer the following benefits.

- Since the firm has to deal with the market intermediary in the domestic market, it needs little investment and marketing experience.
- Indirect distribution channels provide low cost opportunity to test products in the international market.

However, indirect channels have certain limitations, which are as follows:

- As the firm has to heavily depend upon domestic market intermediary, its feedback from the ultimate customers is limited.
- The firm has to part with relatively higher share of its profit margins by way of commissions and other payments.
- The firm get little insight into the market even after operating for several years.
- The firm does not develop its own contacts with the buyers in the overseas market.

Direct Channels –

As depicted in Figure 11.3. direct marketing channels involve selling of goods directly to a market intermediary or the end users or customers in overseas markets. The major benefits of using direct channels are as follows :

- The firm develops a closer relationship with overseas buyers as it comes in direct contact with them.
- The firm develops an Insight in to the markets of operations which helps in restructuring its marketing strategies as peer the market requirements.
- The firm's control over the export process is greater in direct marketing channels compared to indirect marketing channels.

Channel Intermediaries in International Markets-

Channel intermediaries in international markets, as indicated in Figure 11.4 can be divided into two categories, agents and merchant intermediaries. The agents do not take title or the goods and represent the principal firms rather than themselves, whereas the merchant intermediaries take title or the goods and buy and sell

it on their own account. Agents work for a commission whereas distributors work on margins.

A brief description of various channel members in the international market is given below.

Module-(vi)(i) : PROMOTION STRATEGIES (including Advertising and e-marketing)

LEARNING OBJECTIVES ;

- Types of sale promotions used by companies
- Objectives of consumer promotions and trade promotions
- The vehicles used in the two types of promotion
- How to plan sales promotion strategy and programmers
- Budget for sales promotions
- How to measure the effectiveness of sales promotion

INTRODUCTION

Our world today is characterized by promotion wars. Everyday when we open the newspaper or view any T.V. channel, we are bombarded with advertisements. Just look at the prizes sponsored by several firms at the end of some of the well known television programmers like Surabhi on Doordarshan, Antakshari, sponsored by Close Up on Zee T.V., Philips Top Ten songs of the week on Zee and likewise other such programmers on ATN, SUN, Asianet, D.D. Metro etc. channels. It isn't just the prices on television that attract the consumer, it is the discount coupons, gifts and several similar incentive programmers creatively designed by the market that draws the customer to the brand and the organization. All these are the vehicles used in sales promotion.,

Sales promotion, collectively comprises of the tools used to promote sales in a given territory and time. These are primarily short term in nature and are designed to quickly stimulate sales. While advertising creates awareness and provides to the target consumer the rationale to buy a product, sales promotion induces him/her to try/buy the product. In this sense, sales promotion is an incentive to buy. While discount coupons price offs, prizes, free trials, etc. are directed at the final consumer, there are several promotions like merchandise allowance, incentive for shelf safe, shelf display contests, joint promotions etc. which are directed at the trade. In today's environment both these promotions arte required. Broadly, consumer promotions objective is to create consumer pull for the brand and trade promotions objective is to push the brand in the market place.

GROWING SIGNIFICANCE OF SALES PROMOTION

During the last six years, i.e. since 1991, there has been an increase in the sales promotion budgets of all organizations. Even smaller firms and retail outlets like Metro sjhpoes, sheetal, Benzer and Shoppers Stop (retail stores in Mumbai) have had sales promotion campaign. This growing significance of sales promotion can be attributed to :

(a) Growing consumerism in India and an upwardly mobile Indian market.

(b) Heightened inter firm rivalry within the industry, in fact, in all sectors of the economy.

(c) Trade resistance to invest additional resources in the product mix of different companies. This resistance is mainly because of most consumer companies enlarging their product mix to preempt competition and also to satisfy different consumer needs. Since the trade has limited resources they find it difficult to invest in all companies products. Hence, the trade also demands more incentives for any additional investment.

(d) Fragmentation of viewers and readers arising out of multiple television channels and newspapers and magazines:

(e) The mass media cost has been on the rise and most companies find sale promotion as a more cost effective alternative.

(f) With technologies and products getting standardized, differentiation between firms has got blunted and price wars have now become a reality in most consumer goods.

Sale promotion budgets, therefore, are getting ratter and one has yet to see the peak in it. It isn't surprising that sales promotion is growing because it :

(i) Helps in securing trial and defending shelf space against competition:

(ii) Smoothens out the manufacturing capacities of firms in such a way that the peaks and the valleys are minimized;

(iii) Provides opportunities to manufacturers to reach out to market segments with differing price sensitivity:

(iv) Adds excitement to the in-store merchandising of consumer goods.

(v) Motivates trade to keep more and push more of those brands that are on promotion

Module- (vi)(ii) : OBJECTIVES OF CONSUMER ORIENTED SALES PROMOTION PROGRAMMES

As mentioned earlier in the chapter, the broad objective of any sales promotion programmers is to induce trial and purchase of

the product. As we consider several consumer promotions programmers of different organizations, we can include that their objectives are anyone or all of the following :

(a) Generate consumer interest, which should lead to trial;
(b) Generate inquiries from the target customer group;
(c) Build traffic for a brand at the retail outlet, which should help generate additional sales of the product
(d) Motivate customers to repeat their choice
(e) Increase the rate of purchase.

Objectives of consumer promotions and vehicles used to achieve them

Consumer promotion objectives	Vehicles used
(a) Generate trial (i) New products (ii) Related products (iii) Brand switches demonstration	Coupons Discount sales Free samples Contests
(b) Enquiries	Gifts Mail in coupons Catalogue offers
(c) Repurchase **promotions**	On park coupons Mail in coupons Continuity
(d) Traffic building	Special events Annual sales Festival sales Retailer coupons

Generate Consumer Interest Leading to Trial

This is one of the most sacrosanct objectives in marketing, particularly in the case of new products and those products which are mature and hence don't excite the interest of the consumer. Several sales promotions are designed to create an excitement in the target market which should help in generating trial purchase. Free samples and coupons are some of the consumer promotion schemes commonly used by firms. Offering gifts is another way. Free trials are very common in the industry, particularly in the cosmetics and premium range of toilet soaps and shampoos. Dove a premium brand of toilet soap from Hindustan Levers, urges consumers o try the 7-Day test to convince themselves of the claims being made by the company. Citibank's gifts offer to their

existing credit card members on introduction of a new member is yet another example creating interest and generating trial sales.

Free samples and coupons have generally been found useful in stimulating trial for low involvement products because they generate a low cost usage experience that may create favorable attitudes much faster them advertising. Fore, more complex and high involvement products in store demonstrations seem to deliver better results. This may be attributed to the customers search for expert advice and information. And in most of the high involvement products, generally the dealer or store sales person is looked up to as an expert.

In the context of multi product firms like a men's toiletries firm, an organization may use vehicles like cross couponing to build trial for these products. Thus a packet of Witch twin edged blades may have a discount coupon for deodorant. In cross couponing generally the firm's objective is also to piggy ride a new product on its existing products which already command loyalty and hence market leadership.

Enquiry Generation

Another objectives of consumer promotion is to generate inquiries from the target consumers. This is done through mail-in- coupons, free catalogues and prizes. Since the incentive to be offered is generally in the context of an advertising message designed to introduce product benefits, these vehicles should be developed in coordination with the advertising programmers. This objectives is particularly useful in the following situations.

(a) When the firm has to identify and attract prospective customers who are difficult to be identified because of the product concept.

(b) When the customers have to be frequently replenished, like in the context of educational institutions whose stationery stocks have to be periodically replenished here the supplier may offer mail in coupons or even special prices or gilts on festivals and

(c) When a new model or another version of a product or service has been planned/introduced.

Build Consumer Traffic

Shoppers stop, a leading garment and accessories store in the western of Mumbai, recently had a tie festival. Earlier it had several similar events either all by itself or in collaboration

with leading brands that it stocks. Such kind of special sales or festival sales or even entertainment events like Film fare Awards are designed to build consumer traffic at retail outlets or for a brand.

Motivate Customers to Repeat Their Purchase –

Several companies use promotion tools like first citizen's club (Shopper's Shop) and cumulative purchase card (Akbarallys) which promises the customers a free shirt or any garment on the purchase of a specific number of garments. Likewise, Citibank Diners Club offer its members redeemable points for every purchase made on the Diners Club Credit card. These tools are aimed at creating brand loyalty. Likewise, a firm may offer continuity promotions like contests that run over several days and weeks or gifts distributed in increments over time. Frequent flyers programmers of airline is another form of continuity promotion .

Increase Rates of Purchase

Strategically the firm's motivation here is to retain the customer or to generate primary demand. Tactically for the former motivation, the firm may offer a multi pack or a large pack at a lower price then the competition and its own smaller units. The net effect of this strategy is to make the consumer stock the company's product brand above the normal level. Any consumer who does that will not have the motivation to buy the competing brand. Hindustan Lever recently carried a similar multipack offer for Dove, Other tools used here are special price for multiple[le products and information on new use situations like a recipe for a desert on Milkmaid's label.

Module-(vi)(iii) :TRADE PROMOTION

The prime objective of trade promotion is to push the product through the marketing intermediaries and also to get them to market the product aggressively. We mentioned earlier that as inter firm rivalry intensifies, more and more manufacturers will seek support of the traders to aggressively market their product. The trader, too has become selective and wiser and hence demands substantial incentives from manufacturers to push their brands in the market.

If we were to scan the various promotional tools like shelf display contest, merchandise, allowance, returns allowance, joint promotions, etc. We will find that their are two objectives that explain their use :

Encouraging Trade to Build Inventory-

Any promotional tool designed to motivate t5ade to invest and build inventory of a particular band at the expense of a competing brand is a good tactical weapon to preempt competition this is also useful when marketers develop consumer oriented promotions to boost their sales as in the festival time.

During such occasions it is necessary to prevent any stock outs in the retail market. Thus, manufacturers may offer special margins or extra merchandise at no additional costs or even offer allowances for additional shelf and space or pay rent for additional go down space for a limitation time period. The manufacturer may even offer to promote specific retail outlets for those who join his trade promotion programmers.

In the case of new products, manufacturers may offer the traders additional margins, pay for promotions, part pay wholesaler/retailer's salesmen salaries or may even offer cash incentive.

Getting Trade's Corporation in Promotions-

Often the manufacturer wants the distributor/wholesaler to participate in its promotional activities. One reason for this is because it can help lower promotion costs of the manufacturer. Another reason is, it helps heighten the interest and motivation of the distributor in the company's brand/products. It also helps get a commitment from the distributor. Joint advertising, joint consumer promotions, joint sales contexts among retailer in the territory, etc. are some of the commonly used vehicles here. Generally in such situations major proportion of the promotional expenditure is borne by the manufacturer.

Module- (vi)(iv) : PLANNING SALES PROMOTION PROGRAMMES

In order to make sale promotion programmers effective, it is necessary that the marketer should spend a considerable tike in planning. He should avoid his shooting from the hop approach and adopt a long term analytical planning approach, which involves the following :

Review of the Product Market Situation

Here the marketer should examine the trends in his brand sales and the product category sales. Some of the key questions that will need his attention are

(1) Are there any wide fluctuations in the brand sales? Can one observe any pattern in these fluctuations like: Peaks in specific months or the year and lows in some other months. Monsoon time in India is comparatively a slack time for most product. Further, the marketer should also analyse competitor sales and whether similar phenomena is observed in the competitor's brands also.:

In case the marketer is introducing a new product, then he/she should analyse buyer behavior and likely consumer response to it.

The marketer should also examine consumer responsiveness to any of the consumer promotion programmers that it plans to introduce. In assessing this responsiveness, the marketed will have to study the following:

(2) Consumer's proneness to the deal i.e. the degree to which consumers are likely to search out and respond to sales promotion incentives

(3) Level of involvement – i.e. whether the buying situation represents a high involvements or low involvement. Here, the marketer will also have to closely monitor consumer preferences and brand trial. One study suggests that sustained loyalty .to a brand bought first during a sales promotion will be greater when the effort involved in trying the brand is high relative to the economic value obtained. This suggests that consumer promotions requiring special effort on the part of consumer, like cutting out a contest form and complying to its conditions or redeeming coupons in a long drawn promotions like frequent flyers club are more effective in the long run as they may increase the likelihood of conversion onto a new brand. Likewise when the consumer involvement in the promotion is low research indicates that promotions which are reinforces in general (like discount coupons) work well when they are imme3diate rather than delayed.

Consumer Purchase Patterns •

Here the marketer will have o examine the purchase patterns of the consumers. He should plan to provide incentives for a sufficiently long time so that all heavy users get an opportunity to benefit in their normal purchase cycles. Consequently, most sales in the last phase of the sales promotion programmed will come from regular buyers who may just stock up the product because of the law price advantage. Likewise, if the consumer loyalties exist for a

particular size then the firm should offer promotions on other sizes to induce trial..

Distribution Methods

Here the marketer should analyse the distribution methods being used in his product category as this will influence choice of the promotion tools.

Identification of Opportunities and Threats

Based on the above analysis and also that of the trade characteristics, a firm has to identify opportunities and threats confronting it. It has to also examine ways and means by which it could use promotion tools to exploit opportunities and convert threats into opportunities .

Deciding on Sales Promotion Objectives –

We have already outlines these objectives in our earlier sections.
Decide on Sales Promotion Budgets

The next issue to be closely examined is **"how much to spend"** ?
this can be answered by analysis :

1. Costs – both, Direct Fixed and Variable Costs – The direct fixed costs are costs of physically distributing samples, placing advertisements and point of purchase materials etc. Variable costs are payments made to the retailer for each coupon redeemed.

Advertising *Versus* Promotion

A decade ago, the advertising to sales promotion ratio was about 6-040, Today, in many consumer packages goods companies, sales promotion accounts for 75 per cent of the combined budget (roughly 50 per cent is trade promotion and 25 per cent is consumer promotion). Sales promotion expenditures have been increasing as a per centage of budget expenditure annually for the last two decades. Several factors contribute to this rapid growth, particularly in consumer markets.

Promotion is now more accepted by top management as an effective sales took more product managers are qualified to use sales promotion tools and product managers are under greater pressure to increase current sales. In addition, the number of brands has increased competitors use promotions frequently many brands are seen as similar consumers are more price oriented the trade has demanded more deals from manufacturers and

advertising efficiency has declined because of rising costs ,media clutter and legal restraints.

There is a danger, however, in letting advertising take too much of a back seat to promotions, because advertising typically builds brand loyalty. The question of whether or not sales promotion weakens brand loyalty is subject to interpretation. Sales promotion with its incessant process of coupons · deals and premiums may devalue the product offering in buyers minds. However before jumping to any conclusion we need to distinguish between price promotions and added value promotions. Certain types of sales promotions can actually enhance brand image. The rapid growth of sales promotion media has created clutter similar to advertising clutter. Manufacturers have to find ways to rise above the clutter – for instance by offering larger coupon redemption values or using more dramatic point of purchase displays or demonstrations.

Usually, when a brand is price promoted too often, the consumer begins to devalue it and buy it mainly when it goes on sale. So there is risk in putting a well known brand on promotion over 30 per cent of the time Automobile manufacturers turned to 0 per cent financing and hefty cash rebates to ignite sales in the soft economy of 2000-2001 but have found it difficult to wean consumers from all the discounts since then. Two-Thirds of Americans indicated that the timing of their next vehicle purchasers will be affected by the level of sales incentives and one-third said they would not buy without them.

Dominant brands offer deals less rfdre3quently, because most deals subsidize only current users. Prior research has shown that sales promotions yield faster and more measurable responses in sales than advertising does but do not tend to yield new long term buyers in mature markets Loyal brand buyers tend not to change their buying patterns as a result of competitive promotions. Advertising appears to be more effective at deepening brand loyalty.

There is also evidence that price promotion do not build permanent told category volume. One study of more than 1,000 promotion concluded that only 16 per cent paid off. Small share competitors find it advantageous to use sales promotion because they cannot afford to match the market leaders' large advertising budgets nor can they obtain shelf space without offering trade allowances or stimulate consumer trial without offering incentives. Price competition is often used by a small brand seeking to enlarge its share but it is less effective for a category leader shoes growth lies in expanding the entire category. The up short is that many consumer packaged goods. companies feel they forced to use

more sales promotion than they wish. They blame the heavy use of sales promotion for decreasing brand loyalty. Increasing consumer price sensitivity brand quality image dilution and a focus on short run marketing planning.

Module-(vi)(v) : E-READINESS

A country's e-readiness ranking is essentially the measure of its e- business environment a collective factor that indicates how amenable a market is to Internet based opportunities. It provides a broad framework to assess the success of a country's technology initiatives vis-a vis other countries. It also provides an overview of the world's most prominent investment locations for online operations.

The Economist Intelligence Unit annually publishers an e-readiness ranking for the world's 60 largest economies based on nearly 100v quantitative and qualitative criteria to assess their technology infrastructure, their general business environment, the degree to which e business is adopted by the consumers and companies, social and cultural conditions that influence Internet users and the availability of a support structure for e-business.

Denmark has the highest level of a-readiness as per the Economist Intelligence Unit ranking, with an over all score of 8.28 on a 10 point scale followed by the US (8.04) Germany (7.83) Japan (6.86) South Africa (5.79) Brazil (5.56) India (4.45) China (3.96) Russia (3.74) and Pakistan (2.61). The Economist Intelligence Unit considers India a shining example of emerging markets for its famed IT-enabled service sector that contributes an estimated US$ 17 billion to the economy annually. Besides, India's success story has also been replicated throughout the region. This has transformed Asia into an emblem of borderless economy..

Global a-marketing

Conduct a marketing transactions such as buying selling distributing or delivering of goods or services using electronics methods is termed as e-marketing. It includes the use of electronic data and its applications for conceptualization planning pricing distribution and promotion of goods and services to create exchanges to satisfy customer needs. Global e-marketing involves the marketing transactions through electronic methods across the world.

Physical Marketplace to Virtual Market space

The concept of e-marketing has transformed the marketing process from 'physical marketplace' to 'virtual market space' that has considerably changed the process of consumer purchasing

decisions. The basic changes in the consumer purchasing decision process are as follows.

Problem Recognition

It was conventional marketing communications that stimulated marked demand via conventional media, communication strategy on the Internet should be user specific rather than the mass communication approach used in traditional media. Thus, the communication strategy has undergone a fundamental change. The focus now is on following a customized communication approach for individual consumers.

Information Search

In a traditional marketing system, customers gather information through either internal or external sources, including peer group discussions, company brochures, etc. The availability of market information varies widely between the firms and the customers. However in the virtual market space, customers can san information o the Internet and make comparisons to suit their individual requirements. The intermediary function performed by the Internet sites is mainly related to providing information and exchange. For instance airlines railways tour operators etc. provide online booking that bypasses traditional market intermediaries such as travel agents. Internet websites also provide links with other websites that helps customers gather more information.

India Mart provides a global gateway on the Internet for the Indian market place

Evaluation of Alternatives

In a traditional market place, the evaluation of alternatives is greatly influenced by the peer groups family members, friends and publicity through word of mouth, whereas in a market space the virtual community has taken up the role of traditional reference groups. Various discussion groups and consumer forums share with each other their experiences over the net.

Purchase decisions

The decision to select a seller for a purchase is traditionally based on the previous experience of the buyer with the seller, its proximity, range of products offered, and the price charged. However, in the electronic market space sellers often attract the buyers by way of creating interesting wedsites, competitive prices and superior purchasing experience to induce the purchase decisions. In Internet transactions, the payment is usually through credit cards but the delivery mechanism d9iffers depending upon the product type. It may be in the form of either online delivery or physical delivery. Software music design etc. may be delivered online whereas physical goods have to be delivered physically.

Post Purchase Behaviour

In traditional markets a firm should respond to customer complaints and enquiries through the marketing channels. However, in an electronic market space the emphasis is on information and communication technologies, such as continuous updating of websites and on satisfying customer needs. A firm should endeavour to offer value to its customers through its website by promptly responding to their queries and providing latest information to encourage new purchases.

Reverse Marketing

Earlier the markets used to initiate the marketing activities but today the information and communication technology has completely changed the marketing systems, enabling. customers to initiate the marketing activities. The phenomenon is termed as *reverse marketing* where the customers initiate the exchanges and gather the required information. The customers can now initiate and carry out the following activities.

Reverse Promotion

A customer may search for product information and solicit promotion from the marketers or through the intermediaries. These intermediaries relay customer requests to the marketers without divulging personal information and block unwanted offers.

Reverse Advertising

Traditionally, the firms used to push the advertisements to the customers generally as a mass communication tool. The introduction of information and communication techno logy has now enabled customers to request for more information from manufacturers and click on the advertisements they are interested in. thus, advertising has become customer initiated as it can be pulled by the customers.

Reverse Pricing

Buyers can place their offers for bidding and set the prices. A number of e-marketing firms, such as indiatimes.com. allow the customers to set their own prices. Buyers can specify the price and model options.

A variety of branded consumer durables are available for auction on such sites.

Reverse Product Design

The e-marketing firms enable customers to customize the products of their own choice. HMV's Hemark CD.com enables customers to customize their own CDs with their own titles.

Hemark CD.com. offers more than 25,000 of the most popular as well as truly rate songs from 100 years of Saregama's collection spread across various genres, such as Hindi, Tamil Bengali, Telugu, Marathi, Ghazals, Malayalam, Kannada, Carnatic, Punjabi Oriya, Assamese and Hindustani Classics. It ships COs to all parts of the world charging a shipping cost of US$ 10-015 for the first CD and for each additional CD US$ 1-2 are charged.

Reverse Segmentation

Traditionally, the marketing firms used customer purchase history to create customized offers. However, under e-marketing customers self select and co-customize offers with marketers.

Module-(vi)(vi) : TYPES OF E-MARKETING MODELS

The e-marketing activities can basically be categorized under four heads.

The electronic exchanges between the customers and the business firms with the government, such as government to business (G2B) government to consumer {G2C), and consumer to government (C2G) are discussed as follows:

Business to Business (B2B) e-marketing

It involves intra firm transactions using an electronic network. B2B transactions are estimated to accounts for about 90% of total electronic business transactions. Besides B2B e-marketing is well established as earlier it used to involve the use of electronic data inter change (EDI).

Electronic data interchange (ED1) is the exchange of information between organizations through computers using proprietary networks, EDI had generally been used to eliminate paper work in supply chain management and getting regulatory clearances from government authorities.

Earlier. EDI used proprietary dedicated networks to transmit highly structured machine readable data. However, the Internet has helped in creating an electronic mark space, where the buyers and sellers can transmit information through e-mail video, voice and image in a cost effective manner.

Although the internet based e-marketing networks are highly cost effective, the transactions are less secure as these re open networks. The B2B e-marketing adds to the efficiency of marketing transactions. It facilitates greater access to information by the buyers about the sellers worldwide. As the prices have become more transparent through the Internet, it has increased price

pressures on undifferentiated commodities. At the same time, it provides greater information on highly differentiated brands.

Launched in 1999, auctionindia.com claims to be India's first business to business (B2B) auction site. It provides superior customer value by using dynamic price based solutions i.e. auctions to create an online market space for industrial assets. Besides, the auction sites also bring together buyers and sellers through a comprehensive listing and asset matching facility.

It also offers procurement solutions through reverse or purchase auctions. Buyers are thereby able to source and procure their requirements from a wide range of suppliers at prices competitively driven downwards. Its online presence supported by a pan India infrastructure and sales force is instrumental in finding solutions for its customers needs.

Business in Consumers (B2C) a-marketing

It includes electronic retailers generally operating on a global basis. The Internet has greatly facilitated the proliferation of B2C e-marketing during the recent years. Global e-retailers, such as amazon.com. Dell computers, etc. have been highly popular in most parts of the world. It is estimated that the major items purchased online include books (58%) Music (50%) software (44%) air tickets(29%) PC peripherals (28%) clothing (26%) videos (24%) hotel reservations (20%) toys (20%) flowers(17%) and consumer electronics (12%). However e-marketing transactions are less popular in product categories that need to be physically touched and examined by the buyers such as clothes, furniture, etc. the consumers buying online tend to be relatively younger better educated and generally affluent. The B2C e-marketing leads to exchange processes initiated and controlled by the customers. Until customers invite marketers to participate in their exchange processes, marketers will have to wait. Moreover, the rules of marketing engagement are also determined by the end customers.

Consumers to Business (C28) e - marketing

It involves reverse auction where the customers rather than the sellers initiate the market transactions. It includes the tendering by the buyer inviting suppliers to put forward their bids.

Consumers to consumers (C2C) e-marketing

It involves horizontal interaction between consumers, who generally share their experiences of the product byway of chat rooms. Communication among customers by e-mail is the most important channel. Person to person trading offered by e-Bay in the web-based community is the world's largest and the most

popular virtual marketspace. It pioneered online person to person trading by developing a wed based community where the buyers and sellers transact personal items. The site permits sellers to list items for sale and buyers to bid on the items of their interest. All eBay users browse through listed items on an easy to use online service Items generally transacted under eBay or its Indian subsidy baaze com include apparel and accessories, books and magazines computers and peripherals fitness and sports jewellery and watches music and instruments, stamps coins consumer electronics mobiles and accessories, movies and videos etc.

Alternative a-marketing Business Firms

Depending upon the integration of the Internet technologies with a firm's marketing strategies, the firm may opt for any of the following alternatives.

Brick and Mortar

This is a traditional business model wherein websites are used only as a company brochure Brick and mortar firms generate their revenue from traditional means of sale, while the website is used only as a supplementary tool to provide information. Consequent to a favorable market feedback such brick and mortar firms often develop as brick and 'click' companies.

Pure Click

Under this model, all the marketing transactions are carried out online with little physical presence. Such firms are also known as 'dotcoms' or 'pure plays'. Such pure click firms include search engines, commercial sites, Internet service providers (ISPs), transaction sites, content sites, and enables sites Google, Yahoo, Sify, Altavista, etc. which primarily started as search engines, presently provide a variety of services, such as free mails, weather reports news entertainment etc. the commercial sites of pure click companies such as Indiatimes.com, sell as variety of products online. Websites such as eBay and baaze.com provide a platform for auction. For holding auctions these sites are paid commissions on the transactions conducted on the sites. In the late 1990s pure click firms achieved a very high level of market capitalization and were considered to be a major threat to the traditional marketing business. However, the hype of dotcoms was short lived and it busted in 2000. Only a limited number of pure click firms such as amazon.com. survived the dotcom bust.

Brick and Click

Under this model, a firm conducts marketing activities and transactions both online and offline. Firms using brick and click model are cautious that the online sales do not cannibalize their existing sales through traditional channels such firms also

emphasize on the rteducti9nof channel conflict between their own channel intermediaries and online sales. Firms such as Avon, Compaq etc. evolved a model so that the e-marketing activities become complimentary to the traditional marketing model.

m-marketing (Mobile Marketing)

Although the conduct of marketing transactions through computers has greatly facilitated marketing activities, the use of mobile technology relieves the customers from the constrains of time and place, greatly enhancing the convenience and accessibility. The concept of m-marketing is defined as the conduct of marketing activities through the use of mobile technology such as mobile phones, personal digital assistant (PDA) and telematics. It facilitates customers interaction with location specific context and worldwide web. It also enables marketing communication through mobile devices and text applications such as SMS.

ICICI Bank mobile banking services enable its customers to collect account information or perform bank transactions. A customer can query for his account balance, request for the last three transactions, order for a new cheque book, enquire for a cheque status, issue stop cheque request, change primary account and make payment for bills under this facility.

The mobile banking alerts keep its customers alerted when the events a customer has subscribed to get triggered. Customers can subscribe to receive SMS alerts for a number of events such as when an amount is credited, when an amount over a specified amount gets debited or credited when the balance falls below or goes above a specified limit or when a cheque bounces. Under the alert facility, the customers will get alerts only when the events they have subscribed to occur unlike the request facility where the customers request for information as and when desired.

4

PROCEDURAL AND POLICY FRAME WORK

Learning Objectives:

i) To develop clear understanding of the Foreign trade Policy of the Country;
ii) To familiarize with export import procedure;
iii) To know the Shipping and Banking procedures and formalities;
iv) To understand the risks in International trade and risk coverage insurance available to Exporters and Importers;
v) To develop a brief understanding about export benefits and intensives;
vi) To know the documentation procedure in Export Business;
vii) To understand the growing importance of service export and the benefits and export obligations of SEZs.

Module-(i)(i): FOREIGN TRADE POLICY

EXIM policy is announced by the Central Government (Ministry of Commerce on a five year basis. Amendments to be EXIM policy is made normally on a yearly basis. EXIM policy suggests the measures to be adopted to achieve well defined export objections. Certain concessions, incentives and facilities are also provided to Indian Exporters through the EXIM policy of India.

i. OBJECTIONS OF EXIM POLICY

(i) To strengthen the base for export production lor promoting exports.
(ii) To create sound and favourable situation for export promotion through diversification.
(iii) To facilitate technological upgradation of domestic Production so as to make Indian goods globally competitive.
(iv) To reduce imports through import substitution and encouragement to indigenous production.
(v) To simplify and streamline import-export procedures.
(vi) To enable exporters to draw long term export plans and strategies.
(vii) To provide necessary institutional support to export initiatives by exporters/export organizations.
(viii) To provide liberal import facilities to promote exports.

(ix) To offer different types or export incentives, concessions and facilities so as to encourage manufacturers and exports to take more initiative in export promotion. Exports are made attractive/profitable through such export incentives.

(x) To facilitate availability of necessary important inputs for sustaining industrial growth.

ii. EXIM POLICY SAINCE 1985 ONWARDS

(i) **EXIM POLICY – 1985·88** : Announced on 12th April, 1985 by the then Commerce Minister Mr. V.P. Singh. This is the first policy statement announced for a period of three years.

(ii) **EXIM POLICY – 1988·91** : Announced on March, 1988 by the then Government and Finance Minister Mr. N.D.Tiwari. It was an extension of earlier EXIM Policy for 1985·88.

(iii) **EXIM POLICY- 1990·93:** The Exim Policy 1988-91 was to expire by the end of March, 1991 but was revised one year earlier by the National Front Government on March 3oth, 1990. It was tor a period of three years (1990-93). Contribution was given to the basic aspects of the previous policy for 1988-91.

(iv) **EXIM POLICY -1992·97:** The EXIM policy for 1990-93 was replaced by a new Exim Policy for a period of five year (1992·97) commencing from 1" April, 1992. The policy was announced by the then Minister of State for Commerce Mr. P. Chidambaram on 31[51] March, 1992. This policy was revised on yearly basis. The fifth and final revision to EXIM policy 1992-97 was announced on March 25, 1996.

(v) **EXIM POLICY- 1997·2002:** The EXIM Policy 1997-2002 was announced on March 31, 1997 for a period of five years. The earlier policy for 1992-97 was replaced by this new policy for 197-2002. It was suitably amended on yearly basis.

(vi) **EXIM POLICY – 2002·2007** The EXIM Policy for 2002-2007 was announced by the then Union Commerce and Industry Minister late Shri Murasoli Maran on March 31, 2002. This policy was for five years. The earlier policy for 1997-2002 was replaced by the new policy which is **"export and exporter-friendly".**

(vii) **MINI EXIM POLICY – 2004:** Due to Lok Sabha Elections in April-May, 2004, the Government announced Mini Exim Policy on 28th January, 2004. It was temporary arrangement as the regular Exim

Policy was to be announced after the formation of new government.

iii. FOREIGN TRADE POLICY (2004·2009)

INTRODUCTION

For India to become a major player in world trade, an all encompassing comprehensive view need to be taken for the over all development of the country's foreign trade. While increase in exports is of vital importance, we have also to facilitate those imports which are required to stimulate our economy. Coherence and consistency among trade and other economic policies is important for maximizing the contribution of such policies to development. Thus, while incorporating the existing practice of enunciating an annual EXIM Policy, it is necessary to go much beyond and take an integrated approach, to the developmental requirements of India's foreign trade. This is the context of the new Foreign Trade Policy.

Objectives :

Trade is not an end in .itself, but a means to economic growth and national development. The primary purpose is not the mere earning of foreign exchange, but the stimulation of greater economic activity. The Foreign Trade Policy is rooted in this belief and built around two major objectives. There are:

(1) To double our percentage share of global merchandise trade within the next five years; and

(2) To act as an effective instrument of economics growth by giving a thrust to employment.

Strategy

The objectives are proposed to be achieved by adopting among others, the following strategies:

(i) Unshackling of controls and creating an atmosphere of trust and transparency to unleash the innate entrepreneurship of our businessmen, industrialists and traders.
(ii) Simplifying procedures and bringing down transaction costs.
(iii) Neutralizing incidence of all levies and duties on imports used in export products, based on the fundamental principle that duties and levies should not be exported.
(iv) Facilitating development of India as a global hub for manufacturing, trading and services;
(v) Identifying and nurturing special focus areas which would generate, additional employment opportunities particularly in semi urban and rural areas, and developing a series of initiative for each of these.

(vi) Facilitating technological and infrastructural up gradation of all the sectors of the Indian economy, especially through import or capital goods and equipment thereby increasing value addition and productivities, while attaining internationally accepted standards of quality.

(vii) Avoiding inverted duty structure and ensuring that our domestic sectors are not disadvantaged in the Free Trade Agreements/Regional Trade Agreements/Preferential Trade Agreement that we enter into in order to enhance our exports.

(viii) Upgrading our infrastructural network, both physical and virtual, related to the entire Foreign Trade chain,to international standards.

(ix) Revitalizing the Board of Trade by refining the role, giving .it due recognition and inducting experts on Trade Policy.

(x) Activating our Embassies as key players in our export strategy and linking our Commercial Wings abroad through an electronic platform for real time trade intelligence and enquiry dissemination.

Partnership

The new Policy envisages merchant-exporters and· manufacturer-exporters, business and industry as partners of Government in the achievement of its stated objectives and goals. Prolonged and unnecessary litigation vitiates the premise of partnership. In order to obviate the need for litigation and nurture a constructive and conducive atmosphere, a suitable Grievance Redressal Mechanism will be stabilized which, it is hoped would substantially reduce litigation and further .a relationship of partnership.

The dynamic of a liberalized trading systems sometimes results in injury caused to domestic industry on account of dumping. When this happens effective measures to redress such injury will be taken.

Roadmap

The policy is essentially a roadmap for the redevelopment of India's trade. It contains the· basic principles and points the direction in which we propose to go. By virtue of its very dynamics, a trade policy cannot be fully comprehensive in all its details. It would naturally require modification from time to time. We propose to do this through continuous updating, based on the inevitable charging dynamics of international trade. is in partnership with business and industry that we propose to erect milestones on this roadmap.

Module-(I)(ii) : FIRST ANNUAL SUPPLEMENT TO FOREIGN TRADE POLICY – 2004-2009 ANNOUNCED ON 9TH APRIL 2005.

The announcement of first annual supplement was made by Mr.Kamalnath, Commerce Minister, based on the export performance since 2000-2003 states that India's exports during 2004-2005 were expected to be around $ 80 million against the target of $ 785 million. The growth rate of exports would be 24% (target 16%) Exports have been growing in excess of 20% since 2002-2003 it was 24% in 2004-2005. According to Mr. Kamalnath India would cross the milestone of $ 150 Billion of merchandise exports and thereby double India's share of world merchandise trade earlier than then target date of 2009".

FEATURES OF FIRST ANNUAL SUPPLEMENT OF FTP 2004-2009

(i) Creating Employment through Exports – Special incentives are provided to employment generating Sectors like Agricultural Exports, Exports of marine, dairy poultry, retail stores and automotive components.

(ii) Setting up of Inter-State Trade Council – With a view to create competition among states and encouragement is being given to states for meaningful participation in the export promotion efforts at the national level.

(iii) Certain Methods referred to Prime Minister's Economic Council for .Decision – Issues relating to income tax notices: to exporters under Sec.BOHHC, issues relating to trades on profits from duty entitlement passbooks scheme (DEPB) Scheme, since sales involving Rs.13, 000 Cr. Capital earnings exemption or service tax to export oriental units etc. are referred to the Prime Minister's Economic Council for appropriate decision.

(iv) Reforms for Cost Reduction – Simplification of Export procedures and documentation. In addition Electronics Data Interface-linkage will be developed to facilitate online filing of export documents. An Import Export Code (IEC) number will be issued online by linking the DGFT Data base with the Income Tax PAN data base using digital signatures.

(v) Reforms Relating to Advancing Licensing _ The advance licensing scheme has been rationalized allowing clubbing of licenses for export regularization and permitting transfer of duty free material imported under licence from one unit of a firm to another.

(vi) Steps for Streamlining Procedures and Trust on Agri-. Exports – Removal of export Cess on farm and plantation commodities and translating the trade policy for the country

side the Commerce Minister announced benefits under "VIDESH KRISHI UPAJ YOJANA" for agriculture dairy and poultry products including flowers, fruits and vegetables. Under this scheme exporters to get duty credits against exports.

(vii) Promotion of Brand India- Promoting "made in India" trade mark for handloom sector on the lines or silk and wool market.

(viii) DEPB Schemes to Continue – Duty Entitlement Passbook Scheme will continue till it was replaced by a WTO compatible alternative.

(ix) Wider Coverage for EPCG Scheme - The Export Promotion of Capital Goods Scheme will be expanded to cover the retail sector allowing concessional duty of imports for modernization of retail sector.

(x) Miscellaneous Reform Introduced under First Annual Supplement to Foreign Trade Policy 2004-2009.

(a) Special Emphasis given to Marine Export sector to enable this sector to attract FDI (Foreign Direct Investment).

(b) The new policy has added new glitter to germs and jewellery exports.

(c) The Exports of poultry and dairy products will be entitled to for benefits under Videsh Krishi Upaj Yojana.

(d) The new TEA (Distribution and Export) Control Order 2005 was issued with a view to maintain quality and brand equity of Indian Tea.

Module·(i)(iii) : SECOND ANNUAL SUPPLEMENT TO FOREIGN TRADE POLICY 2004-2009 (ANNOUNCED ON 7TH APRIL, 2006)

The Second Annual Supplement contains various measures to tap new export markets, diversity trade baskets and fine tune in the line with changing dynamics of International trade. The policy initiatives proposes to develop India as a "Global Hub" for gems and jewellery and auto components and also to increase services exports.

FEATURES OF SECOND ANNUAL SUPPLEMENT TO THE FTP

(i) Incentives for Employment Generation-Sectors like gems and jewellery auto components, textiles, leather goods, marine products etc. are identify for the purpose of employment generation and towards this goal different incentives schemes have been proposed.

(II) Videsh Krishi Upaj Yojana – To include rural manufactured products in addition to agro-products.

(iii) Schemes for rationalization of value addition norms with respect to gems and jewellery sector.

(iv) 'Refuelling of .Long Distance Flights are treated as exports.

(v) Making India a Hub for auto parts.

(vi) Removal of incidence of service tax and Fringe Benefit Tax.

(vii) Incentives to service sector companies- The services in exports in Indian rupees which are otherwise considered as having been paid for in free foreign exchange by RBI, will now qualify for "benefits" under the "served from India" Scheme.

(viii) World Export Promotion Schemes for Export Oriented Units have been given extension.

The export growth initiatives Introduced in the second annual supplement to ETP 2004-2009 are certainly pride worthy. The raising of India's share in the world export trade to 1.5% or nearly doubling the export target by the end of 2009 is not adequate. We have to accelerate exports to those of the export levels attained by our rival China whose share of exports in 2005 was 31.1% India needs to run faster to retain its place in the Global Export Trade.

Module – (i)(iv) : NEGATIVE LIST OF EXPORTS

EXIM policy has made a reference to the negative list of items which cannot be imported or exported freely or are banned for imports and exports. The negative list includes the following three categories of items :

(i) **Prohibited Items: This** means items which are banned for imports and exports. Such prohibited/banned items cannot be imported or exported.

(ii) **Restricted Items,:** Such items can be imported or exported with the special permission/licence from DGFT.

(iii) **Cancelled items :** These are the items which are to be imported/exported through canalizing agencies like STC.

The negative list in the Exim Policy has lost its importance in the recent period as such list is reduced considerably due to liberization of our imports and exports. Our exports and imports are now liberalized under the WTO agreement. This makes the concept of negative list rather outdated. **However,**

some restrictions on the imports and exports are bound to exist.

Negative list includes negative list of exports and negative list of imports.

Negatives list of exports includes those export items which are banned (prohibited items) or cannot be exported freely (restricted items) or can be exported only through canalized agencies (canalized items).

The prohibited or banned items of exports are: All forms of wild animals, Exotic, birds, Beef, Human skeletons chemicals as notified by DGFT, Red sanders wood in any form, Tallow, fat and/or oils of any animal's origin wood and wood products and sandalwood items as notified by DGFT.

The restricted Items of exports are: Total restricted items are 31. Restricted items of exports Include camel, hides. and skins, fodder including wheat and rice straw, fur of domestic animals, deoiled ground nut cakes, fresh and frozen silver pilfrets of weight less than 300 gms and textile items with imprints of excerpts or verses of the Holy Quran.

The canalized items of Exports are: Petroleum products, Onions, Mica Waste and Scraps, Mineral Oils and Concentrates etc.

Module -(ii)(i) : EXPORT-IMPORT PROCEDURE

Export Procedure involves different stages from organizing for export business through formalities and procedures before the actual shipment of export goods, shipment of procedure and also various formalities Post Shipment of export goods. These different procedures can be classified into preliminary stage, pre- shipment stage, shipment stage and post shipment stage. We shall now briefly outline the various procedures to be undertaken by the exporter at various stages as stated above in order to. facilitate exports from India to different foreign markets.

1. Preliminary Stage

a. The exporter should organize either as an individual exporter or form an enterprise in the form of partnership or of a limited entity. Primarily this stage involves decision making as to exporting of goods to foreign countries (markets) and setting up the necessary organizational structures to facilitate the decision of exporting.

b. Registering with Various Authorities like:

I. Income Tax Authorities – to obtain permanent account number (PAN).

ii. With Joint Director general Foreign Trade Office – to obtain import export code number (IEC No)

Iii. With Export Promotion Council – to obtain registration cum membership Certificate (RCMC)

Iv. Registration with other authorities such as Federation of Indian Exporters Organization, Sales Tax Authorities, Chamber of Commerce etc.

c. Appointing Agents/Distributors

It is advisable that the exporter engages the services of Agents and/or Distributors in foreign markets where he intends to export goods. It is also suggested that the exporter may open his own office/show room etc. In the foreign market where he intends to export.

d. Selecting Foreign Importers

Through advertising and other methods of approaching the prospective importers, the exporter manage to convince the importer about his products and provide with quotations including proforma invoice to motivate the importer to place import orders. The role of distributors and/or foreign agents in this regard is praise worthy.

2. **Pre-Shipment Stage**

a. Confirmation of Export Order

The Exporter should acknowledge and confirm the supply of goods as desired by the importers in his import order which was sent to the exporter..

b. Obtaining Letter of Credit

Exporters should also confirm that confirmed Letter of Credit as far as possible is obtained along with the Export Order received from the importer.

c. Obtaining Export Licence/Permission from the Government Authorities:

If the export goods attract export licence, the exporter has to complete the formalities and obtain such licence.

d. Arranging Pre-Shipment Finance

Considering the huge size of the export order, the exporter may be requiring large sums as working capital. Therefore, he should approach his bankers and do the necessary banking formalities with respect to and in order to avail packing credit facility (Pre-Shipment Finance).

e. Production and/or Procurement of the goods for Exports

The exporter n0w turns to arranging the goods for exports as per the specifications in the export order with respect to quality and quantity and export schedules. He may either produce the goods in his factory or outsource the production to some manufacturing firms. In the alternate he may also procure the goods from the open market.

f. Packing and Marking

It is important that the goods meant for exports are packed according to the advices/specifications given by the importer. If no such specifications are given by the importer, the exporter should ensure that the export goods are proper; packed to avoid damage, leakage, pilferage and · deterioration dung the voyage i.e. shipment from India to the foreign country, It is also important that proper marking of· (Identification Marks/Nos) the goods and packages for identification purposes. The exporter is advised to take necessary advice from the Indian Institute of Packaging. The *export* goods must accompany a certificate of origin and which must be along with the marking of the cargo, the net and gross weight port or entry, port of shipment and other details to be provided on the packing itself in addition to documentary proof thereof.

g. Pre-Shipment Inspection

If the export goods are subject to pre-shipment inspection and quality control, the exporter should apply to the Export Inspection Agency (EIA). The EIA may issue inspection certificate if they are satisfied with the quality. Exporters who have obtained ISO 9000 Certification need not apply to the Export Inspection agency for the purpose of obtaining export inspection certificate.

h. Central Excise Clearance

Even though export goods are exempted from Central Excise, it is necessary that necessary clearance is obtained from

the Central Excise Authorities. There are two different ways of excise clearance, i.e. export under rebate and export under bond.

I. ECGC Cover

The exporter should take risk cover policies to protect from risks of loss due to several reason from the Export Credit and Guarantee Corporation of India. There are standard policies and specific policies issued by ECGC, Exporter can obtain any of these policies depending upon the type of product, service and period of credit extended to the import abroad.

j. Marine Insurance Policy

Once the goods are ready for export, the exporter has to apply to the Insurance co. for insuring the goods if it is priced CIF (Cost, Insurance & Freight). In case of all other types of quotations if the importer wants the export4er to obtain Insurance cover on his behalf, the exporter does so on behalf of the importer.

k. Appointment of Clearing and Forwarding Agents

C & F Agents are specialized personnels to look after the forwarding work including booking of shipping space, preparation of documents, submissions of documents to customs and customs clearance before the goods are transported to the port tor the purpose of shipment.

I. Instructions to C & F Agents

The exporter should provide the following documents to the C & F Agents and advising for the shipment of cargo. :

i. Commercial Invoice (2 copies)
ii. G.R. Form (Original and Duplicate)
iii. AR-4/AR-4A form (Original and duplicate)
iv. Packing List
v. Original UC Export Contract/Export Order
vi. Other required documents.

All these documents are required to be submitted to the customs for obtaining customs approval for taking the goods in board the shop.

3. Shipment Stage

a. Processing of Shipping Documents in the Customs

The C & F agent prepare five copies of the shopping bill and present it along with other documents to the customs appraiser at the customs house, when found everything in order the customs

preventive officer endorses the duplicate copy of the shopping bill. All documents except the original copy of G.R. Form, original copy of shipping bill and one copy of commercial invoice are returned to the C & F Agent after verification.

b. Physical examination of the goods at the Port

After obtaining customs clearance and the carting order from the Port Trust to cart the goods inside the docks, the C & F Agent after such carting of goods to the dock approaches the customs examiner for physically inspecting the. goods. After such physical examination the customs examiner issues the "Let Export Order".

c. Loading of Goods

The Duplicate copy of shipping bill endorsed by the customs examiner is handed over to the customs preventive officer who endorses it with "Let Ship Order". The goods are loaded on board the shop and the Captain of the Shop now issue Mate's Receipt The Mate's Receipt is handed over to the shipping company to obtain Bill of Lading.

4. Post Shipment Stage

a. Dispatch of documents by C & F Agent to the Exporter

After completing the shipment procedure, the C & F Agent returns the following documents to the Exporter:

i. Commercial Invoice attested by Customs
ii. Shipping Bill (Export Promotion Copy)
iii. Original *UC* Export Order
iv. Bill of Lading in appropriate number of copies
v. GR Form (Duplicate copy attested by Customs)
vi. AR-4 Form (Duplicate copy)
vii. Railway Freight Renate Form attested by the customs

b. Shipment advice to the Importer

The Exporter now issue shipment advice to the importer. Following documents are also enclosed with the shipment advice :

r. A Non-Negotiable copy of Bill of Lading
ii. Packing List
iii. Commercial Invoice

c. Presentation of Documents to the Bank

The Exporter now hand over the entire setoff documents consisting of commercial invoice, customs, invoice, consular invoice, certificate of original packing list, bill of exchange, Letter of

Credit, negotiable copy of bill of lading and insurance policy. The Bank now sends these documents to the Importer's bank for realizing the export proceeds.

d. Realization of Export Proceeds

The Export proceeds are realized from the importer through his bankers by the exporter's Bank. Generally the export proceeds must be realised within 180 days from the date of shipment otheiwise special permission is to be obtained from the Reserve Bank of India.

e. Claiming Export Incentives

The Exporter now proceeds to claim export incentives from the government on the basis of the Bank's Certificate. The Bank Certificate includes details of the products exported, its value, rate of conversion into Indian rupees, the details of invoice etc. The exporter is entitled to incentives such as duly drawb ack, REP Licence .and many other incentives announced by the government of India from time to time.

f. Follow up of Export Sales

It includes after sales service, maintaining contacts with the importer and knowing from him about the importer's opinion about the product etc. Good follow up work will generate more export orders and also build the image of the exporter in the international market.

Module·(iii)(i) : PROCEDURE IN EXPORT SHIPPING

1. APPOINTING CUSTOMS HOUSE/C & F AGENT

Customs House Agent (C & F Agent) is also known as C & F Agent performs an important role In export procedure, including customs and shopping formalities. Generally, exporters following the following procedure to appoint C & F Agent (CHA).

1. Collecting the addresses of C&F Agents from the Export Promotion Council, Commodity Boards or from other exporters.
2. Collecting relevant information from CH Agent/C&F Agent. Information such as the services provided by them, the experience in handling customs, shipping formalities and other relevant details.
3. Short List the CHA Agents
4. Preliminary discussions with the short listed CHAs.
5. Appointment

The Exporter would now select the C&F Agent who would effectively and efficiently undertake the customs and shipment on his behalf. Jan agency agreement may also be executed laying down the terms and conditions of CHA agency contract.

Services of Customs House Agent

Obtaining Shipping Order - The clearing and forwarding agent (CHA) may obtain shopping order from the shipping company i.e. booking storage space in the shop. This is done when the exporter is to arrange for the shopping company.

ii. **Arrangement for Internal Transport** to transport goods from the exporter's factory or warehouse to the docks or airport.

iii. **Preparation of Shipping Bill –** Shipping bill is an important document required for customs clearance and is to be prepared in five copies. The CHA prepare the shipping bill on the basis of other documents provided to him by the exporter. Other documents such as commercial invoice, packing list, etc.

iv. **Submissions of the documents to the customs for customs' verification –** Documents such as commercial invoices, packing list, shipping bill, G.R. Form, ARE-1 Form etc.

v. **Obtaining Carting Order -** The carting order is obtained from the Port Authorities to bring the goods inside the docks for the purpose of examination and shipment.

vi. **Storing of the goods –** After the goods are brought into the dock, it is stored in the sheds available at the docks to facilitate examination of goods.

vii. **Obtaining Let Export Order -** The CHA arranges for verification of the goods by the Customs Examiner and if the Customs Examiner is satisfied, then he will issue the Let Export Order.

viii. **Obtaining Let Ship Order -** The CHA produces the Let export Order before the Customs Preventive Officer before the loading the goods on the shop.The Customers Preventive Officer may check the Let Export Order and the goods. It satisfied he will issue Let Shop Order i.e. the permission to load the goods on the ship.

ix. **Loading of Goods** - The CHA has to ensure that the goods are loaded in good condition on the ship.

x. **Payment of Port Trust Dues –** The CHA after making the payment of the Port Trust charges for making use of the docks, will collect the Mate's receipt from the Port authority.

xi. **Obtaining Bill of Lading –** The CHA goes to the shipping company and obtain Bill of Lading by exchanging the Mater's. The Bill of Lading is an important document required by the importer for customs clearance at the Port of destination and to take delivery of the goods exported.

ii. CUSTOMS AND SHIPPING FORMALITIES

Shipment of export Goods have to be made with prior permission and under the close supervision of the customs authorities. Goods cannot be loaded on the ship unless a formal permission "Let Ship Order" is obtained from the Customs Authority. The Custom Authorities if satisfied that they are the same as described in the Commercial Invoice and other documents submitted by the exporter or his CHA and having satisfied that the duty has been properly determined and paid, will issue the certificate to facilitate loading of the goods on the ship. The various customs formalities and procedures can be briefly explained as follows:

The Customs Procedure:

1. **Submission of documents –**The Exporter or his agent submits the necessary documents, along with the shopping bill to the Customs House. The documents include:-
   - GR (original and duplicate)
   - AR-4/AR-4A (Original and duplicate)
   - Shipping Bill (five copies)
   - Commercial Invoice (required number of copies)
   - Packing List
   - Inspection Certificate and other documents.

2. · **Verification of Documents** - The Customs Appraiser verifies the documents and appraises the value of the goods. He then makes an endorsement of "Examination Order" on the duplicate copy of shipping bill regarding the extent of physical examination of the goods at the docks. All documents are returned back to the agent or exporter, except:

   - Original Copy of GR to be forwarded to RBI
   - Original Copy of Shipping Bill

- One Copy of Commercial Invoice.

3. **Carting Order –** The Exporter's agent has to obtain the carting order from the Port Trust Authorities. **Carting Order is the permission to bring the goods inside the docks. The carting Order is issued by the Superintendent of Port Trust.**

   Carting Order is issued only after verifying the endorsement on the duplicate copy of shipping bill by the customs appraiser. The endorsement must also be there on the Port Trust copy of Shipping Bill. The Carting Order enables the Exporter's agent to cart goods inside the docks and store them In proper sheds.

4. **Storing the Goods in the Sheds –** After the carting order the goods are moved inside the docks. The goods are then stored in the sheds at the docks.

5. **Examination of Goods –** The exporters' agent then approaches the Customs Examiner to examine the goods. The Customs Examiner examines the cargo and records his. report on the duplicate copy of the shipping hill. The Customs Examiner then signs the "List Export Order".

6. **Let Ship Order** -The Let Export Order is then shown to the Customs Preventive Officer, along with other documents. The CPO is In charge of supervision of loading operations on the vessel. If CPO finds everything in order, he endorses the duplicate copy of shipping bill with the "let Ship Order" This order helps the exporter/shipper to load the goods on the ship.

7. **Loading of Goods –** The goods are loaded on the *shop.* The CPO supervise the loading operations. After loading is completed the Chief Mate (Cargo Officer) of the shop issues the "Mate's Receipt'.

   The Mate's Receipt is sent to the Port Trust Office. The C & F agent pays the Port Trust dues and collects the mate's receipt. The C&F agent then approaches the CPO and gets the certification of shipment of goods on AR Forms and other documents.

a. **Obtaining Bill of Lading –** The Mate's Receipt is then handed over to the shipping company (on whose vessel the goods are loaded}. The shipping company issues Bill of lading. The Bill of Lading is Issued in :

   - 2 OR 3 Negotiable Copies of Bill of lading

- 10 to 12 Non-Negotiable Copies of Bill of Lading

The negotiable copies have title to goods, whereas non-negotiable copies do not have title to goods but are used for record purpose.

List of Documents required by the Customs :

1. Shipping Bill
2. AR-4/AR-4A Forms
3. G.R. Notes
4. Commercial Invoice Copies
5. Packing List
6. Original Letter of Credit/Export Order/Export Contract Copy.
7. Weighment Certificate (whenever required)
8. Rail Freight Concession Form (wherever required).
9. Inspection Certificate
10. Export Licence (wherever required)
11. Shippers declaration Form
12. Excise Invoice
13. Certificate of Origin (if required)
14. Other relevant documents, (if required).

Module·(iil)(ii) : MARINE INSURANCE

Marine Insurance Policy and Procedure is governed by Marine Insurance Act, 1963. the Marine Insurance Act, 1963 covers transportation by sea, air or land, inland water transport, rail/road transport and registered post.

Following are the risks generally covered through Marine Insurance Policy :

(i) Fire or explosion,
(ii) Sinking or grounding of the vessel,
(iii) Derailment of land transport,
(iv) Collusion of the vessel,
(v) Discharge of cargo at a port or distress
(vi) Jettison,
(vii) Theft, pilferage and non delivery,
(viii) Total loss of any package lost overboard or dropped whilst loading on to, or unloading from the vessel or **craft,**
(ix) Loss/damage to goods caused by entry of seal, lake or river water into the vessel, craft, etc.
(x) Any other reason acceptable to the Insurance company.

The Exporter is bound to insure the export cargo under CIF quotation. He may also insure the goods under FOB contract, if the importers requests to do so. To obtain marine insurance policy, the following is the procedure normally followed:

1. **Selee1ing the Insurance company** - There are a number of insurance companies operating the marine insurance business. Exporters in India should insure with General Insurance Corporation or its four subsidiaries. Prior permission of RBI is required if the exporter intends to insure with insurance companies in foreign countries.

2. **Deciding on the type of the Policy** - There are several types of policies. The proposer must decide which policy to be selected.

3. **Proposal Forms** - To obtain a marine insurance policy, there is a need to fill up the proposal form. Complete correct and clear information must be mentioned in the proposal form. Any misrepresentation or non-disclosure will render the contract null and void.

4. **Verification of Proposal Form –** The Insurance company verifies the proposal form and checks the relevant details. If it is satisfied, it accepts the proposal form.

5. **Payment of Premium –** The proposer is then asked to make payment of premium. Normally, the premium is paid in lump sum. The Insurance premium depends upon the nature of product distance of voyage type and condition of packing, etc.

6. **Insurance Policy** - After making payment of insurance, the Insurance Company issues the insurance policy which contains the following :

   (I) The name and address of the Insurance company
   (II) The nae and address of the insured,
   (III) A description of the risks covered.
   (IV) A description of the goods insured.
   (V) The sum insured.
   (VI) The date of issue, and the period of the Policy.
   (VII) The places where claims are payable together with details of the agent to whom claims may be directed.
   (VIII) Any other details, as applicable.

Module-(iii) (iii) : COLIECTION OF EXPORT BILLS

(a) Submission of Documents by the Agent to the Exporter-

The C & F Agent submits the necessary documents to the Exporter to enable him to present the same to his bank for the purpose of negotiation.

(b) Shipment Advice to Importer – After the shipment of goods the Exporter has to send suitable intimation to the importer for his information. By this intimation, the date of shipment, the name of vessel, date on which the goods will reach the destination should be informed to the importer. A copy of non negotiable bill of lading is also sent for information. The importer gets the remaining documents through his bank.

(c) Preservation of Documents to the Bank for Negotiation – A complete set of documents is submitted by the Exporter to his bank for the purpose of negotiating the same and obtaining export proceeds in time. The bank then sends the same documents to the importer. The following documents are to be submitted to the bank.

(i) Bill of Exchange (a) Sight Draft or (b) Usance Draft
(ii) Commercial Invoice with packing list, if required
(iii) Bill of Lading or Airway Bill (Negotiable copy) (iv) Marine Insurance Policy
(v) Certificate of Origin
(vi) Consular Invoice, GSP Certificate
(vii) Inspection Certificate
(viii) Any other document.

It is important to note that the Exporter also submits GR Form (duplicate copy) which remains with the Bank till payment is received..

(d) Despatch of Documents - After verifying the documents the bank will dispatch the shipping documents as· specified in L/C. the bill of Exchange together with a sty of negotiable documents is transmitted to the importer's bank for negotiation. Before sending the documents for negotiation the exporter's bank scrutinises them with reference to the exchange control regulations, customs regulations, letter of credit arid the indent (order) received from the importer..

(e) **Documentary Bill of Exchange –** When the above documents are attached to a bill of exchange, it is called **"documentary bill of exchange".** The bill is in the form of draft only. If the exporter grants credit terms of payment, a usance draft is drawn by him. Usance draft is. also to be accepted by the exporter by putting his signature and date on it. After acceptance of the bill, the documents of title to goods are released to the importer. In case of sight draft, the importer collects documents against payment.

(f) **Letter of Indemnity** • The Exporter can collect advance payment from his banker by signing a letter of indemnity. The understanding is in case the buyer's bank does not release the payment, the exporter will refund the money with accrued interests to the bank.

(g) **Realisation of Export Proceeds –** The importer receives the documentary Bill of exchange sent by the exporter's bank. In the case of usance bill, payment is made on maturity of the bill. If the exporter's bill are not covered by a letter of credit, the bank gives loan against bills till the payment for export is received by the exporter. Such advances are however, not granted unless the exporter obtains ECGC cover. The advances so given are adjusted by the bank on the maturity of the export bill. The negotiating bank has to take follow up action to remind the importer's bank to clear the payment at the earliest. When the payment is received by the negotiating bank post shipment procedure is said to have been completed.

(h) **Processing of Form GR –** When the negotiating bank has received payment from abroad, it will record it on the duplicate copy of GR and forward it to RBI. The original copy of GR was already sent by RBI by the customs when goods were shipped. Now RBI will tally the information in the original and duplicate copy of GR. When they are found to be correct, the transaction is treated closed because the required foreign exchange payment has already been received.

Module·(iv)(I) : EXPORT RISK INSURANCE

Export Credit Insurance –

Payments for exports are open to risks even at the best of times. The risks have been assumed large proportions today due

to far reaching political and economic changes that are sweeping the world. An out Neal fear or civil war may block or delay the payments for goods exported. A coup or an insurrection may adsorbing about the same result. Economic difficulties or Balance of Payment problems may lead country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition one has to contend with the usual commercial risks of insolvency or protracted default of buyers. The commercial risks of the foreign buyer going bankrupt or losing his capacity to pay are heightened due in the political and economic uncertainties. Conducting export business in such conditions of uncertainly is fraught with dangers.

The best of a large payment may spell disaster for any exporter, whatever his prudence and competence. On the other hand too cautious an attitude evauat9jg risks and selecting buyers may result in loss of hard-to-get business opportunities. Export credit insurance .is designed protect exporters from the consequences of the payment risks both political and commercial and to enable them to expand their overseas business without fear of loss.

Export credit insurance also seeks to create a favourable climate in which exporters can hope to get timely and liberal credit facilities from banks at home. For this purpose, export credit insurer provides guarantees to banks to protect them from risk of loss Inherent in granting various types of finance facilities to exporters.

In order to provide export credit insurance support to Indian exporters, the Government of India set up the Export Risks Insurance Corporation (ERIC) in July, 1957. It was transformed into Export Credit and Guarantee Corporation Limited (ECGC) in 1964. To bring the Indian identity into sharper focus, the Corporation's name was once again changed to the present Export Credit Guarantee Corporation of india Limited in 1983. ECGC is a company wholly owned by the government of India. It functions under the administrative control of the Ministry of Commerce and is managed by a Board of Directors representing government. Banking Insurance, Trade, Industry etc.

The ECGC covers can be divided broadly into four groups :

(I) **Standard Policies** issued to :

(a) exporters to protect them against payment risks involved in exports on short term credit; and

(b) small exporters policy to protect them against payment risks involved in exports on short term credit.

(II) **Specific Policies** designed to protect Indian firms against payment risks involved in :

(a) exports on deferred terms of payment;

(b) services rendered to foreign parties; and

(c) construction works and turnkey projects undertaken abroad.

(iii) Financial guarantees issued to banks in India to protect them from risks of loss involved in extending their financial support to exporters at the pre-shipping as sell as post shipment stages; and

(iv) Special schemes viz. Transfer Guarantee meant to protect banks which add confirmation to Letters of Credit opened by foreign banks,. Insurance cover for Buyer's Credit, Line of credit, Overseas Investment Insurance and Exchange Fluctuations Risk Insurance.

1. STANDARD POLICY

The shipments (comprehensive Risks) Policy, commonly known as the Standard Policy, is one ideally suited to cover risks in respect of goods exported on short time credit i.e. credit not exceeding 180 days. This policy covers both commercial and political risks from the date of shipment. It is issued to exporters whose anticipated export turnover for the next 12 months is more than Rs.50 lakhs.

Under the Shipments (Comprehensive Risks) Policy, the ECGC coversfrom the date of shipment, the following risks-

(i) **Commercial Risks**

(a) Insolvency of the buyer;

(b) Failure of the buyer to make the payment due within a specified period, normally months from the due date.

(c) Buyers' failure to accept goods, subject to certain conditions;

(ii) **Political Risks :**

(a) imposition of restrictions by the Government of the buyers country or any government action which may block or delay the transfer of payment made by the buyer;

(b) war, civil war, revolution or civil disturbances in the buyers' country.

(c) new import restrictions or cancellation of a valid import licence.

(d) interruption or diversion of voyage outside India resulting in payment of additional freight or insurance charges which cannot be recovered from the buyer.

(e) Any other cause of loss occurring outside India not normally insured by general Insurers and beyond the control of both the exporters and the buyer.

The Standard Policy does not cover losses due to the following risks :

(a) Commercial disputes including quality disputes raised by the buyer unless the exporter obtains a decree from a competent court of law in the buyer's country in his favour;

(b) Causes inherent in the nature of goods;

(c) Buyers' failure to obtain necessary import or exchange authorization from authorities in his country;

(d) Insolvency or default of any agent of the exporter or of the collecting bank;

(e) Loss or damage to goods which can be covered by general Insurers.

(f) Exchange rate fluctuation.

(g) Failure of the exporter to fulfil the terms of th4e export contract or negligence on his part.

Shipment covered under the Policy·

The Shipments (Comprehensive risks) Policy provide insurance for each and every shipment that may be made by the exporter in next24 months on DP, DA or Open Delivery terms to all buyers other than his own associates. The Policy cannot be issued for selected shipments selected buyers or selected markets.

Exclusions :

An exporter may, exclude shipments made against advance payment or those which are supported by irrevocable Letters of Credit, which carry the confirmation of banks in India, since he faces no risk in respect of such transactions. Where an exporter is

dealing with several distinct items. ECGC may agree to exclude all shipments of certain agreed items, provided that what is offered for insurance consists of all items of allied nature and offers the ECGC a reasonable portion of the exporter's total business with a fair spread of risks.

Shipments against Letters of Credit-

When shipments are made under Letters of Credit not confirmed by banks in India, payments under such credits are subject to political risks. Exporters, therefore, will be well advised to get them also covered under the Policy. Shipments, which are excluded from the scope of the Policy, can be covered under it if an exporter so desires. As the shipments made under such letters of credit do not Invoice commercial risks and only the political risks are covered, the premium rate charged by ECGC is very low.

For shipments made against irrevocable Letters of Credit, an exporter has option to obtain either political risks cover only or cover for comprehensive risks i;e; for all political risks and the risk of insolvency or default of the bank opening the irrevocable Letter of Credit. In either case, cover will be provided by the ECGC only if the exporter agrees to get all the shipments made against irrevocable Letters of credit covered under the Policy. Cover will not be available for selected transactions.

Shipments to associates –

Shipments to associates i.e. foreign buyers in whose business the exporter has a financial interest, are normally excluded from the policy. They can, however be, covered against political risks under the policy. Where the associate is a public limited company in which the exporter share holding does not exceed 40% cover can be provided against insolvency risks in addition to all the political risks.

Shipments on consignment basis -

Shipments made to overseas agents under consignment basis are excluded from the scope of the Standard Policy. However, if an exporter wants it, the ECGC can get them included under the policy but the cover will be provided only against political risks, since the agent acts for the exporter. If however, goods arte sold to ultimate buyers on credit terms comprehensive risks over can be provided for sales to such ultimate buyers if the exporter wants such cover.

Shipments made by air –

Where shipments are made by air, the buyers are often able to obtain delivery of the goods from the airlines before making payment of the bills or accepting them for payment, as the case be, If the buyer fails to make the payment subsequently as per the contract, the risk of loss will not be covered under the Policy, If premium has been paid on the shipment for D.P. or D.A terms of payment. An exporter can, however, get cover for such contingencies also if he obtains Credit Limit on such buyers on Open Delivery terms and also pays premium at rates applicable to Open delivery terms. In this false the exporters are well advised to apply ECGC to obtain Credit Limit on such buyers before concluding the contract.

Additional cover for shipments to Government Buyers – v

All shipments made to Government buyers are covered under the Policy against political risks. The exporter has, therefore, to declare such shipments to the ECGC and pay premium at rates applicable for covering political risks. The ECGC's Specific Approval is required to be obtained where the country is in the list of Restricted Cover Countries. This cover does not extend to commercial risks like default or non acceptance of goods. If an exporter wants these risks also to be covered, then he is required to write to the ECGC asking that risk number (xi) described in the policy be also covered and should give information about the name and address of the buyer, the status of the buyer and the details of the contract. If the ECGC approves the request, the shipment concerned will be covered against comprehensive risks if the exporter pays premium on those shipments at rates applicable for comprehensive risks, ECGC considers following buyers as government Buyers:

(a) a department of the Central Government; and

(b) if the buyer be a Government body like a Board, State Government, Municipality or Government owned Corporations/Companies, if the performance of the contract is guaranteed by the Central Government.

Contract Cover –

The Standard Policy provides cover only for the post shipment stage, i.e. from the date of shipment. Cover for pre· shipment losses i.e. losses which may be sustained by an exporter due to impossibility of exporting goods already manufactured or purchased for reasons like ban on export of the item restrictions on import of the item into the buyer's country or war, civil war, etc. are not covered under the policy because the risk is very low in respect

of raw materials, primary products consumer goods or consumer durables which can easily be resold. Where, however, the export involves an item which is manufactured to the non standa5rd specifications of a buyer cover can be provided for the pre-shipment risks as well as the post-shipment risks by means of an Endorsement to the Standard Policy.

Shipments made on credit exceeding 180 days-

The Standard Policy is meant to provide cover for shipments involving a normal credit period upto 180 days. In exceptional cases, however, ECGC may grant cover for shipments with longer credit p[period, provided that such longer credits are justifiable for the export items concerned.

HOW THE RISKS ARE COVERED

Maximum Liability-

As the standard policy is intended to cover all the shipments that may be made by an exporter in a period of 24 months ahead, the ECGC will fix its Maximum Liability under each Policy. The Maximum Liability is the limit upto which ECGC would accept liability for shipments made by an exporter in each of the policy years. To obtain the policy with maximum liability, exporters are advised to estimate the maximum outstanding payments due from overseas buyers at any one time during the policy period and convey it to ECGC. The Maximum Liability fixed under the policy can be enhanced subsequently, if necessary.

Credit l-imits on buyers –

'Commercial risk are covered subject to a Credit Limit approved by the ECGC on each buyer to whom shipments are made on credit terms. The exporter has, therefore, to apply for a suitable Credit Limit on each buyer. On the basis of its own judgment of the creditworthiness of the buyer as ascertained from credit reports obtained from banks and specialized agencies abroad, the ECGC approves a Credit Limit which is the limit unto which it will pay claim on account of losses arising from commercial risks. The Credit Limit is a revolving limit and once approved it will hold good for all shipments to the buyer as long as there is no gap of more than 12 months between two shipments.

Credit limit is a limit on th3 ECGC exposure on the buyer for commercial risks and not a limit on the value of shipment that may be made to him. Premium has, therefore, to be paid on the full value of Aach shipment even were the value f the shipment of the total value of the bill outstanding for payment is in excess of the credit limit.

Credit limit need not be obtained if a shipment is made on D.P. or C.A.D terms and if the value of the shipment does not

exceed Rs.10 lacs. Political as well as commercial risks will stand automatically covered for such shipments, the only qualification being the claims will not be paid on more than two buyers during the Policy period under this provision.

Status Enquiry Charges –

In order to assess the credit standing, ECGC obtains reports on overseas buyers from banks and credit information agencies abroad and spends considerable amount for obtaining such reports. The credit limits on buyers are based on such assessment. ECGC charges a nominal fee tor each credit limit application. If an exporter submits a bank report not older than 6 months on the buyer, he need not pay any status enquiry fee for credit limits upto Rs.51akhs.

In case the limit is required urgently, exporters may request ECGC to obtain fax report on the buyer and pay towards fax expenses. Alternatively exporter may obtain cable report through his bank and furnish the same in original to ECGC for a quick **decision.**

Discretionary Limit-

If no application for credit limit on a buyer has been made, ECGC accept liability as under :

i) Commercial risks upto Rs.10,00,000/- for DP/CAD transactions on a particular buyer subject to the condition that claims will be limited to two buyers during the currency of the Policy;

or

Commercial risks upto a maximum of Rs.7,50,000/- for DA transactions and Rs.20,00,000 for DP/CAD transactions provided that :

(a) at least three shipments have been effected by the exporter to the buyer during the preceding two years on similar payment terms and at least one of them was not less than the discretionary limit availed of by the exporter and

(b) the buyer had made payment for the shipment on due dates.

Restric1ed Cover Countries –

The ECGC places no limit tor covering political risks for a large majority of countries. However, in the case of certain countries, which are around 54 at present where the political risks are very high, cover for political as swell as commercial risks is

granted on a restricted basis. Policy holders intending to export to such countries are required to obtain specific approval of the ECGC for each shipment or contract in advance, preferably before concluding the contract. The exporters can get a list of countries subject to restricted cover from any of the ECGC offices.

Specific Approval will be granted by ECGC subject to certain special conditions and in some cases, subject to payment of a Specific Approval Fee in addition to the premium on the shipments. A portion of the Specific Approval Fee is refundable in the event of shipments not taking place or if the payments are received before the expiry of the waiting period tor claims.

Percentage of cover –

In the event of loss due to commercial risks or political risks, the ECGC normally pays 90% of the loss. The remaining 10% has to be borne by the exporter hitnself. A lower percentage of cover may be offered in certain cases.

Minimum Premium –

ECGC will issue the Policy against a Minimum Premium of Rs.10,000 which will be adjusted against premium payable on shipments declared by the exporter.

Additional premium will have to be paid on the shipments declared by the exporter after the minimum premium gets fully adjusted. No part of the Minimum Premium will be refunded to the exporter if the premium payable on actual shipments falls below the amount of Minimum Premium.

Declaration of shipments and payment of additional premium –

On or before the 15of every month the Policy holder is required to declare to the ECGC in the prescribed form, all the shipments made by him in the preceding calendar month. Premium due on the shipments will first be adjusted against the Minimum Premium and premium due to on further shipmen5ts will be remitted by him along with the declaration. If no shipment is made in a month., a NIL declaration is required to be submitted. The premium is requi5ed to be calculated by the exporter on the basis of Schedule of Premium given by the ECGC along with the Policy., The premium rates vary according to country classification and the length of credit.

Premium rates and payment of premium –

The rate of premium which vary depending upon the terms of payment, the classification of the buyer's. country and whether a shipment is covered against comprehensive risks or only political risks, are given in the Premium Schedules which are issued along with each policy Premium at political risks rates are payable on

Shipments made to buyers on whom the ECGC has refused to approve Credit Limits and, where cover has been provided at the request of the exporter, on shipments to Associates and shipments made against Irrevocable Letters of Credit.

In cases where an exporter obtains cover for shipments made on consignment basis, comprehensive cover for shipments made against Irrevocable Letters of Credit or Contracts Cover (only in exceptional cases) or cover for shipments which a credit period exceeding 180 days premium rates will be quoted while granting such cover.

Premium at comprehensive rates will be payable where additional cover is provided for shipments made to Government buyers.

Reporting Default–

In the event of non-payment of any bill, policy holder is required to take pr9mpt and effective steps to prevent or minimize loss. A monthly declaration of all bills which remain unpaid for more than 30 days is required to be submitted to ECGC in the prescribed form indicating action taken in each case. Granting extension of time for payment, converting bills from D.P. to D.A terms or resale of unaccepted goods at lower price require prior approval of ECGC.

Extending credit period or changing the tenor of the bills –

It may sometimes become necessary for an exporter to extend the credit period of a D.A bill or to convert a D.P. bill into D.A bill in circumstances In which the buyer is unable to meet the payment Obligation as per the original tenor of the bill. Whenever a policy holder wishes to grant such extension or conversions, for good reasons, he is required to grant the prior approval of the ECGC and pay the necessary additional premium.

Resale of unaccepted good –

If and when a buyer does not take delivery of the goods, the exporter is obliged to take immediate and effective action to minimize the possible loss. If he desires to resell the goods to an alternate buyer he must take the prior approval of the ECGC. If the exporter decides to rampart goods, the ECGC will reimport 90% of the reshipment expanses.

Time for payment of claim –

A claim will arise when any of the risks insured under the Policy materializes:

(a) *Insolvency of the buyer :* If an overseas buyer goes insolvent, the exporter becomes eligible for a claim

one month after his loss is admitted to rank against the insolvent's estate or after four months from the due date, whichever is earlier.

(b) *Default by the buyer by non-payment on due date:* In case of protracted default the claim is payable after four months from the due date.

(c) *Interruption or diversion of voyage:* Claims in respect of additional handling, transport or insurance charges incurred by the exporter because of interruption or diversion of voyage outside India are payable after proof of loss is furnished;

(d) *Transfer delays:* In case of exports to countries where long transfer delays are experienced, ECGC may extend the waiting period and claims for such shipments are payable after the expiry of such extended period.

(e) *Other* cases: In all other cases claim is payable after four months from the date of the event causing loss.

Where the buyer does not accept goods or pay for them because of disputes over fulfilment of the terms of contract by the exporter, counter claims or set-off, ECGC considers claims after the dispute between the parties is resolved and the amount payable is established, by obtaining a decree in a court of law in the country of the buyer. This .condition is waived in cases where the ECGC is satisfied that the exporter is not at fault and that no useful purpose would be served by proceeding against the buyer.

Debt recovery –

Payment of claims by the ECGC does not relieve an exporter of his responsibility for taking recovery action and realizing whatever amount that can be recovered. The exporter should, therefore, consult ECGC and take prompt and effective steps for recovery of the debt. For its part, ECGC will help exporter by providing the name of a reliable lawyer or debt collecting agency and by enlisting the help of India's commercial representative in the buyer's country.

Sharing recovery of with ECGC-

All amounts recovered, net of recovery expenses, should be shared with ECGC in the ratio in which the loss was originally shared, Receipt of a claim from ECGC does not relieve an exporter from obligations to the Exchange Control Authority for recovering the amount from the overseas buyers.

How to obtain a Policy-

For obtaining the Policy, an exporter is required to fill 9in a proposal form which can be obtained from any of the ECGC offices listed at the end of this chapter and send it to the nearest ECGC office. He has to confirm his acceptance of the premium rates and remit the prescribed premium.

II. SMALL EXPORTER'S POLICY

For the purpose of issuing the Policy, a Small Exporter's Policy is defined as an exporter whose anticipated total export turnover for the period of 12 months ahead is not more than Rs.50 lakhs.

The Small Exporter's Policy is basically the Standard Policy, the maintenance features of which are as follows :

i) **Period of Policy:** Small Exporter's policy is issued by ECGC for a period of 22 months;

ii) **Minimum Premium:** Minimum premium payable for a small Exporter's Policy will be an amount equal to 0.30% of the anticipated turn over on D/P and D/A terms of payment plus where the exporter seeks cover also for *UC* shipments. 0.10% of the anticipated terms over on UC terms .or Rs.1000 whichever is higher.

iii) **Declaration of shipments:** Shipments need to be declared quarterly;

iv) **Declaration of overdue payments:** The Small Exporters are required to submit monthly declarations of all payments which remain over due by more than 60 days from the due date.

v) **Percentage of Cover :** For shipments covered under the Small Exporter's Policy, the claims are paid by ECGC to the extent of 95% where the loss is due to commercial risks and 100% if the loss is caused by any of the political risks.

vi) **Waiting period for claims:** The claims under the small exporter's policy are paid after two months.

vii) **Change in terms of payment or extension in credit period:** In order to enable small exporters to deal with their buyers in a flexible manner, the following facilities are allowed :

(a) A small Exporter may, without the prior approval of the ECGC convert a D/P bill into a 0/A bill, provided that he has already obtained suitable Credit Limit on the buyer on D/A **terms;.**

(b) Where the value of the bill is not more than Rw.3 lakhs conversion of D/P bills into D/A bills is permitted even if credit Limit on the buyer has been obtained on D/P terms, nut not more that one claim can be considered during the policy period on account of losses arising following such conversions.

(c) A Small Exporter may, without the prior approval of the ECGC extend the due date of payment of a D/A bill provided that a Credit Limit on the buyer on D/A terms is in force at the time of such extension..

(viii) **Resale of unaccepted goods :** If upon non-acceptance of goods by a buyer, the exporter sells the goods to an alternate buyer without obtaining prior approval of the ECGC as required under the Policy, the ECGC may consider payment of claims upto an amount considered reasonable by the ECGC, provided that the ECGC is satisfied that the exporter did his best under the circumstances to minimize the loss.

(ix) **Claims due to loss or damage to goods :** The ECGC may also consider payment or claim upto an amount considered by it as reasonable where loss is due to loss of or damage to the goods due to certain risks which are not normally included in general/marine insurance policies. The exporter should in such cases, have exercised normal are in obtaining the general/marine insurance policies.

In all other respects, the Small Exporter's Policy is the same as the Standard Policy.

III SPECIFIC POLICIES

Contracts for export of capital goods or turnkey projects or construction works or rendering services abroad are not of a repetitive nature and they involve medium/long term credits, Such

transactions are insured by ECGC on a case to case basis under specific polices.

All contracts for export on deferred payment terms and contracts for turnkey projects and construction works abroad require prior clearance of authorized Dealers EXIM Bank or the Working Group in terms of powers delegated to them as per exchange control regulations.

Proposals for Specific Policy are requi4ed to be submitted to ECGC alter the contract has been cleared by the Authorized Dealer, EXIM Bank or the Working Group, as the case may be.

Specific Policy for Supply Contracts may take any of the following forms:

i) Specific Shipments (Comprehensive Risks) Policy;

ii) Specific Shipments (Political Risks) Policy.

iii) Specific Contract (Comprehensive Risks) Policy; and

iv) Specific Contract (Political Risks) Policy.

Specific Shipments (Comprehensive Risks) policy provides cover against all the risks covered under the Standard Policy to respect of shipments to be made under the contract in question. It is the appropriate Policy for an exporter to take if the payments are open to both commercial and political risks. Where the commercial risks are abent e.g. where the payments are guaranteed by a Bank or by the Government of the overseas country, the exporter may opt for the Shipments (Political Risks_ Policy for which the premium rate is lower than that for the Comprehensive Risks Policy.

Module-(v)(i) : EXPORT BENEFITS AND INCENTIVES

I. INTRODUCTION :

Export Incentives and assistance refers to the financial and Other benefits extended to the Indian Exporter by the Government of India to enhance their export potential in foreign markets. Indian exporters have to produce good quality goods at reasonable costs if they have to face the competition in the global markets. It is also to be remember that in the domestic market everything is highly taxes.We should make sure that we do not export taxes but goods. Hence it is important that exporters be provided with different concessions and rebates on taxes and duties to make the price of export goods competitive. Following are some of the advantages of incentives schemes to promote export trade in India

(a) Export assistance and incentives make the business financially attractive.
(b) Export incentives helps to increase profits from exports.
(c) It facilitates exports to expand and diversify their business.
(d) Export Promotion schemes make available expertise in the field of export marketing
(e) It improves competitive strength of the Exporters.
(f) If facilitates repayment of loans
(g) It helps to increase exports and reduce deficit in balance of payments.
(h) It facilitates optimum utilization of resources both for the domestic and foreign markets.
(i) It helps to earn good-will for the country.
(j) It compensates for higher domestic cost of production.

II. DIFFERENT TYPES OF EXPORT INCENTIVES

a) Drawback duty:

The Exporters as entitled to claim the refund of the customs duty paid on the imported materials and the central excised duty paid on the excisable goods used in the manufacture of goods exported. Such refunds are described as drawback and rebates in the case of customs and central excise duties respective. There are two types of drawback rates, all Industry rate and brand rate.

b) Replenishment Licence:

Import replenishment licence and cash compensatory assistance ar3e granted against the export of certain products . All the registered exporters (merchant exporters, manufacturer exports and export houses holding export house certificate) are eligible to get an import replenishment licence and cash assistance.

c) Cash Assistance:

Registered exporters are eligible for cash assistance. It is allowed against identified selected export products. The exporter can apply for cash assistance along with the replenishment application. The application for cash assistance should be made in the prescribed form along with (a) Original Bank Certificate, (b) Copies of Bank attested invoices and (c) copy of shipping bill duly authenticated by customs. The cash assistance schemes has been withdrawn since 1992 by the Ministry of Finance, Government of India.

d) Tax Benefits for Exporters:

To promote export, tax incentives are granted under Income Tax Act (a) Deduction of whole of the income earned from export of specified goods, (b) Profits from overseas projects 50% tax earned (Section 80 HHB), (c) 5 year Tax holiday to 100% EOU's and units in FTZ/ePVs (section 10A) (d) Non-resident Indians are also benefited under Section 9(d),

After from Income Tax benefits, the Exporter is also exempted from sales tax. The merchant exporter can buy goods from dealer/manufacturer for the purpose of export trade without making payment of sales tax.

e) Exemption from Excise Duty " Finished goods, when exported are exempted from payment of excise duty if any exemption can be had in either of the two ways that is:

(i) **By "Export Under Bond"** Under this system goods can be exported out of India without prior payment of the duty but subject to execution 9f bond with security/surety for a sum equivalent to the duty chargeable on the goods to be exported.

(II) **By "Rebate of duty on goods exported."** Under this system the manufacturer has to initially pay the duty which will be refunded subsequent to exports of the relevant goods.

(f) Refund of Oc1roi :

Octopi is a municipal tax, which is imposed when goods are brought from outside the municipal area. Exporters can claim refund of any such payment of duty against exporter evidence.

(g) Freight (Transport) subsidy • Exporters can claim the following :

(1) Rail Freight Rebate – The Indian Railways allow freight rebate upto 50% on a number of commodities transported by rail;

(2) Ocean Freight Subsidy- Marine Freight in the form of 10% deferred commission is offered by many conference lines

(3) Air Freight Subsidy- Air Freight subsidy is given on a few select items, like fresh fruits, flowers and vegetables leather goods etc. so as to reduce the burden of the high cost of air transportation

(h) Finance at low rates of Interest:

Indian Exporters can get the benefit of finance both at preshipment and post-shipment level provided by the commercial banks and EXIM bank at, as low rate of interest at 7.5% per annum.

(I) Insurance against export risks (payments)

To assist the exporters to cover up export payment risks both political and commercial, the GO\ has established ECGC, which provides a numbers of policies, guarantees and special schemes..

(j) Blanket Permits

Exporters having good performance can get benefit of Blanket permits of lump sum foreign exchange in order to meet various expenses abroad in respect of foreign travel, publicity, etc.

(k) Training Facilities :

The IIFT organizes every year training programmes on export market development. IIFT has also set up foreign trade information centre for the dissemination of trade information. It also sponsors a number of market orientation tours in respect of selected non traditional products.

Apart from training facilities from IIFT, there are training facilities abroad. Many advanced countries like Germany, France etc. conduct export development courses to Indian promotion procedures and techniques adopted by these countries and they become familiar with their import rules and regulations.

(I) **Marketing Development Fund :**

The government has set up the Marketing Development Fund (MDF) in order to have a common source to help the implementation of various export promotional efforts of the exporters. The fund is utilized mainly for the development of markets of Indian goods in the overseas markets.

(m) Trade agreements (including rupee trade agreements)

Trade agreements are arrangements between countries for the expansion of trade and better economic relations. Among these bilateral trade agreements are the rupee trade agreements with the eastern European Countries i.e. Czechoslovakia, East Germany, Poland, USSR, Romania.

(n) Value Added Tax (VAT):

The VAT is a tax on consumption. It is the turn over tax of general nature. It is multi point tax because it is levied and collected at the time of production and at each stage of exchange on the incremental value. It is free from the cascading effect of many other indirect taxes. Every seller, at the point of sale, has to charge VAT at a certain rate and he has to account for it to the government. In such instance, the seller deducts the VAT that is the trade pays the tax only to the extent of the added value.

(o) Assistance available to Indian Exporters by the Government to market their products.

Government of India offers export publicity. They also offer foreign exchange facilities and passport and visa facilities.

(p) Assistance provided on the basis of RBI directives: Commercial banks and EXIM Bank offer a wide variety of assistance to exports in India.

Module· (v)(ii) : MARKET DEVELOPMENT ASSISTANCE (MDA)

Market Development Assistance Fund was Established by Government of India with a view to stimulate and diversify Indian Export Trade and for other export promotion activities. The MDA is administered by a committee consisting of the Secretaries of the Department of Economic Affairs and Expenditure and the Commerce Ministry. Export Houses, Trading Houses, Super Star Trading Houses, etc. are entitled to claim assistance for various acts pf export , market development and export promotion of Indian goods abroad. Following are the different purposes for which marketing development assistance is provided by the MDA :

(a) To participate in trade Fairs and Exhibitions
(b) To sponsor trade delegation and study teams
(c) To undertake advertising campaign abroad
(d) To market research, commodity research, etc.
(e) To establish offices and branches abroad
(f) To train personnels within and outside the country
(g) To procure samples and technical information
(h) To organize business tours abroad
(i) To establish show rooms abroad

Generally an amount varying from 25% to 60% of the expenditure incurred is sanctioned by the committee on receiving request/application for such grant of assistance. SSI Units will get grant of 60%. The grant is disbursed through the Federation of

Indian Export Organization (FIEO) and Ministry of Commerce (MDA Section).

Module-(v)(iii) : EXPORT PROMOTION OF CAPITAL GOODS (EPCG)

The EPCG Scheme allows import or capital goods (both new and second hand), fittings, fixtures, dies, moulds, etc. Spare parts upto 20% of CIF value may be allowed to import subject to export obligation. There are two methods for import of capital goods under the EPCG Scheme.

Under the first method the import of capital goods at a concessional rate of customs duty of 10% is allowed provided the Importer undertakes an obligation to export four times of the CIF value of the capital goods imported. Such obligation to export is to be perfonned over a period of live years.

Under the second method the importer import capital goods pays zero duty on the CIF value of capital goods is Rs.20.00 Crore or more. In such case the export obligation will be of six times of the value of import and is to be fulfilled within a period of 8 years.

Features of EPCG Scheme:

(a) The EPCG licence holder can buy capital goods from domestic manufactures. Much domestic manufacturers are permitted to import components at concessional customs duty of 10%.

(b) Whatever capital goods are imported, it is subject to actual user conditions.

(c) In order to know about the progress of business, the EPCG licence holder has to submit a report of the export every six months. The report must be certified by a Chartered Accountant who is not a business associate of the exporter.

(d) In order to continue to get the benefit of EPCG Scheme, the licence holder must fulfill the export obligations;

(e) When export obligation is fulfilled, the EPCG licence holder must submit a consolidated statement of exports.

(I) The EPCG licence holder will submit a certificate from the baker when payment is received from abroad.

(g) EPCG is a facility given to the exporters to improve their business. If they fail to fulfil the export obligation within the

stipulated period, the government reserves the right to initiate action against the exporters.

(a) In order to get registered for EPCG facility, the exporter has it apply to Director General of Foreign Trade (DGFT) with application fee and relevant documents.

ii. DEEMED EXPORTS

Deed Exports are those transactions in which the supplied goods are not physically exported out of the country but are used in India and the payment for the same is made in Indian rupees. Supply of goods to export oriental units.

Categories of Supply:

(a) Supply of goods against duty free licences issued under the Duty Exemption Scheme

(b) Supply of goods to:
   (i) Export Oriented Units (EOUs)
   (ii) Export Processing Zones (EPZs)
   (iii) Software Technology Parks (STPS)
   (iv) Electronic Hardware Technology Parks (EHTPs)

(c) Supply of capital goods to holders of licences under the EPCG Scheme.

(d) Supply of goods to the power, oil and gas sectors duly approved by Ministry of finance.

(e) Supply of goods to any project approved by the Ministry of Finance which permits import of such goods of zero customs duty.

(f) Supply of capital goods and spares to fertilise plants if the supply is made under the procedure of international competitive bidding.

(g) Supply of goods to projects financed by multinational or bilateral agencies/ funds as notified by the Department of Economic Affairs, Ministry of Finance under international competitive bidding.

Benefits to Deemed Exporters

(a) The supplier can claim **Special Import Licence** at the rate of 6% of FOB value.

(b) The supplier can claim duty drawback.

(c) The supplier can claim refund of excise duty paid on raw materials which are used In the production of "end" products.

(d) The supplier can import duty free specified inputs.

(e) In order to claim Deemed Export Benefits, the suppliers required to produce documentary evidence about realization of export proceeds through banks.

(f) The benefit of deemed exports is also available in respect of supplies of capital goods and spares to fertilizer plants completed during the Ninth Plan period.

iii. BLANKET PERMITS

Blanket permit is a facility given to large sale exporters only such as export houses, trading houses, star trading houses and super star trading houses. Blanket permits are issued by FBI for a lump sum amount subject to its having fulfilled certain export obligations.

Purposes for which Blanket Permits are used:

(i) Advertising campaign abroad

(ii) Export promotion tours abroad

(iii) Purchase of samples abroad

(iv) Expenses of quality testing abroad

(v) Participation in international trade fairs and exhibitions

(vi) Market studies abroad

(vii) Opening branches overseas

(viii) Setting up after sale service network abroad.

(ix) Replacement of defective or wrong supplies

(x) Publications in foreign journals, etc.

Issue of Blanket Permits- The exporters are advised to send their applications sufficiently in advance generally three weeks. This will give adequate lime to RBI to screen their applications and issue the permits.

(a) The exporter has to submit a certificate in CBX Form from a chartered Accountant. This form must also be signed by the bankers of the exporter to confirm exports made during the relevant period and receipt of payments from abroad.

(b) The banks have to certify in Form XC about the financial status of the ex-porter. The bankers have to indicate exports made and payments received during the relevant period as also bills outstanding for more than six months.

(c) The owners of EH/TH/STH/SSTH has to submit recognition certificate in original along with a Xerox copy. The original recognition certificate will be returned to the exporters. The same criteria is applicable to 100% EOUs.

(d) When an exporter establishes a unit in Export Processing Zone (EPZ), the original registration certificate issued by the Development Commissioner of the EPZ along with Xerox copy should be submitted. Later, the original copy of registration Certificate is returned to the Exporter.

Blanket permits are issued for a fixed period generally one year. When the period of blanket permit expires, it an be renewed by submitting the following documents.

(a) A copy of blanket permit
(b) A report indicating how exchange was utilized
(c) Application should accompany form CBX and XC or BCI or CBXI.

Module-(v)(iv) : DUTY ENTITLEMENT PASS BOOK (DEPB):

DEPB was introduced in the Exim Policy 1997-2002.

Under the Duty Entitlement Passbook (DEPB) Scheme, an Exporter is eligible to claim credit as a specified percentage of FOB value of exports. The credit shall be available against such export products and at such rate as may be specified by the DGFT.

Application – The application for obtaining credit should be filed within a period of six months from the date of exports of within three months from the date of realization. The DEPB shall be issued with single part of registration i.e. the port from where the exports were made. No exports

shall be allowed under EPB Scheme unless the DEPB rate of the concerned export product is notified.

Validity - DEPB shall be valid for 12 months from the date of its issue.

Eligibility – Merchant exporter and manufacturer-exporter are eligible for DEPB.

Types – DEPB is of two types viz (a) pre-export basis and (b) post- export basis.

Pre- Export basis – DE,PB on pre-export basis aims to provide the facility to eligible exporters to import inputs which are required for production.

Post- Export basis - DEPB on post-export basis shall be granted against 4xports already made.

v. TAX BENEFITS

Under the Income Tax Act, 1961 exporters and foreign exchange earners are eligible for the following exemptions and deductions:

(a) Deduction in respect of profits and gains from projects outside India (Sec.80HHB)
(b) Deduction in respect of export turn over (Sec.80HHC)
(c) Deduction out of earnings in Convertible Foreign Exchange (Sec.80HHD)
(d) Deduction out of export earnings of Computer Software (Sec. 80HHE)
(e) Deductions out of income from film Software Exports (Sec. SOHHF)
(f) 10 year tax holiday for new export oriented units in Free Trade Zone, Electronic Hardware Technology Parks, Software Technology Parks and Special Economic Zones (Sec.10A).
(g) 10 years tax holiday regarding newly established 100% Export Oriental Units (Sec.1OB).

Module-(vi)(i): EXPORT DOCUMENTATION

Export documentation is considered to be a critical constituent of international marketing as export transactions involve complex documentation work. Export documentation facilitates international transactions and protects the interest of the exporters and importers located in two different countries governed by

different statutory and legislative frame words. The successful execution of an export order, ensuring physical delivery of goods and remittance of sales proceeds, is as important as procurement of an export order and sourcing or production of goods for exports.

An export Manager should carry out the documentation work meticulously to avoid problems related to the smooth flow of goods and getting remittances from the overseas importers.

As far as the customs and conventions of international trade are concerned, there are certain other documents that are essential in export trade. Besides, some documents are required to fulfill the statutory requirements of the exporting and the importing countries, such as the exports import trade control foreign exchange regulations pre-shipment inspections central excise and customs requirements etc.

In an expert transaction, a number of trade intermediaries and government authorities are inevitably involved such as the Directorate General of Foreign Trade, export promotion council export inspection agencies, shipping companies freight forwarders insurance companies banks port trusts central excise and customs authorities etc. which have their own documentary requirements Strict compliance with procedural formalities and documentary requirements requires meticulous planning and desired skills for the successful completion of an export order.

Consequences of Poorly Completed Documentation :

The documentations may result in a number of problems in executing an export order which may lead to additional costs to the exporter. These costs may be of three types :

- The cost of interest charges incurred by the exporters as a result of delays in receiving payment.
- The cost of putting the problem right such as telephone bills, courier charges for sending replacement documents, bank charges for amending documents such as letter or credit and possibly loss of credit insurance cover.
- Perhaps the most serious but also the most difficult to quantify is the dosat to the relationship between the exporter and the customer More often than not a new dimr will be soup set by poor documentation and the problems Il causes that she will be reluctant to do further business with such an exporter.

VARIOUS DOCUMENTS IN EXPORT TRADE :

1. Permanent account number from, the Income Tax Department.

2. Import Export Code Numbers from the Export Promotion Council. In the event of no separate Export Promotion Council is established, the exporter should obtain Export Import Code Number from the Federation of Indian Export Organization (FIEO)

3. Registration cum Membership Certificate (RCMC) – This Certificate is issued by the Export Promotion Council on the. basis of the prescribed application made by the Exporter.

4. Identify Card issued by the Office of the Joint Director General of Foreign Trade (Jt. DGFT).

5. G.R. NUMBER – Customs authorities will give their G.R Number running in six digit serial number on the copies of th4e Customs Registration Certificate (GRFORMS).

6. Proforma Invoice.

7. Commercial Invoice includes document of contents, all information required for other documents, all details regarding consignment The maintenance use of commercial invoices to check whether the proper merchandise shipped at the agreed price by the supplier.

8. Consular Invoice – The special type of invoice, which is required by countries like Philippines and South America. It is an invoice which is consularised by an appropriate notation by the Consular of the country of the destination of the goods. Such invoice specify and fix the duties payable in the Importers country for the consignment covered under the Consular Invoice.

9. Customs Invoice – It is generally required by countries like U.S. Canada etc. The specific forms are to be supplied by the Consular Office of the important country. Customs invoice facilitate entry of merchandise into importer's country at preferential tariff rates.

10. Certificate of Origin- This certificate is generally required-by all countries for clearance of goods by the importer. It is also necessary for availing concessions under GSP (Gene4ralised Scheme of Preferences). Further it is necessary to avail other kinds of concessions and preferences. Certificate of Origin can be obtained from the Indian Merchant chamber. In determining the country of origin of a product article 9(1) of the agreement of the WTO on rules of origin states that the country of origin should be..

a) Either the country where the goods have been wholly obtained

b) When more than one country is involved in the production of the goods, the country where the last substantial transformation has been carried out.

ii. COMPOSITION OF CERTIFICATE OF ORIGIN

Certificate of origin contains details of the exporter, importer (consignee), shipment details and shipping marks. The certificate further certifies that to the best of our knowledge belief the abovementioned goods are of "Indian Origin".

Iii SHIPPING BILL

Requirement of Shipping Bill :

a. An application to be made by the exporter to the customs authorities for granting permission to shop the goods for export.
b. This is required under sec.50 of the Customs Act, 1962 which deals with the entry of the goods for exportation.

c. The shipping bill contains the under-mentioned information:

i. Shipping Bill number and date
ii Exporter/Consignee/Clearing House Agent vessel /Port of Loading/Port of Discharge
iii. Serial No. Marks and Numbers/Statistical Code
iv. Currency of Invoice/FOB value. v. Declaration and Signature
vi. On the reverse of the shipping Bill, the Bill No. is stated
vii. Shipment Certificate/Loading on Vessels.

Computerised Processing of Shipping Bill:

This type of Shipping Bill is to be completed when the documents are processed electronically.

Mate's Receipts:

The Captain of the vessel acknowledges the receipt of the goods for onward transportation and he issues a receipt which is called as "Mate's Receipt". Before such receipt is issued the export cargo must be loaded in the vessel under the supervision of the Preventive Officer, Customs. In case the packing is not export worthy or some damage to the -packing, the captain of the Ship passes the remark while issuing Mate's Receipt. Such Mate's Receipt is called "Dirty Mate's Receipt". The mate's receipt is to be handed over to the Clearing House Agent, who arranges payment for Port Trust Charges and present to the Preventive Officer Customs. The Preventive Officer then takes a note on the second copy of the shipping Bill and hand over the Mate's receipt to the Clearing House Agent who delivers it to the Shipping co. The Shipping co. after receipt of the Mate's receipt checks up and issues Bill of Lading in favour of the Buyer. In the case of a Dirty Mate's receipt, the Bill of Lading will also be claused Bill of Lading in respect of a clean Mate's receipt the Bill of Lading will also be a clean Bill of Lading.

Module-(vl)(ii) : BILL OF LADING

Types of Bill of Lading :

1. Cleaning Bill ofg Lading.
2. Claused Bill of Lading
3. Thorough Bill of Lading
4. Stamped on Board Bill of Lading
5. Freight Paid Bill of Lading
6. Freight to pay basis Bill of Lading
7. State Bill of Lading

1. Freight paid and freight to collect bill of lading :

When the freight is paid by the exporter, it is called freight paid Bill of lading. When the export contract is on F.O.B. terms and when freight is not paid by the exporters, it is called freight to collect bill of lading. Here freight payment is to be made by importer.

2. Clean and clause bill of lading:

As the very name indicates clean bill of lading means a bill without any adverse remark about apparent order and condition of goods. Clause Bill of Lading bears some adverse remarks. When the goods are not properly packed and show signs of damage, the shipping company put adverse remarks to that effect It is also called "dirt" or "foul" bill of lading. A clauses B/L is a B/L containing addition limiting the responsibility of the shipping company and indicating defective conditions of the goods. A clean B/L is one which does not bear any super imposed clause or a notation which expressly declares a defective condition of the goods and/or packing.

3. Direct and through Bill of Lading:

Through bill of lading covers goods being transshipped en route. It covers the while voyage. In other words, when the same ship or vessel carries goods from the port of shipment to port of destination, shipping company issues direct bill of lading. But many times, there is no direct _shipping link between the port or shipment and port or destination. In such cases, through bill of lading may be issued by shipping company.

4. State Bill of Lading:

If bill of lading is held too long and not presented to the bank or if not presented within 21 days from the date of export to the Bank it is called a state bill of lading. Such a delay in presenting bill causes inconveniences, delays of goods and invoices even monetary loss to the overseas buyer. Hence, the bill of lading should be handed over to the negotiating bank immediately after it is issued by the shipping company. The present banking practice is to regard a bill of Jading as state when it is not presented within about mentioned time or during validity of letter of Credit.

Module-(vii)(i) : SERVICE EXPORTS

The **General Agreement on Trade in Services (GATS)** is the first and only set of multilateral rules governing international trade in services, Negotiated in the Uruguay Round, it was developed in response to the huge growth of the services economy over the past 30 years and the greater potential for trading services brought about by the communications revolution. Basic principles

- All services are covered by GATS
- Most favoured nation treatment applies to all services, except the one off temporary exemptions
- National treatment applies in the area where commitments are made
- Transparency in regulations inquiry points
- Regulations have to be objective and reasonable
- International payments: normally unrestricted
- Individual countries commitments: negotiated and bound
- Progressive liberalization: through further negotiations

Services represent the fastest growing sector of the global economy and account for two thirds of global output, one third of global employment and nearly 20% of global trade.

When the idea of bringing rules on services into the multilateral trading system was floated in the early to mid 1980s, a number of countries were skeptical and even opposed. The believed such an agreement could undermine governments' ability to pursue national

policy objectives and constrain their regulatory powers. The agreement that was developed, however, allows a high degree of flexibility, both within the framework of rules and also in terms of the market access commitments.

GATS explained back to top:

The General Agreement on Trade in Services has three elements : the maintenance text containing general obligations and disciplines, annexes dealing with rules for specific sectors and individual countries specific commitments to provide access to their markets, including indications of where countries are temporarily not applying the "most favoured nation".

General obligations and disciplines back to top:

Total coverage: The agreement covers all internationally traded services - for example, banking telecommunications, tourism, professional services etc. It also defines four ways for "modes") of trading services :

- services supplied from one country to another (e.g. international telephone cells), officially known as "cross border supply" (in WTO jargon "mode 1")
- consumers or firms making use of a service in another country(e.g. tourism) officially "consumption abroad" ("mode 2")
- a foreign company setting up subsidiaries or branches to provide services in another country (e.g. foreign banks setting up operations in a country), officially "commercial presence" ("mode 3")
- individuals travelling from their own country to supply services in another (e.g. fashion models or consultants), officially "presence of natural persons" ("mode 4")

Most-favoured-nation (MFN) treatment.Favour one, favour all. MFN means treating one's trading partners equally on the principle of non-discrimination. Under GATS, II a country allows foreign competition in a sector, equal opportunities in that sector should be given to service providers from all other WTO members. (This applies even if the country has made no specific commitment to provide foreign companies access to its markets under the WTO).

MFN applies to all services, but some special temporary exemptions have been allowed. When !GATS came into force, a number of countries already had preferential agreements in services that they had signed with trading partners, either bilaterally or in small groups. WTO members felt it was necessary to maintain these preferences temporarily. They gave themselves the right to continue giving more favourable treatment to particular countries in particular services activities by listing "MFN exemptions" along side

their first sets of commitments. In order to protect the general MFN principle, the exemptions could only be made once, nothing can be added to the lists. They are currently being reviewed as mandated, and will normally last no more than ten years.

Commitments on market access and national treatment. Individual countries commitments to open markets in specific sectors – and how open those markets will be – are the outcome of negotiations. The commitments appear in "schedules" that list the sectors being opened, the extent of market access being given In those sectors (e.g. whether there are any restrictions on foreign ownership), and any limitations on national treatment (whether some rights granted to local companies will not be granted to foreign companies). So, for example, if a government commits itself to allow foreign banks to operate in its domestic market, that is a **market-access commitment.** And If the government limits the number of licences it will issue, then that is a **market-access limitation.** If it also says foreign banks are only allowed one branch while domestic banks are allowed numerous branches, that is an **exception to the national treatment** people.

These clearly defined commitments are "bound": Like bound tariffs for trade in goods, they can only be modified after negotiations with affected countries. Because "unbinding" is difficult, the commitments· are virtually guaranteed conditions for foreign exporters and importers of services and Investors in the sector to do business.

Governmental services are explicitly carved out of the agreement and there is nothing in GATS that forces a government to privatize service Industries. In fact the word "privatize" does not even appear in GATS. Now does it outlaw government or even private monopolis.

The carve out is an explicit commitment by WTO governments to allow publicly funded services in core areas of their responsibility. Governmental services are defined in the agreement as those that are not supplied commercially ado not compete with other suppliers. These services are not subject to any GATS disciplines, they are not covered by the negotiations, and commitments on market access and national treatment (treating foreign and domestic companies equally) do not apply to them.

GAT's approach to making commitments means that members are not obliged to do so on the whole universe of services sectors. A government may not wait to make a commitment on the level of foreign competition in a given sector, because it considers the sector to be a core governmental function or indeed for any other reason. In this case, the governments only obligations are minimal,

for example to be transparent in regulating the sector and not to discriminate between foreign suppliers.

Transparency GATS says governments must publish all relevant laws and regulations, and set up enquiry points within their bureaucracies, Foreign companies and governments can then use these inquiry points to obtain information about regulations in any service sector. And they have to notify the WTO of any changes in regulations that apply to the services that come under specific commitments.

Regulations : objective and reasonable since domestic regulations are the most significant means of exercising influence or control over services trade, the agreement says government should regulate services reasonably, objectively and impartially. When a government makes an administrative decision that effect's service it should also provide an impartial means for reviewing the decision (for example a tribunal).

GATS does not require any service to be deregulated. Commitments to liberalize do not affect governments right to set levels of quality, safety, or price or to introduce regulations to pursue any other policy objective they see fit. A commitment to national treatment for example, would only mean that the same regulations would apply to foreign suppliers as to nationals, Governments naturally retain their right to set qualification requirements for doctors or lawyers and to set standards to ensure consumer health and safety.

Recognition -When two (or more) governments have agreements recognizing each others qualifications (for example, the licensing or certification of service suppliers), GATS says other members must also be given a chance to negotiate comparable pacts. The recognition of other countries qualifications must not be discriminatory, and it must not amount to protectionism in disguise. The recognition agreements have to be notified to the WTO.

International payments and transfers – Once a government has made a commitment to open a service sector to foreign competition, it must not normally restrict money being transferred out of the country as payment for service supplied ("current transactions") in that sector. The only exception is when there are balance of payments difficulties, and even then the restrictions must be temporary and subject to other limits and conditions.

Progressive liberalization – The Uruguay Round was only the beginning. GATS require more negotiations, which began in early 2000 and are now part of the Doha Development Agenda. The

goal is to take the liberalization process further by increasing the level of commitments in schedules.

International trade in goods is a relatively simple idea to grasp " a product is transported from one country to another. Trade in services is much more diverse. Telephone companies, banks, airlines and accountancy firms provide their services in quite different ways. The GATS annexed reflect some of the diversity.

Movement of natural persons – This annex deals with negotiations on individuals' rights to stay temporarily in a country for the purpose of providing a service. It specifies that the agreement does not apply to people seeking permanent employment or to conditions for obtaining citizenship permanent residence or permanent employment.

Financial services – Instability in the banking system affects the whole economy. The financial services annex gives governments very wide latitude to take prudential measures, such as those for the protection of investors, depositors and insurance policy holders, and to ensure the integrity and stability of the firiical systems. The annex also excludes from the agreement services provided when a government is exercising its authority overt the financial system, for example central banks' services.

Telecommunications – The telecommunications sector has a dual role: it is a distinct sector of economic activity. and it is an underlying means of supplying other economic activities (for example electronic money transfers). The annex says governments must ensure that foreign service· suppliers are given access to the public telecommunications networks without discrimination.

Air Transport Services – Under this annex, traffic rights and directly related activities are excluded from GATS's coverage. They are handled by other bilateral agreements. However, the annex establishes that the GATS will apply to aircraft repair and maintenance services, marketing of air transport services and computer reservation services.

GATS sets a heavy work programme covering a wide range of subjects. Work on some of the subjects started in 1995, as requi5ed, .soon after GATS came into force in January, 1995. Negotiations to further liberalise international trade in services started in 2000,along with other work involving study and review.

Negotiations (Article 19) Negotiations to further liberalise international trade in services started in early 2000 as mandated by GATS (Article 19).

The first phase of the negotiations ended successfully in March, 2001 when members agreed on the guidelines and procedures for the negotiations, a key element in the negotiating mandate. By agreeing these guidelines, members set the objectives, scope and method for the negotiations in a clear and balanced manner.

They also unequivocally endorsed some of GATS' fundamental principles – i.e. members' right to regulate and to introduce new regulations on the supply of services in pursuit of national policy objectives, their right to specify which services they wish to open to foreign suppliers and under which conditions, and the overarching principle of flexibility for developing and least developed countries. The guidelines are therefore sensitive to publish policy concerns in imported sectors such as health care, public education and cultural industries, while stressing the importance of liberalization in general and ensuring foreign s ervice provides have effective access to domestic markets.

The 2001 Doha Ministerial Declaration incorporated these negotiations into the "single undertaking" of the Doha Development Agenda. Since July, 2002, a process of bilateral negotiations on market access has been underway.

Work on GATS rules (Articles 10, 13 and 15) – Negotiations started in 1995 and are continuing on the development of possible disciplines that are not yet included in GATS, rules on emergency safeguard measures, government procurement and subsidies. Work so far has concentrated on safeguards. These are temporary limitations on market access to deal with market disruption, and the negotiations aim to set up procedures and disciplines foe governments using these. Several deadlines have been missed. The current also is for the results to come into effect at the same time as those of the current services negotiations.

Work on domestic regulations (Article 4.4) Work started in 1995 to establish disciplines on domestic regulations – i.e. the requirements foreign services suppliers have to meet in order to operate in a market. The focus is on qualifications requirements and procedure, technical standards and licensing requirements. By December, 1998, members had agreed disciplines on domestic regulations for the accountancy sector. Since then, members have been engaged in developing general disciplines for all profession services and where necessary, additional sectoral disciplines. All the agreed disciplines will be integrated into GATS and become legally binding by the end of the current services negotaiions.

MFN exemptions (Annex on Article 2) – Work on this subject started in 2000, When GATS came Into force in 1995, members were allowed a once only opportunity to take an exemption from

the MFN principles of non-discrimination between a members trading partners. The measure for which the exemption was taken is described in a member's MFN exemption list indicating to which member the more favourable treatment applies, and specifying its duration. In principle, these exemptions should not last for more than ten years. As mandated by GATS, all these exemptions are currently being reviewed to examine whether the conditions which 'created the need for these exemptions in the first place still exist. And in any case, they are part of the current services negotiations..

Taking account of "autonomous" liberalization (Article 19) – Countries that have liberalized on their own initiative since the last multilateral negotiations want that to be taken into account when they negotiate market access in services. The negotiating guidelines and procedures that members agreed in March, 2001 for the GATS negotiations also call for criteria for taking this "autonomous" or unilateral liberalization into account. These were agreed on 6th March, 2003.

Special treatment for least-developed countries (Article 19) GATS mandates members to establish how to give special treatment to least developed countries during *the* negotiations. These "modalities" cover both the scope of the special treatment and the methods to be used). The last developed countries began the discussion in March, 2002. As a result of subsequent discussions, Members agreed the modalities on 3rd September, 2003.

Assessment of trade in services (Article 19) – Preparatory work on this subject started in early 1999. GATS mandates that members assess trade in services, including the GATS objective of increasing the developing countries participation in services trade. The negotiating guidelines reiterate this, requiring the negotiations to be adjusted in response to the assessment. Members generally acknowledge that the shortage of statistical information and other methodological problems make it impossible to conduct an assessment based on full data. However, they are continuing their discussion with 'the assistance of several papers produced by the Secretariat.

Air transport services -At present most of the air transport sector- traffic rights and services directly related to traffic rights – is excluded from GATS' coverage. However, GATS mandates a review by members of this situation. The purpose of the review, which started in early 2000, is to decide whether additional air transport services should be covered by GATS. The review could develop into a negotiation in its own right, resulting in an amendment of GATS itself by adding new services to its coverage and by adding specific commitments on these new services to national schedules.

Module-(vii)(ii) : SPECIAL ECONOMIC ZONES (SEZs)

With a view to enable hassle free export activity, Special Economic Zones are being set up. The units in these zones shall not be subjected to any pre-determined value addition, export obligation and input/output wastage norms. Sale in domestic tariff area by the units in such zones will be permitted on payment of full customs duty. Such SEZs has been selected, one each in Gujarat and Tamil Nadu. The existing EPZs at Mumbai, Kandla, Visakapattanam and Cochin are also being converted in SEZs.

Eligibility :

SEZ is a specifically delineated duty tree area and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

Goods going into the SEZ area from DTA (Domestic Tariff Area) shall be treated as deemed exports and goods coming from the SEZ area into DTA shall be treated as if the goods are being imported.

SEZ units may be set up for manufacture of goods and rendering of services, production, processing, assembling, trading, repair, remaking, reconditioning, re-engineering including making of gold/silver/platinum jewellery and articles thereof or in connection therewith SEZ units are allowed to manufacture items reserved for SSI Units. Subcontracting of a part of production broad permitted.

Export and Import of Goods: .

SEZ units may export goods and services including agro-products, Partly processed jewellery, sub-assemblies and components. It may also export by-products, rejects, waste-scrap 'arising out of the production process.

SEZ unit may Import without payment of duty all types of goods, including capital·goods, whether second hand or new. The SEZ units can import goods free of cost or loan from clients.

Net Foreign Exchange Earning (NFE) :

A SEZ unit shall be a positive net foreign exchange earner. NFE Shall be calculated cumulatively for a period of five years from the commencement of commercial production.

Domestic Tariff area (DTA) Sales and Supplies:

Sales to SEZs from DTA are to be treated as exports. Sales to DTA from SEZ are to be exempted from special additional duty (SAD). This would make the sales to DTA from SEZ 4% cheaper

than imports. DTA sale by service/trading units shall be subject to achievement of pos ive NFE.

Export through Status Holder :

A SEZ unit may also export goods manufactured by it through a merchant exporter/status holder or any other EOU/EPZ/SEZ Unit.

Inter-limit Transfer :

Transfer of manufactured goods or imported goods from one SEZ unit to another EPZ/EQU/SEZ unit is allowed, but nOot counted towards export performance.

Administration and Setting up of SEZ :

SEi: will be under the administrative control of Development Commissioner. A SEZ may be set up in the public, private or joint sector. The existing EPZs may also be converted Into SEZ by the Ministry of Commerce and Industry.

Exports Proceeds :

Units in SEZ can bring back their export proceeds in 365 days as against normal period of 180 days and can retain 100% of the proceeds in the EEFC Account.

5

CASE STUDY ANALYSIS

Module-(i) (i):Case Study Analysis-1:

Read and analyze the following case study on 3M and answer the questions given in the end of the case.:

Case 3M: Minnesota Mining and Manufacturing (3M) fosters a culture of innovation and improvisation evidence in its very beginnings. In 1904, the company's Directors were faced with a failed mining operation, but they turned the leftover grit and wastage into revolutionary new product sandpaper.

Today **3M** makes more than 60,000 products, including sandpaper, as well as adhesives, computer disks contact lenses and optical films. Each year 3M launches scores of new products, and the company earns about 35 per cent of revenues of from products introduced within the past five years. The company regularly ranks among the top 10 U.S. companies each year in patents received. 3M has an annual R&D budget pf $1 billion, which is a healthy portion of its annual $16.7 billion in sales.

3M has a long history of innovation. In addition to inventing sandpaper, the company has developed numerous product innovations in its 99 years history that were the first of their kind. Here is a brief time line.

1925 – Scotch TM masking tape
1930 – Scotch TM transparent tape
1939 -- First reflective traffic sign
1956 -- Scotchgard TM fabric protector
1962 -- Tartan Track TM first synthetic running track
1979 -- Thins late TM thermal insulation
1980 -- Post-it TM Notes
1985 -- First re-fastening diaper tape
1995 -- First non-chlorofluorocarbon aerosol inhaler
2000 -- First laminating products that do not require heat

3M is able to consistently produce innovations in part because the company promotes a corporate environment that facilitates new discoveries. The following are some tactics 3M uses to ensure its culture remains focused on innovation.

3M encourages everyone, not just engineers, to become "product champions". The company's 15 per cent rule" allow all employees to spend up to 15 per cent of their time working on projects of personal interest. Products such as Post-it Notes, masking tape,

and the company's micro replication technology developed because of 15 per cent rule activities. Each promising new idea is assigned to a multidisciplinary venture team headed by an "executive champion: "3M hands out its Golden Step awards each year to the venture teams whose products earned more than $2 million in US sales or $4 million in worldwide sales within three years of commercial introduction.

3M expects some failures and uses failed products as opportunities to learn how to make products that work. It slogan is "You have to kiss a lot of frogs to find a prince".

In the late 1990s, 3M struggled as sales stalled and profits fell. The company restructured shed several proprietary noncore businesses and cut its work force. Because of these moves, 3M had record sales and income in 2000. when 3M named GE executive James Mc Nerney its new Chairman and CEO that year, he vowed he would continue to improve the company's bottom line while keeping its culture of innovation intact.

Sources: www.3m.com

Questions:

1. How can 3M hold on to the notion of accepting failures to achieve the winners during recessionary times and shorter product life cycles (PLC)?

2. What charges would you make in the 3M marketing strategy if it became apparent that generic competitors were consistently able to copy the innovative 3M products?

3. How well has 3M applied the marketing concepts?

Model Responses:

1. With its vaunted positive attitude towards accepting failure on the way to successful new products. It appears that 3M will be able to continue the remarkable stream of new product developments. Firms such as 3M operate above the day to day recession and shorter PLC issues, focused more on achieving product innovation and improvements than responding to economic conditions.

2. Possibly to look more toward marketing organizational and supportive improvements, along with ways to get closer to consumers and their needs. Because 3M constantly works to innovate out of and beyond its existing products (35 per cent of their profits come from products. introduced in the prior five years), copycats and generic competitors are

assumed and of no particular consequence in the larger 3Mproduct development picture.

It appears that 3M could be one of the prime examples for many of the concepts discussed in the text. They have the organizational culture, attitude of questioning and innovation, and the willingness to take risks that belie an organization that could and should succeed when others go astray while trying to take short cuts to innovation. 3M's culture is so deep And positive that the company likely is happy to see competitors attempt to use keep up with 3M because it spurs3M researchers and scientists on to find even more effective products. In addition, because 3M researchers and scientists on to find even more effective products. In addition, because 3M also owns many brand names, trademarks and patents, competitors will have to engage in costly efforts to work around the 3M legal protection.

Module-(i) (ii): Case Study Analysis-2:

Read the following case on Coca-cola and answer the questions give in the end of the case.

Sources: "The Story of Coca-cola, www.cocoa-cola.com: Betsy McKay, "Coca-Cola Restructuring Effort Has Yet to Prove Effective Asian Wall Street Journal March 2,2001, Andrew Marshall, "Focus Can They Still Sell the World A Coke? The Independent, June 20,1999.

The most recognized brand name in the world got its start in an Atlanta Pharmacy, where it sold for five cents a glass. The name Coca-Cola, registered as a trademark on January 31, 1893 was based on two of the drink's ingredients : extracts from coca leaves and the cola nut, In its early days, when the drink contained a form of cocaine, a drug mad from coca leaves extracts ,the Cocoa-Cola was marketed as an "Esteemed Brain Tonic and Intellectual Beverage. "The Company's First President, As a Candler, ·was a savvy businessman who implemented numerous marketing strategies to increase consumption. At Chandelier's behest, the company printed coupons offering complimentary first tastes of Coca-cola, and outfitted distributing pharmacists with clocks, calendars, and scales bearing the Coca-Cola brand. The drink soon became a national phenomenon, by 1895, the company had established syrup plants in Chicago, Dalais and Los Angeles, Coca-Cola expanded beyond the American borders in the early 1900s into numerous countries including Cuba, Puerto Rico and France. In the1920s, Coca-Cola pursued aggressive global branding finding creative placements for its logo such as on

dogsleds in Canada and on the walls of bullfighting arenas in Spain.

During World War II, the U.S Army shipped bottles of the beverage abroad to supply American soldiers in Europe and Asia. Its popularity throughout the world was fueled by colorful and persuasive advertising that cemented its image as the "All- American" beverage. When the Vietnam War tarnished the American image, Coke developed more globally aware advertising. In 1971, the company ran its legendary I'd like to buy the world a Coke television spot, in which a crow of children sang the song from atop a hill in Italy. Coke's moves into formerly restricted markets, such as China in 1978 and the Soviet Union in 1979, bolstered its image as a global company. By 1988, Coca-cola was voted the best known and most admired brand in the world.

One ad agency executive said, "There are about two products that lend themselves to global marketing – and one of them is Coca- Cola. "Still, Coca-Cola did not institute a uniform marketing program. in each of its global markets. Rather, the company often tailored the flavor, packaging, price and advertising to match the tastes in specific markets. For example, Coke's famous "Mean Joe" Green TV ad from the United States–in which the tired, weary football star reluctantly accepts a Coke from an admiring young fan and then unexpectedly tosses the kid his jersey in appreciation–was replicated in a number of different regions using the same format but substituting famous athletes from those regions (e.g. ads in South America used the Argentine soccer star, Maradona, while those in Asia used the Thai soccer star, Niat). Additionally, local managers were assigned responsibility for sales
and distribution programs in coke products to reflect the marked differences in consumer behavior across countries. In Spain, Coke has been used as a mixer with wine, in Italy, Coke is served with meals in place of wine or cappuccino, in China, the b3verage is served at special government occasions. The company used the phrase "think global, act local" to describe its marketing strategy duringthe1990s.

Today, Coca-Cola conducts business with more than 230 brands in 200 countries. More than two thirds of Coca-Cola revenues come from outside the United States, a fact which makes the company' ·vulnerable to down turns in international economies, as evidenced by shallow earnings during the global economic upheaval in the late 1990s. In response to the depressed sales brought by international recessions, the company perused a restructuring plan that would recast the beverage giant as "a collection of smaller, locally run businesses 'When Douglas Daft took over a Chairman and CEO in 2000, he expressed his desire for Coca-cola mangers to adopt a new mantra "think locally and act locally".

Questions:

1. What is the primary basis for Coke's past international marketing success? Is it only advertising?

2. Given the growing political and economic uncertainty, what changes can Coke make to it's global marketing strategy?

3. What is the real meaning of **"think locally and act locally"?** Can and should this marketing philosophy always work? why?

Suggested Responses:

1. Many will say that it is the level of advertising, but the better answer may be the consistent and effective, locally oriented global marketing, aimed carefully at targeted markets around the globe. Coke and other brands have become leaders in their product categories by understanding consumer motivations and desires and by creating relevant and favorable image associations. There is nothing fly-by-night in such activities.

2. Cocoa Cola has struggled since the late 1990s to fine new direction(s) against the rise of new global competition, nationalism and various internal management philosophies arguing for new and different marketing directions and/or activities. Accordingly, some analysis have argued it may be time for Coke to look for new direction(s),. Especially in marketing and advertising because it appeared that during the past few years Pepsi consistently introduced more innovative and creative marketing campaigns. It may be useful to note to the class that Interbraned's annual list of the 100 most valuable global brands shows that 62 of the mare .U.S. based American companies account for nine of the10 most powerful brands in the world (Coca-Cola, Microsoft, IBM, General Electric, Intel, Disney, Ford, Mc Donald and AT & T). The irony is that in most areas where there have been some of the more strident anti-American attacks, especially in Muslim regions, those attacks are against locally owned companies. Many of the restaurant chains, such as KFC and McDonalds, for example, operate on a franchise basis. Thus, while the brand may be global, the business itself is locally owned.

3. The phrases ("think globally, act locally"), in the original Coke selling, was designed to achieve effective planning and strategy at the global level, with tactics and application at the local level. The new concept think and act locally) argues for a much more decentralized decision making and

application process. The 'pro' to this that it places more responsibility and control at the local level, but the "con" is that it also enables much more diverse and often divisive attitudes and actions that may in the end actually detract from the ultimate corporat3 goal. It is easy to argue that in this day of increasingly nationalistic orientation that if local franchises of multinational firms like Coke are owned and operated at the local level there will be much more support and less likelihood of local political and social interference If, however, operational control is largely separated from the more centralized corporate management, the end result an be very different and possibly negative.

Module-(i)(iii):Case Study Analysis No.3:

Consumer Behavior in International Context:

Muslim women cover themselves with the modest dress called as "Hijab". Both Muslim men and women have their own right and place in the society. Women wear "Hijab" because of their desire to adhere to Islamic morality as well as the sign of high status given to them by Allah. Hijab also sign a modest heart and not just the outer gamut on the country. Western women have no such restrictions and they are competing with men in each field as well as are treated at part with men. Now, assume that Iran's new leaders now welcome western business, particularly U.S. business with a commitment that their staff would respect the religious ethical and moral beliefs of the nations, Consider that before Ayatollah Khomeini's revolution. Iran's women showed increasing interest in western goods. This Khomeini introduce ban on Western goods and western goods because equated with religious evil. Now the market has opened up ones more after a drought of years.

Questions:

1. How demand can be reawakened? How the demand can be stimulated for western goods or services among Iranies women without generating anxiety on the part of Iran's all male religious and secular authorities? Give your answers to above questions in form of essay giving specific measures to be taken up.

The response should cover following topics:

a. **Product Selection:** What type of goods or services should be introduced for test marketing to the female population of Iran? your choice of product.

b. **Segmentation of Market:** What segment of the market should be targeted first?
Give details like sex, age, social class, rural, urban etc. Justify your choice of segment.

c. **Product Modification :** Whether any modification in product or service should be. made to generate demand from women?

d. **Product Image :** Whether product image needs to be modified to uniform to Iranian religious, ethical and moral Norms? If yes, suggest modification and justify.

e. **What** kind of attributes should be considered while selecting a sales staff?

Module - (ii) (i):Case Study Analysis - 4:

Counter Trade as a Pricing Strategies:

In spite of achieving sophistication in international money and credit markets "Countertrade" has secured its own place in. international trade. International liquidity and balance of payment problems have necessitated many under developed countries and no market Economics (NME's) to engage in counter trade.

Countertrade occurs when importing country is unable to raise finance from international markets and is short of hard currency reserves. Complexity involved in counter trade financing costs are higher than if the underdeveloped country would have access to international credit markets. In counter trade costs are high but they become more implicit then explicit the finance costs are there but hidden.

Second drawback with the countertrade is that it limits the potential number of sellers in the market. In the other words every seller firm may not be interested in entering in to counter trade. Due to this a country engaging in countertrade incurs more costs in terms of real resources than a straight commercial transaction.

Thirdly countertrade may contribute to market. distortion. Due to underdeveloped international marketing facilities underdeveloped countries find difficult to penetrate into international markets with goods nontraditional to their economy. In such cases under developed country may seek buyback arrangement to finance importing of plant and machinery. Such country may also find out more knowledgeable partner for international marketing of goods for which it doesn't have necessary expertise. This way a firm in under developed country may enter a product line in which it couldn't have entered in usual circumstances.

Countertrade is used as a marketing tool and to restrict trade alternatives. Counter trade is costly and inefficient as compare to modern world economy and developed financial markets.

Questions:

1. Discuss the Pros and cons of counter trade as a form of trade.
2. In dealing with under developed or developing countries who are adopting to market oriented economies, whether times in developed countries, should enter into counter trade? What are the pros and cons.

Module-(ii)(ii): Case Study Analysis – 5 :

Product Selection and Product Positioning

Pan leaf is a multinational in household hygiene and colored cosmetics. Traditionally a household products company, it has covered a niche for itself in Europe and USA. However, surfaced competition in early eighties. For mid eighties, company realized its business focus find tuned its product portfolios and its colored cosmetics business.

As cosmetics business looked to be attractive as per advise of its consultants, company acquired 18 cosmetic brands all over the world. The company wanted to grow geographically and thought that 300 million strong Indian middle class can be forgotten for plan market products. The company was thinking of introducing household care or skincare and colored cosmetics in India.

Company appointed as Korean national with vast experience in new market development as head of Indian operation. After studying the Indian market for six months are rejected the company's International Board idea to enter into detergent market. Detergent market was advised by consultants. Indian head was rejecting the idea in spite of large market on grounds of competition with established players like Procter and Gamble or Unilever and requirement offsetting up from scratch a large distribution network He advised entry into skin are products but parent company was more keen on launching color cosmetics, as research indicated that there was only one large organized Layer Lake in color cosmetics, as research indicated that there was only one large organized sector. They felt that there is good scope for expansion and products, due to reduction in excise duties and consumers preferences for organized sector brands also felt that the brand awareness of the Company was high in India.

,

The head of Indian operations had to shift focus from mass market to premises and where colour cosmetics were positioned. He set up company owned distribution network in major and mini metro cities. Company launched initially nail varnishes, lipsticks and eye makeup, suiting variety of cultures and climates. A vegetable extract in lipsticks helped to maintain the correct moisture level and protected lips form Ultra Violet rays, besides being water proof and long lasting. Nail varnishes were chip resistant with built in nail a strength. It was felt that with these characteristics and changing attitude of Indian women towards good appearance, the products would pick up in the market.

Prelaunch blind product tests in many cities found good rating for product samples and customers were ready to pay 25–50% premium over current branch. However when products were developed, the company found that they were two times more expensive than Lakme. A company which was hoping to grab 15-20% market share in volume terms was facing problem of selling its products at price premium of 50 – 75% and achieving high contribution to support marketing costs.

When color cosmetic were launched, though trial purchase were good repeated purchases were very low. Though product quality was good lady-consumers concluded that they were not offering enough value for money. Parent company was cause to reduce costs, which would lower margins and delay in breakeven period, which was set up as 3 gms. Lakme was offering imagery and variety in nail polishes being as MNC, hence ladies were not ready to pay twice the sum for new brand.

To resolve the situation, on advise of corporate marketing head in international division, company launched the premium range of stain care products and fragrances, which could be sold through existing distribution network as costs would be shared by more number of products one more reason was another recently introduced global brand for skin care products was doing well in while its man products were not that well. After huge spending on advertisements, market get off to a good start, but scone off takes, dipped sharply. It was concluded after research that poisoning required for slam case products was much different than color cosmetics. Customers did not accept company's umbrella approach.

Company also launched its fragrance business to leverage its premium image. However, it was found that Indian consumers used performs and deodorants only on occasion and not as a habit, instead they were using talcum powder. It was concluded that researching about consumer habits and usage's most for all the products. The company was neither in a position to invest

in market development nor reduce the prices, in view of its target of 3 years for breakeven level.

CASES

Company which entered at same time in Eastern Europe was doing well there as consumers were willing to pay for prices which were equivalent to western worked. Though the prices were high with advertising support and liberal; import policies of those countries, company could earn profits from first year company was doing well wherever it had acquired as local company or brand in last 10 years.

Questions:

1. Comment on the approach of company trying to sell at higher price and specific contribution in beginning.
2. Was the managerial style and marketing strategy which worked worldwide not applicable to India ?
3. What should have been entry shortage <
4. Which market company should have targeted in beginning ? Man market or Premium price market ?
5. What kind of consumer behavior market research should have been undertaken ?
6. Can direct marketing method would work in India for the Company?

Module-(ii)(iii) : Case Study Analysis – 6 :

Mergers and Take over by International Company

Elrax international as a part of its entry strategy in India took over two companies in Baroda – Bristol; components, producing components for infrastructure projects and Gapro consultants, which was in project implementation. Gapro used to source its components from Bristol while Bristol also monitored project installations and quality control. Bristol bad English parentage, who direct its policy of existing components business access world, offered its Indian subsidiary to Elrax, Gapro's parent company sold Indian earn to Elrax being unprofitable and difficult to administer.

Elarx thought that customer – supplier relationship between both the companies can be of advantage. Gapro was housed in old building while. Bristol had a plus office. The new merged entity could not find a combined office and both the existence companies continued to operate from their old offices. Integration and restricting programmer was poisoned of sometime by country manager to understand people better. At the same time he brought in Elarx international performance management systems, quality management and audit systems to the merged entity. For Gapro it

was all new while Bristol could entity adopt them as they were using more sophisticated systems than Gapor. In this process staff at Gaper started depending upon the support from Bristol for operations.

CASES

In the meantime country manager retired and a Bristol general Manager was brought in as a managing director of merged entity. This firmly established the supremacy of Bristol team in the new entity. The new managing director also stated to blame Gapro staff as slow on uptake. Besides Bristol had a young quicker, street smart team as against older managers at Gapro Elrax worldwide has a strategy of engaging youngsters which also caused a worry for senior managers at Gaper.

Merged entity was given a target of Rs.100 Croer, while the combined revenue of two erstwhile companies was about Rs.40 Crore. Though the new entity was trying to achieve the targets, these was a sort of cultural shock for the Gapro staff, which was subjected to new ideology and systems of Elrax International. In spite of trying to introduce slick systems, due to confusion and non clarity project implementation teams head continued reporting to both managing director of the merged entity as well to the new buses in Elrax international in USA.

In nutshell staff in both the erstwhile companies was trying to align not only with Elrax international but also with each other. Due to the English parentage and familiar with the system and procedures of Elrax. Bristol staff started thinking themselves superior than the Gapro staff which was not much familiar with such systems. Hence the gap between the two started increasing this gave way to the thinking "We" and "they" in spite of being in same merged entity. The takeover by Elrax and merger of the two companies had not much import the two companies had not much import and the two companies continued to work as before. Post takeover, Elrax passed on all new business to the components division which in turn was getting it implemented by Gapro staff Elrax's ideology and system did not affect much on combined entity and both the erstwhile companies continued to work as earlier but not as a single mind set.

Questions:

1. What in your opinion has gone wrong from the side of Elrax Management ?
2. Was the selection of Bristol man as a new management Director justified ?
3. What tasks should have been taken up immediately after merger?

4. Do you feel that HR Manager has performed his role fully?
5. How synergy could have been created by merging the two companies?

Module-(iii)(i) : Case Study Analysis – 7

Answer the following questions, in the context of given case on 'BARISTA"

1. Read the case carefully and summarize your understanding on the application of the marketing concepts of Barista.
2. What dimensions of Consumer Behaviour were addressed in the Marketing Strategy of Barista.
3. What changes you would recommend in the "Marketing Strategy of Barista" and why? Justify your recommendations ?.

The smell of coffer wafts across orange interiors, purple lampshades and blends with the gurgle and hiss of espresso machines behind large glass doors in a Barista Coffee bar in Mumbai. That was the sort of new neighborhood coffee shop that has sprouted up in Mumbai, Delhi Hyderabad, Bangalore and many more cities since February, 2000, when the chain opened its first Barista Espresso Bar in Delhi.

Barista Coffee was established in 1999 with the aim of identifying growth opportunities in the coffee business. Barista Coffee company was promoted by Turner Morrison group. Then Java Coffee Co. a Delhi based subsidiary of the Turner Morrison group, had set up 15 such coffee shops, with a initial capital investment of Rs.55 Corer. Increasing disposable incomes and global trends in coffee indicated immense growth potential in one particular Segment- "the specialty coffee business".

The select interiors with a start up cost of around Rs.50 Lakh per outlet looked nothing like the Udipi restaurants, where strong and sweet south Indian coffee was served with the minimum of fuss and flourish. According to Rravi Deal, CEO, Barista Coffee Company. "The concept of neighborhoods express bars originates from Italy, Unlike coffee bars in other countries, Italy patronizes and interactive social and bright environment in its bars and that is what we have adopted at Barista".

Barista, Italian for a friendly bartender, is a recreation of an Italian espresso bar that is comfortable, interactive and joyful. Families can enjoy a cup of coffee and spend quality time over a game of Scrabble, and teenagers can strum a guitar if they're so inclined. There is also a TV for sports fans to watch their favourite

game, a board covered with post-it notes where people leave messages for friends, and a graffiti board in the bathroom that appeals to younger customers.

As accompany, they were passionate about coffee to the point of being almost fanatical doing almost everything they could to provide consumers with the finest coffee experience. At Barista, all the coffees are made from top grade Arabia beans. To break
the monotony of 10 basic coffee flavors and a myriad of mixes. Barista offered a range of sandwiches, supplied by the Oberon
chain of hotels in order to ensure quality. The firm had also tied up with Nilgiris and Monginis for their supply of cakes, croissants and
sandwiches. They commissioned Brew Masters from Italy to create their blends and used the best Italian machines to brew their coffees.

Mr. Ravi Deal said- "There aren't many places to which you can go and relax. If you want to meet somebody and do not wasn't to eat, then you go to a coffee shop in a five star, which inexpensive. You can go to a restaurant, which is an eating place. But, if you just wasn't to relax and talk, where do you go ? This is where we saw an opportunity". More significantly, they were quick to spot a latent need waiting to be tapped. Coffee lovers seek a complete experience. One that combines intelligent positioning with the right product mix and carefully designed cafes. In other words, they seek an "experiential lifestyle brand".

Barista changed its positioning from a premium retail outlet to that of a hangout or a meeting place frequented by young people;. Company officials said this was because the nature of Barista's clientele ranged from young college goers to young professional. "With such a profile, affordability becomes an important issue".

In keeping with this, Barista cut pieces of nearly an items in its menu card by 25 per cent, in April, 2003. a cup of standard cappuccino coffee cup at Barista was made available for Rs.30/- down from rs.40 earlier, while cold coffee Frappe for Rs.40 per cup against Rs.55 earlier. Also Classic cold coffee. was cheaper by Rs.12 at Rs.33 a cup.

Apart from this, Barista has also introduced new low priced beverages. These price cuts resulted in a 15 per cent more walk- ins at Barista's outlets during the month of April, 2003.

In another change, Barista diversified its hot beverages menu and introduced several specially teas. The reasoning was based on the fact that apart from south India all other parts of the country are mainly tea-consuming areas, and this step was expected to

help the company expand its client base in the smaller towns of these regions.

For the first time, Barista sought to expand through the franchise route model and planned to enter B-class towns in the country and middle class localities in the metros such as North and East Delhi. By 2005-06, Barista planned to have over 300 outlets across the country, up from 130 in May, 2003.

In the past, Barista expanded through tie-ups with major r3tail chains and setting up outlets in their premises. Barista had tie ups with Planet M. Crossword and the Taj Group of hotels for setting up Espresso corners within their premises. Barista introduced a concept called Ban café- a cafe in the bank premises, along with ABN Amor.

In April, 2004, Barista had the new ownership structure with its five member board minus the existing Chairman. Chennai based Sterling Group bought a 65.4 per cent equity stake in the chain from the Turner Morrison Group. Two senior executives from the Sterling Group joined the board, in place of the three Turner Morrison directors, while the Tatars (who held the rest of Barista's stake) continued to maintain their strength of three directors.

EMPLOYEES

Their people define their belief : talented, young and passionate. And they have structured themselves to help each one of them to bring out their best. Barista Coffee had a set, 14 day rigorous training procedure for each employee, with training modules, customized to fit the professional needs of each employee. In the case of their brew masters, the training programmes were drawn up and conducted by in house trainers who had been trained by an Italian brew master.

In promoting an experiential life style brand perhaps most important of all is the customer interface. For this defines the brand. Each Barista must therefore possess the passion and motivation that expresses the brand. This could only come with a sense of ownership;. All employees were provided with stock options, thus inculcating a sense of ownership, pride and the motivation to perform at their best. A flat management structure provide sample stimulus for ideas and growth.

MARKETING STRATEGIES

Barista does not look at 'coffee' as a business, rather, the over all 'experience' is seen as the business. It is crucial, therefore, to tailor a unique, delightful experience for the consumer, so that it

becomes forever associated with brand "Barista" and results is repeat visits. The marketing team focuses on three arms :

Brand Management
Customer Interface
Customer relationship management

In marketing efforts, the maintenance philosophy is 'don't invade customer's space, it's his space'. The store manager is the most important element as he is the customer interaction point. The fulfillment of the soft goals customers is more important for Barista's success.

As the business is seen as being all about the subtle interaction that take place with the unique Barista's ambience, this has to be driven with a lot of passion. Branch building is an extremely delicate task, for it depends on the quality of interaction. This requires an astute depth management as individual cafes build their reputations on the strength of the cafe owner's charm.

When a product is customized it becomes a service and when a service is customized it becomes an experience. And it is this experience that Barista talks about. Barista Cafes are located close to the points frequented by crowds in a different state of mind. It targets people who are young at heart, better read and sensitive to fine music. The location choice also depends upon these three kinds of "football". The best are the places where people go for shopping food and entertainment.

The outlet (standardized) design is the steaming-cup logo and orange colour scheme. The interior design also serves the purpose of brand communication. It has elegant cedar wood furniture, round tables with wood seat chairs that suits a lean-forward consumption rather than laid back.

The market for vending products in India was opening up. Towards the end of 2000, with organized retailing coming in, consumers started believing in brand names; Vending products through machines started not only for coffee and tea, but also for soft drinks, chocolates confectionery and magazines, amongst others. The total strength of vending machines in the country was approximately about 45,000 machines in 2003, which included a large number of unbranded machines too. Cafe Coffees Day's vending machines had a special niche in the market compared to competitors because Cafe Coffee Day machines offered filter coffee unlike the instant coffee offered by competitors' brands. They had more than 5,000 machines in the market as of 2003. the company was focusing on the Southern states of the country such as Tamil Nadu, Karnataka, Andhra Pradesh and Kerala and the

Western region, starting with various markets in the State of Maharashtra.

FINANCIAL AND OPERATIONAL STRATEGIES

Any retail business requires capital outlays for every outlet, and an aggregate of all these sits on the company's balance sheet. Their accounting system is structured into profit centers and cost centers where each espresso bar is a profit centre and a service location is a cost centre. Most stores were profitable on an operating basis.

Initially, Barista invested Rs.60 Crore in building its chain of 105 stores, but accumulated losses were as much as a fifth of its equity capital of Rs.36 Crore. The operating profit was a decent 17 per cent of sales. The company was not expected to break even at the net level before the end of fiscal 2003-04.

In August, 2000, Tata Coffee Ltd. (TCL) picked up a 34.3 per cent stake for Rs.26 Crore. New Tata Coffee had 34.3 per cent equity in Barista while per cent were with the employees and the rest with Turner Morrison. Besides capital, the alliance gave Barista. A short at supply chain integration, with TCL supplying the beans and the Taj Hotels (part of Tata's Indian Hotels) feeding it with food items. The association resulted in Barista having a captive production base, which gave it an advantage over its competitors.

For coffee bean supply, Barista used a transfer pricing mechanism with some of the costs built in. each shop had to keep an account of its own costs and manage its bottom line (before depreciation and taxes). Then the head office loads on corporate numbers such as marketing and other overheads.

While cafes/bars were performing well in 2003, witnessing a healthy increase of 10% in value terms, diseconomies of scale were beginning to surface for the major chained specialist cafes bars, such as Cafe Coffee Day and Barista, due to over expansion of units.

Overall, Barista was positioned as a coffee experience but not restricted to coffee. Though 67 per cent of its revenues came from beverages, Barista sought to be more of lifestyle experience.

CONSUMER HABITS AND PRACTICES

About three fourth of coffee produced is consumed in the Southern part of the country. Consumption in the east, west and north account for an insignificant part of coffee powder consumption. Per capita consumption or coffee in India is 55 gms. In southern region, the coffee consumption is 240 gms. Per capita compared to

only 4.5 gms is northern region. In north India, per capital coffee consumption is one cup in whole year.

Filter coffee has been a part of tradition and culture of south India. It is inconvenient to brew filter coffee which is less popular in tea drinking northern regions. Pure instant coffee is mainly consumed a north India. Moreover, urban consumers, who are not daily drinkers of coffee, prefer pure instant coffee.

There is a reasonable degree of price sensitivity and consumers can rapidly switch to other beverage such as chicory blend coffee and even tea.

For many NRis, the image of India is frozen as to when they first left India. In short visits here, it is easy to see the external changes (from the congestion and pollution to the express highways, shopping malls and the proliferating cell phones). But the deeper change that is happening in India and Indian attitudes is much harder to fathom. Even as the old India exists, side by-side a new India is being created – one in which people are as comfortable drinking coffee for Rs.5 in a roadside Udipi Restaurant or for Rs.50 in a Barista.

CONSUMER AWARENESS AND PENETRATION

In comparison to tea, penetration of coffee is significantly low, at 8.8% at all India level and coffee penetration is relatively high at17.1% in urban areas compared to only 5.6% in rural areas. The rural penetration is represented by south India. In other parts of rural India, penetration is negligible.

Tea is by far the largest selling hot drink in India, with other hot drinks trailing in distant second place. With tea plantations found throughout the country, it is no surprise that tea is widely consumed, not only because of its perceived benefits but also its relatively cheap prices. Coffee which is made up mainly of malt based hot drinks, has the smallest sales base. Growth in coffee volume sales was the lowest amongst all hot drinks during the review period as there is already near maximum penetration of coffee.

In 2003, tea constitutes 70% of retail volume sales, compared to coffee and other hot drinks with 4.4% and 26% shares respectively.

Per capita consumption in North India is a mere 4 gm as compared to 240 gm. In south India Karnataka, Tamil Nadu, Kerala and Andhra Pradesh are the major coffee consuming states in India. The present average per capita consumption is estimated to be 55 gm. pa.

In order to boost the coffee consumption, the coffee industry started emphasizing on three channels of distribution, namely, Cafe chains, vending machines and ready-to-drink products. The industry expects vending machines to contribute 45% of the volume, followed by cafe chains with 40% of the consumption market.

In India, coffee production for 2000-2001 was estimated at 270 mn kgs as compared to 230 mn kgs. In the previous year. The area under coffee cultivation, however is estimated at previous year levels, thus implying the increase in productivity. of this, 270 mn kgs. 150 mn kgs. Is Robusta and 120 mn kgs is Arabica..

COMPETITOR ANALYSIS

The biggest competitors of Barista at present are Cafe Coffee. Day apart from Qwiky's and Move pick.

During2002, there was a mushrooming of coffee pubs and cafes across regions and across the country as a whole coffee chains like Barista, Qwiky's and Cafe coffee Day (run by Amalgamated Bean Coffee Trading Co.Ltd.) became hugely popular hangouts for Indian cities young and trendy consumers. These cafes and pubs are not just places where people buy coffee, they also try to sell a certain lifestyle. The chains, with their glitzy interiors and designer furniture, are targeted at urban upper middle class and rich Indians coffee served in these chains includes latte, mocha, cappuccino, espresso, frizzo and even the perennial old favorite, Madras filter coffee. For India's coffee sector, hurt by a global slump in prices, the cafe chains are stirring hopes that domestic consumption may finally come to the aid of the largely export driven trade.

Cafe Coffee Day currently owns and operate 56 cafes spread across the country. The person behind this retail chain is V./ Siddhartha, chairman Amalgamated Bean Trading Company (ABC), a leading exporter of coffee and a Rs.200 Crore company, It intended to take its tally to 200 outlets by March, 2004. The total investment for this would be around rs.100 Crore. The biggest expansion was planned for Mumbai where number of outlets was to go to 50 from 8 at present.

80 per cent of their consumer are youngsters in the age bracket of 18 and 29. The cafe business was expected to generate Rs.110 Crore in turn over by June, 2004 as against Rs.30 Crore in 2003. their research showed that around 63% of the customers are between the age group of 20-29 years 60% of the customers who visit the cafe are male and 40% are female 52% of customers who visit the cafes are students.

Qwiky's the first specialty coffee chain in India – opened in Chennai on Oct. 1, 1999. the chain was started by Shashi Chimala, an IT person with no experience of selling coffee. He took the master franchise for the USD based Qwiky's. the positioning is pretty similar to Barista, but Qwiky's believes not in owning outlets but in growing by franchise. Its outlets are christened as coffee pub, coffee Island and coffee Kiosks. Qwiky's is restricted to the southern part of the country, with the number of outlets being 21.

ENTERING HOME BREW SEGMENT PRODUCT DEVELOPMENT:

The company had plans to enter the home brew segment with their version of freshly ground coffee. Company Officials said their Arabica coffee would retail at Rs.120 for a 20 gm. Sacher (this is certainly not cheap) and would also be available at Barista Espresso Bars as 'House Blend".

Besides this, the company would also introduce single origin coffees. To meet the target, Barista planed to focus on the home brew. – the freshly ground coffee segment – by extending the product portfolio from roasted coffee range to now include single origin coffee under the umbrella brand "Barista". The single origin coffee range comprised" Jamaica Blue Mountain a 100 per cent Wallingford Estate', 'Cuba· Caracolillo Crystal Mountain', Colombia Supermom "Brasil Santos' and 'Single Mould Scotch' among others and were priced between Rs.800 and rs.1,800 for a 200 gm pack. The company targeted to garner Rs.9 Crore through marketing the home brew range by 2003 end.

BRAND EXTENSION

Barista Coffee Company Ltd. Introduced Barista Experience as a brand extension aimed at taking the Barista Coffee experience outdoors. The positioning would allow its customers to bond with the Barista experience through experimental activities in areas like art, music, books and sports like gold river rafting among others.

Barista Experience promoted activities like soft adventure and music by typing up with the likes of Sony, Evian, Himachal Pradesh government, Spic Macay and others. This initiative helps in building communities of likeminded people around its store across the country apart from creating a unique profile for the brand.

Similarly, it was using the coffee stores to promote some jazz music with Sony or some classical and loose compliance with Evian, another music company. It also joined hands with Spic Macay a two and a half decade old art and culture movement, to bring the greatest of masters into events for free. Spic Macay (The Society

for the Promotion, Indian, Classical Music and culture Amongst Youth) has a pervasive presence in most campuses, colleges etc. which would in some way have spin off benefits for Barista too.

While Barista spent time and resource to market Spic Macay's activities in a more professional and organized way, it also got an opportunity to take its coffee culture to some of these campuses and access huge youth audiences. It was at an advanced stage of getting into a tie up with the Himachal Tourism for sponsoring soft adventure led activities that were more consumer centered.

Lacosta India decided to tie up with coffee outlet chain Barista in all the major metros and some mini metros. The strategy was to target younger audiences, which have a penchant for the "finer things in life".

Customer specification would be defined by the Lacosta spirit and they wanted to cash in on this. This was thought to be the best way to target the segment, which has got a real taste for the best things in life. So Lacosta tied up with Barista, where they thought the customer segment is totally different from the ones who visit a regular coffee shop.

FUTURE PLANS

The company planned to extend the number of existing Barista Espresso Bars from 110 to 150 in major cities across the nation by the end of 2003. In Mumbai, the company planned to expand its existing visibility from 25 to 50 Espresso Bars by next year. The company was to invest around rs.50 lakh per outlet. With the expansion plans and new initiatives in the pipe line. Barista coffee targeted its sale turn over to touch Rs.85 Crores by 2003 end.

In a bid to reach out to a wider audience in the Indian market place, they were planning to set up 17 more Espresso Bars spread across cities such as Bhubaneswar, Ranchi,. Jamshedpur, Cuttack, Patna, Amritsar, Jaipur, Jalandhar, Panchkula, Nagpur, among others, by 2003 end.

The new set of strategies at Barista included a significant focus on food so as to arrest falling footfalls and traffic in the day time and a fast track focus on franchising to drive expansion in new markets as well as existing markets. The objective was to take the business to the next big level Barista wished to be the dominant player in the coffee space.

OVERSEAS EXPANSION

The Barista coffee Company (BCC) had drawn up aggressive plans to expand its retailing business globally and floated a special purpose vehicle (SPV) which was to be the holding company for its overseas expansion.

BCC had set up a wholly owned subsidiary, Barista Coffee International (BCI) in Mauritius that would be the holding company for the group's other expansion. The idea was to have different companies for different geographical regions. In the first step, BCI had set up a subsidiary in Singapore, Barista Coffee Singapore. On the anvil also was a subsidiary in Europe.

The reason behind floating a holding company was that they could enter into joint ventures or into franchisee agreement with a local partner in different countries. The company was open to the idea of even holding a minority stake in local business. As part of the first phase ,Barista would be entering Bangladesh, Sir Lanka and Thailand. In the second phase, it would set its sights on the European region.

In a significant move, Barista coffee company Ltd., in September, 2002, entered into a 51.49 equity joint venture with Jeweler Trading Ltd. Of Colombo, Sri Lanka, as part of its expansion plans. A joint venture company called Barista Coffee Lanka Pvt .Ltd. with Barista holding the majority stake, was formed to enable this expansion.

In the first phase, the new joint venture company planned to set up nine Barista coffee outlets in Sri Lanka at an investment of Rs.3 Crores within a year. In the second phase they were considering setting up a new concept bar, Pavement Bar at Taj Saundra in Colombo. This strategic alliance was expected to strengthen Barista Coffee's leadership in its experimental category giving it an early mover advantage. The alliance was to provide a strong coffee platform for Barista in the coffee retail segment in Sri Lanka..

The company planned to build its espresso bars on the same format as those in India, ensuring that the essence of the Barista brand remains intact. This venture was to give them a competitive 4edge because of the inherent marketing strength of jew31es. Trading, which is one of the business house in Sri Lanka catering to high end brands out of US and Europe such as Marks and Spenser, Victoria Secret, Calvin Klein and GAP.

Its next offshore stop would be in West Asia, probably Dubai, but the Company was also looking at south Asia and Africa. As Barista goes international, it comes into direct competition with the giant of all coffee chains, Starbucks. The vehicle for growth for Starbucks

has been partnerships. These alliances have helped them in extensive brand building wherever they had gone.

The coming years for Barista would be both interesting and crucial. With domestic players warming up and International competitors all set to enter the coming times are going to be very challenging for Barista, Starbucks also had plans to enter the Indian market, Barista is set to stir up the liquid coffee retailing market with its ambitious plans for expansion..

The signals from the strategic point are very clear, given the opportunities in the market and on account of Barista's internal strengths, it needs to pursue a very aggressive strategy for the future. The company will have to go for the both product and market development and at the same time, go, for rapid expansion, both domestic and international. The speculation on star bucks impending Indian launch perhaps hastened up Barista's frenzied expansion. Starbucks's entry would hasten the market segmentation process. Barista wanted to grab share of the pie before starbucks arrived.

All the above are easier said than done. The issue for Barista is also to sustain the rapid growth it is experiencing. Many a meteoric rise has often met with a meteoric fall. This is what Barista needs to guard against. It seems to think that the key to success is to grab the first mover advantage. Will the tactic work ?

The battle lines are drawn : will the early bird get the worm ?

ANALYSIS OF CONSUMER RESEARCH

A consumer Research was carried out wherein the questionnaire was kept in a Barista outlet. The customers visiting were asked to fill in the forms. The form consisted of closed ended questions and space was provided at the end for the customer to fill in their view. It had Multiple choice and rating scale questions. Altogether, 46 forms were taken as a sample.

The following analysis was obtained from the Research :

- Age Group :

Options	10-18	8-20	30-45	>45
Frequency	7	30	6	3

- Profession

Options	Students	Service	Business	
Others				
Frequency	26	10	10	
0				

- Are you regular visitor at Barista?

Options	Yes	No
Frequency	20	26

- How many times a month(on an average) do you visit her?

Options	0-2	2-5	5-8	8-10
>10				
Frequency	25	12	8	1
0				

- How long do you wait to get your order placed?

Options	<5min	5-10min	>10
min			
Frequency	4	34	8

- The type of coffee you like best here is :

Options	Espresso	Cappussino	Caffe Mocha	Frozen Cafee	Iced
Caffe	Others				
Italiano					
Frequency		10	9	13	5
18		3			

- Price of products available here is :

Options	Very high	High	Moderate	Low
	Very low			
Frequency	4	25	17	10

- Opening time preference

Options	6-7am	7-8am	8-9am	9-10am

Frequency	0	13	27	6

- Around how much time do you spend on Barista visit

Options	<10 min	10-20min	>20min
Frequency	1	25	20

- You usually come here (to Barista) to

Options	Have Coffee	Spend time in breaks	Hang around with friends	As a meeting place
to get together				

Frequency	25	5	12
4			

- Occasionally how much money do you spend on a visit here?

Options	Rs. 20-40	Rs.40-60	Rs.60-80	Rs. 80-100
	>Rs.100			
Frequency	22	10	8	4
2				

Particulars	Rank Scale				
Good Excellent	Poor	Fair	Good	Very	
Comfort/Ambeince of the Place	0	0	10	21	
Friendliness of service	0	1	10	26	
9					
Taste of the coffee/beverages served	0	0	11	30	
5					
Cleaniliness of the price	0	3	5	26	12
Ease of ordering the beverage	0	2	14	25	5

The above table shows that Barista was well positioned as far as customer satisfaction and service is concerned.
It was found that over 65% of the sample customers were in the age group 18-30 years i.e.. The major proportion of visitors are young people.

Barista has got an almost even distribution of regular and occasional visitors with the balance slightly favouring the later.

Most of the customers were served within 10 minutes of giving the order. People have shown interest in all varieties or coffees and most of them felt that price of the product is "High"

Customers mainly come here to have coffee and hang around with friends. The people mainly spent in the price range of rs.20-40 with an average spending of around Rs.50

From the Comments part, it was found that people think that it is a good place to spend their time and to have coffee, but at the same time they pointed out that prices were comparatively quite high.

REFERENCES

1. Sameer vyas, Marketing Manager, Mumbal, Barista Coffee Company
2. Ravi Bartender, Barista Coffee Company.
3. Website : www.barista.co.in
4. Website :www.Indianfoline.com
5. Financial Express : 12 September, 2002
6. Business Today 29 September 2002
7. Hot Drinks in India, http//www.euromoninor.com/Hot.Drinks in India
8. Barista in changing its track slashes prices woos the youth
9. A land of Contracts ,
10. Consumer Foodservice in India
11. New Barista Board seek to revamp biz to up market pie
    Financial Express 23 April, 2004

M.Com. (Part - II)
-: Management Group :-
International Marketing
(Paper-IV)
{April – 2016

QP Code : 24485

(3 Hours) [Total Marks : 100

N.B. : (1) Q.1 is compulsory.
(2) From the remaining, answer any FOUR questions.
(3) Figures to the right indicate full marks.

1. Explain the following terms (any four): **20**
   (a) SAARC
   (b) Foreign collaboration
   (c) Economic environment
   (d) Advertising
   (e) Star Export House
   (f) Bill of lading
   (g) SEZ's

2. Discuss the features and challenges in the International Marketing. **20**

3. Explain in detail the Tariff and non-Tariiff barrier in International Trade. **20**

4. Discuss the International Technological Environment and explain the role of WTO in regulating world trade. **20**

5. Elucidate the export procedure for Pre-shipment and write a note on e-marketing in the international trade. **20**

6. Describe the role of the following documents. **20**
   a) Certificate of origin
   b) Commercial invoice

7. **Case Study:**
Raman and Laxman designed and started manufacturing a kitchen cooking device for Indian household. This device is also popularly known as 'Roti maker' which is useful, easy and quick to make roti. They designed this Roti maker with appealing features and user-friendly to capture domestic market.

In domestic market, they targeted working women to make easy roti. Witin a year, this device became popular in India. To promote, Roti maker they adopted direct selling which is to avoid distributor and dealer cost and keep reasonable price as compared to competitors. Now Raman and Laxman wanted to expand their market internationally.

(a) Suggest the mode of entry to Raman and Laxman in international market. **10**

(b) What are the factors to be determined in the selection of international overseas market? Explain. **10**

(मराठी रूपांतर)

(३ तास) एकूण गुण : १००

सूचना : (१) प्रश्न क्र.१ अनिवार्य आहे.
(२) उर्वरीत प्रश्नापैकी कोणतेही चार प्रश्न सोडवा.
(३) उजवीकडील अंक पूर्ण गुण दर्शवितात.
(४) इंग्रजी प्रश्न मूळ मानावेत.

१. खालील संकल्पना स्पष्ट करा. (कोणत्याही चार): २०
(अ) सार्क
(ब) विदेशी सहकार्य
(क) आर्थिक वातावरण
(ड) जाहिरात
(इ) तारांकित निर्यात घर
(फ) जहाज भरणा माल यादी
(ग) सेझ (SEZs)

२. आंतरराष्ट्रीय विपणनाची वैशिष्ट्ये आणि आव्हानांची चर्चा करा. २०

३. आंतरराष्ट्रीय व्यापारातील जकाती आणि बिन जकाती अडथळे सविस्तर स्पष्ट करा. २०

४. आंतरराष्ट्रीय तांत्रिक वातावरणाची चर्चा करा आणि जागतिक व्यापार नियमनातील जागतिक व्यापार संघटनेची भूमिका स्पष्ट करा. २०

५. पूर्व-जहाजभरणाची निर्यात पध्दतीचे स्पष्टीकरण द्या आणि आंतरराष्ट्रीय व्यापारातील ई-विपणनावर टिप लिहा. २०

६. आंतरराष्ट्रीय व्यापारातील खालील दस्तऐवजांच्या भूमिकेचे वर्णन करा. २०
(अ) मूल प्रमाणपत्र (ब) व्यापारी बिले

७. **वस्तूनिष्ठ अभ्यास:**
रमण आणि लक्ष्मण यांनी भारतीय घरांसाठी स्वयंपाक गृहातील जेवण बनविण्याचे साहित्य रेखाकृत आणि उत्पादन करण्याचे सुरु केले आहे. या उपकरणाला लोकप्रियतेने रोटीमेकर असे म्हटले जाते. ते स्वस्त आणि लवकर रोटी बनविण्यासाठी उपयुक्त आहे. त्यांनी हे रोटीमेकर घरगुती विपणी व्याप्त करण्यासाठी उत्कृष्ट वैज्ञानिकांसह वापर करण्यासाठी सोपे असेच बनविले आहे. घरगुती विपणीत त्यांनी नौकरी करणाऱ्या स्रिया आणि अश्या व्यक्ती ज्यांना सहजरित्या रोटी बनविण्याची इच्छा आहे त्यांना लक्ष्य केले आहे. एका वर्षात भारतात हे उपकरण लोकप्रिय झाले. रोटीमेकर वृध्दिंगत करण्यासाठी त्यांनी सरळ विक्रयाचा स्विकार केला ज्यामुळे वितरण आणि वितरकांचा खर्च कमी झाला. ही वितरण व्यूहरचना त्यांना स्पर्धकांच्या तुलनेत कमी किंमत ठेवण्यास मदत करते. आता रमण आणि लक्ष्मण यांना त्यांची विपणी आंतरराष्ट्रीय स्तरावर विस्तारित करायची आहे.

प्रश्न:
१)आंतरराष्ट्रीय विपणीत रमण आणि लक्ष्मण ला शिरकाव करण्याच्या पध्दती सूचवा. १०
२)आंतरराष्ट्रीय विपणीची निवड करतांना कोणते घटक विचारात घेतले जातात? स्पष्ट करा. १०