

5

International selling

OBJECTIVES

After studying this chapter, you should be able to:

1. Understand key economic terms relating to international trade
2. Appreciate the nature of different types of overseas representational arrangements
3. Have a working knowledge of many of the world's trading blocs
4. Evaluate the role of culture in international selling
5. Know how to organise for international selling
6. Appreciate the effects of world-wide sourcing and buying alliances

KEY CONCEPTS

- agent
- balance of payments
- culture
- distributor
- exporting
- export houses
- invisible trade
- indirect and direct (selling)
- international marketing
- joint venture
- licensing
- multinational marketing
- subsidiary
- theory of comparative costs
- trade deficit
- trade surplus

5.1 INTRODUCTION

In this chapter we explore aspects of international selling and examine issues and problems that stem from these. Companies contemplating entering overseas markets will need to develop specialist knowledge and expertise in these areas.

Some sales managers feel that selling abroad is impossibly difficult, but most who try it see that, although it is 'different', it is no more demanding than selling in the home market. Success depends largely on the attitude and approach of the firm and the personal qualities of the salespeople – not every salesperson is suited to such a task from the point of view of understanding and empathy with the foreign market concerned. While it is hoped that this text will contribute to the development of the personal qualities necessary for successful salesmanship, the chapter concentrates specifically on those aspects of international selling with which a firm either exporting or contemplating it should be familiar.

Each year companies that have never been involved in selling abroad join the important, and often highly profitable, league of exporters or licensors and some establish joint ventures or subsidiary companies in overseas countries. One of the problems for the UK economy is that, despite government exhortations for companies to become involved in selling overseas, many executives remain apprehensive because of the mystique which often surrounds the subject. We now attempt to dispel some of this mystique by examining the more important economic aspects of international selling.

5.2 ECONOMIC ASPECTS

Many goods we purchase are imported, and everywhere we read that companies are striving to increase exports. Successive governments have exhorted, threatened and promised to persuade the business community to become involved in foreign markets and export more. Exporting is necessary for economic survival.

The United Kingdom is not self-supporting. Much of our raw materials and food must be purchased in world markets and imported. In turn, to pay for these commodities, we must export. The ledger for these transactions is represented by the balance of trade accounts which show the difference between our overseas earnings and overseas expenditure. The difference between our export earnings and import expenditure (including 'invisibles' dealt with later) is termed the **balance of payments**. We now take a more detailed look at what this means.

The balance of payments

Goods passing from one country to another have to be paid for; trading between countries thus involves the creation of debts between countries. Over a period of, say, one year, a country will add up how much it has paid or still owes for goods imported from foreign countries. In the same way, the country will add up how much has been paid or

is still owed from overseas countries for goods exported to them. When the amount exported exceeds the amount imported the country is said to have a favourable balance of trade or a **trade surplus**. If the importation of goods exceeds exports, then the country is said to have an adverse balance of trade or a **trade deficit**.

Payments for physical goods are not the only items involved in international trade. Debts also arise between countries from services performed by one country for another. Because one cannot actually see such services they are referred to as **invisible** exports or imports. For example, Britain supplies insurance services for other countries and premiums payments due from those countries are received in Britain. Payment for shipping services, income from tourism, banking services and interest payments from international loans are other examples of invisibles.

To find how a country stands in respect of international trade – its balance of payments – we must compare the country's total exports (visible and invisible) with its total imports (visible and invisible). In the long term, a country's payments for imports and receipts for exports should balance. If a country finds itself in deficit, it can do one of two things to put matters right:

1. *Reduce expenditure on imported foreign goods*, reduce expenditure overseas on such items as defence and foreign aid and attempt to discourage its citizens from travelling overseas to stop money being spent abroad.
2. *Sell more goods and services overseas to increase foreign revenue*. It can encourage foreign tourists in the country to spend money or it can encourage foreign investment that will provide income.

While the first alternative can be effective to some extent, there is a limit to which expenditure of this kind can be reduced. It is, therefore, to the second alternative that countries should look – selling goods and services overseas – if they are to maintain and improve their living standards and avoid a balance of payments crisis. We look briefly at the issues involved to fully understand these points.

A country that has a balance of payments surplus may receive payment from the debtor's foreign exchange reserves, receive the balance in gold, leave the money in the debtor country and use it to purchase goods and services in the future, or lend the debtor country the money to pay off the debt and receive interest on the loan in the meantime. In the same way, a country that has a deficit on its balance of payments will either have to run down its foreign exchange reserves; pay over gold; borrow the money to pay off the debt from other countries; or hold money, in terms of credit, that the creditor country can use to purchase goods and services in the future.

In essence, the balance of payments is an accounting record, with information from various sources being entered on the basis of double-entry bookkeeping. If there is a deficit on the current account, i.e. if we import more goods and services than we export, this deficit must be matched by a surplus on the capital account to make the account balance. The capital account records purchases and sales of assets such as stocks, bonds, land, etc. There is a capital account surplus, or a net capital inflow, if our receipts from the sale of stocks, bonds, land, bank deposits and other assets exceed our payments for our own purchase of foreign assets.

If the government is to achieve a balance in the accounts in a current account deficit, it means either borrowing from abroad or reducing the government's stocks of gold and/or foreign exchange reserves. These borrowings and/or reductions are

entered in the capital accounts as a positive figure and thus counteract the negative entry represented by a current account deficit, so the books balance.

As you will appreciate, a country can fund a continuing current account deficit only if it has limitless reserves of gold and foreign exchange or unlimited foreign borrowing power. In the long run, persistent current account deficits are difficult and costly to sustain and damaging to an economy. Total exports must pay for total imports, so if a country's exports fall then imports should also fall, unless the deficiency in exports can be made good in the ways specified. We now appreciate the importance to a country of keeping up its volume of exports.

UK share of international trade

Britain's share of exports by the main manufacturing nations has declined dramatically since the end of the Second World War. At the same time, some major competitors such as Japan and Germany have increased their share. The problems to which this has given rise are compounded when one examines our import record. On the import side there has been a trend comprising two related factors:

- the tendency for real imports per unit of real gross domestic product to increase; and
- the rising share of manufactured goods accounted for by imports.

The effect of such trends on British manufacturing industry has been serious. In the late 1980s to the present day, Britain has experienced an imbalance in the balance of payments. In fact, the cost of physical imports has exceeded the value of exported products for over a century. This has been undesirable, but not of critical importance because our income from invisible exports has made good the difference. However, for a variety of reasons, income from invisible exports has failed to keep pace with expenditure on physical imports, resulting in an overall deficit throughout this period.

Whatever the reasons for the current situation, selling overseas has been, and will remain, one of the keystones of our national prosperity. Not only is it in the national interest, but in the interest of every industry, company, employer and employee.

Further economic factors

It is appropriate to consider some of the more important developments in world trade over the past 20 years. It is difficult to comment on the general effect of these developments as different industries and individual companies have been affected in different ways. Some companies feel that they have had a beneficial effect on their trading situation, while others feel that their competitive position has been seriously undermined.

European Union (EU)

The European Union was at first called the Common Market, and indeed reference is still made to this title. The Common Market was legally established on 25 March 1957 by the signing of the Treaty of Rome between the governments of France, West Germany, Italy, the Netherlands, Belgium and Luxembourg. Since then, the ranks of Europeans have been swelled by the accession of Ireland, Denmark, Greece, Spain,

Portugal and the United Kingdom, to be joined later by the former East Germany, following the reunification of Germany. More recently, Austria, Sweden and Finland were admitted, and in 2005, Poland, Hungary, Latvia, Estonia, Slovakia, Slovenia, Lithuania, Malta, Cyprus, the Czech Republic, Romania and Bulgaria were admitted. Turkey, Croatia and the former Yugoslav Republic of Macedonia are now seeking membership. The Common Market was also known as the European Economic Community (EEC), and subsequently the European Community (EC). The EC title is still used, but now stands for European Commission. These name changes resulted from the fact that, as the organisation expanded and matured, it began to see its role as being more a political union than merely a trading bloc. More recently, its title has been changed to the European Union (EU), which is a reflection of its current influential political role.

The initial objective of the treaty was to remove all restrictions on the free movement of goods and services and individuals within the EU by removing taxation differentials, frontier controls and other forms of restriction. Since those early days, the movement towards this goal has been slow for economic and political reasons. In fact, it was this political aspect that kept Britain out of the EU for many years. Britain was not seen to be truly European – a contention that many say holds true today – epitomised by a national reluctance to adopt the euro and its tendency to view the European Union as an economic, rather than a political union.

By 1982 (the European Union's 25th birthday) the momentum for a Single European Market had come to a virtual standstill. Many non-tariff barriers remained. The free movement of goods was hindered by varying taxation systems, public procurement restrictions (to include tenders only from domestic providers) and different technical and consumer protection standards. For example, rates of value added tax still differ between individual countries.

A turning point came in 1984 when Jacques Delors (former French finance minister) assumed the presidency of what was then the European Community (EC). He developed the concept of an open market within the community to create the largest single market in the Western world. Although this was essentially nothing new, his statement came at the end of the economic recession of the late 1970s and early 1980s, during which member states had turned economically inwards, defending their national markets against European competition. A programme for removing the remaining obstacles to trade by 31 December 1992 was drawn up by Lord Cockfield, EC Commissioner in charge of the internal market portfolio. The programme was presented to heads of government at a summit meeting in Milan in June 1985, and eventually the Single European Act (SEA) came into force in July 1987. The Act lists 300 measures that were to be completed if the single market philosophy was to proceed to schedule. In order to hasten the decision-making process, power of veto was removed and these resolutions could be passed by a 'qualified majority'. These 300 initial proposals were subsequently reduced to 279 by the withdrawal of certain proposals and the grouping of others into single proposals. The main features of the Single European Act are:

- (a) establishment of a Single European Market;
- (b) products approved in any one EU country can be freely marketed throughout the European Union;

- (c) progressive opening up of government and public body contracts to all EU contractors on an equal basis;
- (d) more competitive and efficient Europe-wide services in telecommunications and IT;
- (e) removal of red tape on road haulage and shipping services between member countries to be provided on equal terms, and more competition on air routes with lower overall fares;
- (f) banks should be free to provide banking and investment services anywhere within the European Union; insurers should have greater freedom to cover risks in member countries;
- (g) restrictions on the movement of capital to be abolished;
- (h) harmonisation of national laws on patents and trademarks; and
- (i) professional qualifications gained in one country to be acceptable throughout the European Union.

There are, of course, other features, but these are the most significant ones.

A pamphlet produced by the Department of Trade and Industry perhaps best summed up how companies could take advantage of the single market in terms of protecting their existing markets and developing new ones.¹ This is ironic because other EU members have more of a European mentality. They tend to regard each other's markets as their own 'home' markets, whereas UK companies still tend to regard selling to EU countries as exporting. This is highlighted by the fact that since Britain joined the European Union with its current population of almost half a billion people, it has always operated with a net deficit on its balance of trade with its European partners. The DTI pamphlet recommended that companies should ask a number of key questions in relation to their businesses:

1. How has the market changed our business?
2. Should we become a European business, looking upon Europe as our primary market rather than just the United Kingdom?
3. Would becoming a European business alter the scale of the targets in our plans?
4. In what ways will we be vulnerable to more competition in our present markets?
5. Should we form links, merge or acquire business to strengthen our market presence, broaden our range of products and services, and spread our financial risk?
6. Is our management and structure appropriate for exploiting new opportunities or defending our position?
7. What training in languages and other skills do we need to be ready for this single market?
8. Who in our firm is going to be responsible for deciding how to make the most of the single market?

The pamphlet might have stated the obvious, but it did at least focus thinking in a formal manner on the issues of 1992. More specifically, it recommended that in the field of *selling* the company should ask five key questions. The solutions to each of these questions were volunteered through a list of suggestions:

1. How do you reach the customers?
 - Investigate the trade structure such as wholesalers and retailers.
 - Identify buying points.

- Find out about buying procedures, terms and practices, such as the preferred currency of invoicing (now, with exceptions, standardised as the euro).
 - Consider how far you need to know the local language.
 - Examine different selling approaches, including brokers and agents.
 - Find out how your competitors are using advertising, promotion and trade discounts.
2. How can you sell into this market?
 - Consider regional test marketing.
 - Establish your sales targets.
 - Decide on your total sales and promotion budget.
 - Decide on your selling organisation.
 3. What sales literature is necessary?
 - Assess suitability of existing material for European markets.
 - Consider the need to redesign to appeal to new customers.
 - Arrange translation where necessary.
 4. How should you advertise?
 - Examine your existing advertising.
 - Assess differences in national media availability and costs.
 - Decide on your advertising budget.
 5. How will you provide after-sales service?
 - Consider relative merits and costs of direct provision or subcontracting.

The concept of a single market is no longer a future scenario but a reality. Companies that have failed to plan for the changes that the single market has brought, and will continue to bring, find themselves faced with increased competition for which they are ill-prepared. Successful companies will increasingly be those who prepared for the single market some years ago. A Confederation of British Industry survey of 200 companies, undertaken in 1990, found that three-quarters had undertaken strategic reviews in response to 1992. It is important to remember that in many ways 1992 represented just one more step, albeit a major one, in a 40-year journey towards genuine free trade within the European Union.

At a more general level, by the terms of the Treaty of Rome that first initiated the European Union in 1957, member countries are independent of their national governments and not able to accept instructions from them. Their proposals are subject to the official sanctions of the (European) Council of Ministers and the democratically elected members of the European Parliament. This means that many of the decisions which ultimately affect UK industry are outside the direct control of the UK government, and in many areas of trade negotiations are carried out on our behalf by the European Union as a whole. This process of Europeanisation was taken further by the terms of the Maastricht Treaty, which was controversial in the UK domestic political arena. There is still deep division within political parties over the relative merits of the treaty's proposals. The point being that, although it is ultimately envisaged that the European Union will be similar to the United States, with each member country being akin to a state (it is even termed the United States of Europe), can this ever become a reality when one considers differences in attitude, culture, language and even religion? It is difficult to envisage a homogeneous pan-European marketing

programme not unlike that of the United States. A continuing trend towards political and economic unity will pose many opportunities (and threats) to companies within the European Union, but things will not change overnight. There will be more of a slow transitional period, and it could well be decades before an integration similar to that in the United States today is achieved. We have seen the first steps towards this goal, with the introduction of a common monetary unit – the euro – that has been accepted by an overwhelming majority of member countries.

An interesting proposition postulated by Charles Betz of the European consultancy organisation Carré Orban and Paul Ray International is that each European country will adopt a particular expertise, for example:

- **Germany** will specialise in high technology engineering.
- **The Netherlands** will concentrate on service industries (e.g. storage and distribution of petrochemicals).
- **Belgium** will form the hub of the community through Brussels, adopting a bureaucratic role.
- **France** will become more technical.
- **Switzerland** will remain outside the European Union, acting as the financial centre and neutral protector of money.
- **Austria** could play a major role as the bridge between the European Union and other Eastern European countries.
- **Turkey** (which is currently seeking membership) will become a cheap manufacturing base producing goods for the Middle East and North Africa.
- **Italy, Spain and Greece** will be the ‘winners’ as they have reasonable levels of readily available, cost-effective labour.
- **Portugal** has low labour costs and is basically an agrarian economy, making it a natural country from which to sell winter-grown vegetables to the more affluent northern countries.
- **Denmark** has traded its Scandinavian independence for an ability to trade within the European Union and should do well with innovative designs.
- **Poland** will specialise in supplying building trade and hospitality workers such as plumbers and hotel staff.
- **Ireland** will hopefully solve its political problems with the North and its low labour costs will put it in a good position to compete in manufacturing and assembly.
- **The United Kingdom** will show leadership in financing the consolidation of industries across national boundaries.
- **Sweden and Finland** will develop their established expertise in precision machinery and telecommunications equipment.

This is merely one expert’s conjecture, but inevitably there will be movement towards specialisation by individual member countries of the European Union.

World Trade Organisation (WTO)

Perhaps one of the most important developments of the last few years has been a steady but widespread trend towards protectionism. The greater part of world trade

is subject to the General Agreement on Tariffs and Trade (GATT). This is a complex agreement, but its most important features can be summarised in four fundamental principles:

1. *Non-discrimination*: each member country agrees that any tariff concession or trade advantage granted to one country, whether or not a member of GATT, shall be granted to all member countries.
2. *Consultation*: member countries are required to meet under GATT auspices to discuss any trade problems that may arise.
3. *Tariff negotiation*: the idea that originally inspired GATT is that tariffs should be open to negotiation. The hope was that these negotiations would be aimed at reducing and eventually removing customs duties.
4. *Trade liberalisation*: the overriding aim of the WTO, from which the principles described derive, is a continuing liberalisation of world trade. With this aim in mind, import quotas and licensing requirements, restrictions that nations have traditionally used to limit volume and types of imports, are prohibited. The idea being that temporary protection should be afforded to each nation's domestic industry exclusively through the customs tariff.

The effect of GATT over post-war years has been to remove some of the protection afforded to national markets. As a result, GATT agreements have been responsible – in part – for the considerable growth in world trade referred to earlier. This liberalisation of trade has since been slowed by a series of actions. There has been widespread adoption of restrictive trade measures falling outside formal GATT rules, e.g. voluntary export restraints and anti-dumping legislation.

The World Trade Organisation has suggested that, excluding agricultural products, the volume of international trade so affected now represents more than 5 per cent of the total volume of world trade and is expanding steadily. However, the WTO principles resulted in the average tariff on manufactured goods falling by over 40 per cent over its first 30 years as an organisation from when it was founded in 1947 as the General Agreement on Tariffs and Trade (GATT), and it has continued to fall since becoming the WTO in 1995, but less dramatically ever since.

Such tariff reductions are negotiated in GATT rounds of meetings – the eighth and last successful round began in Uruguay in 1986 and was originally set for completion in December 1990. The fact that this only finished in 1995 reflects the lengthy and difficult negotiations involved. The Uruguay round made slow progress on new rules and tariff reductions, including a new general agreement on trade in services. However, a major stumbling block to reaching agreement was the dispute between the United States and EU members regarding the Common Agricultural Policy. The United States insisted that reform of subsidies allocated to EU farmers was essential to a GATT agreement and called for the abolition of all farming subsidies over a period of ten years. Initially, it seemed that the United States and the European Union would not be able to agree on the farm subsidies issue and that the Uruguay round would degenerate into a stalemate with a return to protectionist policies, especially on the part of the United States. However, after intensive talks and diplomacy, issues were largely resolved and discussions was able to move forward, albeit somewhat haltingly.

The current round of negotiations, which commenced in 2001 and is known as the Doha development round, commencing as it did in Doha, Qatar, is still ongoing, with subsequent meetings in Mexico (2003), Hong Kong (2005), Geneva (2006) and Potsdam (2007).

Eastern Europe

A significant development in recent years has been the collapse of communism and the changes in Eastern Europe this has precipitated. The nature and significance of these changes are lengthy topics, but suffice it to say that many of the previously 'closed' Eastern European countries are now open to trade with their neighbours and countries world-wide. In attempting to develop their economies, many of these previously centrally planned economies are now eager and willing trade partners for those companies able to organise themselves to do business with them.

The continuing need to export

Undoubtedly the world economy is experiencing basic changes in the composition and direction of international trade, terms of trade and in size, direction and character of capital movements. Britain has moved from being heavily reliant on oil imports to self-sufficiency. Related to this, our balance of payments accounts showed a surplus until the 1980s when they fell back into deficit again. Despite this, the need to export remains as imperative as ever. While these changes pose a challenge to exporters, it can only be hoped that the response they evoke will be conducive to the well-being and prosperity of all.

Although increased exports of goods and services is in the national interest, individual firms have more selfish objectives and the most positive inducement to them to sell overseas is the existence of profitable opportunities. However, there are other factors that must be considered and these are now discussed.

5.3 INTERNATIONAL SELLING AT COMPANY LEVEL

The fact that national economic prosperity depends on selling overseas is not without relevance to individual companies. There are, however, a number of more pressing reasons why companies benefit from selling overseas:

1. *Trade due to non-availability of a particular product:* such trade is clearly beneficial when a country is able to import a commodity it could not possibly produce itself. For example, Britain imports rubber because it cannot be grown here. It may be that a product or process is protected by a patent and can only be produced if a firm purchases the patent right or enters a licensing agreement.
2. *Trade due to international differences in competitive costs:* the basis for international trade between countries can be explained in terms of the economist David Ricardo's **theory of comparative costs**. The theory states that countries will gain if each exports products in which costs of production are comparatively lower and imports

products in which costs of production are comparatively higher. Although this principle is applied mainly in connection with international trade, one can see it in operation in all forms of production. It is a similar concept to the benefit of division of labour, in that benefits are to be gained not by persons doing what they can do best, but by persons doing what they can do relatively better than other people. The more productive country would still benefit from specialisation in those goods it produces best, and should then import those goods it is comparatively less good at producing.

3. *Trade due to product differentiation*: in many industries each firm's product has some point of difference that distinguishes it in some way from products manufactured by other firms. Differentiation may be in terms of quality, design or even an intangible difference such as customers' perceived image of the product. This latter factor is in evidence in relation to cars, which explains why Britain both imports cars from and exports cars to other countries.

It is important to note that the decision to export and import in a free market economy is not made by the country as a collective unit. It is made by individual firms who hope to benefit through foreign trade. We have looked at three broad reasons why individual firms become involved in selling overseas, but there are other more situation specific reasons:

- (a) To become less vulnerable to the effects of economic recession, particularly in the home market, and to counter market fluctuations.
- (b) Loss of domestic market share due to increased competition.
- (c) To take advantage of faster rates of growth in demand in other markets.
- (d) To dispose of surplus or to take up excess capacity in production.
- (e) Loss of domestic market share due to product obsolescence. Products that become technically obsolete in more developed economies may still be appropriate in less advanced economies. For example, flypaper has been replaced by aerosol fly killers, but this product is relatively inexpensive and still in demand in developing countries.
- (f) To achieve the benefits of long production runs and to gain economies of scale: if the firm can expand its production it will lead to a reduction in average cost and hence a reduction in price, not only in overseas markets but also in the home market, which may lead to further domestic market expansion.
- (g) The firm has special expertise or knowledge of producing a product that is not available in a foreign market.
- (h) Simply the existence of potential demand backed by purchasing power, which is probably the strongest incentive of all.

So far we have looked at some of the main economic factors concerned with selling overseas. This coverage is not exhaustive as entire texts have been written on the economics of international trade.

We began this chapter by stating that selling overseas was different from selling in the home market. While economic factors are important, only non-economic factors can explain the different patterns of consumption of two different countries with similar per capita incomes. Selling overseas is a cultural as well as an economic phenomenon and it is to the area of cultural influences in overseas markets that we now turn.

5.4 CULTURAL FACTORS IN INTERNATIONAL SELLING

In essence, **culture** is the distinctive way of life of a people that is not biologically transmitted. Such learned behaviour is passed on from one generation to the next, evolving and changing over time. A society organises itself in such a way that people adhering to cultural norms are rewarded, while those who deviate are 'punished' to a greater or lesser degree depending on the culture. As a society's needs change and evolve, so cultural norms will change and 'old' patterns of behaviour will no longer be rewarded, whereas new patterns will. In this way, society sustains itself and produces the types of behaviour and responses it needs to survive.

This reward and punishment principle of culture is important when selling overseas. The culture in which a person lives affects their consumption patterns and perceptions of specific products and meanings attached to them. Because of this, only certain products and selling practices that the individual perceives as normal and acceptable to their particular culture will be acceptable. It follows that overseas salespeople need to understand how culture functions in individual overseas markets so that sales approaches can be tailored accordingly. In order to be able to offer value to the market, a salesperson must understand the value system of the foreign market and this entails a knowledge of the influence of cultural factors.

Culture includes both abstract and material elements. Abstract elements include values, attitudes, ideas and religion. These are learned patterns of behaviour that are transmitted from one generation to another. Material elements of the culture are levels and type of technology and consumption patterns within that society.

The Prahalad and Doz Integration and Responsiveness Model (Figure 5.1) has proven to be a valuable model in portraying the approach that firms may adopt in their international operations.²

According to this model, a firm may opt to maintain its standardised products/services across its international markets (e.g. Coca-Cola) or choose to adapt its

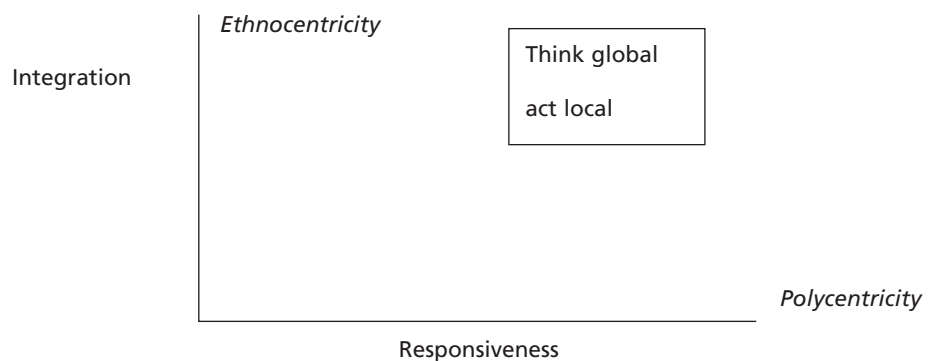


Figure 5.1 Prahalad and Doz integration and responsiveness model

Source: Prahalad, C.K. and Doz, Y.L. (1991) 'Managing DMNCS: A search for a new paradigm', *Strategic Management Journal*, 12, pp. 145–64.

product offerings according to the cultural needs of the respective country (e.g. Levi jeans). However, according to this model, sustained competitiveness would ideally be achieved if companies strive to achieve the balance of 'Think global act local'. Subsequently, not only would the firm and its employees be able to integrate fully within the culture, but they would also be able to respond appropriately to the cultural demands and needs of the specific market – thereby achieving a win-win situation.

An understanding of the way a society organises its economic activities and the type of technology used is important for selling overseas. It stands to reason that a firm would find difficulty selling advanced microelectronic machinery to a culture with a primitive, agriculturally based economy. In such a case 'appropriate' technology will have a greater chance of acceptance.

Salespeople should develop cultural skills that would provide them with an ability to relate to different cultures even when they do not know the elements of the culture in detail. Cateora, Graham and Ghauri suggest that people with cultural skills can:

- convey respect and communicate verbally and non-verbally a positive attitude and interest in people and their culture;
- cope with ambiguity and the frustrations that sometimes occur when faced with an unfamiliar culture;
- show empathy by understanding other people's needs and viewpoints;
- avoid judging other people according to their own value systems;
- control the use of self-reference criteria whereby assumptions are made based upon one's own culture and values; and
- use humour to prevent frustration levels rising when things do not work out as planned.³

We now explore some of these elements within cultures in the knowledge that in some countries factors such as religion have inhibited the acceptance of Western materialism and industrialisation.

Aesthetics

A non-material cultural factor which may have an influence on the development of overseas markets is aesthetics. This refers to a culture's ideas concerning beauty and good taste, together with an appreciation of colour and form. The exporter must be aware of positive and negative aspects of its designs, packaging, advertising, etc. The company should be sensitive to local preferences and tastes and items such as company logos should incorporate local preferences.

Colour is important, the most quoted example being that black represents mourning in the West, whereas in Eastern countries the colour of mourning is white. This has implications for pack design. Music is important, particularly when used in advertising and promotion. Many non-Western cultures use a type of music not applied in the West, which has symbolic meaning to the members of the culture. An attempt should be made to understand this symbolism and turn it to positive selling advantage.

Religion

Material culture and aesthetics are outward manifestations of a culture and give an indication of how consumers in a particular culture behave. The firm selling overseas needs an understanding of why consumers behave in that way. The religion practised by a culture can give insights into its members' behaviour. For illustrative purposes, two of the largest religions – Hinduism and Islam – are now discussed.

Hinduism is followed by 85 per cent of India's population and is as much a way of life as a religion. An understanding of the tenets of Hinduism is necessary for an understanding of the Indian culture. Important doctrines of Hinduism include the caste system, the joint family, the veneration of the cow and the restriction of women. Any product or selling activity that offends the tenets of Hinduism would have small chance of success because such views are deep-rooted in Indian culture.

Islam takes the Koran as its ultimate guide; anything not mentioned in the Koran is likely to be rejected by the faithful. An important element in Islamic belief is that everything that happens proceeds from the divine will. This belief restricts any attempt to bring about change, because to attempt to change may be contrary to what Allah has ordained. Firms entering overseas markets must bear this in mind when introducing new products or services.

A company must therefore be aware of religious differences in its foreign markets and be prepared to make adaptations both in selling operations and the products themselves.

Education

Analysing educational information for relevant markets gives the firm an insight into the nature and sophistication of consumers in different countries. In some countries many people are not formally educated in the three Rs, although they may be educated in ways of culture.

In marketing a new product in a foreign country, the firm is itself trying to educate consumers in uses and benefits of the product. The success of this sales communication will be constrained by the general level of education within the culture. If consumers are largely illiterate, then company advertising, packaging and labelling will need to be adapted. Complex products that need written instructions may need to be modified into diagrams to meet the educational level and skills of the particular culture.

Language

The language of a culture is important. For example, a literal translation by someone not familiar with its deeper cultural meaning may result in serious mistakes. If the brand name is standardised world-wide in English it may be found to have an unfavourable meaning in some countries, or not be pronounceable in languages that lack certain letters of the alphabet. A famed example of the former (and now denied by Rolls-Royce) is that the Rolls-Royce Silver Shadow was nearly called Silver Mist which would have been most unfortunate when selling to the German market. A good example of the latter is Signal toothpaste which was called Shield toothpaste.

Understanding language in international selling

A key ingredient in international selling is a command of foreign languages. As the former German Chancellor, Willy Brandt, once said, 'If I am selling to you I will speak English, but if you are selling to me dann müssen Sie Deutsch sprechen!'

Salespeople also need to understand both the nuances of the foreign language and the silent language. A salesperson needs to know that Japanese 'yes' often means 'no', but that a Chinese 'no' often means 'yes'! Silent languages are also important as the following example illustrates.

A European salesperson visits a Saudi businessperson to sell him machinery. The Saudi offers the salesperson coffee which is politely refused (he had been drinking coffee earlier). He sits down and crosses his legs exposing the sole of his shoe. He passes sales literature to the Saudi with his left hand, asks about the Saudi's wife and stresses the need to make a quick decision.

Unwittingly, the European has offended the Saudi five times. He turned down his host's hospitality, showed disrespect, used an 'unclean' hand, was over-familiar and showed impatience with his host. Although the Saudi may realise that the actions were unintentional, the salesperson is left in a weakened position.

Sources: Based on Cateora, P.R., Graham, J.L. and Ghauri, P.J. (1998) *International Marketing*, McGraw-Hill, Maidenhead; Egan, C. and McKiernan, P. (1994) *Inside Fortress Europe: Strategies for the Single Market*, Addison Wesley, Wokingham.

Social organisation

Social organisation differs between cultures. The primary kind of social organisation is based on kinship and in many less-developed nations this takes the form of a large extended family. A company operating in such a society must realise that the extended family means that decisions on consumption are taken by a larger unit and in different ways. A firm selling overseas may find difficulty determining the relevant consuming unit (e.g. is it the family, the household or an individual?).

In many Asian and African countries, social organisation is in tribal groupings which may be a clue to effective market segmentation. Social class is more important and more rigid in many foreign countries, e.g. the Indian caste system. The selling firm must be aware of the cultural variations in social organisation when targeting sales efforts to a particular social segment of the population.

Political factors

Culture includes all activities that characterise the behaviour of particular communities such as legal, political and economic factors. Nationalism and dealings with governments are often considered to be a major problem facing firms selling overseas. Most governments play either participating or regulatory roles in their economies.

In India, for example, certain sectors of the economy are reserved exclusively for government enterprise.

Government legislation and economic policy may affect a firm's pricing and credit policy and there may be regulations concerning products and promotions. Factors such as nationalism, international relations, political stability and the level of capitalism and democracy in the foreign country will all have an impact on overseas sales strategy.

General cultural attitudes and values

In some cultures selling and trade in general have a low level of social approval. A company selling overseas may thus have difficulty in recruiting appropriate sales personnel and selling products through the channel of distribution. Many Eastern cultures put spiritual values before material values.

Different cultures also have different 'time values'. A much quoted example is in Latin American cultures, where sales representatives are often kept waiting a long time for a business appointment. In our culture this would be unorthodox and at best would be seen as being ill-mannered. A delay in answering correspondence in Britain usually indicates that the matter has low priority. A similar delay in Spain could mean something different because there close family relatives take absolute priority. No matter how important other business is, all non-relatives are kept waiting. In the West we are used to business deadlines, but in many Middle Eastern cultures a deadline is taken as an insult and such behaviour may well lose business for the overseas salesperson.

The concept of space has a different meaning to different cultures. In the West the size of an executive's office is often an indication of his or her status. In the Arab world this is not so. The managing director may use the same office as the general clerks, so the salesperson must be careful how they speak to people. In the West, business agreements are carried out at a distance, say two metres or more. In Middle Eastern and Latin American countries, business discussions are carried out in very close proximity, involving physical contact, which many Western salespeople find uncomfortable.

The Chinese culture and sales negotiations

Cultural differences mean that salespeople need to understand and respect the values of overseas customers and alter their expectations and behaviour accordingly. Visiting salespeople may be required to attend long banquets when engaging in negotiations with Chinese people. The banquets may begin in either the late morning or early evening. Frequent toasts are usual and some Chinese hosts regard the visitor as having a good time if they become a little intoxicated.

In China, negotiations often take much longer than in many Western countries. Arriving late for a business appointment is deemed acceptable behaviour in some

The Chinese culture and sales negotiations (*continued*)

western cultures. To do so in China, however, would result in the visitor 'losing face', a serious issue in Chinese culture. When conducting sales negotiations, visiting salespeople should avoid creating a position where a Chinese person might 'lose face' by finding themselves in an embarrassing situation (e.g. by displaying lack of knowledge or understanding). Chinese people tend to elicit as much information as possible before disclosing their hand to avoid losing face or displaying ignorance. Business relations should be built on the basis of harmony and friendship. Contracts are accepted as much as a basis for business relationships as a legal document.

Many salespeople fall into the trap of using 'self-reference' criteria when selling abroad. They assume that what is acceptable and highly valued in their own country is equally valued in all cultures. To avoid this fallacy, salespeople need training in the special skills of selling to people from different cultures.

A key aspect of business life in China is *Guanxi* networks which are relationships or social connections based on mutual interests and benefits. They are special types of relationship that bond buyers and sellers together through co-operation and the exchange of favours. The importance of *Guanxi* networks is discussed in the case study at the end of this chapter.

Salespeople should expect to maintain relations after the deal is won. For Chinese businesspeople, signing a contract is only the beginning of a business relationship: they expect both parties to continue working together to solve problems as they arise.

Sources: Based on Bradley, F. (1998) *International Marketing Strategy*, Prentice Hall, London; Jeannet, J.P. and Hennessey, H.D. (1995) *Global Marketing Strategies*, Houghton Mifflin, Boston, MA; Ghauri, P.J. and Cateora, P.R. (2006) *International Marketing*, McGraw-Hill, Maidenhead; Wang, C.L. (2007) *Guanxi vs Relationship Marketing: Exploring Underlying Differences*, *Industrial Marketing Management*, 36, pp. 81–86.

In the West, business is discussed over lunch or dinner in the businessperson's home. In India, to discuss business at home or at any social occasion is a violation of hospitality rules. In the West we rely on the law of contract for all business agreements, but in the Muslim culture a man's word is just as binding. In fact, a written contract often violates a Muslim's sensitivities because it challenges his honour.

Subcultural influences must not be overlooked, because these are sometimes the dominant force in the country. Examples include the following:

- nationality groups, e.g. French- and English-speaking Canadians;
- religious groups, e.g. Protestant and Catholic groupings in Northern Ireland;
- geographical areas, e.g. the north and south of England may be thought of as separate markets for many products;
- racial groups, e.g. within South Africa the divide still remains between races;
- social stratification, e.g. the caste system in India.

Cultural change

A company following the marketing concept overseas – trying to satisfy needs and wants of target markets at a profit – must keep abreast of changes in the cultural environment that affect people's attitudes and values and thereby, indirectly, their needs and wants of products and services. In our own society the cultural values towards debt have changed. Debt has lost its stigma and is part of everyday life with the universal acceptance of credit cards. Our society's moral values have changed and we are more liberal and tolerant of matters such as entertainment. Products and services demanded have reflected this change in cultural values. A firm must therefore be aware that its products may face obsolescence in overseas markets, not because of technical advance but because of cultural change.

Not only are a firm's existing products vulnerable to cultural change, but the company may also miss new opportunities by not being informed of changes in culture. The impact of culture is especially important if the company is dealing with a foreign culture seeking rapid industrialisation. It is necessary for a company operating in this type of environment to monitor trends and adapt as necessary. Not only must the firm selling overseas be versed in the economics, law and politics of a foreign country, but it will also have to understand the more subtle, less tangible meanings, values and languages of the culture itself.

5.5 ORGANISATION FOR INTERNATIONAL SELLING

Organisation to implement international sales operations can be complex. Decisions must be made on arranging the interface between manufacturing and sales and in delegating responsibility for international operations. Each problem can have alternative solutions and an optimal decision must be tailored for each firm.

Some companies are so deeply involved in international trade that it forms the majority of sales turnover, while others are simply content to supply export orders. A distinction is made between **multinational marketing**, **international marketing** and **exporting** and each is now considered:

1. *Multinational marketing* relates to companies whose business interests, manufacturing plants and offices are spread throughout the world. Although their strategic headquarters might be in an original country, multinationals operate independently at national levels. Multinationals produce and market goods within the countries they have chosen to develop. Examples of multinationals are Shell, Ford, Coca-Cola, Microsoft and McDonald's. To be successful multinationals need to understand their competences and weaknesses. The Microsoft case history examines this company's bright and dark side.
2. *International marketing* covers companies that have made a strategic decision to enter foreign markets, have made appropriate organisational changes and marketing mix adaptations.
3. *Exporting* is at the simple end of the scale and the term is applied to companies that regard exporting as a peripheral activity, whose turnover from exporting is less than 20 per cent.

Whatever the form of organisation for overseas selling, it is important that there should be a senior manager charged with responsibility for exporting who is able to advise and influence colleagues.

Microsoft's soul

Steve Ballmer has drawn up a map of multinational Microsoft's soul. There is a 'bright side' and a 'dark side' to the software company says Ballmer in a slide presentation he has shown to staff at the Seattle headquarters.

The bright side

- The company is 'totally about intelligence'. It is stocked with some of the brightest people.
- Microsoft 'loves, loves, loves' technology.
- It is super-competitive.
- Internally the company is honest and self-critical.
- The individual rules the roost. 'One great guy. One great idea.'

The dark side

- Internal competition is too fierce. Departments see each other as enemies.
- The company is sometimes focused on the wrong things.
- It is too reliant on 'brilliant leaders'.
- It is 'opinionated but not decisive'.
- There is a lack of team work.

Source: Adapted from an article by Dominic Rushe, *Sunday Times*, 23 June 2002.

In choosing how to organise for international selling there is a division into **indirect** and **direct** methods. Some of the more common forms of overseas sales organisation are now described. The choice of organisation depends on a number of factors: the proportion of total turnover accounted for by overseas business; the nature of the product; relative advantages and disadvantages of each form of organisation. There is no single uniform approach to the task. The keynote is flexibility and adaptability. We first consider indirect approaches to international selling.

Types of intermediary and their selection

It is estimated that agents and distributors alone, acting on behalf of overseas companies, handle over half the world's overseas trade. The term *intermediary* is used to describe all persons and organisations providing the service of representation between sellers and buyers.

Few manufacturers are able to cover a market adequately without the service of some form of intermediary. The decision faced by firms as to which intermediary to use and the policies to be adopted is critical to the firm's future in the market.

Agents

An **agent** is a firm or individual acting on behalf of another. This is one of the main forms of overseas representation. The most common form of agency is where agents, acting as independent operators, obtain orders on behalf of an exporter on a commission basis and the exporter acts as principal. Agents also work on behalf of purchasers and some specialise in certain tasks, for example, transport and distribution, advertising and market research.

Care should be exercised in appointing the right agent, and a company entering overseas markets should satisfy itself as to the agent's reputation and financial position. The agent may have other interests and the firm should ensure that these do not conflict with its own. Agents are often key figures in a firm's overseas operations and success overseas will depend on the ability and commitment of the agent. Care therefore needs to be exercised in the choice of agent and organisations such as banks will advise and assist in their selection. In assessing the suitability of an agent, the principal needs clear answers to the following questions:

1. When was the agency founded?
2. What other interests does the agency have, i.e. what other agencies are held?
3. Does the agent provide the required coverage for your market?
4. What is the agent's standing in the business community of the market in terms of professional integrity and reputation, reliability, etc.?
5. Is the agent the type of person or company that will fit in with the way your company carries out its business?
6. Will you be able to work with the agency?
7. Does the agent possess the resources necessary to carry out the task adequately, i.e. financial resources, transport, offices, warehouses and human resources?
8. Is the agent able to provide technical support or after-sales service arrangements if these are necessary?

This list is not exhaustive and more specific details may be necessary depending on the market, industry and type of product. Once a suitable agent has been found, progress should be monitored. Agents are usually appointed for a trial period, with extensions to the contract after that.

Training agents is important to indirect selling in overseas markets, particularly if products are technically complex. Without proper knowledge and technical appreciation of the product range, the agent will be ill-equipped to conduct negotiations with professional buyers who may be experts in their field. Training may have to take place at the principal's manufacturing plant and should form a compulsory part of any agreement. Training may need to be continuous, with periodic updating sessions, especially if the firm is involved in new product development or if technology is changing rapidly.

Sales meetings and conferences in the principal's own country can be used for training purposes and as a forum for tackling specific problems and discussing future promotional strategies. Such meetings will also have a social function, bringing agents together for a few days to exchange ideas, discuss common problems and be made to feel part of the company.

Once a suitable agent has been found, the right kind of working relationship must be nurtured. Many companies feel that the appointment of a good overseas agent is

an alternative to involvement in the market themselves. This is *not* so, as the principal has to be actively involved; if the relationship is to be successful then it must be based on partnership and co-operation. The principal should visit the agent in the market to create a sense of value, importance, belonging and encouragement. Such visits also keep the agent informed of developments in the principal's country and of the principal's products. The principal will gain valuable market information on competitive actions, the overseas business environment and feedback on promotions and new products. All of this will lead to a better understanding of the dynamics of the overseas market and improvement in sales strategy.

The principal can also give assistance to the agent by helping in commercial negotiations between the agent and important customers, assisting with special discounts or credit arrangements in order to secure business. Frequency of visiting abroad by the principal will depend on the importance of the market, the competence of the agent and distance from home base. Important markets should be visited more frequently, particularly if technical assistance or after-sales service are required.

In some cases, agents feel insecure as companies often regard them as a temporary method of servicing overseas markets. Once the market expands and matures, many companies dismiss their agents and enter direct selling or open a subsidiary company. Therefore, the very success of an agent can sometimes mean downfall. In anticipation of this eventuality, agents sometimes collect a large number of agencies, resulting in a diffusion of effort and possible conflict of interests. This problem can be overcome by negotiating a long-term arrangement once the agent has been proved, or by inserting a gradual run-down clause into the agency agreement. In the latter case, the agent can often make a valuable contribution to, say, the setting up of a new overseas subsidiary company, or even manage the subsidiary. Thus, fair treatment of agents and ex-agents cultivates a reputation as a good and fair employer, and this in turn will probably be reflected in future dealings in that country.

An insight into the factors in which principals should excel in order to attract top-performing agents is given in a research study by Merritt and Newell (2001)⁴ that identified the criteria sales agents use to evaluate principals. The top ten criteria are listed in Table 5.1.

Table 5.1 Top ten criteria used by sales agents to evaluate principals

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1. Loyalty of principal to agency
 2. Product quality
 3. Trustworthiness of the principal
 4. Exclusiveness of territories
 5. Timeliness of orders received
 6. Potential sales growth
 7. Principal–agency teamwork
 8. Principal action on complaints
 9. Commission or reward structure
 10. Attitudes of principal personnel
-

Source: Merritt, N.J. and Newell, S.J. (2001) 'The extent and formality of sales agency evaluations of principals', *Industrial Marketing Management*, 30, pp. 37–49.

Distributors

Distributors act in a different capacity to agents as they actually buy and sell the goods, whereas agents work principally on commission. Like an agent, a distributor will usually be a local firm or individual and a specialist in the requirements of the local market. They should be familiar with local business practices/customs, structure of the market and various socio-cultural factors. Distributors differ from agents as follows:

- (a) They will be able to finance their own stockholding of goods.
- (b) They will usually be able to purchase in larger quantities, thus saving on delivery costs.
- (c) Acting as principal, they will be commercially and legally responsible for all business transactions in the market.
- (d) They are entrepreneurs and accept risks involved in the purchase and reselling of goods, such as local falls in demand and currency fluctuations.
- (e) In some cases they may provide an after-sales service.

A frequent complaint from companies using distributors is that, because they are independent businesses acting independently, they can decide the final selling price to the customer. If price is thought to be a significant factor in the product's success, then the manufacturer should only deal with distributors who are willing to agree a mark-up and selling price with the manufacturer.

As with agents, it is important for the manufacturer to develop good working relationships with overseas distributors as commitment to the commercial relationship is needed from both sides. Although distributors purchase goods from the manufacturer to resell on their own account, they are more than just another customer. The manufacturer relies on the distributor to achieve their own objectives, but the manufacturer must consider that distributors have objectives and interests of their own. It is in the firm's interests to give distributors as much technical and sales assistance as possible. As with agents, distributors can be used in an information-gathering capacity to report on trends and developments in the marketplace.

A decision will also have to be made on whether to use a number of smaller local distributors or a small number of large national distributors. Using a number of small distributors has the advantage of good coverage and is advantageous where there are regional differences in culture or business practices. However, large national distributors provide economies of scale as goods can be shipped in bulk.

In some cases it may be desirable to have an exclusive agreement with the distributors, otherwise they might offer competitors' products to customers if they offer a higher margin.

Licensing

Licensing is another alternative open to a firm contemplating an indirect venture into overseas markets. It assumes that the company has some unique product or process (preferably protected by patent) that an overseas company will want to manufacture. This is a good way of entering and remaining in more distant markets, or in a market where it is difficult or impossible to export finished goods. In such markets, direct selling

or selling via agents and distributors might be impractical, or it might be the case that import duties and other non-tariff barriers might present obstacles to exporters.

The costs of setting up a manufacturing subsidiary might be prohibitive or the foreign country might be politically unstable. Licensing avoids the danger of the firm's overseas assets being expropriated and, in some situations, repatriation of profits is sometimes difficult for a manufacturing subsidiary. Where the product is bulky and expensive to transport relative to its value, licensing might be the only way to produce that product at a competitive price. If a firm has a good product idea but is short of capital to expand and exploit the commercial opportunity itself, licensing allows the earning of at least some profit or, more precisely, royalty, without having to commit scarce financial resources.

The main problem is that if a licensing arrangement exists with a company in a politically sensitive area then, for many reasons, royalties due might not be paid. This is a danger of licensing and clearly the licensee has to be chosen with care. There are two suggestions to try to overcome this situation. One is to ensure that the licensing arrangement means the acceptance of certain component parts from the licensor and if there are problems in payment then components can be withheld. The other suggestion is that where the product under licence is technically advanced it is likely that it will be continually improved through innovation; the sanction here is that if there are royalty payment problems then the latest innovation can be withheld. However, such suggestions indicate a negative aspect of licensing and the majority of such arrangements are successful. The answer is to choose a licensee of integrity in a politically stable country (the problem being that in such a situation there are probably more lucrative export arrangements than licensing).

Assuming that a licensing arrangement is agreed, then regular checks should be made on the quality of the licensee's finished products and defined quality standards should be part of the licensing agreement.

Export houses

The use of **export houses** is an alternative to the manufacturer having their own export department. Export houses are usually home-based organisations that carry out some or all the overseas activities in place of the manufacturer, often using their own agents, distributors or other intermediary. They are a useful alternative for small companies whose overseas operations are limited, not warranting the expense of direct involvement. They are also used by larger firms that are only marginally involved in smaller markets, or they use export houses until a market has expanded sufficiently to warrant their own overseas operation.

Manufacturers can delegate some or all of their overseas operations to an export house or they may delegate parts of the actual selling task to the export house. Thus, export houses offer flexibility and a range of services:

1. Export factoring – handling finance and credit arrangements on behalf of manufacturers.
2. Factory representation – a sales supervisor supervising sales activities of distributors or dealers on behalf of the manufacturer.
3. Market intelligence gathering in overseas markets.

4. Handling export procedures and documentation.
5. Help in selecting agents, distributors and dealers.
6. Confirming orders – paying the manufacturer on confirmation of an order from an overseas buyer and receiving commission, although here the export house is not actually paying the manufacturer, but merely confirming liability for payment.

Having looked at services that export houses can offer, we now look at the reasons why a manufacturer might want to use one:

1. Lack of resources to carry out overseas operations by the manufacturer.
2. When overseas selling operations are only small scale and it would not make economic sense to carry out such operations oneself.
3. Where the export house has particular expertise in a country or an industry.
4. Where the manufacturing company is predominantly production orientated and lacks marketing expertise.

There are a number of disadvantages, the main one being lack of direct contact with the market. The manufacturer may also experience difficulty in monitoring developments and changes in the overseas market and adapting to these changes in good time.

Having examined indirect approaches to selling, we now look at more direct methods.

Direct methods of overseas selling

Subsidiary companies

The **subsidiary** may be a selling or manufacturing organisation or both. A selling subsidiary usually replaces agents and distributors with the company's own permanent staff. In certain cases it is possible for a firm to start its own sales organisation with little investment. The usual way, however, is for a company to start by using an agent; then to open its own sales office with a limited number of staff. Once profits start to show, the unit can become self-sufficient and ultimately expand into manufacturing.

The above scenario is a generalisation and sales subsidiaries may require a larger investment than many companies can afford, especially where after-sales service has to be offered and stocking a large volume of spare parts is necessary. Manufacturing subsidiaries range from simple assembly plants to complete production units.

A simple assembly plant subsidiary is useful where the product is bulky and freight costs are high. By using local assembly, the final cost of transport may be reduced as it is often more economical to ship containers of parts for assembly than to ship finished bulky manufactured products. In addition, local employment is created that promotes goodwill towards the company, which in itself assists in developing markets further.

Reasons for establishing overseas manufacturing subsidiaries differ from company to company, but the following are important:

1. *Production capacity.* Where overseas markets are expanding, a firm may find problems in serving the market from the home base.

2. *Non-tariff restrictions.* Where such restrictions exist, the setting up of a subsidiary may be the only way round them. Many foreign governments give grants and incentives to firms to set up manufacturing bases in their countries and their purchasing strategies favour goods made at home. In some cases restrictions placed on imports might take the form of complex (and unnecessarily prohibitive) safety or packaging regulations.
3. *Costs.* Labour and manufacturing facilities are often more economical in overseas countries and setting up a manufacturing base saves transportation costs.
4. *Explicit import restrictions.* Where these exist, the setting up of a manufacturing subsidiary may be the only way to enter or stay in the market.

When establishing a subsidiary, local legal and taxation regulations must make it possible to set up a profitable subsidiary and allow the parent company to extract profits from the country. It may be prudent for a firm to gain experience in the market through agents and distributors before venturing directly into setting up a manufacturing subsidiary. Many firms employ the staff of a previous agent or distributor to form the nucleus of the new company.

Although it may seem that the establishment of a foreign subsidiary exposes a firm to many of the risks that licensing minimises, a venture of this kind can offer the greatest potential. Not only may local employment and production be beneficial for reasons mentioned, but the parent company can offer the subsidiary the wealth of its business experience and resources. Other advantages are that employees working directly for a company are often better motivated than those of an intermediary and it is easier to control a subsidiary because it is under the parent company's direct control. The disadvantage is that economic or political instability within the country may cause problems outside the control of the parent company.

Joint ventures

A **joint venture** is where usually two but sometimes more firms manufacture and sell products on a joint basis. As such it can be an indirect as well as direct method of exporting, depending on the arrangement. This is common in the transport, construction and high technology sectors of business. Such agreements have financial benefits as the cost of development is shared, but friction and disagreement sometimes arise between parties to the agreement.

Direct selling

Despite the strengths of using intermediaries, some companies find that selling direct from the home country to overseas markets offers more advantages. Direct selling requires a firm to take responsibility for establishing contact with potential customers.

Direct selling provides a degree of control that is impossible to achieve through intermediaries over matters such as price, credit, after-sales service, etc. The chief disadvantage is that more frequent travel is involved and a lack of a permanent presence in the market can cause problems. The firm may find difficulty keeping abreast of developments in the market and will have to rely on customers to provide market information. Customers may also view this lack of permanent presence as a lack of

definite commitment to the market. Firms supplying technically complex products that require technical service and advice often place a sales engineer in the market on a semi-permanent basis, which tends to obviate the lack of commitment criticism. The following guidelines show where direct selling is most appropriate:

1. *Buyer-specified work.* Where individual orders are large and custom-made it may be necessary for the manufacturer and purchaser to get together to discuss each job as a unique contract.
2. *Continuous supply.* Once set in motion this requires only a periodic visit to negotiate such matters as price changes. Such contracts are normally able to run smoothly without a permanent overseas presence.
3. *Products are technically complex with a clearly defined market.* Here problems can be discussed directly between the supplier and user.
4. *Geographical proximity.* For example, countries in Western Europe can sometimes be serviced directly from Britain because of good communication facilities.
5. *Few customers but large or high-value orders.* In such situations time and expense involved travelling abroad are sometimes small compared with size and value of orders.

In selling direct to a customer overseas, there is an opportunity to build up close relationships with individual customers based on trust, commitment and understanding. A close interactive commercial relationship is beneficial, particularly if the exporting company is unfamiliar with the market. Speaking the language of the country is more important in direct selling than if the firm deals through an intermediary. If the salesperson is to build up a close personal relationship with customers, they must understand the cultural, religious and business practices of the country. There may be many mental barriers to a foreign buyer placing an order with an overseas salesperson and patience will be required to break down these barriers. Thus, emphasis must be placed upon gradual acceptance rather than the expectation of instant success. This involves careful planning in building up contacts and nurturing them and not taking the first 'no' for an answer.

5.6 PRICING

Freight considerations

Pricing as an element of the marketing mix has been covered in Chapter 1. In considering pricing decisions for international markets the same rationale applies. There are, however, a number of additional factors that must be considered, the most significant of which is the potentially greater logistical problem of getting the goods to their destination. This normally involves extra packaging to withstand lengthy sea journeys, although with containerisation it is possible to rent a full or partial container, so this is less of a problem for goods where containerisation is appropriate. Air freight is a quick medium of transport, especially for goods that are perishable, or where weight is low and value high in relation to volume.

Transport adds to costs and this must be considered in relation to the price at which goods will be charged when they reach their ultimate market. For this reason many

manufacturers tend to accept lower margins for export orders so they will still be competitively priced. Quotations for export orders are sometimes a simple ex-works price that does not include freight charges to the end-customer. At the other extreme, the price can include delivery to the customers' works. These various price quotations form part of the legal document of contract and are considered Chapter 6.

Import considerations

A factor when calculating price is that of tariffs that might be levied on goods entering the customer's country. This will have to be considered in the light of an additional cost before the goods reach the marketplace. Import considerations might also include a quota restriction on particular goods, which means that a numerical restriction is placed upon the amount that can be imported during a particular period. In such cases the importing country sometimes raises extra revenue by selling off these quotas to the highest bidder. An import licence is sometimes required, which apart from costing money sometimes entails a lengthy process in terms of negotiating with authorities in the country concerned. This process is detailed and complicated and only companies with large international trading departments could handle such detail internally. For smaller companies, the services of shipping and handling agents would be necessary, all of which add to the landed cost of goods.

Purchasing alliances

Larger companies have an inbuilt advantage as they are able to form world-wide purchasing alliances between each other and, in a multi-country manufacturing organisation, between its own subsidiaries (the implications of the latter being discussed in the next section). Such an alliance might be in the form of reciprocal trading (see Chapter 10). On the other hand, a number of companies, particularly in the automobile industry, purchase component parts from each other; for example, one company might use another's engines for use in their vehicles. The implication for international selling is that such arrangements might impede free competition as certain markets might simply not be available because of such arrangements. The selling company should be aware of such alliances in order not to waste time exploring fruitless avenues. However, the parallel argument is that such alliances do not necessarily last for ever, so selling companies should be aware of the possibility of an alliance being broken up in good time by using market intelligence, of which the salesforce can be a good contributor.

Transfer pricing

This is perhaps one of the most intriguing aspects of pricing and can be controversial in that it often involves detailed investigation by customs and excise and taxation authorities if they feel companies are abusing positions of relative privilege. It is of particular benefit to large international companies with manufacturing and assembly bases situated in different countries around the world.

Transfer pricing works when component parts and finished products are moved between manufacturing or assembly plants in different countries as part of the manufacturing or marketing process. Different countries have different rates of corporation tax and import duties also vary. There is, therefore, an incentive for an international company to make as much profit as possible in a country with a low rate of corporation tax. In fact, some countries offer 'tax-free holidays' for a specific period to companies willing to set up manufacturing bases.

What happens is that component parts from one country can be transferred to a high duty country in which the company also has a manufacturing base at a low transfer price to minimise import duty. Components can also be transferred into countries with higher rates of corporation tax at high transfer prices in order to minimise profits. In addition, parts or finished products can be transferred at high prices into a country from which transfer of profits is difficult owing to currency restrictions or perhaps where there is an unstable currency, and so depress the profits of the manufacturing or assembly plant in that country.

In view of possible abuses of the transfer pricing system it can be seen why customs and excise and tax authorities tend to view such arrangements with a certain amount of suspicion.

5.7 JAPAN – A STUDY IN INTERNATIONAL SELLING

The objective of this chapter has not been to provide a comprehensive guide to international selling and exporting. Rather, the general case for exporting for the good of the economy and for the good of individual companies has been covered, together with an overview of organisational and cultural issues. The specific type of information that is of direct use to a potential exporter is that which follows in respect of exporting to Japan. This information has been taken from an article in the *Journal of Sales Management* for which the second author was then editor.⁵

Successful selling to Japan requires patience and sensitivity to customs and business practices not altogether appreciated by Westerners. Business in Japan is still conducted in a traditional Confucian manner where civility, politeness and the search for constructive relationships are of the essence, and successful business follows the establishment of such relationships.

In many ways the Japanese do not respond in the same way as Westerners. For the most part, the Japanese keep their emotions under control and culture demands that a person of virtue will not show a negative emotion when shocked or upset by sudden bad news. This ideal of an expressionless face in situations of great anxiety was strongly emphasised in *bushido* (the way of the warrior) which was the guideline for samurai and the ideal for many others. Furthermore, not only are negative emotions suppressed, but the control of an outward show of pleasant emotions in public is also rarely relaxed in Japan. Women tend to cover their mouths while laughing and males show true merriment (and true anger) mainly after hours when their culture allows them greater freedom of behaviour while drinking alcohol. Thus the poker-faced ideal is very common in public settings in Japan. The moral of these observations is

that one must develop a sensitivity to the reactions of the Japanese because of the difficulty in telling how they are reacting.

Another noteworthy aspect is that shame is intolerable in Japan. This means that one should never put one's Japanese counterpart in a position that will force them to accept blame for a project going wrong, being delayed, etc. This characteristic has important implications for two elements of the sales process: handling objections and the close. The Japanese may avoid explicit objections because politeness demands that the seller does not lose face. Similarly, an attempted close may put the Japanese in a position where they are concerned for the seller's loss of face if the answer is to be negative. The deft footwork associated with the persuasion approach to selling clashes with the Japanese character and is in direct opposition to the spirit of Japanese negotiations.

In some countries it is considered socially acceptable to compliment someone directly on his or her business accomplishments or the accomplishment of the company, but in Japan anything in the way of a compliment is made indirectly. Instead, say, of complimenting someone directly on his or her taste and sophistication, the Japanese practice is often to approach this particular problem indirectly and pick out some aspect of the room which reflects the other person's taste and sophistication and comment on that.

With regard to business correspondence, Japanese companies may fail to answer written enquiries concerning possible business relationships. This does not necessarily mean a lack of interest – there can be a number of reasons for a slow response. Decision-making tends to be much slower and this is often the reason. Japanese companies are accustomed to being able to talk face-to-face with suppliers as this is the usual way of conducting business in Japan.

Personal introductions are commonly executed by a third party rather than through, say, the medium of a telephone call requesting a meeting. The person making the introduction will explain to the person one wishes to meet approximately what subjects are to be discussed, what company one comes from and one's position within that company. Because there will usually be a common understanding between the two Japanese, the Japanese businessperson whom one wishes to meet will generally be more favourably disposed to hearing one's opinion than if one walks in without an introduction.

The key to a successful business relationship in Japan is a successful personal relationship and nowhere in the world are business and personal relationships so intertwined. However, such friendship only opens the door. Thereafter the hard reality of the benefits to be gained and the risks to be run will take over. Friendships in Japan take more time to form, are deeper and last longer than those in the West and often these obligations extend to business relationships. For example, during a recession a large firm will commit itself to its suppliers and subcontractors for continued orders to tide them over. The lesson of these observations is that one must be prepared to operate within this two-tier business structure; establish friendship first and then move to the second stage of actual business negotiations.

To Westerners, Japanese business seems formal and ritualistic. To a degree this is true, but business relationships do no more than reflect the formality of relationships generally. As in all societies, ritual is particularly important when meeting someone for the first time. It is used to establish and signal that one has identified initial

relationships. The first meeting is also a time when transgressions are most likely to cause lasting damage.

One of the most powerful forms of non-verbal communication is dress. The usual dress for Japanese businesspeople is a dark suit for men and sober dress for women. However, most Japanese businesspeople acquainted with foreigners have come to expect a certain variety within reasonable limits in the dress of foreign businesspeople. It is not, therefore, expected that one should imitate the Japanese mode of dress. However, one should avoid extremes in dress which may cause uneasiness. For example, loud clothing will create the disturbing feeling among the Japanese businesspeople that the foreigner has perhaps failed to take them as seriously as they might have, by failing to observe that the common practice in dress in Japan is some degree of formality.

At the beginning and end of every meeting, the Japanese businessperson will bow very formally to the members of the other side in the negotiations. This is generally observed at the first meeting and to a somewhat lesser extent at subsequent meetings. Most Japanese with experience in dealing with Westerners will be expecting to use a handshake rather than a bow. The appropriate strategy is perhaps to wait to determine whether the Japanese businessperson is prepared to offer his hand for a handshake or whether he is going to bow. The question of whether the non-Japanese should imitate the bow of the Japanese is controversial within Japan itself. Generally, a nod of the head or a slight bow is considered acceptable for the non-Japanese party. One should be aware that reciprocal bowing behaviour is dependent on the status relationship of participants; the inferior must begin the bow, and his bow is deeper, while the superior determines when the bow is complete. When participants are of equal status, they must both bow the same way and begin and end the bow at the same time.

One of the most obvious differences between Japanese and Western business practices is the use of business calling cards, or *meishi*. These are exchanged on every occasion when one businessperson meets another. The prime purpose is to enable the recipients of the cards to know the other's status so that not only do they bow correctly, but also use the proper form of language. Japan is a hierarchical society and the Japanese are very status conscious in that they use different forms of language and bow in different manners according to the status relationship with another individual. Business cards also serve the function of not having to memorise instantaneously the names and positions of one's business counterparts and they provide a record for future reference.

Such cards are a standard pattern and size, so that they will fit in the Japanese filing systems. They must have square corners for males and round corners for females. The typical business card that the non-Japanese businessperson should have will show the Japanese translation of the individual's name on one side, along with their company, its address and the person's title. The other side will have the same information in English (which is the most common foreign language used in Japanese business).

The exchange of business cards is a very important part of the process of introduction in Japan. For this reason, cards should be exchanged one at a time and with some care. The courteous method is to present it, Japanese side up, with the printing facing the receiver.

One of the peculiarities of these business cards is that there is no single standard set of English translations for the ranks and positions in Japanese companies. As mentioned earlier, Japan is a very hierarchical and status conscious society, so an

Table 5.2 Translations of common Japanese business titles

Japanese title	Description and/or usual translation
No title	New graduate, aged 23–33
<i>Kakaricho</i>	Manager, aged 34–43
<i>Kacho</i>	Section Chief, aged 44–7
<i>Bucho</i>	Bureau Chief, aged 48+, Senior Manager
<i>Torishimariyaku</i>	Director
<i>Fuku Shacho</i>	Vice-President (more senior director)
<i>Shacho</i> or <i>Daihyo Torishimariyaku</i>	President (Managing Director)
<i>Kaicho</i>	Chairman

Source: Japanese External Trade Organisation (1976) 'Selling to Japan: know the business customs', *International Trade Forum*, 12.

understanding of the ranks in business is very important. Table 5.2 translates some of the more common Japanese business titles.

The basic titles in a Japanese firm are usually very clear and the level of the position within a company, as indicated by the title, is usually closely related to the age of the individual. This system of ranking and responsibility, corresponding closely with age and years of service in the company, is one unique characteristic of Japanese organisations.

While the details of negotiations may be left to a representative in Japan, the managing director of the foreign firm (or some other high official in the company) should establish an initial contact with their equal in the Japanese firm. This is termed the *aisatsu*, or the greeting, the purpose of which is to establish a presence.

The Japanese term *hai* is literally translated as 'yes', although it can also mean 'I see' or 'I understand' and does not necessarily mean agreement. Furthermore, the Japanese are very reluctant to give a direct 'no' answer because Japanese culture emphasises harmony rather than confrontation. Instead of the answer 'no', one is more likely to hear something non-committal such as 'Let me think.' One must therefore learn to read the negative response signs such as hesitancy or an unwillingness to be more specific.

Postponements of negotiations are common in Japan, largely because decision-making follows a prescribed process called the *ringi* system. This means that a proposal must be circulated among various sections and departments which will be affected by the proposal, with much discussion and correction ensuing. The *ringisho* (request for a decision) goes back and forth and eventually a consensus is achieved among the interested parties, with the president giving final approval.

During negotiations long periods of total silence are common. This is because the Japanese like time to think over what has been said and what alternatives are open to them when they next speak. Silence is also part of the Japanese communication procedure and they tend to rely heavily on non-verbal communication. Westerners often find such silences embarrassing and feel obliged to say something unnecessary to relieve the supposed tension. The best way to handle such silences is to exercise restraint and outwait the silence.

Japanese businesspeople have little confidence in detailed contracts which attempt to provide for all possible contingencies. Their preference is for broad agreements

and mutual understanding. Contracts are drawn up with an eye to flexibility and a contract is often considered an agreement to enter into a general course of conduct rather than something fixing precise terms. The Japanese like to negotiate each issue as it arises and there is an assumption that each party is prepared to make substantial accommodations to the other. This should not be interpreted as an attempt to violate the contract, but rather the desire of the Japanese to allow both sides the ability to adjust to unforeseen circumstances. One should not expect to obtain a detailed contract, but once a commitment is made it is for the long term. Japanese firms prefer long-term, reliable and exclusive business relationships and tend to turn to established channels to develop new business initiatives.

Because of the consciousness of using the correct level of language in a conversation or discussion, any interpreter one engages may unconsciously modify statements going from English to Japanese and back to English again, according to the rank of the people involved. For example, if a senior official of a Western company is speaking with a high-level Japanese manager, the interpreter will feel in an inferior position to both of them. The statement that the senior official intends to have translated verbatim for a Japanese counterpart may end up as being something quite different.

Entertainment in Japan plays a major role in establishing personal and business relationships. Unlike the West, business luncheons are a rarity and evening entertainment almost never takes place in the home. The typical pattern is for the Japanese businessperson to eat at a restaurant in the evening and thereafter go to a bar or cabaret. Such evenings are for cementing business relationships rather than for discussing specific aspects of business.

The personal skills necessary to conclude negotiations successfully in Japan do not come naturally to the Westerner. What is perhaps even more disturbing is the inappropriateness of much sales training to the Japanese situation. Many skills such as reading body language are culture bound. The persuasion approach to selling seems diametrically opposed to the Japanese character and perception of the role of negotiations. Eight recommendations put forward by Bruderev⁶ for selling to people in Japanese organisations are as follows:

1. *Describe your organisation in detail.* Japanese businesspeople welcome pamphlets and brochures that describe your organisation, its location, its products and your objectives for being in Japan. Ideally these should be in Japanese; if not, the main points should be summarised in Japanese.
2. *Manage meetings Japanese style.* Get a mutual acquaintance to introduce you. Do not be late or change appointments. Leave plenty of time for travel between meetings and bring a small gift (e.g. a modest novelty item made in your country, but not something made by your firm as this would be viewed as a paltry give-away).
3. *Recognise that decisions are often made by middle management.* On your first call you may meet the president, but this is a formality. The important person is probably the head of a department or division.
4. *Do not push for a close.* Even with the most attractive product and effective sales propositions, Japanese businesspeople will not make a decision at that meeting. They will want time to assess your proposal, your company and you personally. They will be thinking about establishing a long-term relationship, and so will demand time to consider all aspects of the sale. If they do not like your proposal, courtesy prohibits their saying 'no' to your face.

5. *Use Japanese whenever possible.* Write sales and promotional material in Japanese using a native-born translator. If you have to write in English this will damage your image. Many Japanese businesspeople have a limited knowledge of English, so if you have to speak in English, speak slowly, using simple words. Learn some common Japanese expressions; the effort you have made will be appreciated.
6. *Make sales presentations low key.* Use a moderate, low-key, deliberate style to reflect their preferred manner of doing business.
7. *Establish a strong relationship.* Japanese people follow formal rules when beginning a relationship (e.g. the introduction, exchange of business cards, the gradual beginning of business talks) and expect you to cultivate relationships through sales calls, courtesy visits and the occasional lunch and other social events.
8. *Dress conservatively.* Japanese prefer plain, undemonstrative business dress. The objective should be to blend in quietly.

5.8 CONCLUSIONS

Broad economic aspects of international trade have been considered and their significance to the sales function has been established. This has included balance of payments and Britain's share of international trade. UK entry into the European Union was examined, together with the effects of the General Agreement on Tariffs and Trade (GATT) and the activities of the World Trade Organisation (WTO).

The advantages to companies entering international selling have been discussed, particularly in the context of how the sales approach should be adapted for different cultures, especially in relation to issues such as aesthetics, religion, education, language, social organisation and political factors.

Different types of organisation for international selling have been explained, including agents, distributors, licensing and export houses through indirect methods as well as direct methods such as the use of subsidiary companies, joint ventures and direct selling. The chapter was concluded with a specific description of the problems involved in selling to Japan. Chapter 6 considers further broader issues of selling and relates to legal and social aspects.

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PRACTICAL EXERCISE

Selling in China

For the past 20 years, China's economy has been growing at an average of 9 per cent and this phenomenal growth rate is expected to continue. China possesses considerable strengths in mass manufacturing and is currently building large electronics and heavy industrial factories. The country is also investing heavily in education and training, especially in the development of engineers and scientists. While these advances mean that China poses new threats to Western companies, the country provides opportunities. Chinese consumers are spending their growing incomes on consumer durables such as cars, a market that has reached 3 million, and mobile phones where China has the world's biggest subscriber base of over 350 million. Western companies such as Microsoft, Procter & Gamble, Coca-Cola, BP and Siemens have already seen the Chinese market as an opportunity and entered, usually with the aid of local joint venture partners.

Although the Chinese economy undoubtedly possesses many strengths, it also has several weaknesses. First, it lacks major global brands. When business people around the world were asked to rank Chinese brands Haier, a white-goods (refrigerators, washing machines, etc.) and home appliance manufacturer was ranked first, and Lenovo, a computer company, famous for buying IBM's personal computer division, second. Neither company is a major global player in their respective markets. Second, China suffers from the risk of social unease – resulting from the widening gap between rich and poor, as well as corruption. Third, the country has paid a heavy ecological price for rapid industrial and population growth, with thousands of deaths attributed to air and water pollution. Fourth, while still a low labour cost economy, wage levels are rising fast, particularly in skilled areas, reducing its competitive advantage in this area. Finally, bureaucracy can make doing business in China difficult.

Although Western companies have made successful entries to the Chinese market some such as Whirlpool, a US white-goods manufacturer and Kraft, the food multinational have made heavy losses. Overseas companies hoping to sell successfully in China need to understand a number of realities of the market there. First, the country is very diverse: 1.3 billion people speak 100 dialects, and covering such a large geographic area the climate is very different across regions. For example, parts of the south are humid while the north is more temperate. Also, income levels vary considerably between less affluent rural districts and richer cities.

Many Western companies enter China by means of a joint venture but they need to be aware of the different business conditions there. In China there is no effective rule of law governing business. Bureaucracy and governmental interference can also bring difficulties. For example, Thames Water pulled out of a 20-year water treatment project in Shanghai after the government ruled that the guaranteed rate of return to investors was illegal.

A key element in Chinese business dealings is the existence of *Guanxi* networks. *Guanxi* is a set of personal connections on which a person can draw to obtain resources or an advantage when doing business. Developing such a network may

involve performing favours or the giving of gifts. For example, a business person may participate in a public ceremonial function or a profession could send books to a Chinese university. Favours are 'banked' and there is a reciprocal obligation to return a favour.

An important aspect of Chinese culture is the avoidance of 'loss of face'. This can occur when a Chinese person finds themselves embarrassed by, for example, displaying lack of knowledge or understanding. Chinese people like to gather as much information as possible before revealing their thoughts to avoid losing face and displaying ignorance. They also value modesty and reasoning. In addition, they regard the signing of a contract to be only the beginning of a business relationship.

Discussion questions

- 1 What are the implications of *Guanxi* networks for selling in China?
- 2 An important Chinese cultural issue is the avoidance of loss of face. Discuss its implications for selling in China.
- 3 Explain the concept of self-reference criteria and its implications for selling in China.

PRACTICAL EXERCISE

Syplan

For some weeks Russell Anderson had worried about work that was reaching him from Calcutta across his virtual private network in the Buckinghamshire headquarters of Syplan, the company he launched with colleague David O'Mahony in 2006. Syplan was betting its future on new software called Clear Thought, designed to help FTSE 100 companies analyse business performance. It had outsourced software development to a team in Calcutta. The team was committed to deliver the system by 1 January 2008, but this deadline had slipped and Anderson felt remote from the action.

'However carefully you specify a task, you cannot calculate time needed for effective human communication,' says Anderson. 'If I were dealing with a development team in this country, half the time would be spent hammering out specifications. The rest would be spent on informal discussion; the kind that motivates people and gets them talking so you naturally hear if anything is going wrong.'

The company started out providing consultancy to the likes of Nortel Networks, BUPA and British Airways, but in 2007 they decided on a change of direction. They felt that consultancy was changing as big companies sought to reduce reliance on armies of external consultants in favour of developing greater in-house capability. They decided to develop software that would help companies to act as their own strategic analysts.

The Clear Thought product would enable companies to analyse performance of projects across many sites and areas of operation. Ideally, it would enable each person in an organisation, whether in finance, sales or logistics, to key in business improvement ideas and study the impact on other parts of the business. The idea was to design a system that would encourage creative commercial thinking at all levels.

The move was risky. As a consultancy, the company had low overheads and had built up sales of £375,000 for financial year ending March 2007, on which it made pre-tax profits of £240,000. But the software would cost more than £500,000 to develop and in the meantime Syplan's income would almost dry up because Anderson believed software development was not something that could be done in a half-hearted way.

'Many people questioned our timing,' says Anderson, 'but I believe it is a great time. Given the recent technology slump, it has never been cheaper to develop innovative software.'

Anderson spent January 2007 in Calcutta getting Clear Thought back on track. He learned some important lessons, particularly how communications can drive up productivity. A small example illustrates this. Before leaving Britain he had sent out a specification for a function in the software. When he arrived in India he found engineers busily writing their own code for it. But a brief bit of research showed that he could acquire a piece of software for £130 that would perform the function perfectly well. He was able to put the engineers to work on something for which there was no existing solution.

'This is the kind of thing that happens when you are not working in the same place,' says Anderson. 'I would now recommend using an outsourced team only for simple development tasks. Once we are bigger we will have our own team.'

Clear Thought was launched in August 2008, but this was just the start of the obstacle race. Syplan now faces its second hurdle, convincing FTSE 100 companies to use the system, which might cost anything from £100,000 to £1 million, depending on whether it is deployed within a single business area or across an entire company with operations in many countries. This is no easy task. The founders have credibility as consultants, but none as software developers. They are also selling new products in a climate of depressed business spending and slashed IT budgets.

Source: Adapted from an article originally written by Sarah Gracie, *Sunday Times*, 23 June 2002. © Sarah Gracie/Times Newspapers Limited 2002.

Discussion questions

Syplan sees its challenges in three areas. Advise the company on how it might resolve them:

- 1 Managing software development in Calcutta.
- 2 Persuading a blue-chip company to use the software and prove to others that it works.
- 3 Finding partners that can sell the software to their clients.

PRACTICAL EXERCISE

Wardley Investment Services (Hong Kong)

Private banking has been one of the main growth areas of the banking industry in the Association of South East Asian Nations (ASEAN) region over the past few years, but private bankers have found that newly rich ASEAN clientele can be quite a different market from the traditional customer in Europe and North America.

Mr Robert Bunker and Mr John Cheung, directors of Wardley Investment Services (Hong Kong) said both Wardley and its corporate parent, the Hongkong & Shanghai Bank Group, have adopted what has been described as the American interpretation of private banking in their approach to the ASEAN marketplace.

Mr Bunker explained, 'We provide a one-stop shop for financial services to high net worth individuals, drawing on the wide range of services available in the group. There are many smaller banks which have seen private banking as a profitable growth area, but it is difficult for them to provide the breadth of services with just a small representative office in the region. As a result, they struggle to develop the mass of business necessary to make a living.'

The demands of ASEAN customers do tend to differ from those of their counterparts in Europe and North America. Mr Cheung said that, in Asia as a whole, private banking is not as tax driven as it is in much of the West: 'There are other differences. For example, the division of corporate and private wealth in Asia is often blurred, and some Asian clients are very aggressive in the way they like to invest. Again, such tendencies can mean a different attitude on the part of the private bank.'

Mr Bunker added, 'I think that you will notice in the marketing strategy of the group that we are trying to shrug off our traditional image and create a more adventurous and aggressive picture.' He said the infrastructure of the group provides a great boon. In the ASEAN region, the bank has a presence in one form or another in Singapore, Thailand and Indonesia.

European banks entering the ASEAN market find it a lot more difficult to rely on name or reputation to build their market share, particularly when many potential customers are not familiar with their names. A bank such as Banca della Svizzera Italiana (BSI), for example, despite its size and reputation in Europe, has to fight hard to get noticed in an already crowded marketplace.

But Mr Anton Jecker, BSI's chief representative in Hong Kong, believes his bank can offer a competitive service for its clients: 'We see private banking as just that, knowing the individual needs and requirements of a customer and servicing those needs. We provide individually serviced accounts with an emphasis on the personal nature of banking. We provide safety and confidentiality as a Swiss bank, and investors do not put their money with us for us to speculate. So we do not target the entrepreneur so much and tend to go for personal assets on the whole. We make it clear where we can help from the beginning, and we do not do everything in the wide spectrum of banking services.'

Although BSI has a different emphasis to the Hongkong Bank Group, Mr Jecker still feels that there is a great future for private banking in the region. 'But it is difficult for European banks to enter such markets, especially given the dominance of US banks in the last 30–40 years. The same can be said for the Philippines which, despite its economic and political problems, still has a lot of potential for private banking.'

Discussion questions

- 1 Give advice to a UK bank that has not previously been engaged in the ASEAN region on what problems it might face when setting up in the area.
- 2 What segmentation possibilities might exist for a smaller bank in the region?
- 3 What research would you advise a small bank to undertake before setting up in the region for the first time?
- 4 Assume that a small bank you are advising has decided to set up in the region. What strategic guidelines would you give to the bank in so far as organising its selling activities is concerned?

PRACTICAL EXERCISE

Quality Kraft Carpets Ltd

This company was founded in 1993 by William Jackson and John Turner in Kidderminster, a UK town with a tradition of carpet-making going back hundreds of years. Carpet manufacture and related activities had been the major provider of employment in the area up until the late 1960s. However, after that date the carpet industry, like many other areas of British textiles, faced problems and decline.

Paradoxically, it was this decline that brought Quality Kraft Carpets into existence. William Jackson had been production manager with one of the largest carpet manufacturing firms in the area, with a world-wide reputation for quality carpets. John Turner had been a loom tuner (a maintenance engineer) responsible for maintaining over 100 carpet looms for another large company. Jackson had been made redundant as a result of a drastic decline in orders and Turner's company had gone into liquidation. They were good friends and since their unemployment had come at the same time they decided to start their own small company, specialising in the product they knew best – traditional, woven, good quality Axminster carpets.

Because so many firms in the area were either closing down or cutting back production, there was a steady supply of textile machinery being sold very cheaply by local auctioneers. By pooling their respective resources, plus help from the bank, they were able to acquire a 15-year lease on a small factory and purchase enough equipment to enable them to commence production.

Their policy was to weave best quality carpets made of 80 per cent wool and 20 per cent nylon. The market was good-quality carpet shops and the contract market, especially hotels, restaurants, offices and large stores. They made a conscious decision not to deal with carpet superstores, largely because profit margins would be low, as bulk purchasing power enabled them to demand low margins. In addition, carpet superstores predominantly sold cheaper carpets, mainly tufted synthetic carpets purchased from North America. It was contended that purchasers looking for a good-quality carpet would go to a conventional carpet shop and not a carpet superstore that they considered was more applicable to the lower end of the market.

At the time of setting up (1993) the main problems facing UK carpet manufacturers were a depressed economy and the fact that imports of carpets were taking an increasing share of a diminishing market. Thus, the recession made carpet purchasing a lower priority issue for those who already had carpets and the attitude was to make them last longer.

Imports now account for over 50 per cent of the UK carpet market and this percentage is increasing. The main imports are synthetic tufted carpets, mainly from North America but increasingly from EU countries – Belgium, followed by Germany and Holland. Nylon carpet is basically oil-based, which gave the Americans a significant advantage until the late 1980s because of the cheapness of their oil. However, since then their oil prices have increased and the strength of the US dollar has made exports to the United Kingdom less competitive.

Despite the apparently depressing picture for UK manufacturers, the UK carpet industry is still among the largest in the world, particularly the high-quality woven

carpet sector. Britain has always been a net exporter of carpets and its reputation for quality has world-wide acclaim.

Since Quality Kraft Carpets commenced, its total sales have been as follows:

Quality Kraft Carpets Ltd sales (£000)

1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
500	640	820	1,280	1,760	2,300	2,900	2,100	2,000	1,970	1,950	1,960	1,990	2,010	1,950

These sales are to two distinct markets:

- direct to quality retailers;
- the contract market.

The percentage of sales accounted for by each of these market segments is shown below.

Percentage of sales to each segment

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retail	78	76	70	66	63	60	60	58	56	52	52	50	50	48	47
Contract	22	24	30	34	37	40	40	42	44	48	48	50	50	52	53

At the 1999 level of demand the company was operating at full capacity, but today it has an excess of manufacturing capacity. The company has not laid off any employees, but overtime has been cut out and some work that was given to outside contractors, e.g. final 'shearing' up of carpets, is now done in the company. An interesting facet of contract sales is that much of it is for customised carpet, often incorporating the customer's company logo in the design.

The company now feels that the industry is likely to remain depressed and foreign competition in the UK market likely to increase further. The company has not attempted to sell its products abroad, but feels that if it is ever to expand again, then overseas markets are the only feasible method. William Jackson and John Turner had a long discussion about exporting as they were both inexperienced in such matters. They listed the strengths and weaknesses of Quality Kraft Carpets in order to arrive at a decision as to which would be the most appropriate overseas market to enter and their conclusions were as follows:

1. Weaknesses

- Small and relatively new without the reputation of a long-established firm.
- Management has no knowledge of selling overseas, and although educated by experience, has little knowledge of finance, economics, languages, etc., which are of help when selling overseas.
- The more popular types of tufted carpets are not manufactured.
- The company cannot compete on price in the volume markets because of out-dated equipment and small purchasing power.
- Although products are first class, they are expensive.
- The company does not directly employ such specialists as designers, but operates on a freelance/contractual basis.

2. Strengths

- Expertise in the manufacture of good-quality, conventionally woven Axminster carpets.
- The company is small and flexible and can easily cope with new trends in designs.
- Proficiency is increasing in contract work and staff have specialist knowledge of such one-off tasks. Much repeat business is coming from satisfied contract customers.
- There is a loyal workforce who have flexible working arrangements in that the workers can each carry out a number of different jobs without demarcation disputes.
- The company is reasonably profitable and it has very little long-term debt.
- The retail part of the business contains loyal customers with much repeat business.

After discussions with the bank and advice from the British Overseas Trade Board, it was decided that the United States offered the best potential for the immediate future. The Middle East and Japan showed promise in the medium term. It was also decided that they should concentrate on the contract market. These decisions were based upon the following criteria:

1. The United States is now an established market for best quality Axminster carpet.
2. Although the United States does manufacture some conventionally woven Wilton carpet, it does not manufacture much good-quality Axminster carpet.
3. In the contract market, quality seems to be more important than price and it would seem to be good for the company to concentrate on contract carpet sales.
4. Import tariffs into the United States from Britain are 9.5 per cent ad valorem (on top of the imported cost) for Axminster and 19.5 per cent for Wilton (higher to protect US producers). This gives an undoubted advantage for the export of Axminster carpets.
5. A market research survey conducted in the United States had indicated that their interior designers liked Axminster because of the fact that any pattern or logo could be woven into the design. Most contract carpet in the United States is tufted and printed which only makes mass production runs feasible. This printing process, although much cheaper, is inferior to the design being actually woven into the carpet as is the case with Axminster.
6. The pound is quite good value against the US dollar, although it has strengthened in recent years, yet this makes the product good value in the United States.
7. Advice from the British Overseas Trade Board has indicated that the United Kingdom has a high reputation in the United States for quality carpets. They appreciate personal service and reliable delivery and British carpets might be seen as a status symbol.

Quality Kraft Carpets Ltd decided that they would immediately enter the North American market, but did not want to commit too much money to the venture in case it failed. On the other hand, if it was successful, they were prepared to commit more resources.

Discussion questions

- 1** Draw up a short-, medium- and long-term sales strategy upon how Quality Kraft Carpets can enter, develop and remain in the US market.
- 2** What form of representation would you recommend for this new market – or would you consider setting up a manufacturing subsidiary? Give reasons for your decision.
- 3** How might your various strategies change and what further considerations would need to be made if, after initial success in the US market, the Middle East and Japan offered good export opportunities?
- 4** What would be your marketing communications and sales promotional strategies for the company in the United States? More specifically, outline your sales ‘message’ and the type of media you would use to communicate this message.
- 5** What, if any, further research needs to be undertaken before attempting to export to the United States?

Examination questions

- 1** Discuss the contention that there is no such thing as 'overseas selling'; it is merely an extension of selling to the home market.
- 2** How does the role of an export agent differ from the role of an export salesperson?
- 3** Discuss the contribution that the WTO has made to a freeing up of international sales negotiations.
- 4** What are the differences that should be considered when international sales managers draw up their export plans?
- 5** How is the world-wide trend towards urbanisation and greater overseas travel affecting opportunities for international selling?