International Journal of Economics, Commerce and Management
United Kingdom Vol. III, Issue 6, June 2015
http://ijecm.co.uk/ ISSN 2348 0386

FACTORS AFFECTING MARKETING STRATEGIES: PRICING, CHANNEL STRUCTURE AND ADVERTISING STRATEGIES

Bekim Marmullaku ✉
Lecturer, FAMA College, Kosovo
bekim.marmullaku@kolegjifama.eu

Faruk B. Ahmeti
Professor, FAMA College, Kosovo
faruk.ahmeti@kolegjifama.eu

Abstract

The world economy is changing, this is a fact. New technology, new communication possibilities have reduced the physical boundaries and have made customers more knowledgeable and with more requirements. Overcoming those challenges, companies (in specific SMEs) are striving to develop new strategies to respond to new requirements and working conditions in their market environments, are facing different challenges that needs to be overcome through developing proper marketing strategies. There are many factors that may seem to be important. As reviled by this study, the most common strategies that firms implement, on their path toward economic growth, are based on Pricing, Channel Structure and Advertising Strategies, which are seen as the most effective tools to reach customers and to develop a sustainable firm's strategy. Additionally, there are differences between firms implementing standardized strategies form those that are focused more on localized advertising strategies.

Keywords: Marketing Strategies, Pricing, Channel Structure, Cost Leadership, Differentiation

INTRODUCTION

Offering products to new international markets, means more than only knowing what the company is offering. There are also other important tools of marketing mix such as pricing, promotion and advertising, distribution channels, which the marketing management must take into consideration, when preparing the marketing plan. The essay discusses those components which are curtail for designing an outstanding marketing plan, in order to succeed in winning the customer attention and to awake their awareness about the brand (Beamish & Ashford, 2007).

Accordingly, marketing managers of the companies which operate in the global environment and which intent to get into a new market, they must be acquainted with relevant issues surrounding the market aimed to be entered, and they must be familiar with advertising and promotion in the global business environment (Kumar, 2009). All this must be seen as a tool to help the customers, in those new markets, to gain more knowledge about the brand and products as well as to make more informed decisions.

Product pricing is a challenging process and it becomes more complicated when the company attempts to enter in to international markets. There are many factors that affects pricing, starting from the product and its characteristics, cultural patterns, brand acceptance, distribution channels, etc. (Donnelly, Harrison, & Megicks, 2009). All participants within the targeted market need to understand how the advertising strategy can be developed in order to fit to the local marketing patterns (standardization vs. localized advertising) (O'Guinn, Allen, & Semenik, 2008, p. 303).

Factors Affecting Pricing

As noted, the main reason for entering different markets is to increase the income and profitability. One of the key elements of a product, which enters in to a new market, is its price. Pricing is considered as part of 4Ps of marketing mix. It is one of the most important elements and through it the company can determine how profitable the product will be. According to Haxthausen (2008) *"the most fundamental principle of marketing is to meet and to exceed customer needs."* (p. 39).One of the customer's expectations is to buy a good product with a low price. Companies must strive, depending on the product and the market, to offer products that meet all customer requirements, however, to be offered with lower price than similar products from competitors.

The development of a modern economy and rapid technological development, of have made marketing system expresses its true value in today's business world. Diversity of products on the market, enterprise low price policies dominating the market or frequent diversification of products, has led enterprises of all sizes; especially small and medium enterprises in a critical situation, regarding to their business policies in both directions, the current market orientation and targeting new markets in the future (Baker, 2001, p. 285).

In a free market economy and considering the effects of globalization, development and implementation of appropriate operational strategies and in particular marketing strategies, is the only way to develop sustainable and long and profitable business (Harrison, 2009, p. 44).

Regarding these new phenomenon in the market, the situation is even more challenging for SMEs. The common denominator in the development of marketing strategies for the SME sector that can lead to growth and success, is the concept of strategy development and product differentiation strategy, such as specific service providing and as well as innovation. It is always based on the principle of market segmentation for SMEs, which suggest the implementation of marketing strategy in a focused (concentrated) market.

In general, it can be concluded that small and medium enterprises have played and still play a role in the economy, so it is observed that more than half of the total number of employees and over 80% of the total economic growth (in specific in developing countries), in recent years is made by small and medium enterprises (Wheelen& Hunger, 1998).

As Cavusgil (1996) describes, pricing can also to evoke a reaction from competitors, which can have in some cases a negative impact because of different tax levels, tariffs which are necessary to cover all cost which needs to be calculated in the price (Cavusgil, 1996, p. 67). Furthermore, the author describes the importance of pricing and describes it as the most flexible element of marketing mix, which can be changed quicker than other elements of marketing mix. There are many factors which affect price in international markets. Thus, the company's management and marketers invest a lot of time to establish pricing policies for international markets and customers. Furthermore, according to Cavusgil (1996), management should take into consideration many factors such as production cost, demand, competition, exchange rate, etc.There are companies that operate in different countries, which on the other hand have their own currency. That is an additional factor that needs to be considered with careful. Every change of the currency value in international market, will affect the pricing of the brand or product that is from other countries, starting from transportation, taxes, regulations, exchange rate, etc. According to author, there are five most important factors which influence pricing and which needs to be considered when entering international market (p. 68): nature of product or industry, location of production facility, distribution system, location and environment of the foreign market, foreign currency differentials.

Nature of product or industry and the marketing strategies as main factors that Affect Pricing

When a company offers a specialized product, which are innovative and technological advanced, gives the company the opportunity to maintain relatively high prices also in foreign markets. Thus, products are not offered from other companies, or there is no serious competition, and therefore the companies can keep their pricing strategy unchanged and offer those pricing strategies to many markets simultaneously. There are also industry specific factors that which can affect pricing strategy, factors such as fluctuations in raw material costs which are specific to a certain industry.

During the development of marketing strategies and product alternatives, enterprises identify different ways as an opportunity to implement a strategy of sustainable and profitable future for the company. Enterprise considers several alternatives and chooses the most appropriate option or identifies several options for their strategy development, despite the fact that the alternatives may not be fully compliant with the previous or initial strategy planning. Despite those possibilities of mismatch between alternatives and initial planning and vision, the new strategy should be well within firm's financial, technological and human resource capacities. Hence, ahead of developing strategies, enterprises should consider internal and external factors affecting or likely to affect the period of implementation of the strategy. Dynamic changes in the business environment, global economy and new free market conditions, seem quite obvious and often threatens the survival of organizations that don't develop or don't consider the external factor during strategy planning (Kotler & Armstrong, 2010).

There are many different alternatives which can be considered form organizations when planning future development paths. However, all these options come from two main pillars a) the strategy of being the cost leader, and b) product differentiation strategy. Both these strategies have the same goal, organizations growth and are known as growth oriented strategies(Hill & Jones, 2011). Alternative strategies of growth, the company may choose one or combine some of the following:

a. Sustainable Growth
b. Vertical integration
c. Horizontal integration
d. Diversification concentric
e. Diversifying conglomerate
f. Concentration in a single product
g. Product Development
h. Market Development
i. Innovation

Despite the chosen strategy, organization must first consider its position within the business environment in which they are or plane to be active. This involves much more than a simple analysis, such as the positioning of the product or marketing concepts.

In different business environments there are different conditions and circumstances of doing business. Therefore, the analysis of the business environment depends on the sector in which the firm is operating and the ability of the firm to adopt to the changes in the market.

Location of production facility

Not all companies produce out of their domestic market. There are companies which operate internationally and offer their products in different countries, but the production remains in their home country. There are many reasons why this happens; one of them may be that the volume of their sales is not big enough to support the company in opening other production points in other parts of the world where they operate. There are disadvantages when operating and producing at home, and then distributing abroad. The pricing strategy is tightly related to conditions of that market, and cannot be as flexible as if the company would produce and operate abroad. Producing abroad does not mean only to be more competitive in new international markets; it also enables the company to be more competitive within its own market(Chary, 2009).

Pricing strategy in domestic market is based on the regulations, taxes, production cost, etc., which are active and which regulates that particular market. Not in all cases, the home market is the most suitable environment to produce. When comparing with other markets, there may be many disadvantages which may cost a lot to the company and therefore, the company must decline its income in foreign markets just to be competitive with other competitors operating in those markets, which on other site may have better production environments(Bradley, 2005, p. 330).

Distribution system

Many large companies have established their own distribution channels, which allow them to control their expenses. Distribution can have enormous effect on pricing strategy. Companies that can build and afford their own distribution network, have more price flexibility in those markets. It is very important for companies to have their own, if not their own than at least stable and constant distribution channel. Those companies which operate through other distributors have to calculate additional expenses which at the end will be reflected in higher prices(Saxena, 2005).

Location and environment of the foreign market

Different countries in different parts of the world, means also different operational conditions. There are different types of factors which will affect pricing, and are divided as 1) controlled factors (factors which can be controlled and changed from the company), and 2) uncontrolled factors (factors which cannot be controlled or changed by the company, rather the company must adapt to them). In this content, companies to be able to offer their products they must undertake product or distribution modification, and that means that initial price must be adjusted to be able to cover those additional expenses(Julian, 2014).

Foreign currency differentials

Companies which operate in those countries whose currency is undervalued, comparing to those countries where the company intends to offer their products, will find themselves at a price advantage. On the other side, if the currency of the domestic market is overvalued comparing to exporting destinations (markets), they will face more expensive products, due to higher production cost in domestic market.

Globalization has not affected only companies; it has affected also customers, which are requiring more and more global prices for their companies which operate in different parts of the world, There are companies (customers) that have global agreement with brands to offer them (in our case IBM and Lenovo) PCs and other equipment with the same price worldwide.Hence, according to Narayandas, Quelch and Swartz (2000), companies' needs to prepare with carefulness for global pricing. This means that, companies must prepare and establish information systems, which will help them to coordinate and to ensure the logic and sustainability of international pricing. Furthermore, authors highlighted that companies guarantee to offer adequate production volumes, which can be very risky step, if the demand and other factors (related to that product) changes (Narayandas, et.al., 2000, p. 61).

Channel Structure and Strategies

Marketing channel decisions are as important as other decisions that the companies make, such as pricing, product features, etc., when entering new international markets (Littleson, 2007). It is important for companies to be able to see changes on the distribution channels in the international markets. As the companies have progressed on their manufacturing, design and other fields of production, also customers have become more demanding and more informed about their demands. According to BNET.com (2007) "customers are used to get everything they want". Furthermore, the author explains that if the company is not able to offer the right product or service to its customers, and that when, how and where the customers want, than the company will have hard time to stop them (customers) to ask and purchase products from other competitors (BNET.com, 2007). Furthermore, the article pointed out that that how has become as important as what the companies sell.

When firms decide about the distribution channels, they strive to find the most appropriate channel which will fit to their requirements and needs. It is not as simply as to ship products to the markets. There is more effort needed when distributing in international markets.

It is important that, the company must decide if they are able to enter the market alone or through an intermediary. Mostly, it depends on the product or service that the company aims to offer to that particular market. There are products that need additional support and they must have local supporting companies, on the other side, there are products and services that can be offered directly from producer. Firms that enter an international market through an intermediary have to make the decision based on information gathered through market research. Entering new markets through intermediary, does not mean that the manufacturer prefers that kind of market entry, it is the fact that the company (producer) has better chance to succeed in increasing its sales and affirming its brand.

Regarding to the product characteristics, firms must plan its distribution channel so that the product want suffer any change, deformation or to become unreachable for some customers. According to Rosenbloom and Andras (2008), there are several types of distribution channels (see table 1), which can be implemented when entering new market (Andras, 2008, p. 242).

As noted, there are many ways to enter an international market. Choosing the right one (partner or way to enter the market) is curtail for manufacturer to succeed in those markets. According to Meyer and Davis (2003) the economic environment is alive and is changing permanently. There are many factors that affect the working environment such as changes in technology, new production methodology, and new requirement from customers. As a result of all this, there are many new products which are needed to satisfy those customers. Due to new products and requirements, also distribution channels must be revised and if needed, they must be adopted. According to Lancaster and Withey (2007) channels which were appropriate for distribution of products may not be suitable for new products and requirements, therefore, there may be a need for change regarding to distribution channels (p. 173).

Table 1. types of distribution channels which can be implemented when entering new market

Distribution channels	*Description*
Traditional Merchant Wholesaler with Global Operations	operate in global markets on behalf of their customers
Foreign Agents	receive commission based on their global marketing activities, also thy do not assume titles of goods
Foreign Distributors	take the responsibility and ownership risk, due to the fact that they buy and sell on their own behalf
Export Merchant	are active in more than one market, they buy and sell (import and export)
Export Management Company	their activity is based on representing different non-competing companies
Manufacturer's Export Agent	with more limited functions and operating on their own name

Export Commission House	represents the manufacturer which is ready to pay the commission
Resident Buyer	long term contracting export commission house
Confirming House	supporting the manufacturer on financial issues
Export Desk Jobber	without any physical possession of products, but only buying and selling row material
Freight Forwarder	supporting on distribution and documentation for the manufacturer
Third-Party Logistic Provider	supporting the producer with logistics and distribution, on global basis.

Source: Andras, 2008, p. 242

Standardized vs. Localized Advertising Strategy

Communication is more than sending information. It is the process of reaching reciprocal understanding, where participants not only delivers (sends) their messages in form of information, but also create and share meaning. This may cause problems to some producers which are trying to reach new markets. There are different barriers which may cause difficulties for customers to understand the meaning of that information. As presented by Onkvisit and Shaw (1999) on their article, it has been an ongoing debate about the applicability of standardized international advertising in global (p. 19).

There are those who are for and against globalized advertising. However, they agree that the standardized advertising strategy should be implemented where ever it is possible, due to similarities of needs and requirements of customers in different market (O'Guinn, Allen and Semenik, 2008). Furthermore, authors give their arguments why producers prefer globalized advertising strategy; it is cost saving and creative advantages, which allow the advertiser to concentrate more on a uniform brand, to develop plans quickly than in a case when localized strategy is used (p. 303).

It is very important to analyze which strategy should a company use when going in to new markets. Standardized strategy is cost saving; however, it can be misinterpreted, due to differences in cultural patterns. Localized strategy involves preparing specific messages which may have a specific meaning and are dedicated to a particular market, whereas, globalized strategy uses the same message or information for all, or the most, markets where the company intends to enter or is already operating (O'Guinn, Allen and Semenik, 2008, p. 302).

According to Onkvisit and Shaw (1999) it is hard to test which of those two strategies is more effective. There are cases when standardized strategies succeed in their mission in some markets, however, there are cases when they fail, or do not reach the desired results. Hence, to have more reliable results when comparing advertising strategies, one should taste the best possible standardized with best possible localized strategy (p. 22). Hence, the question still remains, which of the strategies should be implemented? It is a question which needs to be treated before taking any action. Furthermore, authors have given arguments which dictate the strategy which the company must follow in specific cases, factors which are related and depend on product type, consumer characteristics and environment factors which differ from country to country.

Companies which operate internationally must balance booth strategies in order to cut cost (there where the standardized strategy is applicable) and to be able to adopt and to use localized strategy (there where customers or other factors dictate so). There is almost impossible to use solely one of those strategies. Some brands are worldwide known, however, they have to adopt, due to some differences in some countries. One of the most famous brands McDonald, to be able to survive in one of the biggest countries in the world India, made a special strategy for this country. McDonald combined two strategies (standardized and localized) and entered the market with a special offer only for this market. Taking of beef products (as a part of localized strategy), however, presenting themselves as family friendly (as a part of globalized strategy). Companies must distinguish between strategy and execution when using a global approach to advertising. The basic identifications marks such as brand can be globalized and universal, however, product information which will be communicated to customers, need to be according to local cultural habits and based on the values which differ markets from each other (O'Guinn, Allen and Semenik, 2008).

CONCLUSION

Segmentation of markets, product positioning and adopting them to different countries has become more imperative for marketers, due to globalization of markets and customer culture and patterns. All this affects the basic elements of marketing mix, such as pricing, distribution and promotion. As the company decides to enter in to new international markets, they must take into consideration all factors that may affect their decisions and further success. All elements of marketing mix are tightly connected and have an impact on each other. Pricing needs to be prepared based on the strategy through which the company sees its advantages (localized or globalized). Companies take those decisions based on research which could be done ahead entering any new market. Based on the information gathered, companies will decide also in which form they will enter that particular market, solely or through intermediary.

Although, the majority would rely on entering markets through intermediary, due to channel and distribution network which can be used and the knowledge that the local company possesses and can be seen as added value to new products which will be offered in those new market. The adaption versus localized also applies to advertising and promotion. Before deciding between standardized or localized advertising strategy, marketers need to be aware of fundamental and important issues, the basic factors within those markets such as cultural patterns, and other which can have an effect to customer opinion about the product.

Big companies tries to advertise the brand within a global advertising strategy, as for product details and product information which needs to be communicated to customers, needs to be more localized and adopted to local cultural patterns and other factors which are present and can affect the companies and brand success in that particular market. All this serves to companies to distinguish them from competitors and to position their brand in global market.

As the different markets offer different conditions of implementing marketing strategies, it is important to further research on these fields, in specific in the developing countries. As globalization is reaching the majority of countries, it is hard to define the most proper strategies or which of strategies, implemented so far, are still accurate and can benefit toward economic development. In the transition phase, especially in post-communist countries, it is hard to maintain a sustainable economic development and in specific, the strategies that are (or have been seen) as successful, may make even more difficult for companies to get ahead and to stay competitive in the global market. As in many countries, different marketing strategies, such as pricing and channel structure were defined by a centralized body (mainly governed by the government institutions). As the state is no longer the main "protector" of the domestic countries, the firms are left alone to define by themselves the best strategies related to pricing and channeling. Hence, an empirical research by using empirical evidence, would gather and present facts of events that can be directly, empirically, and repeatedly observed and measured. The major questions that need further research were *What will happen if…?* and *Where's what happens…?* Testing and comparing the strategies implemented in different companies, may reveal the importance of organizational learning and adoption.

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