Key Concepts in Marketing and International Marketing

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This short collection of 35 “key concepts” (plus 15 cross-references) is more than a “glossary” of mere definitions, since, with the exception of few relatively “technical” terms, I tried to emphasize the logic and the practical purpose of referring to (and using) the various terms from a managerial perspective. In few cases, especially with reference to well-known “classical” terminologies, I directly quoted the following authors and publications ¹, which include and explain several hundred definitions and concepts, and could be consulted for further study:

- Kate Gillespie & H. David Hennessey, Global Marketing, South-Western Cengage Learning, 2008.

Actual Market

It is a subset of the "available market", represented by all the consumers/users that actually consume/use (or are expected to consume/use) the product or service over a given time period (normally, the year), and by the quantities consumed or used (we normally multiply the number of consumers/users by the estimated average per capita consumption). In the absence of further specifications, the term implicitly refers to a market defined by geographical borders (a country or a region): that is why, especially from an international marketing perspective, it is normally misleading to consider this entity as a benchmark for estimating the company's market share, since the company is rarely able to "get in touch" with the entire geographical market, due to its organizational structure, resources and marketing strategy (see "pertinent market"). The ratio between the "actual" and the "available" market (called "saturation") provides an estimate of the potential "room for expansion" in a given market: it is normally low in growing markets and high in mature or declining markets.

Available Market

It is a subset of the "theoretical market" and includes the "actual market". It is represented by all the consumers/users that are "willing" (feeling a need, without psychological or emotional constraints) and "able" (having the knowledge, technical and legal ability, access and money) to use/consume the product or service, but are not necessarily expected to buy it within a given time period (normally, the year). In order to estimate the size of the available market also in terms of quantities, we normally multiply the number of available consumers/users by the maximum per capita consumption of a hypothetical "heavy user" (this represents a sort of "ceiling" of the potential per capita consumption in a given market).

¹ All these publications should be available in more recent editions.
**Contract Manufacturing**

As noted by Jeannet & Hennessey, under contract manufacturing, a company arranges to have its products manufactured by an independent company on a contractual basis. The manufacturer's responsibility is restricted to production, and products are turned over to the company that practically "rents" the production capacity to avoid establishing its own plant or to circumvent import barriers, and normally assumes the marketing responsibilities for sales, promotion, and distribution.

**Contribution**

This critical concept refers to the difference between benefits and costs correctly and unequivocally attributable to a given marketing entity (units of products, product lines, countries, regions, segments, clients, salesmen, strategic or organizational choices, etc.), which is "responsible" for these benefits and costs and therefore "contributes" to the company's profitability. If the entity of interest is a unit of product, the so-called "contribution margin" is just the difference between the net price of the unit and its different variable costs, which are normally identified separately, from a functional perspective (we could therefore have different "levels" of contribution): manufacturing (raw materials, components, packaging, direct labor), marketing (transportation, commissions) and financial (credit costs). However, in the case, for instance, of a product line (or a country, etc.), also the fixed costs that are the direct "responsibility" of this line (or this country, etc.) must be subtracted from the revenues of the line (or the country, etc.) in order to calculate its contribution.

**Countertrade**

In international trade, it is the direct or indirect exchange of goods for other goods, generally resorted to when particular foreign currencies are in short supply, or when countries apply foreign exchange controls. As noted by Pass & Lowes, there are various forms or countertrade, including: barter (the direct exchange of product for product), compensation deal (when the seller receives part of the payment in his own currency and the remainder in goods supplied by the buyer), buyback (where the seller of plant and equipment from the exporting country agrees to accept some of the goods produced by that plant and equipment in the importing company as a partial payment), counterpurchase (where the seller from the exporting country receives partial payment for the goods in his own currency and the remainder in the local currency of the buyer, the latter then being used to purchase other products in the buyer's country).

**Coverage**

Together with the so-called "penetration", it is a major component of the market share, and indicates the ratio between the number of the company's active clients and the total number of clients reached (or contacted, i.e. the "pertinent market") by the same company over a given time period.

**Critical Mass** - See "S-shaped Curve"

**Dealership** - See "Franchising"
**Direct Costs**

Costs that can be correctly assigned to the proper marketing entities (countries, regions, segments, clients, product lines, salesmen, strategic or organizational choices, etc.) in order to evaluate their contribution to the company’s profitability. All the variable costs (raw materials, components, commissions, etc.) are direct by definition, but also some fixed costs could be directly attributable to specific entities: for example, the cost of an Area Manager in charge of a country could be correctly considered in order to assess that country’s contribution.

**Direct Exports** - See "Export"

**Export**

A good or service which is sold to foreign countries (we do not consider here the so-called "capital exports"). We can distinguish "visible exports" (goods which are produced in the home country and then physically transported to, and sold in, a foreign country) and "invisible exports" (a service which is provided to foreigners either in the home country or abroad), both earning foreign exchange for the home country. Goods can be exported with a variety of distribution and selling strategies, that go much beyond the traditional and simplistic categorization into "direct exports" (sales made to the end users or to distributors abroad) and "indirect exports" (strictly speaking, sales made to a distributor in the home country). As a matter of fact, the large majority of international marketing authors does not distinguish clearly among the various combinations of "distribution" strategies (aimed at serving intermediaries who physically own the goods in order to resell them) and "selling" strategies (aimed at transferring the property, through direct or indirect sales forces - which do not buy the products - either to distributors or to the end users): these strategies, which are normally complementary (and not mutually exclusive as they are often presented!), have, in fact, totally different profiles in terms of effectiveness (impact on market shares) and efficiency (economic and financial impact).

**Fixed Cost**

Costs whose total amount, in the short run and within a given range of output, do not vary directly, proportionally and automatically with the level of output (production and/or sales). Typical fixed cost are the depreciation of a machine or a rent, but also an advertising investment, even if (incorrectly) made to vary depending on the expected or actual sales, is obviously fixed. The economic theory states that fixed costs per unit of product will fall as output increases as total fixed costs are spread over a larger output. However, it is important to note that the concept of "unit fixed cost" (that does not exist in nature, but is only the result of a conventional calculation) could just be useful for assessing the overall efficiency of a firm (its ability to produce, for example, a larger output with a lower amount of overall costs), but does not have an actual meaning for supporting strategic decisions (such as pricing): the point is that, in order to make money, the firm must abundantly cover the “total fixed costs” with the contribution (revenues less variable costs) that it will be able to generate, given a certain market and competitive context, and a given strategy (see also “variable costs” and “contribution”).
Franchising

It is a special form of licensing, in which the franchisor makes a total marketing program available to the franchisee, including the brand name, logo, products, services, sales and communication strategies, and methods of operation and control. The franchising agreement is therefore more comprehensive than a regular licensing agreement, and creates a much stricter relationship between franchisor and franchisee (the latter must normally comply with the marketing strategies and policies defined by the former). Exclusive or restricted dealership agreements are, to some extent, similar to franchising, but they normally cover, prevalently, the distribution, sales, after sales service and communication aspects.

Greenfield

It is the establishment of a new manufacturing plant or workshop by a firm, either domestically or abroad. This direct investment strategy may be preferred to inheriting existing plants through takeovers and mergers because it gives the firm greater flexibility (location, technologies, work practices, workforce), but normally implies significant investments.

Indirect Costs

Costs, also called “nontraceable common costs”, whose allocation to the marketing entities (countries, regions, segments, clients, product lines, salesmen, strategic or organizational choices, etc.) would be highly arbitrary. For example, allocating some (or all the) fixed costs to the units produced or sold would prevent from assessing the actual contribution of these products to the company’s profitability. Typical indirect costs are overhead, taxes or “corporate image” expenditures: as noted by Philip Kotler, to allocate these expenditures equally to all products or proportionally to sales would be arbitrary because relative product sales reflect many factors besides corporate image making.

Indirect Exports - See “Export”

Joint-Venture

It is a business owned jointly by two or more independent firms (frequently on an equal basis) which continue to function separately in all other respects but pool their resources in a particular line of activity and/or market. As noted by Pass & Lowes, this arrangement is often a particularly effective way of exploiting complementary resources and skills, and is often used as a means of entering unfamiliar foreign markets, since it can create critical mass and facilitate market penetration in a “relatively” less expensive way compared to full mergers and acquisitions. On the other hand, as suggested by Keegan, the main disadvantage of this form of international expansion is the very significant cost of control and coordination associated with working with a partner.

Key Success Factors

In a narrow but pertinent sense, the “Key Factors of Competitive Success” (or KSFs, in short) are the major criteria adopted by the market in choosing among alternative suppliers, or the major components of the value/price ratio perceived by the buyer (the "perceived competitive profile" in terms of value offered and price charged), since the ability to satisfy these criteria and deliver the value expected by the market greatly increases the probability of being chosen against the competitors. In a broader sense, we could extend the concept to the ability to manage the resources and tools that are more appropriate for improving the firm's performance in relation to the various components of the value/price ratio (see also "marketing mix").
Licensing

Under licensing, a company (licensor) assigns the right to a patent (which protects a product, technology, or process) or a trademark (which protects a product name, a logo, or even a real or imaginary character) to another company (licensee), for a fee and/or a royalty. As noted by Jeannet & Hennessey, the licensee (in international marketing, the foreign company) gains the right to commercially exploit the patent or trademark on either an exclusive or an unrestricted basis. Licensing agreements are subject to negotiation and tend to vary considerably from company to company and from industry to industry (see also “franchising”).

Margin

It is the difference between total (or unit) revenues and total (or unit) costs, and can be expressed in absolute terms or in percentage points. If expressed in percentages, and without further specification, the term implicitly refers to the ratio between unit (absolute) margin and unit price. If only variable and direct costs of a given entity are subtracted from revenues, we can correctly use the term “contribution margin”.

Markdown

It is, practically, a discount on the original or previous retail price of a merchandise.

Markup

It is the ratio, expressed in percentage points and quite popular among retailers, between the unit (absolute) margin and the unit (normally, variable) cost of a product: the same unit margin of, for example, $80.00, could represent a contribution margin of 40% if divided by a price of $200.00, and a markup of 67% if divided by a unit variable cost of $120.00.

Market Share

It is the ratio between the sales made by a company and the total volume of the pertinent market addressed by the company, within a well defined and specific product/market/country combination. The purpose of this critical indicator is to measure and control the firm’s ability to compete, within the context of the market that the firm is able to reach: no sales will be made if the company is not able to gain a “slice” of the “pie” that represents the overall reachable market, and therefore the ability to reach a position in the market is an essential success factor. Especially in growing industries, the company could directly contribute to the expansion of the market, i.e. attracting new consumers or users to the industry and “creating” demand, but the logic of gaining a “slice” of the existing demand (no matter how generated) is always applicable. Over the medium-long term, there is obviously a strong correlation between market share and profitability, but it could be relatively too costly to expand the market share beyond a certain level (see also the “S-shaped Curve”), due to the likely competitors’ reactions: it is therefore important to aim at the best possible compromise and balance between the firm’s market position (market share), the investments needed to reach this position, and the contribution and returns that this position is able to generate. Most companies (especially SMEs) do not take into explicit consideration market share: they think that the market is too big to make this indicator meaningful (evidently a wrong assumption, since they should only consider the reachable market), or that it is too costly to estimate the size of the market (another wrong assumption, since it would be sufficient to invest a relatively small amount of resources in the collection of systematic estimates of the overall potential of each individual client contacted by the firm). See also “coverage” and “penetration”.

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**Modeling**

From a managerial perspective, “modeling” (i.e. designing and using models to support the decision making activity) means representing and interpreting in abstract but realistic and coherent terms the nature of the real-life relationships among the relevant variables which affect results, in order to facilitate forecasts and projections of their future behavior and, therefore, improve decisions. Models facilitate the clarification of managers’ ideas about the nature of problems, stimulate reasoning in a systematic and structured way (regardless the type of models and the existence of reliable data), they are explicit and can be shared, discussed and negotiated, they allow the identification of issues that deserve more in-depth analysis, and provide a logical basis for the measurement of business and marketing phenomena, for updating decisions and controlling results. In conclusion, they represent the **conditio sine qua non** for finalizing (in a decision making perspective) any knowledge management system.

**Marketing Mix**

It is the combination of various marketing tools and resources used by the company for addressing a given market context. The traditional description of this concept in terms of a list of tools (the infamous 4Ps or 6Ps!) is practically meaningless, since all the companies must use, to some extent, the listed tools (and, as a matter of fact, some critical tools such as marketing research are not even included in these lists!). It is much more sensible to think in terms of a matrix which shows the intersections between all the usable tools and the main activities that should be performed in order to deliver the appropriate value to the market and produce a profit for the firm: on one hand, many tools are "multipurpose" (that is, are useful for performing various activities: e.g. the salesforce is an important resource not only for selling and distributing the products, but also for collecting information, contributing to the technical-psychological-organizational-economic value delivered to the customer, and communicating that value to the same customer), on the other, each significant component of value needs a combination of various tools in order to be correctly delivered and perceived (e.g. the "brand image", or psychological-emotional component of value, could be affected not only by the advertising investments but also by the raw materials used to produce the goods, the salesmen’s professional profiles, the type of distribution channels adopted, etc. etc.). This "matrix" approach is conceptually similar to that proposed by Michael Porter with its famous "Value Chain", which identifies the various activities performed for delivering value to the market and margins to the firm, but does not explicitly relate these activities to the various components of value.

**Opportunity Cost**

It is a measure of the economic cost of using scarce resources to produce a particular good or service (or to pursue a given strategy, or to implement a specific organizational choice) in terms of the alternative production (or strategy, or organizational choice) thereby foregone. In practice, and from a strategic perspective, it could be measured or estimated as the net benefit foregone due to the use of resources in one direction instead of another: for instance, the choice of using distribution channels instead of going direct normally implies a smaller unit margin for the company, which could be compensated only partially by larger sales volumes and smaller marketing investments (see also "traceable common costs").

**Nontraceable Common Costs - See "Indirect Costs"**
Out-of-Pocket Costs

Contrary to the "opportunity costs", these are "visible" costs, that can easily be measured, quantified and accounted for in a profit & loss statement. They are normally classified according to their behavior in relation to volumes (fixed or variable), depending on whether or not they are attributable to specific entities of interest (direct, indirect, traceable), and according to the functional area to which they belong (manufacturing, marketing, finance, personnel).

Penetration

Together with the so-called "coverage", it is a major component of the market share, and indicates the ratio between the number of units purchased from the company by an "average" active client and the total number of units purchased (including purchases from the company's competitors) by an average client (active or non-active) contacted by the company over a given time period. This term could have different meanings in other marketing contexts: for example, in pricing it indicates a low-price strategy aimed at reaching the largest possible market share (versus the so-called "skimming strategy", aimed at maximizing profitability in a limited market willing to pay a high price and without serious or imminent competitors).

Perceived Competitive Profile - See "Key Success Factors"

Pertinent Market

Within a given "actual market" (normally estimated, especially in international marketing, in terms of size within its geographical borders, in the context of a well defined and specific product/market/country combination), the "pertinent" market is the market that the company is able to reach (to get in touch with), given its resources, strategy and organizational structure (particularly in terms of sales force). This concept, even more important in international marketing due to the significant difference between overall market potentials and firms' size, takes into consideration only the portion of the market for which it makes sense to measure the firm's ability to compete: within this context, the firm's market share could therefore be rather significant. This is not to say that the ratio between the pertinent and the actual market is not important, but this indicator just gives an idea of the relative size of the company in a particular country, not of its ability to compete.

Piggybacking

It is an arrangement between the company and another company that sells to the same customer segment: the latter takes on the products of the former as if it were the manufacturer. The products retain the name of the manufacturer and both partners normally sign a multiyear contract to provide for continuity. The company that provides the products is, in essence, "piggybacking" them on the shoulders of the established company's sales force. Under a piggyback arrangement, the manufacturer normally retains control over marketing strategy, particularly pricing, positioning, and advertising. The partner acts as a "rented" sales force only (at a variable cost for the manufacturer).

Private Labeling

Sales made by a manufacturer that supplies his products to another company (for example, a supermarket chain) that sells the products independently, under its own brand name.
Return

It is the ratio between the resources generated by a given company's activity or endeavor and those employed in that activity or endeavor. For example, the ratio between net profit and total investment is called ROI (return on investment). The performance of managers in charge of marketing or international marketing activities (which is normally assessed only on the basis of revenues or, in the best case, on the basis of contribution) should preferably be measured also in terms of ROAM (return on assets managed), since their responsibility should normally cover an important portion of the total firm's investment, i.e. the gross working capital represented by the "accounts receivables" (that depend on the credit terms granted to clients and affect their willingness to buy, other things equal) and the "inventory" (another important asset in most industries, that affects the ability to serve the market in a timely and exhaustive way). The same concept can be applied to many other entities of interest for the company: countries, classes of clients, product lines, etc.

ROAM - See "Return"

ROI - See "Return"

Segment - See "SWOT Analysis"

Skimming - See "Penetration"

S-shaped Curve

It is also called "logistic curve" and describes the functional relationship between investments in specific resources and specific results obtainable with these investments, a critical concept in strategic planning. Up to a certain "minimum level" of investment (normally called "threshold" or "critical mass") results do not show significant increases, beyond this level results grow at an exponential rate up to another point (a reasonably "maximum" level of investment called "ceiling"), beyond which they could continue growing but at a diminishing rate. Obviously, the "critical mass" necessary to compete varies greatly depending on the specific business, the type of resources and results taken into consideration, and the market and competitive context.

Strategic Business Unit - See "SWOT Analysis"

SWOT Analysis

The acronym refers to the analysis of Strengths and Weaknesses of a company in relation to the Opportunities and Threats presented by the environmental and market context. The analysis is normally conducted without specific reference to the potentially different product/market/country combinations in which the company operates (or plans to operate), and this makes the entire exercise very generic and practically meaningless from a strategic perspective. It would therefore be much more sensible to conduct the analysis at the levels of both the individual "strategic business units" (SBUs) or segments (product/market/country combinations) and the overall corporate portfolio: some strengths and/or weaknesses and some opportunities and/or threats could be common to most SBUs, but others could be specific for selected SBUs and therefore require or suggest different and balanced strategic choices.
**Theoretical Market**

It is represented by all the consumers/users that belong to the industry sector or segment of interest, given a certain business definition: depending on the scope of the business definition, the theoretical market could be more or less broad, but is larger (by definition) than the so-called "available market", and it would therefore be relatively meaningless to estimate its size in terms of quantities.

**Threshold** - See "S-shaped Curve"

**Traceable Common Costs**

Costs that can be assigned to a given entity (e.g. a country) only indirectly, but on a plausible basis. For example, a portion of the overall cost of a general manager who systematically spends a given percentage of her/his time to promote business in relation to this entity: without her/his contribution, the company should hire or employ some other professional resource (in practice, it could be considered as an "opportunity cost" of adopting that particular organizational arrangement).

**Transaction Costs**

Costs incurred in using the market system in buying or selling products or services. As noted by Pass & Lowes, they include the costs of locating suppliers or customers and negotiating with them, and the costs associated with imperfect market situations such as tariffs and quotas. Depending on their nature, they can be classified as fixed or variable costs (either "out-of-pocket" or "opportunity"), but, even if they can be very significant (for example, in the sale of a consulting project to a major public institution), quite often they are not explicitly taken into consideration for assessing the profitability of the transactions.

**Trading Company**

The primary functions of a trading company in a given country include purchase, sale, transportation, and distribution of goods imported from or exported to other countries. To supplement these activities, as noted by Stern & El-Ansary, other services of frequently offered as well. For example, U.S. trading companies offer a wide array of services including providing their clients with international market research, consulting, marketing, insurance, product research and design, trade documentation, legal assistance, financing, and facilities for merchandise handling and wholesaling.

**Value Chain** - See "Marketing Mix"

**Value/price Ratio** - See "Market Share" and "Key Success Factors"

**Variable Costs**

Costs whose total amount tend to vary directly, proportionally and automatically (and not because of a subjective managerial decision such as an advertising investment, which could be proportional to the expected sales, but is not automatically determined by the sales volume), with the level of output (production and/or sales). In fact, the "unit" variable cost (raw materials, commissions, etc.) tends to be constant within a given range of output, that is why the concept of "variability" implicitly refers to the "total" costs incurred by the firm (see also "direct costs" and "fixed costs").

**Working Capital** - See "Return"