

Topic: A TNC may adopt a number of marketing strategies in host economies. Critically examine some of these strategic options.

Bullet points:

- The unique nature of multinational enterprise
- Multinational and World Trade
- Marketing strategies of MNCs

Table of contents

Introduction	2
I. Marketing strategies	2
A. Basic elements of marketing strategy	2
1. Segmentation	2
2. Positioning	2
3. Market entrance	2
4. Time	2
B. 4 P's	2
1. Product	3
2. Price	3
3. Place	4
4. Promotion	4
II. Apple Strategic options	6
A. Basic elements	6
1. Segmentation	6
2. Positioning	6
3. Market entrance	6
4. Time	6
B. 4 P's	7
1. Product	7
2. Price	7
3. Place	7
4. Promotion	7
Conclusion	8
Bibliography	9

Introduction

A transnational corporation (TNC) is an corporation/enterprise that manages production establishments located in at least two countries. Multinational corporations (MNC) are often divided into three broad groups: Horizontally integrated multinational corporations, vertically integrated multinational corporations, diversified multinational corporations.¹

The American Marketing Association suggests that Marketing is "the process of planning and executing the pricing, promotion, and distribution of goods, ideas, and services to create exchanges that satisfy individual and organizational goals."

With the marketing we can find answers for existing and potential consumers expectations. In a first part I present the 4 P's, and in a second part I analyse some TNC strategic options through the example of Apple.

A TNC adopts different marketing strategies, these strategies are not the same in different host economies.

I. Marketing strategies

A. Basic elements of marketing strategy

1. Segmentation

Every market has submarkets constituted by customers with same characteristics. Each market segment represent a different opportunity, a TNC has to find a strategy for everyone. So the TNC position oneself in relation to the competition. We need measure attractiveness of each segment and choose adapted to the strong points of the TNC, according to the country the strong point can be different. The goal is to increase the turnover and/or the market share in order to guarantee its growth and its profitability.

There are four conditions to fill so that a segment is attractive: the existence of dissatisfied or badly satisfied needs, a sufficient size, a potential of significant development, a weak competition.

2. Positioning

According to the adopted strategic behaviour, the TNC will occupy a different row in the network, representing the held market shares: leader, follower, challenger or nicher (specialist). With this organisation, if the position of a firm changes, the position of the competitors changes too.

Some microeconomics concepts can illustrate the positioning, as Stackelberg, Cournot or Bertrand models. The theory of games can be useful too.

Ideally the TNC adapts the strategy for every market and every economy, because it is rare to have always the same position.

3. Market entrance

There are three possibilities: firm creation, partnership or buy an existing firm or product. We can again precise for this point that is not the same in all economies. The market and the laws are different.

4. Time

The moment to pass to the action, that is to say neither too early nor too late. It will be necessary to establish a timetable, which holds account of the two principal parameters: time to cover the market and the lifespan of a product.

The most famous basic element is certainly the marketing mix, so I study this very important point in the next part.

B. 4 P's

Neil H. Borden started to use the term of Marketing Mix in the late 1940's. Jerome McCarty introduced 4P's in 1960, the 4 P's are: Product, Price, Place and Production. The manager can use these four tools, which are the basics elements of a marketing plan.

¹ TNC wikipedia definition (www.wikipedia.org)

1. Product

The goal is to propose a different product, different characteristics or different accompaniment. The product should correspond with consumers' expectations. Obviously the consumers' characteristics and expectations depend on the culture, so the country. Between two host economies the expectations can be really different.

a) Classification

The technical product is constituted by technical characteristics, which give to the product its intrinsic value.

The commercial product is the technical product to which one added the marketing aspects (brand, packaging, standards of certification, colours). Those can sometimes be more generating of purchase than the product in itself.

The whole constitutes the total product to which come to be added the structures and the services set up by the producer to secure the distribution.

b) Lifecycle

The commercial history of every product is divided into 4 phases:

- Product launch on the market is characterized by a relatively slow evolution of the sales.
- Development corresponds to the total growth of the consumption of the product. It is necessary to adopt a strategy of support because there is an increasingly dense competition.
- Maturity. During this period the competition is highest, the consumption decrease progressively. The TNC search its advantages compare to the competitors.
- Decline. Structural decrease of the demand, so it's very important to introduce the substitute in a good time. If there is no demand it is the moment to stop this output.

Lifecycle is useful to forecast sales progression for short or medium-term, to plan the substitutes (replacement products) and to find adapted strategies for each stage.

c) Strategy

To define its strategy of range, the TNC must carry out one audit of the ranges and the products. Its choice will be primarily related on the commercial attractivity of the products composing it and to the criteria of cost price of manufacture.

- The single product. This strategy is very dangerous because the future of the TNC hinge on the market of this product.
- Single range. The TNC has only one range directed towards one or more segments of the market. Strategy especially used for products or services in technical matter.
- Broad range. The TNC develops many lines of goods aiming of very many market segments. The set covering the greatest number of needs, the company thus benefits from its reputation and its strong points on its current markets.
- Major range. Each line of goods offers a very significant number of products. It is a very specialized set, which attracts customers with the tastes and the diversified needs.

The TNC will establish its strategy of mark according to the various market segments concerned. This diversification will make it possible to reach new consumers, a distribution via other channels.

2. Price

Find price, which adapted at the supply. The TNC has to find the good price for each economy.

a) Five factors of influence

To fix the price, the TNC must be interested in five factors:

- Cost price: development and marketing costs.
- Demand: psychological price is between bottom price and ceiling price.
- Competition: The prices tend to be fixed around the average practised by competition on a segment.
- Market response: According to the quantity of product bought and the type of consumer concerned, various levels of price could be practised.
- Legislation: There are a certain number of laws on the practices of the trade and the consumer protection, which regulate the establishment of the prices.

b) Pricing strategies

The strategy of price adopted depends on the objectives of survival, growth, and profitability fixed in the short run and medium-term.

There are three possible strategies:

- Penetration pricing: if a TNC choose a lower price, it wants sell more quantity, so it want increase its market share. The differential of price charged compared to the competitors will depend on the capacity of the company to sacrifice the short-term profitability to the profit of a profitability restored in the medium term.
- Creaming: It is a question of practising a relatively high price either while being addressed to particular segments of the market, or by presenting products strongly differentiated at the eyes of the purchaser or of new products at the innovating customers.
- Cost plus pricing: Initially, one will seek more quickly to recover the investments authorized as a practitioner a price of creaming. Then, as soon as the characteristic of the product grows blurred under the pressure of competition, one will carry out a fall of price by thus following a policy of penetration discouraging the input of less tested competitors.

3. Place

The product must be available for the consumers. The goal is to choose the best channel to interest more consumers.

I study four factors: channel type, physical distribution (transport and stock costs), after-sales department and distribution strategy (undifferentiated, selective or exclusive distribution).

a) Channel type

According to the market segments selected and some limit (financing, range, relative profitability, brittleness or perishable character of the product), the creator will be able to plan to diffuse his products:

- By direct selling
- By distribution via intermediaries while following:
 - the long circuit (producing, wholesaler, retailer, consumer)
 - the short circuit, which does not hold account of the wholesalers
 - the integrated circuit (producing, central merchandizing, store, consumer).

b) Physical distribution

The storage and costs of transport can represent up to 30% of the sales turnover. The cost of transport depends on three factors: delivery type, delays and distance, and geographical establishment of the factories and warehouses. This point is interesting to study the strategies in different host economies.

c) After-sales department

The after-sales department is a major element in the marketing strategy. Its organization and its management must be powerful, which presupposes a qualified personnel and a fast time of intervention.

d) Distribution strategy

- Undifferentiated distribution. A leader product can stand in all points of sale (POS) (or sales outlet)
- Selective distribution. By aiming at an average cover of the market, the company runs out its product in stores specialized in this range and thus avoids dispersing its efforts in many points of sale.
- The exclusive distribution. The exclusiveness in the sale is granted to a point of sale in a geographical surface determined, which limits the number of authorized distributors.

4. Promotion

The promotion represents all communicative efforts to convince customers to buy the product.

Establish attractive communication plan with several tools: adverts, packaging, etc.

There are four complementary tools: advertising, sales force, public relations and stimulation sales.

- Advertising informs the consumer on the existence of the product and its characteristics.
- Sales force: the TNC must define and structure the sales force. Sales representative constitute the sales force and have many functions from the prospecting and the sale to the collection of information on the customer requirements and competition.

- Public relations: They create a climate of confidence between the TNC and its different public by the contribution from information objective and justifying through mass media.
- Stimulation sales: These actions of support and stimulation of the sales cause an immediate increase in the level of the sales. These techniques are determining in the launching or the revival of the products.

Booms and Bitner's have added the following 3 extra P's to the original Marketing Mix: People, Process and Physical Evidence. They suggest that Place in a service-oriented company includes the accessibility of the service and that Promotion in a service oriented company includes the input of front-line service personnel.

II. Apple Strategic options

In this part I analyse Apple situation through the structure of part I. Apple is an interesting example for this topic, it has powerful marketing, it sales different products with different strategies. Apple is a TNC, it is present in many host economies. More precisely, Apple is an Horizontally integrated multinational corporations, because it manages production establishments located in different countries to produce same or similar products.

A. Basic elements

1. Segmentation

For computers, there are two big submarkets: individual market and professional market. But it can be more precise, for example with the educational market, servers market; there is nearly one market per profession. Since 1996 and the comeback of Steve Jobs, the Apple's founder, Apple is good positioning in many markets or submarkets.

For MP3 player market, it is a young market, that is maybe for why it is not simple to define submarkets. The most simple is to considerate two submarkets: MP3 players with flash memory and with hard drive, which are more expensive, and with more capacity. But the submarkets can be defined by use: MP3 player, portable video player, multifunction devices.

2. Positioning

There are four types of market dominance strategies: leader, challenger, follower and nicher; I treat two of these strategies in this part.

a) Nicher strategy to save Macintosh

During 90's, Apple fell on hard times. To save the TNC and the benefit, Apple adopts for several points a nicher strategy.

Apple use nicher strategy for Servers today (xServe).

b) Leader strategy for iPod

Apple is leader on the MP3 player market. Dynamic approach: history of a firm can explain its leader position. In my example, Apple innovates with its couple iPod+iTunes and keeps the leadership since 2001.

Some points of its strategy are astonishing because they look similar as Apple strategy for PC. Apple doesn't want to licence its own DRM, so if you want buy a song on internet for your iPod you have to go to the iTunesMuciStore and to listen this song directly on a MP3 player you must have an iPod (some consumers lodge a complaint against Apple). So, Apple does the same thing for its MP3 player than the computers about twenty years ago. Short term Apple wins but the market increases and we can't know how this leadership will progress and if Apple would change its strategy.

The theory of games can help us to understand this choice and the risks.

Installed firms are Stackelberg leader on the market, the potential entrance adapt its quantity. (Bain, J. (1968))

3. Market entrance

For the computer market, there are some barriers to entry, but it is relatively easy to come in. But for the Macintosh submarket it's impossible since 1996, because Steve Jobs stop to licence some companies to develop Mac OS compatible computers.

For the MP3 player market, there are different barriers to entry, especially if the competitors want develop a set as Apple for the iPod (iPod, iTunes and iTMS (iTunesMusicStore)).

4. Time

Apple passed certainly too early to the action, but since 1996 the strategy seems better.

Apple always innovate but today it knows wait when the market is not enough mature.

B. 4 P's

1. Product

The product should correspond with consumers' expectations, so I make the link with innovation. When a firm innovates, it can make a product for which there is no demand, it is named "Marketing de l'offre" in French (around "supply marketing"). Some products of Apple didn't interest consumers, maybe because Apple wanted innovate and didn't wait. For example, the Apple Newton was the first organizer, we can find many reasons as technical reason or price reason, but Apple didn't study if consumers want this product with this price.

Since 1996, Apple has good marketing strategies, it brought out design products in colour and now more sober. This idea permits to increase the visibility of the firm. Globally the commercial product is very studied. The technical product is studied to be more in adequation with consumers' expectations than before.

Apple comes to grips with lifecycle. That for why it brought out the new iPod nano to replace the iPod mini, while the iPod mini sold well. So the iPod mini was certainly in its maturity stage.

Before 1996, Apple sold too much products compare to its financial position. When Steve Jobs come back he make clear the range. Apple kept just computer and software ranges, it stop Newton and many Macintosh models.

Around 2000, Apple began a diversification with WiFi products, iPod and next servers. There was an other type of diversification with Windows compatible products as AirPort, iPod and iTunes. This last idea is really aggressive.

2. Price

Aggressive is not the word to which think when we speak about Apple prices, however the Apple servers (xServe) are really cheap.

For the PC (Personal Computer), Apple has not really aggressive price, Steve says that he don't want to sell downmarket products. But compare to the quality of the quality of the system and the application package offer it is maybe a good price, but there is maybe a too low promotion ?

Finally for the iPod, Apple succeeds to propose a good price, the main reason of that is its market dominance position. There is a famous recent deal with Samsung, which the competitors do not appreciate! Apple contracted with Samsung, the first flash memory producer, to buy 40% of its production. Apple obtains a very low price which permit to bought out the iPod nano, which uses flash memory instead of hard drive. The flash memory is normally two times more expensive as a hard drive, for the same capacity.

3. Place

Before 1996, Apple had too many stocks, but now it is not the sample problem. Apple has some problem of supplying, frequently because Motorola then IBM had some difficulties to produce some processors. That's a reason for why Apple decides to choose Intel for the next generation of Macintosh.

Apple sells increasingly directly with its website and its AppleStores.

There are many Apple retailers too, to sell Macintosh there is a strict contract. There are different contract according to Apple retailers type. AppleCenters sell only Macintosh and employ two Apple technicians minimum. And Authorized resellers have just the right to sell Macintosh range.

Apple search to increase the quantity of authorized resellers, it is easy for iPod but more difficult for the Macintosh. So Apple began to open own stores as the store in Regent Street (London).

4. Promotion

Steve Jobs is a strange personality. At the beginning of Apple, he wants attack IBM, so in the famous 1984 advertising "Big Brother" is IBM, but in the same time Microsoft stole Apple innovations! So it is not always pertinent to have a target. But Apple has always an aggressiveness strategy particularly in its adverts.

Apple has a very good visibility too, for example in movies.

Conclusion

I study five basic elements of marketing strategies, the most famous is "4 P's" for: Product, Price, Place and Promotion. These basic elements give a good overview of different marketing strategies possibilities. With these observation, I can study strategic options for a TNC, and to illustrate this study I choose Apple Computer, Inc.. I will try to understand some Apple strategic options. This firm has a captivating history and there were many contradictory marketing choices. Apple has a secret culture, so it is not easy to understand some options.

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