EDINBURGH BUSINESS SCHOOL
HERIOT-WATT UNIVERSITY

International Marketing

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Preface

There has never been a time in modern economic history when more change has occurred in so short a period than that which has occurred in the last decade of the 20th century. New markets are springing forth in emerging economies from Eastern Europe, the Commonwealth of Independent States, China, Indonesia, Korea, India, Mexico, Chile, Brazil, Argentina – in short, globally. These emerging economies hold the promise of huge markets in the future. In the more mature markets of the industrialized world, opportunity and challenge also abound as consumers' tastes become more sophisticated and complex and as increases in purchasing power provide them with the means of satisfying new demands.

Opportunities in today's global markets are on a par with the global economic expansion that existed after World War II. Today, however, the competitive environment within which these opportunities exist is vastly different from that earlier period when United States multinationals dominated world markets. From the late 1940s through the 1960s, multinational corporations (MNCs) from the United States had little competition; today, companies from almost all the world's nations vie for global markets.

There is no better illustration of the changes that have occurred in the competition for global markets in the last quarter century than that experienced by General Electric Lighting (GEL). GEL, begun in 1887, dominated the U.S. lighting market until traditional rival Westinghouse sold its lamp operations to Philips Electronics of Holland in 1983. 'Suddenly,' reflected GEL's chief, 'we have bigger, stronger competition. They're coming to our market, but we're not in theirs. So we're on the defensive.' Not long after, GEL acquired Tungsram, a Hungarian lighting company, and Thorn EMI in Britain, and then moved into Asia via a joint venture with Hitachi. As recently as 1988, GE Lighting got less than 20 percent of its sales from outside the U.S; in 1997, more than half came from abroad. What happened at GE Lighting has occurred over and over again to MNCs in the United States, Europe, and Asia. The companies that succeed in the 21st century will be those capable of adapting to constant change and adjusting to new challenges.

The economic, political, and social changes that have occurred over the last decade have dramatically altered the landscape of global business. Consider the present and future impact of:

- Emerging markets in Eastern Europe, Asia, and Latin America, where more than 75 percent of the growth in world trade over the next 20 years is expected to occur.
- The reunification of Hong Kong, Macau, and China, which finally puts all of Asia under the control of Asians for the first time in over a century.
- The European Monetary Union and the switch from local country currencies to one monetary unit for Europe.
- The rapid move away from traditional distribution structures in Japan, Europe, and many emerging markets.

- The growth of middle-income households the world over.
- The continued strengthening and creation of regional market groups such as the European Union (EU), the North American Free Trade Area (NAFTA), ASEAN Free Trade Area (AFTA), the Free Trade Area of the Americas (FTAA), the Southern Cone Free Trade Area (Mercosur), and the Asian-Pacific Economic Cooperation (APEC).
- The successful completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the creation of the World Trade Organization (WTO).
- The continuing privatization and deregulation of telecommunications throughout the world.
- The restructuring, reorganizing, and refocusing of companies such as IBM, Eastman Kodak, General Motors, Levi Strauss, and Nike as they respond to the changing competitive milieu of the global marketplace.
- The transformation of the Internet from a toy for 'cybernerds' to a major international business tool for research, advertising, communications, exporting, and marketing.

These are not simply news reports. These are changes that affect the practice of business worldwide, and they mean that companies will have to constantly examine the way they do business and remain flexible enough to react rapidly to changing global trends to be competitive.

As global economic growth occurs, understanding marketing in all cultures is increasingly important. International Marketing addresses global issues and describes concepts relevant to all international marketers, regardless of the extent of their international involvement.

Not all firms engaged in overseas marketing have a global perspective, nor do they need to. Some companies' foreign marketing is limited to one country; others market in a number of countries, treating each as a separate market; and still others, the global enterprises, look for market segments with common needs and wants across political and economic boundaries. All, however, are affected by competitive activity in the global marketplace. It is with this future that the tenth edition of International Marketing is concerned.

Emphasis is on the strategic implications of competition in different country markets. An environmental/cultural approach to international marketing permits a truly global orientation. The reader's horizons are not limited to any specific nation or to the particular ways of doing business in a single nation. Instead, the book provides an approach and framework for identifying and analyzing the important cultural and environmental uniqueness of any nation or global region. Thus, when surveying the tasks of marketing in a foreign milieu, the reader will not overlook the impact of crucial cultural issues.

The text is designed to stimulate curiosity about management practices of companies, large and small, seeking market opportunities outside the home country and to raise the reader's consciousness about the importance of viewing international marketing management strategies from a global perspective.

Although this revised edition is infused throughout with a global orientation, export marketing and the operations of smaller companies are not overlooked.

Issues specific to exporting are discussed where strategies applicable to exporting arise and examples of marketing practices of smaller companies are examined.

New and Expanded Topics in This Edition

The new and expanded topics in this tenth edition reflect issues in competition, changing marketing structures, ethics and social responsibility, negotiations, and the development of the manager for the 21st century. Competition is raising the global standards for quality, increasing the demand for advanced technology and innovation, and increasing the value of customer satisfaction. The global market is swiftly changing from a seller's market to a buyer's market. This is a period of profound social, economic, and political change. To remain competitive globally, companies must be aware of all aspects of the emerging global economic order.

Additionally, the evolution of global communications and its known and unknown impact on how international business is conducted cannot be minimized. In the third millennium people in the 'global village' will grow closer than ever, and will hear and see each other as a matter of course. An executive in Germany will be able to routinely pick up his/her videophone to hear and see his/her counterpart in an Australian company or anywhere else in the world. In many respects, distance is becoming irrelevant. Telecommunications, videophones, facsimile machines, the Internet, and satellites are helping companies optimize their planning, production, and procurement processes. Information – and, in its wake, the flow of goods – is moving around the globe at lightning speed. Increasingly powerful global networks spanning the globe enable the delivery of services that reach far beyond national and continental boundaries, fueling and fostering international trade. The connections of global communications bring people all around the world together in new and better forms of dialogue and understanding.

This dynamic nature of the international marketplace is reflected in the number of new and expanded topics in this tenth edition, including:

- The Internet and its expanding role in international marketing.
- Negotiations with customers, partners, and regulators.
- Big Emerging Markets (BEMS).
- Evolving global middle-income households.
- The Uruguay Round of GATT.
- World Trade Organization (WTO).
- North American Free Trade Area (NAFTA).
- ASEAN Free Trade Area (AFTA).
- Asia-Pacific Economic Cooperation (APEC).
- Multicultural research.
- Qualitative and quantitative research.
- Country-of-origin effect and global brands.
- Industrial trade shows.
- ISO 9000.
- Trends in channel structures in Europe, Japan, and developing countries.

- Ethics and socially responsible decisions.
- Green marketing.
- Changing profiles of global managers.

Structure of the Text

The text is divided into six parts. The first two modules, Part I, introduce the reader to the environmental/cultural approach to international marketing and to three international marketing management concepts: Domestic Market Expansion Concept, Multidomestic Market Concept, and Global Marketing Concept. As companies restructure for the global competitive rigors of the 21st century, so too must tomorrow's managers. The successful manager must be globally aware and have a frame of reference that goes beyond a country or even a region, and encompasses the world. What global awareness means and how it is acquired is discussed early in the text; it is at the foundation of global marketing.

Module 2 focuses on the dynamic environment of international trade and the competitive challenges and opportunities confronting today's international marketer. The importance of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the creation of the World Trade Organization (WTO), the successor to GATT, are fully explored. The growing importance of the Internet in conducting international business is explored in depth, creating a foundation on which specific applications in subsequent modules are presented.

The five modules in Part II deal with the cultural environment of global marketing. A global orientation requires the recognition of cultural differences and the critical decision of whether or not it is necessary to accommodate them.

Geography and history (Module 3) are included as important dimensions in understanding cultural and market differences among countries. Not to be overlooked is concern for the deterioration of the global ecological environment and the multinational company's critical responsibility to protect it.

Module 4 presents a broad review of culture and its impact on human behavior as it relates to international marketing. Specific attention is paid to Geert Hofstede's study of cultural values and behavior. The elements of culture reviewed in Module 4 set the stage for the in-depth analysis in Modules 5, 6, and 7, business customs and the political and legal environments. Ethics and social responsibility are presented in the context of the dilemma that often confronts the international manager; that is, balancing corporate profits against the social and ethical consequences of their decisions.

The three modules in Part III are concerned with assessing global market opportunities. As markets expand, segments grow within markets, and as market segments across country markets evolve, marketers are forced to understand market behavior within and across different cultural contexts. Multicultural research and qualitative and quantitative research and a discussion of the Internet as a tool in the research task are explored in Module 8.

Modules 9 and 10 in Part III explore the impact of the three important trends in global marketing: (1) the growth and expansion of the world's big emerging markets; (2) the rapid growth of middle-income market segments; and (3)

the steady creation of regional market groups that include the North American Free Trade Area (NAFTA), the European Union (EU), ASEAN Free Trade Area (AFTA), Asian-Pacific Economic Cooperation (APEC), and the evolving Free Trade Area of the Americas (FTAA). The sagging leadership role of the United States in influencing the development of the FTAA and the accelerating influence of Brazil are explored. Also discussed is the disturbing number of trade agreements that have been executed by the European Union and Japan with the FTAA and some Latin American countries.

The strategic implications of the dissolution of the USSR, the emergence of new independent republics, the shift from socialist-based to market-based economies in Eastern Europe, and the return of South Africa and Vietnam to international commerce are examined. Attention is also given to the efforts of the governments of India and many Latin-American countries to reduce or eliminate barriers to trade, open their countries to foreign investment, and privatize state-owned enterprises.

These political, social, and economic changes that are sweeping the world are creating new markets and opportunities, making some markets more accessible while creating the potential for greater protectionism in others.

In Part IV, Developing Global Marketing Strategies, planning and organizing for global marketing is the subject of Module 11. The discussion of Collaborative relationships, including strategic alliances, recognizes the importance of relational collaborations among firms, suppliers, and customers in the success of the global marketer. Many multinational companies realize that to fully capitalize on opportunities offered by global markets, they must have strengths that often exceed their capabilities. Collaborative relationships can provide technology, innovations, productivity, capital, and market access that strengthen a company's competitive position.

Modules 12 and 13 focus on product management, reflecting the differences in strategies between consumer and industrial products and the growing importance in world markets for business services. Additionally, the discussion on the development of global products stresses the importance of approaching the adaptation issue from the viewpoint of building a standardized product platform that can be adapted to reflect cultural differences. The competitive importance in today's global market for quality, innovation, and technology as the keys to marketing success is explored.

Module 14 takes the reader through the distribution process, from home country to the consumer, in the target-country market. The structural impediments to market entry imposed by a country's distribution system are examined in the framework of a detailed presentation of the Japanese distribution system. Additionally, the rapid changes in channel structure that are occurring in Japan, as well as in other countries, and the emergence of the World Wide Web as a distribution channel are presented.

In Module 15, the special issues involved in moving a product from one country market to another, and the accompanying mechanics of exporting, are addressed. In addition, the importance of the Internet in assisting the exporter to wade through the details of exporting is discussed in the context of the revised export regulations.

Module 16 covers advertising and addresses the promotional element of the international marketing mix. Included in the discussion of global market segmentation are recognition of the rapid growth of market segments across country markets and the importance of market segmentation as a strategic competitive tool in creating an effective promotional message. Module 17 discusses personal selling and sales management and the critical nature of training, evaluating, and controlling sales representatives.

Price escalation and ways it can be lessened, countertrade practices, and price strategies to employ when the dollar is strong or weak relative to foreign currencies are concepts presented in Module 18.

In Part V, Module 19 is a thorough presentation of negotiating with customers, partners, and regulators. The discussion stresses the varying negotiation styles found among cultures and the importance of recognizing these differences at the negotiation table.

Pedagogical Features of the Text

The text portion of the book provides a thorough coverage of its subject, with specific emphasis on the planning and strategic problems confronting companies that market across cultural boundaries.

The use of the Internet as a tool of international marketing is stressed throughout the text. In all occasions where data used in the text originated from an Internet source, the Web address is given. Problems that require the student to access the Internet are included with end-of-module questions. Internet-related problems are designed to familiarize the student with the power of the Internet in his/her research, to illustrate data available on the Internet, and to challenge the reader to solve problems using the Internet. Many of the examples, illustrations, and exhibits found in the text can be explored in more detail by accessing the Web addresses that are included.

Current, pithy, sometimes humorous, and always relevant examples are used to stimulate interest and increase understanding of the ideas, concepts, and strategies presented in emphasizing the importance of understanding cultural uniqueness and relevant business practices and strategies.

Each module is introduced with a Global Perspective, a real-life example of company experiences that illustrate salient issues discussed in the module. Companies featured in the Global Perspectives range from exporters to global enterprises.

The boxed 'Crossing Borders,' an innovation of the first edition of International Marketing, have always been popular with students. This tenth edition includes more than 30 new incidents that provide insightful examples of cultural differences while illustrating concepts presented in the text. They reflect contemporary issues in international marketing and can be used to illustrate real-life situations and as the basis for class discussion. They are selected to be unique, humorous, and of general interest to the reader.

Besides the special section of color maps found at the end of the book, there are numerous maps that reflect changes important to the module and that help the reader observe features of countries and regions discussed in the text.

New photographs of current and relevant international marketing events are found throughout the text, as well as three special photo essays. One on advertising around the world, one on Microsoft as a global marketer of services, and the third on Solar, a global marketer of industrial goods.

'The Country Notebook – A Guide for Developing a Marketing Plan,' found in Appendix 1, is a detailed outline that provides both a format for a complete cultural and economic analysis of a country, and guidelines for developing a marketing plan.

Introduction

The main objective of this international marketing distance learning study program is to help a student better understand marketing in all cultures. It addresses global issues and discusses concepts relevant to all international marketers, regardless of the extent of their international involvement.

Not all firms engaged in overseas marketing have a global perspective, nor do they need to. Some companies' foreign marketing is limited to one country; others market in a number of countries, treating each as a separate market; and still others, the global enterprises, look for market segments with common needs and wants across political and economic boundaries. All, however, are affected by competitive activity in the global marketplace. It is with this future that this course and the tenth edition of *International Marketing* is concerned.

Emphasis is on the strategic implications of competition in different country markets. An environmental/cultural approach to international marketing is used, thereby permitting truly global orientation. The reader's horizons are not limited to any specific nation or to the particular ways of doing business in a single nation. Instead, the course provides an approach and framework for identifying and analyzing the important cultural and environmental uniqueness of any nation or global region. Thus, when surveying the tasks of marketing in a foreign milieu, the reader will not overlook the impact of crucial cultural issues.

The course is also designed to stimulate curiosity about management practices of companies, large and small, seeking market opportunities outside the home country and to raise the reader's consciousness about the importance of viewing international marketing management strategies from a global perspective.

Although the course is infused throughout with a global orientation, export marketing and the operations of smaller companies are not overlooked. Issues specific to exporting are discussed where strategies applicable to exporting arise and examples of marketing practices of smaller companies are examined.

The contents of this publication are organized around the above objectives. It contains 19 modules which are structured around the 19 chapters in the text, *International Marketing* (tenth edition). These modules are divided into five parts as follows:

1 An Overview
2 The Cultural Environment of Global Markets
3 Addressing Global Market Opportunities
4 Developing Global Marketing Strategies
5 Implementing Global Marketing Strategies

Each module contains five sections: (1) module learning objectives; (2) the main text; (3) end-of-module true/false, multiple-choice, and fill-in-the-blank questions; (4) end-of-module essay questions; and (5) end-of-module discussion questions. The last module in each part contains a sixth section entitled end-of-part cases. Each module has a variety of pedagogical features designed

to help you better understand its contents. Real-world mini-case studies and examples are strongly emphasized. These features, for the most part, well-known international companies which serve as examples and, thus, facilitate learning about a particular marketing concept or activity. They should also help individual students apply what is being learned to their own organization.

Instructions on Using Study Programme Materials

Before studying any of the module materials, read the Preface (reproduced after this introduction) which discusses the authors' rationale in structuring the text component of this study programme's materials. Pay particular attention to the discussion about the 'Structure of the Text' since it will help you understand the sequencing of modules as well as their content.

Following your reading of the Preface, you should prepare yourself for studying Module 1 – by reading the first section of the module which is concerned with the module's learning objective as well as the list of content covered by the module. When you finish this brief exercise, read carefully and thoroughly the text of Module 1 (and each successive module). Some students find it desirable to read certain text materials twice –once through quickly followed by a second, more careful reading. Some find it helpful to take notes or outline in some depth the text. You should do whatever you think provides the best results. You should next proceed to the summary of the text material. Pay particular attention to the definition of key words/terms. If you find any difficulty in understanding any part of this outline, you should refer to that part of the text.

You are now ready to be examined on how well you understand the module and can apply its contents to the real world. Several types of questions are used to test your effort. The answer to the first three sets of questions are contained in Appendix 2. These questions are essentially concerned with the module's content and how well you can recall and discuss it. Thus, the questions are designed to test your knowledge about the meaning of certain terms, concepts, and facts as well as your ability to understand certain applications of the materials presented. You should write your answers and then compare them with those contained in Appendix 2.

The next two sets of questions (essay and discussion) require you, for the most part, to discuss a situation and/or a problem and hence are real-world-oriented. Inevitably these require a more detailed answer. These are also contained in Appendix 2. At the end of each of the first four parts there are several cases –all based on problems facing a real company. Many of these are well-known international companies–e.g., Nestlé, Euro-Disney, General Electric, and Caterpillar. These require an essay response (in the form of a report) which by answering the questions at the end of the case provides guidelines (often in the form of constraints) for handling the overall problem. Appendix 3 contains a discussion of these questions.

It is important to note that you may well feel that the case contains inadequate information to discuss, in any depth, a 'solution' to the overall problem. We can only respond that the case contains all the relevant information available at that time. Further, most executives never have all the information they want in their

problem-solving activities. We should also caution you that there is typically no single overriding solution to most of the central problems facing the companies. Your main concern should be the process and the reasoning you used in your answer to the case questions.

Conclusion

The time required to complete a module will, of course, vary between students – and even for the same student with regard to different modules. On average, we would expect you to spend a relatively short period of time studying the first section of the module, including thinking about their application to your organization. Overall, you should be prepared to spend two to three hours studying the module's content. Some of this time will be spent in transferring what you are reading to your own job situation. The self-examination part of the learning procedure (the three batteries of questions at the end of each module plus the cases) will take probably another three hours or more depending upon how much reviewing is necessary.

As you proceed through the modules, you may find it desirable, even necessary, to review certain parts of earlier modules. Thus, some of the later modules may well require additional study time. If you continuously try to apply what you are learning to your company, you will find yourself learning a great deal more not only about marketing, but about your company as well. We would hope that you will involve, where you feel it is appropriate, knowledgeable business people (including those in the organization where you are employed) in your pursuit of an understanding of international marketing. We also hope that at the conclusion of the course you will be satisfied with what you have learned about this subject and feel confident in your ability to apply the basic concepts included in the text.

After completing your study of the 19 modules plus the country notebook (Appendix 1), you are now ready to take the two practice examinations (Appendix 4). These are actual examinations that have been prepared by the Edinburgh Business School faculty for the Distance Learning Study Programme. *A word of caution* – be sure you thoroughly review all modules including the answers to the three test batteries before taking these exams.

For those of you wanting more exposure to certain marketing subjects, each module's footnotes represent a major resource. These not only identify a large number of useful and recent articles from a wide range of academic journals and business publications, but also refer to the best specialized text books which are concerned with such international marketing areas as the impact of the cultural environment on the company's strategy and its strategic marketing programs which integrate product, price, channel, and promotion decisions.

PART ONE

Module 1	The Scope and Challenge of International Marketing
Module 2	The Dynamic Environment of International Trade
	Part One Cases

Module 1

The Scope and Challenge of International Marketing

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Learning Objectives

What you should learn from reading this module:

- The changing face of U.S. business.
- The scope of the international marketing task.

- The importance of the self-reference criterion (SRC) in international marketing.
- The progression of becoming an international marketer.
- The increasing importance of global awareness.

Global Perspective: International Marketing Is for Small Companies Too

It's not news that Coca-Cola is a global company or that 25 percent of all of General Motors' profits for the past five years came from General Motors do Brazil. After all that's what international marketing and the global economy are all about, companies like IBM, Intel, Nike, and McDonald's doing business around the world. But you might be surprised to learn that the global economy now reaches every corner of the United States and that internationalization now involves not just the giant corporations but also many small companies that have only recently ventured outside of the United States seeking new markets. In fact, export growth of small businesses selling everything from window screens to abrasives has been one of the major engines of the United States' long economic expansion. According to a study by the Institute for International Economics, the 50 largest exporters account for 30 percent of the nation's merchandise exports; the rest comes from 'middle and lightweights'. Facing stiff competition and saturated markets at home, many small and medium-size companies are discovering the opportunity of foreign markets. Consider the following examples:

- Red Spot Paint & Varnish Co.'s international sales used to be so rare that the president handled them on Saturday mornings. Today, a staff of four full-timers covers exports that account for 20 percent of the company's $90 million annual sales. Red Spot sells paints and other coatings to auto makers on six continents and competes with the likes of Du Pont Co. When they started, people asked, 'How in the world can you sell Red Spot Paint outside the tri-state area?'
- Hanover Wire Cloth made its first attempts to sell screens abroad nine years ago by visiting foreign trade shows. Today the company's factory runs round-the-clock, six days a week. Its international department, now seven strong, sells products in 35 countries. Foreign sales reached $9.4 million, 16 percent of the company's total revenues. Over the last five years the company has made two major equipment upgrades to accommodate the special needs of the new markets. Hanover Wire Cloth now turns out wire screening in metric widths as well as inch widths, and in nontraditional colors to suit market tastes – green for Europe, gold for the Philippines, and black for Australia and Canada.
- In the mid-1980s, only about 10 percent of Bromide Engineered Abrasives' sales were outside the U.S. and those were to Big Three automakers' factories across the river in Canada. By 1997, 60 percent of the business was overseas. The company employs 35 people to manufacture, sell, and ship 'little sticks', 6-inch-long sticks used like a file or whetstone to polish and fine-tune the metal molds for plastic parts. To obtain a glossy-smooth finish on a telephone, for example, the steel or aluminum plastic-injection molds must be carefully maintained. Overseas customers in 27 different countries buy these 'little sticks' despite tariffs and duties imposed to keep foreign products out. Customers in India, for example, who are not allowed to write checks for more than $5000

to non-Indian companies, get around the restriction by splitting orders into less than $5000 each.

- Not to be overlooked is Hawg Heaven Bait Co., whose exports account for 20 percent of its sales. 'Japan is really becoming a country that likes to bass fish', says Hawg's owner, pulling out a $9600 Japanese order for his Twin Screws Super Craw fishing lures.

It wasn't too long ago that international marketing was left to the big boys while the rest dabbled in exporting only once in a while. Today, however, international marketing is a contributor to the revenue streams of more and more companies. If all the global trends we discuss in this module and throughout the text continue, the world will experience an economic boom of unparalleled proportions in the 21st century. To participate, you and your companies must become aware of global challenges and opportunities; we present this text as a step in that direction.*

Never before in American history have U.S. businesses, large and small, been so deeply involved in and affected by international global business. A global economic boom, unprecedented in modern economic history, is under way as the drive for efficiency, productivity, and open, unregulated markets sweeps the world. Powerful economic, technological, industrial, political, and demographic forces are converging to build the foundation of a new global economic order on which the structure of a one-world economic and market system will be built.

Whether or not a U.S. company wants to participate directly in international business, it cannot escape the effect of the ever-increasing number of North American firms exporting, importing, and/or manufacturing abroad, nor can it ignore the number of foreign-based firms operating in U.S. markets, the growth of regional trade areas, the rapid growth of world markets, and the increasing number of competitors for global markets.

Of all the trends affecting global business today, three stand out as the most dynamic, the ones that will influence the shape of international business in the future: (1) the rapid growth of regional free trade areas such as NAFTA, EC, and AFTA;[1] (2) the trend toward the acceptance of the free market system among developing countries in Latin America, Asia, and Eastern Europe; and (3) as a result of these two, the evolution of large emerging markets such as Brazil, China, South Korea, and Poland.

Today most business activities are global in scope. Technology, research, capital, investment, production, and marketing, distribution, and communications networks all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic environment, and all businesspeople must be aware of the effects of these trends when managing a

* *Sources*: Laurent Belsie, 'Small Items from Small Towns Are Now Big Part of U.S. Exports', *Christian Science Monitor*, 13 November 1996, p. 1; 'Brazil Plan Is Bitter Pill for U.S. Multinationals', *The Wall Street Journal*, 13 November 1997, p. A17; Robert L. Rose and Carl Quintanilla, 'Tiptoeing? Abroad: More Small U.S. Firms Take Up Exporting, with Much Success', *The Wall Street Journal*, 20 December 1996, p. A1; and Peter Grier, 'Exports: Rocket Fuel of U.S. Economy Selling Sandpaper's "Sticks" to India', *Christian Science Monitor*, 1 October 1997, p. 1.

domestic company that exports or a multinational conglomerate. As one international expert noted, every American company is international, at least to the extent that its business performance is conditioned in part by events that occur abroad. Even companies that do not operate in the international arena are affected to some degree by the success of the European Community, the export-led growth in South Korea, the revitalized Mexican economy, and the economic changes taking place in China.

It is less and less possible for business to avoid the influence of the internationalization of the United States economy, the globalization of the world's markets, and the growth of new emerging markets. As competition for world markets intensifies, the number of companies operating solely in domestic markets will decrease. Or, to put it another way, it is increasingly true that ***the business of American business is international business***. The challenge of international marketing is to develop strategic plans that are competitive in the intensifying global markets. For a growing number of companies, being international is no longer a luxury but a necessity for economic survival. These and other issues affecting the world economy, trade, markets, and competition will be discussed throughout this text.

Crossing Borders 1.1

One World, One Ford: Yesterday – Today

Yesterday

Henry Ford built a 100 percent American-made automobile. Ford's Rouge plant in Dearborn, Michigan, was built in 1919 to turn out the country's first Model Ts. The plant had its own steel mill, glass factory, and 32 other separate manufacturing plants under one roof. The only foreign element in a Model T was rubber from Malaysia, and Henry Ford made a valiant but vain effort to grow rubber trees. Not until the advent of synthetic rubber in the 1940s did the Ford become 100 percent American. It was manufactured entirely in the Rouge plant, then the world's largest single industrial complex.

In the early 1960s things began to change. A Ford memorandum stated, 'In order to further the growth of our worldwide operations, each purchasing activity should consider the selection of sources of supply anywhere in the world' or to paraphrase: If it's cheaper abroad, get it abroad. Ford's memorandum was a harbinger of American business to come.

Today

World cars – developed, manufactured, and assembled all over the world and sold all over the world – are a fact. Ford's Festiva was designed in the U.S., engineered by Mazda in Japan, and is being built by Kia in Korea. Mercury Tracer has a Ford design, built on a Mazda platform in Hermosillo, Mexico, with a Ford engine manufactured in Mexico and other components from Taiwan.

As emerging countries come into the market for automobiles, Ford is developing two low-cost 'value vehicles' – one a small passenger car, the other a compact utility vehicle – that can be sold for about $8000 to $9000 in markets such as India, China, Brazil, and Russia beginning in 2001–02. Smaller than the Escort, these value vehicles will share some components with the next-generation Fiesta minicar that's currently being developed in Europe.

Under the Ford 2000 plan, Ford's U.S. and European operations will be formally merged into one super organization; Latin American and Asian operations will follow later. The idea is to create and use the same systems and processes around the world to design products that can be built and sold in different places with only modest local variations.

Since Europe is chiefly a smaller-car market, Ford's European operations will be responsible for creating front-wheel-drive cars. The same platform and the same manufacturing and design processes will be used to build small cars for the U.S. market. Four U.S. vehicle project centers will be responsible for designing bigger cars and trucks which will be marketed worldwide, and may even be built worldwide with common manufacturing systems and almost identical basic platforms. The company envisions huge savings from engineering a product only once.

Ford 2000 is not a one-car-fits-all idea. It looks like centralization but really involves decentralizing. Although it will produce fewer basic car platforms, it will result in very different vehicles from the same platform. A small world car designed by Ford Europe will have the same engine, transmission, and other major components around the world, but will have styling tailored to local tastes. One World, One Ford Today!*

1.1 The Internationalization of U.S. Business

Current interest in international marketing can be explained by changing competitive structures coupled with shifts in demand characteristics in markets throughout the world. With the increasing globalization of markets, companies find they are unavoidably enmeshed with foreign customers, competitors, and suppliers, even within their own borders. They face competition on all fronts – from domestic firms and from foreign firms. A significant portion of all tape players, VCRs, apparel, and dinnerware sold in the United States is foreign made. Sony, Laura Ashley, Norelco, Samsung, Toyota, and Nescafé are familiar brands in the United States, and for U.S. industry they are formidable opponents in a competitive struggle for U.S. and world markets.

Many familiar U.S. companies are now foreign controlled. When you drop in at a 7-Eleven convenience store or buy Firestone tires, you are buying directly from a Japanese company. Some well-known brands no longer owned by U.S. companies are Carnation (Swiss), Burger King (British), and the all-American Smith and Wesson handgun that won the U.S. West, which is owned by a British firm. The last U.S.-owned company to manufacture television sets was Zenith, but it was recently acquired by South Korea's LG Electronics, Inc., which manufactures Goldstar TVs and other products. Pearle Vision, Universal Studios, and many more are currently owned or controlled by foreign multinational businesses (*see* Exhibit 1.1). Foreign investment in the United States is in excess of

* *Sources*: Adapted from Nancy W. Hatton, 'Born and Bred in the USA', *Detroit News*, 12 March 1983; Jerry Flint, 'One World, One Ford', *Forbes*, 20 June 1994, pp. 40–41; Paul Lienert, 'Ford Plans World Car under $10 000', *Detroit News*, 20 October 1997, p. C1; and Katherine Yung, 'Coming to Grips with Ford 2000: How Ambitious Overhaul Affects the Mind-set, Lives of 3 Middle Managers', *Detroit News*, 2 March 1997, p. C1. Visit the Ford homepage for an interesting view of how many countries Ford has operations. **http://www.ford.com/global/**.

$1.5 trillion. Companies from the United Kingdom lead the group of investors, with companies from the Netherlands, Japan, Germany, and Switzerland following in that order.[2]

Exhibit 1.1 Foreign acquisitions of U.S. companies

U.S. company	*Foreign owner*
J. Walter Thompson (advertising)	Britain
Spiegel (catalogue retailing)	Germany
Mack Trucks (automotive)	France
Giant Food Stores (supermarkets)	Netherlands
Pillsbury, Hueblein	Britain
CBS Records (music and entertainment)	Japan
Magnavox (televisions)	Netherlands
Carnation (Coffee-Mate, Friskies pet food)	Switzerland
Chesebrough-Pond's (Vaseline)	Netherlands
Vermont American (garden tools)	Germany
Northwest Airlines	Netherlands

Source: Adapted from 'Soon to Be Extinct: American TV Brands', *U.S. News & World Report*, 31 July 1995, p. 13; and Gustavo Lombo, 'Creating American Jobs', *Forbes*, 28 July 1997, p. 222.

Other foreign companies that entered the U.S. market through exporting their products into the U.S. realized sufficient market share to justify building manufacturing plants in the U.S. Fuji Photo Film invested more than $1 billion in a plant to service its 12 percent share of the U.S. film market.[3] Honda, BMW, and Mercedes are all manufacturing in the U.S. Investments go the other way as well. Ford bought Jaguar; Pacificorp acquired Energy Group, the U.K.'s largest electricity supplier and second largest gas distributor; and Wisconsin Central Transportation, a medium-sized U.S. railroad, controls all U.K. rail freight business and runs the queen's private train, via its English, Welsh & Scottish Railway unit. It has also acquired the company that runs rail shuttles through the Channel Tunnel.[4] Investments by U.S. multinationals abroad are nothing new. They have been roaming the world in mass since the end of World War II, buying companies and investing in manufacturing plants. What is relatively new for U.S. companies is having their global competitors competing with them in 'their' market, the United States.

Once the private domain of domestic businesses, the vast U.S. market that provided an opportunity for continued growth must now be shared with a variety of foreign companies and products. Companies with only domestic markets have found it increasingly difficult to sustain customary rates of growth and many are seeking foreign markets in which to expand. Companies with foreign operations find foreign earnings are making an important overall contribution to total corporate profits. A four-year Conference Board study of 1250 U.S. manufacturing companies found that multinationals of all sizes and in all industries outperformed their strictly domestic U.S. counterparts. They grew twice as fast in sales and earned significantly higher returns on equity and assets. Further, the U.S. multinationals reduced their manufacturing employment, both at home and abroad, more than domestic companies.

Barnyard Babies, Inc. is a good example of entrepreneurs that are finding opportunities through exporting. Barnyard Babies export stuffed toy figures that can be colored and washed and colored again. (© Ken Touchton)

Exhibit 1.2 illustrates how important profit generated on investments abroad is to U.S. companies. In many cases, foreign sales are more profitable than U.S. sales and foreign return on assets are better than in the United States – all important reasons for going international.[5]

Companies that never ventured abroad until recently are now seeking foreign markets.[6] Companies with existing foreign operations realize they must be more competitive to succeed against foreign multinationals. They have found it necessary to spend more money and time improving their marketing positions abroad because competition for these growing markets is intensifying. For the firm venturing into international marketing for the first time and for those already experienced, the requirement is generally the same: a thorough and complete commitment to foreign markets and, for many, new ways of operating.

1.2 International Marketing Defined

International marketing is the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit. The only difference in the definitions of domestic marketing and international marketing is that marketing activities take place in more than one country. This apparently minor difference '... *in more than one nation* ...' accounts for the complexity

Exhibit 1.2 **Some big U.S. players in the global game***

Company	*Foreign revenues (percent of total)*	*Foreign profits (percent of total)*	*Foreign assets (percent of total)*
E.I. du Pont de Nemours	43.1	28.9	40.6
Procter & Gamble	50.1	36.9	40.5
Coca-Cola	67.1	67.8	37.7
Motorola	45.0	92.4	35.7
Johnson & Johnson	49.6	46.1	45.3
Sara Lee	39.7	53.8	51.3
Colgate-Palmolive	71.6	83.6	60.4
Gillette	63.1	41.1	62.6
Compaq Computer	46.5	51.7	31.4
McDonald's	57.0	49.6	55.0
Avon Products	65.3	58.9	59.0
Intel	58.4	38.4	20.2
RJR Nabisco	36.2	53.8	20.2

* 1996 data.

Source: Adapted from Brian Zajac, 'Buying American', *Forbes*, 28 July 1997, p. 218. Visit some of the home pages of these companies and see how extensive their international holdings are: **http://www.Nestle.com/**, **http://www.pg.com**, and **http://www.colgate.com**.

and diversity found in international marketing operations. Marketing concepts, processes, and principles are universally applicable, and the marketer's task is the same whether doing business in Dimebox, Texas or Dar es Salaam, Tanzania. Businesses' goal is to make a profit by promoting, pricing, and distributing products for which there is a market. If this is the case, what is the difference between domestic and international marketing?

The answer lies not with different concepts of marketing but with the environment within which marketing plans must be implemented. The uniqueness of foreign marketing comes from the range of unfamiliar problems and the variety of strategies necessary to cope with different levels of uncertainty encountered in foreign markets.

Competition, legal restraints, government controls, weather, fickle consumers, and any number of other uncontrollable elements can, and frequently do, affect the profitable outcome of good, sound marketing plans. Generally speaking, the marketer cannot control or influence these uncontrollable elements, but instead must adjust or adapt to them in a manner consistent with a successful outcome. What makes marketing interesting is the challenge of molding the *controllable elements* of marketing decisions (product, price, promotion, and distribution) within the framework of the *uncontrollable elements* of the marketplace (competition, politics, laws, consumer behavior, level of technology, and so forth) in such a way that marketing objectives are achieved. Even though marketing principles and concepts are universally applicable, the environment within which the marketer must implement marketing plans can change dramatically from country to country or region to region. The difficulties created by different environments

are the international marketer's primary concern.

Representing the biggest-ever Campbell product launch in Asia, the line of four corn soups offered in Hong Kong, Singapore, and Taiwan reflects the company's strategy to offer products that have been consumer-tested and tailored to meet local tastes. (Courtesy of Campbell Soup Company)

1.3 The International Marketing Task

The international marketer's task is more complicated than that of the domestic marketer because the international marketer must deal with at least two levels of uncontrollable uncertainty instead of one. Uncertainty is created by the uncontrollable elements of all business environments, but each foreign country in which a company operates adds its own unique set of uncontrollables. Exhibit 1.3 illustrates the total environment of an international marketer. The inner circle depicts the controllable elements that constitute a marketer's decision area, the second circle encompasses those environmental elements at home that have some effect on foreign-operation decisions, and the outer circles represent the elements of the foreign environment for each foreign market within which the marketer operates. As the outer circles illustrate, each foreign market in which the company does business can (and usually does) present separate problems

involving some or all of the uncontrollable elements. Thus, the more foreign markets in which a company operates, the greater the possible variety of foreign environmental uncontrollables with which to contend. Frequently, a solution to a problem in country market A is not applicable to a problem in country market B.

Exhibit 1.3 The international marketing task

1.3.1 Marketing Controllables

The successful manager constructs a marketing program designed for optimal adjustment to the uncertainty of the business climate. The inner circle in Exhibit 1.3 represents the area under control of the marketing manager. Assuming the necessary overall corporate resources, the marketing manager blends price, product, promotion, and channels-of-distribution activities to capitalize on anticipated demand. The controllable elements can be altered in the long run and, usually, in the short run, to adjust to changing market conditions, consumer tastes or corporate objectives.

The outer circles surrounding the market controllables represent the levels of uncertainty that are created by the domestic and foreign environments. Although the marketer can blend a marketing mix from the controllable elements, the uncontrollables are precisely that and there must be active evaluation and, if

needed, adaptation. That effort, the adaptation of the marketing mix to the uncontrollables, determines the ultimate outcome of the marketing enterprise.

1.3.2 Domestic Uncontrollables

The second circle in Exhibit 1.3, representing the *domestic uncontrollables*, includes home-country elements that can have a direct effect on the success of a foreign venture and are out of the immediate control of the marketer: political and legal forces, economic climate, and competition.

A political decision involving domestic foreign policy can have a direct effect on a firm's international marketing success. For example, the U.S. government placed a total ban on trade with Libya to condemn Libyan support for terrorist attacks, imposed restrictions on trade with South Africa to protest apartheid, and placed a total ban on trade with Iraq, whose actions constituted a threat to the national security of the United States and its allies. In each case, the international marketing programs of United States' companies, whether it was IBM, Exxon or Hawg Heaven Bait Company, were restricted by these political decisions, all domestic uncontrollables. The U.S. government has the constitutional right to restrict foreign trade when such trade adversely affects the security or economy of the country or when such trade is in conflict with U.S. foreign policy. Conversely, positive effects occur when there are changes in foreign policy and countries are given favored treatment. Such were the cases when South Africa abolished apartheid and the embargo was lifted, and when the U.S. government decided to uncouple human rights issues from foreign trade policy and grant most favored nation status (MFN) to China. In both cases, opportunities were created for U.S. companies.

The domestic economic climate is another important home-based uncontrollable variable with far-reaching effects on a company's competitive position in foreign markets. The capacity to invest in plants and facilities, either in domestic or foreign markets, is to a large extent a function of domestic economic vitality. It is generally true that capital tends to flow toward optimum use; however, capital must be generated before it can have mobility. Furthermore, if internal economic conditions deteriorate, restrictions against foreign investment and purchasing may be imposed to strengthen the domestic economy.

For a variety of economic reasons, the most pressing condition affecting U.S. international marketers during the mid-1980s was the relative strength of the dollar in world markets. Because the U.S. dollar's value was high compared to most foreign currencies, U.S. goods were expensive for foreign buyers. This gave a price advantage to foreign competitors by making American products relatively expensive, and thus caused a downturn in export sales. By the 1990s, the U.S. dollar had weakened compared to world currencies, and export sales increased as U.S. products became bargains for foreign customers. For example, an English citizen planning to buy a $15 American-made product in 1984, when the exchange rate was £1 = $1.15, had to exchange £13 to get $15 U.S. By 1997, when the British pound equalled $1.66, that same $15 item would cost him or her £9.03, £3.97 less than in 1984. From the American's perspective, the situation in 1997 was more favorable for the sale of U.S. products than was the

case in 1984. Currency value, then, is another influence the home environment's economy has on the marketer's task.

Competition within the home country can also have a profound effect upon the international marketer's task. Until recently, Eastman Kodak dominated the U.S. film market and could depend on achieving profit goals that provided capital to invest in foreign markets. Without having to worry about the company's lucrative base, management had the time and resources to devise aggressive international marketing programs. However, the competitive structure changed when Fuji Photo Film became a formidable competitor by lowering film prices in the United States, opening a $300 million plant, and gaining 12 percent of the U.S. market. As a result, Kodak had to direct energy and resources back to the United States.[7] Competition within their home country affects a company's domestic as well as international plans. Inextricably entwined with the effects of the domestic environment are the constraints imposed by the environment of each foreign country.

Crossing Borders 1.2

Is a Cheeto a Cheeto If It Doesn't Taste Like Cheese?

PepsiCo, the maker of Cheetos, announced a $1 million joint venture to produce the little crispy-tasting cheese puffs in Guangdong province, China. The estimated market for Western snack foods in Guangdong province is $40 million to $70 million. The province, with 70 million consumers, represents a market that is one-third the size of the United States. Between-meal snacking is rising rapidly along with disposable income as the Chinese economy gains momentum and work hours increase.

This is the first time a major snack-food brand will be produced in China for Chinese tastes. In adapting Cheetos to the Chinese market, a new flavor had to be found. Cheese is not a mainstay in the Chinese diet and in focus groups the cheese taste of American Cheetos did not test well. More than 600 flavors, ranging from Roasted Cuttlefish to Sweet Caramel, were tested before settling on Savory American Cream (a buttered popcorn flavor) and Zesty Japanese Steak (a teriyaki-type taste).

But, is it a Cheeto if it doesn't taste like cheese? 'It's still crispy, it has a Cheeto shape, and it's fun to eat, so it's a Cheeto', says the general manager of PepsiCo Foods International.

The introduction of Cheetos will be backed by television, print advertising, and promotions based on Chester Cheetah, the brand's feline symbol, riding a Harley-Davidson motorcycle. The packages will carry the Cheeto logo in English along with the Chinese characters *qi duo*, which translates to *new surprise*.*

* *Source*: Adapted from Glenn Collins, 'Chinese to Get a Taste of Cheese-less Cheetos', *The New York Times*, 2 September 1994, p. C4; and Glenn Collins, 'Going Global Involves More Than Many U.S. Companies Think', *The New York Times*, 2 January 1997, p. C1.

1.3.3 Foreign Uncontrollables

In addition to uncontrollable domestic elements, a significant source of uncertainty is the number of foreign *uncontrollables* (depicted in Exhibit 1.3 by the outer circles). A business operating in its home country undoubtedly feels comfortable in forecasting the business climate and adjusting business decisions to these elements. The process of evaluating the uncontrollable elements in an international marketing program, however, often involves substantial doses of cultural, political, and economic shock.

A business operating in a number of foreign countries might find polar extremes in political stability, class structure, and economic climate – critical elements in business decisions. The dynamic upheavals in some countries further illustrate the problems of dramatic change in cultural, political, and economic climates over relatively short periods of time. A case in point is China, which has moved from a communist legal system in which all business was done with the state to a transitional period while a commercial legal system is developing.[8] In this transitional phase, new laws are passed but are left to be interpreted by local authorities, where confusion prevails as to what rules are still in force and what rules are no longer applicable. For example, commercial contracts can be entered into with a Chinese company or individual only if they are considered a 'legal person'. To be a legal person in China, the company or person must have registered as such with the Chinese government. To complicate matters further, negotiations may only take place with 'legal representatives' of the 'legal person' to have the power to bind the company. So if your company enters into negotiations with a Chinese company or person, you must ask for signed, legal documents establishing the right to do business. The formalities of the signature must also be considered. Will a signature on a contract be binding or is it necessary to place a traditional Chinese seal on the document? Even when all is done properly, the government still might change its mind. Coca-Cola had won approval for its plan to build a new facility to produce product for its increasing Chinese market share but before construction began the Chinese parliament raised the issue that Coca-Cola appeared to be too successful in China,[9] so negotiations continue. Such are the uncertainties of the uncontrollable political and legal factors of international business.

The more significant elements in the uncontrollable international environment, shown in the outer circles of Exhibit 1.3, include (1) political/legal forces, (2) economic forces, (3) competitive forces, (4) level of technology, (5) structure of distribution, (6) geography and infrastructure, and (7) cultural forces. They constitute the principal elements of uncertainty an international marketer must cope with in designing a marketing program. Although each will be discussed in depth in subsequent modules, consider the level of technology and political/legal forces as illustrations of the nature of foreign uncontrollables.

The level of technology is an uncontrollable element that can often be misread because of the vast differences that may exist between developed and undeveloped countries. A marketer cannot assume that the understanding of the concept of preventive maintenance for machinery and equipment or the level of technical support are the same in other countries as in the United States. Technical expertise may not be available at a level necessary for product support

and the general population may not have an adequate level of technical knowledge to properly maintain equipment. In those situations, a marketer will have to take extra steps to make sure that the importance of routine maintenance is understood and carried out. Further, if technical support is not readily available, locals will have to be specially trained or the company will have to provide the support.

Political and legal issues face a business whether operating at home or in a foreign country. However, the issues abroad are often amplified by the 'alien status' of the company, which increases the difficulty of properly assessing and forecasting the dynamic international business climate. There are two dimensions to the alien status of a foreign business: alien in that foreigners control the business, and alien in that the culture of the host country is alien to management. The alien status of a business means that, when viewed as an outsider, it can be seen as an exploiter and receive prejudiced or unfair treatment at the hands of politicians and/or legal authorities. Political activists can rally support by advocating the expulsion of the 'foreign exploiters', often with open or tacit approval of authorities. The Indian government, for example, gave Coca-Cola the choice of either revealing its secret formula or closing up shop and leaving the country. Coke chose to leave. When it was welcomed back several years later, it faced harassment and constant interference with its operations from political activists, inspired by competing soft drink companies.

Furthermore, in a domestic situation political details and the ramifications of political and/or legal events are often more transparent than they are in some foreign countries. For instance, while in the United States there are established legal procedures and due process to which each party in a dispute has access, legal systems in other countries may be evolving. In Russia and China, corruption may prevail, foreigners may receive unfair treatment or the laws are so different from those in the home country that they are misinterpreted. The point is that a foreign company is foreign and thus always subject to the political whims of the government to a greater degree than a domestic firm.

Political/legal forces and the level of technology are only two of the foreign uncontrollables that will be discussed in subsequent modules. The uncertainty of different foreign business environments creates the need for a close study of the uncontrollable elements within each new country. Different solutions to fundamentally identical marketing tasks are often in order and are generally the result of changes in the environment of the market. Thus, a strategy successful in one country can be rendered ineffective in another by differences in political climate, stages of economic development, level of technology or other cultural variation.

Crossing Borders 1.3

So, Jose Antonio Martinez de Garcia, Are You Señor Martinez or Señor Garcia?

In the United States, we try to get on a first-name basis quickly. In some countries, however, to do so makes you appear brash, if not rude. The best policy is to use the last name with a proper and respectful title until specifically invited to do otherwise. But the problem doesn't end there because the 'proper' last name can vary among cultures.

In Brazil and Portugal, people are addressed by their Christian names, along with the proper title or simply Mr., so that Manuel Santos is Señor Manuel. In Spain and Spanish-heritage South America, it is not unusual to use a double surname – from the paternal and maternal family names. The paternal family name is the one to use. It is generally the second from last while the maternal name is the last, so that Jose Antonio Martinez de Garcia is Señor Martinez. In written communications, both last names may be used, but in verbal communication, only the paternal name.

In China, the order of names is just the reverse of the United States: last name, middle name, and first name. Hence, in the name Chang Wu Jiang, Chang is the family surname, Wu is a middle name, and Jiang is the first name. This person would be addressed with a title plus the surname, that is, Mr. Chang. To address him as Mr. Jiang would be calling him by his first name, which might appear as being too informal. The problem in China is further complicated by the fact that few surnames exist. There are only 438 Chinese surnames, the most common being Wang, Zhang, and Li; 10 percent of the total population (over 100 million) are named Zhang; 60 percent have only 19 surnames; 90 percent have only 100 surnames. The Chinese themselves generally address each other by the family name and an appropriate title or by both the family name and full given name together, with the family name first. The obvious reason for this custom is that it helps distinguish all the Wangs, Zhangs, and Lis from one another.*

1.4 Environmental Adjustment Needed

To adjust and adapt a marketing program to foreign markets, marketers must be able to interpret effectively the influence and impact of each of the uncontrollable environmental elements on the marketing plan for each foreign market in which they hope to do business. In a broad sense, the uncontrollable elements constitute the culture; the difficulty facing the marketer in adjusting to the culture (i.e., uncontrollable elements of the marketplace) lies in recognizing their impact. In a domestic market the reaction to much of the uncontrollables' (cultural) impact on the marketer's activities is automatic; the various cultural influences that fill our lives are simply a part of our history, and we react in a manner acceptable to our society without thinking about it because we are culturally responsive to our environment. The experiences we have gained throughout life have become second nature and serve as the basis for our behavior.

The task of cultural adjustment, however, is the most challenging and important one confronting international marketers; they must adjust their marketing efforts to cultures to which they are not attuned. In dealing with unfamiliar markets, marketers must be aware of the frames of reference they are using in making their decisions or evaluating the potential of a market because judgments are derived from experience that is the result of the enculturative process. Once a frame of reference is established, it becomes an important factor in determining

* *Sources*: Adapted from Lennie Copeland and Lewis Griggs, *Going International* (New York: Random House, 1985), p. 158; and Wayne A. Conaway and Terri Morrison, 'What's in a Name?', *Industry Week*, 23 September 1997, p. 31.

or modifying a marketer's reaction to situations – social and even nonsocial – especially if experience or knowledge of accustomed behavior is lacking.

When a marketer operates in other cultures, marketing attempts may fail because of unconscious responses based on frames of reference acceptable in one's own culture but unacceptable in different surroundings. Unless special efforts are made to determine local cultural meanings for every market, the marketer is likely to overlook the significance of certain behaviors or activities and proceed with plans that result in a negative or unwanted response.

For example, a Westerner must learn that white is a symbol of mourning in parts of Asia, quite different from Western culture's white for bridal gowns. Also, time-conscious Americans are not culturally prepared to understand the meaning of time to Latin Americans. These differences must be learned to avoid misunderstandings that can lead to marketing failures. Such a failure actually occurred in the one situation when ignorance led to ineffective advertising on the part of an American firm; and a second misunderstanding resulted in lost sales when a 'long waiting period' in the outer office of a Latin American customer was misinterpreted by an American sales executive. Cross-cultural misunderstandings can also occur when a simple hand gesture has a number of different meanings in different parts of the world. When wanting to signify something is OK, most people in the United States raise a hand and make a circle with the thumb and forefinger. However, this same hand gesture means 'zero' or 'worthless' to the French, 'money' to the Japanese, and a general sexual insult in Sardinia and Greece. A U.S. president sent an unintentional message to some Australian protesters when he held up the first two fingers with the back of his hand to the protesters. Meaning to give the 'victory' sign, he was unaware that in Australia the same hand gesture is equivalent to holding up the middle finger in the United States.

To avoid such errors, the foreign marketer should be aware of the principle of *marketing relativism*; that is, marketing strategies and judgments are based on experience, and experience is interpreted by each marketer in terms of his or her own culture. We take into the marketplace, at home or in a foreign country, frames of reference developed from past experiences that determine or modify our reactions to the situations we face.

Cultural conditioning is like an iceberg – we are not aware of nine-tenths of it. In any study of the market systems of different peoples, their political and economic structures, religions, and other elements of culture, foreign marketers must constantly guard against measuring and assessing the markets against the fixed values and assumptions of their own cultures. They must take specific steps to make themselves aware of the home-cultural reference in their analyses and decision making.

1.5 Self-Reference Criterion: An Obstacle

The key to successful international marketing is adaptation to the environmental differences from one market to another. Adaptation is a conscious effort on the part of the international marketer to anticipate the influences of both the

foreign and domestic uncontrollable environments on a marketing mix and then to adjust the marketing mix to minimize the effects.

The primary obstacle to success in international marketing is a person's *self-reference criterion* (SRC) in making decisions, that is, an unconscious reference to one's own cultural values, experiences, and knowledge as a basis for decisions. The SRC impedes the ability to assess a foreign market in its true light.

When confronted with a set of facts, we react spontaneously on the basis of knowledge assimilated over a lifetime – knowledge that is a product of the history of our culture. We seldom stop to think about a reaction; we simply react. Thus, when faced with a problem in another culture, the tendency is to react instinctively and refer to our SRC for a solution. Our reaction, however, is based on meanings, values, symbols, and behavior relevant to our own culture and usually different from those of the foreign culture. Such decisions are often not valid.

To illustrate the impact of the SRC, consider misunderstandings that can occur about personal space between people of different cultures. In the United States, unrelated individuals keep a certain physical distance between themselves and others when talking or in groups. We do not consciously think about that distance; we just know what feels right without thinking. When someone is too close or too far away, we feel uncomfortable and either move farther away or get closer to correct the distance. In doing so, we are relying on our SRC. In some cultures the acceptable distance between individuals is substantially less than that which is comfortable to Americans. When someone from another culture approaches an American too closely, unaware of another culture's acceptable distance the American unconsciously reacts by backing away to restore the proper distance (i.e., proper by American standards), and confusion results for both parties. Americans assume foreigners are pushy, while foreigners assume Americans are unfriendly and standoffish. Both react to the values of their own SRCs, making them all victims of a cultural misunderstanding.

Your self-reference criterion can prevent you from being aware that there are cultural differences or from recognizing the importance of those differences. Thus, you either fail to recognize the need to take action, you discount the cultural differences that exist among countries or you react to a situation in a way offensive to your hosts. A common mistake made by Americans is to refuse food or drink when offered. In the United States, a polite refusal is certainly acceptable, but in Asia or the Middle East, a host is offended if you refuse hospitality. While you do not have to eat or drink much, you do have to accept the offering of hospitality. Understanding and dealing with the self-reference criterion are two of the more important facets in international marketing.

The SRC can influence an evaluation of the appropriateness of a domestically designed marketing mix for a foreign market. If U.S. marketers are not aware, they may evaluate a marketing mix on U.S. experiences (i.e., their SRC) without fully appreciating the cultural differences requiring adaptation. Esso, the brand name of a gasoline, was a successful name in the United States and would seem harmless enough for foreign countries; however, in Japan, the name phonetically means 'stalled car', an undesirable image for gasoline. Another example is 'Pet' in Pet Milk. The name has been used for decades, yet in France

the word *pet* means, among other things, flatulence – again, not the desired image for canned milk. Both of these examples of real mistakes made by major companies stem from relying on SRC in making a decision. In U.S. culture, a person's SRC would not reveal a problem with either Esso or Pet, but in international marketing relying on one's SRC could produce an inadequately adapted marketing program that ends in failure.

When marketers take the time to look beyond their own SRCs, the results are more positive. A British manufacturer of chocolate biscuits (cookies in American English), ignoring its SRC, knows that it must package its biscuits differently to accommodate the Japanese market. Thus, in Japan McVitie's chocolate biscuits are wrapped individually, packed in presentation cardboard boxes, and priced about three times higher than in the U.K. – the cookies are used as gifts and thus must look and be perceived as special.[10] Unilever, appreciating the uniqueness of its markets, repackaged and reformulated its detergent for Brazil. For one, the lack of washing machines among poorer Brazilians made a simpler soap formula necessary. Next, since people wash their clothes in rivers, the powder was packaged in plastic rather than paper so it would not get soggy. Finally, because the Brazilian poor are price conscious and buy in small quantities, the soap was packaged in small, low-priced packages.[11] Even McDonald's modifies its traditional Big Mac in India where it is known as the 'Maharaja Mac'. This burger features two mutton patties, since most Indians consider cows sacred and don't eat beef.[12] In each of these examples, had the marketers' own SRCs been the basis for decisions, none of the changes would have been readily apparent based on home-market experience.

The most effective way to control the influence of the SRC is to recognize its existence in our behavior. Although it is almost impossible for someone to learn every culture in depth and to be aware of every important difference, an awareness of the need to be sensitive to differences and to ask questions when doing business in another culture can avoid many of the mistakes possible in international marketing. Asking the appropriate question helped the Vicks Company avoid making a mistake in Germany. It discovered that in German 'Vicks' sounds like the crudest slang equivalent of intercourse, so they changed the name to 'Wicks' before introducing the product.[13]

Be aware, also, that not every activity within a marketing program is different from one country to another; indeed, there probably are more similarities than differences. For example, the McVitie's chocolate biscuits mentioned earlier are sold in the United States in the same package as in the U.K. Such similarities, however, may lull the marketer into a false sense of apparent sameness. This apparent sameness, coupled with our self-reference criterion, is often the cause of international marketing problems. Undetected similarities do not cause problems; however, the one difference that goes undetected can create a marketing failure.

To avoid errors in business decisions, it is necessary to make a cross-cultural analysis isolating the SRC influences. The following steps are suggested as a framework for such an analysis.[14]

Step 1: Define the business problem or goal in home-country cultural traits, habits or norms.

Step 2: Define the business problem or goal in foreign-country cultural traits, habits or norms. Make no value judgments.

Step 3: Isolate the SRC influence in the problem and examine it carefully to see how it complicates the problem.

Step 4: Redefine the problem without the SRC influence and solve for the optimum business goal situation.

This approach requires an understanding of the culture of each foreign market as well as one's own culture. Surprisingly, understanding one's own culture may require additional study because much of the cultural influence on market behavior remains at a subconscious level and is not clearly defined.

1.6 Developing a Global Awareness

Opportunities in global business abound for those who are prepared to confront myriad obstacles with optimism and a willingness to continue learning new ways. The successful businessperson in the 21st century will have *global awareness* and have a frame of reference that goes beyond a region or even a country and encompasses the world. To be globally aware is to have:

- Objectivity.
- Tolerance[15] of cultural differences.
- Knowledge of cultures, history, world market potential, and global economic, social, and political trends.

To be globally aware is to be objective. Objectivity is important in assessing opportunities, evaluating potential, and responding to problems. Millions of dollars have been lost by companies that blindly entered the Chinese market on the belief that there were untold opportunities when, in reality, opportunities were only in very select areas and generally for those with the resources to sustain a long-term commitment. Many were caught up in the euphoria of envisioning one billion consumers, not seeing the realities of low income and purchasing power, poor distribution and logistics, inadequate media infrastructure, and differences in tastes and preferences between Chinese and Western consumers. Thus, uninformed and not very objective decisions were made.

To be globally aware is to have tolerance toward cultural differences. Tolerance is understanding cultural differences and accepting and working with others whose behaviors may be different from yours. You do not have to accept, as your own, the cultural ways of another but you must allow others to be different and equal. The fact that punctuality is less important in some cultures does not make them less productive, only different. The tolerant person understands the differences that may exist between cultures and uses that knowledge to relate effectively.

A globally aware person is knowledgeable about cultures and history. Knowledge of cultures is important in understanding behavior in the marketplace or in the board room. Knowledge of history is important because the way people think and act is influenced by their history. Some Latin Americans' reluctance about foreign investment, Chinese reluctance to open completely to outsiders or

British persons' hesitance about the tunnel between France and England can all be understood better if you have a historical perspective.

Global awareness also involves knowledge of world market potentials and global economic, social, and political trends. Over the next few decades there will be enormous changes in market potentials in almost every region of the world, all of which a globally aware person must continuously monitor. Finally, a globally aware person will keep abreast of the global economic, social, and political trends because a country's prospects can change as these trends shift direction or accelerate. The former republics of the USSR, along with Russia, Eastern Europe, China, India, Africa, and Latin America are undergoing economic, social, and political changes that have already altered the course of trade and defined new economic powers. The knowledgeable marketer will identify opportunity long before it becomes evident to others.[16] It is the authors' goal in this text to guide the reader toward acquiring a global awareness.

1.7 Being International

Once a company has decided to be international, it has to decide the degree of marketing involvement and commitment it is prepared to make. These decisions should reflect considerable study and analysis of market potential and company capabilities – a process not always followed. Many companies begin tentatively in international marketing, growing as they gain experience and gradually changing strategy and tactics as they become more committed. Others enter international marketing after much research and with fully developed long-range plans, prepared to make investments to acquire a market position.[17]

1.7.1 Stages of International Marketing Involvement

Regardless of the means employed to gain entry into a foreign market, a company may, from a marketing viewpoint, make no market investment – that is, its marketing involvement may be limited to selling a product with little or no thought given to development of market control. Or a company may become totally involved and invest large sums of money and effort to capture and maintain a permanent, specific share of the market. In general, one of five but overlapping stages can describe the international marketing involvement of a company. Although the stages of international marketing involvement are presented here in a linear order, the reader should not infer that a firm progresses from one stage to another; quite to the contrary, a firm may begin its international involvement at any one stage or be in more than one stage simultaneously. For example, because of a short product life cycle and a thin but widespread market for many technology products, many high-tech companies large and small see the entire world, including their home market, as a single market and strive to reach all possible customers as rapidly as possible.

No Direct Foreign Marketing

A company in this stage does not actively cultivate customers outside national boundaries; however, this company's products may reach foreign markets. Sales

NAFTA has multiplied opportunities in Mexico, where phasing out of tariffs is giving consumers a broader range of supermarket choices of a greater value while providing sharper competition in the Mexican economy. (Courtesy of Campbell Soup Company)

may be made to trading companies as well as other foreign customers who come directly to the firm. Or products reach foreign markets via domestic wholesalers or distributors who sell abroad on their own without explicit encouragement or even knowledge of the producer. As companies develop web pages on the Internet, many receive orders from international 'web surfers'. Often an unsolicited order from a foreign buyer is what piques the interest of a company to seek additional international sales.

Infrequent Foreign Marketing

Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterized by their temporary nature; therefore, sales to foreign markets are made, as goods are available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is withdrawn. In this stage, there is little or no change in company organization or product lines. Few companies today fit this model as customers seek long-term commitments and there are companies that offer this option.

Regular Foreign Marketing

At this level, the firm has permanent productive capacity devoted to the production of goods to be marketed on a continuing basis in foreign markets. A firm may employ foreign or domestic overseas middlemen or it may have its own sales force or sales subsidiaries in important foreign markets. The primary focus of operations and production is to service domestic market needs. However, as overseas demand grows, production is allocated for foreign markets and products may be adapted to meet the needs of individual foreign markets. Profit expectations move from being seen as a bonus to regular domestic profits to the position where the company becomes dependent on foreign sales and profits to meet its goals.

Meter-Man, Inc., a small company (25 employees) in southern Minnesota that manufactures agricultural measuring devices, is a good example of a company at this stage. In 1989, the 35-year-old company began exploring the idea of exporting; by 1992 the company was shipping product to Europe. Today, a third of Meter-Man's sales are in 35 countries and by the end of this decade, the company expects international sales to account for about half of its business. 'When you start exporting, you say to yourself, this will be icing on the cake', says the director of sales and marketing. 'But now I say going international has become critical to our existence'.[18]

International Marketing

Companies at this stage are fully committed and involved in international marketing activities. Such companies seek markets all over the world and sell products that are a result of planned production for markets in various countries. This generally entails not only the marketing but also the production of goods outside the home market. At this point a company becomes an international or multinational marketing firm.

The experience of Fedders, a manufacturer of room air-conditioners, typifies a company that begins its international business at this stage. Even though it is the largest manufacturer of air-conditioners in the United States, the firm faced constraints in its domestic market. Its sales were growing steadily but air-conditioner sales (the company's only product) are seasonal and thus there are times when domestic sales do not even cover fixed costs. Furthermore, the U.S. market is mature, with most customers buying only replacement units. Any growth would have to come from a rival's market share and the rivals,

Whirlpool and Matsushita, are formidable. Fedders decided that the only way to grow was to venture abroad.

Fedders decided that Asia, with its steamy climate and expanding middle class, offered the best opportunity. China, India, and Indonesia were seen as the best prospects. China was selected because sales of room air-conditioners had grown from 500 000 units to over 4 million in five years, which still accounted for only 12 percent of the homes in cities like Beijing, Shanghai, and Guangzhou. The company saw China as a market with terrific growth potential. After careful study, Fedders entered a joint venture with a small Chinese air-conditioner company that was also looking for a partner and a new company, Fedders Xinle, was formed. They immediately found that they needed to redesign their product for this market. In China air-conditioners are a major purchase seen as a status symbol, not as a box to keep a room cool as in the U.S. The Chinese also prefer a split-type-air-conditioner, the unit containing the fan inside the room and the heat exchanger mounted on a wall outside. Since Fedders did not manufacture split models, it designed a new product that is lightweight, energy-efficient, and packed with features such as a remote control and an automatic air-sweeping mechanism. The joint venture appears to be successful, and the company is exploring the possibility of marketing to other Asian markets and Japan and maybe even back to the United States with a new product that it developed for the China market.[19] As Fedders expands into other markets and makes other commitments internationally, it continues to evolve as an international or multinational company. The company may remain at this stage, as most companies do or go through a change in orientation and become a global company.

Global Marketing

At the global marketing level, the most profound change is the orientation of the company toward markets and its planning. At this stage, companies treat the world, including their home market, as one market. In contrast to the multinational or international company that views the world as a series of country markets (including their home market) with unique sets of market characteristics for which marketing strategies must be developed, a global company develops a strategy to reflect the existing commonalties of market needs among many countries to maximize returns through global standardization of its business activities– whenever it is cost effective and culturally possible. The entire operations, its organization structure, sources of finance, production, marketing, and so forth, take on a global perspective.

Perhaps the former president of Coca-Cola, Roberto Goizueta, put it most simply and succinctly when he said, 'The culture of The Coca-Cola Co. has moved from being an American company doing business internationally to an international company that happens to be headquartered in Atlanta. This change is pervasive throughout our organization. . . . If you go back to our 1981 annual report, you will see references to "foreign" sales or "foreign" earnings. Today, the word foreign is "foreign" to our corporate language'.[20] He went on to say that Coke had been global before global was fashionable.

Mr. Goizueta was referring to organizational changes that better reflected the

global nature of the company. Coca-Cola had been a global company for years and the organizational change was the last step in recognizing the changes that had already occurred. Initially, all international divisions reported to an executive vice president in charge of international operations who, along with the vice president of United States operations, reported to the president. The new organization consists of six international divisions – five Coca-Cola divisions and one Coca-Cola Foods division. The United States business unit accounts for about 20 percent of profits and has been downgraded to just part of one of the six international business units in the company's global geographic regions. The new structure does not reduce the importance of the company's North American business; it just puts other areas on an equal footing. It is recognition, however, that future growth is going to come from emerging markets outside the United States.[21]

International operations of businesses in global marketing reflect the heightened competitiveness brought about by the globalization of markets, interdependence of the world's economies, and the growing number of competing firms from developed and developing countries vying for the world's markets. Global companies and global marketing are terms frequently used to describe the scope of operations and marketing management orientation of companies at this stage.

1.7.2 Changes in International Orientation

As mentioned earlier, companies rarely fit neatly into any one of these five stages of international marketing involvement; the definitions are more to give the reader a sense of varying degrees of involvement and commitment. Companies may begin in one stage and move to another or stay at the same stage. Companies at different stages have different attitudes toward their foreign operations and, as they evolve from one stage to another, their orientation or attitudes toward international operations also change.

Experience shows that a significant change in the international orientation of a firm occurs when the company relies on foreign markets to absorb permanent production surpluses and depends on foreign profits. The complexity and sophistication of international marketing activity is greater and the degree of internationalization to which management is philosophically committed is more intense between the first and last stages of international involvement. Such commitment affects the specific international strategies and decisions of the firm.

1.8 International Marketing Concepts

Although not articulated as such in current literature, it appears that the differences in the international orientation and approach to international markets that guide the international business activities of companies can be described by one of three orientations to international marketing management:

1 Domestic market extension concept.
2 Multidomestic market concept.
3 Global marketing concept.

It is to be expected that differences in the complexity and sophistication of a company's marketing activity depend on which orientation guides its operations. The ideas expressed in each concept reflect the philosophical orientation that also can be associated with successive stages in the evolution of the international operations in a company.

Among the approaches describing the different orientations that evolve in a company in different stages of international marketing – from casual exporting to global marketing – is the often-quoted EPRG schema.[22] The authors of this schema suggest that firms can be classified as having an *e*thnocentric, *p*olycentric, *r*egiocentric or *g*eocentric orientation (EPRG), depending on the international commitment of the firm. Further, the authors state that 'a key assumption underlying the EPRG framework is that the degree of internationalization to which management is committed or willing to move towards affects the specific international strategies and decision rules of the firm'. The EPRG schema is incorporated into the discussion of the three concepts that follows in that the philosophical orientations described by the EPRG schema help explain management's view when guided by one of the concepts.

1.8.1 Domestic Market Extension Concept

The domestic company seeking sales extension of its domestic products into foreign markets illustrates this orientation to international marketing. It views its international operations as secondary to and an extension of its domestic operations; the primary motive is to market excess domestic production. Domestic business is its priority and foreign sales are seen as a profitable extension of domestic operations. Even though foreign markets may be vigorously pursued, the firm's orientation remains basically domestic. Its attitude toward international sales is typified by the belief that if it sells in Peoria it will sell anywhere else in the world. Minimal, if any, efforts are made to adapt the marketing mix to foreign markets; the firm's orientation is to market to foreign customers in the same manner the company markets to domestic customers. It seeks markets where demand is similar to the home market and its domestic product will be acceptable. This domestic market extension strategy can be very profitable; large and small exporting companies approach international marketing from this perspective. Firms with this marketing approach are classified as *ethnocentric* in the EPRG schema. Meter-Man, Inc., discussed earlier, could be said to follow this orientation.

1.8.2 Multidomestic Market Concept

Once a company recognizes the importance of differences in overseas markets and the importance of offshore business to the organization, its orientation toward international business may shift to a multidomestic market strategy. A company guided by this concept has a strong sense that country markets are vastly different (and they may be, depending on the product) and that market success requires an almost independent program for each country. Firms with this orientation market on a country-by-country basis, with separate marketing strategies for each country.

Subsidiaries operate independently of one another in establishing marketing objectives and plans, and the domestic market and each of the country markets have separate marketing mixes with little interaction among them. Products are adapted for each market without coordination with other country markets; advertising campaigns are localized, as are the pricing and distribution decisions. A company with this concept does not look for similarity among elements of the marketing mix that might respond to standardization; rather, it aims for adaptation to local country markets. Control is typically decentralized to reflect the belief that the uniqueness of each market requires local marketing input and control. Firms with this orientation would be classified in the EPRG schema as *polycentric*. Fedders, as it progresses in its plans, fits this orientation.

1.8.3 Global Marketing Concept

A company guided by this orientation or philosophy is generally referred to as a global company, its marketing activity is global marketing, and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies of scale by developing a standardized product, of dependable quality, to be sold at a reasonable price to a global market, that is, the same country market set throughout the world. Important to the global marketing concept is the premise that world markets are being 'driven toward a converging commonalty'[23] seeking in much the same ways to satisfy their needs and desires. Thus, they constitute significant market segments with similar demands for the same product the world over. With this orientation a company attempts to standardize as much of the company effort as is practical on a worldwide basis. Some decisions are viewed as applicable worldwide, while others require consideration of local influences. The world as a whole is viewed as the market and the firm develops a global marketing strategy. The global marketing company would fit the *regiocentric* or *geocentric* classifications of the EPRG schema. Coca-Cola Company, Ford Motor Company (see Exhibit 1.1), General Motors, and several other companies can be described as global companies.

The global marketing concept views an entire set of country markets (whether the home market and only one other or the home market and 100 other countries) as a unit, identifying groups of prospective buyers with similar needs as a global market segment and developing a marketing plan that strives for standardization wherever it is cost and culturally effective. This might mean a company's global marketing plan has a standardized product but country-specific advertising or has a standardized theme in all countries with country- or cultural-specific appeals to a unique market characteristic, a standardized brand or image but adapted products to meet specific country needs, and so on. In other words, the marketing planning and marketing mix are approached from a global perspective, and where feasible in the marketing mix, efficiencies of standardization are sought. Wherever cultural uniqueness dictates the need for adaptation of the product, its image, and so on, it is accommodated. The company standardizes its processes, logo, most of its advertising, store decor and layouts, and so forth when and wherever possible. However, you will find wine on the menu in France and beer in Germany, a Filipino-style spicy

burger in Manila, pork burgers in Thailand, and Vegetable McNuggets and Vegetable McBurgers in New Delhi – all to accommodate local tastes and customs.[24] The point is, to be global is a mindset, a way of looking at the market for commonalties that can be standardized across regions or country market sets.

What is suggested as a global orientation is analogous to the normal operations of a U.S. domestic company in the U.S. market. The entire United States is viewed as a single market – or if a company's objectives exclude some of the 50 states, then the states where they intend to market are viewed as a market unit. There are fewer uncontrollables to relate to among the 50 states but nevertheless the approach is to view the entire group of states as one market. The marketing mix is standardized for the entire market except where there are differences requiring adaptation for acceptance in the market. For example, automobiles have to be adapted to stricter emission controls in California than in the other 49 states, and fabric is heavier in men's winter suits destined for the northern and northeastern markets than for milder southern or western markets.

As the competitive environment facing U.S. businesses becomes more internationalized – and it surely will – the most effective orientation for many firms involved in marketing into another country will be a *global orientation*. This means operating as if all the country markets in a company's scope of operations (including the domestic market) are approachable as a single global market and standardizing the marketing mix where culturally feasible and cost effective. This does not, however, mean a slavish adherence to one orientation. Depending on the product and market, other orientations may make more marketing sense. For example, Procter & Gamble may pursue a global strategy for disposable diapers, but a multidomestic one in Asian markets for detergents.[25] As these ideas are tested and debated it is becoming more evident that companies actually use a composite of the various orientations. The global market is too complex to deal in absolutes.[26]

We must acknowledge at least two dimensions to the question of global business: one side focuses on orientation of firms as just discussed; the other questions whether a global market exists as defined by Levitt. In other words, do segments exist across several countries with similar needs and wants that can be satisfied with a single standardized product?

Although the world has not become a homogeneous market, there is strong evidence of identifiable groups of consumers (segments) across country borders with similar values, needs, and behavior patterns. Regardless of the degree to which global markets exist, a company can benefit from a global orientation. The issues of whether marketing programs should be standardized or why they are localized are not as critical as the recognition that marketing planning processes need to be standardized.[27]

1.9 Global Markets

Theodore Levitt's article, 'The Globalization of Markets', has spawned a host of new references to marketing activities: global marketing, global business, global advertising, and global brands, as well as serious discussions of the processes of international marketing. Professor Levitt's premise is that world markets are

being driven 'toward a converging commonalty'.[28] Almost everyone everywhere wants all the things they have heard about, seen or experienced, via the new technologies. He sees substantial market segments with common needs, that is, a high quality, reasonably priced, standardized product. The 'global corporation sells the same thing in the same way everywhere'.

Professor Levitt argues that segmenting international markets on political boundaries and customizing products and marketing strategies for country markets or on national or regional preferences are not cost effective. The company of the future, according to Levitt, will be a global company that views the world as one market to which it sells a global product. Competition in the future will require global marketing rather than international or multinational marketing.

As with all new ideas, interpretations abound and discussions and debates flow. Professor Levitt's article has provoked many companies and marketing scholars to reexamine a fundamental idea that has prevailed for decades; that is, products and strategies must be adapted to the cultural needs of each country when marketing internationally. This approach is contrasted with a global orientation suggesting a commonalty in marketing needs and thus a standardized product for the entire world. While the need for cultural adaptation exists in many markets and for many products, the influence of mass communications in the world today and its influence on consumer wants and needs cannot be denied. Satellite and cable television transmit to hundreds of millions of potential consumers everywhere in the world via MTV, Cable News Network (CNN), and television programs that include everything from 'LA Law' to 'Lifestyles of the Rich and Famous'.

Certainly the homogenizing effect of mass communications in the United States has eliminated many of the regional differences that once existed. It is difficult to deny the influences of mass media and communications on American tastes and consumer behavior. Based on American experiences, it seems reasonable to believe that people in other cultures exposed to the same influences will react similarly and that there is indeed a converging commonalty of the world's needs and desires.

Does this mean markets are now global? The answer is yes; there are market segments in most countries with similar demands for the same product. Levi Strauss, Revlon, Toyota, Ford, McDonald's, and Coca-Cola are companies that sell relatively standardized products throughout the world to market segments seeking the same products to satisfy their needs and desires. Does this mean there is no need to be concerned with cultural differences when marketing in different countries? The answer is 'it depends'; for some products adaptation is not necessary, but for other products more sensitive to cultural values, adaptation is still necessary. The issue of modification versus standardization of marketing effort cannot be answered as easily as yes or no. The astute marketer always strives to present products that fulfill the perceived needs and wants of the consumer. Some products successful in one culture are equally acceptable in another; Pepsi-Cola is a good example. Other products demonstrate the vast differences in what is acceptable from one market to another. Turkey testicles, wings, and necks (considered gourmet fare in Taiwan and preferred to white meat, which they consider disgusting) would probably need some creative

adaptation to sell for Thanksgiving dinner in Peoria, Illinois.

Marketing internationally should entail looking for market segments with similar demands that can be satisfied with the same product, standardizing the components of the marketing mix that can be standardized, and, where there are significant cultural differences that require parts of the marketing mix to be culturally adapted, adapting.[29] Throughout the text, the question of adaptation versus standardization of products and marketing effort – that is, global marketing – will be discussed.

1.10 Orientation of International Marketing

Most problems encountered by the foreign marketer result from the strangeness of the environment within which marketing programs must be implemented. Success hinges, in part, on the ability to assess and adjust properly to the impact of a strange environment. The successful international marketer possesses the best qualities of the sociologist, psychologist, diplomat, lawyer, prophet, and businessperson.

In light of all the variables involved, with what should a text in foreign marketing be concerned? It is the opinion of the authors that a study of foreign-marketing environments and cultures and their influences on the total marketing process is of primary concern and is the most effective approach to a meaningful presentation.

Consequently, the orientation of this text can best be described as an environmental/cultural approach to international strategic marketing. By no means is it intended to present principles of marketing; rather it is intended to demonstrate the unique problems of international marketing. It attempts to relate the foreign environment to the marketing process and to illustrate the many ways in which culture can influence the marketing task. Although marketing principles are universally applicable, the cultural environment within which the marketer must implement marketing plans can change dramatically from country to country. It is with the difficulties created by different environments that this text is primarily concerned.

The text is concerned with any company marketing in or into any other country or groups of countries, however slight the involvement or the method of involvement. Hence, this discussion of international marketing ranges from the marketing and business practices of small exporters such as a Colorado-based company that generates more than 50 percent of its $40 000 annual sales of fish-egg sorters in Canada, Germany, and Australia to the practices of global companies such as Motorola, Avon, and Johnson and Johnson, all of which generate more than 50 percent of their annual profits from the sales of multiple products to multiple country-market segments all over the world.

The first section of *International Marketing* offers an overview of international marketing, including a brief discussion of the global business environment confronting the marketer. The next section deals exclusively with the uncontrollable elements of the environment and their assessment, followed by modules on assessing global market opportunities. Then, management issues in developing

global marketing strategies are discussed. In each module, the impact of the environment on the marketing process is illustrated.

The importance of the Internet as a marketing tool and its impact on the marketing mix will be presented in the appropriate modules. World Wide Web (WWW) addresses for unique information sources will be included both in the body of the text and in footnotes. These WWW sites will lead you to a vast assortment of company and government information in addition to many of the original sources for the topics being discussed in the module.

Space prohibits an encyclopedic approach to all the issues of international marketing; nevertheless, the authors have tried to present sufficient detail so readers appreciate the real need to make a thorough analysis whenever the challenge arises. The text provides a framework for this task.

True–False Questions

1.1 Only large firms having facilities in foreign countries can participate in international business.

1.2 Medium- and small-sized firms account for the great majority of American export volume.

1.3 The financial and market power enjoyed by large American corporations allows these firms to ignore global business and political trends.

1.4 The America-First Corporation is determined to confine its activities to domestic enterprises. The firm will continue its operations in the United States, hire only American workers and ensure that it always 'buys and sells American'. The policies adopted by America-First will ensure that it will be unaffected by international concerns and competition.

1.5 Ford Motor Company has evolved from a 100% American firm to a truly global enterprise to emerge from the merger of its U.S. and European organizations in the year 2000.

1.6 The United Kingdom is the largest single foreign investor in American companies.

1.7 The internationalization of American business has been primarily driven by the need to secure outlets for surplus productive capacity and maintain customary rates of growth.

1.8 RCA is the only American-owned company that still manufactures television sets and VCR units.

1.9 For many domestic firms, foreign sales are more profitable than U.S. sales and foreign returns on assets are better than in the United States.

1.10 Of all U.S. multinationals, Coca-Cola derives the largest percentage of both total revenues and total profits from foreign sources.

1.11 Conceptually, international marketing differs from domestic marketing only by virtue of the fact that the marketer must operate in more than one nation.

1.12 The America-First Corporation was among one of the first domestic corporations to successfully compete in the Japanese market. The firm should be able to employ the same programs and techniques it developed in this market to ensure its successful entry into the Chinese market.

1.13 The fact that the marketer must change the 'controllable' elements of the marketing mix to adapt to the unique demands of foreign consumers and environments means that he or she does not have final control over even this portion of the marketing task.

1.14 The successful international marketer must adapt the controllable elements of the marketing mix to the uncontrollable elements of each of the unique foreign environments in which he or she must compete.

1.15 Amanda Archer has been recruited to help the American-First Corporation overcome the problems the previous marketing manager encountered during the firm's entry into international marketing. She should probably begin by carefully analyzing the unique characteristics of each of the firm's foreign markets.

1.16 The uncontrollable elements of an international firm's home-country have little or no, impact upon its success in the international environment.

1.17 Foreign nationals typically view American firms, and their representatives, as 'aliens' who are seeking to exploit consumers in a culture they do not understand or appreciate.

1.18 The single most challenging and important task facing the international marketer is that of adjusting to unfamiliar cultures.

1.19 The America-First Corporation is preparing to market its line of sterile gauze bandages, and over-the-counter medications in Asia. While the firm must carefully monitor the creation of commercial messages appropriate to the language and tradition of the area, it will be able to maintain the traditional white packaging that projects an image of purity the world over.

1.20 The America-First Corporation routinely requires its potential marketing managers to spend a year in those foreign countries for which they may be later responsible. The firm is attempting to overcome the subtle, but potentially devastating, problem of marketing relativism.

1.21 The key to successful international marketing is adaptation to the environmental differences from one market to another.

1.22 The primary obstacle to success in international marketing is a person's self-reference criterion (SRC) in making decisions.

1.23 In order to be globally aware, the marketer must cultivate the traits of objectivity and tolerance – and apply those traits in a context of global knowledge and target market trends.

1.24 The America-First Corporation has only recently entered the international arena. The firm should prepare for this event by planning a logical, step-by-step progression through the five linear stages of international marketing involvement.

1.25 The America-First Corporation utilizes independent subsidiaries to establish marketing objectives and plans for its domestic market and each of its foreign markets. Each market is served by a marketing mix that has been specifically developed for it. The firm would be BEST described as following the domestic market extension concept.

1.26 A truly global orientation requires that the marketer apply the marketing practices, procedures, and philosophy used in its domestic operations to treat the entire world as its market.

Multiple Choice Questions

1.1 According to the Institute for International Economics, the 50 largest exporters account for which of the following portion of the nation's merchandise exports?

A 50 percent.
B 30 percent.
C 90 percent.
D 10 percent.

1.2 The internalization of American business is:

A increasingly necessary for survival.
B a luxury that can be afforded only by the largest of domestic firms.
C a threat to the profitability of domestic firms.
D a major force in the dilution of stockholder equity.

1.3 Ford's Fiesta, one of the first 'world cars' is built in:

A Japan.
B Korea.
C Mexico.
D Taiwan.

1.4 The single greatest amount of foreign investment in U.S. firms comes from investors in:

A Japan.
B Germany.
C the United Kingdom.
D the Netherlands.

1.5 Which of the following firms earned the *LARGEST* percentage of their total profits from foreign sources?

A Coca-Cola.
B Colgate-Palmolive.
C McDonald's.
D Motorola.

1.6 Which of the following is the *MOST* important factor in an international marketer's success?

A creation of a new marketing concept.
B the ability to adapt to different marketing environments.
C development of new marketing processes.
D the evolution of unique marketing principles.

1.7 The international marketer who fails to meet his or her objectives is *MOST* likely to be a victim of:

A unfamiliar marketing environments.
B an inability to adapt products.
C an inability to adapt commercial messages.
D weak pricing skills.

1.8 James Wells is preparing to direct the America-First Corporation's entry into the Asian market. His success will depend upon the skill with which he:

A masters a foreign language.
B adapts the marketing mix to the uncontrollable factors unique to the area.
C selects media.
D translates domestic prices into foreign currency.

1.9 Recently, the Japanese economy has been battered by a variety of factors that have precipitated a fall in the value of the yen vis-à-vis the dollar. The stronger dollar has adversely affected the export business of the America-First Corporation. The firm's experience is an example of how foreign ventures can be affected by domestic:

A legal structure.
B economic conditions.
C political forces.
D technological developments.

1.10 During the recent economic surge enjoyed by America, the America-First Corporation attracted significant amounts of capital which it, in turn, invested in foreign operations. The firm's fortunes are an example of positive impacts that may be derived from the home nation's:

A legal policy.
B technological policy.
C economic policy.
D political policy.

1.11 To protect the 'international property' of American film and recording studios, the government has vigorously sought the assistance of the Chinese government in the enforcement of copyright and patents aimed at the prevention of the practice of film and recording piracy. American producers could recoup significant foreign revenues as a result of a successful implementation of domestic:

A political policy.
B technological policy.
C competitive policy.
D economic policy.

1.12 The process of evaluating the uncontrollable elements in an international marketing program is frequently attended by:

A cultural shock.

B political shock.

C economic shock.

D all of the above.

1.13 Many American firms have experienced frustration resulting from expensive breakdowns and malfunctions in the sophisticated equipment installed in foreign installations. Often, the cause of the problem is the failure of foreign nationals in these plants to provide the maintenance required by the equipment. American firms typically fail to appreciate critical differences in its foreign market's:

A political market.

B competitive market.

C technological climate.

D economic climate.

1.14 In the broadest sense, the 'culture' of international marketing is composed of:

A the uncontrollable elements of the foreign market.

B the controllable elements of the foreign market.

C the uncontrollable elements of the domestic market.

D the controllable elements of the domestic market.

1.15 The natural tendency for international marketers to base their judgements and marketing strategies in foreign markets upon their experiences in their 'home' culture is *BEST* described as the:

A domestic marketing concept.

B principle of marketing relativism.

C principle of comparative advantage.

D international marketing concept.

1.16 Marketing relativism is a subtle, and unintended, result of:

A formal education.

B cross-cultural experience.

C cultural conditioning.

D international experience.

1.17 The international marketer's ability to assess foreign cultures in an objective, unbiased manner is often inhibited by unconscious reliance upon his or her:

A ethnocentric education.

B self-reference criterion.

C repetitive action syndrome.

D cross-cultural criterion.

1.18 In order to minimize the likelihood and/or impact of making inappropriate decisions based upon the self-reliance criteria of domestic executives, international executives should subject such decisions to:

A cross-cultural analysis.

B ethnocentric analysis.

C decision-tree analysis.

D computer simulation analysis.

1.19 The globally aware marketer must possess:

A objectivity.

B tolerance.

C knowledge of cultures, history, world market potential, and global economic, social, and political trends.

D all of the above.

1.20 The America-First Corporation has recently sought to augment its traditional domestic marketing program by establishing a presence on the Internet. The firm has been surprised by the large and increasing volume of foreign orders this move spawned. At this stage, America-First's international role would be *BEST* described as:

A global marketing.

B international marketing.

C no direct foreign marketing.

D regular foreign marketing.

1.21 The America-First Corporation has established a group of foreign-based facilities to produce and market products for a variety of carefully selected foreign markets. The firm would be *BEST* described as engaging in:

A global marketing.

B no direct foreign marketing.

C regular foreign marketing.

D international marketing.

1.22 In which of the following phases of international marketing involvement is worldwide standardization of business activities *MOST* likely to be used to achieve advantages whenever and wherever it is cost effective and culturally feasible?

A International marketing.

B Regular foreign marketing.

C Cross-cultural marketing.

D Global marketing.

1.23 While the America-First Corporation focuses primary attention upon its domestic market, it has begun to seek profitable foreign markets for its domestically produced products. The firm would be *BEST* described as following a:

A domestic market extension concept.

B multidomestic market concept.
C international market concept.
D global market concept.

1.24 Where would a firm following a global marketing concept *BEST* fit in the DPRG schema?
A The ethnocentric/polycentric classification.
B The polycentric/regiocentric classification.
C The geocentric/ethnocentric classification.
D The regiocentric/geocentric classification.

1.25 Global 'homogenization' is *PRIMARILY* the result of:
A the influence of mass media and communications.
B the work of the United Nations.
C the fall of the Soviet Union.
D the emergence of the European Economic Community.

Fill-In-The-Blank Questions

1.1 Increasingly, the business of American business is _____ business.

1.2 _____ is the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers or users in more than one nation for a profit.

1.3 Uncontrollable forces in the foreign environment include _____ forces, _____ forces, _____ forces, the level of _____, the structure of _____, _____, and _____, and _____ forces.

1.4 The most difficult task facing the international marketer is frequently that of cultural _____.

1.5 Cultural conditioning affects the international marketer through the process of marketing _____.

1.6 In order to become globally aware, an international marketer must develop the traits of _____, _____ , cultural differences, and _____ of cultures, history, world market potential, and global trends affecting business.

1.7 An unsolicited order from a foreign buyer is often the stimulus that moves a firm from a policy of _____ to a more active role in the international arena.

1.8 On occasion, the America-First Corporation seeks to dispose of production overruns and unsold 'perishable' inventories by exporting those surpluses to any foreign market that might take them. The firm would be *BEST* described as engaging in _____.

1.9 After several years of exporting surplus inventory to foreign markets, the America-First Corporation has decided to produce products specifically for selected foreign markets through foreign subsidiaries. The firm would be *BEST* described as engaging in _____.

1.10 Firms that are fully committed to, and involved in, marketing activities in countries throughout the world are said to be in _____.

1.11 _____ marketers are distinguished by their ability to see, and treat, the world, including their 'home' country, as one market.

1.12 Global marketers seek to maximize returns through global _____ of business activities – whenever it is cost effective and culturally feasible.

1.13 Under the EPRG schema, firms are classified as having a(n) _____, _____, _____ or _____ orientation.

1.14 While the America-First Corporation primarily focuses upon its domestic market, the firm does sell excess inventory in foreign markets as a means of enhancing its profitability. The firm would be *BEST* described as following a(n) _____ concept.

1.15 The America-First Corporation utilizes a series of foreign subsidiaries to establish independent marketing objectives and plans to be implemented and achieved through unique marketing mixes developed for each country. The firm apparently follows the _____ concept.

1.16 The development of a standardized product, of uniform quality, to be sold at a reasonable price throughout the world is at the core of the _____ concept.

1.17 As the competitive environment facing U.S. businesses becomes more internationalized, the most effective orientation for many firms involved in marketing in another country will be a(n) _____.

1.18 According to Levitt, a global market now exits in the sense that _____ exist in many different countries that have similar values, needs, and behavioral patterns.

1.19 It is generally agreed that advances in _____ have played a major role in the homogenization of the nations of the world.

1.20 The successful international marketer must strike a fine balance between _____ whenever feasible and _____ whenever necessary.

Essay Questions

1.1 What relationship, if any, exists between the worldwide growth in mass production that has occurred over the past twenty years and the current emphasis on international marketing?

1.2 Does the marketer *REALLY* control the elements of the marketing mix (product, promotion, price and distribution)? Defend your position.

1.3 How can educational and business institutions assist the marketer in overcoming the problems posed by marketing relativism and the unconscious use of the self-reference criterion?

1.4 Briefly discuss the interrelationships between the primary prerequisites for global awareness.

Review Questions

1.1 Define:

international marketing	foreign uncontrollables
controllable elements	marketing relativism
uncontrollable elements	self-reference criterion (SRC)
domestic uncontrollables	global awareness

1.2 'The marketer's task is the same whether applied in Dimebox, Texas or Dar es Salaam, Tanzania'. Discuss.

1.3 How can the increased interest in international marketing on the part of U.S. firms be explained?

1.4 Discuss the four phases of international marketing involvement.

1.5 Discuss the conditions that have led to the development of global markets.

1.6 Differentiate between a global company and a multinational company.

1.7 Differentiate among the three international marketing concepts.

1.8 Relate the three international marketing concepts to the EPRG schema.

1.9 Prepare your lifelong plan to be globally aware.

1.10 Discuss the three factors necessary to achieve global awareness.

1.11 Define and discuss the idea of global orientation.

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