
EDINBURGH
BUSINESS SCHOOL
HERIOT-WATT UNIVERSITY

International Marketing

Pervez Ghauri

Philip Cateora

This course text is part of the learning content for this Edinburgh Business School course.

In addition to this printed course text, you should also have access to the course website in this subject, which will provide you with more learning content, the Profiler software and past examination questions and answers.

The content of this course text is updated from time to time, and all changes are reflected in the version of the text that appears on the accompanying website at <http://coursewebsites.ebsglobal.net/>.

Most updates are minor, and examination questions will avoid any new or significantly altered material for two years following publication of the relevant material on the website.

You can check the version of the course text via the version release number to be found on the front page of the text, and compare this to the version number of the latest PDF version of the text on the website.

If you are studying this course as part of a tutored programme, you should contact your Centre for further information on any changes.

Full terms and conditions that apply to students on any of the Edinburgh Business School courses are available on the website www.ebsglobal.net, and should have been notified to you either by Edinburgh Business School or by the centre or regional partner through whom you purchased your course. If this is not the case, please contact Edinburgh Business School at the address below:

Edinburgh Business School
Heriot-Watt University
Edinburgh
EH14 4AS
United Kingdom

Tel + 44 (0) 131 451 3090

Fax + 44 (0) 131 451 3002

Email enquiries@ebs.hw.ac.uk

Website www.ebsglobal.net

The courses are updated on a regular basis to take account of errors, omissions and recent developments. If you'd like to suggest a change to this course, please contact us: comments@ebs.hw.ac.uk.

First Published in Great Britain in 2009.

© Pervez Ghauri and Philip Cateora 2009

The rights of Pervez Ghauri and Philip Cateora to be identified as Authors of this Work has been asserted in accordance with the Copyright, Designs and Patents Act 1988.

All rights reserved; no part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise without the prior written permission of the Publishers. This book may not be lent, resold, hired out or otherwise disposed of by way of trade in any form of binding or cover other than that in which it is published, without the prior consent of the Publishers.

Contents

Preface		xiii
	Structure of the Course	xiv
Acknowledgments		xvii
PART I	AN OVERVIEW	
Module 1	The Scope and Challenge of International Marketing	1/1
	1.1 Introduction	1/1
	1.2 The Internationalisation of Business	1/3
	1.3 International Marketing Defined	1/8
	1.4 The International Marketing Task	1/8
	1.5 Environmental Adjustment Needed	1/14
	1.6 Self-reference Criterion: An Obstacle	1/15
	1.7 Becoming International	1/18
	1.8 International Marketing Orientations	1/20
	1.9 Globalisation of Markets	1/24
	1.10 Developing a Global Awareness	1/27
	1.11 Orientation of International Marketing	1/29
	Learning Summary	1/30
	Review Questions	1/30
Module 2	The Dynamics of International Business	2/1
	2.1 Introduction	2/1
	2.2 The Twentieth Century	2/2
	2.3 Balance of Payments	2/11
	2.4 Protectionism	2/12
	2.5 Easing Trade Restrictions	2/20
	Learning Summary	2/26
	Review Questions	2/27
	Part One Case	CI/1

PART 2	THE IMPACT OF CULTURE ON INTERNATIONAL MARKETING	
Module 3	Geography and History: The Foundations of Cultural Understanding	3/1
	3.1 Introduction	3/1
	3.2 Geography and International Markets	3/2
	3.3 Geography, Nature and International Trade	3/4
	3.4 World Trade Routes	3/17
	3.5 Historical Perspective in International Trade	3/18
	Learning Summary	3/19
	Review Questions	3/20
Module 4	Cultural Dynamics in International Marketing	4/1
	4.1 Introduction	4/1
	4.2 Cultural Knowledge	4/8
	4.3 Culture and Its Elements	4/11
	4.4 Cultural Change	4/20
	4.5 Planned Cultural Change	4/23
	4.6 Consequences of an Innovation	4/24
	Learning Summary	4/26
	Review Questions	4/26
Module 5	Business Customs and Practices in International Marketing	5/1
	5.1 Introduction	5/1
	5.2 Required Adaptation	5/2
	5.3 Different Business Practices	5/8
	5.4 Business Ethics	5/21
	Learning Summary	5/23
	Review Questions	5/23
Module 6	The International Political and Legal Environment	6/1
	6.1 Introduction	6/1
	6.2 Stability of Government Policies	6/2
	6.3 Political Risks	6/4
	6.4 Encouraging Foreign Investment	6/10
	6.5 Assessing Political Vulnerability	6/10
	6.6 Reducing Political Vulnerability	6/13
	6.7 Legal Environments	6/18

	6.8	Legal Recourse in Resolving International Disputes	6/22
	6.9	Protection of Intellectual Property Rights – a Special Problem	6/25
	6.10	Commercial Law within Countries	6/27
	6.11	Legal Environment of the European Union	6/30
		Learning Summary	6/32
		Review Questions	6/33
	Part Two Case		C2/1
PART 3	ASSESSING INTERNATIONAL MARKET OPPORTUNITIES		
Module 7	Researching International Markets		7/1
	7.1	Introduction	7/1
	7.2	Breadth and Scope of International Marketing Research	7/3
	7.3	The Research Process	7/5
	7.4	Responsibility for Conducting Marketing Research	7/21
	7.5	Estimating Market Demand	7/23
	7.6	Multinational Marketing Information Systems	7/25
		Learning Summary	7/26
	7.7	Appendix: Sources of Secondary Data	7/27
		Review Questions	7/32
Module 8	Emerging Markets and Market Behaviour		8/1
	8.1	Introduction	8/1
	8.2	Marketing and Economic Development	8/3
	8.3	Marketing in a Developing Country	8/17
	8.4	Emerging Markets	8/19
	8.5	Changing Market Behaviour and Market Segmentation	8/35
		Learning Summary	8/38
		Review Questions	8/38
Module 9	Multinational Market Regions and Market Groups		9/1
	9.1	Introduction	9/2
	9.2	La Raison D'être	9/3
	9.3	Patterns of Multinational Cooperation	9/5
	9.4	Global Markets and Multinational Market Groups	9/8
	9.5	Europe	9/8
	9.6	The Americas	9/22
	9.7	Latin-American Economic Cooperation	9/25
	9.8	Asia	9/28

9.9	Africa	9/30
9.10	Middle East	9/33
9.11	Future Multinational Market Groups	9/33
9.12	Strategic Implications For Marketing	9/35
	Learning Summary	9/37
	Review Questions	9/38

Part Three Case **C3/I**

PART 4 **DEVELOPING INTERNATIONAL MARKETING STRATEGIES**

Module 10 **International Marketing Strategies** **10/I**

10.1	Introduction	10/1
10.2	International Marketing Management	10/2
10.3	Competition in the Global Marketplace	10/5
10.4	Formulating International Marketing Strategy	10/12
10.5	Strategic Planning	10/20
	Learning Summary	10/27
	Review Questions	10/27

Module 11 **International Market Entry Strategies** **11/I**

11.1	Why Firms Go Abroad	11/1
11.2	Market Servicing Strategy	11/3
11.3	Market Opportunity Assessment	11/6
11.4	Market/Country Selection	11/6
11.5	Strategic International Alliances	11/9
11.6	Market-Entry Strategies	11/13
	Learning Summary	11/21
	Review Questions	11/22

Module 12 **Exporting, Managing and Logistics** **12/I**

12.1	Introduction	12/1
12.2	Regulations and Restrictions of Exporting and Importing	12/2
12.3	Customs-Privileged Facilities	12/10
12.4	Export Documents	12/11
12.5	Terms of Sale	12/14
12.6	Logistics	12/18
12.7	The Foreign-Freight Forwarder	12/20

	Learning Summary	12/21
	Review Questions	12/21
Module 13	Developing Consumer Products for International Markets	13/1
	13.1 Introduction	13/1
	13.2 International Markets and Product Development	13/2
	13.3 Products and Culture	13/13
	13.4 Product Life Cycle and Adaptation	13/22
	13.5 Screening Products for Adaptation	13/23
	13.6 Quality Products	13/26
	Learning Summary	13/27
	Review Questions	13/27
Module 14	Marketing Industrial Products and Business Services	14/1
	14.1 Introduction	14/1
	14.2 The Industrial Product Market	14/2
	14.3 Attributes of Product Quality	14/4
	14.4 Relationship Marketing	14/11
	14.5 Promoting Industrial Products	14/15
	14.6 Marketing Services Globally	14/17
	Learning Summary	14/24
	Review Questions	14/24
Module 15	The International Distribution System	15/1
	15.1 Introduction	15/1
	15.2 Channel of Distribution Structures	15/2
	15.3 The Internet	15/9
	15.4 Distribution Patterns	15/17
	15.5 Alternative Middleman Choices	15/23
	15.6 Factors Affecting Choice of Channels	15/35
	15.7 Locating, Selecting and Motivating Channel Members	15/38
	Learning Summary	15/40
	Review Questions	15/41

Module 16	The International Advertising, Promotion and Personal Selling	16/1
	16.1 Introduction	16/2
	16.2 International Advertising	16/4
	16.3 Challenges of International Advertising	16/13
	16.4 Media Planning and Analysis	16/19
	16.5 Sales Promotion	16/25
	16.6 International Advertising and the Communications Process	16/26
	16.7 The Advertising Agency	16/31
	16.8 International Control of Advertising	16/32
	16.9 Selling in International Markets	16/33
	16.10 Recruitment of International Sales Force	16/41
	Learning Summary	16/50
	Review Questions	16/51
Module 17	Pricing for International Markets	17/1
	17.1 Introduction	17/1
	17.2 Pricing Policy	17/2
	17.3 Factors Influencing International Pricing	17/9
	17.4 Administered Pricing	17/21
	17.5 Transfer Pricing	17/23
	17.6 Dumping	17/24
	17.7 Price Quotations	17/26
	17.8 Countertrades as a Pricing Tool	17/26
	Learning Summary	17/30
	Review Questions	17/31
	Part Four Case	C18/1
Practice Final Examinations	Practice Final Examinations	A1/1
	Practice Final Examination 1	1/2
	Practice Final Examination 2	1/4
	Examination Answers	1/6
Answers to Review Questions	Answers to Review Questions	A2/1
	Module 1	2/1
	Module 2	2/6
	Part One Case	2/13
	Module 3	2/14
	Module 4	2/18

Module 5	2/22
Module 6	2/26
Part Two Case	2/30
Module 7	2/32
Module 8	2/40
Module 9	2/44
Part Three Case	2/50
Module 10	2/51
Module 11	2/57
Module 12	2/58
Module 13	2/60
Module 14	2/66
Module 15	2/70
Module 16	2/76
Module 17	2/82
Part Four Case	2/88
Index	I/I

Preface

Whether or not a company wants to participate directly in international business, it cannot escape ever-increasing competition from international firms. We are coming to a situation where hardly any company can claim that it is a domestic one. The globalisation of the marketplace is already a reality, but it led us to some misunderstandings. The concept of the global market, or global marketing, thus needs some clarification. Generally, the concept views the world as one market and is based on identifying and targeting cross-cultural similarities. In our opinion, the global marketing concept is based on the premise of cultural differences and is guided by the belief that each foreign market requires its own culturally adapted marketing strategies. Although consumers dining at McDonald's in New Delhi, Moscow and Beijing is a reality, the idea of marketing a standardised product with a uniform marketing plan remains 'purely theoretical.'

The global marketing strategy is thus different from the globalisation of the market. One has to do with efficiency of operations, competitiveness and orientation, the other with homogeneity of demand across cultures. In this course we consider it important to make this distinction and to see how it affects international marketing strategies.

In Europe, where home markets are smaller, companies like Philips, Unilever, Ericsson, Nokia, Akzo Nobel and Carrefour are deriving up to 80 per cent of their revenues from abroad. 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:

- The emergence of China as a full player in international market.
- The European Union as the biggest single market with 500 million affluent consumers.
- Emerging markets in Eastern Europe, Asia, and Latin America, where in spite of the economic and political crisis, more than 75 per cent of the growth in world trade over the next 20 years is expected to occur.
- The job shift in services from Western to emerging markets.
- The rapid move away from traditional distribution structures in Japan, Europe, USA and many emerging markets.
- The growth of middle-income households the world over.
- The creation of the World Trade Organization (WTO) and decreasing restrictions on trade.
- The transformation of the Internet from a toy for 'cybernerds' to a major international business tool for research, advertising, communications, exporting and marketing.
- The increased awareness of ethical issues and social responsibility.

As global economic growth occurs, understanding marketing in all cultures is increasingly important. This course addresses global issues and describes concepts relevant to all international marketers, regardless of the extent of their international involvement. Emphasis is on the strategic implications of competition in the markets of different countries. 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 country. Instead, we provide an approach and framework for identifying and analysing the important cultural and environmental uniqueness of any country or global region.

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

Although this revised edition is infused throughout with a global orientation, export marketing and 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.

Structure of the Course

The course is divided into four parts. In **Part I**, An Overview, the two modules introduce the reader to international marketing and to three international marketing management concepts: the domestic market expansion concept, the multidomestic market concept and the global marketing concept. As companies restructure for the global competitive rigours 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 course; it is 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 creation of the World Trade Organization (WTO), as the successor to GATT, are fully explored.

The four modules in **Part II** deal with the impact of culture on international 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 behaviour as it relates to international marketing. Specific attention is paid to Geert Hofstede's study of cultural value and behaviour.

Module 5 focuses on business customs and practices. Knowledge of the business culture, management attitudes and business methods existing in a country and a willingness to accommodate the differences are important to success in an international market. The module provides several examples to deal with these different business practices and customers.

The political climate in a country is a critical concern for the international marketer. In **Module 6**, we take a closer look at the political environment. We discuss the stability of government policies, the political risks confronting a company, and the assessment and reduction of political vulnerability of products. Legal problems common to most international marketing transactions, that must be given special attention when operating abroad, are also discussed in this module.

Modules 7, 8 and 9 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 behaviour within and across different cultural contexts. Multicultural research and qualitative and quantitative research are discussed in **Module 7**.

Modules 8 and 9 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; (3) the steady creation of regional market groups that include the European Union (EU), the North American Free Trade Agreement (NAFTA), the Southern Cone Free Trade Area (Mercosur), ASEAN Free Trade Area (AFTA) and the Asian–Pacific Economic Cooperation (APEC).

The strategic implications of the shift from socialist-based to market-based economies in Eastern Europe, and the return of impact of China on 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 privatise state-owned enterprises.

In **Part IV**, Developing International Marketing Strategies, planning and organising for international marketing are discussed in **Module 10**. Many multinational companies realise that to fully capitalise on opportunities offered by global markets, they must have strengths that often exceed their capabilities. Here we also deal with positioning and branding as strategic actions. **Module 11** has been dedicated to Entry Strategies. Here we provide a model that can be followed to analyse different markets while making decisions on market selection.

In **Module 12**, the special issues involved in moving a product from one country market to another, and the accompanying mechanics of exporting, are addressed. The exporting mechanisms and documentation is expanded.

Modules 13 and 14 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 standardised 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 15 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 American and European distribution structure. In addition, the rapid changes in channel structure that are occurring in Japan and in other countries and the emergence of the World Wide Web as a distribution channel are presented.

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. We also discuss personal selling and sales management and the critical nature of training, evaluating and controlling sales representatives.

Price escalations and ways in which it can be lessened, countertrade practices and price strategies under varying currency conditions are concepts presented in **Module 17**. The factors influencing pricing decisions are thoroughly discussed.

Acknowledgments

The success of a text depends on the contributions of many people, especially those who take the time to share their thoughtful criticisms and suggestions to improve the text.

We would especially like to thank the reviewers who gave us valuable insights into this revision:

- Kim Rene Bohn, University of Aalborg, Denmark
- Peter Dahlin, Malardalen University College, Sweden
- Nikos Dimitriadis, University of Sheffield, UK
- Peter Forte, ESCEM, France
- Jens Graff, UMEA, Sweden
- Amjad Hadjikhani, Uppsala University, Sweden
- Patricia Harris, Kingston University, UK
- Cecilia Lindh, Malardalen University College, Sweden
- Dr Ulrike Mayrhofer, IECS Strasbourg, France
- Peter Nuttall, UWE, UK
- Fred Scharf, University of Ulster, UK
- Eric Shui, Birmingham Business School, UK
- Dr. Rudolf R. Sinkovics, Manchester Business School, UK
- John Sisk, Dundalk Institute of Technology, Ireland
- Ingemar Tuveesson, Lunds University, Sweden
- Fiona Winfield, Nottingham Trent University, UK

We would also like to thank those who contributed to this new edition, by writing case studies or examples:

- Ulf Elg, Lunds University, Sweden
- Richard Gesteland, Global Management, LLC, USA
- Sylvie Hertrich, IECS Strasbourg, France
- Anna Jonsson, Lunds University, Sweden
- Claudia Klausegger, Wirtschaftsuniversität Wien, Austria
- Dr. Ulrike Mayrhofer, IECS Strasbourg, France
- Klaus Meyer, National Chengchi University, Taiwan
- Rudolf R. Sinkovics, University of Manchester, UK
- Veronika Tarnovskaya, Lunds University, Sweden
- Rob van Zanten, University of Adelaide, Australia

In addition, over 200 instructors, unfortunately too many to list here, responded to surveys that helped shape the content and structure of this edition, as well as provided impetus for some very positive changes in the supplement package.

Acknowledgments

Other than these we also would like to thank a team of colleagues who helped us in typing, editing and preparing the manuscript. Our special thanks in the regard to Robert-Jan Bulter and Gill Geraghty at Manchester Business School.

We appreciate the help of all the many students and professors who have shared their opinions of past editions, and we welcome their comments and suggestions on this and future editions of *International Marketing*.

A very special thanks to Rachel Crookes at McGraw-Hill, London, who helped us in more than one way to finish this edition in time.

Pervez Ghauri and Philip Cateora

PART I

An Overview

Module 1 The Scope and Challenge of International Marketing

Module 2 The Dynamics of International Business

Part One Case

The Scope and Challenge of International Marketing

Contents

1.1	Introduction.....	1/1
1.2	The Internationalisation of Business	1/3
1.3	International Marketing Defined.....	1/8
1.4	The International Marketing Task.....	1/8
1.5	Environmental Adjustment Needed.....	1/14
1.6	Self-reference Criterion: An Obstacle.....	1/15
1.7	Becoming International	1/18
1.8	International Marketing Orientations	1/20
1.9	Globalisation of Markets	1/24
1.10	Developing a Global Awareness.....	1/27
1.11	Orientation of International Marketing	1/29
	Learning Summary.....	1/30
	Review Questions	1/30

Learning Objectives

What you should learn from Module 1

- What is meant by international marketing.
- To understand the scope of the international marketing task
- To comprehend the importance of the self-reference criterion (SRC) in international marketing.
- To be able to identify and manage the factors influencing internationalisation of companies.
- To evaluate the progression of becoming an international marketer.
- To see how international marketing concepts influence international marketers.
- To appreciate the increasing importance of global awareness.

1.1 Introduction

The modern world is organised on the theory that each nation state is sovereign and independent from other countries. In reality, however, no country can completely isolate its internal affairs from external forces. Even the most inward-looking regimes have realised the limitations of their own resources as well as the benefits of

opening up their borders. This major change in the orientation of most regimes has led to an enormous amount of activity in the international marketplace.

A global economic boom in the last decade of twentieth century has been one of the drivers for efficiency, productivity and open, unregulated markets that swept the world.¹ Never before in world history have businesses been so deeply involved in and affected by international global developments. 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 world economic and market system will be built.²

Whether or not a company wants to participate directly in international business, it cannot escape the effect of the ever-increasing number of domestic firms exporting, importing, and/or manufacturing abroad; the number of foreign-based firms operating in most 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, five stand out as the most dynamic and as the ones that are influencing the shape of international business:

1. The interdependence of the world economies.
2. The rapid growth of regional free trade areas such as EU, NAFTA, ASEAN and APEC.
3. The increase in wealth and growth in most parts of the world, causing enhanced purchasing power.
4. The evolution of large emerging markets such as Brazil, China, India, Malaysia, Russia, Hungary and Poland.
5. Availability of advanced methods of communication and transportation due to developments in information technology.

These forces affecting the international business have led to a dramatic growth in international trade and have contributed to a perception that world has become a smaller and interdependent place.³ If we look at the Swiss Multinational Company, Nestlé, 'The Food Company of the World', it claims its products are sold in every country in the world. It has factories in more than 80 countries and it has many brands that are recognised all over the world.⁴ Toyota and its subsidiaries sell their cars in more than 170 countries, giving it a presence in more countries than any other auto manufacturer.⁵

Today most business activities are global in scope. Finance, technology, research, capital and investment flows, production facilities, purchasing and marketing and distribution networks all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic environment, and all business people must be aware of the effects of these trends when managing a multinational conglomerate or a domestic company that exports. As one international expert noted, 'every company is international, at least to the extent that its business performance is conditioned in part by events that occur abroad.'⁶ Even companies that do not operate in the international arena are affected to some degree by the success of the European Union, the post 9-11 political economy and the economic changes taking place in China and India. The aftermath of 9-11 and the war in Afghanistan and Iraq have changed the political as well as economic scene.

The interdependence among the nations and markets has however not been affected. Companies have become even more aggressive to capture new markets to compensate recessions at home or in their traditional markets.

As competition for world markets intensifies, the number of companies operating solely in domestic markets is decreasing. Or, to put it another way, it is increasingly true that the business of any business is international business. The challenge of international marketing is to develop strategic plans that are competitive in the intensifying global markets. These and other issues affecting the world economy, trade, markets and competition will be discussed throughout this text.

1.2 The Internationalisation of Business

Current interest in international marketing can be explained by the changing competitive structures coupled with shifts in demand characteristics in markets throughout the world.

Going International 1.1

Evolution of a Multinational Company

- 1964 Phil Knight an accountant at Price Waterhouse and college track coach Bill Bowerman put in \$500 each to start Blue Ribbon Sports.
- 1970 Bowerman, inspired by the waffle iron, dreams up new shoe treads, which becomes the best-selling U.S. training shoe.
- 1971 Blue Ribbon changes its name to Nike and adopts swoosh as its logo, designed by a college student for \$35. She later gets an undisclosed number of stocks.
- 1973 Steve Perfontaine, the long distance runner, becomes the first major athlete to wear Nike in competitions.
- 1980 Nike goes public with 2.4 million shares at \$11. After several splits, stock is worth \$78 in September 2004.
- 1985 Air Jordan, the best-selling athletic shoe, ever, is introduced
- 1987 Nike runs its first advertisement campaign 'Revolution' based on a Beatles song.
- 1992 Magic Johnson, sponsored by Nike, wins a gold medal. The first Nike town opens.
- 1994 Nike enters the football by signing top players like Ronaldo from Brazil.
- 1999 Co-founder Bowerman dies and Knight takes total control under allegation of poor working conditions in Asian factories producing Nike.
- 2003 More than half of the sales come from outside the U.S. for the first time. It passes Adidas as number 1 football shoe in Europe.

With revenues over \$12 billion (2004), the company has come a long way from its early years when Phil Knight used to sell sneakers out of his car trunk at tracks. As for advertising Nike spent \$8 million in 1986 and \$48 in 1987. These

days it pays \$100 million for one endorsement (e.g. Tiger Woods). It has developed sophisticated computer systems to develop and market its products in more places in the world more quickly. It has improved its gross margin from 39.9 per cent in 1998 to 42.9 per cent in 2004. It makes only 3 per cent of shoes without a firm order from a retailer (30 per cent in 1998).

Today, like any other Multinational Company Nike is not just one product/brand company. It started diversifying already in 1988 when it bought Cole Haan (dresses and casual shoes) for \$88 million, in 1995 it bought Bauer (ice hockey skates) for \$409 million, in 2002 it bought Hurley International (skateboard equipment) for \$95 million and Converse (retro-style sneakers) for \$305 in 2003.

As for production, Nike does not own any manufacturing facility. However, factories such as Yue Yuen in an industrial estate in Dongguan, China, are geared towards Nike standards and reflect Nike needs. The chart illustrates that a particular Nike shoe is made up of 52 different components, coming from five different countries, excluding nonmaterial inputs such as design, transportation and marketing. It will be touched by at least 120 pairs of hands during production. The new production system is a network of logistics, not only all the materials have to come together; they have to come together at the right time. Moreover, constant upgrading of materials and of process and workers is required. The designs and models are changed every week.

What does this mean for the business world? For one thing, it suggests the futility of trying to apply borders to today's business. Nike, for example, is an American firm and though our statesmen and trade negotiators haggle over local content, how would they classify Nike from the Dongguan factory? The leather comes from South Korea. Those putting it together are mainland Chinese. The factory is owned by a Taiwanese, some components come from Japan and Indonesia, and the design and marketing come from America. And if this is the case for a simple pair of shoes, imagine what it must be for a computer or a car.

Sources: Abstracted from *Far Eastern Economic Review*, 29 August 1996, p. 5 and Stanley Holmes, 'The New Nike', Cover Story, *Business Week*, September 20, 2004, pp. 54–64.

With the increasing globalisation 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 televisions, DVD players, mobile phones, clothes and tableware sold in Western Europe is foreign made. Sony, Panasonic, Mitsubishi, Nokia, Fujitsu, Toyota and Nissan are familiar brands in Europe and North America, and for Western industry, they are formidable opponents in a competitive struggle for European and world markets.

Many familiar domestic companies are now foreign controlled. When you shop for groceries at Aldi, A&P supermarkets or buy Alka-Seltzer, you are buying indirectly from a German company. Some well-known brands no longer owned by

US companies are Carnation (Swiss), Brooks Brothers clothing (Canada) and the all-American Smith and Wesson handgun, which is now owned by a British firm. There is hardly any country that is not involved in international trade and investment, Table 1.1 shows the top 30 countries. In fact, foreign investment in Western countries by other industrialised countries is quite common. This is illustrated by Table 1.2. We can see that companies from Germany, Japan, the United States and the United Kingdom lead the group of investors, with companies from Switzerland, The Netherlands and France following in that order.

Table 1.1 Top 30 countries for trade and expansion

Rank 2004	Country	GDP per capita US\$	Trade blocs/ agreements	Trade bloc totals	Global competition ranking	Population (millions)	Inward direct investment	Export +Import/ GDP
1	USA	39 340	NAFTA, WIPO, WTO, APEC, ISRAEL	26	2	293.03	141 678	24.85
2	United Kingdom	27 920	EU, WIPO, WTO, ISRAEL, MEXICO	25	15	60.50	41 678	62.36
3	Japan	28 160	WIPO, WTO, APEC	14	11	127.33	7 199	33.08
4	Singapore	28 570	WIP, WTO, APEC, ASEAN	16	6	4.26	7 350	311.16
5	Canada	32 180	NAFTA, WIPO, WTO, APEC, CHILE, ISRAEL	28	16	32.01	25 232	60.29
6	Sweden	27 890	EU, WIPO, WTO, SCH, ISRAEL, MEXICO	28	3	9.00	14 916	116.01
7	Taiwan	25 820	WTO, APEC	4	5	22.75	1 878	71.16
8	Denmark	31 060	EU, EMU, WIPO, WTO, ISRAEL, MEXICO	28	4	5.39	9 186	117.07
9	Ireland	34 650	EU, EMU, WIPO, WTO, ISRAEL, MEXICO	32	30	3.95	18 678	169.94
10	Finland	28 630	EU, EMU, WIPO, WTO, ISRAEL, MEXICO	32	1	5.26	10 563	91.08
11	Australia	29 280	APEC, WIPO, WTO	14	10	20.01	9 700	42.05
12	Switzerland	30 770	EFTA, WIPO, WTO	14	7	7.35	8 061	113.20

Rank 2004	Country	GDP per capita US\$	Trade blocs/ agreements	Trade bloc totals	Global competition ranking	Population (millions)	Inward direct investment	Export +Import/ GDP
13	Germany	27 800	EU, EMU,WIPO, WTO, SCH, ISRAEL, MEXICO	33	13	82.24	36 737	78.14
14	Netherlands	29 760	EU, EMU,WIPO, WTO, SCH, ISRAEL, MEXICO	35	12	16.32	32 385	130.12
15	Hong Kong	28 760	WIPO, WTO, APEC	14	24	7.08	17 500	331.19
16	France	28 350	EU, EMU,WIPO, WTO, SCH, ISRAEL, MEXICO	35	26	60.40	47 858	61.09
17	Spain	23 460	EU, EMU,WIPO, WTO, SCH, ISRAEL, MEXICO	35	23	41.05	27 414	52.29
18	Norway	38 360	EFTA, WIPO, WTO	14	9	4.55	3 644	83.58
19	Austria	30 100	EU, EMU,WIPO, WTO, SCH, ISRAEL, MEXICO	14	17	8.22	3 811	117.48
20	Belgium	29 270	EU, EMU,WIPO, WTO, SCH, ISRAEL, MEXICO	35	27	10.29	20 733	159.98
21	Italy	27 700	EU, EMU,WIPO, SCH, ISRAEL, MEXICO	30	41	58.06	14 875	48.84
22	South Korea	18 620	WIPO, WTO, APEC	14	18	48.22	2 789	84.69
23	New Zealand	23 113	WIPO, WTO, APEC	14	14	4.05	1 748	58.44
24	Portugal	18 410	EU, EMU,WIPO, WTO, SCH, ISRAEL, MEXICO	35	25	10.38	5 082	56.20
25	China	5 550	WIPO, WTO, APEC	10	44	1305.63	57 000	18.34
26	Malaysia	6 840	WIPO, WTO, APEC, ASEAN	16	29	25.46	2 000	135.14
27	Greece	19 390	EU, EMU,WIPO, WTO, ISRAEL, MEXICO	25	35	10.67	554	37.37

Rank 2004	Country	GDP per capita US\$	Trade blocs/ agreements	Trade bloc totals	Global competition ranking	Population (millions)	Inward direct investment	Export +Import/ GDP
28	Chile	11 180	MERCOSUR, WIP O, WTO, APEC, CAN., MEXICO, OTHERS	32	28	15.37	3 729	37.78
29	Thailand	7 880	APEC, WIPO, WTO, ASEAN	16	32	64.55	3 000	45.57
30	Czech Republic	16 750	WIPO, WTO, EU, ISRAEL	15	39	10.24	5 000	72.60

Table 1.2 Direct investment flows around Europe, the United States and Japan, 2002

Countries	Inflow (million \$)	Outflow (million \$)	Net outflow (million \$)
US	30 030	119 741	89 711
Belgium and Luxembourg	143 912	167 361	23 449
Japan	9 326	31 481	22 155
UK	24 945	39 703	14 758
France	51 505	62 547	11 042
Norway	872	5 537	4 665
Austria	1 523	5 670	4 147
Italy	14 545	17 123	2 578
Switzerland	9 303	11 787	2 484
Finland	9 148	9 891	743
Sweden	11 081	10 869	-212
Hungary	854	264	-590
Portugal	4 276	3 523	-753
Denmark	5 953	4 839	-1 114
Spain	21 193	18 456	-2 737
The Netherlands	29 182	26 270	-2 912
Czech Republic	9 319	281	-9 038
Germany	38 033	24 534	-13 499

Source: World Investment Report 2003.

Companies with foreign operations find foreign earnings make an important overall contribution to total corporate profits. Companies that never ventured abroad until recently are now seeking foreign markets. Companies with existing

foreign operations realise 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 to handle uncertainties of foreign markets.

1.3 International Marketing Defined

International marketing is the performance of business activities that 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 the marketing activities take place in more than one country. This apparently minor difference accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes and principles are to a great extent universally applicable, and the marketer's task is the same whether doing business in Amsterdam, London or Kuala Lumpur. The goal of a business 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 moulding 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 behaviour, 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. The difficulties created by different environments and culture are the international marketer's primary concern.

1.4 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. Figure 1.1 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.

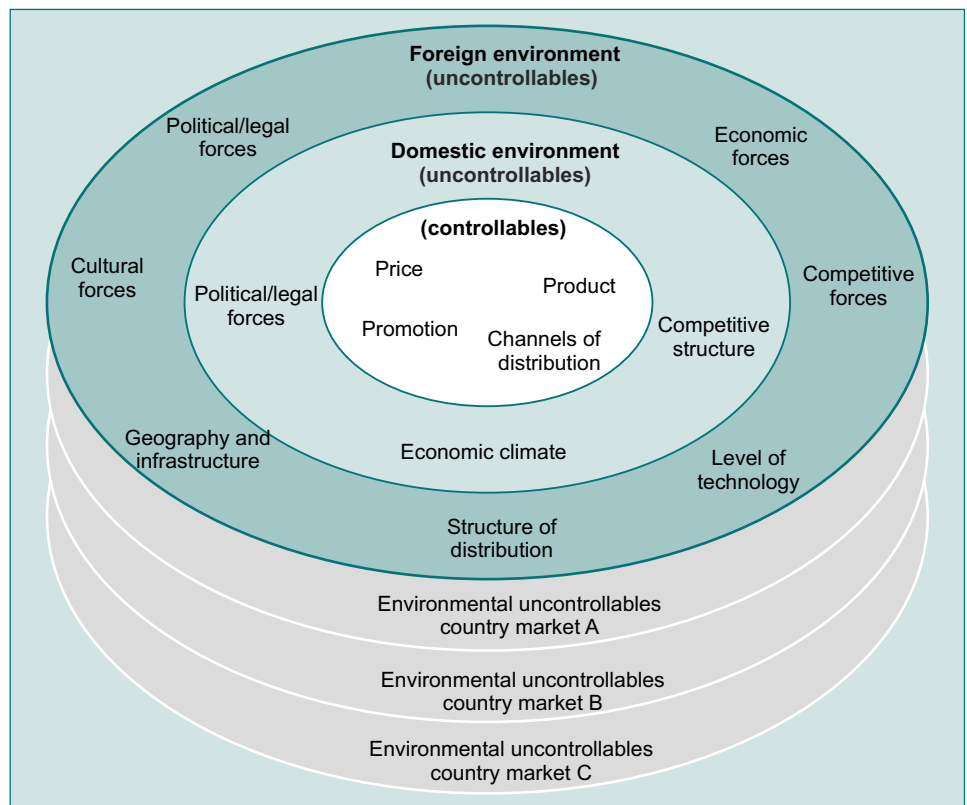


Figure 1.1 The international marketing task

1.4.1 Marketing Controllables

The successful manager constructs a marketing programme designed for optimal adjustment to the uncertainty of the business climate. The inner circle in Figure 1.1 represents the area under the control of the marketing manager. Assuming the

necessary overall corporate resources, the marketing manager blends price, product, promotion and channels-of-distribution activities to capitalise 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 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 adaptation. These are the elements that are outside the control of the managers but need to be handled. That effort, the adaptation of the marketing mix to the uncontrollables, determines the ultimate outcome of the marketing enterprise.

1.4.2 Domestic Uncontrollables

The second circle, representing the domestic environment in Figure 1.1, includes home-country elements that are outside the control of the manager and that can have a direct effect on the success of a foreign venture: political forces, legal structure and economic climate.

A political decision involving domestic foreign policy can have a direct effect on a firm's international marketing success. For example, most Western governments imposed restrictions on trade with South Africa to protest about apartheid. In this case the international marketing programmes of such companies as Shell, IBM and British Petroleum (BP) were restricted by domestic uncontrollables. Conversely, positive effects occur when there are changes in foreign policy and countries are given favoured treatment. Such were the cases when South Africa abolished apartheid and the embargo was lifted, and when the western governments decided to encourage trade with Libya as a reward for not pursuing weapons of mass destruction. In both cases, opportunities were created for international 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 towards 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.

Inextricably entwined with the effects of the domestic environment are the constraints imposed by the environment of each foreign country.

Going International 1.2

McDonald's Revolutions

In 2002, McDonald's, the biggest global brand after Coca-Cola was about to announce the first quarterly loss since going public in 1965. Sales were falling and hundreds of underperforming restaurants were closed, earnings per share had fallen in six out of eight previous quarters. Market share was contested by a new breed of 'quick casual' restaurants such as Panera Bread and Prêt A

Manger. The chain ranked at the bottom of the University of Michigan's American Customer Satisfaction Index. To cap it all, it was targeted by a number of lawsuits brought against fast food companies in the US, and shirts and mugs emblazoned with the words 'Stop super-sizing us' started multiplying across the country. However, as the company responded to the crisis, the sales in the US were boosted by new main-course salads and breakfast sandwiches in the first half of 2003, bringing the share prices up by 80%. Nevertheless, it is still for the future to show whether the recovery will be sustainable. In the meanwhile, the company is attempting to turn McDonald's into a 'lifestyle' brand, comparable with Apple or Nike, through better products, better marketing and better restaurants.



Interior of a 'casual restaurant' McDonald's in France. Reprinted with permission

The company revised its growth targets. Previous targets of 10%–15% a year resulted in focus on opening new restaurants and services in the existing ones was neglected. Now McDonald's is aiming for annual sales growth of 3%–5% from 2005 onwards, with only 2 percentage points coming from new restaurants. The partially lapsed system of sending inspectors round to grade restaurants on quality, service and cleanliness was standardised and toughened up, making it easier to weed out underperforming franchises. Premium salads were added to the menu in March 2003. A 'Salad Plus' menu, offering a variety of low-fat foods, is being tested in Australia. Apple slices are being tested in children's Happy Meals. A new global advertising campaign, featuring a new slogan 'I'm Loving' it,' is the first time McDonald's advertisements in 118 operating countries have used the same slogan.

Other changeover ideas came from one of the most unlikely places – France. Despite the somewhat sour Franco-US relations, France is McDonald's best-performing European subsidiary in terms of operating income per outlet and is in the global vanguard of redesigning restaurants and launching products. French management attributes its success to the adaptation to local tastes and habits. In particular, McDonald's France has an important focus on the 'modernity' of the restaurant image. The company transformed many outlets into so-called 'casual restaurants' by using stone, wood and leather and making the seating space more comfortable and attractive. There are lounge chairs in place of hard, fixed plastic seats, and some restaurants have Apple iPod digital music players installed around the walls, so diners can don headphones and listen to music of their choice.

Source: adapted from Buckley, N. 'Eyes on the Fries: Will New Products, Restaurant Refits and a Marketing Overhaul Sustain the Golden Arches?'; Minder, R. 'Croques, Leather and Headphones put France in the Vanguard', *Financial Times*, 29 August 2003, p. 15; and 'Battling against Big Food', *The Economist*, 21 December 2002, p. 116.

1.4.3 Foreign Uncontrollables

In addition to uncontrollable domestic elements, a significant source of uncertainty is the number of uncontrollable foreign business environments (depicted in Figure 1.1 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 programme, 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 the Soviet Union – a single market that divided into 15 independent republics, 11 of which re-formed in a matter of days as the Commonwealth of Independent States (CIS), leaving investors uncertain about the future. They found themselves asking whether contracts and agreements with the Soviet government were valid in individual independent states. Was the Republic of Russia empowered to represent the CIS, would the rouble survive as the currency of the CIS and who had the authority to negotiate the sale of property or the purchase of equipment? In a very short period, the foreign investors' enthusiasm for investment in the former USSR and its republics turned to caution in the face of drastic changes as it transformed itself into a market economy.⁷ Ever since its liberalisation, Russia, the biggest market among the CIS, has had an inflation of 15 per cent per month. This has caused enormous exchange variation as illustrated by Table 1.3. Such are the uncertainties of the uncontrollable political factors of international business.

Table 1.3 Rouble exchange rate against the dollar

1989	0.6	1997 (Jan)	5 585.0
1990	1.7	1998 (Jan)	59 980.0
1991 (Jan)	37.6	1999 (Jan)	285 050.0
1992 (Jan)	110.0	2000 (Jan)	274 900.0
1993 (Jan)	417.0	2001 (Jan)	299 300.0
1994 (Jan)	1400.0	2002 (Jan)	304 701.0
1995 (Jan)	4500.0	2003 (Jan)	319 578.0
1996 (Jan)	4999.0	2004 (Jan)	292 400.0
		2005 (Jan)	280 050.0

Sources: Peter Buckley and Pervez Ghauri, *The Economics of Change in Eastern Europe*, 1994, p. 25; xe.com, www.xe.com, 2004.

The more significant elements in the uncontrollable international environment, shown in the outer circles of Figure 1.1, 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 programme. Each is discussed in some detail in subsequent modules.

Also a problem for some marketers attuned to one environment is the inability to easily recognise the potential impact of certain uncontrollable elements within another environment, one to which they have not been culturally acclimatised. Road signs of danger and indicators of potential in a foreign market may not always be read or interpreted accurately. The level of technology is an uncontrollable element that can often be misread because of the vast differences that may exist between developed and developing countries. For example, a marketer cannot assume that the understanding of the concept of preventive maintenance for machinery and equipment is the same in other countries as it is in the home country. Thus, in a developing country where the general population does not have the same level of technical knowledge that exists in a developed country, a marketer will have to take extra steps to ensure that routine maintenance procedures and their importance are understood.

The problem of foreign uncertainty is further complicated by a frequently imposed 'alien status' that 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 the business is controlled by foreigners and alien in that the culture of the host country is alien to the foreign company. The alien status of a business results in greater emphasis being placed on many of the uncontrollable elements than would be found with relation to those same elements in the domestic market.

The political environment offers the best example of the alien status. Domestic marketers must consider the political ramifications of their decisions although the consequences of this environmental element are generally minor. Even a noticeable

change in government attitudes towards domestic business with a change of political parties is seldom serious; such is not the case in a foreign country. The political and legal environment can be extremely critical, and shifts in governments often mean sudden changes in attitudes that can result in expropriation, expulsion or major restrictions on operations. The fact is that the foreign company is foreign and thus always subject to the political whims of the government to a greater degree than a domestic firm.

The uncertainty of different foreign business environments creates the need for a close study of the operating environment within each new country relevant for your industry/product. 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.

1.5 Environmental Adjustment Needed

To adjust and adapt a marketing programme 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 recognising 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. 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 behaviour.

The task of cultural adjustment is perhaps 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 judgements 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 or modifying a marketer's reaction to situations – social and even non-social – especially if experience or knowledge of accustomed behaviour 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 behaviours 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 Westerners are not culturally prepared to understand the meaning of time to Latin Americans or Arabs. 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 a Western firm; and a second misunderstanding resulted in lost sales when a 'long waiting period' in the outer office of an emerging market customer was misinterpreted by a Western sales executive.

To avoid such errors, the foreign marketer should be aware of the principle of *marketing relativism*, that is, marketing strategies and judgements are based on experience, and experience is interpreted by each marketer in terms of his or her own culture and experience. 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 people, 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.

1.6 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 minimise 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. Quite often we do not know ourselves why we behave in a certain way in a certain situation as we do that unconsciously. We seldom stop to think about a reaction, we react. Thus, when faced with a problem in another culture, the tendency is to react instinctively referring only to our SRC for a solution. Our reaction, however, is based on meanings, values, symbols and behaviour relevant to our own culture and usually different from those of the foreign culture. Such decisions are often not helpful.

To illustrate the impact of the SRC, consider misunderstandings that can occur about personal space between people of different cultures. In the West, unrelated individuals keep a certain physical distance between themselves and others when

talking to each other 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 further away or get closer to correct the distance – we are relying on our SRC (see Figure 1.2). In some cultures, the acceptable distance between individuals is substantially less than that comfortable to Westerners. When they, unaware of another culture's acceptable distance, are approached too closely by someone from another culture, they unconsciously react by backing away to restore the proper distance (i.e. proper by their own standards) and confusion results for both parties. Westerners assume foreigners are pushy, while foreigners assume Westerners are unfriendly and standoffish. Both react to the values of their own SRCs, making them all victims of a cultural misunderstanding.

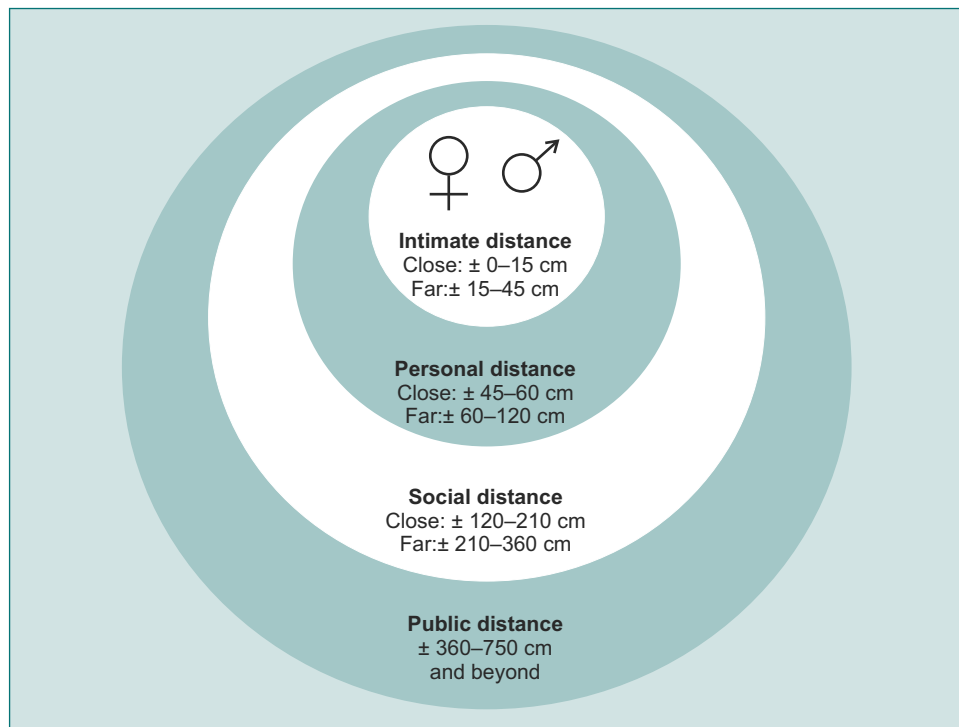


Figure 1.2 Four circles of intimacy

Your SRC can prevent you from being aware that there are cultural differences or from recognising the importance of those differences. Thus, you fail to recognise the need to take action, discount the cultural differences that exist among countries or react to a situation in a way offensive to your hosts. A common mistake made by Westerners is to refuse food or drink when offered. In Europe, a polite refusal is certainly acceptable, but in many countries in Asia and 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.

If we evaluate every situation through our SRC, then we are ethnocentric. The ethnocentrism and the SRC can influence an evaluation of the appropriateness of a domestically designed marketing mix for a foreign market. If the Western marketers are not aware, they may evaluate a marketing mix on Western experiences (i.e. their SRC) without fully appreciating the cultural differences requiring adaptation. ESSO, the brand name of petrol, 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 petrol. 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 international marketing, relying on one's SRC can produce an inadequately adapted marketing programme that ends in failure.

The most effective way to control the influence of the SRC is to recognise its existence in our behaviour. 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.⁸

Also be aware that not every activity within a marketing programme is different from one country to another: there probably are more similarities than differences. Such similarities may lull the marketer into a false sense of apparent sameness. This apparent sameness, coupled with our SRC and ethnocentrism, 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 this, we need to conduct a cross-cultural analysis of each situation and isolate the SRC influence that induces us to be ethnocentric.

Going International 1.3

You're Sick? Is it the Heart, a Virus or Liver? It Depends Where You Are From

Pharmaceutical companies have commissioned concurrent studies to help them package and market their products throughout Europe simultaneously, rather than country by country. This is because they know there are deep-rooted national differences in how people think about health, disease and medicine. In the United Kingdom and the Netherlands, people prefer tablets when taking medicine. In France, suppositories are preferred, while in Germany an injection will do.

In different countries, different organs are believed to be the cause of illness. Germans are almost obsessive about the heart and circulation – they are Europe's largest consumers of heart medicine. Southern Europeans assign almost mystical qualities to the liver. In the United Kingdom, doctors tend to

look for external agents attacking the body and they prescribe antibiotics. In the central European countries, people turn first to herbal treatments and hot and cold baths, relying on antibiotics only as remedies of last resort. If you say you are tired, the Germans would say that it was cardiac insufficiency. In England they would consider you depressed.

Source: Abstracted from Lynn Payer, *Medicine and Culture* (New York: Henry Holt, 1988), p. 265.

1.7 Becoming International

Once a company has decided to go international, it has to decide the way it will enter a foreign market and 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 appear to grow into international marketing through a series of phased developments. They gradually change strategy and tactics as they become more involved. Others enter international marketing after much research, with long-range plans fully developed.⁹

1.7.1 Phases 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, a business can be placed in at least one of five distinct but overlapping phases of international marketing involvement.

1.7.1.1 No Direct Foreign Marketing

In this phase, there is no active cultivation of customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies and 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. An unsolicited order from a foreign buyer is often what piques the interest of a company to seek additional international sales.

1.7.1.2 Infrequent Foreign Marketing

Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterised 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 phase, there is little or no change in company organisation or product lines.

1.7.1.3 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 for products presently being produced is to meet domestic market needs. Investments in marketing and management effort and in overseas manufacturing and/or assembly are generally begun in this phase. Further, some products may become specialised to meet the needs of individual foreign markets, pricing and profit policies tend to become equal with domestic business, and the company begins to become dependent on foreign profits.

1.7.1.4 International Marketing

Companies in this phase are fully committed and involved in international marketing activities. Such companies seek markets throughout 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 throughout the world. At this point, a company becomes an international or multinational marketing firm dependent on foreign revenues.

1.7.1.5 Global Marketing

At the global marketing level, companies treat the world, including their home market, as their market. This is one step further than 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 products and marketing strategies must be developed. A global company develops an overall strategy and image to reflect the existing commonalities of market needs among many countries to maximise returns through some global standardisation of its business activities – as much as it is culturally possible to achieve efficiencies.

1.7.2 Changes in International Orientation

Experience shows that a significant change in the international orientation of a firm occurs when that company relies on foreign markets to absorb permanent production surpluses and comes to depend on foreign profits. Businesses usually move through the phases of international marketing involvement one at a time, but it is not unusual for a company to skip one or more phases. As a firm moves from one phase to another, the complexity and sophistication of international marketing activity tends to increase and the degree of internationalisation to which management is philosophically committed tends to change. Such commitment affects the specific international strategies and decisions of the firm.

International operations of businesses reflect the changing competitiveness brought about by the globalisation 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 market-

ing management orientation of these companies. Global markets are evolving for some products but do not exist yet for most products. In many countries, there are still consumers for many products, reflecting the differences in needs and wants, and there are different ways of satisfying these needs and wants based on cultural influences.

1.8 International Marketing Orientations

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 orientation.
2. Multidomestic market orientation.
3. Global marketing orientation.

It is to be expected that differences in the complexity and sophistication of a company's marketing activity depend on which of these orientations 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 as it moves through different phases of international marketing involvement – from casual exporting to global marketing – is the often-quoted **EPRG schema**. 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 internationalisation to which management is committed or willing to move towards affects the specific international strategies and decision rules of the firm'.¹⁰ 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 orientations.

1.8.1 The Domestic Market Extension Orientation

This orientation to international marketing is illustrated by the domestic company seeking sales extension of its domestic products into foreign markets. It views its international operations as secondary to and an extension of its domestic operations; the primary motive is to dispose of 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 towards international sales is typified by the belief that if it sells in Manchester 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. Sporadic export of cheese to Germany and Belgium by some Dutch dairy producers is an example of this concept. Firms with this marketing approach are classified as *ethnocentric* in the EPRG schema.

1.8.2 Multidomestic Market Orientation

Once a company recognises the importance of differences in overseas markets and the importance of offshore business to the organisation, its orientation towards 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 programme 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 localised 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 standardisation; rather it aims for adaptation to local country markets. Control is typically decentralised to reflect the belief that the uniqueness of each market requires local marketing input and control. Production and sale of detergents and soaps by Unilever, all over the world, is a typical example of this concept. Firms with this orientation would be classified in the EPRG schema as *polycentric*.

Going International 1.4

Striking a Balance between Global and Local

Multinational companies are often either 'hopelessly local' or 'mindlessly global' in their approach. Unilever tend to be the former, where far away subsidiaries used to work independently with minimal supervision. More recently however, a new strategy 'path to growth' has been introduced to correct this. It will ensure that the biggest brands will be managed more centrally.

The best performing Unilever brands now tend to be those that have gone through this process of globalisation, such as deodorants. But Unilever's €24 billion a year food business is lagging behind the toiletries. The difference lies in the need to accommodate local tastes. The food division has nice priority brands ranging from Lipton tea to Bertolli olive oil. In spite of best efforts a local nuance to sales strategies has been missing. The newly installed marketing president for food division says tomato soup has to taste different in the UK, the Netherlands and Germany.



With thanks to Unilever Ice Cream and Frozen Food

One opinion is that Unilever managers are too focused on abstract problems while they should be aspiring for customer management. As one analyst says, 'They have pretty good brands. It just seems like they have not produced things that the consumer wants'. To overcome this, Unilever has been increasingly poaching staff from rivals to diversify its gene pool. Path to growth strategy launched in 1999–2000, is designed to conquer a perennial problem of big companies – how to make scale an asset rather than an encumbrance.

One reason that Unilever's performance is questioned is its comparison with Procter & Gamble, its old rival, which has shown a vibrant growth after its own restructuring. One analyst believes that breaking up the company into food, and home and personal care would help them to focus on their markets and adapt to local needs. While others say that the group enjoys distribution and purchasing benefits from combining the two businesses worldwide. The management's opinion is, 'The business has been in transformational changes for a number of years. I have no doubt there will be other changes in the future. Nobody can take refuge in saying we haven't quite the structure right, or we haven't got the brands right, or we haven't got the people right, or we haven't quite got the margins or the cost structure right. All this has been put into place and now we have to build on it'.

Do you think Unilever is on the right track for growth? Discuss its path to growth strategy!

Facts on Unilever

- Employs 234 000 people in around 100 different countries
- Worldwide turnover in 2003 was €42.9 billion, 2.5% of which spent on R&D
- Food brands include Knorr, Flora/Becel, Hellmans's, Lipton, Iglo/Birds Eye/Findus, Rama/Blue Band, SlimFast and Bertolli
- Leading Personal care brands include, Lux, Dove, Sunsilk, Pond's, Axe/Lyns and Rexona
- Since the 'Path to Growth' strategy was launched in 2000, the company has reduced the number of brands from 1600 to 400 leading brands and 250 smaller brands.

Source: Compiled from company information and Adam Jones: 'No Nimble Giant: The Stumbling Blocks Unilever Faces on its Path to Growth', *Financial Times*, August 23, 2004, p. 15.

1.8.3 Global Marketing Orientation

A company guided by this orientation or philosophy is generally referred to as a *global company*, its marketing activity is global, and its market coverage is the world. A company employing a global marketing strategy strives for efficiencies of scale by developing a product, to be sold at a reasonable price to a global market, that is, somewhat the same country market set throughout the world. Important to the global marketing concept is the premise that world markets are being 'driven towards a converging commonality',¹¹ seeking in much the same ways to satisfy their needs and desires. Thus, they constitute significant market segments with similar demands for the same basic product the world over. With this orientation a company attempts to standardise 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, although pricing, advertising or distribution channels may differ in different markets. The development and marketing of the Sony Walkman or the Playstation are good examples of a global marketing orientation. The global marketing company would fit the *regiocentric* or *geocentric* classifications of the EPRG schema.

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 some level of standardisation wherever it is cost and culturally effective. This might mean a company's global marketing plan has a standardised product but country-specific advertising, or has a standardised theme in all countries with country- or cultural-specific appeals to a unique market characteristic, a standardised 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 standardisation are sought. Wherever cultural uniqueness dictates the need for adaptation of the product, its image and so on, it is accommodated.

As the competitive environment facing today's businesses becomes more internationalised, the most effective orientation for all firms involved in marketing into another country will be a multidomestic or 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 standardising the overall marketing strategy and adopting the marketing mix as much as possible according to cultural and other uncontrollable factors.

Although the world has not become a homogeneous market, there is strong evidence of identifiable groups of consumers (segments) across country borders with similar purchasing power, needs and behaviour patterns. However, the same product might need a different marketing mix in different countries. Sometimes, it is forced by environments, such as government regulations and income levels, sometimes it is influenced by the fact that the product is in different stages of the

product life cycle in different markets. Regardless of the degree to which global markets exist, a company can benefit from a global orientation. The issue of whether marketing programmes should be standardised or localised is not as critical as the recognition that marketing planning processes need to be coordinated across markets.

1.9 Globalisation of 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.¹² Professor Levitt's premise is that world markets are being driven 'towards a converging commonality.' 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, standardised product. The 'global corporation sells the same thing in the same way everywhere'. Professor Levitt argues that segmenting international markets on political boundaries and customising 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.¹³

As with all new ideas, interpretations abound and discussions and debates flow. Professor Levitt's article has provoked many companies and marketing scholars to re-examine 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 commonality in marketing needs and thus a standardised product for all the world. While the need for cultural adaptation exists in most markets and for most products, the influence of mass communications in the world today and its influence on consumer wants and needs cannot be denied.¹⁴

Certainly, the homogenising effect of mass communications in the European Union has eliminated many of the regional differences that once existed. Based on these experiences, it seems reasonable to believe that to some extent people in other cultures exposed to the same influences will react similarly and that there is a converging commonality of the world's needs and desires. For example, over the last century there has been a significant decrease in number of languages spoken in the world. According to studies in Linguistics, in 1900 population of 1.5 billion people spoke around 6000 languages. While by the end of the century, a population of 6 billion people spoke less than 4000 languages and many of these are just spoken languages. It is suggested that by 2010, half of these languages will disappear. Also, about half of the world population speaks only the top 10 languages and English is the most commonly taught language.

Does this mean markets are now global? The answer is yes, to some extent; there are market segments in most countries with similar demands for the same product. Levi Strauss, Revlon, Toyota, Ford, Philips, Sony, McDonald's and Coca-Cola are

companies that sell a relatively standardised product 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 no, in most of the cases; for some products adaptation is not necessary, but for other products adaptation is still necessary. The issue of modification versus standardisation of marketing effort is, however, more complicated. Even an apparently standardised product such as McDonald's hamburgers needs a different marketing effort and mix. For example, for a McDonald's restaurant in Manhattan, New York, the target customers are working people coming for breakfast or lunch. In Maastricht, (The Netherlands) the target customers are families with children, here the restaurant has a big playground with swings and slides attached to it. The restaurant is thus almost empty during the evenings. In Jakarta, the target market is more well-to-do youngsters and yuppies. In this case, the restaurant is placed beside Hard Rock Café and is open 24 hours a day and, in fact, does more business in the night than during the day. The astute marketer always strives to present products that fulfil the perceived needs and wants of the consumer. An apparently standardised product is also modified according to the tastes and wants of the customers in different markets. McDonald's, for example, has restaurants in India, but it serves non-beef beef burgers. In Thailand, it sells pork burgers and in the Philippines chicken and rice is its one of the best-selling meals.

Marketing internationally should entail looking for market segments with similar demands that can be satisfied with the same product, standardising the components of the marketing mix that can be standardised and, where there are significant cultural differences that require parts of the marketing mix to be culturally adapted, adapting. Throughout the text, the question of adaptation versus standardisation of products and marketing effort will be discussed. International marketing is not a concern of multinational or global firms only. Today al, small and large, firms are involved in or influenced by international marketing activities. Throughout the course, international marketing task will be discussed from smaller exporting firms as well as global multinationals.

Going International 1.5

China: racing ahead or catching up?

The world is anxious about China and its sheer scale and the pace of its growth. A country of 1.3 billion people with per capita income in 2003 that was seven times the level in 1978, China is the only country that simultaneously competes with the USA and Africa. In human resources, it is rapidly developing formidable research and development capabilities. Yet, its vast and low cost labour pool makes it one of the world's most cost-competitive business locations.



Bicycles and websites are both part of marketing in China © AFP/CORBIS

There is clearly a need to put things into context. China accounted for one third of the world's GDP in 1820 and in the 13th century was ahead of Europe in terms of per capita income. In 1960s it was just a few years behind Japan in its technology for machine tools. The main point here is that China's economic achievements have not matched its economic potentials. In 2002, China's GDP (in PPP) accounted for 12 per cent of the global GDP. The puzzle for economic historians is not why China has grown so fast, but why it is so poor in the first place.

In the post-World War period, China lost a lot of jobs to its Asian rivals by adopting centrally planned economic system. The market reforms are allowing these jobs to come back. Although some experts may disagree China's rapid growth has brought benefits worldwide. For example, take trade beyond the question of whether America's huge trade deficit with China actually hurts the US, China ploughs back much of its trade surplus into US treasury bonds. This contributes to a low US interest rate environment.

Moreover, China's rise is complementary rather than competitive with Western interests. It has chosen to rely heavily on foreign direct investment, letting foreign companies share the prosperity. In the first quarter of 2003, US companies profit from China operations exceeded that from Japan. In 2002, 5 of the top 15 exporters from China were foreign companies such as Motorola, Logitech and Dell.

China thus runs a huge processing operation for the world on behalf of multinational corporations. In this regard 'Made in China' is fundamentally misleading.

Do you think China is posing a threat to the Western economies? Discuss.

Source: Y. Huang, 'China is not racing ahead, just catching up', *Financial Times*, June 8, 2004, p. 19.

1.10 Developing a Global Awareness

Opportunities in global business abound for those prepared to confront the myriad obstacles with optimism and a willingness to continue learning new ways. The successful business-person in the 21st century will be globally aware 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 towards cultural differences.¹⁵
- Knowledge of:
 - cultures
 - history
 - world market potential
 - 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 were lost by companies that blindly entered the Chinese market in the belief that there were untold opportunities, when, in reality, opportunities were 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; they made uninformed and not very objective decisions.

To be globally aware is to have *tolerance towards cultural differences*. Tolerance is understanding cultural differences and accepting and working with others whose behaviour 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, history, world market potentials and global economic and social trends. Knowledge of cultures is important in understanding behaviour in the marketplace or in the boardroom. Knowledge of history is important because the way people think and act is influenced by their history.

Going International 1.6

Globalisation: Good or Bad?

Anti-globalisation protesters and anti-globalisation writers such as Jeff Gates (Democracy at Risk) are often accused of much talk but not actually providing any policy advice on how to change or improve the present global economic and political system. In order to fill this obvious gap in literature, *The Times* suggested a book by Robert Gilpin, emeritus professor of public and international affairs at Princeton University, *The Challenge of Global Capitalism*, that provides a cooler outlook on the results of the globalisation and what can be done to improve the present system.

Professor Gilpin suggests that to view globalisation as all bad is ridiculous, as such a view ignores the massive increase in income and wealth that globalisation has made possible for the world as a whole. In addition, globalisation is here to stay whether we like it or not, so our task now is to consider ways of maximising the gains from globalisation while minimising the losses. One of the challenges that should be addressed by the policy makers now is the weakening of the political elements that supported the open economy in the post-war era and were based on the strong relations between the western capitalist powers. After the lifting of the iron curtain, the stance of the major superpowers has become more insular, more regionally focused and more unilateralist. These countries need to work together to strengthen the weakening political foundations of the open economy.

On the trading front, the greatest challenge is posed by the increased exposure of national economies to the forces of global competition. The result is increased pressures for protection and more trade disputes, both of which threaten to reverse the gains reaped from trade liberalisation. On the monetary front, removal of restrictions on capital flows left many countries more vulnerable to sudden changes in the mood of investors and conditions on the world financial markets, as the East Asian financial crisis of the 1990s amply demonstrated. Emergence of new trading techniques and greater availability of information means that a crisis occurring in one country is likely to quickly spread to others. The challenge of global policy-makers is to devise institutional forums for anticipating such crises, preventing them when possible and providing countries that are the victims with assistance.

The rise of multinational corporations and the growing concentration of power in the hands of a comparatively small number of giant firms have left consumers and workers feeling overwhelmed by forces outside their control. Exposing firms to more competition and tougher national anti-trust laws combined with international agreements imposing strict codes of conduct on multinationals are likely to be the most effecting way of ensuring protection for the interests of consumers and workers.

A danger also exists that the increasingly more pronounced regional groupings such as Europe, North America and Asia will become more closed and inward looking, distorting patterns of global trade and leading to more protectionism, damaging the smaller, weaker nations. The solution here would be to build up and strengthen global economic institutions to make them more effective in meeting the challenges posed by globalisation – a move completely opposite to the desires of the anti-globalisation protesters.

Is Globalisation good or bad? Discuss!

Source: Grimwade, N, 'Riders of capitalism's storms', *The Times Higher*, January 19th, 2001, p. 34.

Over the next few decades there will be enormous changes in market potential in almost every region of the world. A globally aware person will continuously monitor the markets of the world. Finally, a globally aware person will keep abreast of the

social and economic trends because a country's prospects can change as social and economic trends shift direction or accelerate. Not only the former republics of the USSR, but also Eastern Europe, China and other Asian emerging countries are undergoing social and economic 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. It is our goal in this text to guide the reader towards acquiring a global awareness.

A number of authors do accept that most people live and behave within their culture and milieu, there are however some values that characterise people for converging towards a relatively more globalised culture. The members of a global culture normally possess the following characteristics.¹⁶

- *Educated*: More and more education, particularly higher education, is converging with Universities and schools using same text books and concepts. This is particularly true for Business education.
- *Connected*: These people are using the most advanced communications, from mobile phones and internet to frequent travelling.
- *Pragmatic*: This new group is more concerned with getting things done as compared to sticking with their principles.
- *Un-intimidated by national boundaries and cultures*: National cultures or boundaries are not considered obstacles by these people. Instead they are quite keen to explore the world beyond their national boundaries.
- *Flexible and open*: These people demonstrate good ability to adapt to changes and unexpected circumstances. They may even seek these situations for gaining novel experience or new adventures.
- *Begin from a position of trust*: These people are able to start and maintain new relationships as they often begin with a position of trust when starting new relationships. This makes them tolerant and more approving others.

1.11 Orientation of International Marketing

Most problems encountered by the foreign marketer result from the unfamiliar environment within which marketing programmes must be implemented. Success hinges, in part, on the ability to assess and adjust properly to the impact of a strange environment. In light of all the variables involved, with what should a text in international marketing be concerned? In our opinion, 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 and 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 the environment can influence the marketing task. Although marketing principles are universally applicable, the environment and culture within which the marketer must implement marketing plans can change dramatically from country to country. It is

with the difficulties created by different environments and cultural differences that this text is primarily concerned.

Further, 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 Groningen-based company that generates more than 50 per cent of its \$40 000 (€36 000) annual sales of fish-egg sorters in Canada, Germany and Australia to the practices of global companies such as Philips, British Airways, Nokia, ABB and Sony that generate more than 70 per cent of their annual profits from the sales of multiple products to multiple country-market segments all over the world.¹⁷

Learning Summary

The first section of *International Marketing* offers an overview of international marketing and a discussion of the global business, political and legal environments confronting the marketer. International Marketing is defined as Performance of Business activities beyond national borders. The task of international marketer is explained. Key obstacles to international marketing are not just foreign environments but also our own self-reference criteria (SRC) and ethnocentrism. This section deals exclusively with the uncontrollable elements of the environment and their assessment. The next section offers modules on assessing international market opportunities. Then, management issues in developing global marketing strategies are discussed. In each module the impact of the environment and culture on the marketing process is illustrated. Space prohibits an encyclopaedic approach to all the issues, 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.

Review Questions

Content Questions

- 1.1 'The marketer's task is the same whether "doing business in London, Amsterdam or Kuala Lumpur". Discuss.
- 1.2 How can the increased interest in international marketing be explained?
- 1.3 Discuss the four phases of international marketing involvement.
- 1.4 Discuss the conditions that have led to the development of global markets.
- 1.5 Differentiate between a global company and a multinational company.
- 1.6 Differentiate among the three international marketing orientations.

- 1.7 Relate the three international marketing orientations to the EPRG schema.
- 1.8 Discuss the three factors necessary to achieve global awareness.
- 1.9 What is meant by global markets? How does this influence the adaptation of products and marketing strategies?
- 1.10 Define and explain the following:
 - controllable elements in the international marketer's task
 - uncontrollable elements in the international marketer's task
 - self-reference criterion (SRC)

Multiple Choice Questions

- 1.11 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.
- 1.12 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.
- 1.13 James Wells is preparing to direct his company'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.
- 1.14 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 ABC 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.
- 1.15 To protect the 'international property' of UK 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. UK film 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.

- 1.16 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.
- 1.17 Many 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. Firms typically fail to appreciate critical differences in its foreign market's:
- A. political market.
 - B. competitive market.
 - C. technological climate.
 - D. economic climate.
- 1.18 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.
- 1.19 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.
- 1.20 Marketing relativism is a subtle, and unintended, result of:
- A. formal education.
 - B. cross-cultural experience.
 - C. cultural conditioning.
 - D. international experience.
- 1.21 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.

- 1.22 In order to minimise 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.
- 1.23 The ABC 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, ABC's international role would be *BEST* described as:
- A. global marketing.
 - B. international marketing.
 - C. no direct foreign marketing.
 - D. regular foreign marketing.
- 1.24 The ABC 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.
- 1.25 In which of the following phases of international marketing involvement is worldwide standardisation 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.
- 1.26 While the ABC 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.
- 1.27 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.

- I.28 Global 'homogenisation' 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.

Essay Questions

- I.29 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?
- I.30 Does the marketer *REALLY* control the elements of the marketing mix (product, promotion, price and distribution)? Defend your position.
- I.31 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?
- I.32 Briefly discuss the interrelationships between the primary prerequisites for global awareness.
- I.33 What relationship, if any, exists between the growth of international communications and the trend toward global marketing?

Reading

1. Theodore Levitt, 'The Globalization of Markets', *Harvard Business Review*, 1983, May–June, pp. 92–102.
2. Peter Buckley and Pervez Ghauri, 'Globalization, Economic Geography and Multinational Enterprises', *Journal of International Business Studies*, 2004, 35(2), pp. 81–98.
3. Firat Fuat, 'Educator Insights: Globalization of Fragmentation – A Framework for Understanding Contemporary Global Markets', *Journal of International Marketing*, 5(2), pp. 77–86.

References

1. S. Tamer Cavusgil, Pervez Ghauri and Milind Agarwal, *Doing Business in Emerging Markets: Entry and Negotiation Strategies*, (Thousand Oaks: Sage, 2002).
2. Peter Buckley and Pervez Ghauri, 'Globalization, Economic Geography and International Business', *Journal of International Business Studies*, 2004, 35(2), pp. 1–18.
3. Allan Bird and Michael Stevens, 'Toward an emerging global culture and the effects of globalisation on obsolescing national cultures', *Journal of International Management*, 2003, 6, pp. 395–407, and T. Clark and L.L. Mathur, 'Global Myopia: Globalisation Theory in International Business', *Journal of International Management*, 2003, 9, pp. 361–372.
4. Nestlé: <http://www.nestle.com>, 2004
5. Toyota: <http://www.toyota.co.jp>, 2004

6. 'Borderless Management: Companies Strive to Become Truly Stateless', *Business Week*, 23 May 1994, pp. 24–26.
7. Gina Gianzero, 'Order from Chaos: Who's Who in the Republics', *Europe*, February 1994, pp. 16–19.
8. David A. Ricks, *Blunders in International Business* (Cambridge, Mass.: Blackwell Publishers, 1993), p. 43.
9. For a report on research that examines the internationalization of a firm, see Peter Buckley and Pervez Ghauri (eds), *The Internationalization of the Firm: A Reader*, second edition (London: Dryden Press, 1999).
10. Yoram Wind, Susan P. Douglas and Howard V. Perlmutter, 'Guidelines for Developing International Marketing Strategy', *Journal of Marketing*, April 1973, pp. 14–23.
11. Theodore Levitt, 'The Globalization of Markets', *Harvard Business Review*, May–June 1983, pp. 92–102.
12. Levitt, 'Globalization', p. 92.
13. For an opposing view, see Richard A. Kustin, 'Marketing Globalization: A Didactic Examination of Corporate Strategy', *International Executive*, January–February 1994, pp. 79–93.
14. Punkaj Ghemawat, 'Semiglobalisation and International Business Strategy', *Journal of International Business Studies*, 2003, 34(1), pp. 139–152.
15. The Webster unabridged dictionary defines tolerance as a fair and objective attitude towards those whose opinions, practices, race, religion, nationality, etc., differ from one's own: freedom from bigotry. It is with this meaning that the authors are using tolerance.
16. Louis Amato and Ronald Wilder, 'Global Competition and Global Markets: Some Empirical Results', *International Business Review*, 2004, 13(3), pp. 401–416.
17. Here, and in the rest of the course, the euro (€) to dollar (\$) exchange rate is that of Friday, 22 September 2004, as given by the xe.com (<http://www.xe.com/>): US\$1 = €0.8172; €1 = US\$1.2234.