11 International marketing

Objectives

After reading this chapter you should be able to:

- explain the advantages of marketing internationally;
- describe ways of internationalising the firm's activities;
- develop strategic plans in an international context;
- describe the main barriers to doing business across national borders;
- explain some of the issues surrounding the globalisation of business.

INTRODUCTION

As business becomes increasingly global, marketers find themselves more and more in the position of doing business across cultural divides, and across national boundaries. International marketing differs from domestic marketing in the following ways:

- Cultural differences mean that communications tools will need to be adapted, and sometimes changed radically.
- Market segmentation issues are likely to be more geographically based.
- Remoteness of the markets makes monitoring and control more difficult.
- Both physical distribution (logistics) and place decisions will be affected by infrastructure differences in some overseas markets.

International marketing is important because of the economic theory of **comparative advantage**. This theory states that each country has natural advantages over others in the production of certain goods, and therefore specialisation and the trading of surpluses will benefit everybody. For example, although it is possible to grow tomatoes under glass in the Netherlands, they can be grown more easily and cheaply in Spain, so it makes economic sense for the Dutch to buy Spanish tomatoes and sell Spain chemical products that are produced more readily in the Netherlands.

Comparative advantage does not explain all of the thrust behind internationalisation; Japanese, US and UK multinationals have all made major impacts in overseas markets without having an apparent natural advantage over their overseas competitors. In some cases this can be explained by economies of scale; in others by the development of expertise within the firms; in others the reasons are historical.

WORLD TRADE INITIATIVES

Marketing to an international audience will usually bring **economies of scale** in manufacture, research and development, and marketing costs. Most governments encourage firms to market internationally because it brings in foreign exchange, which enables the country to buy in essential imports (for example aluminium ore, or oil), which are needed to support the national economy.

The downside of world trade is that it sometimes results in the export of cultural values as well as goods and services, so that traditional cultures become eroded. Evidence exists to show that Latin America and Africa have lost ground in terms of share of world markets owing to internationalisation.[1] Sometimes also firms have over-reached themselves and diseconomies of scale have resulted.

TABLE 11.1 World trade initiatives

Name	Description
World Trade Organisation	An ongoing set of international negotiations to reduce customs duties which act as a barrier to trade. Approximately 116 nations are involved in the talks, which were initiated after the Second World War under the title The General Agreement on Tariffs and Trade. Tariffs among industrialised nations fell from an average 40% in 1947 to approximately 5% at present.
European Union	This is a trading group of 25 countries that have virtually eliminated customs duties between the member states. This has caused some complications, and will continue to do so for some time, but border controls are minimal (and in some cases non-existent). Eventually the EU is likely to become a federal superstate as more of the economic decision-making is centralised.
North American Free Trade Agreement (NAFTA)	Creating a customs union between the USA, Canada and Mexico, this agreement seeks to cancel all tariffs (customs duties) between the member states by 2010.
Mercosur	A customs union between the nations of South America, this has already resulted in passportless travel throughout the continent (citizens need only carry identity cards) and in removal of tariff barriers on most items.
Cairns Agreement (IMF)	This is an agreement on world agricultural production and prices; compliance with it has been patchy, but the signatories to the Agreement continue to negotiate.
Association of South-East Asian Nations (ASEAN)	A six-member group that has agreed to establish a free trade area in South-East Asia in the early part of the 21st century.
International Monetary Fund (IMF)	The IMF acts as a stabilising influence on the world economy by injecting funds into national economies, on a loan basis, subject to special conditions regarding government economic policies. The IMF exists to turn round ailing economies.
The World Bank	The World Bank exists to fund projects which reduce poverty in the Third World. It is owned and funded by major economies: the United States has the biggest share, then Japan, then Germany, then the UK, then France.

In general, though, the accepted view is that world trade results in greater wealth and higher standards of living for most of the world's population; trade is therefore regarded as beneficial in terms of its economic benefits, and governments worldwide try to encourage it, within the limits of getting the best deal for their own countries. Table 11.1 shows some of the major initiatives undertaken in recent years to encourage world trade.

The thrust behind much government thinking worldwide is to reduce tariffs and increase trade, while at the same time establishing trading blocs which can stand up to each other. The dominance of the United States of America has clarified the thinking of smaller countries, and there is little doubt that the European Union, Mercosur and the Asia-Pacific Economic Forum will make significant contributions to world competition.

Most governments are in favour of **exporting** their own manufacturers' goods but would prefer to restrict **importing** if possible: this is to protect the **balance of payments**. Having more foreign currency coming in than is going out (a positive balance of payments) allows the government to keep interest rates down and also helps keep inflation down (a fuller explanation of the mechanisms by which this happens is beyond the scope of this book; further reading is given at the end of the chapter). This means that negotiations about reducing tariff barriers tend to be long-drawn-out as each government seeks to open up markets abroad while keeping out foreign competition.

Developing countries frequently impose tariff barriers on importers in order to protect their fledgling industries; unfortunately, this often results in these industries becoming inefficient since they do not need to compete with more efficient overseas manufacturers.[1] For example, Venezuela adopted an import substitution strategy in 1983 which included multiple exchange rates: an official rate, a rate for debt payment, a rate for essential exports, and a free market rate. Importers had to wait several months for foreign currency, only obtaining the balance after the goods had arrived. This was hardly efficient, nor did it help business confidence, but it did protect Venezuelan manufacturers. Unfortunately the failure of Latin American and African countries to agree to reduce tariffs with other countries meant that their exports became priced out of the market; while other countries developed effective international trading systems, the Third World was left behind.[1]

Governments also influence or control **exchange rates;** this means that exporters lose some control over prices, as the government controls the rate at which one currency is exchanged for another. Having a low-value currency will encourage exports in the short run, but also raises the price of imports; this can result in increased costs, which raise the prices anyway. Having a strong currency, on the other hand, may make exporting difficult and will probably suck in imports as the imported goods become cheaper than home-produced ones.

REASONS FOR INTERNATIONALISING

Although governments encourage firms to internationalise (and in particular to export), this is not in itself enough reason to seek markets overseas. Table 11.2 shows some of the other reasons firms have for becoming international.

TABLE 11.2 Rationale for international marketing

Reason	Explanation
Small or saturated domestic markets	If the firm cannot expand any further in its domestic market, further growth can occur only by internationalising. In fact, most firms would go international long before the domestic market is saturated, if only because it would be easier to enter the overseas markets than to extract the last possible sale from the domestic market. Notably, the USA trades relatively little of its production; the home market is large enough that most firms do not need to consider exporting.
Economies of scale	For many industries, notably the electronics industry and the chemical industry, the cost of initiating a new product is so huge that it needs to be spread across a very large production run. Automation of production lines is making this more of an issue for more and more firms; recouping the capital cost of automation almost forces the firm into world markets.
International production	The capacity to source components and assemble finished products on a global scale means that the firm can take advantage of the most competitive prices worldwide. Shipping costs are relatively low compared with the savings made.
Customer relationships	Manufacturers who supply multinational firms must themselves be able to deliver worldwide and price in any currency in order to supply assembly plants in different countries.
Market diversification	The broader the range of markets served, the less likely that the firm will suffer if one market fails. For example, recessions do not happen in all countries at the same time; a truly multinational company will be able to make up losses in one market with gains in another.
International competitiveness	No firm is immune from competitors coming in from outside. If a firm is to remain viable in the long run, it may be forced to meet foreign competition on their own ground before having to meet them in the domestic market.

(*Source*: Adapted from Brassington, F. and Pettitt, S., 1997, *Principles of Marketing*, Pearson Education Limited © 1997.[2])

A further reason for internationalising is that the product life cycle will vary from one country to another. What is a mature product in one country may be at the introduction stage in another, so that the firm gains all the advantages of introducing new products to the market without the costs of research and development that would result from developing new products for the domestic market.

When dealing with foreign markets marketers will meet barriers that would not be present in domestic markets. In addition, of course, marketers will sometimes find advantages that would not be present in the domestic market.

Culture

Cultural differences encompass religion, language, institutions, beliefs and behaviours that are shared by the members of a society. It is as well for marketers to take the advice of natives of the countries in which they hope to do business, since other people's cultural differences are not always obvious.

Classic examples of errors arising from language differences abound. The General Motors Nova brand name translates as 'no go' in Spanish; Gerber means 'to throw up' in colloquial French, creating problems for the baby food manufacturer of the same name; and Irish Mist liqueur had to be re-named for the German market since 'mist' means 'excrement' in German. Many cultural problems are more subtle, and have to do with the way things are said rather than the actual words used. In Japanese, 'yes' can mean 'yes, I understand' but not necessarily 'yes, I agree'. Portuguese has a total of seven different words for 'you', depending on the status and number of people being addressed.

Body language is also not universal. The American sign for 'OK', with the thumb and forefinger making a circle, is a rude gesture in Brazil (equivalent to sticking up the index and middle finger in Britain, or the extended middle finger in the US and most of Europe). Showing the soles of the feet is considered insulting in Thailand, and while Americans are usually very happy to hear about an individual's personal wealth and success, Australians are less likely to take kindly to somebody acting like a 'tall poppy' in this way.

Sometimes local superstitions affect buying behaviour. American high-rise hotels do not have a thirteenth floor – the floor numbers go directly from twelve to fourteen. In China, consumers do not like to buy products where the price ends in a four, because four is a number associated with death: Chinese people prefer to buy products whose prices end in eight, which is considered lucky, and associated with financial prosperity.[3]

In services markets, cultural differences are often more apparent because of the 'people' element. For example, in fast food outlets the quality of the food affects buying intentions in Australia, China, Germany, Morocco and the United States, but not in the Netherlands and Sweden, where the surroundings are more important.[4]

In general marketers need to be wary of **ethnocentrism**, which is the tendency to believe that one's own culture is the 'right' one and that everybody else's is at best a poor imitation.[5] This is not an easy task for managers: most managers tend to underestimate the differences between the overseas market and the home market.[6] This can be due to the fact that we tend to judge other cultures from the perspective of our own culture – this is called self-referencing, and is clearly difficult to avoid.

It can be easier to aim for countries where there is some **psychological proximity**. These are countries with some cultural aspects in common. For example, English-speaking countries have psychological proximity with each other; Spain has psychological proximity with most of Latin America; and the former Communist countries of Eastern European are close. Within countries with large migrant populations there may be subcultures that give insights into overseas markets: Australia is well placed to take advantage of Far Eastern markets and Greek markets as well as other English-speaking markets, and Brazil has good links with Germany as well as with Portugal, Angola and Mozambique. In an interesting reversal, Ireland also has good contacts in many countries owing to the Irish diaspora of the past 200 years.

In most West African countries tribal loyalties cross national borders, so that people from the same tribe might inhabit different countries. In a sense, this is paralleled in the Basque country of France and Spain, and in the language divide in Belgium, where Flemish speakers feel closer to their Dutch neighbours than to their Walloon compatriots, and Walloons feel closer to the French than to their Flemish neighbours.

From a marketer's viewpoint, cultural differences are probably reducing as consumers become more globally minded: foreign travel, the widespread globalisation of the entertainment media, and existing availability of foreign products in most economies have all served to erode the world's cultural differences.[7] Increasingly, marketers are able to identify distinct subcultures that transcend national boundaries, for example the world youth culture fuelled by media such as MTV.[8]

TABLE 11.3 Political factors in international marketing

Political factor	Explanation and implications
Level of protectionism	Some governments need to protect their own industries from foreign competition, either because the country is trying to industrialise and the fledgling companies cannot compete (as in some developing nations), or because lack of investment has resulted in a run-down of industry (as in much of Eastern Europe). Sometimes this can be overcome by offering inward investment (to create jobs) or by agreeing to limit exports to the country until the new industries have caught up.
Degree of instability	Some countries are less politically stable than others, and may be subject to military takeover or civil war. Usually the exporter's government diplomatic service can advise on the level of risk attached to doing business in a particular country.
Relationship between the marketer's government and the foreign government	Sometimes disputes between governments can result in trade embargoes or other restrictions. Obviously this is particularly prevalent in the arms trade, but trade restrictions can be applied across the board to unfriendly countries. For example, the USA still has a trade ban with Cuba for many items; Greece and Turkey have restrictions on travel and trade; and trade restrictions exist between Zimbabwe and Britain.

Political factors

The *political environment* of the target country will also affect the entry decision. Table 11.3 shows some of the issues.

Economic influences

The *economic environment* of the target country is more than the issue of whether the residents can afford to buy our goods. In some cases the level of **wealth concentration** is such that, although the average **per capita income** of the country is low, there is a large number of millionaires: India is an example of this, as is Brazil. Economic issues also encompass the public prosperity of the country: is there a well-developed road system, for example? Are telecommunications facilities adequate? Is the population sufficiently well educated to be able to use the products effectively?

A crucial economic issue is that of foreign exchange availability. If the target country does not have a substantial export market for its own products, it will not be able to import foreign products because potential importers will not be able to pay for the goods in the appropriate currency. This has been a problem in some countries in the Third World and in some Communist countries, and there has as a result been a return to **barter** and **countertrading**. Countertrading is the export of goods on the condition that the firm will import an equal value of other goods from the same market, and in the international context can be complex: for example, a firm may export mining machinery to China, be paid in coal, and then need to sell the coal on the commodities market to obtain cash (a **buy-back** deal). These complex arrangements are becoming much rarer as the world moves towards freely exchangeable currencies: barter and countertrade are inherently inefficient.

The *demographic environment* includes such factors as family size, degree to which the country has a rural as opposed to an urban population, and the migration patterns that shape the population. Migration patterns can make marked changes to the structure of a country's consumption: consumption of Indonesian food in the Netherlands, of Thai food in Australia, of Indian food in the United Kingdom, and of Algerian food in France are all much greater than can be accounted for by the respective ethnic minorities in those countries.[9] Marketers have played a part in this culture-swapping process to the extent that segmentation by ethnicity is no longer possible.[10]

BARRIERS TO INTERNATIONALISATION

For many small firms, the psychological and organisational barriers to internationalisation seem too great for the firm to cope with. Governments try to overcome these barriers by offering advice and assistance, but not all firms see this as applicable to their own situations.

TABLE 11.4 International Internet marketing

Type of barrier	Internet solution
Psychological barriers. Ethnocentric rather than geocentric orientation. Short-term perspective. Lack of commitment to exporting. Exporting seen as 'not for us'; 'too risky'.	Increase in international awareness, confidence and commitment. Enquiries and feedback to WWW site from potential global customers. Participation in global network communities makes the world seem smaller and less daunting.
Operational barriers. Export documentation and management of export operations, language problems, delays in receiving payment and financial risk.	Simplified export documentation through electronic data transfers. Electronic payments; on-line export assistance.
Organisational barriers. Limited resources, both financial and managerial. Lack of knowledge of foreign markets. Lack of internationally experienced personnel. Lack of education/training in export marketing. Problems in finding overseas representatives.	Access to low-cost export market research resources. Improved knowledge of international markets and culture. Reduced dependence on agents due to direct marketing. Establishment of virtual network of partners.
Product/market barriers. Products may not be suitable for foreign markets. Foreign market differences. Problems in identifying suitable foreign markets. Tariff and non-tariff barriers. Profitability.	Country/market selection made easier by on-line export market research. Consumer/market orientation easier through customer/agent feedback. Adoption of global niche rather than country-centred strategy.

Recent research by Hamill and Gregory[11] has indicated that use of the Internet can help small firms overcome these problems. Table 11.4 shows the barriers the research identified, and the Internet's role in overcoming them.

Research conducted among UK website owners showed that significant barriers still exist, and these parallel those of traditional international marketing techniques. The barriers identified were as follows:[12]

- *Psychic distance*. The cultural distance between the countries involved. This includes lack of ability to speak or understand foreign languages.
- *Practical export problems*. These include shipping goods, handling paperwork, and lack of experience in dealing with overseas customers.
- *Resource constraints*. Lack of finance to offer credit, lack of transportation, etc.
- *Trade restrictions*. Some countries impose restrictions on imports, which can limit trade.

- *Market risk*. The credit risks associated with dealing with customers in other countries, and difficulties of dealing with foreign exchange.

Most of these barriers can be overcome relatively easily, and most national governments offer help to firms (particularly small firms) in establishing themselves in international markets.

The increasing use of the Internet appears to lend support to the eclectic paradigm of internationalisation rather than the stages-of-development theory. Academic research into the impact of the Internet is still in the embryonic stage, and the field is extremely dynamic, so research goes out of date very rapidly. There is more on Internet marketing in Chapter 12.

GLOBAL SEGMENTATION

Although cultural variance (and differences in consumer behaviour) are still major issues for international marketers,[13] transnational segments are still identifiable. The main bases for segmentation are:

- by country;
- by individual characteristics (in much the same way as segmentation within one's own country).

Countries can be grouped according to economic development criteria, by cultural variables, or by a combination of factors such as economic, political and R&D factors.[14] One of the best-known studies is that of Hofstede,[15] in which countries were classified according to power distance (the degree to which power is centralised), individualism (the degree to which people act independently of others), uncertainty avoidance (the degree to which people are prepared to take risks), and masculinity (the degree of male domination). The success rate of country classification as a practical route to segmentation is doubtful, however; variations between individuals within a country are usually much greater than those between countries. It should also be remembered that Hofstede's original research was carried out in the 1960s, when travel, tourism and migration were all at much lower levels.

Transnational consumer segmentation looks at lifestyles, behaviour and situation-specific behaviour. An example of lifestyle segmentation is the transnational teenage market; there is also evidence of an 'elite' market.[16] It is usually the wealthier members of a society that can travel abroad and become exposed to ideas from other cultures. An example of situation-specific segmentation is the attitudes to gift-giving, which seem to be common to many cultures.[17]

The main difficulty with seeking transnational consumer segments lies in generating adequate research within the target countries.

TABLE 11.5 Internationalisation and the 7-P framework

Element of the marketing mix	Effect in international markets
Product	Different cultural, climatic, technical or economic issues will affect product design. Modification of product policy ranges from the obvious issue of electricity supply to the more subtle cultural differences (e.g. Americans prefer top-loading washing machines; Europeans prefer front-loaders).
Place	Distribution systems vary internationally. Germans have a much higher propensity to buy by mail order than do Italians; there are relatively few hypermarkets in Italy compared with Spain.
Promotion	Clearly, promotion issues are deeply affected by cultural differences. This is why advertisements shown on foreign TV stations often seem humorous.
Price	Pricing is usually done in the currency of the target country. This leads to problems with exchange-rate fluctuations, which can be overcome by buying or selling currency on the futures markets; most banks can arrange this.
People	Employing foreign sales staff, for example, can lead to problems in motivation and control.
Processes	In Brazil it is normal for patrons of bars and restaurants to pay the cashier for meals or drinks, receive a receipt, then order the items from the waiters. In Spain it is normal to pay for drinks only when leaving a bar. Processes do not necessarily cross national boundaries.
Physical evidence	For many years American banks have given free gifts to new depositors; merely handing over a cheque book and a deposit book would not be sufficient for a US customer.

Table 11.5 shows how internationalisation affects the 7-Ps. The basic problem for companies who seek to internationalise is that nothing can be taken for granted in a foreign country. This places a heavy premium on forward planning. Overall, a firm's internationalisation strategy decisions will depend on the following factors:

- The size of the firm in its domestic market.
- The firm's strengths compared with overseas competitors.

- Management experience of dealing in other countries.
- The firm's objectives for long-term growth.

INTERNATIONAL MARKET ENTRY STRATEGIES

Having chosen a target country, the marketer is in a position to decide which are the market entry tactics appropriate to the case. There are five basic strategies for entering foreign markets, as shown in Table 11.6.

TABLE 11.6 International market entry strategies

Strategy	Explanation
Keep product and promotion the same worldwide	The advantage of this is that it minimises entry costs. Coca-Cola often uses this approach, using basically the same advertising worldwide but translating any voiceovers into the local language. The major drawback of the approach is that it takes no account of local customs and attitudes, and tends to lead to a 'lowest common denominator' advertisement which can be understood by everybody and offends nobody.
Adapt promotion only	The product remains the same, but the promotion is adapted to local cultural norms. This is a fairly common approach, since it enables the marketing communications to reach the consumers more effectively while at the same time avoiding a redesign of the product itself.
Adapt product only	This is less common, but has been done by some detergent manufacturers to allow for differences in local water supplies and washing machines. Likewise, the supposedly 'global' Ford Focus is substantially modified for different markets in order to meet local emission standards and road-safety laws.
Adapt both product and promotion	Sometimes it is necessary to adapt both the product and the promotion, as in the case of Cheer washing-powder, a Procter & Gamble product marketed in Japan. Cheer was reformulated to allow for the extra fabric softeners the Japanese use, and the promotion emphasised that the powder worked well in cold water (since most Japanese wash clothes in cold water).
Invent new products	If the existing products cannot meet the conditions in the new market, a new product must be invented. For example, the clockwork radio was invented for use in countries where there is no mains power supply and batteries are difficult to obtain.

Having decided on an approach to the promotion and product development strategies, the firm needs to choose an entry strategy. The **stages of development** model suggests that firms seeking to internationalise go through a series of stages.

- *Exporting* implies the smallest commitment to the foreign market. Here the manufacturer sells the firm's products to a foreign importer, who then handles the marketing of the product. The advantage of this approach is that it involves the least cost; the disadvantage is that the exporting firm has little or no control over the way the product is marketed or used in the foreign market. This could lead to problems later on as the firm's reputation may be adversely affected. **Export agents** bring together buyers and sellers and are paid on commission; **export houses** buy goods for export to foreign countries. Sometimes foreign buyers will deal direct with companies, and some major foreign stores (for example Sears of the USA) maintain buying offices in foreign capitals.
- *Establishing a sales office* in the foreign market might be a next stage. This is an increased financial commitment, but also gives more control. **Joint ventures** involve collaborating with a same-nationality firm that is already in the target market, or with a foreign firm in its own country. A joint venture could involve a **piggy-backing** arrangement, under which one firm agrees to market the other firm's product alongside its own. This works best if the firms have complementary, non-competing products. For example, a cosmetics firm may agree to carry a perfumer's products. **Licensing** agreements allow a foreign manufacturer to use the firm's patents: for example, Pilkington licenses foreign glass manufacturers to use the float-glass technique. This is useful when the product itself is difficult to export owing to fragility or perishability, but it relies on the firm having good patents or other protection for its intellectual property. **Franchising** is similar; the franchisee agrees to run the business by a specific format. McDonald's hamburger restaurants are an example.
- *Overseas distribution* would involve establishing a warehousing and distribution network in the foreign country. This gives major control over the marketing of the product, but still relies on importing from the home country.
- *Overseas manufacture* includes warehousing and distribution, but allows the firm to shorten the lines of supply and to adapt the product more easily for the overseas market. In some cases the manufacturing costs are lower in the foreign market, so there will be further economies made.
- Finally, the firm might become a true **multinational marketer**. The true multinational firm manufactures and markets in those countries that offer the best advantages. Although such a company may have originated in a particular country, it may well employ far more foreigners than it does its own nationals, and will think in global terms rather than national terms. For example, Ford manufactures engines in Wales, body parts in Germany and electronics in the Far East, and assembles the cars in several different countries. The company's

profits are paid out as dividends in dozens of currencies, to thousands of shareholders of different nationalities.

Broadly speaking a firm can decide on a **globalisation** strategy, by which the company's products and attitudes are basically standardised throughout the world (examples are Coca-Cola and IBM), or a **customisation** strategy, where the company adapts its thinking and its marketing to each fresh market (examples are Sony and Nestlé). As global barriers to trade break down, more and more companies will be taking an international view of their marketing opportunities, and will be seeking to do business across national borders and cultural differences.

Recent research into standardisation of advertising showed that relatively few firms use an entirely standardised approach.[18] Of 38 multinational companies surveyed, 26 said that they used standard advertisements, but only 4 of these were completely standardised; the others varied from limited standardisation (perhaps only a corporate logo in common), through limited standardisation of the key executional elements, to standard execution with some modifications. Even though the sample of firms is relatively small, it appears likely that the majority of multinationals would adapt their approaches to fit the markets they are targeting.

An alternative view of internationalisation strategy is the **eclectic theory** proposed by Dunning.[19] Broadly, this theory supposes that the firm will look at its specific advantages over other firms both at home and overseas, and will plan its market entry strategies accordingly without necessarily going through a series of stages. For example, a firm with a strength in franchising is likely to use franchising as a market entry method into overseas markets, rather than begin by exporting, then setting up a salesforce, and so forth. The eclectic paradigm also has implications for production, since a true multinational will produce in whichever country offers the best advantages: Ford, for example, produces all the engines for its European cars in Wales, exporting them for assembly into car bodies in Germany, and perhaps re-importing them back into the United Kingdom. Since transport costs are relatively low compared with the final price of the car, Ford deems it worthwhile to centralise production of the various components. In addition the company can take advantage of government incentives to locate in high-unemployment areas, and can also use transfer pricing to minimise its tax liabilities.

Whether firms adopt the 'born global' approach of Dunning or the incremental approach does not appear to be dependent on the characteristics of the firms themselves. Most characteristics of 'born global' firms are shared with those taking an incremental approach, the difference between them depending on the attitudes of the managers rather than the nature of the firm.[20]

GLOBALISATION

Globalisation is a business philosophy under which firms regard the entire planet as their marketplace and source of supply. The truly global firm identifies competitors, suppliers, customers, employees, threats and opportunities throughout the world regardless of national boundaries.

For some countries, globalisation represents a threat; American Presidential hopeful Pat Buchanan fought an unsuccessful campaign in 1996 based on protectionism. His campaign, which proposed that the United States close its borders to immigrants for five years, withdraw from all World Trade initiatives and impose high **tariffs** on imports of good from low-wage economies, found favour with voters who felt that their livelihoods were threatened by free trade. In fact, two factors militate against the **protectionist** approach: firstly, global businesses are so powerful that anyone standing in their way is likely to be the loser, and secondly the advantages of international trade are too great (in the long run) to be set aside in favour of a short-term advantage.

The main drivers for globalisation are as follows:

- Increasing economies of scale and scope for firms in the market.
- Convergence of consumer tastes and preferences.
- Rapidly improving communications, in terms of both telecommunications and transport systems.
- Increased political acceptance of global trading.
- The continuing growth of large firms, coupled with limits imposed by national monopoly regulators on domestic growth.

Firms going global move through three stages:

- ethnocentrism;
- polycentrism; and
- geocentrism.

These stages are shown in Table 11.7.

Obviously it is not always possible to take a completely global view. Even firms such as McDonald's have to adapt their product somewhat for local markets. For example, in India McDonald's burgers are made from mutton, since the cow is sacred to Hindus; in Japan the company offers teriyaki burgers; in Russia the main beverage offered is tea rather than coffee.

In fact, although there is a concentration of interest on business-to-consumer markets, the bulk of global marketing is conducted within the business-to-business

TABLE 11.7 Stages in globalisation

Stage	Explanation
Ethnocentrism	Home-country orientation. The foreign market is seen as secondary, perhaps as a place to dispose of excess production. The assumption is that the foreign market is basically the same as the domestic market, so marketing strategies are hardly adapted at all for the overseas market.
Polycentrism	A polycentric firm only identifies the differences in each market. The firm treats each market as being unique, with its own marketing strategies; the products are modified to suit the local market, and tactical issues such as price and promotion are decided locally.
Geocentrism	The firm sees the world as a single market and seeks to identify market segments within that market. This results in developing uniform policies for approaching the segments which have been identified, so that promotions and products are similar across the globe.

area. The practical, economic considerations of industrial buyers are likely to be the same whatever their cultural backgrounds: a Japanese steel buyer will source from whichever country offers the best deal, as would a steel buyer in New York or Buenos Aires. Buyers are, however, affected by the nationality of the supplying firm, because countries acquire reputations which affect the reputations of their companies.[21] If both the supplier and the purchaser are global, a further problem arises. Because there are several decision-makers involved in industrial buying, and they may be scattered across several countries, each buyer is subject to a separate set of cultural influences. This situation requires considerable negotiation and adaptation of both the product and the business methods to achieve agreement.

Globalisation is becoming increasingly important for all firms, even those who are not themselves planning to expand into the international arena; those firms will still be affected directly or indirectly by foreign competition and by the growing strength of domestic competitors who have themselves expanded overseas.

Anti-globalisation movements have sprung up worldwide – in fact, the anti-globalisation movements are themselves examples of globalisation. During 2001 major riots occurred at global summit conferences in Genoa and Seattle, with some loss of life and considerable property damage. Those who are opposed to the increasing globalisation of business cite the power of the global companies, which are not accountable to anyone except their shareholders, and in many cases are able to transcend national governments. Global companies do have greater power than national governments in terms of controlling international exchange rates, and can switch production between countries in order to take advantage of tax breaks and other incentives.

Another objection to globalisation is the erosion of cultural values. Major firms are often accused of forcing cultural changes on the population: this is called McDonaldisation, a reference to the well-known McDonald's practice of standardising the product worldwide. For example, there has been an overall growth in tobacco smoking worldwide in recent years as the tobacco companies have targeted Third World countries, in effect exporting the vices of the industrial world.

A final criticism is that global countries do not have any allegiance to individual countries, and therefore have no compunction about causing environmental damage or economic disruption in supplier countries. For example, farmers in Africa are encouraged to grow cash crops to supply global corporations, while neglecting to grow sufficient crops to feed the local population.

Anti-globalisation campaigns are likely to be a feature of 21st century business for some time to come, but they are unlikely to have much impact on the way firms do business. In the last analysis, consumers indicate their support (or lack of support) for companies by the way they spend their money. If people in, say, France decide that they would rather have a quick snack at McDonald's than take their traditional two-hour lunch break, they will do so – and in practice McDonald's has many home-grown imitators in France, including Quick and Buffalo Grill.

CASE STUDY 11: MANCHESTER UNITED FOOTBALL CLUB

Manchester United exhibits an interesting difference over other football clubs. The vast majority of its fans have never seen the team play other than on television. This is because most of Manchester United's fans live outside the United Kingdom.

In 2002, fan club membership was spread across 200 branches in 24 countries. The Internet has enabled MUFC fans to communicate through chat rooms on every continent, including Antarctica – members of the British Antarctic Survey team often have to wait until the appropriate satellite is above the horizon in order to get the latest news of their team, but they feel it is worth the wait. The club even has its own TV channel – MUTV – available by subscription and pay-per-view. Even though membership of the US fan club costs $65 per person per annum, the membership lists had to be closed and the club's allocation of tickets (held in the New York State branch and available to members travelling to the UK) were oversubscribed by several hundred percent.

The huge international following for MUFC has opened up numerous possibilities for export marketing. A subsidiary company, Manchester United Merchandising, was formed to sell MUFC clothing, shoes, sports equipment, memorabilia, and even telephone cards. In 1992, when the company started, turnover was £2 million. By 1995 the turnover was £20 million pounds, and exceeded the gate receipts and programme sales for the entire year. By 2004 the turnover had grown to the point where playing football is merely a device for selling merchandise – the income from gate receipts is only a tiny proportion of the club's total income.

The monthly *Manchester United Magazine* spearheads the marketing effort, together with the bi-monthly *Manchester United on Video*. More than 140 000 copies of the English-language version of the magazine are sold each month. The Thai edition sells 25 000 copies per month, and there are editions in Malay and Norwegian, with other foreign-language editions to follow. The best markets for MUFC merchandise are Scandinavia, Ireland and Asia, regions where football is popular and watched extensively on TV and where there are strong national teams but few really big club sides. It followed from this that several other areas were ripe for targeting – the Middle East, for example – where the additional desirable criteria of a young population, high disposable income, and the ability to watch matches on TV are also in evidence. South Africa is another target market for the club. The Manchester United brand is known world-wide, so the merchandising company is able to compete effectively with major sports equipment and clothing manufacturers such as Nike and Adidas.

Manchester United is in the early stages of internationalisation, however. MUFC still exports products directly rather than setting up local production or licensing arrangements. This provides the club with higher margins and total control over quality.

The vast majority of the club's income comes from its export markets – a far cry from the days when players were part-timers who had other jobs during the week, and the club's only income was the gate receipts.

Questions

1 What trends in the global marketplace is MUFC exploiting?

2 How might MUFC select new countries to target?

3 What type of internationalisation strategy is MUFC pursuing?

4 What should MUFC do next in order to increase their global presence?

5 What are the limiting factors on MUFC's international growth?

SUMMARY

This chapter has looked at some of the issues surrounding internationalisation and international marketing. The main areas in which foreign markets differ from domestic ones are the economic, the socio-cultural and the political; firms contemplating internationalising should beware of assuming that conditions are the same in foreign markets as they are in domestic ones.

Here are the key points from this chapter:

- Culture affects more than just communication issues.
- The remoteness of international markets makes control more difficult.
- Infrastructure differences can affect distribution and telecommunications.
- Most countries have some comparative advantage over others in production or resources.
- Governments like firms to export, but this is not the only, or necessarily the most effective, way for a firm to enter an overseas market.
- Wealth concentration may be as relevant as the per capita wealth of a country in assessing its market potential.
- Segmentation is more difficult in an international context, but can be carried out in the same way as for a home market.
- Most firms adapt their marketing approach to meet local conditions.

CHAPTER QUESTIONS

1. Compare Dunning's eclectic theory of internationalisation with the stages of development approach.
2. What methods exist for segmenting an overseas market? What are the strengths and weaknesses of each?
3. What are the specific problems attaching to internationalising a service industry?
4. What is the importance of international business to a firm which is not itself planning to internationalise?

MULTI-CHOICE QUESTIONS

1 The theory of competitive advantage states that:
- (A) Some countries are better than others at producing some goods.
- (B) Some companies are better than others at producing some goods.
- (C) Some companies are better at beating their competitors than others.

2 WTO stands for:
- (A) World Trade Organisation.
- (B) World Tariff Organisation.
- (C) Western Territory Organisation.

3 Which of the following is *not* an agreement on trade?
- (A) The Cairns Agreement.
- (B) The Mercosur Pact.
- (C) The Yalta Treaty.

4 Manufacturing in one country and selling in another is an example of:
- (A) Globalisation.
- (B) Exporting.
- (C) Trade agreement.

5 The tendency to believe that one's own culture is the only 'right' one is called:
- (A) Ethnocentrism.
- (B) Geocentrism.
- (C) Psychological proximity.

6 What is countertrading?
- (A) An agreement to buy an equal amount of export goods to match an amount of import goods.
- (B) An agreement to accept payment at some time in the future.
- (C) An agreement to pay 'cash on the counter' for exported goods.

7 The stages of development model states that:
- (A) Countries develop at different rates, so are at different stages at any one time.
- (B) Companies go through stages in their development from domestic-only firms to global firms.
- (C) Products need to be redeveloped in stages when entering foreign markets.

8 The theory that firms take an overall view of internationalisation strategies and choose the most effective is called:

(A) The eclectic theory.
(B) The ethnic theory.
(C) The gestalt theory.

9 A firm which brings buyers and sellers together without actually taking ownership of goods is called:

(A) An export house.
(B) A clearing house.
(C) An export agent.

10 The process of looking for commonalities in global markets is called:

(A) Transactional orientation.
(B) Transnational segmentation.
(C) Ethnocentrism.

FURTHER READING

International Marketing: Strategy, Planning, Market Entry and Implementation, by Roger Bennett and Jim Blythe (London, Kogan Page, 2002). This text covers the mechanics of international and global marketing, with comprehensive sections on exporting, documentation, and international shipping principles and practice.

Export Practice and Management by Alan E. Branch (London, Chapman & Hall, 1994). This is a solid, practical guide to exporting, including some of the mechanics of shipping and transferring funds. Contains useful information for practitioners.

The Globalisation of Business by John H. Dunning (London, Routledge, 1993). A clearly written academic overview of the way business has become more global, with particular reference to the future of international business.

GLOSSARY

Balance of payments The difference between the value of exports and the value of imports.

Barter The exchange of goods for other goods without the exchange of money.

Buy-back A form of countertrading in which capital equipment is sold in exchange for a future stream of the goods that the equipment will produce.

Comparative advantage The natural advantage one country has over another in terms of production or resources.

Countertrading Exporting into a market on condition that goods of equal value will be imported from the same market.

Customisation Adapting the firm's products to meet local market conditions.

Customs union A treaty between nations under which the member states agree to common external tariffs in most goods.

Eclectic theory The view that firms choose their internationalisation strategy according to their own strengths and weaknesses.

Economies of scale Savings made as production and marketing activity increase; the reduction in unit costs brought about by more efficient large-scale production.

Ethnocentrism The belief that one's own culture is 'right' and that other cultures are pale imitations.

Exchange rates The prices at which foreign currency is exchanged for national currency.

Export agents Firms that arrange the export of goods without taking possession of the goods themselves.

Export houses Firms that buy goods for resale abroad.

Exporting Manufacturing in the home country and selling the goods abroad.

Franchising Allowing a foreign firm to operate a business concept (including intellectual property) in exchange for royalties and other fees.

Globalisation Marketing a standardised product worldwide.

Importing Bringing goods into the home country from a foreign country.

Joint ventures Business activities undertaken by two or more firms acting in partnership.

Licensing Allowing a foreign firm to utilise the intellectual property of the owner in exchange for a royalty.

Multinational marketing Operating production, promotion, pricing and distribution in the most beneficial countries regardless of national boundaries.

Per capita income Average earnings per head of population.

Piggy-backing Exporting one product alongside another complementary product, often from a different firm.

Protectionism The tendency of a government to exclude foreign competition.

Psychological proximity The degree to which two or more nations share cultural attributes.

Stages of development theory The view that companies go through stages of internationalisation from simple exporting through to global manufacture and marketing.

Tariffs Customs duties.

Wealth concentration The degree to which the wealth of a country is concentrated in the hands of the richest citizens.

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