Chapter 1

The Scope and Challenge of International Marketing

CHAPTER OUTLINE

Global Perspective: Global Commerce Causes Peace

The Internationalization of U.S. Business

International Marketing Defined

The International Marketing Task

- Marketing Decision Factors
- Aspects of the Domestic Environment
- Aspects of the Foreign Environment

Environmental Adaptation Needed

The Self-Reference Criterion and Ethnocentrism: Major Obstacles

Developing a Global Awareness

Stages of International Marketing Involvement

- No Direct Foreign Marketing
- Infrequent Foreign Marketing
- Regular Foreign Marketing
- International Marketing
- Global Marketing

The Orientation of *International Marketing*

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 1:

LO1 The benefits of international markets

LO2 The changing face of U.S. business

LO3 The scope of the international marketing task

LO4 The importance of the self-reference criterion (SRC) in international marketing

LO5 The increasing importance of global awareness

LO6 The progression of becoming a global marketer

Global Perspective

GLOBAL COMMERCE CAUSES PEACE

Global commerce thrives during peacetime. The economic boom in North America during the late 1990s was in large part due to the end of the Cold War and the opening of the formerly communist countries to the world trading system. However, we should also understand the important role that trade and international marketing play in producing peace.

Boeing Company, America's largest exporter, is perhaps the most prominent example. Although many would argue that Boeing's military sales (aircraft and missiles) do not exactly promote peace, over most of the company's history, that business has constituted only about 20 percent of the company's commercial activity. Up until 2002, of Boeing's some $60 billion in annual revenues, about 65 percent came from sales of commercial jets around the world and another 15 percent from space and communications technologies. Unfortunately, these historical numbers are being skewed by U.S. military spending and the damage done to tourism by terrorism.[1] Even so, the company still counts customers in more than 90 countries, and its 158,000 employees work in 70 countries. The new 787 Dreamliner includes parts from around the world, including Australia, France, India, Italy, Japan, Russia, and Sweden.[2] Its more than 12,000 commercial jets in service worldwide carry about one billion travelers per year. Its NASA Services division is the lead contractor in the construction and operation of the 16-country International Space Station, first manned by an American and two Russians in the fall of 2000. The Space and Intelligence Systems Division also produces and launches communications satellites affecting people in every country.

All the activity associated with the development, production, and marketing of commercial aircraft and space vehicles requires millions of people from around the world to work together. Moreover, no company does more[3] to enable people from all countries to meet face-to-face for both recreation and commerce. All this interaction yields not just the mutual gain associated with business relationships but also personal relationships and mutual understanding. The latter are the foundation of global peace and prosperity.

Another class of companies that promotes global dialogue and therefore peace is the mobile phone industry. During 2007 the number of mobile phone subscribers exceeded 3.0 billion, and this number is expected to grow beyond 4.5 billion by 2012. Nokia (Finland), the market leader, is well ahead of the American manufacturers Motorola and Apple, Samsung (S. Korea), LG (S. Korea), and Sony Ericsson (Japan/Sweden).

Individuals and small companies also make a difference—perhaps a subtler one than large multinational companies, but one just as important in the aggregate. Our favorite example is Daniel Lubetzky's company, PeaceWorks. Mr. Lubetzky used a fellowship at Stanford Law School to study how to foster joint ventures between Arabs and Israelis. Then, following his own advice, he created a company that combined basil pesto from Israel with other raw materials and glass jars supplied by an Arab partner to produce the first product in a line he called Moshe & Ali's Gourmet Foods. The company now sells four different product lines in 5,000 stores in the United States and has its headquarters on Park Avenue in New York, as well as business operations in Israel, Egypt, Indonesia, Turkey, and Sri Lanka. Again, beyond the measurable commercial benefits of cooperation between the involved Arabs, Israelis, and others is the longer-lasting and more fundamental appreciation for one another's circumstances and character.

International marketing is hard work. Making sales calls is no vacation, even in Paris, especially when you've been there 10 times before. But international marketing is important work. It can enrich you, your family, your company, and

---

[1]Circa 2011, approximately half of Boeing's business is defense related (http://www.boeing.com).

[2]W.J. Hennigan, "Dreamliner is Causing Nightmares for Boeing," *Los Angeles Times*, October, 15, 2009, pp. B1–2.

[3]The European commercial aircraft manufacturer Airbus is beginning to catch up, employing 57,000 people around the world (http://www.airbus.com, 2010).

During the past 50 years, world trade (exports of merchandise and commercial services) has declined three times: in 1973 by −3.1 percent after the OPEC oil crisis, in 1982 by −.3 percent, and in 2009 by −12.0 percent following the financial debacle of 2008. World trade grew at its fastest rate, 12.5 percent, in 2000. Even after the terrorist attacks on September 11, 2001, trade continued to grow until the global financial crisis began in 2008. We thought the temporary circumstance of a partial solar eclipse over Manila Bay in January 2009 was aptly symbolic of the times—especially, of the huge decline in container traffic during 2009–2010.[4]

your country. And ultimately, when international marketing is done well, by large companies or small, the needs and wants of customers in other lands are well understood, and prosperity and peace are promoted along the way.[5]

Sources: http://www.boeing.com and http://www.peaceworks.com—both are worth a visit; mobile phone sales data are available at http://www.gartner.com (all accessed in 2010).

LO1

The benefits of international markets

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

When we wrote those words ten years ago to open the eleventh edition of this book, the world was a very different place. The nation was still mesmerized by the information technology boom of the late 1990s. Most did not visualize the high-tech bust of 2001 or the Enron and WorldCom scandals. No one could have imagined the September 11, 2001, disasters, not even the perpetrators. The wars in Afghanistan and Iraq were not on the horizon. The major international con ict grabbing headlines then was the series of diplomatic dustups among China, Taiwan, and the United States. Who could have predicted the disruptions associated with the 2003 SARS outbreak in Asia? The great Indian Ocean tsunami of 2004 was perhaps impossible to anticipate. Oil priced at more than $100 per barrel was also unthinkable then—the price seemed to have peaked at about $40 per barrel in late 2000.[6] We wrote about the promise of the space program and the international

---

[4]Ronald D. White, "Shipping Industry in Deep Water," *Los Angeles Times*, July 8, 2009, pp. B1–2.

[5]In response to criticisms of globalization catalyzed by the riots in Seattle in 1999, a growing literature argues for trade as a fundamental cause of peace. For a variety of such arguments, see Jagdish Bhabwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004); Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005); Clifford J. Schultz III, Timothy J. Burkink, Bruno Grbac, and Natasa Renko, "When Policies and Marketing Systems Explode: An Assessment of Food Marketing in the War-Ravaged Balkans and Implications for Recovery, Sustainable Peace, and Prosperity," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 24–37; William Hernandez Requejo and John L. Graham, *Global Negotiation: The New Rules* (New York: Palgrave Macmillan, 2008), Chapter 13.

[6]Niel King Jr., Chip Cummings, and Russell Gold, "Oil Hits $100, Jolting Markets," *The Wall Street Journal*, January 3, 2008, pp. A1, A6.

space station, whose future is now clouded by the demise of the space shuttle program and NASA budget cuts.

Through all these major events, American consumers had continued to spend, keeping the world economy a oat. Layoffs at industrial icons such as United Airlines and Boeing and a generally tough job market did not slow the booming American housing market until the fall of 2007. Lower government interest rates had yielded a re nancing stampede, distributing the cash that fueled the consumer spending, which nally began agging in early 2008. Then in September and October of that year, the housing bubble burst, and the world nancial system teetered on collapse. The ever faithful American consumer stopped buying, and world trade experienced its deepest decline in more than 50 years, a drop of 12.0 percent. And seeing into the future is harder now than ever. Most experts expect global terrorism to increase, and the carnage in Bali, Madrid, London, and Mumbai seem to prove the point. Finally, as the global economy tries to recover, international trade tensions take on new importance. Competition from new Chinese companies continues to raise concerns in the United States. Brazilian and Indian multinationals are stepping up competitive pressures as well, particularly as their and other emerging economies fared better during the most recent global downturn.[7] Perhaps the best news in these rather glum times is that we have not experienced a dramatic nationalistic rise of trade protectionism, as in the 1930s.[8] Additionally, the steady growth of the U.S. trade and balance of payments de cits dramatically abated during 2009, along with American consumer spending.

International marketing is affected by and affects all these things. For the rst time in history, McDonald's has pulled out of international markets in both Latin America and the Middle East.[9] Slow economies, increasing competition, and anti-Americanism have

Trade also is easing tensions between Taiwan and China[10] and among North Korea,[11] its close neighbors, and the United States. Here a rail link between North and South Korea has opened for the first time in nearly 60 years to provide transportation of raw materials and managers from the South, bound for a special economic development zone at Kaesong in the North.[12]

[7] "Counting Their Blessings," *The Economist*, January 2, 2010, pp. 25–28.

[8] Moises Naim, "It Didn't Happen," *Foreign Policy*, January/February 2010, pp. 95–96.

[9] Richard Gibson, "McDonald's Swings to Loss on Sale of Restaurants," *The Wall Street Journal*, July 24, 2007.

[10] Patrick Smith, "Taiwan and China Dance Ever Closer," *BusinessWeek*, November 10, 2008, p. 58; "Reuni cation by Trade," *The Economist*, August 8, 2009, pp. 37–38.

[11] "North Korea Fully Opens Border Crossing," Associated Press, March 17, 2009.

[12] Bruce Wallace, "2 Trains Cross Korean Border," *Los Angeles Times*, May 17, 2007, p. A4; Moon Ihlwan, "A Capitalist Toehold in North Korea," *BusinessWeek*, June 11, 2007, p. 45; Associated Press, "North Korea Says It Gave Nuclear-Program List to U.S.," January 4, 2008.

impacted sales in both regions. Indeed, the salient lesson for those involved in international commerce is to expect the unexpected. Any executive experienced in international business will verify that things never go as planned in global commerce. You still have to plan and forecast, but markets, particularly international ones, are ultimately unpredictable. The natural uctuations in markets are best managed through building strong interpersonal and commercial relationships and broad portfolios of businesses. Flexibility means survival.

Perhaps now, more than ever, whether or not a U.S. company wants to participate directly in international business, it cannot escape the effects of the ever-increasing number of North American rms exporting, importing, and manufacturing abroad. Nor can it ignore the number of foreign-based rms operating in U.S. markets, the growth of regional trade areas, the rapid growth of world markets, and the increasing number of competitors for global markets.

Nations grow a little closer together. The European Parliament votes to start discussions with Turkey about joining the European Union. Trade is beginning to bridge the religious divide between Christian Europe and Muslim Asia Minor. Despite this positive vote, European equivocation is pushing Turkey toward building stronger trade links with its Arab neighbors. Ultimately, this may be a positive turn of events if Turkey is finally invited to join the European Union.[13]

Of all the events and trends affecting global business today, four stand out as the most dynamic, the ones that will influence the shape of international business beyond today's "bumpy roads" and far into the future: (1) the rapid growth of the World Trade Organization and regional free trade areas such as the North American Free Trade Area and the European Union; (2) the trend toward the acceptance of the free market system among developing countries in Latin America, Asia, and eastern Europe; (3) the burgeoning impact of the Internet, mobile phones, and other global media on the dissolution of national borders; and (4) the mandate to manage the resources and global environment properly for the generations to come.

Today most business activities are global in scope. Technology, research, capital investment, and production, as well as marketing, distribution, and communications networks, all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic and physical environment, and all businesspeople must be aware of the effects of these trends when managing either a domestic company that exports or a multinational conglomerate. As one international expert noted, every American company is international, at least to the extent that its business performance is conditioned in part by events that occur abroad. Even companies that do not operate in the international arena are affected to some degree by the success of the European Union, the export-led growth in South Korea, the revitalized Mexican economy, the economic changes taking place in China, military conflicts in the Middle East, and climate change.

The challenge of international marketing is to develop strategic plans that are competitive in these intensifying global markets. For a growing number of companies, being international is no longer a luxury but a necessity for economic survival. These and other issues affecting the world economy, trade, markets, and competition are discussed throughout this text.

[13] "Looking East and South," *The Economist*, October 31, 2009, pp. 57–58.

CROSSING BORDERS 1.1 What Do French Farmers, Chinese Fishermen, and Russian Hackers Have in Common?

They can all disrupt American firms' international marketing efforts.

Thousands of supporters and activists gathered recently to show support for a French sheep farmer on trial for vandalizing a local McDonald's. Jose Bove has become an international legend of antiglobalization. Leader of the French Peasant Confederation, he has demonized the fast-food chain as the symbol of American trade "hegemony" and economic globalization. He and nine other farmers served six weeks in jail and paid fines for partially destroying the restaurant. Most recently, Bove has been thrown in jail again, this time for 10 months, for damaging fields of genetically modified rice and corn.

Local fishermen demanded suspension of the reclamation and dredging of a bay near Hong Kong, where Disney has built Hong Kong Disneyland. The fishermen claimed that the work has plunged water quality near the site to levels much worse than predicted, killing huge numbers of fish. The spokesman for the fishermen claims they have lost some $30 million because of depleted and diseased fish stocks.

St. Petersburg has, in a decade, become the capital of Russian computer hackers. These are the same folks that are reputed to have invaded Microsoft's internal network. Russia's science city has become the natural hub for high-tech computer crime. Dozens of students, teachers, and computer specialists hack into computers, seeing themselves as members of an exciting subculture that has flourished since the fall of communism. Programs are copied on the black market; the latest Windows pirate always arrives in Russia months before it appears in the West. Yes, fines and prison terms are consequences if caught. But computers are readily accessible at universities and increasingly in homes.

Sources: Agnes Lam, "Disney Dredging Killing Fish," *South China Morning Post*, November 5, 2000, p. 4; John Tagliabue, "Activist Jailed in Attack on Modified Crops," *The New York Times*, February 27, 2003, p. 6; "Citi Expands Denial of Summer Breach," *American Banker*, December 28, 2009, p. 8; Ben Worthen, "Private Sector Keeps Mum on Cyber Attacks," *The Wall Street Journal*, January 19, 2010, p. B4.

The Internationalization of U.S. Business

LO2

The changing face of U.S. business

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

Many familiar U.S. companies are now foreign controlled or headed in that direction. When you drop in at a 7-Eleven convenience store or buy Firestone tires, you are buying directly from Japanese companies. Some well-known brands no longer owned by U.S. companies are Carnation (Swiss), *The Wall Street Journal* (Australian), and the all-American Smith & Wesson handgun that won the U.S. West, which is owned by a British rm. The last U.S.-owned company to manufacture TV sets was Zenith, but even it was acquired by South Korea's LG Electronics, Inc., which manufactures Goldstar TVs and other products. Pearle Vision, Universal Studios, and many more are currently owned or controlled by foreign multinational businesses (see Exhibit 1.1). Foreign investment in the United States is more than $23.4 trillion.[14] Companies from the United Kingdom lead the group of investors, with companies from the Netherlands, Japan, Germany, and Switzerland following, in that order.

Other foreign companies that entered the U.S. market through exporting their products into the United States realized suf cient market share to justify building and buying manufacturing plants in the United States. Honda, BMW, and Mercedes are all manufacturing

[14] http://www.bea.gov (accessed June 2010).

Exhibit 1.1
Foreign Acquisitions of U.S. Companies

Sources: Compiled from annual reports of listed firms, 2010.

U.S. Companies/Brands	Foreign Owner
Firestone (tires)	Japan
Ben & Jerry's (ice cream)	U.K.
CITGO	Venezuela
Burger King (fast food)	U.K.
Random House (publishing)	Germany
The Wall Street Journal	Australia
Oroweat (breads)	Mexico
Smith & Wesson (guns)	U.K.
RCA (televisions)	France/China
Chef America ("Hot Pockets" and other foods)	Switzerland
Huffy Corp. (bicycles)	China
Swift & Company (meatpacking)	Brazil
Barneys New York (retailer)	Dubai
Columbia Pictures (movies)	Japan
T-Mobile	Germany
Budweiser	Belgium
Frigidaire	Sweden
Church's Chicken	Bahrain
Genentech	Switzerland

in the United States. Investments go the other way as well. Ford bought and sold Volvo; Paci Corp acquired Energy Group, the United Kingdom's largest electricity supplier and second-largest gas distributor; and Wisconsin Central Transportation, a medium-sized U.S. railroad, controls all U.K. rail freight business and runs the Queen's private train via its English, Welsh & Scottish Railway unit. It has also acquired the company that runs rail shuttles through the Channel Tunnel. Investments by U.S. multinationals abroad are nothing new. Multinationals have been roaming the world en masse since the end of World War II, buying companies and investing in manufacturing plants. What is relatively new for U.S. companies is having their global competitors competing with them in "their" market, the United States. One of the more interesting new entrants is Chivas USA, a Mexican-owned soccer team that will play its matches in southern California.

Once the private domain of domestic businesses, the vast U.S. market that provided an opportunity for continued growth must now be shared with a variety of foreign companies

Along with NAFTA have come two of Mexico's most prominent brand names. Gigante, one of Mexico's largest supermarket chains, now has several stores in southern California, including this one in Anaheim. On store shelves are a variety of Bimbo bakery products. Grupo Bimbo, a growing Mexican multinational, has recently purchased American brand-named firms such as Oroweat, Webers, and Mrs. Baird's Bread.

CROSSING BORDERS 1.2 *Blanca Nieves, La Cenicienta, y Bimbo* (Snow White, Cinderella, and Bimbo)

Bimbo is a wonderful brand name. It so well demonstrates the difficulties of marketing across borders. In *Webster's Dictionary* "bimbo" is defined as ". . . a term of disparagement, an attractive, but empty-headed person, a tramp."

Meanwhile, in Spain, Mexico, and other Spanish-speaking countries, the word "bimbo" has no pejorative meaning. Indeed, it is often simply associated with the little white bear logo of Bimbo brand bread. Bimbo is the most popular brand of bread in Mexico and, with the North American Free Trade Agreement (NAFTA), is stretching its corporate arms north and south. For example, the Mexican firm most recently acquired Bestfoods American brands, Mrs. Baird's Bread, the most popular local brand in Dallas, Texas, and Fargo, the most popular bread brand in Argentina. And you can now see 18-wheelers pulling truckloads of Bimbo products north on Interstate 5 toward Latino neighborhoods in Southern California and beyond.

Perhaps Bimbo is the reason the city leaders in Anaheim so feared Gigante's entrance into their city. Gigante, the Mexican-owned supermarket chain, features Bimbo buns, tomatillos, cactus pears, and other Latino favorites. Gigante already had three stores in Los Angeles County. But it was denied the city's permission to open a new market near the "Happiest Place on Earth." One has to wonder if Disneyland, Anaheim's biggest employer, may have been fretting over the juxtaposition of the Bimbo brand and its key characters, blonde, little, all-American Alice and her cinema sisters. Actually, a better case can be made that the Gigante–Anaheim imbroglio was more a matter of a mix of nationalism, xenophobia, and even racism. The city council eventually was forced to allow Gigante to open.

American firms have often run into similar problems as they have expanded around the world. Consider French nationalism. French farmers are famous for their protests—throwing lamb chops at their trade ministers and such. Or better yet, Culture Minister Jack Lang's comments about the U.S. Cartoon Network: "We must fight back against this American aggression. It is intolerable that certain North American audiovisual groups shamelessly colonize our countries."

Consider our own fear and loathing of "Japanese colonization" in both the 1920s and the 1980s. This apparent xenophobia turned to racism when Americans stoned Toyotas and Hondas but not Volkswagens and BMWs or when we decried Japanese takeovers of American firms and ignored Germany's gorging on the likes of Bankers Trust, Random House, and Chrysler.

PEMEX's current ban on American investments in the oil and gas industry in Mexico is a good example of nationalism. However, when British Petroleum buying ARCO is no problem, but Mexican cement giant CEMEX buying Houston's Southdown is, that's racism at work.

A cruel irony regarding Gigante's problems in Anaheim is well revealed by a quick drive around Tijuana. During the last decade, the change in Tijuana's retail facade has been remarkable. In this border town, after NAFTA, McDonalds, Costco, Smart & Final, and other American brands now dominate the signage.

Sources: John L. Graham, "Blanca Nieves, La Cenicienta, y Bimbo," *La Opinion*, February 22, 2002, p. C1 (translated from the Spanish); Clifford Kraus, "New Accents in the U.S. Economy," *The New York Times*, May 2, 2007, pp. C1, C14; "Grupo Bimbo," *American Lawyer*, April 2009, pp. 38–40.

and products. Companies with only domestic markets have found increasing difficulty in sustaining their customary rates of growth, and many are seeking foreign markets in which to expand. Companies with foreign operations find that foreign earnings are making an important overall contribution to total corporate profits. A four-year Conference Board study of 1,250 U.S. manufacturing companies found that multinationals of all sizes and in all industries outperformed their strictly domestic U.S. counterparts. They grew twice as fast in sales and earned significantly higher returns on equity and assets. Furthermore, U.S. multinationals reduced their manufacturing employment, both at home and abroad, more than domestic companies. Another study indicates that despite the various difficulties associated with internationalization, on average, firm value is increased by global diversification.[15] Indeed, at least periodically, profit levels from international ventures exceed those from domestic operations for many multinational firms.[16]

[15] John A. Doukas and Ozgur B. Kan, "Does Global Diversification Destroy Firm Value?" *Journal of International Business Studies* 37 (2006), pp. 352–71.

[16] Justin Lahart, "Behind Stocks' Run at Record," *The Wall Street Journal*, April 25, 2007, pp. C1–2.

Exhibit 1.2
Selected U.S. Companies and Their International Sales

Source: Compiled from annual reports of listed firms, 2010.

Company	Global Revenues (billions)	Percent Revenues from Outside the U.S.
Walmart	$401.2	24.6%
Ford Motor	146.3	51.9
General Electric	182.5	53.7
CitiGroup	52.8	74.8
Hewlett-Packard	118.4	68.2
Boeing	60.9	38.9
Intel	37.6	85.4
Coca-Cola	31.9	77.0
Apple	36.5	46.0
Starbucks	10.4	20.8

Exhibit 1.2 illustrates how important revenues generated on investments abroad are to U.S. companies. In many cases, foreign sales were greater than U.S. sales, demonstrating the global reach of these American brands. Apple's performance has been most impressive, with total revenues exploding from just $6 billion in 2003 to $24 billion in 2007. Meanwhile, the company maintained its traditional level of more than 40 percent revenues from outside the United States.

Companies that never ventured abroad until recently are now seeking foreign markets. Companies with existing foreign operations realize they must be more competitive to succeed against foreign multinationals. They have found it necessary to spend more money and time improving their marketing positions abroad because competition for these growing markets is intensifying. For rms venturing into international marketing for the rst 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.

International Marketing Defined

International marketing is the performance of business activities designed to plan, price, promote, and direct the ow of a company's goods and services to consumers or users in more than one nation for a pro t. The only difference between the de nitions of domestic marketing and international marketing is that in the latter case, marketing activities take place in more than one country. This apparently minor difference, "in more than one country," accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes, and principles are universally applicable, and the marketer's task is the same, whether doing business in Dimebox, Texas, or Dar es Salaam, Tanzania. Business's goal is to make a pro t 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?

A Citibank branch in the heart of Brazil on a rainy day in 2008. The address on the Avenida Paulista is 1776—how American! One of the world's great multinational corporations barely survived the financial debacle of October 2008. Perhaps its red, white, and blue umbrella logo protected it from "adverse weather" on Wall Street? Indeed, during the past two years, its international operations have performed much better than its domestic ones. In particular, emerging markets such as China, India, and Brazil proved relatively resilient during the global financial crisis that began in 2008.

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, ckle consumers, and any number of other uncontrollable elements can, and frequently do, affect the pro table outcome of good, sound marketing plans. Generally speaking, the marketer cannot control or in uence these uncontrollable elements but instead must adjust or adapt to them in a manner consistent with a successful outcome. What makes marketing interesting is the challenge of molding the controllable elements of marketing decisions (product, price, promotion, distribution, and research) within the framework of the uncontrollable elements of the marketplace (competition, politics, laws, consumer behavior, level of technology, and so forth) in such a way that marketing objectives are achieved. Even though marketing principles and concepts are universally applicable, the environment within which the marketer must implement marketing plans can change dramatically from country to country or region to region. The dif culties created by different environments are the international marketer's primary concern.

The International Marketing Task

LO3

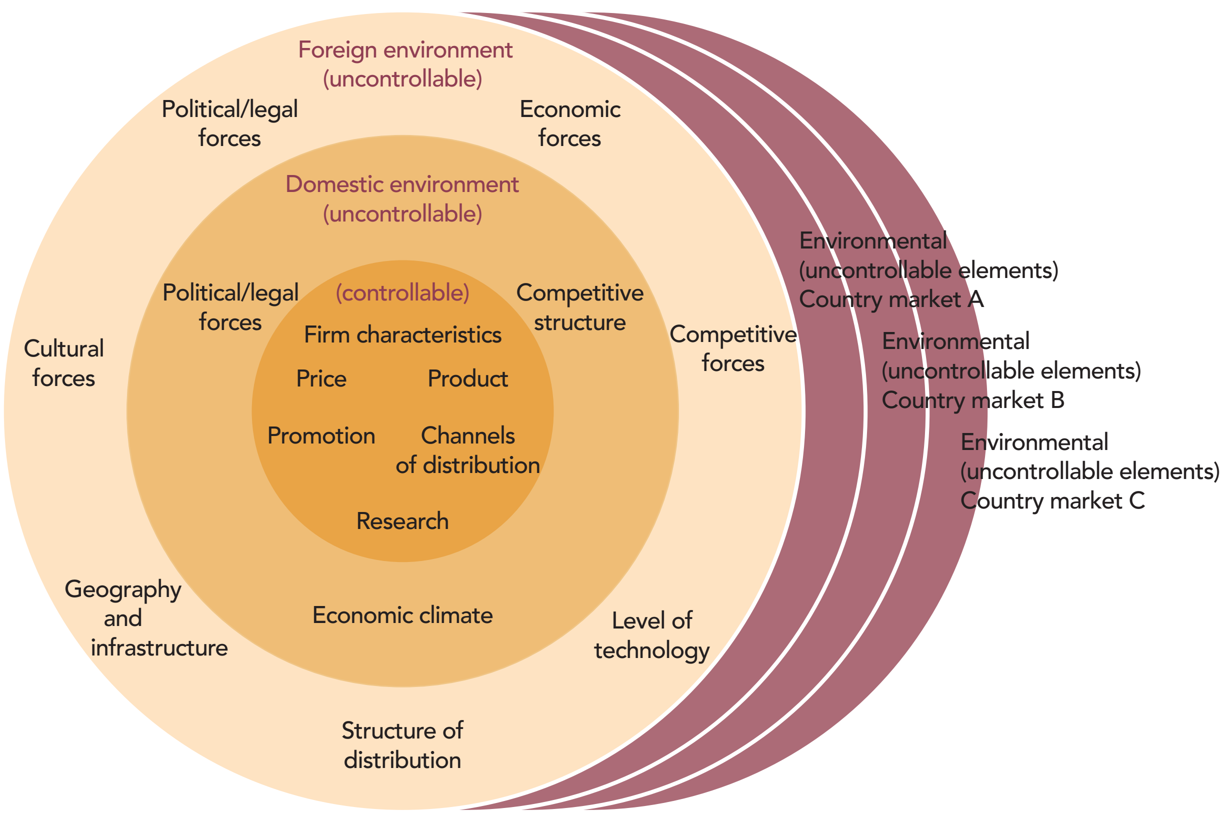
The scope of the international marketing task

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 uncontrollable factors.

Exhibit 1.3 illustrates the total environment of an international marketer. The inner circle depicts the controllable elements that constitute a marketer's decision area, the

Exhibit 1.3

The International Marketing Task



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 is the possible variety of foreign environmental factors with which to contend. Frequently, a solution to a problem in country market A is not applicable to a problem in country market B.

Marketing Decision Factors

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

The outer circles surrounding the marketing decision factors represent the levels of uncertainty created by the domestic and foreign environments. Although the marketer can blend a marketing mix from the controllable elements, the **uncontrollable elements** are precisely that; the marketer must actively evaluate and, if needed, adapt. That effort—the adaptation of the marketing mix to these environmental factors—determines the outcome of the marketing enterprise.

Aspects of the Domestic Environment

The second circle in Exhibit 1.3 represents the aspects of the **domestic environment uncontrollables**. These include home-country elements that can have a direct effect on the success of a foreign venture: political and legal forces, economic climate, and competition.

A political decision involving domestic foreign policy can have a direct effect on a firm's international marketing success. For example, the U.S. government placed a total ban on trade with Libya to condemn Libyan support for terrorist attacks, imposed restrictions on trade with South Africa to protest apartheid, and placed a total ban on trade with Iraq, whose actions were believed to constitute a threat to the national security of the United States and its allies. In each case, the international marketing programs of U.S. companies, whether IBM, Exxon, or Hawg Heaven Bait Company, were restricted by these political decisions. The U.S. government has the constitutional right to restrict foreign trade when such trade adversely affects the security or economy of the country or when such trade is in conflict with U.S. foreign policy.

Conversely, positive effects occur when changes in foreign policy offer countries favored treatment. Such were the cases when South Africa abolished apartheid and the embargo was lifted and when the U.S. government decided to uncouple human rights issues from foreign trade policy and grant permanently normalized trade relations (PNTR) status to China, paving the way for its entry into the World Trade Organization (WTO). In both cases, opportunities were created for U.S. companies. Finally, note that on occasion, companies can exercise a controversially high degree of influence over such legislation in the United States. Recall that it is Congress's responsibility to regulate business, not vice versa. Indeed, in the case of PNTR for China, companies with substantial interests there, such as Boeing and Motorola, lobbied hard for the easing of trade restrictions.

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

Competition within the home country can also have a profound effect on the international marketer's task. For more than a century, Eastman Kodak dominated the U.S. film market and could depend on achieving profit goals that provided capital to invest in foreign markets. Without having to worry about the company's lucrative base, management had the time and resources to devise aggressive international marketing programs. However, the competitive structure changed when Fuji Photo Film became a formidable competitor by lowering film prices in the United States, opening a $300 million plant, and soon gaining 12 percent of the U.S. market. Since then, the acceptance of digital photography, with Canon, from Japan, leading the market, has further disrupted Kodak's domestic business. As a result, Kodak has had to direct energy and resources back to the United States. Competition within its home country affects a company's domestic as well as international plans. Inextricably entwined with the effects of the domestic environment are the constraints imposed by the environment of each foreign country.

Aspects of the Foreign Environment

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

A business operating in a number of foreign countries might find polar extremes in political stability, class structure, and economic climate—critical elements in business decisions. The dynamic upheavals in some countries further illustrate the problems of dramatic change in cultural, political, and economic climates over relatively short periods of time. A case in point is China, which has moved from a communist legal system in which all business was done with the state to a transitional period while a commercial legal system develops. In this transitional phase, new laws are passed but left to be interpreted by local authorities, and confusion often prevails about which rules are still in force and which rules are no longer applicable.

For example, commercial contracts can be entered into with a Chinese company or individual only if that company or person is considered a "legal person." To be a legal person in China, the company or person must have registered as such with the Chinese government. To complicate matters further, binding negotiations may take place only with "legal representatives" of the "legal person." So if your company enters into negotiations with a Chinese company or person, you must ask for signed legal documents establishing the right to do business. The formalities of the signature must also be considered. Will a signature on a contract be binding, or is it necessary to place a traditional Chinese seal on the document? Even when all is done properly, the government still might change its mind. Coca-Cola had won approval for its plan to build a new facility to produce product for its increasing Chinese market share. But before construction began, the Chinese parliament objected that Coca-Cola appeared to be too successful in China, so negotiations continued delaying the project. Such are the uncertainties of the uncontrollable political and legal factors of international business.

The more significant elements in the uncontrollable international environment, shown in the outer circles of Exhibit 1.3, include political/legal forces, economic forces, competitive forces, level of technology,[17] structure of distribution, geography and infrastructure, and cultural forces.[18] These forces constitute the principal elements of uncertainty an international marketer must cope with in designing a marketing program. Although each will be discussed in depth in subsequent chapters, consider the level of technology and political/legal forces as illustrations of the uncontrollable nature of the foreign environment.

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.

[17] Shih-Fen S. Chen, "Extending Internationalization Theory: A New Perspective on International Technology Transfer and Its Generalization," *Journal of International Business Studies* 36 (2005), pp. 231–45.

[18] Laszlo Tihany, David A. Griffith, and Craig J. Russell, "The Effect of Cultural Distance on Entry Mode Choice, International Diversification, and MNE Performance: A Meta-Analysis," *Journal of International Business Studies* 36, no. 3 (2005), pp. 270–83.

CROSSING BORDERS 1.3 Mobile Phones, Economic Development, and Shrinking the Digital Divide

Wedged between stalls of dried fish and mounds of plastic goods, a red shipping container is loaded with Coca-Cola bottles. The local distributor for Soweto market, located in a tatty corner of Zambia's capital city, Lusaka, sells all its stock every few days. A full load costs 10m kwacha (about $2,000). In cash, this amount can be hard to get hold of, takes ages to count, and—being 10 times the average annual wage—is tempting to thieves. So Coca-Cola now tells its 300 Zambian distributors to pay for deliveries not in cash but by sending text messages from their mobile phones. The process takes about 30 seconds, and the driver issues a receipt. Far away computers record the movement of money and stock. Coca-Cola is not alone. Around the corner from the market, a small dry-cleaning firm lets customers pay for laundry using their phones. So do Zambian petrol stations and dozens of bigger shops and restaurants.

This is just one example of the many innovative ways in which mobile phones are being used in the poorest parts of the world. Anecdotal evidence of mobile phones' ability to boost economic activity is abundant: They enable fishermen or farmers to check prices at different markets before selling produce and make it easier for people to look for jobs and prevent wasted journeys. Mobile phones reduce transaction costs, broaden trade networks, and substitute for costly physical transport. They are of particular value when other means of communication (such as roads, post, or fixed-line phones) are poor or nonexistent.

This importance can be hard for people in affluent countries to understand, because the ways in which mobile phones are used in low-income countries are so different. In particular, phones are widely shared. One person in a village buys a mobile phone, perhaps using a microcredit loan. Others then rent it out by the minute; the small profit margin enables its owner to pay back the loan and make a living. When the phone rings, its owner carries it to the home of the person being called, who then takes the call. Other entrepreneurs set up as "text message interpreters," sending and receiving text messages (which are generally cheaper than voice calls) on behalf of their customers, who may be illiterate. So though the number of phones per 100 people is low by affluent-world standards, they still make a big difference.

Yet mobile phone technologies also can be controversial. Chinese authorities imposed a blackout on communications (Internet access, international phone service, and text messaging) in the northwest region of Xinjiang province in the wake of ethnic violence in the area in July 2009. The government there said it severed communications to ease tensions that it claims were inflamed by social networking sites and text messages.

Sources: *The Economist*, "Economics Focus, Calling across the Divide," March 12, 2005, p. 74; Bruce Meyerson, "Skype Takes Its Show on the Road," *BusinessWeek*, October 29, 2007, p. 38; Andrew Jacobs, "China Restores Text Messaging in Xinjiang," *The New York Times*, January 18, 2010, p. A9.

A marketer cannot assume that understanding of the concept of preventive maintenance for machinery is the same in other countries as in the United States. Technical expertise may not be available at a level necessary for product support, and the general population may not have an adequate level of technical knowledge to maintain equipment properly. In such situations, a marketer will have to take extra steps to make sure that the importance of routine maintenance is understood and carried out. Furthermore, if technical support is not readily available, local people will have to be specially trained, or the company will have to provide support.

Political and legal issues face a business, whether it operates at home or in a foreign country. However, the issues abroad are often ampli ed by the "alien status" of the company, which increases the dif culty of properly assessing and forecasting the dynamic international business climate. The alien status of a foreign business has two dimensions: It is alien in that foreigners control the business and in that the culture of the host country is alien to management. The alien status of a business means that, when viewed as an outsider, it can be seen as an exploiter and receive prejudiced or unfair treatment at the hands of politicians, legal authorities, or both. Political activists can rally support by advocating the expulsion of the "foreign exploiters," often with the open or tacit approval of authorities. The Indian government, for example, gave Coca-Cola the choice of either revealing its secret formula or leaving the country. The company chose to leave. When it was welcomed

Masai tribesmen in Tanzania with their cell phones. Competition is fierce among carriers in burgeoning markets like Tanzania. Both Celtel and Vodacom provide paint for local stores and houses. Here you see the bright Celtel yellow and red, which goes nicely with the colorful garb of local customers. Vodacom blue is at a disadvantage there. We imagine the ear lobe "carrying case" makes it easy to hear the ring but hard to dial!

back several years later, it faced harassment and constant interference in its operations from political activists, often inspired by competing soft drink companies.

Furthermore, in a domestic situation, political details and the ramifications of political and legal events are often more transparent than they are in some foreign countries. For instance, whereas in the United States, each party in a dispute has access to established legal procedures and due process, legal systems in many other countries are still evolving. In many foreign countries, corruption may prevail, foreigners may receive unfair treatment, or the laws may be so different from those in the home country that they are misinterpreted. The point is that a foreign company is foreign and thus always subject to the political whims of the local government to a greater degree than a domestic firm. Google's conflicts with the Chinese government regarding censorship and confidentiality are pertinent here.[19]

Political/legal forces and the level of technology are only two of the uncontrollable aspects of the foreign environment that are discussed in subsequent chapters. The uncertainty of different foreign business environments creates the need for a close study of the uncontrollable elements within each new country. 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 variations.

Environmental Adaptation Needed

To adjust and adapt a marketing program to foreign markets, marketers must be able to interpret effectively the influence and impact of each of the uncontrollable environmental elements on the marketing plan for each foreign market in which they hope to do business. In a broad sense, the uncontrollable elements constitute the culture; the difficulty facing the marketer in adjusting to the culture lies in recognizing its impact. In a domestic market, the reaction to much of the environment's (cultural) impact on the marketer's activities is automatic; the various cultural influences that fill our lives are simply a part of our socialization, and we react in a manner acceptable to our society without consciously thinking about it.

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

[19] Sharon LaFraniere, "China at Odds with Future in Internet Fight," *The New York Times*, January 17, 2010, p. 6.

acculturation in the home country. 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 nonsocial.

For example, time-conscious Americans are not culturally prepared to understand the culturally nuanced meaning of time to Latin Americans. Such a difference must be learned to avoid misunderstandings that can lead to marketing failures. Such a failure occurs every time sales are lost when a "long waiting period" in the outer of ce of a Latin American customer is misinterpreted by an American sales executive. Cross-cultural misunderstandings can also occur when a simple hand gesture has a number of different meanings in different parts of the world. When wanting to signify something is ne, many people in the United States raise a hand and make a circle with the thumb and fore nger. However, this same hand gesture means "zero" or "worthless" to the French, "money" to the Japanese, and a general sexual insult in Sardinia and Greece. A U.S. president sent an unintentional message to some Australian protesters when he held up his rst two ngers with the back of his hand to the protesters. Meaning to give the "victory" sign, he was unaware that in Australia, the same hand gesture is equivalent to holding up the middle nger in the United States.

Cultural conditioning is like an iceberg—we are not aware of nine-tenths of it. In any study of the market systems of different peoples, their political and economic structures, religions, and other elements of culture, foreign marketers must constantly guard against measuring and assessing the markets against the xed values and assumptions of their own cultures. They must take speci c steps to make themselves aware of the home cultural reference in their analyses and decision making.[20]

The Self-Reference Criterion and Ethnocentrism: Major Obstacles

LO4

The importance of the self-reference criterion (SRC) in international marketing

The key to successful international marketing is adaptation to environmental differences from one market to another. Adaptation is a conscious effort on the part of the international marketer to anticipate the in uences of both the foreign and domestic uncontrollable factors on a marketing mix and then to adjust the marketing mix to minimize the effects.

The primary obstacles to success in international marketing are a person's **self-reference criterion (SRC)** and an associated ethnocentrism. The SRC is an unconscious reference to one's own cultural values, experiences, and knowledge as a basis for decisions. Closely connected is ethnocentrism, that is, the notion that people in one's own company, culture, or country know best how to do things. Ethnocentrism was particularly a problem for American managers at the beginning of the 21st century because of America's dominance in the world economy during the late 1990s. Ethnocentrism is generally a problem when managers from af uent countries work with managers and markets in less af uent countries. Both the SRC and ethnocentrism impede the ability to assess a foreign market in its true light.

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

To illustrate the impact of the SRC, consider misunderstandings that can occur about personal space between people of different cultures. In the United States, unrelated individuals keep a certain physical distance between themselves and others when talking or in groups. We do not consciously think about that distance; we just know what feels right without thinking. When someone is too close or too far away, we feel uncomfortable and either move farther away or get closer to correct the distance. In doing so, we are relying on our SRC. In some cultures, the acceptable distance between individuals is substantially

[20] Emily Maltby, "Expanding Abroad? Avoid Cultural Gaffes," *The Wall Street Journal*, January 19, 2010, p. B5.

less than that which is comfortable for Americans. When someone from another culture approaches an American too closely, the American, unaware of that culture's acceptable distance, unconsciously reacts by backing away to restore the proper distance (i.e., proper by American standards), and confusion results for both parties. Americans assume foreigners are pushy, while foreigners assume Americans are unfriendly and literally "standoffish." Both react according to the values of their own SRCs, making both victims of a cultural misunderstanding.

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

Ethnocentrism and the SRC can influence an evaluation of the appropriateness of a domestically designed marketing mix for a foreign market. If U.S. marketers are not aware, they might evaluate a marketing mix based on U.S. experiences (i.e., their SRC) without fully appreciating the cultural differences that require adaptation. Esso, the brand name of a gasoline, was a successful name in the United States and would seem harmless enough for foreign countries; however, in Japan, the name phonetically means "stalled car," an undesirable image for gasoline. Another example is the "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 were real mistakes made by major companies stemming from their reliance on their SRC in making a decision.

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

The most effective way to control the influence of ethnocentrism and the SRC is to recognize their effects on our behavior. Although learning every culture in depth and being aware of every important difference is almost humanly impossible, an awareness of the need to be sensitive to differences and to ask questions when doing business in another culture can help you 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 it changed the name to "Wicks" before introducing the product.

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

To avoid errors in business decisions, the knowledgeable marketer will conduct a cross-cultural analysis that isolates the SRC influences and maintain vigilance regarding ethnocentrism. The following steps are suggested as a framework for such an analysis.

1. Define the business problem or goal in home-country cultural traits, habits, or norms.
2. Define the business problem or goal in foreign-country cultural traits, habits, or norms through consultation with natives of the target country. Make no value judgments.
3. Isolate the SRC influence in the problem and examine it carefully to see how it complicates the problem.
4. Redefine the problem without the SRC influence and solve for the optimum business goal situation.

An American sales manager newly posted to Japan decided that his Japanese sales representatives did not need to come into the office every day for an early morning meeting before beginning calls to clients in Tokyo. After all, that was how things were done in the United States. However, the new policy, based on both the American's SRC and a modicum of ethnocentrism, produced a precipitous decline in sales performance. In his subsequent discussions with his Japanese staff, he determined that Japanese sales representatives are motivated mostly by peer pressure. Fortunately, he was able to recognize that his SRC and his American "business acumen" did not apply in this case in Tokyo. A return to the proven system of daily meetings brought sales performance back to previous levels.

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

Developing a Global Awareness

LO5

The increasing importance of global awareness

Opportunities in global business abound for those who are prepared to confront myriad obstacles with optimism and a willingness to continue learning new ways. The successful businessperson in the 21st century will have global awareness and a frame of reference that goes beyond a region or even a country and encompasses the world.[21] To be globally aware is to have (1) tolerance of cultural differences and (2) knowledge of cultures, history, world market potential, and global economic, social, and political trends.

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

A globally aware person is knowledgeable about cultures and history. Knowledge of cultures is important in understanding behavior in the marketplace or in the boardroom. Knowledge of history is important because the way people think and act is influenced by their history. Some Latin Americans' reluctance toward foreign investment or Chinese reluctance to open completely to outsiders can be understood better if you have a historical perspective.

Global awareness also involves knowledge of world market potentials and global economic, social, and political trends. Over the next few decades, enormous changes will take place in the market potentials in almost every region of the world, all of which a globally

[21] Gary A. Knight and Daekwan Kim, "International Business Competence and the Contemporary Firm," *Journal of International Business Studies* 40, no. 2 (2009), pp. 255–73.

aware person must continuously monitor. Finally, a globally aware person will keep abreast of global economic, social, and political trends, because a country's prospects can change as these trends shift direction or accelerate. The former republics of the Soviet Union, along with Russia, eastern Europe, China, India, Africa, and Latin America, are undergoing economic, social, and political changes that have already altered the course of trade and defined new economic powers. The knowledgeable marketer will identify opportunities long before they become evident to others. It is the authors' goal in this text to guide the reader toward acquiring global awareness.

Global awareness can and should be built into organizations using several approaches. The obvious strategy is to select individual managers specifically for their demonstrated global awareness. Global awareness can also be obtained through personal relationships in other countries. Indeed, market entry is very often facilitated through previously established social ties. Certainly, successful long-term business relationships with foreign customers often result in an organizational global awareness based on the series of interactions required by commerce. Foreign agents and partners can help directly in this regard. But perhaps the most effective approach is to have a culturally diverse senior executive staff or board of directors. Unfortunately, American managers seem to see relatively less value in this last approach than managers in most other countries.

Stages of International Marketing Involvement

LO6

The progression of becoming a global marketer

Once a company has decided to go international, it has to decide the degree of marketing involvement and commitment it is prepared to make. These decisions should reflect considerable study and analysis of market potential and company capabilities—a process not always followed.[22] Research has revealed a number of factors favoring faster internationalization: (1) Companies with either high-technology and/or marketing-based resources appear to be better equipped to internationalize than more traditional manufacturing kinds of companies;[23] (2) smaller home markets and larger production capacities appear to favor internationalization;[24] and (3) firms with key managers well networked internationally are able to accelerate the internationalization process.[25] Many companies begin tentatively in international marketing, growing as they gain experience and gradually changing strategy and tactics as they become more committed.[26] Others enter international marketing after much research and with fully developed long-range plans, prepared to make investments to acquire a market position and often evincing bursts of international activities.[27] One study suggests that striking a balance between the two approaches may actually work best,[28] with a variety of conditions and firm characteristics to be evaluated.

Regardless of the means employed to gain entry into a foreign market, a company may make little or no actual market investment—that is, its marketing involvement may be limited to selling a product with little or no thought given to the development of market control. Alternatively, a company may become totally involved and invest large sums of

[22]Protiti Dastidar, "International Corporate Diversification and Performance: Does Firm Self-Selection Matter?" *Journal of International Business Studies* 40, no. 1 (2009), pp. 71–85.

[23]Chiung-Hui Tseng, Patriya Tansuhaj, William Hallagan, and James McCullough, "Effects of Firm Resources on Growth in Multinationality," *Journal of International Business Studies* 38 (2007), pp. 961–74.

[24]Terence Fan and Phillip Phan, "International New Ventures: Revisiting the Influences behind the 'Born-Global' Firm," *Journal of International Business Studies* 38 (2007), pp. 1113–31.

[25]Susan Freeman and S. Tamer Cavusgil, "Toward a Typology of Commitment States among Managers of Born-Global Firms: A Study of Accelerated Internationalization," *Journal of International Marketing* 15 (2007), pp. 1–40.

[26]Marian V. Jones and Nicole E. Coviello, "Internationalisation: Conceptualising an Entrepreneurial Process of Behaviour in Time," *Journal of International Business Studies* 36, no. 3 (2005), pp. 284–303.

[27]Elizabeth Maitland, Elizabeth L. Rose, and Stephen Nicholas, "How Firms Grow: Clustering as a Dynamic Model of Internationalization," *Journal of International Business Studies* 36 (2005), pp. 435–51.

[28]Harry G. Barkema and Rian Drogendijk, "Internationalizing in Small, Incremental or Larger Steps?" *Journal of International Business Studies* 38 (2007), pp. 1132–48.

money and effort to capture and maintain a permanent, specific position in the market. In general, one of five (sometimes overlapping) stages can describe the international marketing involvement of a company. Although the stages of international marketing involvement are presented here in a linear order, the reader should not infer that a firm progresses from one stage to another; quite to the contrary, a firm may begin its international involvement at any one stage or be in more than one stage simultaneously. For example, because of a short product life cycle and a thin but widespread market for many technology products, many high-tech companies, large and small, see the entire world, including their home market, as a single market and strive to reach all possible customers as rapidly as possible.

No Direct Foreign Marketing

A company in this stage does not actively cultivate customers outside national boundaries; however, this company's products may reach foreign markets. Sales may be made to trading companies as well as foreign customers who directly contact the firm. Or products may reach foreign markets via domestic wholesalers or distributors who sell abroad without the explicit encouragement or even knowledge of the producer. As companies develop Web sites on the Internet, many receive orders from international Internet users. Often an unsolicited order from a foreign buyer is what piques the interest of a company to seek additional international sales.

Infrequent Foreign Marketing

Temporary surpluses caused by variations in production levels or demand may result in infrequent marketing overseas. The surpluses are characterized by their temporary nature; therefore, sales to foreign markets are made as goods become available, with little or no intention of maintaining continuous market representation. As domestic demand increases and absorbs surpluses, foreign sales activity is reduced or even withdrawn. In this stage, little or no change is seen in the company organization or product lines. However, few companies fit this model today, because customers around the world increasingly seek long-term commercial relationships. Furthermore, evidence suggests that financial returns from such short-term international expansions are limited.

The first two stages of international marketing involvement are more reactive in nature and most often do not represent careful strategic thinking about international expansion. Indeed, putting strategic thinking on the back burner has resulted in marketing failures for even the largest companies.

The consensus of researchers and authors[29] in this area suggests three relatively distinct approaches to strategic decisions in firms involved in international markets: [30]

1. Regular foreign marketing
2. Multidomestic or international marketing
3. Global marketing

Next we discuss each of the three stages (and their associated strategic orientations) in turn.

Regular Foreign Marketing

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

[29] A seminal paper in this genre is by Yorum Wind, Susan P. Douglas, and Howard V. Perlmutter, "Guidelines for Developing International Marketing Strategy," *Journal of Marketing*, April 1973, pp. 14–23.

[30] Christian Geisler Asmussen, "Local, Regional, or Global? Quantifying MNE Geographic Scope," *Journal of International Business Studies* 40, no. 7 (2009), pp. 1192–205.

Meter-Man, a small company (25 employees) in southern Minnesota that manufactures agricultural measuring devices, is a good example of a company in this stage.[31] In 1989, the 35-year-old company began exploring the idea of exporting; by 1992 the company was shipping product to Europe. Today, one-third of Meter-Man's sales are in 35 countries, and soon the company expects international sales to account for about half of its business. "When you start exporting, you say to yourself, this will be icing on the cake," says the director of sales and marketing. "But now I say going international has become critical to our existence." Recently Meter-Man was purchased by Komelon, Inc., a larger, more diversified international company with operations in Washington state, South Korea, China, and Europe.

International Marketing

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

The experience of Fedders, a manufacturer of room air conditioners, typifies that of a company that begins its international business at this stage.[32] Even though it is the largest manufacturer of air conditioners in the United States, the firm faced constraints in its domestic market. Its sales were growing steadily, but sales of air conditioners (the company's only product) are seasonal, and thus, domestic sales at times do not even cover fixed costs. Furthermore, the U.S. market is mature, with most customers buying only replacement units. Any growth would have to come from a rival's market share, and the rivals, Whirlpool and Matsushita, are formidable. Fedders decided that the only way to grow was to venture abroad.

Fedders decided that Asia, with its often steamy climate and expanding middle class, offered the best opportunity. China, India, and Indonesia were seen as the best prospects. China was selected because sales of room air conditioners had grown from 500,000 units to more than 4 million in five years, which still accounted for only 12 percent of the homes in cities like Beijing, Shanghai, and Guangzhou. The company saw China as a market with terrific growth potential. After careful study, Fedders entered a joint venture with a small Chinese air conditioner company that was looking for a partner; a new company, Fedders Xinle, formed. The company immediately found that it needed to redesign its product for this market. In China, air conditioners are a major purchase, seen as a status symbol, not as a box to keep a room cool, as in the United States. The Chinese also prefer a split-type air conditioner, with the unit containing the fan inside the room and the heat exchanger mounted on a wall outside. Because Fedders did not manufacture split models, it designed a new product that is lightweight, energy efficient, and packed with features, such as a remote control and an automatic air-sweeping mechanism.

The joint venture appears to be successful, and the company is exploring the possibility of marketing to other Asian markets and maybe even back to the United States with the new product that it developed for the Chinese market. As Fedders expands into other markets and makes other commitments internationally, it continued to evolve as an international or multinational company. Finally, Fedders's successes internationally made it an attractive acquisition candidate, and in 2008 it was purchased by a French firm, Airwell, that has distributors in over 80 countries around the world.

Global Marketing

At the global marketing level, the most profound change is the orientation of the company toward markets and associated planning activities. At this stage, companies treat the world, including their home market, as one market. Market segmentation decisions are no longer focused on national borders. Instead, market segments are defined by income levels, usage patterns, or other factors that frequently span countries and regions. Often this transition from international marketing to global marketing is catalyzed by a company's crossing the threshold at which more than half its sales revenues comes from abroad. The best people in the company begin to seek international assignments, and the entire

[31] See http://www.komelon.com for its Meter-Man product line and other details.

[32] See http://www.airwell-fedders.com for details about the company.

CROSSING BORDERS 1.4 Orange County, CA, Travels East and West

For $500,000 you can now buy a four-bedroom house in Orange County—in China!

The homes are designed by Southern California architects and built with American features but are located in a new development an hour's drive north of Beijing. The country road can be icy and is lined by fields and populated by trucks and sheep. The landscape is a far cry from palm-ringed golf courses and "Surfin' USA." A bit after Sun City, another half-built gated community, the tidy homes of Orange County come into view. Finally, you drive through a stone portal, past advertisements showing men fly-fishing in cowboy hats and such, and pull up before the impressive mansions of Watermark-Longbeach, the epicenter of *faux* L.A. in China. Says homeowner Nasha Wei, a former army doctor turned business-woman, "I liked it immediately—it is just like a house in California." By the way, in other neighborhoods around Beijing, you can also buy a large home in a development of French villas called "Palais de Fortune" or an eco-friendly Toronto-designed home in "Maple Town."

Apparently, in France, the waves can actually be better than in California. Check out the 60-footers at Belharra Reef off St. Jean de Luz. Or hang ten along the surfwear shops nearby in the hamlet of Hossegor in southwest France. They're all there: Roxy, Rip Curl Girl, Billabong, and Quicksilver Boardriders Club. And the kids in the neighborhoods and sidewalk cafés are decked out in Volcom sweatshirts, Vans sneakers, and jeans.

The $5-billion plus surfwear industry, rooted in Orange County, California, has established a beachhead in Europe. So many U.S. surfwear companies have international headquarters, subsidiaries, and stores in Pays Basque that it has a new nickname: *la petite Californie*. "This is the best place to observe the market," says Petra Holtschneider, who recently organized the first Action Sports Retailer trade show in the area. "So if you're not here, you're not getting it."

Finally, perhaps the scariest OC exports are the television programs about the place. First it was Fox's *The OC*, then MTV's *Laguna Beach: The Real Orange County*, which has now morphed into *Newport Harbor: The Real Orange County*. The latter is now showing an entirely new generation of Europeans the latest kinds of misbehavior going on in "paradise" while influencing teen fashions globally. And there's a British spin-off in the works, *Alderley Edge, Cheshire*. Perhaps it will make its way back to the United States in the form of "educational TV"— those British accents make them sound so smart!

Sources: Elisabeth Rosenthal, "North of Beijing, California Dreams Come True," *The New York Times*, February 3, 2003, p. A3; Leslie Earnest, "Riding a French New Wave," *Los Angeles Times*, May 11, 2003, p. C1; Cristina Kinon, "The Laguna Effect: MTV's Sexy Soaps Are Changing the Face of Fashion, Mags, and the Way Teens Speak," *New York Daily News*, August 13, 2007, p. 33; Alyssa Abkowitz, "The Surfin' CEO," *Fortune International (Europe)*, July 20, 2009, p. 17.

operation—organizational structure, sources of nance, production, marketing, and so forth—begins to take on a global perspective.

The example of Coca-Cola's transition from international to global is instructive. Coca-Cola had actually been a global company for years; the mid-1990s organizational redesign was the last step in recognizing the changes that had already occurred. Initially, all international divisions reported to an executive vice president in charge of international operations, who, along with the vice president of U.S. operations, reported to the president. The new organization consists of six international divisions. The U.S. business unit accounts for about 20 percent of pro ts and has been downgraded to just part of one of the six international business units in the company's global geographic regions. The new structure does not reduce the importance of the company's North American business; it just puts other areas on an equal footing. It represents the recognition, however, that future growth is going to come from emerging markets outside the United States.

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

As the competitive environment facing U.S. businesses becomes more internationalized—and it surely will—the most effective orientation for many rms engaged in marketing in another

North of Beijing, China, a new development is being marketed as Orange County, China. The gardens and stucco and tile exteriors are all intended to replicate the Mediterranean look and feel of homes in Newport Beach, California.

country will be a global orientation.[33] This orientation means operating as if all the country markets in a company's scope of operations (including the domestic market) were approachable as a single global market and standardizing the marketing mix where culturally feasible and cost effective. It does not, however, mean a slavish adherence to one strategic orientation. Depending on the product and market, other orientations may make more marketing sense. For example, Procter & Gamble may pursue a global strategy for disposable diapers but a multidomestic strategy in Asian markets for detergents.

The Orientation of *International Marketing*

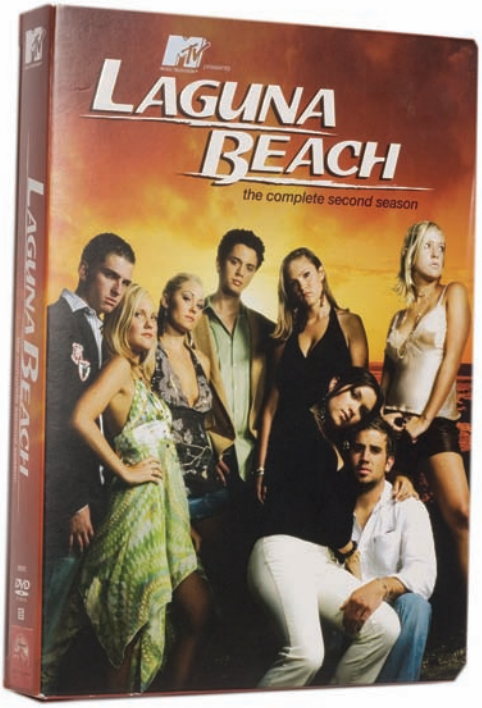
Most problems encountered by the foreign marketer result from the strangeness of the environment within which marketing programs must be implemented. Success hinges, in part, on the ability to assess and adjust properly to the impact of a strange environment. The successful international marketer possesses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

In light of all the variables involved, with what should a textbook in foreign marketing be concerned? It is the opinion of the authors that a study of foreign marketing environments, people, and cultures[34] and their influences on the total marketing process is of primary concern and is the most effective approach to a meaningful presentation. Our views are supported by the most recent ranking of countries on their extent of globalization—see Exhibit 1.4.[35] Yes, the United States is near the top of the list, and most of the "Global Top 20" are small countries. However, the key conclusion to be drawn from the graph is the dominance of "technological connectivity" for

[33] Amar Gande, Christoph Schenzler, and Lemma W. Senbet, "Valuation of Global Diversification," *Journal of International Business Studies* 40, no. 9 (2009), pp. 1515–32.

[34] Tricia Bisoux, "Trade Secrets: An Interview with Caterpillar CEO, Jim Owens," *BizEd*, September/October 2009, pp. 20–27; Udo Zander and Lena Zander, "Opening the Grey Box: Social Communities, Knowledge and Culture in Acquisitions," *Journal of International Business Studies* 41, no. 1 (2010), pp. 27–37.

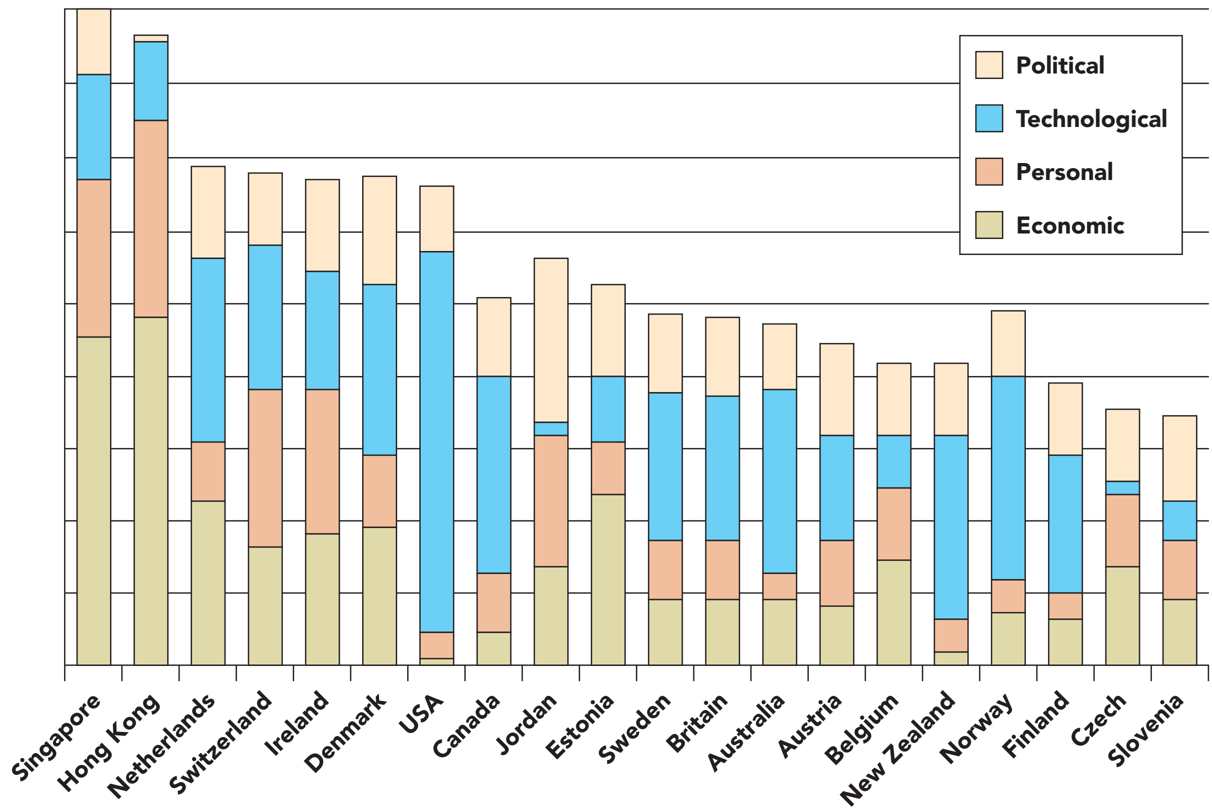
[35] "Measuring Globalization," *Foreign Policy*, November/December 2007, pp. 68–77.



Orange County has also come to France in the form of the southern California surfing culture and clothiers. The OC's Quiksilver opened its European headquarters in southwest France in 1984. Last year, European sales amounted to over $1 billion. Part of the firm's success in Europe can be attributed to hiring local nationals in key marketing positions. Maritxu Darrigrand, former French women's surfing champion, is now Quiksilver's marketing director for Europe. The OC has also come to the U.K. as *Laguna Beach: The Real Orange County*. The MTV program brings California beach culture—clothes, music, and misbehavior—to Europe.

Exhibit 1.4
Foreign Policy's Global Top 20

The countries that top the charts in trade, travel, technology, and links to the rest of the world



ECONOMIC INTEGRATION:
Trade and foreign direct investment

TECHNOLOGICAL CONNECTIVITY:
Internet users, Internet hosts, and secure servers

PERSONAL CONTACT:
International travel and tourism, international telephone traffic, and remittances and personal transfers (including worker remittances, compensation to employees, and other person-to-person and non-governmental transfers)

POLITICAL ENGAGEMENT:
Membership in international organizations, personnel and financial contributions to U.N. peacekeeping missions, international treaties ratified, and governmental transfers

Source: *Foreign Policy*, November/December 2007, pp. 68–77. Copyright 2007 by *Foreign Policy*. Reproduced with permission of *Foreign Policy* via Copyright Clearance Center.

America. In particular, notice that as a country, the United States is weakest on the "personal contact" dimension. Compared with folks in other countries, Americans generally do not experience foreign environments. This lack is the gap our book focuses on.

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

The text addresses issues relevant to any company marketing in or into any other country or groups of countries, however slight the involvement or the method of involvement. Hence this discussion of international marketing ranges from the marketing and business practices of small exporters, such as a Colorado-based company that generates more than

50 percent of its $40,000 annual sales of fish-egg sorters in Canada, Germany, and Australia, to the practices of global companies such as Motorola, Avon, and Johnson & Johnson, all of which generate more than 50 percent of their annual profits from the sales of multiple products to multiple country-market segments all over the world.

The first section of *International Marketing* offers an overview of international marketing, including a discussion of the global business environment confronting the marketer. The next section deals exclusively with the uncontrollable elements of the environment and their assessment, followed by chapters on assessing global market opportunities. Then, management issues in developing global marketing strategies are discussed. In each chapter, the impact of the environment on the marketing process is illustrated.

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

Summary

The internationalization of American business is accelerating. The globalization of markets and competition necessitates that all managers pay attention to the global environment. International marketing is defined as the performance of business activities, including pricing, promotion, product, and distribution decisions, across national borders. The international marketing task is made more daunting because environmental factors such as laws, customs, and cultures vary from country to country. These environmental differences must be taken into account if firms are to market products and services at a profit in other countries.

Key obstacles facing international marketers are not limited to environmental issues. Just as important are difficulties associated with the marketer's own self-reference criteria and ethnocentrism. Both limit the international marketer's abilities to understand and adapt to differences prevalent in foreign markets. A global awareness and sensitivity are the best solutions to these problems, and they should be nurtured in international marketing organizations.

Three different strategic orientations are found among managers of international marketing operations. Some see international marketing as ancillary to the domestic operations. A second kind of company sees international marketing as a crucial aspect of sales revenue generation but treats each market as a separate entity. Finally, a global orientation views the globe as the marketplace, and market segments are no longer based solely on national borders—common consumer characteristics and behaviors come into play as key segmentation variables applied across countries.

Key Terms

International marketing
Controllable elements
Uncontrollable elements
Domestic environment uncontrollables
Foreign environment uncontrollables
Self-reference criterion (SRC)
Global awareness

Questions

1. Define the key terms listed above.
2. "The marketer's task is the same whether applied in Dimebox, Texas, or Dar es Salaam, Tanzania." Discuss.
3. How can the increased interest in international marketing on the part of U.S. firms be explained?
4. Discuss the four phases of international marketing involvement.
5. Discuss the conditions that have led to the development of global markets.
6. Differentiate between a global company and a multinational company.
7. Differentiate among the three international marketing concepts.
8. Prepare your lifelong plan to be globally aware.
9. Discuss the three factors necessary to achieve global awareness.
10. Define and discuss the idea of global orientation.
11. Visit the Bureau of Economic Analysis homepage (http://www.bea.doc.gov). Select the section "International articles" and find the most recent information on foreign direct investments in the United States. Which country has the highest dollar amount of investment in the United States? Second highest?