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Global Market Strategies

Competition in the U.S. marketplace is no longer national, but international. American businesses that adapt to changing circumstances and recognize opportunities will prosper; those that do not will at best survive temporarily.

PRESIDENT'S TASK FORCE ON INTERNATIONAL PRIVATE ENTERPRISE

One of the most significant developments in recent years has been the emergence of global markets. Today's market provides not only a multiplicity of goods but goods from many places. It would not be surprising to discover that your shirt comes from Taiwan, your jeans from Mexico, and your shoes from Italy. You may drive a Japanese car equipped with tires manufactured in France, with nuts and bolts produced in India, and with paint from a U.S. company. Gucci bags, Sony Walkmans, and McDonald's golden arches are seen on the streets of Tokyo, London, Paris, and New York. Thai goods wind up on U.S. grocery shelves as Dole canned pineapple and on French farms as livestock feed. Millions of consumers worldwide want all the things that they have heard about, seen, or experienced via new communication technologies. Firms today are enmeshed in world competition to serve these consumers, no matter where they live.

A number of broad forces have led to growing globalization of markets.[1] These include

1. **Growing similarity of countries**—Because of growing commonality of infrastructure, distribution channels, and marketing approaches, more and more products and brands are available everywhere. Similar buyer needs thus manifest themselves in different countries. Large retail chains, television advertising, and credit cards are just a few examples of once-isolated phenomena that are rapidly becoming universal.
2. **Falling tariff barriers**—Successive rounds of bilateral and multilateral agreements have lowered tariffs markedly since World War II. At the same time, regional economic agreements, such as the European Union (EU), have facilitated trade relations.
3. **Strategic role of technology**—Technology is not only reshaping industries but contributing toward market homogenization. For example, electronic innovations have permitted the development of more compact, lighter products that are less costly to ship. Transportation costs themselves have fallen with the use of containerization and larger-capacity ships. Increasing ease of communication and data transfer make it feasible to link operations in different countries. At the same time, technology leads to an easy flow of information among buyers, making them aware of new and quality products and thus creating demand for them.

The impact of these forces on the globalization of markets may be illustrated with reference to a few examples. Kids everywhere play Nintendo and stroll along the streets to the sound of Sony Walkmans. The videocassette recorder market took off simultaneously in Japan, Europe, and the United States, but the most extensive use of videocassette recorders today is probably in places like Riyadh and Caracas. Shopping centers from Dusseldorf to Rio sell Gucci shoes, Yves St. Laurent suits, and Gloria Vanderbilt jeans. Siemens and ITT telephones can be found almost everywhere in the world. The Mercedes-Benz and the Toyota Corolla are as much objects of passion in Manila as in California.

Just about every gas turbine sold in the world has some GE technology or component in it, and what country doesn't need gas turbines? How many airlines around the world could survive without Boeing or Airbus? Third World markets for high-voltage transmission equipment and diesel-electric locomotives are bigger than those in developed countries. And today's new industries—robotics, videodisks, fiber optics, satellite networks, high-technology plastics, artificial diamonds—seem global from birth.

Briefly, these forces have homogenized worldwide markets, triggering opportunities for firms to seek business across national borders. For U.S. corporations, the real impetus to overseas expansion occurred after World War II. Attempting to reconstruct war-torn economies, the U.S. government, through the Marshall Plan, provided financial assistance to European countries. As the postwar American economy emerged as the strongest in the world, its economic assistance programs, in the absence of competition, stimulated extensive corporate development of international strategies. Since then, many new players, not only from Europe but from Southeast Asia as well, have entered the arena to serve global markets. Asian competitors have been particularly quick to exploit new international competitive conditions as well as cross-cutting technologies to leapfrog well-established rivals.

Global markets offer unlimited opportunities. But competition in these markets is intense. To be globally successful, companies must learn to operate and compete as if the world were one large market, ignoring superficial regional and national differences. Corporations geared to this new reality can benefit from enormous economies of scale in production, distribution, marketing, and management. By translating these benefits into reduced world prices, they can dislodge competitors who still operate under the perspectives of the 1980s. Companies willing to change their perspectives and become global can attain sustainable competitive advantage.

IDENTIFYING TARGET MARKETS

The World Bank lists 132 countries. Different countries represent varying market potential due to economic, cultural, and political contrasts. These contrasts mean that a global marketer cannot select target customers randomly but must employ workable criteria to choose countries where the company's product/service has the best opportunity for success.

Major Markets

The most basic information needed to identify markets concerns population because people, of course, constitute a market. The population of the world reached an estimated 6.0 billion in 1998. According to the latest estimates from the United Nations, this total is expected to increase to 6.2 billion by the year 2000 and to almost 8.5 billion by 2025. Current world population is growing at about 1.7 percent per year. This is a slight decline from the peak rate of 1.9 percent, but the absolute number of people being added to the world's population each year is still increasing. This figure is expected to peak at the turn of the century at about 90 million additional people per year.

Population growth rates vary significantly by region. Europe has the lowest rate of population growth at only about 0.3 percent per year. Several European countries, including Austria, Denmark, West Germany, Luxembourg and Sweden, are experiencing declining populations. Growth rates are also below 1 percent per year in North America.

The regions with the highest population growth rates are Africa (3 percent per year), Latin America (2 percent per year), and South Asia (1.9 percent per year). China, the world's most populous country, is growing at only about 1.2 percent per year. Even so, it means that China's population increases by over 12 million people each year. The world's second most populous country, India, is growing at over 1.7 percent per year. India's population is expected to grow from 970 million today to 1 billion by about 2003.

One striking aspect of population growth in developing countries is the rapid rate of urbanization. The urban population is growing at less than 1 percent in Europe and in North America, but it is growing at almost 3.5 percent in the developing world. Today 15 of the 20 largest urban agglomerations are in the developing world. By the year 2000, 17 of the 20 will be in the developing world. The only cities in the top 20 located in developed countries will be Tokyo, New York, and Los Angeles. The world's largest cities will be Mexico City (27 million) and Sao Paulo (25 million).

The above information shows that the total market in Europe and North America will not be increasing; the population of these two continents will not add much to total market size. Of course, these populations are growing older, so certain segments will increase in number. For example, the total population of Europe will increase only 2.8 percent from 1990 to 2000, but the over-65 population in Europe will increase by 14 percent during the same period.

In the developing world, the increase in numbers does not necessarily mean increased markets for U.S. business. The fastest-growing region in the world, Africa, is also experiencing low or negative rates of economic growth per capita. Many Latin American countries, Brazil in particular, are hampered by huge external debts that force them to try to limit imports while using their resources to generate foreign exchange for debt service. In most of these cases, the problem of foreign debt will need to be solved before the growing populations in the developing world will translate into large markets for U.S. business.

Obviously, population figures alone provide little information about market potential because people must have the means in terms of income to become

viable customers. In Exhibit 18-1, population combined with per capita GNP provides an estimate of consuming capacity. An index of consuming capacity depicts absolute, or aggregate, consumption, both in the entire world and in individual economies. Consumption rates can be satisfied either domestically or through imports.

The information in Exhibit 18-1 should be interpreted cautiously because it makes no allowances for difference in the purchasing power among different countries. Two conclusions are obvious, however: (a) aggregate consuming capacity depends upon total population as well as per capital income; and (b) advanced countries dominate as potential customers.

EXHIBIT 18-1
Consuming Capacities of Selected Countries

Country	Population * (millions)	Per Capita GNP † (Dollars)	Index of Consuming Capacity ‡
United States	263	26,980	7,098,438
Japan	125	39,640	4,962,928
Germany	82	27,510	2,253,069
France	58	24,990	1,451,919
United Kingdom	59	18,700	1,093,950
Italy	57	19,020	1,087,944
Brazil	159	3,640	579,488
Canada	30	19,380	573,648
Netherlands	16	24,000	372,000
Australia	18	18,720	338,832
India	929	340	315,996
Mexico	92	3,320	304,776
Switzerland	7	40,630	284,410
Belgium	10	24,710	249,571
Turkey	61	2,780	169,858
Thailand	58	2,740	159,468
Denmark	5	29,890	155,428
South Africa	42	3,160	131,140
Argentina	35	2,767	96,015
Israel	6	15,920	87,560
Philippines	69	1,050	72,030
Peru	24	2,310	54,978
New Zealand	4	14,340	51,624
Ecuador	12	1,390	15,985
Paraguay	5	1,690	8,112
Uganda	19	240	4,608

* *World Bank Report*, 1997. Figures in millions.
† *Statistical Abstract of the United States: 1997* (Washington, D.C.: U.S. Department of Commerce). Figures in U.S. dollars.
‡ Per capita GNP (gross national product) multiplied by total population in billions.

Although population and income variables provide a snapshot of the market opportunity in a given country, a variety of other factors must be considered to identify viable markets. These factors are urbanization, consumption patterns, infrastructure, and overall industrialization. Taking these factors into account, *Business International* has identified twelve countries as major global markets (see Exhibit 18-2).[2] Interestingly, three of these twelve countries—China, Brazil, and India—are developing countries.

Although these twelve countries have been identified as the principal global markets by *Business International*, they may not all be viable markets from the viewpoint of U.S. firms. A variety of environmental factors (political, legal, cultural)

EXHIBIT 18-2
Size, Growth, and Intensity of World's 12 Largest Markets

	Market Intensity (World = 1.00)		Market Size (% of World Market)		Cumulative Five-Year Market Growth (%)
	1990	1995	1990	1995	1995
Major Markets					
United States	2.03	2.03	18.79	18.41	5.88
China	–0.81	–0.70	10.08	12.30	37.03
Japan	1.74	1.89	8.47	8.27	3.80
India	–0.82	–0.85	6.12	6.35	12.68
Germany	1.81	1.54	4.33	4.54	14.10
Russia	0.70	0.23	7.06	4.06	–21.34
France	1.36	1.40	3.28	3.17	5.50
Italy	1.30	1.17	3.28	2.86	6.46
United Kingdom	1.32	1.20	3.05	2.75	–1.39
Brazil	–0.10	–0.09	2.69	2.70	11.09
Mexico	–0.13	0.09	1.60	2.01	82.18
Canada	1.92	1.73	2.07	1.99	14.77

Source: Crossborder Monitor (August 27 1997): 12.
Notes: **Market Intensity** measures the richness of the market, or the degree of concentrated purchasing power it represents. Taking the world's market intensity as 1, the EIU has calculated the intensity of each country or region as it relates to this base. The intensity figure is derived from an average of per-capita ownership, production, and consumption indicators. Specifically, it is calculated by averaging per-capita figures for automobiles in use (double-weighted), telephones in use, TVs in use, steel consumption, electricity production, private consumption expenditure (double-weighted), and the percentage of population that is urban (double-weighted).

Market Size shows the relative dimension of each national or regional market as a percentage of the total world market. The percentages for each market are derived by averaging the corresponding data on total population (double-weighted), urban population, private consumption expenditure, steel consumption, electricity production, and ownership of telephones, passenger automobiles, and televisions.

Market Growth is an average of cumulative growth in several key economic market indicators: population, steel consumption, electricity production, and ownership of passenger automobiles, lorries, buses, and TVs.

affect market opportunity in a nation. For example, Brazil is burdened with debt, which limits the amount of export potential in that country; China's political control limits freedom of choice; India's regulations make it difficult for foreign corporations to conduct business there. Thus, many countries may not have large market potential, yet they may constitute important markets for U.S. business.

Exhibit 18-3 lists the top 25 U.S. export markets. Also shown is the dollar amount of exports to each country in 1997. It should be noted that, globally speaking, although Canada ranks as the 12th largest market in the world (see Exhibit 18-2), it represents the single largest market for the United States, accounting for over one-fifth of its trade.

Emerging Markets

Traditionally, a major proportion of international business activities of U.S. corporations has been limited to developed countries. For example, at the end of 1997, total U.S. direct investment was estimated to be $794 billion, of which

EXHIBIT 18-3
Top 25 U.S. Markets: U.S. Domestic and Foreign Goods Exports, 1996 (F.a.s. Value)

		$ billions
1.	Canada	133.7
2.	Japan	67.5
3.	Mexico	56.8
4.	United Kingdom	30.9
5.	South Korea	26.6
6.	Germany	23.5
7.	Taiwan	18.4
8.	Singapore	16.7
9.	Netherlands	16.6
10.	France	14.4
11.	Hong Kong	14.0
12.	Belgium-Luxembourg	12.8
13.	Brazil	12.7
14.	Australia	12.0
15.	China	12.0
16.	Italy	8.8
17.	Malaysia	8.5
18.	Switzerland	8.4
19.	Saudi Arabia	7.3
20.	Thailand	7.2
21.	Philippines	6.1
22.	Israel	6.0
23.	Spain	5.5
24.	Venezuela	4.7
25.	Colombia	4.7

Source: *Business America* (March 1997): 27.

almost 70 percent was in developed countries. Slowly, however, new markets are unfolding. Consider the newly industrializing countries. During the decade of the 1980s, South Korea, Singapore, Taiwan, and Hong Kong were the world's fastest-growing economies and consequently offered new opportunities for U.S. firms.

In recent years, even developing countries, at least the more politically stable ones, have begun to show viable market potential. A number of developing countries are achieving higher and higher growth rates every year.[3] Although an individual country may not provide adequate potential for U.S. corporations, developing countries as a group constitute a major market. In 1998, almost 30 percent of U.S. trade was with developing countries. In future years, the flow of U.S. trade with developing countries should increase. An Organization of Economic Cooperation and Development (OECD) study showed that, in 1970, OECD countries, with just 20 percent of the world's people, had 83 percent of the world's trade in manufactures; whereas developing countries, with 70 percent of the world's people, captured just 11 percent of the trade. In the year 2000, however, it is estimated that OECD countries, with 15 percent of the population, will have 63 percent of the world's trade in manufactures; developing countries, with 78 percent of the population, will account for 28 percent of world trade.[4] Interestingly, although for cultural, political, and economic reasons, Western Europe, Canada, and to a lesser extent Japan have always been predominantly important for business, many developing countries provide a better return on U.S. investment.[5]

The relevance of emerging markets for the United States can be illustrated with reference to Pacific basin countries. Over the last quarter century, streams of food, fuels, textiles, cameras, cars, and videocassette recorders flowing from countries all across Asia exerted heavy pressure on Western economies. This outpouring of exports has increased the Asian/Pacific share of world trade from less than 10 percent in the 1970s to over 25 percent in 1997 and has pushed one Asian economy after another out of the Dark Ages and into the global marketplace.

For U.S. marketers, rising Pacific power holds both a threat and a promise. The threat is dramatically increased competition for sales and market share, both at home and abroad. In 1997 alone, Asian/Pacific countries supplied 40 percent of all U.S. merchandise imports and contributed some $68 billion to the U.S. trade deficit, 70 percent of the total. As for the promise, there is the emergence of a market of more than two billion potential consumers. In the last 25 years, as the Pacific region began its time-bending leap into the twentieth century, millions of Asians began an equally rapid transition from rural to urban, from agrarian to industrial, and from feudal to contemporary society. With more of the Pacific region's rural population traveling to cities to shop every day, the demand for goods and services—from the most basic household commodities to sophisticated technical devices—is soaring. Despite the recent currency problems, in the coming years, as rising incomes continue to bolster the spending power of Asia's new consumer population, the opportunities for shrewd marketers will be unparalleled.

Barriers to conducting business in the region are beginning to fall, too. Increasingly, throughout the region English is the language of commerce, and an allegiance to free market economics is widespread. And, as companies such as

McDonald's, General Foods, Unilever, and Coca-Cola have already discovered, from Penang to Taipei, this is a region where well-made and well-marketed products and services are witnessing increasing acceptance.

As modern influences exert greater pressure on traditional Asian cultures, two trends with important implications for marketers are starting to take shape:

- Although each Asian nation is culturally distinct, consumers throughout the Pacific region are gradually sharing more of the same wants and needs. As Asian homogenization progresses, sophisticated strategies and considerable economies of scale in regional and global marketing and advertising will become increasingly relevant.
- Many Western marketers misinterpret the nature of current changes in the Pacific region. Despite the Big Macs, the Levi's, the Nikes, and all the other familiar trappings, Asia is not Westernizing—it's modernizing. Asian consumers are buying Western goods and services, not Western values and cultures.

Elsewhere in the East, India and China are two large markets that should provide unprecedented opportunities for U.S. corporations as we enter the next century, and as their economies become fully market oriented. A growing number of U.S. consumer-goods companies have begun to make inroads in China. In November 1987, Kentucky Fried Chicken Corp. opened the first Western fast-food restaurant in China. Coca-Cola and PepsiCo are aggressively expanding distribution. Kodak and other foreign film suppliers have attained a 70 percent share of the color film market. Nescafé and Maxwell House are waging coffee combat in a land of tea.[6]

A number of U.S. companies—PepsiCo, Timex, General Foods, Kellogg—have entered India to serve its emerging middle class.[7] Thus, the developing countries provide new opportunities for U.S. corporations to expand business overseas: as their wealth grows, U.S. marketing possibilities expand.

It has been observed that early in the next century Latin American countries, too, will emerge as modern, Northern-styled marketplaces with improved transportation systems, subsidized credit to native businesses, and marketing education programs. All of these changes should result in more efficient channels of distribution, more local marketing support services, and fewer bottlenecks that hamper exchanges. All of these indications point toward a variety of emerging opportunities for U.S. corporations in Latin America.

For example, a few years ago, the Gillette Co., discovered that only eight percent of Mexican men who shave used shaving cream. Sensing an opportunity, Gillette introduced plastic tubes of shaving cream in Guadalajara, Mexico, that sold for half the price of its aerosol. In a year's time, 13 percent of Guadalajaran men began to use shaving cream. Gillette has been selling its new product, Prestobarba (Spanish for "quick shave"), in the rest of Mexico, in Colombia, and in Brazil.[8]

These emerging markets in less-developed countries can help many U.S. corporations to counter the results of demographic changes in Western nations examined above.[9] As mentioned above, in most advanced nations of the world,

birthrates are declining while population in the developing countries is growing. This increasing population holds the future growth potential for U.S. business.

With the fall of the Berlin Wall and the lifting of the Iron Curtain, new opportunities await Western managers in Eastern Europe, previously a forbidden region. In many ways, the opening of Eastern Europe could prove even more important than the drive for a single market in Western Europe. Take, for example, Poland, Hungary, and Czechoslovakia. Their combined GNP is larger than that of China. These three countries also have relatively well-trained and reliable workers who work for less than a quarter of what Western Europeans are paid.[10] Giving them access to their developed neighbors' markets and hefty injections of Western capital, they could become the tigers of Europe. As their economies grow, they should develop into viable markets for a variety of goods and services.

Developments in Eastern Europe will benefit American companies in two ways. First, as Eastern Europe's backward economies finally integrate into the global economy and take off, new market opportunities should emerge. Second, sales to Western Europe by U.S. firms, made even more dynamic by its expanding Eastern frontier, will increase. Just as markets in the 1980s were developed by Reaganomics and Thatcherism, markets in the next century will be developed by the shifting of the ideological plates that have separated the world's geopolitical land masses. Companies that aim for global market and remain competitive will be the winners.

The Triad Market

From a global perspective, the United States, Canada, Japan, and Western Europe, often referred to as *triad countries*, constitute the major market. Although elsewhere opportunities are emerging, in the foreseeable future these countries continue to be the leading markets. They account for approximately 14 percent of the world's population, but they represent over 70 percent of world gross product. As such, these countries absorb a major proportion of capital and consumer products and, thus, are the most advanced consuming societies in the world. Not only do most product innovations take place in these countries, but they also serve as the opinion leaders and mold the purchasing and consumption behavior of the remaining 86 percent of the world's population.

For example, over 90 percent of the world's computers are used by triad countries. In the case of numerically controlled machine tools, almost 100 percent are distributed in the triad market. The same pattern follows in consumer products. The triad accounts for 90 percent of the demand for electronic consumer goods. What these statistics point to is that a company that ignores the market potential of the triad does so at its own peril.

An interesting characteristic of the triad market is the universalization of needs. For example, not too long ago manufacturers of capital equipment produced machinery that reflected strong cultural distinctions. West German machines reflected that nation's penchant for craftsmanship; American equipment was often extravagant in its use of raw materials. But these distinctions have disappeared. The best-selling factory machines have lost the "art" element that once distinguished them and have become both in appearance and in the level of

skill that they require much more similar. The current revolution in production engineering has brought about ever-increasing global standards of performance. In an era when productivity improvements can quickly determine life or death on a global scale, companies cannot afford to indulge in a metallic piece of art that will last 30 years.

At the same time, consumer markets have become fairly homogeneous. Ohmae notes that

> Triad consumption patterns, which is both a cause and an effect of cultural patterns, has its roots to a large extent in the educational system. As educational systems enable more people to use technology, they tend to become more similar to each other. It follows, therefore, that education leading to higher levels of technological achievement also tends to eradicate differences in lifestyles. Penetration of television, which enables everyone possessing a television set to share sophisticated behavioral information instantaneously throughout the world, has also accelerated this trend. There are, for example, 750 million consumers in all three parts of the Triad (Japan, the United States and Canada, the nations of Western Europe) with strikingly similar needs and preferences. . . . A new generation worships the universal "now" gods—ABBA, Levi's and Arpege. . . . Youngsters in Denmark, West Germany, Japan, and California are all growing up with ketchup, jeans, and guitars. Their lifestyles, aspirations, and desires are so similar that you might call them "OECDites" or Triadians, rather than by names denoting their national identity.[11]

There are many reasons for the similarities and commonalities in the triad's consumer demand and lifestyle patterns. First, the purchasing power of triad residents, as expressed in discretionary income per individual, is more than 10 times greater than that of residents of developing countries. For example, television penetration in triad countries is greater than 94 percent, whereas in newly industrialized countries it is 25 percent; for the developing countries, it is less than 10 percent. Second, their technological infrastructure is more advanced. For example, over 70 percent of triadian households have a telephone. This makes it feasible to use such products as facsimile, teletext, and digital data transmission/ processing equipment. Third, the educational level is much higher in triad nations than in other parts of the world. Fourth, the number of physicians per 10,000 in triad countries, which creates demand for pharmaceuticals and medical electronics, exceeds 30. Fifth, better infrastructure in the triad leads to opportunities not feasible in less-developed markets. For example, paved roads have made rapid penetration of radial tires and sports cars possible.

ENTRY STRATEGIES

Four different modes of business offer a company entry into foreign markets: (a) exporting, (b) contractual agreement, (c) joint venture, and (d) manufacturing.

Exporting

A company may minimize the risk of dealing internationally by exporting domestically manufactured products either by minimal response to inquiries or by systematic development of demand in foreign markets. Exporting requires minimal

capital and is easy to initiate. Exporting is also a good way to gain international experience. A major part of overseas involvement among large U.S. firms is through export trade.

Contractual Agreements

There are several types of contractual agreements:

- **Patent licensing agreements**—These agreements are based on either a fixed-fee or a royalty basis and include managerial training.
- **Turnkey operations**—These operations are based on a fixed-fee or cost-plus arrangement and include plant construction, personnel training, and initial production runs.
- **Coproduction agreements**—These agreements are most common in socialist countries, where plants are built and then paid for with part of the output.
- **Management contracts**—Currently widely used in the Middle East, these contracts require that a multinational corporation provide key personnel to operate a foreign enterprise for a fee until local people acquire the ability to manage the business independently. For example, Whittaker Corp. of Los Angeles operates government-owned hospitals in several cities in Saudi Arabia.
- **Licensing**—Licensing works as a viable alternative in some contractual agreement situations where risk of expropriation and resistance to foreign investments create uncertainty. *Licensing* encompasses a variety of contractual agreements whereby a multinational marketer makes available intangible assets—such as patents, trade secrets, know-how, trademarks, and company name—to foreign companies in return for royalties or other forms of payment. Transfer of these assets usually is accompanied by technical services to ensure proper use. Licensing, however, has some advantages and disadvantages as summarized below.

Advantages of Licensing

1. Licensing requires little capital and serves as a quick and easy entry to foreign markets.
2. In some countries, licensing is the only way to tap the market.
3. Licensing provides life extension for products in the maturity stage of their life cycles.
4. Licensing is a good alternative to foreign production and marketing in an environment where there is worldwide inflation, shortages of skilled labor, increasing domestic and foreign governmental regulation and restriction, and tough international competition.
5. Licensing royalties are guaranteed and periodic, whereas shared income from investment fluctuates and is risky.
6. Domestically based firms can benefit from product development abroad without incurring research expense through technical feedback arrangements.
7. When exports no longer are profitable because of intense competition, licensing provides an alternative.
8. Licensing can overcome high transportation costs, which make some exports noncompetitive in target markets.
9. Licensing is also immune to expropriation.
10. In some countries, manufacturers of military equipment or any product deemed critical to the national interest (including communications equipment) may be compelled to enter licensing agreements.

Disadvantages of Licensing

1. To attract licensees, a firm must possess distinctive technology, a trademark, and a company or brand name that is attractive to potential foreign users.
2. The licensor has no control over production and marketing by the licensee.
3. Licensing royalties are negligible compared with equity investment potential. Royalty rates seldom exceed 5 percent of gross sales because of government restrictions in the host country.
4. The licensee may lose interest in renewing the contract unless the licensor holds interest through innovation and new technology.
5. There is a danger of creating competition in third, or even home, markets if the licensee violates territorial agreements. Going to court in these situations is expensive and time-consuming, and no international adjudicatory body exists.

Joint Ventures

Joint venture represents a higher-risk alternative than exporting or contractual agreements because it requires various levels of direct investment. A joint venture between a U.S. firm and a native operation abroad involves sharing risks to accomplish mutual enterprise. Once a firm moves beyond the exporting stage, joint ventures, incidentally, are the next most common form of entry. One example of a joint venture is General Motors Corporation's partnership with Egypt's state-owned Nasar Car Company, a joint venture for the assembly of trucks and diesel engines. Another example of a joint venture is between Matsushita of Japan and IBM, a joint venture established to manufacture small computers. Joint ventures normally are designed to take advantage of the strong functions of the partners and to supplement their weak functions, be they management, research, or marketing.

Joint ventures provide a mutually beneficial arrangement for domestic and foreign businesses to join forces. For both parties, the venture is a means to share capital and risk and make use of each other's technical strength. Japanese companies, for example, prefer entering into joint ventures with U.S. firms because such arrangements help ensure against possible American trade barriers. American firms, on the other hand, like the opportunity to enter a previously forbidden market, to utilize established channels, to link American product innovation with low-cost Japanese manufacturing technology, and to curb a potentially tough competitor.

As a case in point, General Foods Corporation tried for more than a decade to succeed in Japan on its own but watched the market share of its instant coffee (Maxwell House) drop from 20 to 14 percent. Then the firm established a joint venture with Ajinomoto, a food manufacturer, to use the full power of Ajinomoto's product distribution system and personnel and managerial capabilities. Within two years, Maxwell House's share of the Japanese instant coffee market recovered.[12]

Joint ventures, however, are not an unmixed blessing. The major problem in managing joint ventures stems from one cause: there is more than one partner and one of the partners must play a key dominant role to steer the business to success.

Joint ventures should be designed to supplement each partner's shortcomings, not to exploit each other's strengths and weaknesses. It takes as much effort to make a joint venture a success as to start a grass roots operation and eventually bring it up to a successful level. In both cases, each partner must be fully prepared to expend the effort necessary to understand customers, competitors, and itself. A joint venture is a means of resource appropriation and of easing a foreign business's entry into a new terrain. It should not be viewed as a handy vehicle to reap money without effort, interest, and/or additional resources.

Joint ventures are a wave of the future. There is hardly a Fortune 500 company active overseas that does not have at least one joint venture. Widespread interest in joint ventures is related to the following:

1. **Seeing market opportunities**—Companies in mature industries in the United States find joint venture a desirable entry mode to enter attractive new markets overseas.
2. **Dealing with rising economic nationalism**—Host governments are often more receptive to or require joint ventures.
3. **Preempting raw materials**—Countries with raw materials, such as petroleum or extractable material, usually do not allow foreign firms to be active there other than through joint venture.
4. **Sharing risk**—Rather than taking the entire risk, a joint venture allows the risk to be shared with a partner, which can be especially important in politically sensitive areas.
5. **Developing an export base**—In areas where economic blocs play a significant role, joint venture with a local firm smooths the entry into the entire region, such as entry into the European Union through a joint venture with an English company.
6. **Selling technology**—Selling technology to developing countries becomes easier through a joint venture.

Even a joint venture with a well-qualified majority foreign partner may provide significant advantages:

1. **Participation in income and growth**—The minority partner shares in the earnings and growth of the venture even if its own technology becomes obsolete.
2. **Low cash requirements**—Know-how and patents or both can be considered as partial capital contribution.
3. **Preferred treatment**—Because it is locally controlled, the venture is treated with preference by government.
4. **Easier access to a market and to market information**—A locally controlled firm can seek market access and information much more easily than can a firm controlled by foreigners.
5. **Less drain on managerial resources**—The local partner takes care of most managerial responsibilities.
6. **U.S. income tax deferral**—Income to the U.S. minority partner is not subject to U.S. taxation until distribution.[13]

Manufacturing

A multinational corporation may also establish itself in an overseas market by direct investment in a manufacturing and/or assembly subsidiary. Because of the volatility of worldwide economic, social, and political conditions, this form of

involvement is most risky. An example of a direct investment situation is Chesebrough-Pond's operation of overseas manufacturing plants in Japan, England, and Monte Carlo.

Manufacturing around the world is riskier, as illustrated by Union Carbide's disaster in Bhopal, India: in the worst industrial accident that has ever occurred, a poisonous gas leak killed over 2,000 people and permanently disabled thousands. It is suggested that multinational corporations should not manufacture overseas where the risk of a mishap may jeopardize the survival of the whole company. As a matter of fact, in the wake of the Bhopal accident, many host countries tightened safety and environmental regulations. For example, Brazil, the world's fourth-largest user of agricultural chemicals, restricted the use of the deadly methyl isocyanate.[14]

Conclusion

A firm interested in entering the international market must evaluate the risk and commitment involved with each entry and choose the entry mode that best fits the company's objectives and resources. Entry risk and commitment can be examined by considering five factors:

1. Characteristics of the product.
2. The market's external macroenvironment, particularly economic and political factors, and the demand and buying patterns of potential customers.
3. The firm's competitive position, especially the product's life-cycle stage, as well as various corporate strengths and weaknesses.
4. Dynamic capital budgeting considerations, including resource costs and availabilities.
5. Internal corporate perceptions that affect corporate selection of information and the psychic distance between a firm's decision makers and its target customers as well as control and risk-taking preferences.

These five factors combined indicate that risk should be reviewed vis-à-vis a company's resources before determining a mode of entry.

Computerized simulation models can be employed to determine the desired entry route by simultaneously evaluating such factors as environmental opportunity, risk index, competitive risk index, corporate strength index, product channel direction index, comparative cost index, and corporate policy and perception index.

GLOBAL MARKET ENVIRONMENT

Not only are the risk factors underlying the mode of entry largely contingent on the nature of the foreign environment, but these environmental forces also influence the development of marketing strategies. Decision making for expansion into global markets is strategically similar to the decision-making process guiding domestic marketing endeavors. More specifically, four marketing strategy variables—product, price, distribution, and promotion—need to be as systematically addressed in the context of international marketing as they are in

formulating domestic marketing strategies. What is different about international marketing, however, is the environment in which marketing decisions must be made and the influence that environment has in shaping marketing strategies. The principal components of the international marketing environment include cultural, political, legal, commercial, and economic forces. Each of these forces represents informational inputs that must enter into the strategy formulation process.

Culture

Culture refers to learned behavior over time, passed on from generation to generation. This behavior manifests itself in the form of social structure, habits, faith, customs, rituals, and religion, each of which tends to affect individual lifestyles, which in turn shape consumption patterns in the marketplace. Thus, what people of a particular country buy, why they buy, when they buy, where they buy, and how they buy are largely culturally determined. There are five elements of culture: material culture, social institutions, man and universe, aesthetics, and language. Each of these elements varies from country to country. The importance to marketers of understanding these often subtle variations has been illustrated by Dichter:

> In puritanical cultures it is customary to think of cleanliness as being next to godliness. The body and its functions are covered up as much as possible.
>
> But in Catholic and Latin countries, to fool too much with one's body, to overindulge in bathing or toiletries, has opposite meaning. Accordingly, an advertising approach based on puritanical principles, threatening Frenchmen that if they didn't brush their teeth regularly, they would develop cavities or would not find a lover, failed to impress. To fit the accepted concept of morality, the French advertising agency changed this approach to a permissive one.[15]

Similarly, language differences from one country to another could lead to problems because literal translations of words often connote different meanings. Two classic examples of marketing blunders include "Body by Fisher," which when literally translated into Flemish meant "Corpse by Fisher," and "Let Hertz Put You in the Driver's Seat," which when literally translated into Spanish meant "Let Hertz Make You a Chauffeur."[16] Even the choice of color for packaging and advertising may influence marketing decisions. For example, in the United States, white is equated with purity. In most Asian countries, however, white is associated with death in the same way that black is a symbol of mourning in American culture. In short, culture could have and has had far-reaching effects on the success of overseas marketing strategies.

Politics

The laissez-faire era when governments had little if anything to do with the conduct of business is past history. Today, even in democratic societies, governments exercise a pervasive influence on business decisions. In fact, it is not uncommon to find that the governments of many overseas countries actually own and operate certain businesses. One example of a government-owned and government-operated business is Air France, the French airline company.

Although the degree of intervention varies across countries, developments in developing countries perhaps represent situations where government policies are most extreme. Therefore, to be successful overseas, a global marketer should determine the most favorable political climates and exploit those opportunities first. Robinson suggests that the degree of political vulnerability in a given overseas market can be ascertained by researching certain key issues. Positive answers to the following questions signal political troubles for a foreign marketer:

1. Is the supply of the product ever subject to important political debates? (sugar, salt, gasoline, public utilities, medicines, foodstuffs)
2. Do other industries depend upon the production of the product? (cement, power, machine tools, construction machinery, steel)
3. Is the product considered socially or economically essential? (key drugs, laboratory equipment, medicines)
4. Is the product essential to agricultural industries? (farm tools and machinery, crops, fertilizers, seed)
5. Does the product affect national defense capabilities? (transportation industry, communications)
6. Does the product require important components that would be available from local sources and that otherwise would not be used as effectively? (labor, skill, materials)
7. Is there competition or is it likely from local manufacturers in the near future? (small, low-investment manufacturing)
8. Does the product relate to channels of mass communication media? (newsprint, radio equipment)
9. Is the product primarily a service?
10. Does the use of the product, or its design, rest upon some legal requirements?
11. Is the product potentially dangerous to the user? (explosives, drugs)
12. Does the product induce a net drain on scarce foreign exchange?[17]

Legal Aspects

Despite the best intentions, differences may reasonably arise between parties doing business. What recourse exists for the resolution of differences and whose laws will apply are of vital concern to global marketers. Although there is no simple solution to such a complex problem, it is important that marketers anticipate areas where disputes are likely to arise and establish beforehand agreements on the means to use and which country will have jurisdiction in the resolution of differences. Legal difficulties in marketing are most prevalent regarding the following issues:

1. Rules of competition about
   a. collusion
   b. discrimination against certain buyers
   c. promotional methods
   d. variable pricing
   e. exclusive territory agreement.
2. Retail price maintenance laws.
3. Cancellation of distributor or wholesaler agreements.
4. Product quality laws and controls.
5. Packaging laws.

6. Warranty and after-sales exposure.
7. Price controls and limitations on markups or markdowns.
8. Patents, trademarks, and copyright laws and practices.

Needless to say, the marketer in conjunction with legal counsel should probe these areas and establish with the buyer various contingencies prior to the making of commitments.

Commercial Practices

An international marketer must be thoroughly familiar with the business customs and practices in effect in overseas markets. Although some evidence suggests that business traditions in a country may undergo a change as a result of dealing with foreign corporations, such transformations are long-term processes. Thus, local customs and practices must be researched and adhered to in order to gain the confidence and support of local buyers, channel intermediaries, and other business operatives. The specific customs and practices of a country may be studied with reference to the following factors:

Business Structure

Size
Ownership
Various business publics
Sources and level of authority
- Top management decision making
- Decentralized decision making
- Committee decision making

Management Attitudes and Behavior

Personal background
Business status
Objectives and aspirations
- Security and mobility
- Personal life
- Social acceptance
- Advancement
- Power

Patterns of Competition

Mode of Doing Business

Level of contact
Communications emphasis
Formality and tempo
Business ethics
Negotiation emphasis

Economic Climate

Only a small percentage of people in the world approach the standard of living experienced in the United States and in other advanced industrialized countries. The level of economic development in various countries can be explained and

described through a number of measures. One common measure used to rank nations economically is per capita GNP.

According to Rostow, the countries of the world can be grouped into the following stages of economic development: (a) the traditional, (b) the precondition for takeoff, (c) the takeoff, (d) the drive to maturity, and (e) mass consumption.[18] Most African, Asian, and Latin American countries would be categorized as underdeveloped, having lower living standards and limited discretionary income. The amount of work required to earn enough to purchase a product varies greatly among different countries. For example, to buy one kilogram of sugar, a person in the United States needs to work a little over five minutes; in Greece it takes 53 minutes of labor to earn an equivalent amount. In many African and Asian countries, the effort needed to buy a kilogram of sugar and, for that matter, other similar products is even higher.

STRATEGY FOR GLOBAL MARKETING PROGRAMS

Two opposite viewpoints for developing global marketing strategy are commonly expounded. According to one school of thought, marketing is an inherently local problem. Due to cultural and other differences among countries, marketing programs should be tailor-made for each country. The opposing view treats marketing as know-how that can be transferred from country to country. It has been argued that the worldwide marketplace has become so homogenized that multinational corporations can market standardized products and services all over the world with identical strategies, thus lowering their costs and earning higher margins.

Localized Strategy

The proponents of localized marketing strategies support their viewpoint based on four differences across countries:[19] (a) buyer behavior characteristics, (b) socioeconomic condition, (c) marketing infrastructure, and (d) competitive environment. A review of the marketing literature shows how companies often experience difficulties in foreign markets because they did not fully understand differences in buyer behavior. For example, Campbell's canned soups—mostly vegetable and beef combinations packed in extra-large cans—did not catch on in soup-loving Brazil. A postmortem study showed that most Brazilian housewives felt they were not fulfilling their roles if they served soup that they could not call their own. Brazilian housewives had no problems using dehydrated competitive products, such as Knorr and Maggi, which they could use as soup starters and still add their own ingredients and flair.[20] Also, Johnson & Johnson's baby powder did not sell well in Japan until its original package was changed to a flat box with a powder puff. Japanese mothers feared that powder would fly around their small homes and enter their spotlessly clean kitchens when sprinkled from a plastic bottle. Powder puffs allowed them to apply powder sparingly.[21] Similarly, advertisers have encountered difficulty when using colors in certain foreign countries. For example, purple is a death color in Brazil, white is for funerals in Hong Kong, and yellow signifies jealousy in Thailand. In Egypt the use of green, which is the national color, is frowned upon for packaging.[22]

Socioeconomic differences (i.e., per capita income, level of education, level of unemployment) among countries also call for a localized approach toward international marketing. For example, limited economic means may prevent masses in developing countries from buying the variety of products that U.S. consumers consider essential. To bring such products as automobiles and appliances within the reach of the middle class in developing countries, for example, the products must be appropriately modified to cut costs without reducing functional quality.

Differences in the character of local marketing infrastructure across countries may suggest pursuing country-specific marketing strategies. The marketing infrastructure consists of the institutions and functions necessary to create, develop, and service demand, including retailers, wholesalers, sales agents, warehousing, transportation, credit, media, and more. Consider the case of media. Commercial television is not available in many countries. Sweden, for example, lacks this element of the marketing infrastructure. In many countries, for example, Switzerland, commercials on television are allowed on a limited scale. Suntory (a Japanese liquor company) considers the ban on advertising liquor on U.S. television as a main deterrent for not entering the U.S. market in a big way.[23] Similarly, the physical conditions of a country (i.e., climate, topography, and resources) may require localized strategies. In hot climates, as in the Middle East, such products as cars and air conditioners must have additional features. Differences in telephone systems, road networks, postal practices, and the like may require modifications in marketing practices. For example, mail-order retailing is popular in the United States but is virtually nonexistent in Italy because of differences in its mail system.[24]

Finally, differences in the competitive environment among countries may require following localized marketing strategies. Nestlé, for example, achieved more than a 60 percent market share in the instant coffee market in Japan but less than 30 percent in the United States. Nestlé had to contend with two strong domestic competitors in the United States, namely General Foods, which markets Maxwell House and other brands, and more recently Procter & Gamble, which markets Folgers and High Point. Nestlé faced relatively weak domestic competitors in Japan. IBM, which is the leading computer company in the world, slipped to third place in the Japanese market behind Fujitsu Ltd. and NEC Corporation in terms of total revenue. Nestlé and IBM must reflect differences in their competitive environments in such marketing choices as pricing, sales force behavior, and advertising.

Standardized Strategy

In contrast to the view that marketing strategies must be localized, many scholars and practitioners argue that significant benefits can be achieved through standardization of marketing strategies on a global basis. As a matter of fact, some people recommend an extreme strategy: offering identical products at identical prices through identical distribution channels and supporting these identical products by identical sales and promotional programs throughout the world. Levitt asserts that "commercially, nothing confirms this as much as the success of McDonald's from the Champs Elysees to the Ginza, of Coca-Cola in Bahrain and

Pepsi-Cola in Moscow, and of rock music, Greek salad, Hollywood movies, Revlon cosmetics, Sony televisions, and Levi's jeans everywhere."[25] Although across-the-board standardization, as proposed by Levitt, may be difficult, it is commonly accepted that the marketplace is becoming increasingly global, and indeed standardized strategies have been successfully pursued in many cases. Among consumer durable goods, Mercedes-Benz sells its cars by following a universal marketing program. Among nondurable goods, Coca-Cola is ubiquitous. Among industrial goods, Boeing jets are sold worldwide based on common marketing perspectives.

Past research shows that, other things being equal, companies usually opt for standardization. A recent study on the subject lends support to the high propensity to standardize all or parts of marketing strategy in foreign markets. For example, an extremely high degree of standardization appears to exist in brand names, physical characteristics of products, and packaging. More than half of the products that multinational corporations sell in less-developed countries originate in the parent companies' home markets. Of the 2,200 products sold by the 61 subsidiaries in the sample, 1,200 had originated in the United States or the United Kingdom.[26]

The arguments in favor of standardization are realization of cost savings, development of worldwide products, and achievement of better marketing performance. Standardization of products across national borders eliminates duplication of such costs as research and development, product design, and packaging. Further, standardization permits realization of economies of scale. Also, standardization makes it feasible to achieve consistency in dealing with customers and in product design. Consistency in product style—features, design, brand name, packaging—should establish a common image of the product worldwide and help increase overall sales. For example, a person accustomed to a particular brand is likely to buy the same brand overseas if it is available. The global exposure that brands receive these days as a result of extensive world travel and mass media requires the consistency that is feasible through standardization. Finally, standardization may be urged on the grounds that a product that has proved to be successful in one country should do equally well in other countries that present more or less similar markets and similar competitive conditions.[27]

Conclusion

Although standardization offers benefits, too much attachment to standardization can be counterproductive. Marketing environments vary from country to country, and thus a standard product originally conceived and developed in the United States may not really match the conditions in each and every market. In other words, standardization can lead to substantial opportunity loss.

Pond's cold cream, Coca-Cola, and Colgate toothpaste have been cited as evidence that a universal product and marketing strategy for consumer goods can win worldwide success. However, the applicability of a universal approach for consumer goods appears to be limited to products that have certain characteristics, among them universal brand name recognition (generally earned by huge financial outlays), minimal product knowledge requirements for consumer use,

and product advertisements that demand low information content. Clearly, Coca-Cola, Colgate toothpaste, McDonald's, Levi's jeans, and Pond's cold cream display these traits. Thus, whereas a universal strategy can be effective for some consumer products, it is clearly an exception rather than the general rule. Those who argue that consumer products no longer require market tailoring due to the globalization of markets brought about by today's advanced technology are not always correct.

A multinational corporation that intends to launch a new product into a foreign market should consider the nature of its products, its organizational capabilities, and the level of adaptation required to accommodate cultural differences between the home and the host country. A multinational corporation should also analyze such factors as market structures, competitors' strategic orientations, and host government demands.

The international marketplace is far more competitive today than in the 1980s and most likely will remain so as we enter the next century. Thus, to enhance competitive advantage some sort of adaptation might provide a better match between a product and local marketing conditions. Ohmae's charges against American companies for not adapting their products to Japanese needs are revealing:

> Yet, American merchandisers push such products as oversize cars with left-wheel drive, devices measuring in inches, appliances not adapted to lower voltage and frequencies, office equipment without kanji capabilities and clothes not cut to smaller dimensions. Most Japanese like sweet oranges and sour cherries, not visa versa. That is because they compare imported oranges with domestic mikans (very sweet tangerines) and cherries with plums (somewhat tangy and sour).[28]

There are several patterns and various degrees of differentiation that firms can adopt to do business on an international scale. The most common of these are obligatory and discretionary product adaptation. An **obligatory**, or **minimal**, **product adaptation** implies that a manufacturer is forced to introduce minor changes or modifications in product design for either of two reasons. First, adaptation is mandatory in order to seek entry into particular foreign markets. Second, adaptation is imposed on a firm by external environmental factors, including the special needs of a foreign market. In brief, obligatory adaptation is related to safety regulations, trademark registration, quality standards, and media standards. An obligatory adaptation requires mostly physical changes in a product. **Discretionary**, or **voluntary**, **product adaptation** reflects a sort of self-imposed discipline and a deliberate move on the part of an exporter to build stable foreign markets through a better alignment of product with market needs and/or cultural preferences.

Swiss-based pharmaceutical maker Ciba-Geigy's efforts in adapting its products to local conditions are noteworthy. Basic to the company's adaptation program are quality circles. These circles include local executives with line responsibilities for packaging, labeling, advertising, and manufacturing. They are responsible for determining (a) if Ciba-Geigy's products are appropriate for the cultures in which they are sold and meet users' needs, (b) if products are promoted

in such a way that they can be used correctly for purposes intended, and (c) if, when used properly, products present no unresponsible hazards to human health and safety.[29]

MARKETING IN GLOBAL BUSINESS STRATEGY

International marketing strategy is significant in formulating global business strategy in three different ways.[30] First, what should be the global *configuration* of marketing activities? That is, where should such activities as new product development, advertising, sales promotion, channel selection, marketing research, etc., be performed? Second, how should global marketing activities performed in different countries be *coordinated*? Third, how should marketing activities be *linked* with other activities of the firm? Each of these aspects is examined below.

Configuration of Marketing Activities

Marketing activities, unlike those in other functional areas of a business, must be dispersed in each host country to make an adequate response to local environments. Although this configuration is valuable in being customer oriented, not all marketing activities need to be performed on a dispersed basis. In many cases, competitive advantage is gained in the form of lower cost or enhanced differentiation if selected activities are performed centrally as a result of technological changes, buyer shifts, and evolution of marketing media. These activities comprise production of promotional materials, sales force, service support organization, training, and advertising.

The centralized production of advertisements, sales promotion materials, and user manuals can lead to a variety of benefits. Economies of scale can be reaped in both development and production. For example, experienced art directors and producers can be hired to create better ads at a greater speed or lower cost. The use of centralized printing permits the latest technology to be adopted. On the other hand, excessive transportation costs and cultural differences among nations may make the production of some materials (e.g., user manuals) impractical.

Sales force, at least for some businesses, can be centralized in one location. Alternatively, highly skilled sales specialists can be stationed at the headquarters or in a regional office to provide sales support in different countries. Centralization of the sales force is most effective when the complexity of the selling task is very high and the products being sold are high-ticket items purchased infrequently.

Like sales force, high-skilled service specialists can be located at world or regional headquarters. They can visit different subsidiaries to provide nonroutine service. Along the same lines, service facilities (service center, repair shop) can be regionalized at a few locations, especially for complex jobs. Such centralization should permit the use of state-of-the-art facilities and qualified service people, resulting in better service at lower cost.

Training of marketing personnel can be effectively centralized and lead to economies of scale in production and delivery of training programs, faster accumulated learning (brought by people with varied experiences assembled in one

place), and increased uniformity around the world in implementing marketing programs. Training centralization, however, must be weighed against travel time and cost.

Although cultural differences between nations require advertising to be tailored to each country, in many ways global advertising is gaining acceptance. First, a company may select one ad agency to handle its global campaign, economizing in campaign development, seeking better coordination between the parent and subsidiaries, and facilitating a consistent advertising approach worldwide. For example, British Airways uses one agency worldwide. Second, many companies advertise in the global media, for example, in *The Economist*, in certain trade magazines, or at international sports events seen by viewers around the world, such as at U.S. Open tennis matches. Finally, many media (e.g., airport billboards, and airline and hotel magazines) have a decidedly international reach. For these reasons, centralization of advertising makes sense. Yet government rules and regulations relative to advertising, distinct national habits, language differences, and lack of media outlets may require dispersion of advertising to different countries.

International Marketing Coordination

International marketing activities dispersed in different countries should be properly coordinated to gain competitive advantage. Such coordination can be achieved in the following ways:

1. **Performing marketing activities using similar methods across countries**—This form of coordination implies standardizing activities across nations. Some strategies, including brand name, product positioning, service standards, warranties, and advertising theme, are easier to coordinate than are other marketing strategies. On the other hand, distribution, personal selling, sales training, pricing, and media selection are difficult to coordinate across nations.
2. **Transferring marketing know-how and skills from country to country**—For example, a market entry strategy successfully tried in one country can be transferred and applied in another country. Likewise, customer and market information can be transferred for use by other subsidiaries. Such information may relate to shifts in buyer purchasing patterns, recent trends in technology, lifestyle changes, successful new product or feature introductions, new promotion ideas, and early market signals by competitors.
3. **Sequencing of marketing programs across countries**—For example, new products or new marketing practices may be introduced in various countries in a planned sequence. In this way, programs developed by one subsidiary can be shared by others to their mutual advantage and, thus, should result in substantial cost savings. To reap the benefits of sequencing, a company must create organizational mechanisms to manage the product line from a worldwide perspective and to overcome manager resistance to change in all participating countries.
4. **Integrating the efforts of various marketing groups in different countries**—Perhaps the most common form of such integration is managing relationships with important multinational customers, often called *international account management*. International account management systems are commonly used in service firms. For example, Citibank handles some accounts on a worldwide basis. It has

account officers responsible for coordinating services to its large corporate customers anywhere in the world.

Competitive advantage can result from international account management systems in a variety of ways. They can lead to economies in the utilization of the sales force if duplication of selling effort is avoided. They can allow a company to differentiate itself from its competitors by offering a single contact for international buyers. They can also leverage the skills of top salespersons by giving them more influence over the entire relationship with major customers. Some of the potential impediments to using international account management include increased travel time, language barriers, and cultural differences in how business is conducted. Dealing with a major customer through a single coordinator may also heighten the customer's awareness of its bargaining power.

Integration of effort across countries can lead to competitive advantage in other areas as well; for example, after-sale service. Some international companies have come to realize that the availability of after-sale service is often as important as the product itself, especially when a multinational customer has operations in remote areas of the world or when the customer moves from country to country.

Marketing's Linkage to Nonmarketing Activities

A global view of international marketing permits linking marketing functions to upstream and support activities of the firm, which can lead to advantage in various ways. For example, marketing can unlock economies of scale and learning in production and/or research and development by (a) supporting the development of universal products by providing the information necessary to develop a physical product design that can be sold worldwide; (b) creating demand for more universal products even if historical demand has been for more varied products in different countries; (c) identifying and penetrating segments in many countries to allow the sale of universal products; and (d) providing services and/or local accessories that effectively tailor the standard physical product.

DEVELOPING GLOBAL MARKET STRATEGY: AN EXAMPLE

Decisions related to foreign market entry, expansion, and conversion as well as to phasing out of foreign markets call for systematic effort. Illustrated here is one method of developing a global market strategy. The method consists of three phases:

1. Appropriate national markets are selected by quickly screening the full range of options without regard to any preconceived notions.
2. Specific strategic approaches are devised for each country or group of countries based on the company's specific product technologies.
3. Marketing plans for each country or group of countries are developed, reviewed, revised, and incorporated into the overall corporate concept without regard to conventional wisdom or stereotypes.

Phase 1: Selecting National Markets

There are over 132 countries in the world; of these, the majority may appear to present entry opportunities. Many countries go out of their way to attract foreign investment by offering lures ranging from tax exemptions to low-paid, amply skilled labor. These inducements, valid as they may be in individual cases, have repeatedly led to hasty foreign market entry.

A good basis for selecting national markets is arrived at through a comparative analysis of different countries, with long-term economic environment having the greatest weight. First, certain countries, because of their political situations (e.g., Libya under Qaddafi), should be considered unsuitable for market entry. It might help to consult a political index that rates different countries for business attractiveness. The final choice should be based on the company's own assessment and risk preference. Further, markets that are either too small in terms of population and per capita income or that are economically too weak should be eliminated. For example, a number of countries with populations of less than 20 million and with annual per capita incomes below $2,000 are of little interest to many companies because of limited demand potential.

The markets surviving this screening should then be assessed for strategic attractiveness. A battery of criteria should be developed to fit the specific requirements of the corporation. Basically, the criteria should focus on the following five factors (industry/product characteristics may require slight modification):

1. Future demand and economic potential.
2. Distribution of purchasing power by population groups or market segments.
3. Country-specific technical product standards.
4. Spillover from the national market (e.g., the Andes Pact provides for low-duty exports from Colombia to Peru).
5. Access to vital resources (qualified labor force, raw materials sources, suppliers).

There is no reason to expand the list because additional criteria are rarely significant enough to result in useful new insights. Rather, management should concentrate on developing truly meaningful and practical parameters for each of the five criteria listed above so that the selection process does not become unnecessarily costly and the results are fully relevant to the company concerned. For example, a German flooring manufacturer, selling principally to the building industry, selected the following yardsticks:

1. **Economic potential**—New housing needs and GNP growth.
2. **Wealth**—Per capita income, per capita market size for institutional building or private dwellings (the higher the per capita income, market volume, and share of institutional buildings, the more attractive the market).
3. **Technical product standards**—Price level of similar products, for example, price per square meter for floor coverings (the higher the price level, the more attractive the market tends to be for a technically advanced producer).
4. **Spillover**—Area in which the same building standards (especially fire safety standards) apply (e.g., the U.S. National Electrical Manufacturers' Association standards are widely applicable in Latin America; British standards apply in most Commonwealth countries).

5. **Resource availability**—Annual production volume of PVC (an important raw material for the company).

Through these criteria, the analysis of economic potential was based on two factors: housing needs and economic base (see Exhibit 18-4). In specifying these criteria, the company deliberately confined itself to measures that (a) could readily be developed from existing sources of macroeconomic data, (b) would show trends as well as current positions, and (c) matched the company's particular characteristics as closely as possible.

Since German producers of floor covering employ a highly sophisticated technology, it would have been senseless to give a high ranking to a country with only rudimentary production technology in this particular facet. Companies in other industries, of course, would consider other factors—auto registrations per 1,000 population, percentage of households with telephones, density of household appliance installations, and the like.

The resulting values are rated for each criterion on a scale of one to five so that, by weighting the criteria on a percentage basis, each country can be assigned an index number indicating its overall attractiveness. In this particular case, the result was that, out of the 49 countries surviving the initial screening, 16 were ultimately judged attractive enough on the basis of market potential, per capita market size, level of technical sophistication, prevailing regulations, and resource availability to warrant serious attention.

Interestingly, the traditionally German-favored markets of Austria and Belgium emerged with low rankings from this strategically based assessment because the level of potential demand was judged to be insufficient. Some new markets, Egypt and Pakistan, for example, were also downgraded because of inadequate economic base. Likewise, even such high-potential markets as Italy and Indonesia were eliminated for objective reasons (in the latter case, the low technical standard of most products).

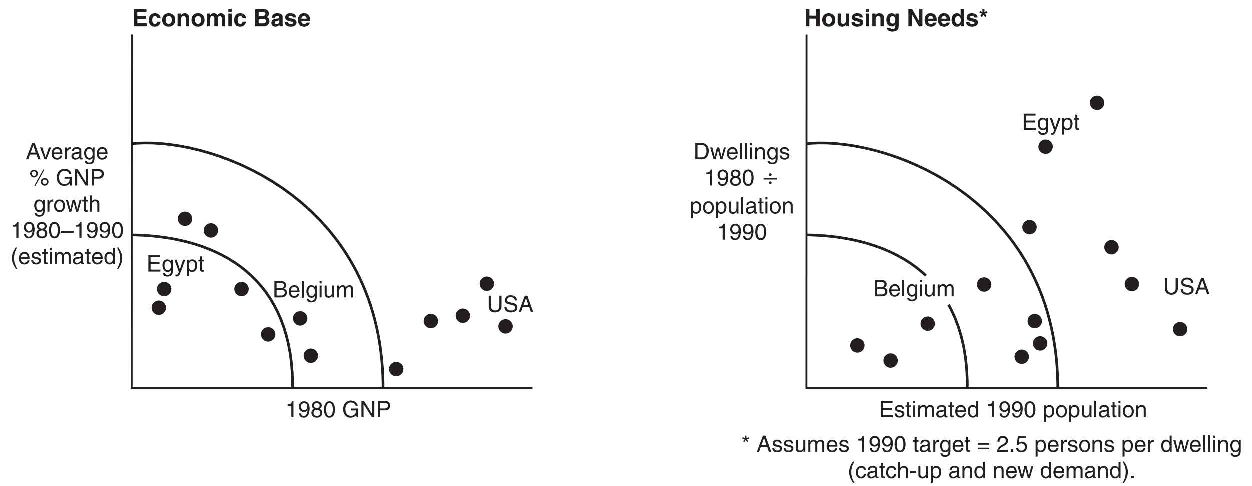
Phase 2: Determining Marketing Strategy

After a short list of attractive foreign markets has been compiled, the next step is to group these countries according to their respective stages of economic development. Here the criterion of classification is not per capita income but the degree of market penetration by the generic product in question. For example, the floor covering manufacturer grouped countries into three categories—developing, takeoff, and mature—as defined by these factors (see Exhibit 18-5):

1. **Accessibility of markets**—Crucial for the choice between export and import production.
2. **Local competitive situation**—Crucial for the choice between independent construction, joint venture, and acquisition.
3. **Customer structure**—Crucial for sales and distribution strategy.
4. **Re-import potential**—Crucial for international product/market strategy.

The established development phases and their defining criteria must be very closely geared to the company situation because it is these factors, not the apparent

EXHIBIT 18-4
Assessing Country Economic Potential: The Case of a Building Industry Flooring Supplier

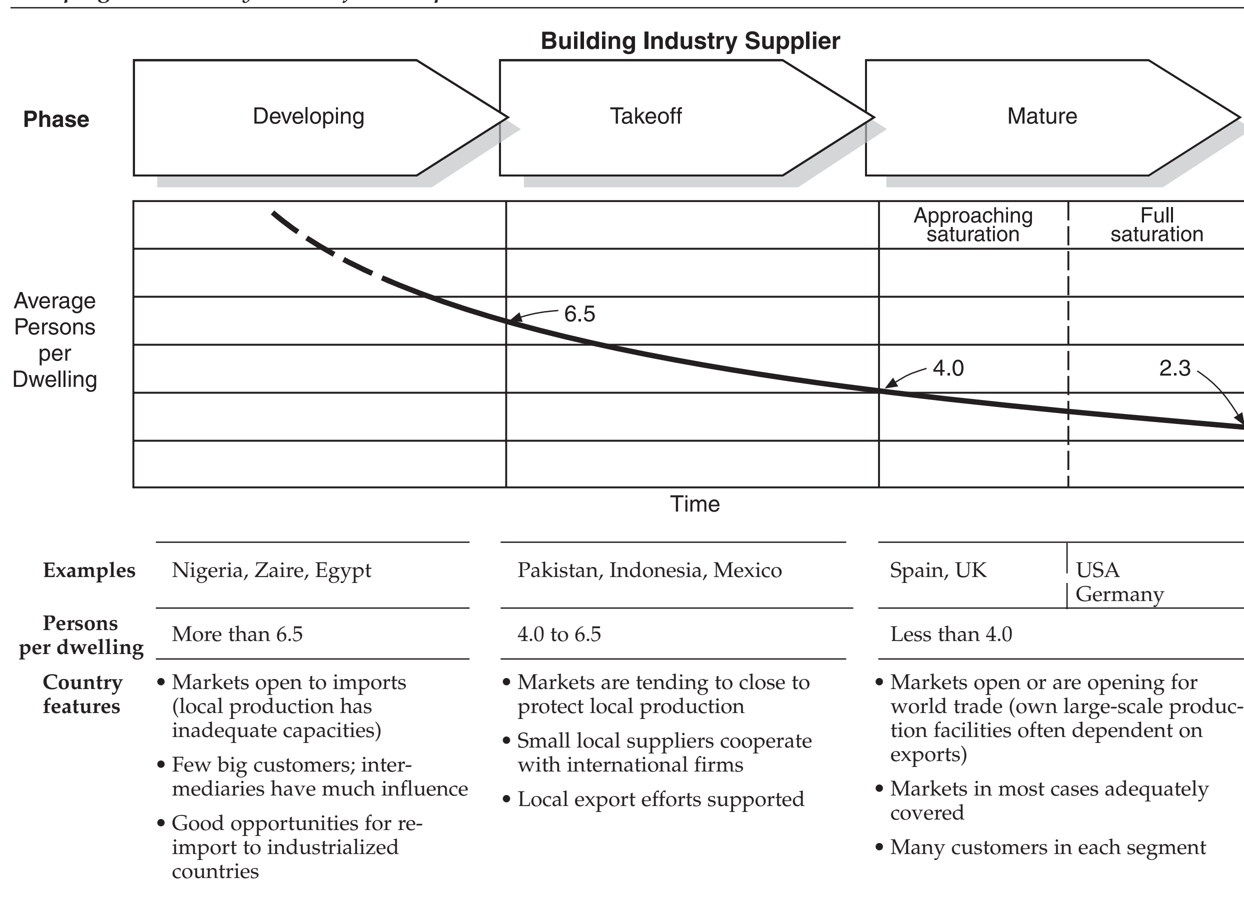


Economic Base

Housing Needs	Weak	Medium	Strong
High	Egypt Pakistan	Korea Nigeria	USA Japan
Medium	Yugoslavia	United Kingdom	Germany France
Low	Denmark	Belgium	Sweden

Examples: Sweden—needs only in replacement sector; Pakistan—economically too weak to meet needs.

EXHIBIT 18-5
Grouping Countries by Phase of Development



	Developing	Takeoff	Mature	
Examples	Nigeria, Zaire, Egypt	Pakistan, Indonesia, Mexico	Spain, UK	USA Germany
Persons per dwelling	More than 6.5	4.0 to 6.5	Less than 4.0	
Country features	• Markets open to imports (local production has inadequate capacities) • Few big customers; intermediaries have much influence • Good opportunities for re-import to industrialized countries	• Markets are tending to close to protect local production • Small local suppliers cooperate with international firms • Local export efforts supported	• Markets open or are opening for world trade (own large-scale production facilities often dependent on exports) • Markets in most cases adequately covered • Many customers in each segment	

attractiveness of markets, that will make or break the company's strategic thrust into a given country.

This being the case, for each country or group of countries on the short list, management should formulate a generic marketing strategy with respect to investment, risk, product, and pricing policies; that is, a unified strategic framework applicable to all the countries in each stage of development should be prepared. This step should yield a clear understanding of what the respective stages of economic development of each country entail for the company's marketing strategies (see Exhibit 18-6).

Companies are too often inclined to regard "overseas" as a single market or at least to differentiate very little among individual overseas markets. Another common error is the assumption that product or service concepts suited to a

EXHIBIT 18-6
Developing Standard Strategies

Phase	*Developing*	*Takeoff*	*Mature*
Basic Strategy	**Test Market** Pursue profitable individual projects and/or export activities	**Build Base** Allocate substantial resources to establish leading position in market	**Expand/Round Off Operations** Allocate resources selectively to develop market niches
Elements of Strategy			
Investment	Minimize (distribution and services)	Invest to expand capacity (relatively long payback)	Expand selectively in R&D, production, and distribution (relatively short payback)
Risk	Avoid	Accept	Limit
Know-how transfer (R&D)	Document know-how on reference projects	Use local know-how in • Product technology • Production engineering	Transfer know-how in special product lines; acquire local know-how to round off own base
Market share objective	Concentrate on key projects; possibly build position in profitable businesses with local support	Extend base with • New products • New outlets • New applications	Expand/defend
Cost leadership objective	Minimum acceptable (especially reduction of guarantee risks)	Economies of scale; reduction of fixed costs	Rationalize; optimize resources
Product	Standard technology; simple products	Aim for wide range; "innovator" role	Full product line in selected areas; products of high technical quality
Price	Price high	Aim for price leadership (at both ends)	Back stable market price level
Distribution	Use select local distributors (exclusive distribution)	Use a large number of small distributors (intensive distribution)	Use company sales force (selective distribution)
Promotion	Selective advertising • With typical high prestige products • Aiming at decision makers	Active utilization of selective marketing resources	Selected product advertising

highly developed consumer economy work as well in any foreign market. This is rarely true: different markets demand different approaches.

Across-the-board strategic approaches typically result in ill-advised and inappropriate allocation of resources. In less-developed markets that could be perfectly well served by a few distributors, companies have in some cases established production facilities that are doomed to permanent unprofitability. In markets already at the takeoff point, companies have failed to build the necessary local plants and instead have complained about declining exports only to finally abandon the field to competitors. In markets already approaching saturation, companies have often sought to impose domestic technical standards where adequate standards and knowledge already exist or have tried to operate like mini replicas of parent corporations, marketing too many product lines with too few salespeople. Again and again, product line offerings are weighted toward either cheaper- or higher-quality products than the local market will accept. Clearly, the best insurance against such errors is to select strategies appropriate to the country.

Phase 3: Developing Marketing Plans

In developing detailed marketing plans, it is first necessary to determine which product lines fit which local markets as well as the appropriate allocation of resources. A rough analysis of potential international business, global sales, and profit targets based on the estimates worked out in Phase 1 help in assigning product lines. A framework for resource allocation can then be mapped according to rough comparative figures for investment quotas, management needs, and skilled labor requirements. This framework should be supplemented by company-specific examples of standard marketing strategies for each group of countries.

Exhibit 18-7 illustrates the resource allocation process. Different product lines are assigned to different country groups, and for each country category, different strategic approaches—for example, support on large-scale products, establishment of local production facilities, cooperation with local manufacturers—are specified.

The level of detail in this resource allocation decision framework depends on a number of factors: company history and philosophy, business policy objectives, scope and variety of product lines, and the number of countries to be served. Working within this decision framework, each product division should analyze its own market in terms of size, growth, and competitive situations; assess its profitability prospects, opportunities, and risks; and identify its own current strategic position on the basis of market share, profit situation, and vulnerability to local risks. Each product division is then in a position to develop country-specific marketing alternatives for servicing each national market. Top management's role throughout is to coordinate marketing strategy development efforts of various divisions and continually to monitor the strategic decision framework.

The three-phase approach illustrated above exhibits a number of advantages:

- It allows management to set up, with a minimum of planning effort, a strategic framework that gives clear priority to market selection decisions, thus making it much easier for divisions to work out effective product line strategies unhampered by the usual chicken-or-egg problem.

EXHIBIT 18-7
A Specimen Framework for Resource Allocation

		Resource Allocation by Product Division					
Phase	*Specimen Countries*	*PVC Floor Coverings*	*Carpeting*	*Suspended Ceilings*	*Wall Paneling*	*PVC Tubes*	*Plastic-Coated Roof Insulation*
Developing "Test market"	Nigeria	Intensive	No operations	Moderate	No operations	Intensive	Intensive
(Share of total resources: 20%)	Specific plans • Develop own plastics-processing facilities. • Acquire plastics processors.						
Takeoff "Build base"	Indonesia	Moderate	No operations	No operations	No operations	Moderate	Moderate
(Share of total resources: 50%)	Specific plans • Give support in key projects. • Cooperative with state-owned construction organization.						
Mature "Expand/round off operations"	Spain	Moderate	Moderate	Intensive	Intensive	No operations	No operations
(Share of total resources: 30%)	Specific plans • Develop local facilities for tufting and paneling. • Acquire/cooperate with suppliers using unique product and production technology. • Develop own distribution channel. • Extend range to provide complete interior equipment program (system concept).						

[solid black] No operations.
[hatched] Moderate.
[gray] Intensive.

- Division managers can foresee at a fairly early stage what reallocations of management, labor, and capital resources are needed and what adjustments may need to be imposed from the top due to inadequate resources.
- The company's future risk profile can be worked out in terms of resource commitment by country group and type of investment.
- The usual plethora of "exceptional" (and mostly opportunistic) product/market situations is sharply reduced. Only the really unique opportunities pass through the filter; exceptions are no longer the rule.
- The dazzling-in-theory but unrealistic-in-practice concept of establishing production bases in low-wage countries, buying from the world's lowest-cost sources, and selling products wherever best prices can be had is replaced by a realistic country-by-country market evaluation.

- Issues of organization, personnel assignment, and integration of overseas operations into corporate planning and control systems reach management's attention only after the fundamental strategic aspects of the company's overseas involvement have been thoroughly prepared.

In brief, the three-phase approach enables management to profitably concentrate resources and attention on a handful of really attractive countries instead of dissipating its efforts in vain attempts to serve the entire world.

SUMMARY

Internationalization of business has become a fact of life. Company after company finds that decisions made elsewhere in the world have a deep impact on its business. Although many firms have long been engaged in foreign business ventures, the real impetus to overseas expansion came after World War II. The globalization of business is accounted for by such forces as (a) growing similarity of countries (e.g., commonality of infrastructure and channels of distribution); (b) falling tariff barriers; and (c) technological developments that, for example, permit the development of compact, easy-to-ship products.

Traditionally, major U.S. business activities overseas have been concentrated in developed countries. In recent years, developing countries have provided additional opportunities for U.S. corporations, especially in more politically stable countries. Yet although an individual developing country may not provide adequate potential for U.S. companies, developing countries as a group constitute a major market. The emerging markets in developing countries can help many U.S. corporations counter the results of matured markets in Western nations.

A firm aspiring to enter the international market may choose among various entry modes—exporting, contractual agreement, joint venture, or manufacturing. Each entry mode provides different opportunities and risks. The differentiation of global and domestic marketing largely revolves around the nature of environmental forces impinging on the formulation of strategy. International marketers must be sensitive to the environmental influences operating in overseas markets. The principal components of the international marketing environment include cultural, political, legal, commercial, and economic forces. Each of these forces represents informational inputs that must be factored into the decision-making process.

An important question that global marketers need to answer is whether the same product, price, distribution, and promotion approach is adequate in foreign markets. In other words, a decision must be made about which is the more appropriate of two marketing strategies: localization or standardization. On the one hand, environmental differences between nations suggest using localization. On the other hand, there are potential gains to consider in standardizing market strategy. International marketers must examine all criteria in order to decide the extent to which marketing perspectives should vary from country to country.

International marketing plays three important roles in global business strategy. These are *configuration* of marketing activities (i.e., where different marketing activities should be performed), *coordination* (i.e., how international marketing

activities dispersed in different countries should be coordinated), and the *linkage* of international marketing with other functions of the business.

The chapter ended with a framework for designing global market strategy. The framework consists of three steps: (a) selecting national markets, (b) determining marketing strategy, and (c) developing marketing plans.

DISCUSSION QUESTIONS

1. What forces are responsible for the globalization of markets?
2. How does culture affect international marketing decisions? Explain with examples.
3. Given their low per capita income, why should companies be interested in developing countries?
4. What are the different modes of entry into the international market? What are the relative advantages and disadvantages of each mode?
5. What are the advantages of international marketing strategy standardization?
6. Under what circumstances should marketing be adapted to local conditions?
7. What role does marketing play in global business strategy?

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