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DEDICATION

To Lorraine, Akie, Euka, and Hiro
— M.K.

To A.V.
— K.H.

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Dr. Kotabe has written more than 100 scholarly publications. His numerous research articles have appeared in journals such as *Journal of Marketing*, *Journal of International Business Studies*, *Strategic Management Journal*, and *Academy of Management Journal*. His books include *Global Sourcing Strategy: R&D, Manufacturing, Marketing Interfaces* (1992), *Japanese Distribution System* (with Michael R. Czinkota, 1993), *Anticompetitive Practices in Japan* (with Kent W. Wheeler, 1996), *MERCOSUR and Beyond* (1997), *Market Revolution in Latin America: Beyond Mexico* (with Ricardo Leal, 2001), *Emerging Issues in International Business Research* (with Preet Aulakh, 2002), *Global Supply Chain Management* (with Michael J. Mol, 2006), and *SAGE Handbook of International Marketing* (with Kristiaan Helsen, 2009).

He currently serves as the Editor of the *Journal of International Management* and also serves/has served on the editorial boards of the *Journal of Marketing*, the *Journal of International Business Studies*, the *Journal of International Marketing*, the *Journal of World Business*, the *Journal of the Academy of Marketing Science*, the *Journal of Business Research*, and the *Thunderbird International Business Review*, among others. For his significant contribution to international business research and education, Dr. Kotabe was elected a Fellow of the Academy of International Business in 1998 and a Fellow of the Japan Academy of International Business Studies in 2016.



Kristiaan Helsen has been an associate professor of marketing at the Hong Kong University of Science and Technology (HKUST) since 1995. Prior to joining HKUST, he was on the faculty of the University of Chicago for 5 years. He has lectured at Nijenrode University (Netherlands), the International University of Japan, Purdue University, the Catholic University of Lisbon, and CEIBS (Shanghai). Dr. Helsen received his Ph.D. in Marketing at the Wharton School of the University of Pennsylvania.

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PREFACE

FOUR FUNDAMENTAL ISSUES ADDRESSED IN THE SEVENTH EDITION



We have continued to receive many letters and e-mail messages as well as user reviews on Amazon.com, among others, from instructors, students, and business executives around the world who used the previous editions of our *Global Marketing Management*. Their comments have been very favorable. Thanks to the increased desire in many parts of the world for access to our book in their own languages, our book has been translated into Chinese, Japanese, Portuguese, and Spanish. However, we just cannot be sitting on our laurels. As the world around us has been constantly changing, the content and context of our book also have to change to reflect the *climate of the time*. As we all know, the Great Recession of 2009—the worst global financial crisis since the Great Depression of 1929—brought the global economy to a screeching halt and has since changed the global marketing environment completely. More recently, even some of the rapidly growing emerging markets such as China and Brazil began to experience a significant economic slowdown in 2015. Furthermore, Britain’s decision to exit the European Union (known as the Brexit) and lingering uncertainties about the decision itself in late June 2016 have cast added economic and political uncertainty not only to Europe but also to the rest of the world. The continued global economic growth that many of us had taken for granted for many years proved to be a false assumption. Along with the global recession also came some serious doubts about the virtue of freer trading environments and unfettered global competition and increased awareness about corporate social responsibility (CSR) due to increased pollution and global warming and their potentially dire consequences. In a way, it is a challenging period with so many changes occurring with unforeseeable consequences. We are fortunate enough to capture various changes in the market environment and describe them in this seventh edition of our book.

In our mind, the role of a textbook is not only to describe today’s realities but also to extrapolate from them on how the future will unfold. After all, that is how marketing executives have to act and make *correct* decisions based on the facts they have gathered. Today’s realities are a serendipitous product of past realities, and the future will be an uncharted course of events lying ahead of us. We constantly strive to help you better understand state-of-the-art marketing practices on a global basis with relevant historical background, current marketing environments, and logical explanations based on a massive amount of knowledge generated by marketing executives as well as by academic researchers from around the world.

Therefore, the seventh edition of our book continues to build on four major changes that have taken place in the past decade or so. *First*, the landscape of the global economy has changed drastically, particularly as a result of the global financial crisis and the ensuing lackluster global market environment. The emergence of Brazil, Russia, India, and China, among others, as economic superpowers has been observed during the same period. So has the recent worrisome deceleration of these new powerhouse economies. Nevertheless, China’s role as the world’s factory is well established; India’s increased role in information technology development is obvious; and Brazil and Russia are still rich in mineral resources that are becoming scarce in the long run.

Second, the explosive growth of information technology tools, including the internet and electronic commerce (e-commerce), has had a significant effect on the way we do business internationally. This still continues to be an evolving phenomenon that we need to investigate carefully. On the one hand, everyone seems to agree that business

transactions will be faster and more global early on. And it is very true. As a result, marketing management techniques such as customer relationship management and global account management have become increasingly feasible. On the other hand, the more deeply we have examined this issue, the more convinced we have become that certain things would not change, or could even become more local as a result of globalization that the internet and e-commerce bestow on us.

Third, it is an underlying human tendency to desire to be different when there are economic and political forces of convergence (often referred to as globalization). When the globalization argument (and movement) became fashionable in the 1980s and 1990s, many of us believed that globalization would make global marketing easier. As we explain later in the text, marketing beyond national borders, indeed, has become easier, but it does not necessarily mean that customers want the same products in countries around the world. For example, many more people around the world try to emphasize cultural and ethnic differences as well as accept those differences than ever before. Just think about many new countries being born around the world as well as the regional unifications taking place at the same time. Another example is that while e-commerce promotion on the internet goes global, product delivery may need to be fairly local in order to address local competition and exchange rate fluctuations as well as the complexities of international physical distribution (export declarations, tariffs, and nontariff barriers). From a supply-side point of view, globalization has brought us more products from all corners of the world. However, from a demand-side (marketing-side) point of view, customers have a much broader set of goods and services to *choose from*. In other words, marketers now face all the more divergent customers with divergent preferences—far from a homogeneous group of customers.

Fourth, if not last, we have become increasingly more aware of various consequences of corporate action, ranging from environmental pollution to global warming that could threaten to affect our civilization with rising sea levels around the world, and from food safety to unsafe work environments around the world. Companies realize that they must consider the impact of their decisions and policies on a wide range of stakeholders besides their shareholders. To be successful in the long term, a company must create value for its shareholders and customers and also for local communities and society at large. While the idea that a company has societal obligations has been around for many decades, CSR has never been more prominent on the corporate agenda.

Indeed, these changes we have observed in the last decade or so are more than extraordinary. In this seventh edition, we have expanded on these issues in all chapters, wherever relevant. We have added many new examples that have occurred in this period. However, we do not sacrifice logical depth in favor of brand-new examples. This revision required a lot of work, as it did in the past. But it was well worth the effort because we are confident as to how satisfied and enlightened readers like you will become.

We strongly believe that cases provide students not only with lively discussions of what goes on with many companies but also with in-depth understanding of many marketing-related concepts and tools as used by those companies. In this revision, we added many new cases as well as keeping several cases from the earlier editions that were voted as *favorites* by our textbook users and their students. We have more than 40 cases to go with this edition. The cases represent many products and services and many regions and countries as well as many nationalities. All the cases are placed on the textbook website for easy download (www.Wiley.com/College/Kotabe).

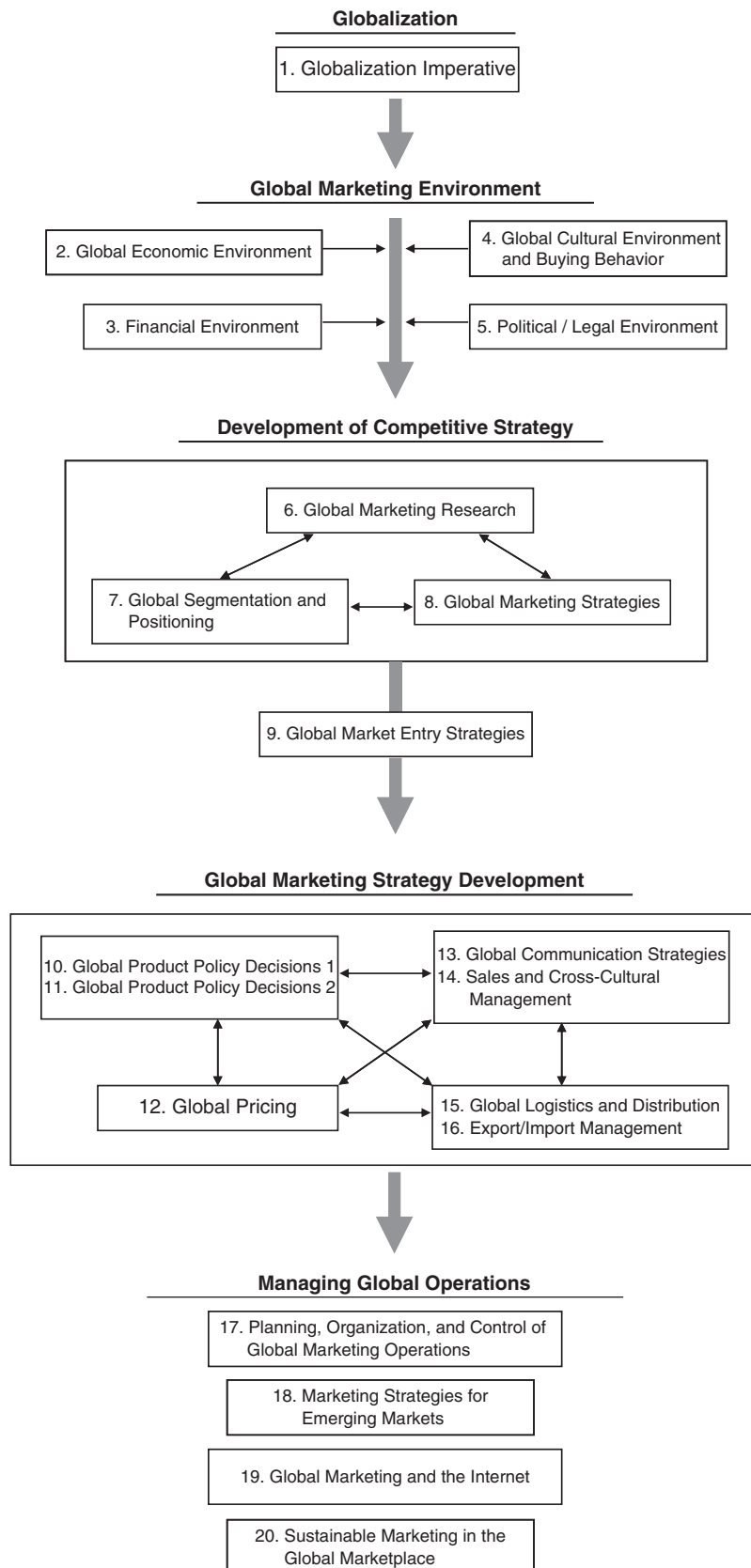
Many users of the previous editions continue to commend us for writing a book that is probably the most academically rigorous and conceptually sound, yet full of lively examples that students can easily identify with in order to drive important points across. We combine the academic rigor and relevance (and fun of reading) of materials to meet both undergraduate and MBA educational requirements. We keep this tradition in our seventh edition.



OUR PEDAGOGICAL ORIENTATION

Marketing in the global arena is indeed a very dynamic discipline. Today, there are many international or global marketing management books vying for their respective niches in the market. It is a mature market. As you will learn in our book, in a mature market,

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firms tend to focus closely—or maybe, too closely—on immediate product features for sources of differentiation and may inadvertently ignore the fundamental changes that may be reshaping the industry. Often, those fundamental changes come from outside the industry. The same logic applies to the textbook market. Whether existing textbooks are titled international marketing or global marketing, they continue to be bound by the traditional bilateral (international) view of competition. While any new textbook has to embrace the traditional coverage of existing textbooks, we intend to emphasize the multilateral (global) nature of marketing with local sensitivity throughout our book.

Some textbooks have replaced the word *international* with *global*. Such a change amounts to only a repackaging of an existing product we often see in a mature product market, and it does not necessarily make a textbook globally oriented. We need some paradigm shift to accomplish the task of adding truly global dimensions and complex realities to a textbook. You might ask, “What fundamental changes are needed for a paradigm shift?” and then, “Why do we need fundamental changes to begin with?”

Our answer is straightforward. Our ultimate objective is to help you prepare for this new century and become an effective manager overseeing global marketing activities in an increasingly competitive environment. You may or may not choose marketing for your career. If you pursue a marketing career, what you will learn in our book will not only have direct relevance but will also help you understand how you, as a marketing manager, can affect other business functions for effective corporate performance on a global basis. If you choose other functional areas of business for your career, then our book will help you understand how you can work effectively with marketing people for the same corporate goal. Our book is organized as shown in the flowchart.

We believe that our pedagogical orientation not only embraces the existing stock of useful marketing knowledge and methods but also sets itself apart from the competition in a number of fundamental ways, as follows.



GLOBAL ORIENTATION

As we indicated at the outset, the term, *global*, epitomizes the competitive pressure and market opportunities from around the world and the firm’s need to optimize its market performance on a global basis. Whether a company operates domestically or across national boundaries, it can no longer avoid the competitive pressure and market opportunities. For optimal market performance, the firm should also be ready and willing to take advantage of resources on a global basis and at the same time respond to different needs and wants of consumers. In a way, global marketing is *a constant struggle with economies of scale and scope needs of the firm and its responsiveness and sensitivity to different market conditions*. While some people call it a *glocal* orientation, we stay with the term, *global*, to emphasize marketing flexibility on a global basis.

Let us take a look at a hypothetical U.S. company exporting finished products to Europe and Japan. Traditionally, this export phenomenon has been treated as a bilateral business transaction between a U.S. company and foreign customers. However, in reality, to the executives of the U.S. company, this export transaction may be nothing more than the last phase of the company’s activities they manage. Indeed, this company procures certain components from long-term suppliers in Japan and Mexico, other components in a business-to-business (B2B) transaction on the internet with a supplier in Korea, and also from its domestic sources in the United States, and assembles a finished product in its Chinese plant for export to Europe and Japan as well as back to the United States. Indeed, a Japanese supplier of critical components is a joint venture majority owned by this American company, while a Mexican supplier has a licensing agreement with the U.S. company that provides most of technical know-how. A domestic supplier in the United States is in fact a subsidiary of a German company. In other words, this particular export transaction by the U.S. company involves a joint venture, a licensing agreement, a B2B transaction, subsidiary operation, local assembly, and R&D—all managed directly or indirectly by the U.S. company. And add the realities of market complexities arising from diverse customer preferences in European, Japanese,

and North American markets. Think about how these arrangements could affect the company's decisions about product policy, pricing, promotion, and distribution channels.

Many existing textbooks have focused on each of these value-adding activities as if they could be investigated independently. Obviously, in reality, they are not independent of each other and cannot be. We emphasize this multilateral realism by examining these value-adding activities as holistically as possible.

At the same time, we are fully aware of the increased importance of the roles that emerging markets and competitive firms from those markets play in fundamentally reshaping the nature of global competition. In this seventh edition, we have expanded Chapter 18 to highlight various marketing issues related to emerging markets.

Furthermore, we also recognize the importance of the sustainability of global marketing. We would like you to be knowledgeable about, and act on, not only ethical but also environmental implications of marketing activities on a global basis. In this seventh edition, we have added Chapter 20 to address various issues related to global CSR.

INTERDISCIPLINARY PERSPECTIVE



To complement our global orientation, we offer an interdisciplinary perspective in all relevant chapters. We strongly believe that you cannot become a seasoned marketing executive without understanding how other functional areas interface with marketing. The reverse is also true for nonmarketing managers. Some of the exemplary areas in which such a broad understanding of the interface issues is needed are product innovation, designing for manufacturability, product/ components standardization, and product positioning. In particular, Japanese competition has made us aware of the importance of these issues, and leading-edge business schools have increasingly adopted such an integrated approach to business education. Our book strongly reflects this state-of-the-art orientation.

PROACTIVE ORIENTATION



Market orientation is a fundamental philosophy of marketing. It is an organizational culture that puts customers' interests first in order to develop a long-term profitable enterprise. In essence, market orientation symbolizes the market-driven firm that is willing to constantly update its strategies using signals from the marketplace. Thus, marketing managers take market cues from the expressed needs and wants of customers. Consequently, the dominant orientation is that of a firm reacting to forces in the marketplace in order to differentiate itself from its competitors. This reactive outside-in perspective is reflected in the typical marketing manager's reliance on marketing intelligence, forecasting, and market research.

While not denying this traditional market orientation, we also believe that marketing managers should adopt an inside-out perspective and capabilities to shape or drive markets. This aspect of the link between strategic planning and marketing implementation has not been adequately treated in existing textbooks. For example, recent trends in technology licensing indicate that it is increasingly used as a conscious, proactive component of a firm's global product strategy. We believe that it is important for marketers to influence those actions of the firm that are some distance away from the customer in the value chain because such actions have considerable influence on the size of the market and customer choice in intermediate and end-product markets.

CULTURAL SENSITIVITY



A book could not be written that was not influenced by its authors' background, expertise, and experiences around the world. Our book represents an amalgam of our truly

diverse background, expertise, and experiences across the North and South Americas, Asia, and Western and Eastern Europe. Given our respective upbringing and work experience in Asia, Western Europe, and Latin America, as well as our educational background in the United States, we have been sensitive not only to cultural differences and diversities but also to similarities.

Realistically speaking, there are more similarities than differences across many countries. In many cases, most of us tend to focus too much on cultural differences rather than on similarities; or sometimes we even completely ignore differences or similarities. If you look only at cultural differences, you will be led to believe that country markets are uniquely different, thus requiring marketing strategy adaptations. If, on the other hand, you do not care about, or care to know about, cultural differences, you may be extending a culture-blind, ethnocentric view of the world. Either way, you may not benefit from the economies of scale and scope accruing from exploiting cultural similarities—and differences.

Over the years, two fundamental counteracting forces have shaped the nature of marketing in the international arena. The same counteracting forces have been revisited by many authors in terms such as “standardization versus adaptation” (1970s), “globalization versus localization” (1980s), “global integration versus local responsiveness” (1990s), “aggregation versus adaptation (vs arbitrage)” (2000s), and, more recently—let us add our own—“online scale versus offline market sensitivity.” Terms have changed, but the quintessence of the strategic dilemma that multinational companies (MNCs) face today has not changed and will probably remain unchanged for years to come. However, these issues are no longer an either/or issue. Forward-looking, proactive firms have the ability and willingness to accomplish both tasks simultaneously. As we explain later in the text, Honda, for example, developed its Accord car to satisfy the universal customer needs for reliability, drivability, and comfort but marketed it as a family sedan in Japan, as a commuter car in the United States, and as an inexpensive sports car in Germany, thereby addressing cultural differences in the way people of different nationalities perceive and drive what is essentially the same car.

With our emphasis on global and proactive orientations, however, we will share with you how to hone your expertise to be both culturally sensitive and able to see how to benefit from cultural similarities and differences.



RESEARCH ORIENTATION

We strongly believe that theory is useful to the extent that it helps practices. And there are many useful theories for international marketing practices. Some of the practical theories are a logical extension of generic marketing theories you may have encountered in a marketing course. Others are, however, very much unique to the international environment.

Many people believe—erroneously—that international or global marketing is just a logical extension of domestic marketing, and that if you have taken a generic marketing course, you would not need to learn anything international. The international arena is like a Pandora’s box. Once you move into the international arena, there are many more facts, concepts, frameworks, and even climate differences you need to learn than you ever thought of in order to become a seasoned marketing manager working globally. To assist you in acquiring this new knowledge, various theories provide you with the conceptual tools that enable you to abstract, analyze, understand, predict phenomena, and formulate effective decisions. Theories also provide you with an effective means to convey your logic to your peers and bosses with a strong, convincing power.

We also apply those theories in our own extensive international work, advising corporate executives, helping them design effective global strategies, and teaching our students at various business schools around the world. Our role as educators is to convey sometimes complex theories in everyday language. Our effort is reflected well in our textbook. This leads to our next orientation.

PRACTICAL ORIENTATION



Not only is this book designed to be user-friendly, but it also emphasizes practice. We believe in experiential learning and practical applications. Rote learning of facts, concepts, and theories is not sufficient. A good marketing manager should be able to put these to practice. We use many examples and anecdotes as well as our own observations and experiences to vividly portray practical applications. This book also contains real-life, lively cases so that you can further apply your newly acquired knowledge to practice and experience for yourself what it takes to be an effective international marketing manager.

Therefore, this book has been written for both upper-level undergraduate and MBA students who wish to learn practical applications of marketing and related logic and subsequently work internationally. Although we overview foundation materials in this book, we expect that students have completed a basic marketing course.

To further enhance your learning experience, Professor Syed Anwar of West Texas A&M University kindly shares his excellent international marketing one-stop search website, *Marketing & International Links*¹ with you.

INTERNET IMPLICATIONS



As we stated earlier, we extensively address the implications of the internet and e-commerce in global marketing activities. E-commerce is very promising, but various environmental differences—particularly differences in culture and law as well as consumer needs—are bound to prevent it from becoming an instantaneous freewheeling tool for global marketing. What we need to learn is how to manage *online scale and scope economies* and *offline sensitivities to different market requirements*. We try our best to make you become internet-savvy. These issues are addressed in all the chapters where relevant. In particular, Chapter 19 provides an in-depth analysis of global marketing issues in the age of the internet. We admit that there are many more unknowns than knowns about the impact of the internet on global marketing activities. That is why we point out areas in which the internet is likely to affect the way we do business and have you think seriously about the imminent managerial issues that you will have to deal with upon graduation.

Not only is this book designed to be user-friendly, but it also emphasizes practice. We believe in Instructor Support Materials. To accomplish our stated goals and orientations, we have made a major effort to provide the instructor and the student with practical theories and their explanations using examples, anecdotes, and cases to maximize the student's learning experience. Some of the specific teaching features are as follows:

- **The Global Perspectives**, which are inserts in every chapter, to bring concrete examples from the global marketing environment into the classroom. They are designed to highlight some of the hottest global topics that students should be aware of and may actually act on in their career. The instructor can use these inserts to exemplify theory or use them as mini-cases for class discussion.
- **Long Cases** that are designed to challenge students with real and current business problems and issues. They require in-depth analysis and discussion of various topics covered in the chapters and help students experience how the knowledge they have gained can be applied in real-life situations. There are more than 40 cases covering various aspects of marketing situations as well as products, regions, and nationalities of firms. All the cases are placed on the textbook website for easy download.
- **Short Cases** that are designed to address various specific issues explained in the chapters. Short cases at the end of each chapter are useful for showing students how

¹http://wtfaculty.wtamu.edu/~sanwar.bus/otherlinks.htm#Marketing_&_International_Business_Links

relevant newly learned subject matter can be, as well as for open class discussion with the students.

- **Maps** that provide economic geography of the world. Students should be knowledgeable about where various economic resources are available and how they shape the nature of trade and investment and thus the nature of global competition. Global marketing could not be appreciated without understanding economic geography.
- **Review Questions** that help students test themselves with, and summarize, the facts, concepts, theories, and other chapter materials in their own words. We strongly believe that by doing so, students will gain active working knowledge, rather than passive knowledge by rote learning.
- **Discussion Questions** that help students apply the specific knowledge they learned in each chapter to actual business situations. They are designed to serve as mini-cases. Most of the issues presented in these questions are acute problems facing multinational marketing managers and have been adopted from recent issues of leading business newspapers and magazines.
- **The Instructor's Manual** provides major assistance to the instructor while allowing flexibility in the course scheduling and teaching emphasis. The materials in the manual include the following:
 - a. **Teaching Plans:** Alternative teaching plans and syllabi are included to accommodate the instructor's preferred course structure and teaching schedules. Alternative teaching schedules are developed for the course to be taught in a semester format, on a quarter basis, or as an executive seminar.
 - b. **Discussion Guidelines:** For each chapter, specific teaching objectives and guidelines are developed to help stimulate classroom discussion.
 - c. **Test Bank:** A test bank consists of short essay questions and multiple-choice questions. This test bank is also computerized and available to adopters on IBM compatible computer diskettes.
 - d. **PowerPoint Slides:** Available on the web to assist the instructor in preparing presentation materials.
 - e. **Video Materials:** As indicated earlier, videos provide for students' visualization of critical issues discussed in the cases as well as in the text itself.
 - f. **Home Page on the Web:** Make sure to visit our website www.wiley.com/college/kotabe/ for useful instructional information.

Finally, we are delighted to share our teaching experience with you through this book. Our teaching experience is an amalgam of our own learning and knowledge gained through our continued discussion with our colleagues, our students, and our executive friends. We would also like to learn from you, the instructor and the students, who use our book. Not only do we wish that you learn from our book but we also believe that there are many more things that we can learn from you. We welcome your sincere comments and questions. Our contact addresses are as follows:

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GLOBALIZATION IMPERATIVE



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2. GLOBALIZATION OF MARKETS: CONVERGENCE AND DIVERGENCE
3. EVOLUTION OF GLOBAL MARKETING
4. APPENDIX: THEORIES OF INTERNATIONAL TRADE AND THE MULTINATIONAL ENTERPRISE

Marketing goods and services around the world, transcending national and political boundaries, is a fascinating phenomenon. The phenomenon, however, is not entirely new. Products have been traded across borders throughout recorded civilization, extending back beyond the Silk Road that once connected East with West from Xian to Rome on land and the recently excavated sea trade route between the Roman Empire and India that existed 2,000 years ago. However, since the end of World War II, the world economy has experienced a spectacular growth rate never witnessed before in human history, largely led by large U.S. companies in the 1950s and 1960s, then by European and Japanese companies in the 1970s and 1980s, and most recently joined by new emerging-market firms. In particular, competition coming recently from the so-called BRIC countries (Brazil, Russia, India, and China), among other emerging countries, has given the notion of global competition a touch of extra urgency and significance that you see almost daily in print media such as the *Wall Street Journal*, the *Financial Times*, *Nikkei Shimbun*, and *Folha de São Paulo*, as well as TV media such as Al Jazeera, BBC, and CNN. Some of the emerging-market multinational companies (MNCs) that have come to the forefront are Mexican bread company Bimbo that has overtaken an established company Sara Lee; Chinese manufacturer Haier that has cracked the American market and is now the world's largest household appliance brand; and Suzlon of India, founded as a textile company, that is now exclusively devoted to the development of wind farms. Suzlon has risen to the top of the market in India, number two in the United Kingdom, and third in France and Germany. A new class of formidable competitors is rising.¹

¹See, for example, Alvaro Cuervo-Cazurra and Ravi Ramamurti, R., ed. *Understanding Multinationals from Emerging Markets* (Cambridge: Cambridge University Press, 2014).

In this chapter, we introduce you to the complex and constantly evolving realities of global marketing. The term *global marketing* refers to a strategy to achieve one or more of four major categories of potential globalization benefits: cost reduction, improved quality of products and programs, enhanced customer preference, and increased competitive advantage on a global basis. The objective is to make you think beyond exporting and importing. As you will learn shortly, despite wide media attention to them, exporting and importing are a relatively small portion of what constitutes international business. We are not saying, however, that exporting and importing are not important.

It was conventional wisdom that world merchandise trade would on average grow by twice the annual growth rate of global GDP. It was so until 2008. Total merchandise trade volume reached \$16.3 trillion in 2008, compared to \$6 trillion in 2000.² Since the devastating aftermaths of the September 11, 2001, terrorist attacks in the United States, the improved market conditions in the United States and Europe as well as strong growth in the emerging markets, including China and India, had steadily improved the world economy. However, the unprecedented global recession triggered by the subprime mortgage crisis in the United States in 2008–2009, the aftermath of the U.S.-led war against global terrorism, and high oil prices, among other things, continue to curb the world economy from a full-fledged recovery. As a result of the worst recession since the Great Depression of 1929–1932, world trade volume did shrink in 2009 for the first time in over 25 years. Despite the sharp drop of world merchandise exports down to \$12.5 trillion in 2009, total merchandise trade volume bounced back to \$19 trillion in 2014—a growth of 52 percent over the last 5 years. On the other hand, exports of commercial services also grew 44 percent from \$3.4 trillion in 2009 to \$4.9 trillion in 2014.³

At the time of this writing in mid-2016, however, the world economy has come into an uncertain and vulnerable period as China's stock market crash in mid-2015 has caused contagion effects for both developed and developing countries. Europe seems to have entered recession; the Brexit (Britain's decision to exit the European Union) and lingering uncertainties about the decision itself in late June 2016 have cast added uncertainty not only to Europe but to the rest of the world.⁴ Some major emerging countries (Brazil, India, Russia, South Africa, and Turkey) have also experienced slower growth as well. The World Bank reported a meager annual growth rate of 2.4 percent in world trade in 2015, and predicts a continued slow growth in world trade of 2.9 percent in 2016 and 3.1 percent in 2017–18. Developing countries face tough challenges ahead. Some of the challenges are due to such factors as higher borrowing costs and a new era of low prices of oil. Resulting in a fourth consecutive year of disappointing economic growth, they had a post-crisis low of 4.3 percent in 2014, and are projected to grow by 4.8 percent in 2016 and likely to rise to 5.3 percent in 2016 and 2017.⁵

Whenever the growth of the global economy slows down, however, the specter of economic nationalism—each country's urge to protect domestic jobs and keep capital at home instead of promoting freer international trade—tends to hamper further globalization.⁶ Although sometimes bumpy, it is expected that the drive for globalization will continue to be promoted through more free trade; more internet commerce; more networking of businesses, schools, and communities; and more advanced technologies.⁷

²The World Factbook 2011, <https://www.cia.gov/library/publications/the-world-factbook/index.html>.

³WTO International Trade and Market Access Data, www.wto.org, 2014.

⁴“Britain and the EU: A Tragic Split,” *Economist*, www.economist.com, June 24, 2016; “The UK's Referendum: All You Need to Know,” *BBC News*, www.bbc.com, June 24, 2016.

⁵World Bank, *Global Economic Prospects*, www.worldbank.org, January 2016.

⁶“The End of Globalization?” *The Financialist*, <http://www.thefinancialist.com/>, October 5, 2015.

⁷The reader needs to be cautioned that there may be limits to the benefit of globalization for two primary reasons. First, firms in poor countries with very weak economic and financial infrastructure may not be able to (afford to) adjust fast enough to the forces of globalization. Second, poor countries could be made worse off by trade liberalization because trade tends to be opened for high-tech goods and services exported by rich countries—such as computers and financial services—but remains protected in areas where those poor countries could compete, such as agricultural goods, textiles, or construction. See, for example, Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton & Co., 2003). For an excellent treatise on various paradoxes of globalization, refer to Terry Clark, Monica Hodis, and Paul D'Angelo, “The Ancient Road: An Overview of Globalization,” in Masaaki Kotabe and Kristiaan Helsen, ed., *The SAGE Handbook of International Marketing* (London: Sage Publications, 2009), pp. 15–35.

WHY GLOBAL MARKETING IS IMPERATIVE



We frequently hear terms such as *global markets*, *global competition*, *global technology*, and *global competitiveness*. In the past, we heard similar words with *international* or *multinational* instead of *global* attached to them. What has happened since the 1980s? Are these terms just fashionable concepts of the time without some deep meanings? Or has something inherently changed in our society?

Saturation of Domestic Markets. First and at the most fundamental level, the saturation of domestic markets in the industrialized parts of the world forced many companies to look for marketing opportunities beyond their national boundaries. The economic and population growth in developing countries also gave those companies an additional incentive to venture abroad. Companies such as Lenovo are not seeing smartphone growth in its home country of China. Starting in 2012, Lenovo began selling smartphones outside of China to emerging markets located in Europe, Middle East, and Africa. Lenovo is now expected to rank as the world's third largest smartphone vendor behind Samsung and Apple.⁸ The same logic applies equally to companies from developed countries. For example, a Japanese sushi chain has big plans for Asia and the United States. Kura, the operator of Japan's third-largest chain of carousel-style sushi restaurants, opened its first store in Taipei in 2014. In the United States, Kura opened locations in California and elsewhere. The Japanese sushi chain is planning to open a processing site in the United States once it has opened 10 stores there.⁹

Emerging Markets. During the twentieth century, the large economies and large trading partners had been located mostly in the Triad Regions of the world (North America, Western Europe, and Japan), collectively producing over 80 percent of world GDP with only 20 percent of the World's population.¹⁰ However, in the next 10–20 years, the greatest commercial opportunities are expected to be found increasingly in 10 Big Emerging Markets (BEMs)—the Chinese Economic Area, India, the Commonwealth of Independent States (Russia, Central Asia, and Caucasus states), South Korea, Mexico, Brazil, Argentina, South Africa, Central European countries, Turkey, and the Association of Southeast Asian Nations (Indonesia, Brunei, Malaysia, Singapore, Thailand, the Philippines, and Vietnam). Accordingly, an increasing number of competitors are expected to originate from those 10 emerging economies. In the past 20 years, China's real annual GDP growth rate has averaged 9.5 percent a year; while India's has been 5.7 percent, compared to the average 3 percent GDP growth in the United States. Clearly, the milieu of the world economy has changed significantly, and over the next two decades, the markets that hold the greatest potential for dramatic increases in U.S. exports are not the traditional trading partners in Europe, Canada, and Japan, which now account for the overwhelming bulk of the international trade of the United States. But there will be those BEMs and other developing countries that constitute some 80 percent of the “bottom of the pyramid.”¹¹ As the traditional developed markets have become increasingly competitive, such emerging markets promise to offer better growth opportunities to many firms.

However, it does not necessarily mean that BEMs and other developing countries will continue to grow without a hitch. Starting in the second half of 2015, however, the largest emerging market China started to falter. China, while still a large presence in the global economy, is now an exporting uncertainty. Around the world, industrial and commodity multinationals are scrambling to stem profit slides from weaker Chinese consumption. The pain has been particularly acute for Brazil. The weaker Chinese imports

⁸“With China Saturated, Lenovo Focuses on Foreign Markets for Smartphone Growth,” *PC World*, pcworld.com, November 6, 2014.

⁹“Japanese Chain Has Big Plans for Asia, US,” *Nikkei Asian Review*, asia.nikkei.com, December 16, 2014.

¹⁰L. Bryan, *Race for the World: Strategies to Build a Great Global Firm* (Boston: Harvard Business School Press, 1999).

¹¹C.K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Philadelphia: Wharton School Publishing, 2004).

of minerals and soybeans have affected all of Latin America. Added to the worries are recent events like the deadly explosion in August 2015 of hazardous chemicals in Tianjin, China, which delayed shipments through one of China's largest ports. China was supposed to be a financial savior for Russia. In 2014, Russia signed a \$400 billion natural gas deal with China to build a 2,500 mile long pipeline to ship fuel from Siberia. But prices that China is willing to pay for the gas are dropping so low that it may no longer be worthwhile to build the pipeline.¹²

Unfavorable Domestic Economy. The ongoing global economic downturn has forced businesses to outsmart unfavorable economies in their domestic markets. In addition to fast-growing markets in some regions of the world, such as Asia, venturing abroad in search of marketing opportunities would be an alternative solution to the problem. Large-scale business such as Yum! Brands, the proprietor of KFC and Pizza Hut, which operated 2,497 stores in China in 2009 (compared with 5,253 in the United States), reached soaring global total sales of 31 percent in 2008 in China, helping the company shrug off the U.S. recession.¹³ This global expansion decision has not only been large businesses' priority but also small businesses'. The declining value of U.S. dollars in 2008 forced small businesses to think globally as the decline actually provided an opportunity to take advantage of the exchange rate. In 2010, a total of 286,661 small businesses with less than 500 employees exported from the United States, accounting for 97.8 percent of all U.S. exporters.¹⁴

Since mid-2015, emerging economies have started to falter due to subdued global growth and uncertainties around the world economy. Growth is faltering in Turkey because of high inflation. Brazil, Russia, China, and Mexico are also slowing down economically and were hurt by low oil prices. India at the time of this writing in early 2016 is the only major emerging economy with a positive growth outlook due to low inflation rates.¹⁵ As a result, even firms from emerging economies may have to expand their sales efforts further outside their countries.

Global Competition. We believe something profound has indeed happened in our view of competition around the world. About 40 years ago, the world's greatest automobile manufacturers were General Motors, Ford, and Chrysler. Today, companies such as Toyota, BMW, Renault, and Hyundai, among others, stand out as competitive nameplates in the global automobile market. Similarly, personal computers used to be almost synonymous with IBM, which dominated the PC business around the world. Today, the computer market is crowded with Dell and Hewlett-Packard (HP) from the United States, Sony and Toshiba from Japan, Samsung from Korea, Acer and ASUS from Taiwan, Lenovo from China, and so on. Indeed, Lenovo acquired the IBM PC division in 2005 and now sells the ThinkPad series under the Lenovo brand. The deal not only puts Lenovo into the industry's third place but also challenges the world top players, Dell and HP, respectively.¹⁶ Even in a low-tech area, creative firms from emerging economies are expanding overseas. For example, the VietMac burger from Vietnam has taken the country by storm. Made from two rice patties over your choice of additive-free meat and salad, the meal is touted as a healthy alternative to its bread-bun rivals such as McDonald's and Burger King. Just 1 year after the first restaurant opened, VietMac has 12 outlets nationwide and is already going global with a franchise opening in Germany in 2012.¹⁷ In the not distant future, VietMac might

¹²"China Falters, and the Global Economy Is Forced to Adapt," *New York Times*, www.nytimes.com, August 26, 2015.

¹³Todd Guild, "Think Regionally, Act Locally: Four Steps to Reaching the Asian Consumer," *McKinsey Quarterly*, September 2009, pp. 25–35.

¹⁴http://www.trade.gov/mas/ian/smeoutlook/tg_ian_001925.asp, accessed March 25, 2013.

¹⁵"The State of the World's Big Emerging Markets," *Business Insider*, www.businessinsider.com, May 26, 2015.

¹⁶"Can China's Lenovo Brand in the Land of Dell?" *B to B*, October 10, 2005, p. 1 and p. 5.

¹⁷"It's All in a Bun: Vietnamese Fast Food," *Southeast Asia Globe*, <http://sea-globe.com>, June 25, 2012.

even pose a competitive threat to the global giants in fast food industry. In a similar vein, a startup video game company from Kenya, Planet Rackus, released Ma3Racer, a video game in which a gamer maneuvers a homicidal minibus swerving around potholes, seldom signaling and using its iffy brakes only at the last second with the sole goal of not hitting pedestrians in congested and chaotic Nairobi, Kenya's capital. Within a month, a quarter of a million people in 169 countries had downloaded the game. Its success differs from its Silicon Valley sisters as this Kenyan company has designed the game for mobile phones rather than for computers. Kenya is still a poor country with very limited computer ownership but almost 75 percent of Kenyans have mobile phones.¹⁸

As many firms in emerging economies have gained their competitive advantage based on “frugal innovations” that emphasize value for the money, firms in traditionally developed countries also have to learn to develop similar products. Whether developed-country firms market frugal products or not in their own markets, emerging-market firms will. For example, India's Mahindra & Mahindra now markets many small garden tractors to American hobby farmers, forcing John Deere, a dominant U.S. farming equipment company, to do the same with its small tractors emphasizing value for the money.¹⁹ Nike is a U.S. company with a truly all-American shoe brand, but its shoes are all made by its contract manufacturers in foreign countries and exported to many countries. Pillsbury (known for its Betty Crocker's recipes and Häagen-Dazs ice cream brand) and 7-Eleven convenience stores are two American institutions owned and managed, respectively, by Diageo from the United Kingdom and Seven & i Holdings Co. from Japan. On the other hand, the world of media, although historically led by the U.S. media giants, has become equally global in reach. In a globalized international TV business, there are no limits to the ambition of even the world's smaller countries. Chile, despite its relatively small size economy, is a TV production force, thanks to its partnership with Telemundo and Chile's high-level writers who create excellent TV series. Telemundo has produced versions of Chilean TV shows that have sold to more than 45 countries.²⁰



Courtesy Masaaki Kotabe

Globetrotting companies are vying for customers' “mind share” in many parts of the world such as Piccadilly Circus, London, England.

Global Cooperation. Global competition also brings about global cooperation. In the automobile industry, for example, BMW and Toyota are already working together on fuel-cell technology and recently showed a prototype vehicle, a converted BMW-5 with a hydrogen engine. Under increasing pressure to invest in new technology and from slower growth in the industry, such alliances are becoming

¹⁸“Upwardly Mobile: Kenya's Technology Start-Up Scene Is About to Take Off,” *Economist*, August 25, 2012, p. 53.

¹⁹“Frugal Ideas Are Spreading from East to West,” *Economist*, March 24, 2012, p. 68.

²⁰“Local Competition Heats Up Chile's TV Business,” *Variety.com*, October 2, 2015.

increasingly important. In addition, Daimler has an alliance to build small vehicles with Renault-Nissan.²¹ Starbucks—the world's largest coffee shop chain (based in Seattle) had established a 50/50 joint venture with Tata Global Beverage—an Indian, Kolkata-based beverage company—in 2012, and already opened 75 stores in India by mid-2015.²² Global cooperation also frequently occurs in higher education. Manchester University (U.K.) has been partnering with Penn State University (U.S.) and Nanyang Technological University (Singapore) in offering Master of Science program in Project Management.²³

Internet Revolution. The proliferation of the internet and e-commerce is wide-reaching. The number of internet users in the world reached 7.3 billion in 2015—a whopping growth rate of 806 percent since 2000. According to internet World Statistics, 55.5 percent of internet users are from Asia, followed by 11.3 percent and 8.5 percent from Europe and Latin America, respectively. North America represents 4.9 percent. Africa accounts for 16.0 percent usage and has seen the most growth since 2012. The Middle East accounts for 3.3 percent usage, which has seen a drop since 2012.²⁴ Although statistics measuring internet usage are hard to be precise due to the fact that different sources use different methods and definitions of e-commerce activities. According to market research firm eMarketer, global e-commerce reached \$1.67 trillion in 2015. That figure represents 7.3 percent of overall global retail sales. By 2019, eMarketer projects online purchases will more than double to \$3.55 trillion or 12.4 percent of total retail sales of \$28.550 trillion.²⁵

Compared to business-to-consumer (B2C) e-commerce, business-to-business (B2B) e-commerce is larger, growing faster, and has less unequal geographical distribution globally.²⁶ Increases in the freedom of movement of goods, services, capital, technology, and people coupled with rapid technological development have resulted in an explosion of global B2B e-commerce. The share of the global B2B e-commerce a country is likely to receive, on the other hand, depends on country-level factors such as income and population size, the availability of credit, venture capital, and telecom and logistical infrastructure, tax and other incentives, tariff/nontariff barriers, government emphasis on the development of human capital, regulations to influence firms' investment in R&D, organizational level politics, language, and the activities of international agencies.²⁷

Who could have anticipated the e-commerce companies of today, including Amazon, eBay, and Google in the United States; QXL Ricardo and Kelkoo in Europe; Rakuten and 7Dream in Japan, and JD.com, Alibaba, and Baidu in China? The internet opened the gates for companies to sell direct-to-consumers easily across national boundaries. Many argue that e-commerce is less intimate than face-to-face retail, but it could actually provide more targeted demographic and psychographic information.²⁸

Manufacturers that traditionally sell through the retail channel may benefit the most from e-commerce. Most importantly, the data allow for the development of relevant marketing messages aimed at important customers and initiates loyal relationships

²¹“BMW, Toyota May Deepen Alliance,” *Wall Street Journal*, www.wsj.com, September 15, 2015.

²²“Starbucks Strengthens India Commitment with Opening of 75th Store,” *Starbucks Newsroom*, <http://www.starbucks.in/about-us/company-information/newsroom>, July 23, 2015.

²³“University Gives Project Managers a Boost with Joint Masters Course,” University of Manchester, <http://www.manchester.ac.uk/discover/news/article/?id=7480>, October 3, 2011.

²⁴<http://www.internetworldstats.com/stats.htm>, accessed May 10, 2016.

²⁵“Global e-Commerce Set to Grow 25% in 2015,” *Internet Retailer*, www.internetretailer.com, July 29, 2015.

²⁶B2B and B2C, among others, have become trendy business terms in recent years. However, they are fundamentally the same as more conventional terms, consumer marketing, and industrial marketing, respectively, except that B2B and B2C imply the use of the Internet, Intranet, customer relationship these trendy terms unless they are absolutely necessary in making our point.

²⁷Nikhilesh Dholakia, “Determinants of the Global Diffusion of B2B E-commerce,” *Electronic Markets*, 12, March 2002, pp. 120–129.

²⁸Gary Gregory, Munib Karavdic, and Shaoming Zou, “The Effects of E-Commerce Drivers on Export Marketing Strategy,” *Journal of International Marketing*, 15(2), 2007, pp. 30–57; and Ikechi Ekeledo and K. Sivakumar, “The Impact of E-Commerce on Entry-Mode Strategies of Service Firms: A Conceptual Framework and Research Propositions,” *Journal of International Marketing*, 12(4), 2004, pp. 46–70.

on a global basis.²⁹ With the onset of satellite communications, consumers in developing countries are also as familiar with global brands as consumers in developed countries, and as a result, there is tremendous pent-up demand for products marketed by multinational companies (which we also refer to as MNCs).³⁰

What's more, the internet builds a platform for a two-way dialogue between manufacturers and consumers, allowing consumers to design and order their own products from the manufacturers. The customized build-to-order business model is already an established trend. Dell Computer is a pioneer that does business globally by bypassing traditional retail channels. It accepts orders by phone, fax, or on the internet.³¹ General Motors started providing a build-to-order web service for its Brazilian customers in 2000. Mazda's Web Tune Factory site (www.w-tune.com), being one of the first Japanese auto build-to-order models, allows consumers to choose their own engine specifications, transmission type, body color, wheel design, and interior and exterior equipment.³² However, as presented in **Global Perspective 1-1**, we would also like to stress as a caveat that the proliferation of e-commerce and satellite communications does not necessarily mean that global marketing activities are going culture- and human contact-free. Learning foreign languages could probably remain as important as ever.

An examination of the top 100 largest companies in the world also vividly illustrates the profound changes in the competitive milieu and provides a faithful mirror image of broad economic trends that we have seen over the past 40-some years (see **Exhibit 1-1**). Particularly the last two decades were characterized by the long-term recession in Japan and a resurgence of the U.S. economy that had once been battered by foreign competition in the 1980s. Take Japan, which has suffered several recessions since 1995 and many political changes, as an example. The number of Japanese companies on the list fell from 22 in 2000 to 7 in 2015. The number of U.S. and European firms in the largest 100 has also declined somewhat since 1990. Although the United States still boasts the largest number of firms in the top 100 list, a list of countries with large firms is getting more decentralized. One of the biggest changes since 1990 has been the emergence of China. As economic reform has progressed and Chinese companies have improved their accounting standards, their presence has grown steadily. Seventeen Chinese companies are on the 2015 *Fortune Global 100* list. The current world economy has changed so drastically from what it was merely two decades ago.

The changes observed in the past 40 years simply reflect that companies from other parts of the world have grown in size relative to those of the United States despite the resurgence of the U.S. economy in the 1990s. In other words, today's environment is characterized not only by much more competition from around the world but also by more fluid domestic and international market conditions than in the past. As a result, many U.S. executives are feeling much more competitive urgency in product development, materials procurement, manufacturing, and marketing around the world. It does not necessarily mean that U.S. companies have lost their competitiveness, however. The robust economy in the United States in the late 1990s met a slowdown in 2000, due to the crash of dotcom's bubble economy, and was worsened by the terrorist attacks on September 11, 2001. However, the strong consumer demand has saved its economy. On the other hand, many Asian countries have recovered from the 1997 Asian financial crisis (see Chapter 3 for details).

The same competitive pressure equally applies to executives of foreign companies. For example, while its Japanese home market was the incredible shrinking market in the 1990s, Toyota's new strategy has been to de-Japanize its business and make the

²⁹Andrew Degenholtz, "E-Commerce Fueling the Flame for New Product Development," *Marketing News*, March 29, 1999, p. 18.

³⁰D. J. Arnold, and J. Quelch, "New Strategies in Emerging Markets," *Sloan Management Review*, 40(1), 1998, pp. 7–20.

³¹However, Dell's direct sales on the internet fails to work in some emerging markets, particularly where customers want to see products before they buy. Such is the case in small cities in China. See "Dell May Have to Reboot in China," *Business Week*, November 7, 2005, p. 46.

³²Setsuko Kamiya, "Mazda lets buyers fine-tune Rodster," *The Japan Times Online*, www.japantimes.co.jp, January 5, 2002.



GLOBAL PERSPECTIVE 1-1

THE INTERNET WORLD AND CULTURAL AND HUMAN ASPECTS OF GLOBAL MARKETING

Cultural differences greatly affect business relationships in the world of e-commerce, but it is often underestimated, especially in international team-building efforts. The problem is not just language issues. Foreign companies need acceptance by the local market and understanding of the local business culture. The internet's awesome communications power can be turned into a conduit for miscommunication if such cultural factors are ignored. Knowing what level of communication is appropriate for a certain level of trust is particularly important in a web-based environment, where face-to-face contact may be more limited.

Think, for example, a typical mid-sized manufacturer in, say, Taiwan, China, or Thailand. Would it enter into a strategic business relationship with companies and people that they encounter only through computerized interactions? The short answer is yes; they will enter into such relationships. However, we qualify our positive reply by adding that the initial courtship ritual must continue to have personal face-to-face, one-to-one, or what we feel is becoming a new "screen to screen" relationship dimension as with traditional business model. In China which has a long tradition of distrust and a culture of relationship-building known as *guanxi*, information, as a key source of power in Chinese business culture, is only passed selectively to individuals who have been proven trustworthy or as insiders. This kind of culture has considerable impact on B2B e-commerce adoption and diffusion in China. In this context, such sociocultural tensions cannot be solved

just with the internet's technical power. In fact, traditional personal face-to-face communications are still critical in building trust and relationships.

However, after the initial mating ritual, you can and already do see tremendous transactional B2B activity in these countries. This is not to say that e-commerce can or should replace the human element to relationship building. In fact, e-commerce is a new form of personalized relationship building that even the highest context cultures engage in. eBay and the other online auction companies are perfect examples of such new electronic relationship and trust building. Even in Eastern cultures, we see numerous gambling sites springing up where the only aspects of the relationship are anonymous e-commerce related.

The first step in developing a personal international business relationship is developing an accessible website. Unless the website makes the first connection based on sensitivity to the cross-cultural aspects of interface design—human factors, navigation currency, time and date conventions, localization, internationalization, and so forth—the ability to "connect" will be stilted.

In the information technology sector, one can look at Dell and Gateway, who both do very strong business in the Asia/Pacific region. The networking company, Cisco Systems, serves as an example of the morphing of electronic and personal relationships. While they have done a tremendous job of building global relationships and partnerships on an in-country face-to-face level, almost 90 percent of their business (i.e., sales transactions) is conducted over the web.

Has the web replaced the need for the personal business courtship? Absolutely not. Has it added a new element to the same relationship after the bonds are formed? Most definitely. Will there be new electronic forms of relationship building that replace the old model of face-to-face in a karaoke bar? Yes, it is happening already. Just think of Facebook or Line using smartphones at your fingertip. Also, think one decade or so ago who would have thought that smartphones would be taking over personal computers for communication via text, Skype, Facetime, and buying things online. This surely will not completely replace face-to-face interaction among global sellers and buyers. However, it will certainly offer a viable substitute for those who grew up chatting online.

Sources: Frank Cutitta, GINLIST@LIST.MSU.EDU, April 17, 1999; Nitish Singh, Vikas Kumar, and Daniel Baack, "Adaptation of Cultural Content: Evidence from B2C E-Commerce Firms," *European Journal of Marketing*, 39 (1/2), 2005, pp. 71–86; Jing Tan, Katherine Tyler, Andrea Manica, "Business-to-Business Adoption of eCommerce in China," *Information & Management*, 44, April 2007, pp. 332–351; Maris G. Martinsons, "Relationship-Based e-Commerce: Theory and Evidence from China," *Information Systems Journal*, Published online, April 15, 2008; Crystal Jiang, Roy Y.J. Chua, Masaaki Kotabe, and Janet Y. Murray, "Effects of Cultural Ethnicity, Firm Size, and Firm Age on Senior Executives' Trust in Their Overseas Business Partners: Evidence from China," *Journal of International Business Studies*, 42, December 2011, pp. 1150–1173; and "In Less Than Two Years, a Smartphone Could Be Your Only Computer," *www.wired.com*, February 10, 2015.

U.S. market its corporate priority. By 2001, Toyota had already accomplished its goal by selling more vehicles in the United States (1.74 million) than in Japan (1.71 million), with almost two-thirds of the company's operating profit coming from the U.S. market. Now Toyota's top U.S. executives are increasingly local hires. As Mark Twain once wrote, "if you stand still, you will get run over." This maxim holds true in describing such competitive pressure in this era of global competition.

It is not only this competitive force that is shaping global business today. Particularly in the past 30 years, many political and economic events have affected the nature

EXHIBIT 1-1**CHANGE IN THE WORLD'S 100 LARGEST COMPANIES
AND THEIR NATIONALITIES**

<i>Country</i>	<i>1970</i>	<i>1980</i>	<i>1990</i>	<i>2000*</i>	<i>2015*</i>
United States	64	45	33	36	32
China	0	0	0	2	17
Germany	8	13	12	12	8
France	3	12	10	11	8
Japan	8	8	16	22	7
Britain	9	7	8	6	5
Italy	3	4	4	3	4
South Korea	0	0	2	0	3
Netherlands	4	5	3	7	3
Russia	0	0	0	0	3
Switzerland	2	3	3	4	2
Spain	0	0	2	0	1
Brazil	0	1	1	0	1
Mexico	0	1	1	0	1
Norway	0	0	0	0	1
Malaysia	0	0	0	0	1
Venezuela	0	1	1	0	1
Taiwan	0	0	0	0	1
Thailand	0	0	0	0	1
Belgium	0	1	1	1	0
Finland	0	0	1	0	0
Sweden	0	0	2	0	0
Austria	0	0	1	0	0
South Africa	0	0	1	0	0
Canada	0	2	0	0	0
Australia	1	0	0	0	0
Total**	102	103	102	103	100

*Fortune Global 500 criteria changed in 2000 to include services firms (including retailing and trading).

**Up to Year 2000, firms with dual nationality were counted for both countries (so the total exceeded 100), but for Year 2015, only one nationality was counted for firms with dual nationality.

Source: *Fortune*, various issues up to 2015.

of global competition. The demise of the Soviet Union (1991), the establishment of the European Union (EU) (1993), and the North American Free Trade Agreement (1994), the recent Trans-Pacific Partnership Agreement (reached in October 2015),³³ as well as deregulation, and privatization of state-owned industries have also changed market environments around the world. Furthermore, the emerging markets of Eastern Europe and the rapidly re-emerging markets of Southeast Asia also add promises to international businesses.

The fluid nature of global markets and competition makes the study of global marketing not only interesting but also challenging and rewarding. The term *global* epitomizes both the competitive pressure and the expanding market opportunities all over the world. It does not mean, however, that all companies have to operate globally like IBM, Panasonic, Unilever, or Samsung. Whether a company operates domestically or across national boundaries, it can no longer avoid competitive pressure from around the world. Competitive pressure can also come from competitors at home. When Weyerhaeuser, a forest products company headquartered in Seattle, Washington, began exporting newspaper rolls to Japan, it had to meet the exacting quality standard that Japanese newspaper publishers demanded—and it did. As a result, this Seattle-based company now boasts the best newspaper rolls and outperforms other domestic companies in the U.S. market as well. Even smaller firms could benefit from exacting foreign market requirements. When Weaver Popcorn Co. of Van Buren, Indiana, started to export popcorn to Japan, Japanese distributors demanded better quality and fewer

³³The Trans-Pacific Partnership (TPP) is a trade agreement entered into on October 5, 2015 among 12 Pacific Rim countries, including Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States, and Vietnam. The TPP agreement's goal is to enhance trade and investment among the TPP partner countries and to promote innovation, economic growth, and development. At the time of this writing in early 2016, the TPP agreement has yet to be ratified individually by its member countries before it takes effect.

imperfections. This led to improvements in Weaver's processing equipment and product, which helped its domestic as well as international sales.³⁴ Furthermore, e-commerce comes in handy to those smaller firms with international marketing ambitions. Therefore, even purely domestic companies that have never sold anything abroad cannot be shielded from international competitive pressure. The point is that when we come across the term *global*, we should be aware of both this intense competitive pressure and expanding market opportunities on a global basis.



GLOBALIZATION OF MARKETS: CONVERGENCE AND DIVERGENCE

When a country's per capita income is less than \$10,000, much of the income is spent on food and other necessity items, and very little disposable income remains. However, once per capita income reaches \$20,000 or so, the disposable portion of income increases dramatically because the part of the income spent on necessities does not rise nearly as fast as income increases. As a result, a billion people, constituting some 16 percent of the population, around the world with per capita income of \$20,000 and above, have considerable purchasing power. With this level of purchasing power, people, irrespective of their nationality, tend to enjoy similar educational levels, academic and cultural backgrounds, and access to information. As these cultural and social dimensions begin to resemble each other in many countries, people's desire for material possessions, ways of spending leisure time, and aspirations for the future become increasingly similar. Even deeply rooted cultures have begun to converge.³⁵ In other words, from a marketing point of view, those people have begun to share a similar "choice set" of goods and services originating from many parts of the world. What does it mean?

In one sense, we see young people jogging, wearing Nike shoes (an American product made in China), listening to Sam Smith (a British singer-songwriter) or Lorde (a New Zealand female artist) on Apple's iPhone (an American product assembled by Foxconn, a Taiwanese company, in Shenzhen, China with a microprocessor made by Korea's Samsung in Austin, Texas) in Shanghai, Philadelphia, São Paulo, Sydney, and Tokyo. Similarly, hipsters in Amsterdam, Chicago, Osaka, and Vancouver share a common lifestyle, driving a BMW (a German car assembled outside Germany) to the office, listening to Sumi Jo's and Sissel Kyrkjebø's new albums (purchased on their business trips to Korea and Norway, respectively), using a Lenovo Thinkpad laptop computer (a Chinese product assembled in the United States) at work, signing important documents with an exquisite Parker Pen (made by a French-based company owned by a U.S. company), and having a nice seafood buffet at Mövenpick (a Swiss restaurant chain) on a Friday evening. In the evenings, these people spend their spare time browsing around various websites using the Google search engine (an American internet company) to do some "virtual" window-shopping on their PCs (powered by a microprocessor made in Malaysia by Intel, an American company). The convergence of consumer needs in many parts of the world translates into tremendous business opportunities for companies willing to risk venturing abroad.

The *convergence* of consumer needs at the macro level may be true, but it does not necessarily mean that individual consumers will adopt all the products from around the world. Globalization does not suffocate local cultures but rather liberates them from the ideological conformity of nationalism.³⁶ As a result, we have become ever more selective. Therefore, you find one of your friends at school in the United States, driving a Chevrolet Aveo (a subcompact car made by Daewoo in Korea, owned by General Motors), enjoying Whoppers at a Burger King fast food restaurant (an ex-British

³⁴"Weaver Popcorn Company," Encyclopedia.com, 2008.

³⁵For an excellent story about global cultural convergence, read "Global Culture" and "A World Together," *National Geographic*, 196, August 1999, pp. 2–33.

³⁶Mario Vargas Llosa, "The Culture of Liberty," *Foreign Affairs*, issue 122, January/February 2001, pp. 66–71.

company and now an American), and practicing capoeira (a 400-year-old Brazilian martial art), and another friend in Austria driving a Peugeot 107 (a French car made by Toyota in the Czech Republic; also marketed as Citroën 1 as well as Toyota Aygo), enjoying sushi at a sushi restaurant (a Japanese food), and practicing karate (an ancient Japanese martial art), as well as a cousin of yours driving a Ford Escape (an American sports utility vehicle), munching on pizzas (an American dish of Italian origin), and practicing soccer (a sport of English origin, known as “football” outside the United States and some few other countries). In other words, thanks to market globalization, not only have we become more receptive to new things, but we also have a much wider, more divergent “choice set” of goods and services to choose from to shape our own individual preferences and lifestyles. This is true whether you live in a small town in the United States or a big city in Europe. Even web-based marketing communications that have seemingly flattened the world still reflect cultural differences.³⁷ In other words, the *divergence* of consumer needs and cultural preferences exists at the same time. For example, Pollo Campero, a Latin American fried chicken chain from Guatemala, which offers a crunchy bite of chicken with a Latin service in a Latin American environment, has been catching on quietly in the United States, the land of KFC, to cater to Americans’ increased appetite for a different kind of chicken.³⁸ From a marketing point of view, it is becoming more difficult—not easier—to pinpoint consumers’ preferences in any local market around the world, the more globalized the markets become.³⁹

As presented in **Global Perspective 1-2**, the EU market offers a vivid example of how market forces of convergence and divergence are at work. One thing is clear. There is no such a thing as a static market in an era of globalization.

GLOBAL PERSPECTIVE 1-2

MARKET CONVERGENCE AND DIVERGENCE AT WORK AND BRITAIN’S POTENTIAL EXIT FROM THE EUROPEAN UNION



Will Euroland survive? Rejection of the proposed EU Constitution by France and The Netherlands in 2005 caused anguish for political and EU economic elites. An “ever closer union” had been seen—until the no vote called it into question—(see Chapter 2 for details) as the European answer to globalization, political security, and economic growth. In 2007, EU member states eventually came to a new agreement, known as the Lisbon Treaty, to abandon the constitution and instead to amend the existing treaties. European leaders aren’t the only ones concerned. Insightful American and Japanese business managers are also worried because, contrary to popular belief, the chief economic beneficiaries of European integration are American and Japanese multinational corporations.

The EU has experienced its own growth pains over the years and is not without some serious problems. For example, Greece strapped with such huge government debts that the EU may not be able to rescue the Greek government. As a result, there is a real possibility of what is called Grexit

(Greek exit). And more saliently, on the referendum on June 23, 2016, Britain people voted for exiting from the EU for policy differences and unclear benefits of being an EU member. It is known as the Brexit. However, at the time of writing in late June 2016, it is not clear what will actually happen as British people came to realize the potential enormity of their decision on the country’s future. At the time of this writing, it is not certain whether or not Britain will actually exit the EU. Even if it does, Britain’s actual departure from the EU will be a few years away. Britain’s decision was not unanimously supported, however. England and Wales were in favor of the Brexit, while Scotland and Northern Ireland were opposed to it. This internal political divide could exacerbate the unity of the United Kingdom down the road, or even encourage other EU countries to rethink of their association with the EU. At this point, nobody knows for sure what type of trading relationships Britain will maintain with the rest of the EU.

³⁷Daniel Baack and Nitish Singh, “Culture and Symbol Systems: An Investigation of the Link Between Culture and Web Communications,” *Journal of Business Research*, 60 (3), 2007, pp. 181–188.

³⁸“Invasion of the Guatemalan Chicken,” *Business Week*, March 22, 2010, pp. 72–73.

³⁹Jan Nowak and Olena Kochkova, “Income, Culture, and Household Consumption Expenditure Patterns in the European Union: Convergence or Divergence?” *Journal of International Consumer Marketing*, 23 (3/4), 2011, pp. 260–275; and “Globalism Has Made Local More Important,” *Advertising Age*, February 20, 2012, p. 11.

Historically, Europe, due to national, cultural, and ethnic differences, has had heterogeneous and fragmented markets. These markets produced small to mid-sized firms capable of adapting to, and prospering in, highly differentiated environments. Even the largest European companies tended to operate at the national, rather than Pan-European, level, avoiding the many encumbrances of functioning across borders where market conditions were so dissimilar. For instance, for many years, Unilever sold a fabric softener in 10 countries under 7 different brand names, using a variety of marketing strategies and bottle shapes.

Typical European firms pursued niche strategies, emphasizing craftsmanship, specialization, and networks of relationships. Europe, with its myriad laws, languages, and customs, historically constituted a market environment with significant entry and operating barriers. Foreign firms could not use economies of scale or scope inherent in large homogenous markets; they were unable to compete on the basis of low cost or low price. High labor costs, heavy taxation to support welfare states, and high expectations of European retailers and consumers, all worked together to shape an environment that favored the creation of specialized, premium products rather than mass consumption products. This put U.S. multinationals in Europe at a competitive disadvantage.

The traditional European advantage was based on the notion that a less homogenous market place requires a more individualized marketing strategy. This approach is at odds with the strategy of many American firms—the ability to reduce costs through economies of scale and scope. Historically, market fragmentation shielded Europe from U.S. competition. Such fragmentation constituted location-specific advantages which were either costly to overcome or were simply impenetrable for many smaller U.S. companies. However, the creation of the EU changed the rules of the game.

One major purpose of the EU is to create extensive homogeneous markets in which large European firms are able to take advantage of economies of scale and therefore are better able to compete with their U.S. counterparts. EU reformers hope to create an economy analogous to the United States, in which low inflation coexists with high growth, thereby leading to low unemployment. However, regional economic difficulties recently experienced by such countries as Greece and Spain as well as Britain's recent decision to exit from the EU

in June 2016 and post-decision lingering uncertainties would make us think that the EU is still far from realizing a truly united Europe.

The formation of the EU has resulted in extremely large levels of U.S. and Japanese foreign direct investment (FDI) in Europe. Why? First, it was feared that the EU would become Fortress Europe through the implementation of significant protectionist measures against firms from outside the EU. Under these circumstances, FDI constitutes tariff jumping in anticipation of negative actions that may or may not occur in the future. Second, the elimination of internal borders creates a single market, amenable to the large economies of scale and scope preferred by U.S. and Japanese multinationals.

Numbers tell the story. The average FDI inflows into the European Community (as the EU was then known until November 1, 1993) amounted to \$65.6 billion from 1985 to 1995. The inflow in 1999 (the year the euro, a new currency adopted by 11 EU member countries, was launched) was \$479.4 billion—a 700 percent increase. By 2000, Japanese investment in the EU was roughly six times more than EU investment in Japan. In 1980, the total FDI stock of European Community was \$216 billion; by 2013, it was \$8.11 trillion in the EU or 60 percent of the EU's gross domestic product.

About five decades ago the French intellectual, J.J. Servan-Schreiber complained bitterly about the U.S. presence in Europe in a best-selling book entitled, *The American Challenge* (1967). The Europeans now face similar competitive dynamics. Ironically, in their quest for economic competitiveness, they may have made themselves more vulnerable to the ambitions of U.S. and other foreign multinationals.

What can European firms do to cope with the onslaught of U.S. and other foreign multinationals? Large European firms can counter U.S. competitors by exporting or investing directly in the United States and other markets. Red Bull, the Austrian company that created the energy drink category, expanded throughout Europe after the Maastricht Treaty came into force in 1993. In 1997, it was big enough to take on the American market, and by 1999, its sales were \$75 million. Today, Red Bull is popular around the world. In 2014, 5.6 billion cans were sold in 167 countries. And the company sales amounted to 5.11 billion euros in 2014. On March 24, 2008, Red Bull introduced its first foray into the cola market with a product named Simply Cola. Mergers and acquisitions resulting from unification also enhance the ability of EU firms to enter the United States. For example, in June of 2000, the French firm Publicis Groupe acquired Saatchi & Saatchi, the UK-based advertising firm, as a means of strengthening its position in the American market.

Smaller European firms are likely to consider pursuing a universal niche market strategy. For instance, Iona Technologies PLC, an Irish software firm, has successfully internationalized by pursuing a global niche market strategy.

Finally, there remain EU customers who continue to prefer the more expensive, high-quality European products. Keeping this market segment from being eroded by U.S. and other foreign competitors is key in retaining the viability of the EU market. The irony is that, if the failure of the EU Constitution is just the first event in a cascade of reversals for the integrationists, the newly refragmented markets may once again play a major role in strengthening the competitive position of smaller European firms.

Sources: Lance Eliot Brouthers and Timothy J. Wilkinson, "Is the EU Destroying European Competitiveness?" *Business Horizons*, 45 (July–August 2002), 37–42; "United Europe Celebrates Ethnic Diversity," *CNN.com*, November 20, 2008; Jan Oster, "The Making of the EU's Lisbon Treaty: The Role of Member States," *Common Market Law Review*, 52 (October 2015), 1430–1431; "Spain is Battling to Avoid Becoming Europe's Next Greece," *MarketWatch*, www.marketwatch.com, July 6, 2015; Eurostat: Statistics Explained, <http://ec.europa.eu/eurostat/statistics-explained>, accessed December 1, 2015; Sam Kerr, "Lloyd's Cautious over Grexit/Brexit Risks," *Reactions*, October 5, 2015, p. 3; "A background guide to 'Brexit' from the European Union," *Economist*, www.economist.com, January 15, 2016; Red Bull the Company, <http://energydrink.redbull.com/company>, accessed February 28, 2016; "Scotland Backs Remain—but is dragged out by England," *Economist*, www.economist.com, June 24, 2016; "Britain and the EU: A Tragic Split," *Economist*, www.economist.com, June 24, 2016; and "The UK's Referendum: All You Need to Know," *BBC News*, www.bbc.com, June 24, 2016.

International Trade versus International Business

The United States, which enjoys one of the highest per-capita income levels in the world, has long been the most important single market for both domestic and foreign companies. As a result of its insatiable demand for foreign products, the United States has been running a trade deficit since 1973—for four consecutive decades (more on this in Chapter 2). In the popular press, the trade deficits have often been portrayed as a sign of the declining competitiveness of the United States. This assumes—rather erroneously—that U.S. companies engaged only in exports and imports and that international trade takes place between independent buyers and sellers across national boundaries. In order to appreciate the complexities of global competition, the nature of international trade and international business have to be clarified first, followed by a discussion of who manages international trade.

First of all, we have to understand the distinction between international trade and international business. Indeed, **international trade** consists of exports and imports, say, between the United States and the rest of the world. If U.S. imports exceed U.S. exports, then the nation would register a trade deficit. If the opposite were the case, then the United States would register a trade surplus. On the other hand, **international business** is a broader concept and includes international trade and foreign production. U.S. companies typically market their products in three ways. First, they can export their products from the United States, which is recorded as a U.S. export. Second, they can invest in their foreign production on their own and manufacture those products abroad for sale there. This transaction does not show up as a U.S. export, however. And third, they can contract out manufacturing in whole or part to a company in a foreign country, either by way of licensing or joint venture agreement. Of course, not all companies engage in all three forms of international transaction. Nonetheless, foreign manufacture on their own or on a contractual basis is a viable alternative means to exporting products abroad. Although it is not widely known, foreign production constitutes a much larger portion of international business than international trade.

The extensive international penetration of U.S. and other companies has been referred to as *global reach*.⁴⁰ Since the mid-1960s, U.S.-owned subsidiaries located around the world have produced and sold three times the value of all U.S. exports. Although more recent statistics are not available, this 3:1 ratio of foreign manufacture to international trade had remained largely unchanged in the 1980s and 1990s, and it becomes much more conspicuous if we look at U.S. business with the EU, where U.S.-owned subsidiaries sold more than six times the total U.S. exports in 1990. Similarly, European-owned subsidiaries operating in the United States sold five times as



Charles Thatcher/The Image Bank/Getty Images

A Global Reach: Executives increasingly use a global map to visualize their strategy.

⁴⁰Richard J. Barnet and R. E. Muller, *Global Reach: The Power of the Multinational Corporations* (New York: Simon and Schuster, 1974).

much as U.S. imports from Europe.⁴¹ This suggests that experienced companies tend to manufacture overseas much more than they export. On the other hand, Japanese companies did not expand their foreign manufacturing activities in earnest until about 30 years ago. According to one estimate, more than 90 percent of all the cases of Japanese FDI have taken place since 1985.⁴² Despite their relative inexperience in international expansion, Japanese subsidiaries registered two-and-a-half times as much foreign sales as all Japanese exports worldwide by 1990.⁴³

Who Manages International Trade?

As just discussed, international trade and foreign production are increasingly managed on a global basis. Furthermore, international trade and foreign production are also intertwined in a complex manner. Think about Honda Motors, a Japanese automobile manufacturer. Honda initially exported its Accords and Civics to the United States in the 1970s. By mid-1980s, Honda began manufacturing those cars in Marysville, Ohio, in the United States. Now the Japanese company exports Honda and Acura cars and SUVs from the United States to a number of global markets. It increased U.S. exports of 36,000 vehicles in 2010 to over 54,000 vehicles in 2014. In 2013, Honda became a “net exporter” for the first time, exporting more U.S.-built vehicles from the United States than it imported into the United States from Japan. The company also started manufacturing its “world car” in Thailand, Brazil, and China due to the low cost and then exported to Europe and Japan. It is expected in a matter of time that Honda cars sold in Japan will eventually all be produced and imported from abroad.⁴⁴ Similarly, Texas Instruments has a large semiconductor manufacturing plant in Japan, marketing its semiconductor chips not only in Japan but also exporting them from Japan to the United States and elsewhere. In addition to traditional exporting from their home base, those companies manufacture their products in various foreign countries both for local sale and for further exporting to the rest of the world, including their respective home countries. In other words, MNCs are increasingly managing the international trade flow within themselves. This phenomenon is called **intra-firm trade**.

Intra-firm trade makes trade statistics more complex to interpret, since part of the international flow of products and components is taking place between affiliated companies within the same corporate system, transcending national boundaries. Although statistical information is scarce, one United Nations official report shows that in 1999, 34 percent of world trade was intra-firm trade between MNCs and their foreign affiliates and between those affiliates, and that additional 33.3 percent of world trade was exports by those MNCs and their affiliates. In other words, two-thirds of world trade is managed one way or another by MNCs.⁴⁵ These trade ratios have been fairly stable over time.⁴⁶

Although few statistics are available, service industries are going through the same evolution as manufacturing industries on a global basis. Following the global recession, in 2010, world exports of commercial services have grown consistently, reaching US\$4.6 trillion in 2013. Since 2000, exports of commercial services from developing countries have grown by 14 percent per year on average, a much higher growth rate than in other economies (9 percent on average). Nevertheless, among the top global service exporters

⁴¹Peter J. Buckley and R. D. Pearce, “Overseas Production and Exporting by the World’s Largest Enterprises,” *International Executive* 22, Winter, 1980, pp. 7–8; Dennis J. Encarnation, “Transforming Trade and Investment, American, European, and Japanese Multinationals Across the Triad,” a paper presented at the Academy of International Business Annual Meetings, November 22, 1992.

⁴²Masaaki Kotabe, “The Promotional Roles of the State Government and Japanese Manufacturing Direct Investment in the United States,” *Journal of Business Research*, 27, June 1993, pp. 131–146.

⁴³Encarnation, “Transforming Trade and Investment.”

⁴⁴“Honda Could Bring a Small Car to Europe from Thailand,” *Automotive News Europe*, December 13, 2004, p. 3; and *Trends in U.S. Vehicle Exports*, U.S. Department of Commerce, Office of Transportation and Machinery, August 2015.

⁴⁵Khalil Hamdani, “The Role of Foreign Direct Investment in Export Strategy,” presented at 1999 Executive Forum on National Export Strategies, International Trade Centre, the United Nations, September 26–28, 1999.

⁴⁶United Nations Center on Transnational Corporations, *Transnational Corporations in World Development: Trends and Perspectives* (New York: United Nations, 1988); Organization for Economic Cooperation and Development, *Intra-Firm Trade* (Paris, OECD, 1993); and Rainer Lanz and Sébastien Miroudot, *Intra-Firm Trade: Patterns, Determinants and Policy Implications*, OECD Trade Policy Papers No. 114, 2011.

and importers, the United States was still ranked the largest exporter, providing US\$686 billion of services to the rest of the world. The United States was also the top importer of services, receiving US\$454 billion worth of services in 2014.⁴⁷ Indeed, some similarities exist in intra-firm trade of services. Today, approximately 16 percent of the total value of U.S. exports and imports of services were conducted across national boundaries on an intra-firm basis.⁴⁸ Government deregulation and technological advancement have facilitated the tradability of some services globally and economically.

EVOLUTION OF GLOBAL MARKETING



Marketing is essentially the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.⁴⁹ Marketing is not only much broader than selling but also encompasses the entire company's *market orientation* toward customer satisfaction in a competitive environment. In other words, marketing strategy requires close attention to both customers and competitors.⁵⁰ Quite often, marketers have focused excessively on satisfying customer needs while ignoring competitors. In the process, competitors have outmaneuvered them in the marketplace with better, less-expensive products. It is widely believed that in many cases, U.S. companies have won the battle of discovering and filling customer needs initially, only to be defeated in the competitive war by losing the markets they pioneered to European and Japanese competitors.⁵¹

What Is Marketing?

It is increasingly difficult for companies to avoid the impact of competition from around the world and the convergence of the world's markets. As a result, an increasing number of companies are drawn into marketing activities outside their home country. However, as previously indicated, different companies approach marketing around the world very differently. For example, Michael Dell established Dell Computer because he saw a burgeoning market potential for IBM-compatible personal computers in the United States. After his immediate success at home, he realized a future growth potential would exist in foreign markets. Then his company began exporting Dell PCs to Europe and Japan. In a way, this was a predictable pattern of foreign expansion. On the other hand, not all companies go through this predictable pattern. Think about Apple's iPhone 6 and 6 Plus launched in over 100 countries in 2014. Apple did not customize its smartphones in terms of features and looks. The secret of any global brand success is cultural understanding. Apple seems to have identified the underlying common ground of customers around the world as Steve Jobs claimed that the main thing in their design is to make things intuitively obvious. However, Apple addressed cultural differences by making sure that the store has an inviting appeal that matches its surrounding culture and environment in different countries.⁵²

⁴⁷WTO *International Trade Statistics 2015*, www.wto.org.

⁴⁸Janet Y. Murray and Masaaki Kotabe, "Sourcing Strategies of U.S. Service Companies: A Modified Transaction-Cost Analysis," *Strategic Management Journal* 20, September 1999, 791–809; Kotabe, Masaaki, and Janet Y. Murray, "Global Procurement of Service Activities by Service Firms," *International Marketing Review* 21 (6), 2004, 615–633; for detailed statistics, see Michael A. Mann, Laura L. Brokenbaugh, and Sylvia E. Bargas, "U.S. International Services," *Survey of Current Business*, 80, October 2000, pp. 119–161.

⁴⁹This is the definition of marketing adopted by the American Marketing Association in July 2013 and is strongly influenced by Drucker's conception of two entrepreneurial functions—marketing and innovation—that constitute business. Recent thinking about marketing also suggests the task of the marketer is not only to satisfy the current needs and wants of customers but also to innovate on products and services, anticipating and even creating their future needs and wants. See Peter F. Drucker, *The Practice of Management* (New York: Harper & Brothers, 1954), pp. 37–39; and also Frederick E. Webster, Jr., "The Changing Role of Marketing in the Corporation," *Journal of Marketing*, 56, October 1992, pp. 1–16.

⁵⁰Janet Y. Murray, Gerald Yong Gao, and Masaaki Kotabe, "Market Orientation and Performance of Export Ventures: The Process through Marketing Capabilities and Competitive Advantages," *Journal of the Academy of Marketing Science*, 39, April, 2011, pp. 252–269.

⁵¹Robert M. Peterson, Clay Dibrell, and Timothy L. Pett, "Whose Market Orientation Is Longest: A Study of Japan, Europe, and the United States," *Enhancing Knowledge Development in Marketing*, 1999 American Marketing Association Educators' Proceedings, Summer 1999, p. 69.

⁵²Francois Hovivian, "Globalization: Apple's One-Size-Fits-All Approach," *Brand Quarterly*, www.brandquarterly.com, December 19, 2014.

Companies generally develop different marketing strategies depending on the degree of experience and the nature of operations in international markets. Companies tend to evolve over time, accumulating international business experience and learning the advantages and disadvantages associated with complexities of manufacturing and marketing around the world.⁵³ As a result, many researchers have adopted an evolutionary perspective of internationalization of the company just like the evolution of the species over time.

Recently, however, due to increased movement of technically skilled entrepreneurs through immigration and emigration as well as improved communications and venture capital, the pace of internationalization has also accelerated. As a result, an increasing number of entrepreneurial firms (high-tech firms in particular) that possess a global vision from their start engage in export sales immediately and even FDI as well as international alliances at an early stage of development. These firms are often called “Born Global” firms.⁵⁴

In the following pages, we formally define and explain five stages characterizing the evolution of global marketing. Of course, not all companies go through the complete evolution from a purely domestic marketing stage to a purely global marketing stage. An actual evolution depends also on the economic, cultural, political, and legal environments of various country markets in which the company operates, as well as on the nature of the company’s offerings. A key point here is that many companies are constantly under competitive pressure to move forward both *reactively* (responding to the changes in the market and competitive environments) and *proactively* (anticipating the change). Remember, “If you stand still, you will get run over ...”.

Therefore, knowing the dynamics of the evolutionary development of international marketing involvement is important for two reasons. First, it helps in the understanding of how companies learn and acquire international experience and how they use it for gaining competitive advantage over time. This may help an executive to be better prepared for the likely change needed in the company’s marketing strategy. Second, with this knowledge, a company may be able to compete more effectively by predicting its competitors’ likely marketing strategy in advance.

As shown in **Exhibit 1-2**, there are five identifiable stages in the evolution of marketing across national boundaries.⁵⁵ These evolutionary stages are explained in the following section.

Domestic Marketing

The first stage is **domestic marketing**. Before entry into international markets, many companies focus solely on their domestic market. Their marketing strategy is developed based on information about domestic customer needs and wants; industry trends; and economic, technological, and political environments at home. When those companies consider competition, they essentially look at domestic competition. Today, it is highly conceivable that competition in a company’s home market is made up of both domestic competitors and foreign competitors marketing their products in the home market. Domestic marketers tend to be *ethnocentric* and pay little attention to changes taking place in the global marketplace, such as changing lifestyles and market segments, emerging competition, and better products that have yet to arrive in their domestic market. *Ethnocentrism* is defined here as a predisposition of a firm to be predominantly unconcerned with its viability worldwide and to think of its legitimacy only in its home

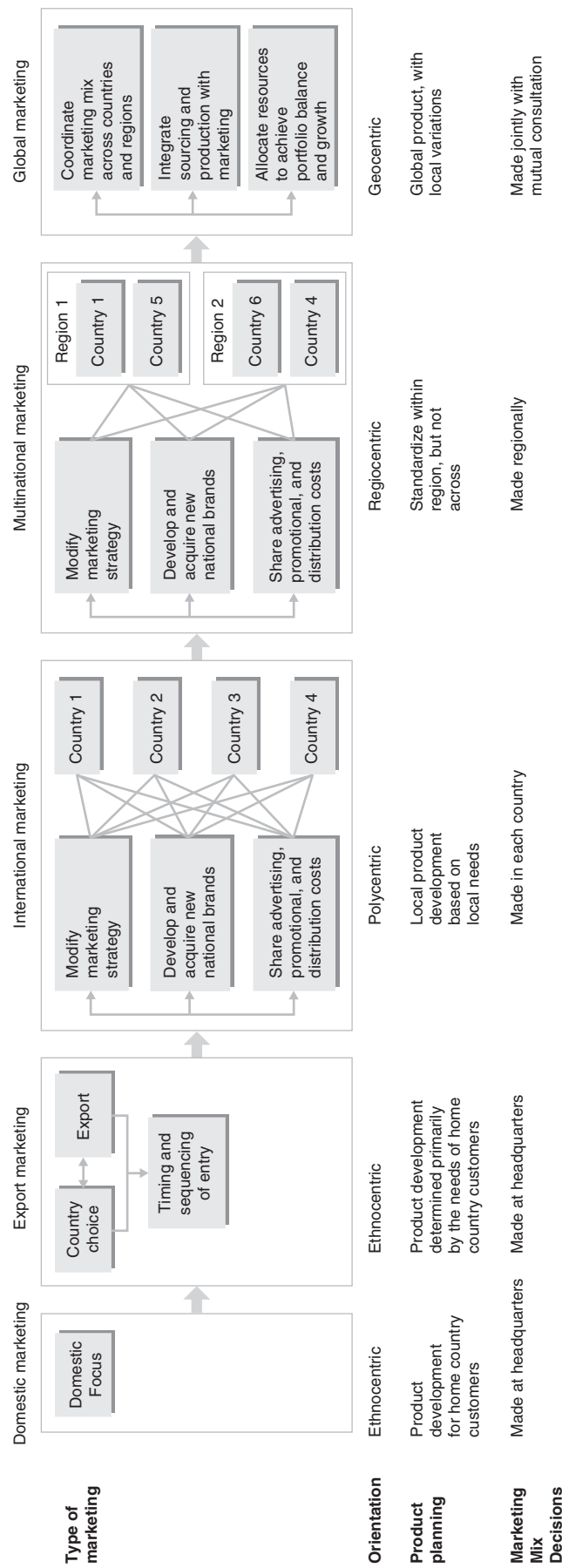
⁵³ Anna Shaojie Cui, David A. Griffith, S. Tamer Cavusgil, “The Influence of Competitive Intensity and Market Dynamism on Knowledge Management Capabilities of Multinational Corporation Subsidiaries,” *Journal of International Marketing*, 13 (3), 2005, pp. 32–53.

⁵⁴ See, for example, Gary A. Knight and S. Tamer Cavusgil, “Innovation, Organizational Capabilities, and the Born-Global Firm,” *Journal of International Business Studies*, 35 (2), 2004, pp. 124–141; Giusy Cannone and Elisa Ughetto, “Born Globals: A Cross-Country Survey on High-Tech Start-Ups,” *International Business Review*, 23 (1), 2014, pp. 272–283; and Gary A. Knight and Peter W. Liesch, “Internationalization: From Incremental to Born Global,” *Journal of World Business*, doi:10.1016/j.jwb.2015.08.011.

⁵⁵ This section draws from Balaji S. Chakravarthy and Howard V. Perlmutter, “Strategic Planning for a Global Business,” *Columbia Journal of World Business*, Summer 1985, pp. 3–10; Susan P. Douglas and C. Samuel Craig, “Evolution of Global Marketing Strategy: Scale, Scope and Synergy,” *Columbia Journal of World Business*, 24 (Fall 1989), pp. 47–59.

EXHIBIT 1-2

EVOLUTION OF GLOBAL MARKETING



Sources: Constructed from Susan P. Douglas and C. Samuel Craig, "Evolution of Global Marketing Strategy: Scale, Scope and Synergy," *Columbia Journal of World Business*, 24, Fall 1985, p. 50; and Balaji S. Chakravarthy and Howard V. Perlmutter, "Strategic Planning for a Global Business," *Columbia Journal of World Business*, 20, Summer 1985, p. 6.

country⁵⁶—that is, where all strategic actions of a company are tailored to domestic responses under similar situations. As a result, they may be vulnerable to the sudden changes forced on them by foreign competition. For example, U.S. automakers suffered from this ethnocentrism in the 1960s and 1970s as a result of their neglect of imminent competition from Japanese automakers with more fuel-efficient cars that would eventually seize a market opportunity in the United States as a result of the two major oil crises in the 1970s.

Export Marketing

The second stage is **export marketing**. Usually, initial export marketing begins with unsolicited orders from foreign customers. When a company receives an order from abroad, it may reluctantly fill it initially, but it gradually learns the benefit of marketing overseas. In general, in the early stage of export marketing involvement, the internationalization process is a consequence of incremental adjustments to the changing conditions of the company and its environment, rather than a result of its deliberate strategy. Such a pattern is due to greater uncertainty in international business, higher costs of information, and the lack of technical knowledge about international marketing activities. At this early export marketing stage, exporters tend to engage in *indirect exporting* by relying on export management companies or trading companies to handle their export business.

Some companies progress to a more involved stage of internationalization by *direct exporting*, once three internal conditions are satisfied. First, the management of the company obtains favorable expectations of the attractiveness of exporting based on experience. Second, the company has access to key resources necessary for undertaking additional export-related tasks. Such availability of physical, financial, and managerial resources is closely associated with firm size. Particularly, small companies may have few trained managers, and little time for long-term planning as they are preoccupied with day-to-day operational problems and consequently find it difficult to become involved in exporting. Third, management is willing to commit adequate resources to export activities.⁵⁷ The company's long-term commitment to export marketing depends on how successful management is in overcoming various barriers encountered in international marketing activities. An experienced export marketer has to deal with difficulties in maintaining and expanding export involvement. These difficulties include import/export restrictions, cost and availability of shipping, exchange rate fluctuations, collection of money, and development of distribution channels, among others. Overall, favorable experience appears to be a key component in getting companies involved in managing exports directly without relying on specialized outside export handlers. To a large degree, an appropriate measure of favorableness for many companies consists of profits. An increase in profits due to a certain activity is likely to increase the company's interest in such activity.⁵⁸

External pressures also prod companies into export marketing activities. Saturated domestic markets may make it difficult for a company to maintain sales volume in an increasingly competitive domestic market; it will become much more serious when foreign competitors begin marketing products in the domestic market. Export marketers begin paying attention to technological and other changes in the global marketplace that domestic marketers tend to ignore. However, export marketers still tend to take an ethnocentric approach to foreign markets as being an extension of their domestic market and export products developed primarily for home country customers with limited adaptation to foreign customers' needs.

International Marketing

Once export marketing becomes an integral part of the company's marketing activity, it will begin to seek new directions for growth and expansion. We call this stage **international marketing**. A unique feature of international marketing is its *polycentric*

⁵⁶Chakravorthy and Perlmutter, pp. 3–10.

⁵⁷S. Tamer Cavusgil, "On the Internationalization Process of Firms," *European Research*, 8, November 1980, pp. 273–279.

⁵⁸Masaaki Kotabe and Michael R. Czinkota, "State Government Promotion of Manufacturing Exports: A Gap Analysis," *Journal of International Business Studies*, 23 (Fourth Quarter 1992), pp. 637–658.

orientation with emphasis on product and promotional adaptation in foreign markets, whenever necessary.⁵⁹ *Polycentric orientation* refers to a predisposition of a firm to the existence of significant local cultural differences across markets, necessitating the operation in each country being viewed independently (i.e., all strategic decisions are thus tailored to suit the cultures of the concerned country). As the company's market share in a number of countries reaches a certain point, it becomes important for the company to defend its position through local competition. Because of local competitors' proximity to, and familiarity with, local customers, they tend to have an inherent "insider" advantage over foreign competition. To strengthen its competitive position, the international marketer could adapt its strategy, if necessary, to meet the needs and wants of local customers in two alternative ways. First, the company may allocate a certain portion of its manufacturing capacity to its export business. Second, because of transportation costs, tariffs, and other regulations, and availability of human and capital resources in the foreign markets, the company may even begin manufacturing locally. BMW has been exporting its cars to the United States for many years. In 1992, the German company invested a manufacturing plant in South Carolina in order to be more adaptive to changing customer needs in this important market and to take advantage of rather inexpensive resources as a result of the dollar depreciation against the euro. Accordingly, BMW South Carolina has become part of BMW Group's global manufacturing network and is the exclusive manufacturing plant for all Z4 Roadster and X5 Sports Activity Vehicles.⁶⁰ So much so, BMW has now grown to become the largest exporter of U.S.-made vehicles from the United States.⁶¹

If international marketing is taken to the extreme, a company may establish an independent foreign subsidiary in each and every foreign market and have each of the subsidiaries operate independently of each other without any measurable headquarters control. This special case of international marketing is known as **multidomestic marketing**. Product development, manufacturing, and marketing are all executed by each subsidiary for its own local market. As a result, different product lines, product positioning, and pricing may be observed across those subsidiaries. Few economies of scale benefits can be obtained. However, multidomestic marketing is useful when customer needs are so different across different national markets that no common product or promotional strategy can be developed. Even Coca-Cola, which used to practice globally standardized marketing strategy, has changed its strategy when it found that its structure had become too cumbersome and that it was insensitive to local markets. In 2000, the company decided to return to a more multidomestic marketing approach and to give more freedom to local subsidiaries. Local marketing teams are now permitted to develop advertising to local consumers and even launch new local brands.⁶²

At this stage, the company markets its products in many countries around the world. We call this stage **multinational marketing**. Management of the company comes to realize the benefit of economies of scale in product development, manufacturing, and marketing by consolidating some of its activities on a regional basis. This *regiocentric* approach suggests that product planning may be standardized within a region (e.g., a group of contiguous and similar countries), such as Western Europe, but not across regions. Products may be manufactured regionally as well. Similarly, advertising, promotional, and distribution costs may also be shared by subsidiaries in the region. In order for the company to develop its regional image in the marketplace, it may develop and acquire new regional brands to beef up its regional operations. General Motors has a regional

Multinational Marketing

⁵⁹Warren J. Keegan, "Multinational Product Planning: Strategic Alternatives," *Journal of Marketing*, 33, January 1969, pp. 58–62.

⁶⁰<http://www.bmwusa.com/>, accessed December 20, 2015.

⁶¹"BMW's Made in America Surging as Biggest Auto Export: Cars," *BloombergBusiness*, www.bloomberg.com, July 11, 2014.

⁶²Isabelle Schuiling and Jean-Noë Kapferer, "Real Differences between Local and International Brands: Strategic Implications for International Marketers," *Journal of International Marketing*, 12 (4), 2004, pp. 97–112.

subsidiary, Opel (headquartered in Germany), to market both GM and Opel cars with a strong European distinction. In more recent years, GM, unable to sell its way into Japan for a long time, has quietly formed a network of equity alliances with Japanese auto makers to expand into this once-impenetrable market and a platform for its Asian expansion. Even when having difficulty occupying a market, a firm may think out of box regarding alliance or partnership that can lead it into the market.

Global Marketing

The international (country-by-country) or multinational (region-by-region) orientation, while enabling the consolidation of operations within countries or regions, will tend to result in market fragmentation worldwide, nonetheless. Operational fragmentation leads to higher costs. As many Japanese companies entered the world markets as low-cost manufacturers of reliable products in the 1970s, well-established U.S. and European MNCs were made acutely aware of the vulnerability of being high-cost manufacturers. Levitt,⁶³ an arduous globalization proponent, argues:

Gone are accustomed differences in national or regional preference. Gone are the days when a company could sell last year's models—or lesser versions of advanced products—in the less developed world.... The multinational and the global corporation are not the same thing. The multinational corporation operates in a number of countries and adjusts its products and practices in each—at high relative costs. The global corporation operates with resolute constancy—at low relative cost—as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere.

Global marketing refers to marketing activities by companies that emphasize the following:

1. *Standardization efforts*—standardizing marketing programs across different countries particularly with respect to product offering, promotional mix, price, and channel structure. Such efforts increase opportunities for the transfer of products, brands, and other ideas across subsidiaries and help address the emergence of global customers
2. *Coordination across markets*—reducing cost inefficiencies and duplication of efforts among their national and regional subsidiaries
3. *Global Integration*—participating in many major world markets to gain competitive leverage and effective integration of the firm's competitive campaigns across these markets by being able to subsidize operations in some markets with resources generated in others and responding to competitive attacks in one market by counterattacking in others.⁶⁴

Although Levitt's view is somewhat extreme, many researchers agree that global marketing does not necessarily mean standardization of products, promotion, pricing, and distribution worldwide, but rather it is a company's *geocentric orientation*, or proactive willingness to adopt a global perspective instead of country-by-country or region-by-region perspective in developing a marketing strategy. Clearly, not all companies adopt global marketing. For example, Black & Decker, a U.S. hand tool manufacturer, adopted a global perspective by standardizing and streamlining components such as motors and rotors while maintaining a wide range of product lines and created a universal image for its products. In this case, it was not standardization of products per se but rather the company's effort at standardizing key components and product design for manufacturability in manufacturing industry and core and supplementary services in service industry to achieve global leadership in cost and value across common market segments around the world. Some regions with their distinctive characteristics require even seasoned global companies to adopt different approaches in reaching their consumers (see **Global Perspective 1-3**).

⁶³Theodore Levitt, "The Globalization of Markets," *Harvard Business Review*, 61, May–June 1983, pp. 92–102.

⁶⁴Shaoming Zou and S. Tamer Cavusgil, "The GMS: A Broad Conceptualization of Global Marketing Strategy and Its Effect on Firm Performance," *Journal of Marketing*, 66, October 2002, pp. 40–56.



GLOBAL PERSPECTIVE 1-3

THINK REGIONALLY, ACT LOCALLY

In reaching out to global consumers, companies need to pay close attention to the specificity of regional consumers. Different region experiences different economic development processes as well as growth potential. For example, Asia's emerging economies and rapid growth markets have challenged even the most sophisticated MNCs to take radical action by reshaping their business models in order to tap the region's high-growth markets. Global companies face multiple challenges in these markets, ranging from intense competition from low-cost local players to modest income customers with minimal brand loyalties and diverse preferences, to fragmented distribution channels. Although eventually these problems will subside as the markets mature, even the savviest global companies must change their management practices now—from large operations to leaner ones, from centralized administration structures to regionally collaborative ones. Asia's high-growth markets demand a special approach that requires global companies to "think regionally, act locally."

Knowing the Asian markets' characteristics, four general principles must be followed. *First*, global companies must leverage innovation and talent through regional teams. Using a global home office or regional headquarters that oversees

country-specific characteristics to supervise Asian markets is often considered the worst organizational model. A better way to supervise these markets is by developing regional teams of senior executives with diverse cultural and market experiences, who would then set priorities and mobilize expertise and resources by hopping around markets to encourage a Chinese product designer to learn innovation in Japan, for instance. *Second*, global companies must think of the markets in terms of cities—not regions or countries. Forget the forest and see the trees. The old practice of treating one country as one market should not be used anymore in reaching Asian consumers. Shift the focus to urban clusters such as cities and find similarities among them. *Third*, local customization should receive priority attention in serving Asian markets. Products must be tailored according to local preferences because Asian consumers can no longer be persuaded to buy some tweaked existing product line with high prices. Since competitive pressure from low-cost local players in Asia is intense, not only local design but pricing and financing also play a crucial part in customization. *Lastly*, global companies must learn how to market and sell across a variety of channels in the Asian markets. This is done to respond to Asian markets' fragmented distribution channels. Utilizing a variety of channels will ensure global companies to successfully reach Asian consumers who buy products from multiple channels.

Source: Todd Guild, "Think Regionally, Act Locally: Four Steps to Reaching the Asian Consumer," *McKinsey Quarterly*, no. 4, 2009, pp. 25–35.

Global marketing does not necessarily mean that products can be developed anywhere on a global basis. The economic geography, climate, and culture, among other things, affect the way in which companies develop certain products and consumers want them. First, the availability of resources is a major determinant of industry location. The U.S. automobile industry was born at the dawn of the twentieth century as a result of Henry Ford having decided to locate his steel-making foundry in Detroit located midway between sources of iron ore in the Mesabi Range in Minnesota and sources of bituminous coal in Pennsylvania. Similarly, in the last quarter of the twentieth century, Silicon Valley in and around Palo Alto, California, and Silicon Hill in Austin, Texas, emerged as high-tech meccas as a result of abundant skilled human resources (thanks to leading universities in the areas), aided by warm, carefree environments—a coveted atmosphere conducive to creative thinking. For the same reason, Bengaluru (Bangalore) in India has emerged as an important location for software development. Brazil boasts that more than half of the automobiles on the road run on 100 percent pure alcohol, thanks to an abundant supply of ethanol produced from subsidized sugar cane. Even bananas are produced in abundance in Iceland, thanks to nature-provided geothermal energy tapped in greenhouses.⁶⁵ Since Germans consume the largest amount of bananas, about 33 lbs (or 15 kg) on a per capita basis, in the EU, Iceland could become an exporter of bananas to Germany!⁶⁶

The Impact of Economic Geography and Climate on Global Marketing

⁶⁵"The Mythical Banana Kingdom of Iceland," *Grapevine*, December 2, 2013, <http://grapevine.is/mag/articles/2013/12/02/the-mythical-banana-kingdom-of-iceland/>.

⁶⁶Paul Sutton, "The Banana Regime of the European Union, the Caribbean, and Latin America," *Journal of Inter-American Studies and World Affairs*, 39, Summer 1997, pp. 5–36.

Obviously, the availability of both natural and human resources is important in primarily determining industry location as those resources, if unavailable, could become a bottleneck. It is to be stressed that consumer needs are equally important as a determinant of industry location.⁶⁷ As the Icelandic banana example shows, the fact that Germans consume a large amount of bananas gives Icelandic growers a logistical advantage. Ask yourself why cellular phones became most widely adopted in Finland, and fax machines and bubble-jet printers in Japan, in the world. In Finland and other Scandinavian countries, it snows heavily in winter but it is very damp snow owing to the warm Gulf Stream moderating what could otherwise be a frigid climate. The damp snow frequently cuts off powerlines. Thus, Scandinavians had always wished for a mobile means of communication such as CB radio and cellular phones. Companies such as Nokia in Finland and Ericsson in Sweden became early world-class suppliers of cellular technology.⁶⁸ Similarly, Japanese consumers always wanted machines that could easily produce and reproduce complex characters in their language. Thus, Japanese companies such as Canon, Epson (a subsidiary of Seiko Watch), and Panasonic emerged as major producers of fax and bubble-jet printers in the world. For outdoor activity-loving Australians, surfing is a national sport. No wonder that Quicksilver, an Australian company that knows functional as well as aesthetic designs for sportswear quite well, has conquered the European market from skate boarders beneath the Eiffel Tower to snowboarders in the Swiss Alps and surfers in Spain.⁶⁹ Similarly, Billabong, another Australian surfing goods retailer with a keen eye on what outdoor sports lovers want to wear, has been expanding into the U.S. market with a broad range of leisure-related products following the acquisition of Element, a U.S. skateboarding clothing company, Von Zipper, a U.S. sunglasses and snow goggles brand, and more recently RVCA, a Southern California-based hippy apparel brand.⁷⁰ Indeed, as the old proverb says, “Necessity is the mother of invention.”

Climate change due to global warming caused by industrial activities has been increasingly accepted as a matter of fact. Indeed, on December 12, 2015, the United Nations’ Climate Conference of Parties (known as COP21), held in Paris, France, reached an agreement on a plan to limit the rise in global temperatures to less than 2°Cs (3.6°F), measured as an increase in global temperature since the start of the Industrial Revolution. The Paris agreement is designed to contain climate change, ending a decades-long search for an accord requiring the world’s economies to regulate the emission of gases that scientists say are causing the earth to warm.⁷¹ At the same time, an increasing number of consumers around the world have voluntarily started to go “green” by driving smaller and more fuel-efficient cars, buying more water-conserving washing machines, and switching to energy-saving LED lighting from incandescent and fluorescent light bulbs. Naturally, an increasing number of companies have to address the consumers’ changing needs not only to stay competitive but also to address corporate social responsibility (see Chapter 20).⁷²

The point is that what companies can offer competitively may be determined by the availability of natural and human resources and by the unique consumer needs in different countries or regions, and with due consideration to climate change and other environmental concerns. Global marketers are willing to exploit their local advantages for global business opportunities. Then ask yourself another question about an emerging societal need around the world: environmental protection. Where are formidable competitors likely to originate in the near future? We think it is Germany. Germans

⁶⁷Michael E. Porter, *The Competitive Advantage of Nations* (New York: Free Press, 1990).

⁶⁸Lilach Nachum, “Does Nationality of Ownership Make Any Difference and If so Under What Circumstances,” *Journal of International Management*, 9, 2003.

⁶⁹“Global Surfin’ Safari: Quicksilver Rides Wave In Europe and Far East,” *Women’s Wear Daily*, June 30, 2005, pp. 1–8.

⁷⁰“Skateboarding Springs into Billabong,” *The Australian*, July 4, 2001, p. 21; “Billabong Acquires RVCA,” *Transworld Business*, <http://business.transworld.net>, July 11, 2010.

⁷¹“Nations Unite in Global Agreement on Climate Change,” *Wall Street Journal*, www.wsj.com, December 12, 2016.

⁷²Morra Aarons-Mele, “What Can Marketers Do About Climate Change,” *Harvard Business Review*, <https://hbr.org/2012/12/what-can-marketers-do-about-cl>, December 17, 2012.

have long been concerned about their environmental quality represented by the cleanliness of the Rhine River. When the Rhine got polluted by phosphorus—a major whitening agent in laundry detergent, the German government banned its use first in the world. Now German companies are keen on developing products that are fully recyclable. In a not too distant future, recyclable products will become increasingly important. Naturally, marketing executives need to have acute understanding of not only the availability of various resources but also emerging consumer and societal needs on a global basis.

So far, we focused on complex realities of international trade and investment that have characterized our global economy in the past 20 years. The more statistics we see, the more befuddled we become by the sheer complexities of our global economy. Naturally, we wish the world had been much simpler. Luckily enough, however, economists and business researchers have tried over the years to explain the ever-increasing complexities of the global economy in simpler terms. A simplified yet logical view of the world is called a **theory**. Indeed, there are many different ways—theories—of looking at international trade and investment taking place in the world. For those of you interested in understanding some orderliness in the complex world of international trade and investment, we encourage you to read the appendix to this chapter. Some theoretical understanding will not only help you appreciate the competitive world in which we live but also help you make better strategy decisions for a company you may join shortly or a company you may own.

SUMMARY

World trade has grown from \$200 billion to \$19 trillion in the last 40 years. Particularly, the growth of world trade has been driven increasingly by developing countries and not by traditionally developed countries. Indeed, developing countries accounted for 43 percent of world merchandise in 2013. Although world trade volume is significant in and of itself, international business is much more than trade statistics show. Companies from Western Europe, the United States, and Japan collectively produce probably more than three times as much in their foreign markets as they export. And about a third of their exports and imports are transacted on an intra-firm basis between their parent companies and their affiliated companies abroad or between the affiliated companies themselves.

What this all means is that it is almost impossible for domestic company executives to consider their domestic markets and domestic competition alone. If they fail to look beyond their national boundaries, they may unknowingly lose marketing opportunities to competitors that do. Worse yet, foreign competitors will encroach on their hard-earned market position at home so fast that it may be too late for them to respond. International markets are so intertwined that separating international from domestic business may be a futile mental exercise.

Historically, international expansion has always been a strategy consideration after domestic marketing and has therefore been reactionary to such things as a decline in domestic sales and increased domestic competition. Global marketing is a proactive response to the intertwined nature of business opportunities and competition that know no political boundaries. However, global marketing does not necessarily mean that companies should market the same product in the same way around the world as world markets are converging. To the extent feasible, they probably should. Nonetheless, global marketing is a company's willingness to adopt a global perspective instead of country-by-country or region-by-region perspective in developing a marketing strategy for growth and profit.

What companies can offer competitively may be determined by the availability of natural and human resources and by the unique consumer needs in different countries or regions or by both and with due consideration to climate change and other environmental concerns. Global marketers should be willing to exploit their local advantages for global marketing opportunities. The proliferation of e-commerce on the internet accelerates such global marketing opportunities.

KEY TERMS

Born global firms
Domestic marketing
Electronic commerce
(e-commerce)
Ethnocentric orientation

Export marketing
Geocentric orientation
Global marketing
Globalization
International business

International marketing
International trade
Intra-firm trade
Multi-domestic
marketing

Multinational company
(MNC)
Multinational marketing
Polycentric orientation
Triad regions

REVIEW QUESTIONS

1. Discuss the reasons why international business is much more complex today than it was twenty years ago.
2. What is the nature of global competition?
3. Does international trade accurately reflect the nature of global competition?
4. Why are consumption patterns similar across industrialized countries despite cultural differences?
5. How is global marketing different from international marketing?
6. Why do you think a company should or should not market the same product in the same way around the world?
7. What is proactive standardization?
8. How is the internet reshaping the nature of global marketing?

DISCUSSION QUESTIONS

1. The United States and Japan, the two largest developed economies in the world, and their imports and exports put together comprise only 20 to 30 percent of their GDPs. However, this percentage has not changed much over the last three decades for both of these countries. Does this imply that the corporations and the media may be overemphasizing globalization? Discuss why you agree or do not agree with the last statement.
2. Merchandise trade today accounts for less than 2 percent of all the foreign exchange transactions around the world. Can one deduce that merchandise plays an insignificant role in today's economies? Why or why not?
3. A major cereal manufacturer produces and markets standardized breakfast cereals to countries around the world. Minor modifications in attributes such as sweetness of the product are made to cater to local needs. However, the core products and brands are standardized. The company entered the Chinese market a few years back and was extremely satisfied with the results. The company's sales continue to grow at a rate of around 50 percent a year in China. Encouraged by its marketing success in China and other Asian countries, and based on the market reforms taking place, the company started operations in India by manufacturing and marketing its products. Initial response to the product was extremely encouraging, and within 1 year, the company was thinking in terms of rapidly expanding its production capacity. However, after a year, sales tapered off and started to fall. Detailed consumer research seemed to suggest that while the upper-middle social class, especially families where both spouses were working, to whom this product was targeted, adopted the cereals as an alternative meal (i.e., breakfast) for a short time, they eventually returned to the traditional Indian breakfast. The CEOs of some other firms in the food industry in India are quoted as saying that non-Indian snack products and restaurant business are the areas where MNCs can hope for success. Trying to replace a full meal with a non-Indian product has less of a chance of succeeding. You are a senior executive in the international division of this food MNC with experience of operating in various countries in a product management function. The CEO plans to send you to India on a fact-finding mission to determine answers to these specific questions. What, in your opinion, would be the answers to these questions:
 - a. Was entering the market with a standardized product a mistake?
 - b. Was it a problem of the product or the way it was positioned?
 - c. Given the advantages to be gained through leveraging of brand equity and product knowledge on a global basis, and the disadvantages of differing local tastes, what would be your strategy for entering new markets.
4. Globalization involves the organization-wide development of a global perspective. This global perspective requires globally thinking managers. Although the benefits of globalization have received widespread attention, the difficulties in developing managers who think globally has received scant attention. Some senior managers consider this to be a significant stumbling block in the globalization efforts of companies. Do you agree with the concerns of these managers? Would the lack of truly globally thinking managers cause problems for implementing a global strategy? And how does the proliferation of e-commerce affect the way these managers conduct business?

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APPENDIX: THEORIES OF INTERNATIONAL TRADE AND THE MULTINATIONAL ENTERPRISE

Theories are a simplification of the complex realities one way or another. A few important theories will be explained here. Each of the theories provides a number of fundamental principles, with which you can not only appreciate why international trade and investment occur but also prepare for the next impending change you will probably see in a not-so-distant future. These theories are arranged chronologically so that you can better understand what aspect of the ever-increasing complexities of international business each theory was designed to explain.

Comparative Advantage Theory. At the aggregate level, countries trade with each other for fundamentally the same reasons that individuals exchange products and services for mutual benefit. By doing so, we all benefit collectively. Comparative advantage theory is an arithmetic demonstration made by the English economist, David Ricardo, almost 190 years ago that a country can gain from engaging in trade even if it has an absolute advantage or disadvantage. In other words, even if the United States is more efficient in the production of everything than China, both countries will benefit from trade between them by specializing in what each country can produce relatively more efficiently.

Let us demonstrate comparative advantage theory in its simplest form: the world is made up of two countries (the United States and China) and two products (personal computers and desks). We assume that there is only one PC model and only one type of desk. We further assume that labor is the only input to produce both products. Transportation costs are also assumed to be zero. The production conditions and consumption pattern in the two countries before and after trade are presented in **Exhibit 1-3**. As shown, U.S. labor is assumed to be more productive absolutely in the production of both personal computers (PC) and desks than Chinese labor.

Intuitively, you might argue that since the United States is more productive in both products, U.S. companies will export both PCs and desks to China, and Chinese companies cannot compete with U.S. companies in either product

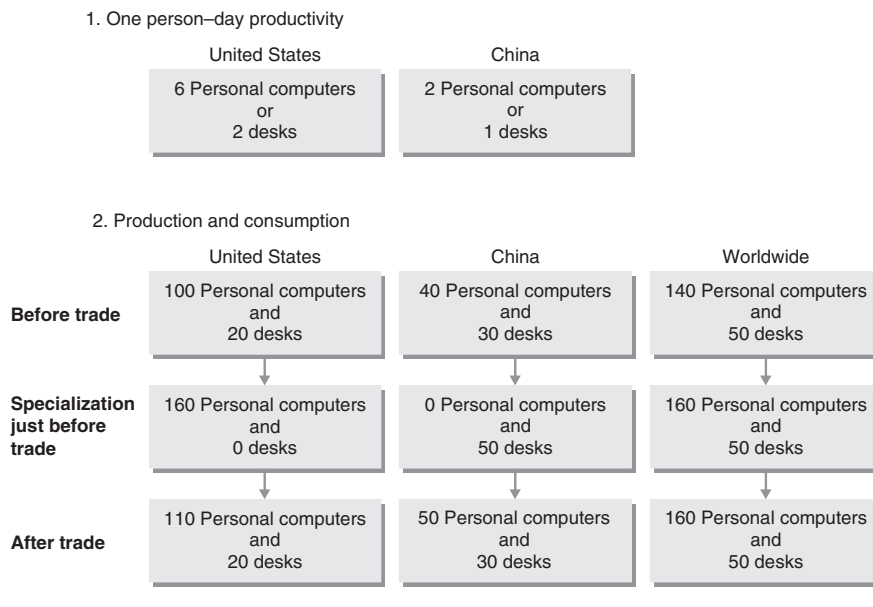
category. Furthermore, you might argue that as China cannot sell anything to the United States, China cannot pay for imports from the United States. Therefore, these two countries cannot engage in trade. This is essentially the **absolute advantage** argument. Is this argument true? The answer is no.

If you closely look at labor productivity of the two industries, you see that the United States can produce PCs more efficiently than desks compared to the situation in China. The United States has a three to one advantage in PCs but only a two to one advantage in desks over China. In other words, the United States can produce three PCs instead of a desk (or as few as one-third of a desk per PC), while China can produce two PCs for a desk (or as many as a half desk per PC). Relatively speaking, the United States is comparatively more efficient in making PCs (at a rate of three PCs per desk) than China (at a rate of two PCs per desk). However, China is comparatively more efficient in making desks (at a rate of half a desk per PC) than the United States (at a rate of one-third of a desk per PC). Therefore, we say that the United States has a **comparative advantage** in making PCs, while China has a comparative advantage in making desks.

Comparative advantage theory suggests that the United States should specialize in production of PCs, while China should specialize in production of desks. As shown in Exhibit 1-3, the United States produced and consumed 100 PCs and 20 desks, and China produced and consumed 40 PCs and 30 desks. As a whole, the world (the United States and China combined) produced and consumed 140 PCs and 50 desks. Now as a result of specialization, the United States concentrates all its labor resources on PC production, while China allocates all labor resources to desk production. The United States can produce 60 more PCs by giving up on 20 desks it used to produce (at a rate of three PCs per desk), resulting in a total production of 160 PCs and no desks. Similarly, China can produce 20 more desks by moving its labor from PC production to desk production (at a rate of half a desk per PC), with a total production of 50 desks and no PCs. Now the world as a whole produces 160 PCs and 50 desks.

EXHIBIT 1-3

COMPARATIVE ADVANTAGE AT WORK



Before trade occurs, U.S. consumers are willing to exchange as many as three PCs for each desk, while Chinese consumers are willing to exchange as few as two PCs for each desk, given their labor productivity, respectively. Therefore, the price of a desk acceptable to both U.S. and Chinese consumers should be somewhere between two and three PCs. Let us assume that the mutually acceptable price, or **commodity terms of trade** (a price of one good in terms of another), is 2.5 PCs per desk. Now let the United States and China engage in trade at the commodity terms of trade of 2.5 PCs per desk. To simplify our argument, further assume that the United States and China consume the same number of desks after trade as they did before trade, that is, 20 desks and 30 desks, respectively. In other words, the United States has to import 20 desks from China in exchange for 50 PCs (20 desks times a price of a desk in terms of PCs), which are exported to China from the United States. As a result of trade, the United States consumes 110 PCs and 20 desks, while China consumes 50 PCs and 30 desks. Given the same amount of labor resources, both countries respectively consume 10 more PCs while consuming the same number of desks. Obviously, specialization and trade have benefited both countries.

In reality, we rarely exchange one product for another. We use foreign exchange instead. Let us assume that the price of a desk is \$900 in the United States and 6,300 yuan in China. Based on the labor productivity in the two countries, the price of a PC should be \$300 (at a rate of a third of a desk per PC) in the United States and 3,150 yuan (at a rate of half a desk per PC) in China. As we indicated earlier, U.S. consumers are willing to exchange as many as three PCs for each desk worth \$900 in the United States. Three PCs in China are worth 9,450 yuan. Therefore, U.S. consumers are willing to pay as much as 9,450 yuan to import a \$900 desk from China. Similarly, Chinese consumers are willing to import a minimum of two PCs (worth 6,300 yuan in China) for each desk they produce (worth

\$900 in the United States). Therefore, the mutually acceptable exchange rate should be:

$$6,300 \text{ yuan} < \$900 < 9,450 \text{ yuan,} \\ \text{or } 7.0 \text{ yuan} < \$1 < 10.5 \text{ yuan.}$$

An actual exchange rate will be affected also by consumer demands and money supply situations in the two countries. Nonetheless, it is clear that exchange rates are primarily determined by international trade.

From this simple exercise, we can make a few general statements or **principles of international trade**.

- Principle 1: Countries benefit from international trade.
- Principle 2: International trade increases worldwide production by specialization.
- Principle 3: Exchange rates are determined primarily by traded goods.

By now you might have wondered why U.S. workers are more productive than Chinese workers. So far, we have assumed that labor is the only input in economic production. In reality, we do not produce anything with manual labor alone. We use machinery, computers, and other capital equipment (capital for short) to help us produce efficiently. In other words, our implicit assumption was that the United States has more abundant capital relative to labor than China does. Naturally, the more capital we have relative to our labor stock, the less expensive a unit of capital should be relative to a unit of labor. The less expensive a unit of capital relative to a unit of labor, the more capital we tend to use and specialize in industry that requires a large amount of capital. In other words, the capital–labor endowment ratio affects what type of industry a country tends to specialize in. In general, a capital-abundant country (e.g., the United States) tends to specialize in capital-intensive industry and export capital-intensive

GLOBAL PERSPECTIVE 1-4



It is correct to say, “The best way to improve living standards is to encourage investment in sophisticated industries like computers and aerospace.” Is it correct to say, “The best way to improve living standards is to encourage investment in industries that provide high value added per worker”? The real high-value industries in the United States are extremely capital-intensive sectors like cigarettes and oil refining. High-tech sectors that everyone imagines are the keys to the future, like aircraft and electronics, are only

Adapted from Paul Krugman, “Competitiveness: Does It Matter?” *Fortune* (March 7, 1994), pp. 109–15.

average in their value added per worker, but are extremely skill-intensive industries. Look at these statistics:

Value Added per Worker	Thousands
Cigarettes	\$823
Petroleum refining	\$270
Automobile	\$112
Tires and inner tubes	\$101
Aerospace	\$86
Electronics	\$74
All manufacturing	\$73

products (personal computers) and import labor-intensive products (desks). Conversely, a labor-abundant country (China) tends to specialize in labor-intensive industry and export labor-intensive products (desks), and import capital-intensive products (personal computers). This refined argument is known as **factor endowment theory** of comparative advantage.

The factor endowment theory can be generalized a bit further. For example, the United States is not only capital-abundant but also abundant with highly educated (i.e., skilled) workers. Therefore, it is easy to predict that the United States has comparative advantage in skill-intensive industries such as computers and biotechnology and exports a lot of computers and genetically engineered pharmaceutical products around the world and imports manual labor-intensive products such as textiles and shoes from labor-abundant countries such as China and Brazil. **Global Perspective 1-4** clearly shows that labor productivity alone shows a very erroneous impression of industry competitiveness.

Now you might have begun wondering how comparative advantage arguments will help businesspeople in the real world. Suppose that you work as a strategic planner for Nike. Shoe manufacturing is extremely labor intensive, while shoe designing is becoming increasingly hi-tech (i.e., skill-intensive). The United States is a relatively skill-abundant and labor-scarce country. Therefore, the country has a comparative advantage in skill-intensive operations but has a comparative disadvantage in labor-intensive operations. There are two ways to use your knowledge of comparative advantage arguments. First, it is easy to predict where competition comes from. Companies from countries like China and Brazil will have a comparative advantage in shoe manufacturing over Nike in the United States. Second, you can advise Nike to establish shoe-manufacturing plants in labor-abundant countries instead of in the labor-scarce United States. As we said earlier, shoe designing has become increasingly hi-tech, involving computer-aided designing and development of light, shock-absorbent material, which requires an extremely high level of expertise. Therefore, based on the comparative advantage argument, you suggest that product designing and development be done in the United States, where required expertise is relatively abundant. Indeed,

that is what Nike does as a result of global competitive pressure and has exploited various countries’ comparative advantage to its advantage (no pun intended). Nike has product designing and development and special material development conducted in the United States and has manufacturing operations in labor-abundant countries such as China and Brazil.

The comparative advantage theory is useful in explaining inter-industry trade, say computers and desks, between countries that have very different factor endowments. It suggests efficient allocation of limited resources across national boundaries by specialization and trade, but hardly explains business competition, because computer manufacturers and desk manufacturers do not compete directly. Further, it fails to explain the expansion of trade among the industrialized countries with similar factor endowments. Trade among the twenty or so industrialized countries now constitutes almost 60 percent of world trade, and much of it is intra-industry in nature. In other words, similar products are differentiated either physically or only in the customers’ minds and traded across countries. Thus, BMW exports its sports cars to Japan, while Honda exports its competing models to Germany. BMW and Honda compete directly within the same automobile industry. This type of intra-industry competition cannot be explained by comparative advantage theory.

International Product Cycle Theory. When business practitioners think of competition, they usually refer to intra-industry competition. Why and how does competition tend to evolve over time and across national boundaries in the same industry? Then, how does a company develop its marketing strategy in the presence of competitors at home and abroad? **International product cycle theory** addresses all these questions.

Several speculations have been made.⁷³ First, a large domestic market such as the United States makes it possible for US companies to enjoy **economies of scale** in mass production and mass marketing, enabling them to become lower-cost producers than their competition in foreign countries.

⁷³ Mordechai E. Kreinin, *International Economics: A Policy Approach*, 5th ed. (New York: Harcourt Brace Jovanovich, 1987), pp. 276–278.

Therefore, those low-cost producers can market their products in foreign markets and still remain profitable. In addition, an **economies of scope** argument augments an economies of scale argument. Companies from a small country can still enjoy economies of scale in production and marketing by extending their business scope beyond their national boundary. For example, Nestlé, a Swiss food company, can enjoy economies of scale by considering European, U.S., and Japanese markets together as its primary market. Second, technological innovation can provide an innovative company a competitive advantage, or **technological gap**, over its competitors both at home and abroad. Until competitors learn about and imitate the innovation, the original innovator company enjoys a temporary monopoly power around the world. Therefore, it is technological innovators that tend to market new products abroad. Third, it is generally the per-capita income level that determines consumers' **preference similarity**, or consumption patterns, irrespective of nationality. Preference similarity explains why intra-industry trade has grown tremendously among the industrialized countries with similar income levels.

Combining these forces with the earlier comparative advantage theory, international product cycle theory was developed in the 1960s and 1970s to explain a realistic, dynamic change in international competition over time and place.⁷⁴ This comprehensive theory describes the relationship between trade and investment over the product life cycle.

One of the key underlying assumptions in the international product cycle theory is that "Necessity is the mother of invention." In the United States, where personal incomes and labor costs were the highest in the world particularly in the 1960s and 1970s, consumers desired products that would save their labor and time and satisfy materialistic needs. Historically, U.S. companies developed and introduced many products that were labor- and time-saving or responded to high-income consumer needs, including dishwashers, microwave ovens, automatic washers and dryers, personal computers, and so on. Similarly, companies in Western Europe tend to innovate on material- and capital-saving products and processes to meet their local consumers' needs and lifestyle orientation. Small and no-frill automobiles and recyclable products are such examples. Japanese companies stress products that conserve not only material and capital but also space to address their local consumers' acute concern about space limitation. Therefore, Japanese companies excel in developing and marketing small energy-efficient products of all kinds.⁷⁵

International product cycle theory suggests that new products are developed primarily to address the needs of local consumers, only to be demanded by foreign consumers who have similar needs with a similar purchasing power. As the nature of new products and their manufacturing processes becomes widely disseminated over time, the products

eventually become mass-produced standard products around the world. At that point, the products' cost competitiveness becomes a determinant of success and failure in global competition. Your knowledge of comparative advantage theory helps your company identify where strong low-cost competitors tend to appear and how the company should plan production locations.

As presented in **Exhibit 1-4**, the pattern of evolution of the production and marketing process explained in the international product cycle consists of four stages: introduction, growth, maturity, and decline. Let us explain the international product cycle from a U.S. point of view. It is to be reminded, however, that different kinds of product innovations also occur in countries (mostly developed) other than the United States. If so, a similar evolutionary pattern of development will begin from those other industrialized countries.

In the *introductory stage*, a U.S. company innovates on a new product to meet domestic consumers' needs in the U.S. market. A few other U.S. companies may introduce the same product. At this stage, competition is mostly domestic among U.S. companies. Some of those companies may begin exporting the product to a few European countries and Japan where they can find willing buyers similar to U.S. consumers. Product standards are not likely to be established yet. As a result, competing product models or specifications may exist on the market. Prices tend to be high. In the *growth stage*, product standards emerge, and mass production becomes feasible. Lower prices spawn price competition. U.S. companies increase exports to Europe and Japan as those foreign markets expand. However, European and Japanese companies also begin producing the product in their own local markets and even begin exporting it to the United States. In the *maturity stage*, many U.S. and foreign companies vie for market share in the international markets. They try to lower prices and differentiate their products to outbid their competition. U.S. companies that have carved out market share in Europe and Japan by exporting decide to make a direct investment in production in those markets to protect their market position there. U.S. and foreign companies also begin to export to developing countries because more consumers in those developing countries can afford the product as its price falls. Then, in the *decline stage*, companies in the developing countries also begin producing the product and marketing it in the rest of the world. U.S., European, and Japanese companies may also begin locating their manufacturing plants in those developing countries to take advantage of inexpensive labor. The United States eventually begins to import what was once a U.S. innovation.

The international product cycle argument holds true as long as we can assume that innovator companies are not informed about conditions in foreign markets, whether in other industrialized countries or in the developing world. As we amply indicated in Chapter 1, such an assumption has become very iffy. Nor can it be safely assumed that U.S. companies are exposed to a very different home environment from European and Japanese companies. Indeed, the differences among the industrialized countries are reduced to trivial dimensions. Seeking to exploit global scale economies, an increasing number of companies are likely to establish various plants in both developed countries and developing countries and to crosshaul between plants for the manufacture of final products. As an explanation of international business behavior, international product cycle theory has limited explanatory

⁷⁴See, for example, Raymond Vernon, "International Investment and International Trade in the Product Cycle," *Quarterly Journal of Economics*, 80, May 1966, pp. 190–207; "The Location of Economic Activity," *Economic Analysis and the Multinational Enterprise*, John H. Dunning, ed. (London: George Allen and Unwin, 1974), pp. 89–114; and "The Product Cycle Hypothesis in a New International Environment," *Oxford Bulletin of Economics and Statistics*, 41, November 1979, pp. 255–267.

⁷⁵Vernon, 1979.

EXHIBIT 1-4
INTERNATIONAL PRODUCT CYCLE

	<i>Introduction</i>	<i>Growth</i>	<i>Maturity</i>	<i>Decline</i>
Demand Structure	Nature of demand not well understood Consumers willing to pay premium price for a new product	Price competition begins Product standard emerging	Competition based on price and product differentiation	Mostly price competition
Production	Short runs, rapidly changing techniques Dependent on skilled labor	Mass production	Long runs with stable techniques Capital intensive	Long runs with stable techniques Lowest cost production needed either by capital intensive production or by massive use of inexpensive labor
Innovator Company Marketing Strategy	Sales mostly to home-country (e.g., U.S.) consumers Some exported to other developed countries (e.g., Europe and Japan)	Increased exports to the other developed countries (e.g., Europe and Japan)	Innovator company (e.g., U.S.) begins production in Europe and Japan to protect its foreign market from local competition	Innovator company (U.S.) may begin production in developing countries
International Competition	A few competitors at home (e.g., U.S.)	Competitors in developed countries (e.g., Europe and Japan) begin production for their domestic markets They also begin exporting to the United States	European and Japanese companies increase exports to the United States They begin exporting to developing countries	European and Japanese competitors may begin production in developing countries Competitors from developing countries also begin exporting to the world

Source: Expanded on Louis T. Wells, Jr., "International Trade: The Product Life Cycle Approach," in Reed Moyer, ed., *International Business: Issues and Concepts* (New York: John Wiley, 1984), pp. 5–22.

power. It does describe the initial international expansion (exporting followed by direct investment) of many companies, but the mature globetrotting companies of today have succeeded in developing a number of other strategies for surviving in global competition.

Internalization/Transaction Cost Theory. Now that many companies have established plants in various countries, they have to manage their corporate activities across national boundaries. Those companies are conventionally called MNCs. It is inherently much more complex and difficult to manage corporate activities and market products across national boundaries, rather than from a domestic base. Then why do those MNCs invest in foreign manufacturing and marketing operations instead of just exporting from their home base? International product cycle theory explains that companies invest abroad reactively once their foreign market positions are threatened by local competitors. Thus, the primary objective of FDI for the exporting companies is to keep their market positions from being eroded. Are there any proactive reasons for companies to invest overseas?

To address this issue, a new strand of theory has been developed. It is known as **internalization** or **transaction cost theory**. Any company has some proprietary expertise that makes it different from its competitors. Without such expertise, no company can sustain its competitive advantage. Such

expertise may be reflected in a new product, unique product design, efficient production technique, or even brand image itself. As in the international product cycle argument, a company's expertise may eventually become common knowledge as a result of competitors copying it or reverse-engineering its product. Therefore, it is sometimes to an innovator company's advantage to keep its expertise to itself as long as possible in order to maximize the economic value of the expertise. A company's unique expertise is just like any information. Once information is let out, it becomes a public good—and free.

In other words, the MNC can be considered an organization that uses its internal market to produce and distribute products in an efficient manner in situations where the true value of its expertise cannot be assessed in ordinary external business transactions. Generating expertise or knowledge requires the company to invest in research and development. In most circumstances, it is necessary for the company to overcome this appropriability problem by the creation of a monopolistic internal market (i.e., internalization) when the knowledge advantage can be developed and explored in an optimal manner on a global basis.⁷⁶ The motive to internalize

⁷⁶Alan M. Rugman, ed., *New Theories of the Multinational Enterprise* (London: Croom Helm, 1982).

knowledge is generally strong when the company needs to invest in business assets (e.g., manufacturing and marketing infrastructure) that have few alternative uses, uses those assets frequently, and faces uncertainty in negotiating, monitoring, and enforcing a contract. Such a situation suggests a high level of transaction costs due to specific assets and contractual uncertainty involved.⁷⁷

Resource-Based View and Appropriability Theory. Now that many companies have established subsidiaries and other affiliates in various countries, they have to manage their far-flung corporate operations to their competitive advantage. The **resource-based view** of the firm suggests that companies can be conceived of as controlling bundles of various resources, also called capabilities. These capabilities are developed through previous experience and over time. When resources are *valuable, rare, difficult to imitate* (inimitable), and *nonsubstitutable*, they can lead to sustainable competitive advantage.⁷⁸ Resources and capabilities do not include only physical assets but also skills, technologies, and more intangible endowments, such as productive routines and other organizational competencies as well. An individual subsidiary as a resource node or bundle of resources and capabilities with its own unique resource profile plays a significant role in maintaining the MNC's competitive advantage. Furthermore, its subsidiary's intraorganizational linkages give rise to competitive advantages due to scope and scale economies and other relational benefits.

However, the company's organizational resources can only be sources of sustained competitive advantage if competitors that do not possess these resources cannot obtain them easily. The company's expertise can be channeled through three routes to garner competitive advantage: appropriability regime, dominant design, and operational/marketing capabilities.⁷⁹ **Appropriability regime** refers to aspects of the commercial environment that govern a company's ability to retain its technological advantage. It depends on the efficacy of legal mechanisms of protection, such as patents, copyrights, and trade secrets. However, in today's highly competitive market, legal means of protecting proprietary technology have become ineffective as new product innovations are relatively easily reverse-engineered, improved upon, and invented around by competitors without violating patents and other proprietary protections bestowed on them. It is widely recognized that the most effective ways of securing maximum returns from a new product innovation are through lead time and moving fast down the experience curve (i.e., quickly resorting to mass production).⁸⁰ Obviously, the value of owning technology has lessened drastically in recent years as the

inventor company's temporary monopoly over its technology has shortened.

Dominant design is a narrow class of product designs that begins to emerge as a "standard" design. A company that has won a dominant design status has an absolute competitive advantage over its competition. In an early stage of product development, many competing product designs exist. After considerable trial and error in the marketplace, a product standard tends to emerge. A good case example is Sony's Betamax format and Panasonic's VHS format for VCRs. The Betamax format was technologically superior with better picture quality than the VHS format but could not play as long to record movies as the VHS. Although the Sony system was introduced slightly earlier than the Panasonic system, the tape's capability to record movies turned out to be fatal to Sony as the VHS tape was increasingly used for rental home movies and home recording of movies. Thus, the VHS has emerged as the worldwide standard for videocassette recording.

Was it simply the act of the "invisible hand" in the marketplace? The answer is clearly no. Panasonic actively licensed its VHS technology to Sanyo, Sharp, and Toshiba for production and supplied VHS-format videocassette recorders to RCA, Magnavox, and GTE Sylvania for resale under their respective brand names.⁸¹ When Philips introduced a cassette tape recorder, a similar active licensing strategy had been employed for a quick adoption as a dominant standard around the world. Despite various government hurdles to stall the Japanese domination of emerging HDTV technology, Sony is currently trying to make its format a standard by working its way into Hollywood movie studios. It is clear that a wide adoption of a new product around the world, whether autonomous or deliberated, seems to guarantee it a dominant design status.

Operational and marketing ability is in almost all cases required for successful commercialization of a product innovation. The issue here is to what extent this ability is specialized to the development and commercialization of a new product. Indeed, many successful companies have highly committed their productive assets to closely related areas without diversifying into unrelated businesses. This commitment is crucial. Take semiconductor production for example. A director at SEMATECH (a U.S. government-industry semiconductor manufacturing technology consortium established in Austin, Texas, to regain U.S. competitive edge in semiconductor manufacturing equipment from Japanese competition) admits that despite and because of a rapid technological turnover, any serious company wishing to compete on a state-of-the-art computer chip with the Japanese will have to invest a minimum of a billion dollars in a semiconductor manufacturing equipment and facility. General Motors has invested more than \$5 billion for its Saturn project to compete with the Japanese in small car production and marketing. A massive retooling is also necessary for any significant upgrade in both industries. Furthermore, the software side of the manufacturing ability may be even more difficult to match, as it involves such specialized operational aspects as JIT (just-in-time) manufacturing management, quality control, and components

⁷⁷ Oliver E. Williamson, "The Economics of Organization: The Transaction Cost Approach," *American Journal of Sociology*, 87 (1981), pp. 548–577.

⁷⁸ Jay B. Barney, "Firm Resources and Sustained Competitive Advantage," *Journal of Management*, 17(1) 1991, pp. 99–120.

⁷⁹ David J. Teece, "Capturing Value from Technological Innovation: Integration, Strategic Partnering, and Licensing Decisions," in Bruce R. Guile and Harvey Brooks, eds., *Technology and Global Industry: Companies and Nations in the World Economy* (Washington, D.C.: National Academy Press), pp. 65–95.

⁸⁰ Richard C. Levin, Alvin K. Klevorick, Richard R. Nelson, and Sidney G. Winter, "Appropriating the Returns from Industrial Research and Development," *Brookings Papers on Economic Activity*, 3, 1987, pp. 783–831.

⁸¹ Richard S. Rosenbloom and Michael A. Cusumano, "Technological Pioneering and Competitive Advantage: The Birth of VCR Industry," *California Management Review*, 29, Summer 1987, pp. 51–76.