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International Advertising Communicating Accross Culture

芭芭拉·缪勒　著

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CHAPTER 1

The Growth of International Business and Advertising

Two major phenomena are currently impacting consumers worldwide. The first is the extraordinary growth in the number of businesses operating internationally. Today, consumers around the world smoke Marlboro cigarettes and write with Bic pens, watch Sony television sets and drive Toyota autos. Shoppers can stop in for a McDonald's burger in Paris or Beijing, and German and Japanese citizens alike increasingly make their purchases with the American Express Card. The growth and expansion of firms operating internationally have led to the rise of the second phenomenon—the growth in international advertising. U.S. agencies are increasingly looking abroad for clients. At the same time, foreign agencies are rapidly expanding around the globe, even taking control of some of the most prestigious U.S. agencies. Advertising expertise is no longer an American monopoly. Madison Avenue faces stiff competition from London, Madrid, and Tokyo. This chapter outlines the growth of international business and advertising.

Growth of International Business

Historical Overview

Historically, the vastness of the U.S. marketplace offered sufficient opportunities for corporate expansion at home, and as a result, U.S. firms were not forced to look abroad. An additional deterrent was the sheer distance to foreign markets—with the exception of Canada and Mexico. Yet, during the late 1800s, a number of firms recognized the importance of foreign expansion, and by the early 1900s, firms such as Ford Motor, Singer, Gillette, National Cash Register, Otis, and Western Electric had commanding world market shares.

> Driving this first wave of modern globalization were rising production scale economies due to advancements in technology that outpaced the growth of the world economy. Product needs also became more homogenized in different countries as knowledge and industrialization diffused. Transport improved, first through the railroad and steamships and later in trucking. Communication became easier with the telegraph then the telephone. At the same time, trade barriers were either modest or overwhelmed by the advantages of the new large-scale firm.[1]

The trend to globalization slowed between 1920 and the late 1940s. These decades were marked by a world economic crisis as well as a second world war, which resulted in a period of strong nationalism. Countries attempted to salvage and strengthen their own economies by imposing high tariffs and quotas so as to keep out foreign goods and protect domestic employment. It was not until after the Second World War that the number of U.S. firms operating internationally again began to grow significantly. In 1950 U.S. foreign direct investment stood at $12 billion. By 1965 it had risen to $50 billion, and by the late 1970s to approximately $150 billion.[2] And in 1991 (the most recent year for which figures are available) foreign direct investment had swelled to over $450 billion.[3]

International tensions—whether in the form of cold war or open conflict—tend to discourage international marketing. However, since 1945, the world has been, for the most part, relatively peaceful. This, paired with the creation of the International Monetary Fund (IMF) and the General Agreement on Tariffs and Trade (GATT) at the close of World War II, facilitated the growth of international trade and investment. Indeed, during this period tariffs among the industrialized nations fell from about 40 percent in 1947 to roughly 5 percent in 1991. As a consequence, according to a 1994 *Fortune* magazine survey, the top 50 multinational companies alone generated almost $2.25 trillion in sales in 1993. The United States led all countries with 159 companies on the list; Japan ranked second (135 companies), and Britain

TABLE 1.1 The World's Twenty-five Biggest Companies by Industry, 1993 (in million $)

INDUSTRY	COMPANY	COUNTRY	SALES
Aerospace	Boeing	U.S.	$25,285
Apparel	Levi Strauss	U.S.	5,892
Beverages	PepsiCo	U.S.	25,021
Building materials	Saint-Gobain	France	12,630
Chemicals	Du Pont	U.S.	32,621
Computers	IBM	U.S.	62,716
Electronics	Hitachi	Japan	68,582
Food	Philip Morris	U.S.	50,621
Forest/paper goods	International Paper	U.S.	13,685
Industrial/farm equipment	Mitsubishi Heavy Industries	Japan	25,804
Jewelry/silverware	Citizen Watch	Japan	3,501
Metal products	Pechiney	France	11,127
Metals	IRI	Italy	50,488
Mining, crude oil production	Ruhrkohle	Germany	14,155
Motor vehicles	General Motors	U.S.	133,622
Petroleum refining	Exxon	U.S.	97,825
Pharmaceutical	Johnson & Johnson	U.S.	14,138
Publishing/printing	Bertelsmann	Germany	10,957
Rubber/plastic products	Bridgestone	Japan	14,377
Scientific and photo equipment	Eastman Kodak	U.S.	20,059
Soaps/cosmetics	Procter & Gamble	U.S.	30,433
Textiles	Toray Industries	Japan	8,196
Tobacco	RJR Nabisco	U.S.	15,104
Toys/sporting goods	Nintendo	Japan	4,500
Transportation equipment	Hyundai Heavy Industries	Japan	6,735

SOURCE: "Fortune's Global 500," *Fortune*, July 25, 1994, pp. 137–196.

third (41). As outlined in Table 1.1, U.S. firms are ranked No. 1 in 13 of the top 25 industries on the list.[4]

In addition to these large corporations, thousands of smaller U.S. firms are engaging in international marketing. Indeed, the majority of U.S. exporters have fewer than 100 employees. Southern Gold Honey Co., a small honey producer in Vidor, Texas, provides an excellent example. Almost overnight in 1985, the fifteen-year-old company's domestic market turned sour and sales tumbled due to imports of less expensive honey. When the firm realized it could no longer compete on U.S. soil, its owners looked overseas. Within four years sales quadrupled—due solely to major exports to the Middle East.[5]

International business continues to expand for other reasons as well. Corporations may look abroad for the very same reasons they seek to expand their markets at home. Where economies of scale are feasible, a large market is essential. However, if a single market is not large enough to absorb the entire output, a firm may look to other markets. If production equipment is not fully utilized in meeting the demands of one market, additional markets may be tapped. Seasonal fluctuations in demand in a particular market may also be evened out by sales in another. During economic downturns in one market, corporations may turn to new markets to absorb excess output. Firms may also find that a product's life cycle can be extended if the product is introduced in different markets—products already considered obsolete by one group may well be sold successfully to another. In addition to the reasons noted, significant changes in the United States and around the globe have helped fuel this phenomenal growth in international business.

Saturated Domestic Markets

The slowing U.S. population growth rate has directly impacted U.S. firms. Between 1970 and 1980, the number of households increased at a rate of 27 percent; however, between 1980 and 1990, the rate of increase slipped to little over 15 percent. Further, in 1960 the average household contained 3.3 persons; by the early 1990s that number had dropped to 2.63. And this downward trend in both size and growth rate is expected to continue. As a result, many firms must cultivate new markets if they are to continue to prosper. For example, Tambrands, with $700 million in sales worldwide, has led the U.S. feminine hygiene products market since 1936. While domestic sales of its products have been rising by less than 10 percent annually, the company's overseas sales are increasing at over 15 percent per year. Tambrands has built plants in China and the former Soviet Union to gain access to faster-growing markets. Sales in these two regions alone could more than double to $42 million by 1995.[6] Likewise, in 1984 Toys 'R' Us, anticipating the day when it would saturate its domestic market, began looking abroad. Today, the toy company has retail outlets in Canada, Europe, Hong Kong, Singapore, and, most recently, Japan. With more than $6 billion in annual sales, Japan is the world's No. 2 toy market after the United States.[7]

Higher Profit Margins in Foreign Markets

According to *Business Week*, "American manufacturers with factories or sales subsidiaries overseas are outperforming their domestic counterparts. A study of more than 1,500 companies reported that U.S. multinationals during the 1980s posted faster growth than domestics in 19 out of 20 major industry groups, and higher earnings in 17."[8] The typical U.S. industrial company today rings up 25 percent of its sales overseas, compared with only 15 percent in 1980.[9] For example, firms such as General Motors, ITT, and Philip Morris generate over a quarter of total sales from exports. More internationally oriented firms such as Ford Motor, Johnson & Johnson, Eastman Kodak, and Procter & Gamble generate 35–50 percent of their total revenues from foreign sales. And for an increasing number of businesses, international sales represent over 50 percent of total sales—for example, for Coca-Cola 64 percent of sales, and for Exxon 75 percent.[10]

Increased Foreign Competition in Domestic Markets

Even as American products are increasingly sold abroad, foreign products are playing a more significant role in the United States. Although the phonograph, color TV, video- and audiotape recorder, telephone, and integrated circuit all were invented in the United States, domestic producers account for only a small percentage of the U.S. market for most of these products today—and an even smaller share of the world market. For example, in 1970 U.S. producers' share of the domestic market for color TVs stood at nearly 90 percent. By 1990 it had dropped to little more than 10 percent. The decline in sales of U.S.-produced stereo components is even more serious—from 90 percent of domestic sales to little more than 1 percent during the same time span.[11] Brand names such as Sony and Panasonic have become household words for most American consumers. In 1992 Japan-based automakers alone held a 23 percent market share in U.S. sales.[12] The fact that imports are taking an increasingly larger share of the domestic market for many products—consumer as well as industrial—is an additional incentive for U.S. firms to adopt an international marketing orientation.

As Rachel McCulloch notes, "After decades as the leading source country for outward direct investment, by the mid 1980s, the U.S. had replaced Canada as the world's number one host country in total value of foreign controlled business activity."[13] As a consequence of the investment boom of the 1980s, foreign companies now play a prominent part in the daily lives of Americans. When a U.S. consumer buys new tires, shops for the latest best-seller, or purchases cat food, chances are increasingly good that the supplier will be a local subsidiary of a company based in Japan, Europe, or Canada. For example, both Firestone Rubber and CBS Records were acquired by Japanese firms; Macmillan Publishing and Pillsbury are now owned by British firms; and Carnation (makers of Coffee-mate and Friskies pet food) was acquired by a Swiss company.

Since the 1980s there has been a significant slowdown. Foreign direct investment in the United States fell 47 percent in 1992, the fourth consecutive annual drop.[14] The current investment slowdown in the United States

TABLE 1.2 Direct Foreign Investments in the United States (in U.S. billion $)

COUNTRY	KEY INDUSTRY	INDUSTRY AMOUNT	TOTAL INVESTMENT
Japan	Trade	$31.7	$ 86.6
Britain	Manufacturing	50.1	106.0
Netherlands	Petroleum	12.2	63.8
Canada	Finance and insurance	9.7	30.0
Germany	Manufacturing	16.5	28.1
Switzerland	Manufacturing	9.7	17.9

SOURCE: U.S. Department of Commerce, Bureau of the Census. *1993 Statistical Abstracts of the United States* (113th ed.) (Washington, DC: GPO. 1993), p. 798.

reflects fewer new investment opportunities as well as competing opportunities elsewhere in the world. Despite this slowdown, however, claims *Fortune* magazine, foreigners still appear to want things American: "Their tastes for the tangible extend across the map, from Kentucky racehorses and Texas refineries to New England factories and Sonoma Valley vineyards. They own farmland in all but one state (Rhode Island so far has eluded them) and sizable hunks of Wall Street, both in real estate and the investment banking business. They sign paychecks for three million Americans, including employees of 19 Fortune 500 companies."[15] This "selling of America" has caused a good deal of concern among the business community as well as the general public. Table 1.2 outlines direct foreign investments in the United States by country and by industry.[16]

Increased foreign competition on domestic soil is not unique to the United States, but rather is occurring in both other developed countries and emerging economies. *Fortune* magazine summarizes the globe's rapidly changing economic landscape: "The mature economies still account for most foreign direct investment. The flow into Britain mainly reflects heavy spending by the Japanese companies entering the European Community. But the emerging countries—which barely figured in the international investment equations a decade ago—will augment their own savings with an ever growing share of the world's market."[17] Table 1.3 shows foreign direct investment inflows for both developed and emerging markets.

The Trade Deficit

Exports have accounted for an ever increasing proportion of the U.S. gross national product—more than 10 percent in recent years. In 1993 the United States exported an estimated $464 billion of goods and services. However,

TABLE 1.3 Foreign Direct Investment Inflows (in U.S. billion $)

DEVELOPED MARKETS	AMOUNT	EMERGING MARKETS	AMOUNT
Britain	$21.1	Mexico	$4.8
France	15.2	Singapore	3.6
United States	11.5	Malaysia	3.5
Spain	10.5	Thailand	2.0
Belgium/Luxembourg	9.4	Venezuela	1.9
Germany	6.6	Indonesia	1.5
Sweden	6.4	Hungary	1.5
Australia	4.7	South Korea	1.1
Canada	4.5	Brazil	0.9
Netherlands	4.1	Chile	0.6

SOURCE: "Fortune's Global 500," *Fortune*, July 26. 1993, pp. 188–231.

imports during that same year totaled almost $603 billion, resulting in a balance-of-trade deficit of over $138 billion.[18] Exports are considered a central contributor to economic growth and well-being for a country. For example, every $1 billion in merchandise exports supports approximately 19,000 U.S. jobs. The current trade deficit has made it a matter of vital national interest to increase exports.

The Emergence of New Markets

European Union The emergence of new markets has stimulated interest in international business. On December 31, 1992, many physical, fiscal, and technical barriers to trade among the twelve-nation European Union (EU) began to disappear—giving birth to something akin to the United States of Europe. This single market consists of 460 million consumers—44 percent more than in the United States—making it the world's largest industrialized market. The original "European 12" (Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, and the United Kingdom), now joined by Sweden, Norway, and Austria, constitute the world's greatest trading area monetarily—accounting for well over 20 percent of the world's trade. Many companies are already making plans to approach Europe as a single market—rather than as a group of distinct countries—by realigning their product lines and developing strategies that can be employed throughout the EU. For example, Gillette Europe recently scrapped its country-by-country marketing strategy for the Blue II disposable razor blade and replaced it with a pan-European approach.

Commonwealth of Independent States With the failed coup of August 1991, the subsequent resignation of President Mikhail Gorbachev, and the relegation of the former Soviet Union to official oblivion, trade and investment opportunities in the newly formed Commonwealth of Independent States (CIS) are expected to increase dramatically in the coming years. Corporations around the globe are eying the CIS, with its population of over 200 million, as the next marketing frontier. Procter & Gamble signed a joint venture agreement in August 1991 with Leningrad State University to begin marketing and distributing consumer products, such as Wash & Go shampoo (the European name for Pert Plus) throughout the Ukraine and Baltics. Philip Morris signed agreements with the Soviet government and the Russian republic to supply more than 20 billion cigarettes—the largest order in the company's history—but still only 5 percent of the market for cigarettes in the CIS. And, in late 1991, Visa became the first credit card available to the general public in the CIS. However, only a small percentage of citizens holding non-CIS currency will be able to obtain the cards, which expire every six months. As with many other goods being introduced to the new commonwealth, firms are looking toward future sales rather than immediate profits.

Pacific Rim As recently as 1977, the total volume of two-way trade between the People's Republic of China and the United States was under $400 million. Less than two years later, China began to experiment with open markets and continued to liberalize trade laws. In 1979 Coca-Cola became the first American product available in China when the company was awarded the sole privilege of selling soft drinks to the Chinese market. That same year, for the first time, Chinese authorities permitted domestic product advertising in newspapers. By 1988 total two-way trade between the United States and China had jumped to almost $17 billion. Despite the events in Tiananmen Square in June 1989, U.S. businesses continue to knock on China's door. In 1992, for example, in a joint venture with a Chinese state-owned company, McDonald's opened a restaurant in Beijing that executives hope will be the flagship of a growing presence in China. The restaurant—with its 700 seats and 29 cash registers—is the biggest McDonald's in the world, slightly bigger than the one that opened in Moscow in early 1990. At the close of the first day of business, the restaurant had registered 13,214 transactions—representing approximately 40,000 customers—setting a new one-day sales record for any McDonald's in the world. Beijing is also home to four Kentucky Fried Chicken outlets, two Pizza Huts, three Holiday Inns, and innumerable other foreign-managed hotels and restaurants.

In addition to China, the Pacific Rim economies of Hong Kong, Thailand, Malaysia, Singapore, South Korea, Taiwan, Indonesia, the Philippines, and Australia are expected to be the centers of global growth and the hottest markets worldwide in the coming decade. Luis Kraar comments:

> While the West's economy remains sluggish, their [Pacific Rim's] demand for fast food, paint, semi-conductors, life insurance, and much else remains strong. By the decade's end, the Asia-Pacific region (population 1.8 billion) could wield more buying power than the European Community. Asia is so vast, and its wealth rising so quickly, that for many companies it will be more than just another attractive market. It could become one of the largest contributors of revenues and profits within the decade.[19]

Analysts note that despite this potential, few U.S. companies have a long-term strategy for the region. The region also poses special challenges for marketers because it is significantly less homogenous than North America or even Europe.

Canada/Mexico Negotiations between President Clinton, Mexican President Carlos Salinas de Gortari, and Canadian Prime Minister Brian Mulroney have resulted in the signing of a North American Free-Trade Agreement (NAFTA). This pact creates a market of 360 million consumers with a gross national product of over $6 trillion—representing a formidable competitor to the fifteen-nation EU. NAFTA has generated a great deal of debate, and the pact is likely to produce both winners and losers in each country. For example, some jobs in each country are likely to be lost as manufacturers move both north and south across the borders. On the other hand, goods are expected to become cheaper as tariffs on thousands of products are removed, and shoppers are likely to have a greater variety of products to choose from.

World Trade

In the past twenty years alone, world trade has expanded from $200 billion to over $4 trillion. The United States was once considered the "hub" of world trade. While it remains a major player, U.S. participation in world trade measured as a portion of world market share has declined drastically. Whereas in 1950 the United States accounted for nearly 25 percent of the world trade flow, its current share is less than 10 percent. It is not that U.S. exports have actually dropped during this period; rather, these figures reflect the entrance of other trading partners into the picture. In 1980 twenty-three American companies made *Fortune*'s top 50, compared with only five Japanese firms. Today only fifteen American companies rank among the top 50, while the number of Japanese companies has increased to thirteen. Competition for world markets comes not only from other industrialized countries but from newly industrialized countries as well. Two of the largest corporations on *Fortune*'s list—Samsung (No. 14) and Daewoo (No. 33)—are South Korean. A Mexican petroleum-producing firm also ranks among the top 100 companies. American corporations have come to realize that the United States is no longer an isolated, self-sufficient national economy, but rather simply another player in the global marketplace.

Growth in Advertising Expenditures Worldwide

Patterns in the growth of international advertising mirror those of international business. At the end of World War II, the bulk of advertising activity was domestic, and 75 percent of recorded advertising expenditures worldwide was concentrated in the United States. Since then, the growth in advertising expenditure worldwide has been phenomenal. In 1950 estimated advertising expenditure totaled $7.4 billion worldwide, including $5.7 billion in the United States alone. By the late 1970s the advertising expenditure had swelled to nearly $72 billion worldwide, including $38 billion in the United States. And today, total advertising expenditures worldwide stand at $312 billion.[20]

The role of advertising varies significantly from country to country, as the figures in Table 1.4 suggest. Table 1.4 lists countries with over $1 billion in advertising expenditures in 1993. Countries spending the most on advertising are primarily the rich industrialized nations, such as the United States, which spent as much on advertising as the next six countries combined. The United States has traditionally been the world leader in total advertising expenditure—contributing over 50 percent of the total figure year after year. However, in 1989 advertising growth rates outside the United States outstripped U.S. growth for the first time.

For the most part, the developing countries in Asia, Africa, and the Middle East appear to be light advertisers. However, economic development is not the sole predictor of advertising expenditure. Some relatively rich countries, such as Austria, are not even on this list, while countries such as Brazil and South Korea are. This suggests that other variables, such as culture, must be considered in attempting to understand the role of advertising in a particular country. Nor do the figures in the table reflect the relative costs of media time/space in each of the countries. It should be noted that media costs in many developing countries tend to be rather low, and this factor should be taken into consideration when making comparisons.