

.....> International Marketing>



CATEORA
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international marketing

thirteenth edition

john L. graham

UNIVERSITY OF CALIFORNIA, IRVINE



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INTERNATIONAL MARKETING

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TO THOMAS, MAGGIE, AND ANGELA
TO CRETA, EMILY, JACK, AND GRACE

ABOUT THE AUTHORS

Philip R. Cateora, Professor Emeritus, The University of Colorado at Boulder, received his Ph.D. from the University of Texas at Austin where he was elected to Beta Gamma Sigma. In his academic career at the University of Colorado he has served as Division Head of Marketing, Coordinator of International Business Programs, Associate Dean, and Interim Dean. His teaching has spanned a range of courses in marketing and international business from fundamentals through the doctoral level. He received the University of Colorado Teaching Excellence Award and the Western Marketing Educator's Association's Educator of the Year Award.

Professor Cateora has conducted faculty workshops on internationalizing principles of marketing courses for the AACSB and participated in designing and offering similar faculty workshops under a grant by the Department of Education. In conjunction with these efforts, he co-authored *Marketing: An International Perspective*, a supplement to accompany principles of marketing texts. Professor Cateora has served as consultant to small export companies as well as multinational companies, served on the Rocky Mountain Export Council, and taught in management development programs. He is a Fellow of the Academy of International Business.

John L. Graham, Professor of International Business and Marketing and Associate Dean at the Graduate School of Management at the University of California, Irvine, has been Director, UCI Center for Citizen Peacebuilding, Visiting Scholar, Georgetown University School of Business, Visiting Professor at Madrid Business School in Spain, and Associate Professor, University of Southern California. Before beginning his doctoral studies at U.C. Berkeley, he worked for a division of Caterpillar Tractor Co. and served as an officer in the U.S. Navy Underwater Demolition Teams. Professor Graham is the author (with N. Mark Lam), of *China Now*, (McGraw-Hill 2006); with Yoshihiro Sano and James Hodgson, former U.S. ambassador to Japan, of *Doing Business with the New Japan* (Rowman & Littlefield, 3rd edition, 2000); author, with Philip Cateora, of *International Marketing* (McGraw-Hill, 10th, 11th, and 12th editions, 1999); and editor, with Taylor Meloan, of *Global and International Marketing* (Irwin, 2nd edition, 1997). He has also written more than 50 articles and chapters for publications such as the *Harvard Business Review*, *Sloan Management Review*, *Journal of Marketing*, *Journal of International Business Studies*, *Journal of Consumer Research*, *Strategic Management Review*, *Marketing Science*, *Journal of Higher Education*, the *Los Angeles Times*, and *The New York Times*; excerpts of his work have been read into the Congressional Record and his research of business negotiation styles in 20 cultures was the subject of an article in the January 1988 issue of *Smithsonian*; his 1994 paper in *Management Science* received a citation of excellence from the Lauder Institute at the Wharton School of Business.

PREFACE

At the start of the last millennium the Chinese were the preeminent international traders. Although a truly global trading system would not evolve until some 500 years later, Chinese silk was available in Europe.

At the start of the last century the British military, merchants, and manufacturers dominated the seas and international commerce. Literally, the sun did not set on the British Empire.

At the start of the last decade, Japan's economic successes had rendered the military competition between the United States and the Soviet Union obsolete. Pundits circa 1990 predicted a Pacific Century, wherein trans-Pacific trade would surpass trans-Atlantic trade. Other Asian economies would follow the lead of Japan. No one then foresaw the ascendancy and impact of the American-created information technology revolution.

What surprises do the new decade, century, and millennium hold in store for all of us? Halfway through the decade natural disasters and wars have hampered commerce and human progress. The battle to balance economic growth and stewardship of the environment continues. The globalization of markets has certainly accelerated through almost universal acceptance of the democratic free enterprise model and new communication technologies, including cell phones and the Internet. Which will prove the better, Chinese gradualism or the Russian big-bang approach to economic and political reform? Will the information technology boom of the previous decade be followed by a demographics bust when American baby boomers try to retire in 2010? Or will NAFTA and the young folks in Mexico provide a much needed demographic balance? Ten years out the debate about global warming should be settled—more data and better science will yield the answers. What unforeseen advances or disasters will the biological sciences bring us? Will we conquer AIDS/HIV in Africa? Will weapons and warfare become obsolete?

International marketing will play a key role in providing positive answers to all these questions. We know that trade causes peace and prosperity by promoting creativity, mutual understanding, and interdependence. Markets are burgeoning in emerging economies in eastern Europe, the Commonwealth of Independent States, China, Indonesia, Korea, India, Mexico, Chile, Brazil, and Argentina—in short, globally. These emerging economies hold the promise of huge markets in the future. In the more mature markets of the industrialized world, opportunity and challenge also abound as consumers' tastes become more sophisticated and complex and as increases in purchasing power provide consumers with new means of satisfying new demands.

Opportunities in today's global markets are on a par with the global economic expansion that existed after World War II. Today, however, the competitive environment within which these opportunities exist is vastly different from that earlier period when United States multinationals dominated world markets. From the late 1940s through the 1960s, multinational corporations (MNCs) from the United States had little competition; today, companies from almost all the world's nations vie for global markets.

There is no better illustration of the changes that have occurred in the competition for global markets in the last quarter century than that experienced by General Electric Lighting (GEL). GEL, begun in 1887, dominated the U.S. lighting market until traditional rival Westinghouse sold its lamp operations to Philips Electronics of Holland in 1983. "Suddenly," reflected GEL's chief, "we have bigger, stronger competition. They're coming to our market, but we're not in theirs. So we're on the defensive." Not long after, GEL acquired Tungsram, a Hungarian lighting company, and Thorn EMI in Britain, and then moved into Asia via a joint venture with Hitachi. As recently as 1988, GE Lighting got less than 20 percent of its sales from outside the United States; in 2000, more than half came from abroad. What happened at GE Lighting has occurred over and over again to MNCs in the United States, Europe, and Asia. The companies that succeed in the 21st century will be those capable of adapting to constant change and adjusting to new challenges.

The economic, political, and social changes that have occurred over the last decade have dramatically altered the landscape of global business. Consider the present and future impact of the following:

- The ever-present threat of global terrorism as represented by the September 11, 2001, attacks
- Major armed conflicts in sub-Saharan Africa and the Middle East
- The looming global recession
- The emerging markets in eastern Europe, Asia, and Latin America, where more than 75 percent of the growth in world trade over the next 20 years is expected to occur
- The reunification of Hong Kong, Macau, and China, which finally puts all of Asia under the control of Asians for the first time in over a century
- The European Monetary Union and the successful switch from local-country currencies to one monetary unit for Europe, the euro
- The rapid move away from traditional distribution structures in Japan, Europe, and many emerging markets
- The growth of middle-income households the world over
- The continued strengthening and creation of regional market groups such as the European Union (EU), the North American Free Trade Area (NAFTA), the Central American Free Trade Area (CAFTA), ASEAN Free Trade Area (AFTA), the Southern Cone Free Trade Area (Mercosur), and the Asian-Pacific Economic Cooperation (APEC)
- The successful completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the creation of the World Trade Organization (WTO), the latter now including China and Taiwan
- The restructuring, reorganizing, and refocusing of companies in telecommunications, entertainment, and biotechnology, as well as in traditional smokestack industries around the world
- The continuing integration of the Internet and cell phones into all aspects of companies' operations and consumers' lives

These are not simply news reports. These changes affect the practice of business worldwide, and they mean that companies will have to constantly examine the way they do business and remain flexible enough to react rapidly to changing global trends to be competitive.

As global economic growth occurs, understanding marketing in all cultures is increasingly important. *International Marketing* addresses global issues and describes concepts relevant to all international marketers, regardless of the extent of their international involvement. Not all firms engaged in overseas marketing have a global perspective, nor do they need to. Some companies' foreign marketing is limited to one country; others market in a number of countries, treating each as a separate market; and still others, the global enterprises, look for market segments with common needs and wants across political and economic boundaries. All, however, are affected by competitive activity in the global marketplace. It is with this future that the thirteenth edition of *International Marketing* is concerned.

Emphasis is on the strategic implications of competition in different country markets. An environmental/cultural approach to international marketing permits a truly global orientation. The reader's horizons are not limited to any specific nation or to the particular ways of doing business in a single nation. Instead, the book provides an approach and framework for identifying and analyzing the important cultural and environmental uniqueness of any nation or global region. Thus, when surveying the tasks of marketing in a foreign milieu, the reader will not overlook the impact of crucial cultural issues.

The text is designed to stimulate curiosity about management practices of companies, large and small, seeking market opportunities outside the home country and to raise the

reader's consciousness about the importance of viewing international marketing management strategies from a global perspective.

Although this revised edition is infused throughout with a global orientation, export marketing and the operations of smaller companies are not overlooked. Issues specific to exporting are discussed where strategies applicable to exporting arise, and examples of marketing practices of smaller companies are examined.

New and Expanded Topics in This Edition The new and expanded topics in this thirteenth edition reflect issues in competition, changing marketing structures, ethics and social responsibility, negotiations, and the development of the manager for the 21st century. Competition is raising the global standards for quality, increasing the demand for advanced technology and innovation, and increasing the value of customer satisfaction. The global market is swiftly changing from a seller's market to a buyer's market. This is a period of profound social, economic, and political change. To remain competitive globally, companies must be aware of all aspects of the emerging global economic order.

Additionally, the evolution of global communications and its known and unknown impact on how international business is conducted cannot be minimized. In the third millennium people in the "global village" will grow closer than ever, and will hear and see each other as a matter of course. An executive in Germany will be able to routinely pick up his or her videophone to hear and see his or her counterpart in an Australian company or anywhere else in the world. In many respects, geographic distance is becoming irrelevant.

Telecommunications, videophones, facsimile machines, the Internet, and satellites are helping companies optimize their planning, production, and procurement processes. Information—and, in its wake, the flow of goods—is moving around the globe at lightning speed. Increasingly powerful networks spanning the globe enable the delivery of services that reach far beyond national and continental boundaries, fueling and fostering international trade. The connections of global communications bring people all around the world together in new and better forms of dialogue and understanding.

This dynamic nature of the international marketplace is reflected in the number of substantially improved and expanded topics in this thirteenth edition, including the following:

- A deeper look at the causes of cultural differences
- The Internet and cell phones and their expanding role in international marketing
- Negotiations with customers, partners, and regulators
- Big emerging markets (BEMs)
- Evolving global middle-income households
- Bottom of the pyramid markets
- World Trade Organization
- Free trade agreements
- Asia-Pacific Economic Cooperation
- Multicultural research
- Qualitative and quantitative research
- Country-of-origin effect and global brands
- Industrial trade shows
- A growing emphasis on both consumer and industrial services
- Trends in channel structures in Europe, Japan, and developing countries
- Ethics and socially responsible decisions
- Green marketing
- Changing profiles of global managers

Structure of the Text

The text is divided into six parts. The first two chapters, Part 1, introduce the reader to the environmental/cultural approach to international marketing and to three international marketing management concepts: domestic market expansion, multidomestic marketing, and global marketing. As companies restructure for the global competitive rigors of the 21st century, so too must tomorrow's managers. The successful manager must be globally aware and have a frame of reference that goes beyond a country, or even a region, and encompasses the world. What global awareness means and how it is acquired is discussed early in the text; it is at the foundation of global marketing.

Chapter 2 focuses on the dynamic environment of international trade and the competitive challenges and opportunities confronting today's international marketer. The importance of the creation of the World Trade Organization, the successor to GATT, is fully explored. The growing importance of cell phones and the Internet in conducting international business is considered, creating a foundation on which specific applications in subsequent chapters are presented.

The five chapters in Part 2 deal with the cultural environment of global marketing. A global orientation requires the recognition of cultural differences and the critical decision of whether it is necessary to accommodate them.

Geography and history (Chapter 3) are included as important dimensions in understanding cultural and market differences among countries. Not to be overlooked is concern for the deterioration of the global ecological environment and the multinational company's critical responsibility to protect it.

Chapter 4 presents a broad review of culture and its impact on human behavior as it relates to international marketing. Specific attention is paid to Geert Hofstede's study of cultural values and behavior. The elements of culture reviewed in Chapter 4 set the stage for the in-depth analyses in Chapters 5, 6, and 7 of business customs and the political and legal environments. Ethics and social responsibility are presented in the context of the dilemma that often confronts the international manager, that is, balancing corporate profits against the social and ethical consequences of his or her decisions.

The three chapters in Part 3 are concerned with assessing global market opportunities. As markets expand, segments grow within markets; as market segments across country markets evolve, marketers are forced to understand market behavior within and across different cultural contexts. Multicultural research, qualitative and quantitative research, and the Internet as a tool in the research task are explored in Chapter 8.

Chapters 9 and 10 in Part 3 explore the impact of the three important trends in global marketing: the growth and expansion of the world's big emerging markets; the rapid growth of middle-income market segments; and the steady creation of regional market groups that include NAFTA, the European Union, CAFTA, APEC, and the evolving Free Trade Area of the Americas (FTAA). Also discussed is the growing number of trade agreements that have been executed by the European Union and Japan with the FTAA and some Latin American countries.

The strategic implications of the dissolution of the Soviet Union the emergence of new independent republics, the shift from socialist-based to market-based economies in Eastern Europe, and the return of South Africa and Vietnam to international commerce are examined. Attention is also given to the efforts of the governments of India and many Latin American countries to reduce or eliminate barriers to trade, open their countries to foreign investment, and privatize state-owned enterprises.

These political, social, and economic changes that are sweeping the world are creating new markets and opportunities, making some markets more accessible while creating the potential for greater protectionism in others.

In Part 4, Developing Global Marketing Strategies, planning and organizing for global marketing is the subject of Chapter 11. The discussion of collaborative relationships, including strategic alliances, recognizes the importance of relational collaborations among firms, suppliers, and customers in the success of the global marketer. Many multinational companies realize that to fully capitalize on opportunities offered by global markets, they must have strengths that often exceed their capabilities. Collaborative relationships can

provide technology, innovations, productivity, capital, and market access that strengthen a company's competitive position.

Chapters 12 and 13 focus on product and services management, reflecting the differences in strategies between consumer and industrial offerings and the growing importance in world markets for both consumer and business services. Additionally, the discussion on the development of global offerings stresses the importance of approaching the adaptation issue from the viewpoint of building a standardized product/service platform that can be adapted to reflect cultural differences. The competitive importance in today's global market for quality, innovation, and technology as the keys to marketing success is explored.

Chapter 14 takes the reader through the distribution process, from home country to the consumer in the target country market. The structural impediments to market entry imposed by a country's distribution system are examined in the framework of a detailed presentation of the Japanese distribution system. Additionally, the rapid changes in channel structure that are occurring in Japan, as well as in other countries, and the emergence of the World Wide Web as a distribution channel are presented.

In Chapter 15, the special issues involved in moving a product from one country market to another, and the accompanying mechanics of exporting, are addressed. The importance of the Internet in assisting the exporter to wade through the details of exporting is discussed in the context of the revised export regulations.

Chapter 16 covers advertising and addresses the promotional element of the international marketing mix. Included in the discussion of global market segmentation are recognition of the rapid growth of market segments across country markets and the importance of market segmentation as a strategic competitive tool in creating an effective promotional message. Chapter 17 discusses personal selling and sales management and the critical nature of training, evaluating, and controlling sales representatives.

Price escalation and ways it can be lessened, countertrade practices, and price strategies to employ when the dollar is strong or weak relative to foreign currencies are concepts presented in Chapter 18.

In Part 5, Chapter 19 is a thorough presentation of negotiating with customers, partners, and regulators. The discussion stresses the varying negotiation styles found among cultures and the importance of recognizing these differences at the negotiation table.

Pedagogical Features of the Text The text portion of the book provides a thorough coverage of its subject, with subject emphasis on the planning and strategic problems confronting companies that market across cultural boundaries.

The use of the Internet as a tool of international marketing is stressed throughout the text. On all occasions where data used in the text originated from an Internet source, the Web address is given. Problems that require the student to access the Internet are included with end-of-chapter questions. Internet-related problems are designed to familiarize the student with the power of the Internet in his or her research, to illustrate data available on the Internet, and to challenge the reader to solve problems using the Internet. Many of the examples, illustrations, and exhibits found in the text can be explored in more detail by accessing the Web addresses that are included.

Current, pithy, sometimes humorous, and always relevant examples are used to stimulate interest and increase understanding of the ideas, concepts, and strategies presented in emphasizing the importance of understanding cultural uniqueness and relevant business practices and strategies.

Each chapter is introduced with a Global Perspective, a real-life example of company experiences that illustrates salient issues discussed in the chapter. Companies featured in the Global Perspectives range from exporters to global enterprises.

The boxed "Crossing Borders," an innovation of the first edition of *International Marketing*, have always been popular with students. They reflect contemporary issues in international marketing and can be used to illustrate real-life situations and as the basis for class discussion. They are selected to be unique, humorous, and of general interest to the reader.

The book is presented in full color, allowing maps to depict of geographical, cultural, and political boundaries and features more easily. Color also allows us to better communicate through that medium the intricacies of international symbols and meanings in marketing communications. New photographs of current and relevant international marketing events are found throughout the text—all in color.

“The Country Notebook—A Guide for Developing a Marketing Plan,” found in Part 6, Supplementary Material, is a detailed outline that provides both a format for a complete cultural and economic analysis of a country and guidelines for developing a marketing plan.

In addition to “The Country Notebook,” Part 6 comprises a selection of short and long cases. The short cases focus on a single problem, serving as the basis for discussion of a specific concept or issue. The longer, more integrated cases are broader in scope and focus on more than one marketing management problem; new cases focus on services marketing, and marketing strategy. The cases can be analyzed by using the information provided. They also lend themselves to more in-depth analysis, requiring the student to engage in additional research and data collection.

Supplements We have taken great care to offer new features and improvements to every part of the teaching aid package. Following is a list of specific features:

- **Instructor’s Manual and Test Bank.** The Instructor’s Manual, prepared by the authors, contains lecture notes or teaching suggestions for each chapter. A section called “Changes to This Edition” is included to help instructors adapt their teaching notes to the thirteenth edition. A case correlation grid at the beginning of the case note offers alternative uses for the cases.

The Test Bank, prepared by Davis Folsom, *University of South Carolina–Beaufort*, is bound with the Instructor’s Manual for ease of use. The Test Bank contains more than 2,000 questions, including true/false, critical thinking, and essay formats. Computerized testing software with an online testing feature is also available on the instructor’s CD-ROM.

- **Videos.** The video program has been revised for the thirteenth edition and contains new footage of companies, topics videos, and unique training materials for international negotiations. Teaching notes and questions relevant to each chapter in the text are available in the IM and at the Web site.
- **PowerPoint slides.** This edition has PowerPoint slides for both the instructor and students, the latter of which are narrated. The PowerPoint presentation that accompanies *International Marketing*, thirteenth edition, contains exhibits from the text and other sources. The PowerPoint slides are prepared by Caroline Juszczak.
- **Instructor’s CD-ROM.** This presentation manager, available to adopters of the textbook, contains the Instructor’s Manual, Test Bank, and PowerPoint. Instructors have the ability to customize their lectures with this powerful tool.
- **Web site:** www.mhhe.com/cateora07. Included on the site are instructor resources such as downloadable files for the complete Instructor’s Manual, PowerPoint slides, video clips, and links to current events and additional resources for the classroom. Instructors can also link to PageOut to create their own course Web site and access the complete Test Bank. For students, our site provides links to Web sites, an interactive version of the Country Notebook, online quizzing, and narrated chapter PowerPoint Slides.

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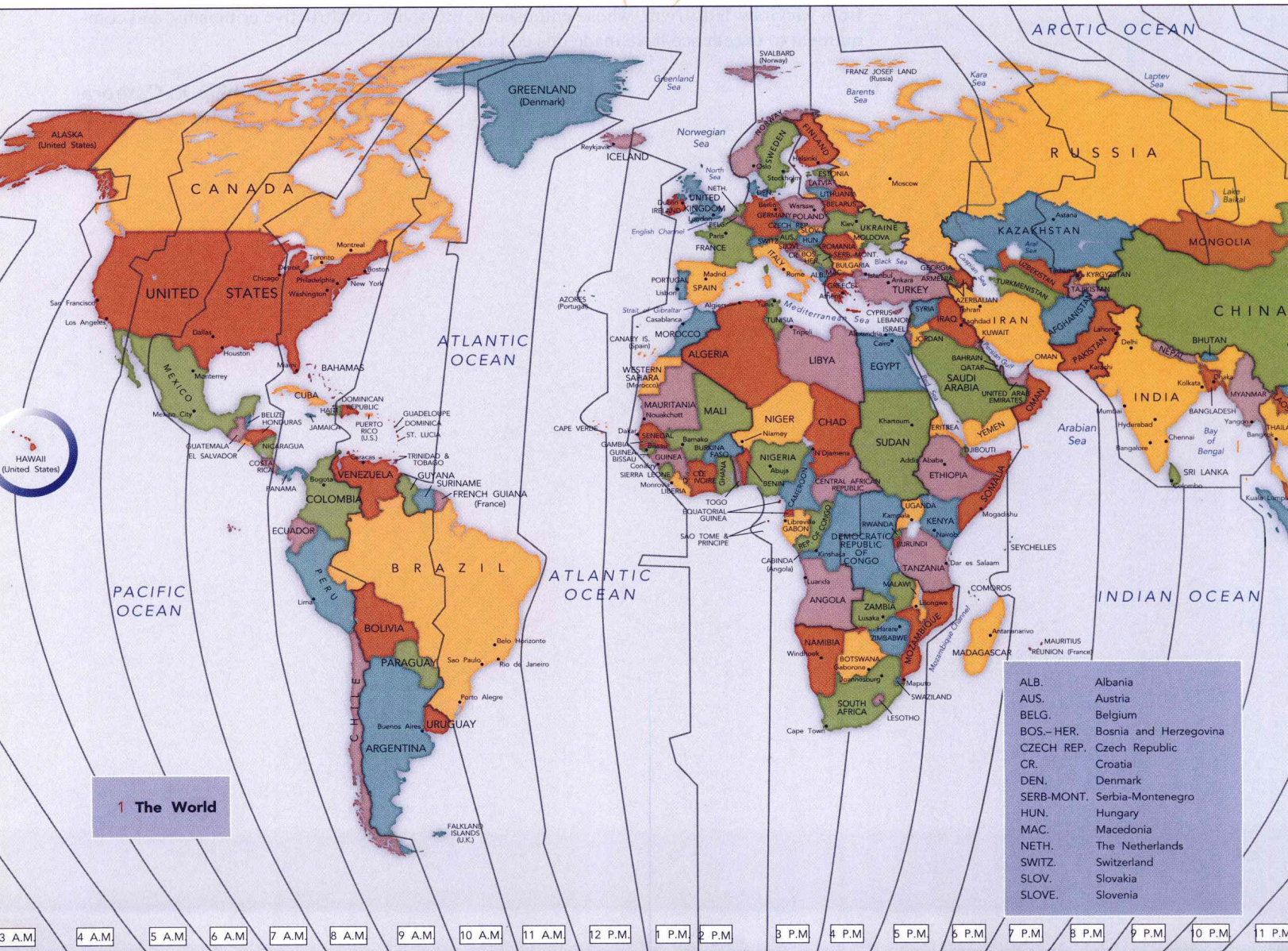
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Philip R. Cateora
John L. Graham

WALKTHROUGH

A quick look at the new edition

International Marketing by Cateora and Graham has always been a pioneer in the field of international marketing. The authors continue to set the standard in this edition with new and expanded topics that reflect the swift changes of an expanding competitive global market as well as an increased coverage of technology's impact on the international market arena.



microsoft

annually spends more than a billion dollars on its global advertising. The company has 75 subsidiaries around the world. The management processes used to develop the "Windows Office" campaign are instructive.

Things begin with marketing research in individual countries regarding key market segments, most attractive product features, and potential themes. The data collected by the international subsidiaries are then sent to McCann-Erickson's San Francisco offices for the development of a set of universal themes. McCann-Erickson Worldwide has more than 200 offices in 111 countries and is ideally suited for global clients such as Microsoft, Coca-Cola, DuPont, and Lucent Technologies. The San Francisco office is closest to Redmond, Washington, where Microsoft is headquartered, and, of course, it is also adjacent to the Silicon Valley.

The agency sends the appropriate core concepts, video footage, photographic layouts, and copy themes that comprise the set of universal materials. Then, in cooperation with their local agencies, managers at each subsidiary choose the most appropriate materials for their particular consumers and markets. The most customization is required in Brazil, China, India, and Russia—all are plagued by major piracy problems. Also, since Japan is the firm's second largest market behind only the United States, executives there are given more freedom to adapt to local requirements and tastes.



corporate/brand image campaign



The purpose behind this corporate campaign is to complement the firm's heavy product-oriented marketing with a program that explains Microsoft's broader corporate mission. That is, "to help people and businesses throughout the world reach their full potential." The campaign serves to soften the image of the firm and emphasizes the contribution its products and services have made to technology and the practical applications of personal computing in business, science, education, and so on. The program runs in more than 30 countries (here you see the versions used in the United States, Japan, and Mexico) including TV ads with local copy, voice-over, and other adaptations to the global theme. The majority of the ads are pre- and post-tested in multiple countries to check for cultural nuance. Some \$19 million a year is spent just on this aspect of the research. The print and TV ads are complemented by an associated PR, government, and community affairs campaign. The campaign is in its third year with positive results reflected in measured improving consumers' views about the company.

product-specific Advertising

Here Microsoft Office is pitted against its toughest competitor—earlier versions of itself. So the goal of the campaign is to break up the inertia and facilitate an upgrade cycle. The key message is the way the world (of information workers) works is much different today than it was three to five years ago, or one or two versions ago of Office. The ads focus on scenarios around mobility, collaboration, and controlling sensitive data.



Since there is so much complacency (85 percent satisfaction with Office), the firm needs to do something different or risk just reinforcing with customers the previous version of Office. The dinosaur heads proved to do that in most markets, but they needed local adaptations—photos were used in the United States, cartoons in Korea, and other treatments based on local cultures. This theme was supplemented by a heavy public relations campaign including speeches by Bill Gates about the changing information worker environment. The program was run in more than 30 countries, but not in China. Companies in that market are often in the "product trial" (that is, piracy) stage of the buyer-seller relationship, and different programs are therefore appropriate.

Notice the similarity of the campaigns across the countries, and notice the differences. For the Mexican version, after the "We See," "the king of the skies" is transformed into "imagine what heights you can reach." The tagline for all the ads was developed originally for the corporate campaign, but is now used almost universally. You will also notice that the ad targeting French buyers is the only one with no English in it (except for the product name).



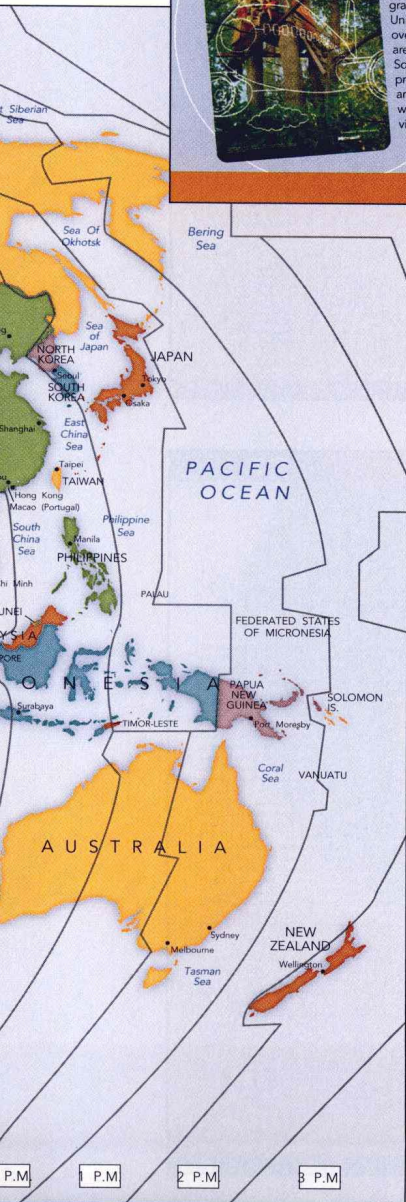
The translations are done locally, so, for example, the copy is different between Mexico and Spain. A variety of themes and media (print and outdoor) are used across countries. And, in any one country, several themes and media may be used, particularly in the larger, more diverse markets.

Finally, the executions are then tested in each market and adjustments are made. This global approach makes sense for Microsoft because the product, its uses, and its market share are virtually the same across markets. This integrated approach has saved some \$30 million in worker-hours and production costs over previous similar campaigns.

(Courtesy Microsoft Corporation)

4-Color Design

New color maps and exhibits allow for improved pedagogy and a clearer presentation of international symbols and cultural meanings in marketing and advertising. In addition, photos that depend on full color for maximum impact easily bring many global examples to life. This visually stimulating combination works together to make the text material reader-friendly and accessible for both instructors and students.



Chapter Openers

Chapter Outline provides students an at-a-glance overview of chapter topics, while Chapter Objectives summarize the chapter's goals and focus. Each chapter is introduced with a Global Perspective, a real-life example of company experiences that illustrates significant issues discussed in the chapter. Companies featured in the Global Perspective vignettes range from exporters to global enterprises.



1

Global Perspective

GLOBAL COMMERCE CAUSES PEACE

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

Boeing Company, America's largest exporter, is perhaps the most prominent example. Although many would argue that Boeing's military sales (aircraft and missiles) do not exactly promote peace, over the years that business has constituted only about 20 percent of the company's commercial activity. Up until 2002, of Boeing's some \$60 billion in annual revenues, about 65 percent came from sales of commercial jets around the world and another 15 percent from space and communications technologies. Unfortunately, these historical numbers are being skewed by American military spending and the damage done to tourism by terrorism.¹ Even so, the company still counts customers in 145 countries, and its 159,000 employees work in 67 countries. Its more than 11,000 commercial jets in service around the world carry about one billion travelers per year. Its NASA Services division is the lead contractor in the construction and operation of the 16-country International Space Station, first manned by an American and two Russians in the fall of 2000. The Space and Intelligence Systems Division also produces and launches communications satellites affecting people in every country.

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

CHAPTER OUTLINE

Global Perspective: Global Commerce Causes Peace
The Internationalization of U.S. Business
International Marketing Defined
The International Marketing Task
Marketing Decision Factors
Aspects of the Domestic Environment
Aspects of the Foreign Environment
Environmental Adaptation Needed
The Self-Reference Criterion and Ethnocentrism: Major Obstacles
Developing a Global Awareness
Stages of International Marketing Involvement
No Direct Foreign Marketing
Infrequent Foreign Marketing
Regular Foreign Marketing
International Marketing
Global Marketing
Strategic Orientation
Domestic Market Extension Orientation
Multidomestic Market Orientation
Global Market Orientation
The Orientation of International Marketing

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 1:

- The changing face of U.S. business
- The scope of the international marketing task
- The importance of the self-reference criterion (SRC) in international marketing
- The progression of becoming a global marketer
- The increasing importance of global awareness


Global Perspective

Another class of companies that promotes global dialogue and therefore peace is the mobile phone industry. During 2003 more than 700 million new mobile phones were purchased around the world connecting more than one-quarter of all people on the planet. Nokia (Finland), the market leader, is well ahead of American manufacturer Motorola, Samsung (S. Korea), LG (S. Korea), Siemens (Germany), and Sony Ericsson (Japan/Sweden).

Individuals and small companies also make a difference, perhaps a subtler one than large multinational companies, but one just as important in the aggregate. Our favorite example is Daniel Libeskind's company, PeaceWorks. Mr. Libeskind used a fellowship at Stanford Law School to study how to foster joint ventures between Arabs and Israelis. Then, following his own advice, he created a company that combines basit pesto from Israel with other new materials and glass jars supplied by an Arab partner to produce the first product in a line he calls Moshe & Ali's Gourmet Foods. The company now sells some 40 products in 1,000 stores in the United States and has its headquarters on Park Avenue in New York and business operations in Israel, Egypt, Indonesia, Turkey, Sri Lanka, and South Africa. Again, beyond the measurable commercial benefits of cooperation between the involved Arabs, Israelis, and others is the longer-lasting and more fundamental appreciation for one another's circumstances and character.

Integration of marketing is hard work. Making sales calls is no vacation even in Paris when you've been there 10 times before. But international marketing is important work. It can enrich you, your family, your company, and your country. And ultimately, when international marketing is done well, by large companies or small, the needs and wants of customers in other lands are well understood, and prosperity and peace are promoted along the way.

Sources: www.boeing.com and www.peaceworks.com—both are worth a visit; and *The Economist*, "Nokia, the Giant's Makers," June 18, 2003, p. 39.



6

Global Perspective

CHIQUITA BANANAS AND PROSCIUTTO DI PARMA, LOUIS VUITTON HANDBAGS, SCENTED BATH OILS AND SOAPS, AND BATTERIES—STRANGE BEDFELLOWS FROM THE WORLD OF POLITICS

As the old saying goes, "Politics makes strange bedfellows," but in this case the only one making out is Miss Chiquita Banana. Prosciutto di Parma ham from Italy, handbags from France, bath oils and soaps from Germany, and a host of other imported products from Europe were all shipped with a 100 percent import tariff as retaliation by the U.S. government against European Union banana-import rules that favor Caribbean bananas over Latin American bananas. Keep in mind that no bananas are exported from the United States, yet the United States has been engaged in a trade war over the last seven years that has cost numerous small businesses on both sides of the Atlantic millions of dollars. But how can this be, you ask? Politics, that's how!

One small business, Rhea Enterprises, for example, sells bath oil, soap, and other supplies imported from Germany. The tariff on its most popular product, an herbal foam bath, was raised from 5 percent to 100 percent. The customs bill for six months spiraled to just \$1,851—a 1,941 percent tax increase. For a small business whose gross sales are less than \$1 million annually, it was crippling. When Mr. Rhea heard of the impending "banana war" he called everyone—his congressman, his senator, the United States Trade Representative (USTR). When he described his plight to a USTR representative, the official expressed amazement. "They were surprised I was still importing," because they thought the tariff would cut off the industry entirely. That was their intention, which, of course, would have meant killing Rhea Enterprises as well.

In effect, he was told it was his fault that he got caught up in the trade war. He should have attended the hearings in Washington just like Gillette and Mamel, and maybe his products would have been dropped from the targeted list just as theirs were. Scores of European producers, exporters to stores to sales Christmas ornaments, dolls, and ballpoint pens, that were originally targeted for the retaliatory tariffs escaped the tariff. Aggressive lobbying by large corporations, trade groups, and members of Congress got most of the threatened imported products off the list. The USTR had published a list of the targeted imports in the *Federal Register* inviting affected companies to testify. Unfortunately, the *Federal Register* was not on Rhea's reading list.

In that case, he was told, he should have hired a lobbyist in Washington to keep him informed. Good advice—but it doesn't make much sense to a company that grows less

CHAPTER OUTLINE

Global Perspective: Chiquita Bananas and Prosciutto di Parma, Louis Vuitton Handbags, Scented Bath Oils and Soaps, and Batteries—Strange Bedfellows from the World of Politics
The Sovereignty of Nations
Stability of Government Policies
Forms of Government
Political Parties
Nationalism
Targeted Fear and/or Animosity
Trade Disputes
Political Risks of Global Business
Confiscation, Expropriation, and Nationalization
Economic Risks
Political Sanctions
Political and Social Activists and Nongovernmental Organizations
Violence and Terrorism
Cyberterrorism and Cybercrime
Assessing Political Vulnerability
Politically Sensitive Products and Issues
Forecasting Political Risk
Lessening Political Vulnerability
Joint Ventures
Expanding the Investment Base
Licensing
Planned Domestication
Political Bargaining
Political Payoffs
Government Encouragement

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 6:

- What the sovereignty of nations means and how it can affect the stability of government policies
- How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries
- The political risks of global business and the factors that affect stability
- The importance of the political system to international marketing and its effect on foreign investments
- The impact of political and social activists, violence, and terrorism on international business
- How to assess and reduce the effect of political vulnerability
- How and why governments encourage foreign investment

Global Perspective

than \$1 million a year. Other advice received from an official of the USTR included the off-the-record suggestion that he might want to change the custom number on the invoice so it would appear that he was importing goods not subject to the tariff, a decision that could, if he were caught, result in a hefty fine or jail. Smaller businesses in Europe faced similar problems as their export business dried up because of the tariffs.

How did this banana war start? The European Union imposed a quota and tariffs that favored imports from former colonies in the Caribbean and Africa, distributed by European firms, over Latin American bananas distributed by U.S. firms. Chiquita Brands International and Dole Food Company, contending that the U.S. "illegal trade barriers" were costing \$520 million annually in lost sales to Europe, asked the U.S. government for help. The government agreed that unfair trade barriers were damaging their business, and 100 percent tariffs on selected European imports were levied. Coincidentally, Chiquita Brands' annual campaign contributions increased from barely over \$40,000 in 1991 to \$1.1 million in 1998.

The European Union complained about the proposed U.S. tariffs and took a grievance to the World Trade Organization (WTO), which ruled in favor of the United States. The EU ignored the WTO and continued the banana tariffs, and the United States continued with its high tariffs—the banana war continued. Because of lack of compliance, the USTR imposed a "carousel" provision that allowed it to rotate every six months, products that were to be targeted for the 100 percent tariff. Like all trade disputes, this one was apparently settled, but at what cost to those caught in the middle between two nations and a giant MNC? The biggest losers were the African and Caribbean countries that Europe favored in the dispute. A plot to produce higher prices and farmers are selling fewer bananas at lower prices. Most recently, the European Union proposed new tariffs in anticipation of Congress passing the Central American Free Trade Agreement. Will bananas be bruised again?

Sources: "U.S. Sets Import Tariffs in Latest salvo in Ongoing Battle over Banana Trade," *Minneapolis Star Tribune*, March 4, 1999; Timothy Dow, "It's a \$100,000 Bill from the Blue," *Time*, February 7, 2000, p. 54; "How to Kill a Banana," *Time*, February 7, 2000, p. 42; "Banana War Leaves the Caribbean a Casualty," *The Observer*, November 21, 2002; Devin Dwyer, "Opening Shows in a New Style of Trade War," *Seattle Times*, June 5, 2003, B4.

These invaluable boxes offer anecdotal company examples. These entertaining examples are designed to encourage critical thinking and guide students through topics ranging from ethical to cultural to global issues facing marketers today.

CROSSING BORDERS 3.5

The World's Breadbasket to the World's Lungs

As nations prosper and economic development is sought, building roads and dams and digging tunnels to overcome physical barriers become a necessity, but often at an astronomical cost. For example, a 1,097-mile trip from the Amazon basin to the heart of Brazil, through the Amazon River and Cubatã, capital of the state of Mato Grosso, Brazil, can take 14 days during the rainy season. The road joins what Brazilians call "the world's breadbasket" to the landlocked Amazon basin. The state of Mato Grosso is the Amazonian rain forest. You drive on whichever belt of the road seems least likely to tear off the undercarriage of your vehicle. During the six-month rainy season, when the road becomes a river and mud, it may take 14 days to get to the other side of the road for a fee. Within four years, the BR-143 will be a superhighway, launching commodities toward markets in Europe and Asia, speeding computers and other electronic goods to the Amazon basin. The near-isolation of hundreds of thousands of people living along its unpaved stretches. But at what cost?

If the past is any guide, the "lungs" will suffer. Paving the BR-163 could lay waste to thousands of square kilometers of forest, carrying deep into the jungle the "arc of deforestation" through which it passes. In general, some 85 percent of deforestation takes place within 50 kilometers of a road, because a road makes it more profitable to fell trees, first for timber and then for pasture.

According to the head of the union of rural workers, "On the one hand paving BR-163 will bring development—on the other hand it will bring ruin to the region—more land grabbing, more drug trafficking. Total violence will arrive." According to a report by two research institutes, paving the BR-163 could destroy 22,000 to 49,000

Common with What!



A farmer rubs his eyes while surveying land that was deforested for agricultural use in northern Brazil. At the behest of environmentalists, the government pledged new controls to reduce deforestation of Brazil's Amazon rain forest which is home to up to 30 percent of the world's animal and plant life.

(© Reuters NewMedia Inc./CORBIS)

chaotic growth, reducing social inequities rather than exacerbating them, preserving the Amazon rather than despoiling it. Getting it right has now become a global project, involving NGOs,* multinationals, and grassroots groups, as well as all levels of Brazil's government. The miracle will be a road that promotes Brazil's growth while protecting the indispensable Amazon.

*NGOs are nongovernmental organizations associated with the United Nations and include such organizations as Earth Charter Initiative and Society for Conservation and Protection of Environment (SCOPE). See www.earth.org.

Sources: "Asphalt the Jungle," *The Economist*, July 22, 2004; Steve Connor, "How a Century of Destruction Has Laid Bare the World's Rainforests," *The (London) Independent*, July 2004; Leandro V. Ferreira, "Amazonian Deforestation Models," *Science*, February 18, 2005.

CROSSING BORDERS 7

Anheuser-Busch (AB) launched a massive public relations program in the small Czech town of České Budějovice, where a local brewery produces "Budweiser Budvar." Anheuser-Busch planted trees along main avenues, opened a new cultural center offering free English courses to citizens and management advice to budding entrepreneurs, and ran newspaper ads touting the possibilities of future cooperation.

Anheuser-Busch's goal was to win support for a minority stake in the Czech state-owned brewery, Budějovický Budvar N.P., when the government privatized it. So why was AB interested in a brewery whose annual production of 500,000 barrels is the equivalent of two days' output for AB?

Part ownership is critically important to Anheuser-Busch for two reasons. It is in search of new markets in Europe, and it wants to be able to market the Budweiser brand in Europe. So what's the connection? AB doesn't have the rights to use the Budweiser brand in Europe because Budějovický Budvar N.P. owns it. Its public relations plan didn't work because many Czechs see Budvar as the "family silver." Although the Czech prime minister asked publicly for American investors to put money into the Czech Republic, Czech Budweiser was not on the government's privatization list. "I believe in the strength of American investors, but I do not believe in the quality of American beer."

Anheuser-Busch established the name Budweiser in the United States when German immigrants founded the St. Louis family brewery and began selling under the Budweiser brand in 1876, which is 39 years before the Czech brewery opened. The Czechs claim they have been using the name since before Columbus discovered the New World and that Budweiser refers to Budweis, the original name of the city where Budvar is located. That is the name commonly referred to beer brewed in that area hundreds of years before Anheuser-Busch started brewing Budweiser.

The Anheuser-Busch Company markets Budweiser brand beer in North America, but in Europe it markets Busch brand beer because the Czechs have the rights to the use of the name Budweiser. Diplomacy and public relations didn't work, so what next? The parties have each other tied up in legal wrangling over who has the rights to the Budweiser name and to derivations of it, such as Bud. More than 40 lawsuits and 40 administrative cases are pending across Europe. U.S. law protects Anheuser-Busch's rights to the Budweiser label in the United States; the Czechs sell their beer as "Czechvar."

The Czech brewery exports to 37 countries, mainly in Europe, and AB has sales in more than 70 countries

Budejovice, Privatization, Trademarks, and Tests—What Do They Have in Common with User-Busch? Budweiser, That's What!

around the world. Anheuser-Busch sought a court order to have the Czech company's products taken off the shelves in Hong Kong, won a ruling in Hungary, and has launched similar lawsuits in the United Kingdom and the United States. AB said the Czech brewery had imported and sold beer in the United States labeled "Budweiser Budvar" in the state of Maryland. It says the Czech brewery is mimicking its name to confuse beer drinkers and cash in on the U.S. company's success.

The Czech government petitioned the WTO to grant beer regions the same kind of labeling protection that it gives to wine regions. Just as sparkling wines made in the Champagne region of France are the only ones legally entitled to call themselves champagne, it would mean that only beers brewed in České Budějovice could call themselves Budweiser and only those brewed in Pilsen, another Czech town, could claim to be Pilsner. It seems unlikely that this will win approval since Pilsner has become a generic designation for a style of beer, and unlike the grapes that come from Champagne, the malt and the hops that go into its beer do not come exclusively from České Budějovice.

The legal battle for the exclusive right to use the brand names Bud and Budweiser has spread worldwide. So far, this tactic hasn't worked too well either. Britain's high court allowed both companies to use the names Bud and Budweiser, whereas Switzerland's highest court banned Anheuser-Busch from selling beer under the Bud name.

We all know that the proof of who's best is in the tasting, right? Both lagers have legions of fans. The U version lives up to its old slogan of "king of beers," at least as far as sales go: It's the top-selling beer in the world. The Czech version—nicknamed the "beer of kings" because it comes from a town that once brewed for royalty—has large followings in Germany and other parts of Europe. So the St. Louis Post-Dispatch hosted a blind taste test to determine which beer is better—Budvar won.

Visit the Budvar Web site (www.budvar.cz) for the history of Budvar and a tour of the plant, and visit the AB home page at www.anheuser-busch.com.

Sources: Stambonik, "Battle of the Buds: Taste Testers Say That Budvar Is Better," *St. Louis Post-Dispatch*, November 28, 1999, p. E1; "Prime Minister Says Budvar Will Stay Czech," *Modern Brewery*, March 2000; Gregory Cancelada, "Czech Brewery Retains Right to Use 'Budweiser' and 'Bud' Trademarks," *St. Louis Post-Dispatch*, February 17, 2002; Jim Salter, "A Victory for Bud Brewer," *Philadelphia Inquirer*, July 17, 2005, p. E12.

and the environment from the process of economic growth," is the concept that guides many governments and multinational companies today.⁴⁰ Sustainable development is not about the environment or the economy or society. It is about striking a lasting balance between all of these. More and more companies are embracing the idea of sustainable development as a "win-win" opportunity.⁴¹ Responsibility for protecting the environment does not rest solely with governments, businesses, or activist groups; however, each citizen has a social and moral responsibility to include environmental protection among his or her highest goals.⁴²

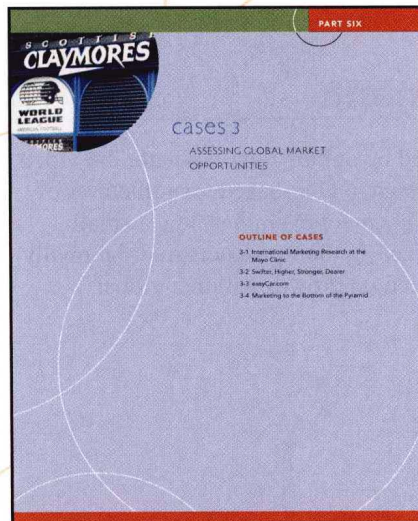
⁴⁰Jeremy Rifkin, "The European Dream: Building Sustainable Development in a Globally Connected World," *The Environmental Magazine*, March–April 2005.

⁴¹Visit www.oecd.org; the OECD Web site, for a directory to complete coverage of sustainable development.

⁴²Visit www.webdirectory.com for the *Amazing Environmental Organization Web Directory*, a search engine with links to an extensive list of environmental subjects.

NEW Cases

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This was the stated reason of an oral rental company's refusal to rent to a black woman, as reported by the Fair Housing Card conference. Susan Lippman, executive director of the National Fair Housing Council, says that the company refused to rent to a black woman in 1997 after convincing her, via a telephone interview, to loan him the \$2 million in January 1997. Lippman says that the company refused to rent to a black woman because of the low rate of return, not falls in the company's rental portfolio. Lippman says that the company refused to rent to a black woman because of the low rate of return, not falls in the company's rental portfolio. Lippman says that the company refused to rent to a black woman because of the low rate of return, not falls in the company's rental portfolio.

lost £7.5 million on revenues of £18.5 million.⁴ While pleased the company had broken even in only its third year in operation, Stefán had set aggressive financial goals for eayCar for the next two years. Plans called for a quadrupling of revenues in the next two years in preparation for a planned initial public offering in the second half of 2004. eayCar's goal was to reach £10 million in revenue and £10 million in profit for the year 2004. The £100 million revenue and £40 million profit goals were felt necessary to obtain the desired return from an initial public offering (IPO). It was thought that with this level of performance, the company might be worth about £250 million.⁵ To achieve these financial goals, the company was pushed to open an average of 2 new sites a week through 2003 and 2004 to reach a total of 180 sites by the end of 2004.⁶

THE RENTAL CAR INDUSTRY IN WESTERN EUROPE

The western European market is much more fragmented, with many different companies competing within each industry. In Germany, for example, there are 100 different companies competing within the European retail car industry, while in the United States there are only three. In Germany, the market share of national markets or within one or a few national markets is important. Industry experts use the sector as proxy for consolidation.¹ Several factors have contributed to the fragmentation of the European market, with strong positions across the major European markets. Within most industries, a nationally or regionally important market has a strong position in the European market. In Germany, for example, Aldi is a market leader in the supermarket industry, while in neighboring markets, Sietel was the market leader in Germany, for example, while Aldi in partnership with Spar was the market leader in Austria. In the United States, the market share of a company is less than half the market. In Germany, for example, Sietel, Spar, Aldi and Herta had a combined 60 percent of the €2.5 billion German market for Spar. In Spain, Spar had a 40 percent market share of the €720 million Spanish retail car market. Generally, the top firms targeted both business and vacation travelers and addressed the needs of both segments. In Germany, for example, there are three large leading hotels and a vacation provider and a differentiator in these markets.

Within the United States, the market is concentrated in each market. In addition to the retail companies, there are also many other companies. In Germany, for example, there are more than 700 small companies,² while in Spain there were, for example,

¹⁰ "The Big Picture – An Interview with Stefan," *Stanley Telegraph* (UK), March 15, 2006.

¹¹ "Click to Fly," *The Economist*, May 13, 2006.

¹² V. Gargiulo, "Stefan Isn't Taking It Easy," *Stanley Telegraph* (UK), December 15, 2005.

¹³ *Avia Europe* file, 2002 annual report, p. 10, accessed at www.stanley.com/aviac/aviac.pdf on August 16, 2004.

¹⁴ V. Gargiulo, "Stefan Isn't Taking It Easy," *Stanley Telegraph* (UK), December 2005.

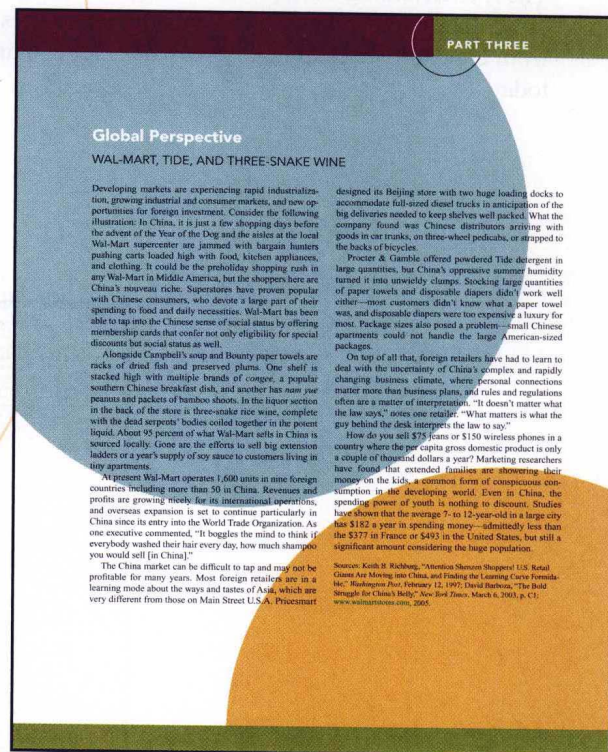
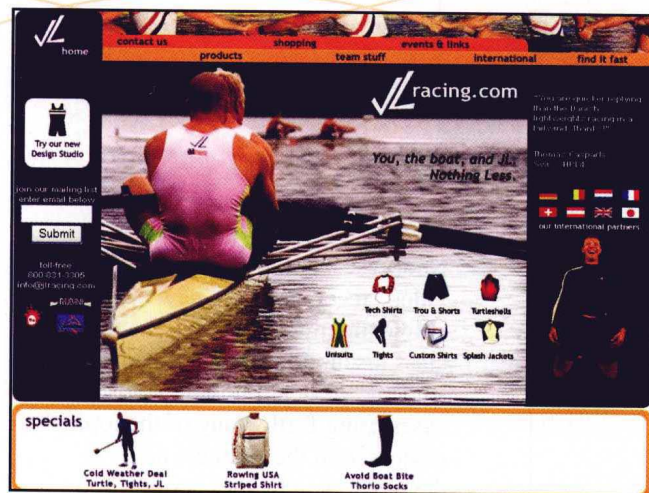
¹⁵ "Marketing: Former chief UK Chief Leads Top staff to Position," *Financial Times Information Limited*, January 8, 2003.

¹⁹ D. Stein, "Europe's in Agony to Deal with Vauxhall," *Financial Times*, April 30, 2002, at 1.
²⁰ N. Hodgson, "Stefan Phone says Fiat," *University Echo*, September 24, 2002, at 1.
²¹ E. Symington, "Stefan Isn't Taking It Easy," *Swedish Telegraph* (U.K.), December 3, 2002.
²² "Marketing Week: Don't Wake Off to Car Rental Industry," *Financial Times* Subscription Limited, September 29, 2002.
²³ "EasyCar Set to Shake Up German Car Rental Market," *European Intelligence* 44 (February 22, 2002).
²⁴ "EasyCar Set to Shake Up German Car Rental Market," *European Intelligence* 44 (February 22, 2002).

A Wealth of Supplements

Global Perspectives

At the beginning of each chapter, Global Perspectives give examples of current company experiences in global marketing. Illustrating chapter concepts, these profiles help students to combine the theory they read about with real-life application.



Video Segment

In a segment produced by author John Graham, the video takes a look at JL Design, a U.S.-based manufacturer of athletic apparel. This segment examines how a small business grew to marketing their products internationally and how it has managed its growth within a global market.