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Global Marketing Management

Masaaki Kotabe

Kristiaan Helsen

SECOND EDITION

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GLOBAL MARKETING MANAGEMENT

SECOND EDITION

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Temple University

Kristiaan Helsen

Hong Kong University of Science and Technology



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In a recent issue of *Journal of Teaching in International Business* in 1997, Dr. Kotabe was ranked the most prolific international marketing researcher in the world in the last ten years. He has been recently elected a Fellow of the Academy of International Business for his lifetime contribution to international business research and education. He is also an elected member of the New York Academy of Sciences.

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PREFACE

THREE FUNDAMENTAL ISSUES ADDRESSED IN THE SECOND EDITION



We received quite a few letters and e-mails from instructors around the world who used our first edition of *Global Marketing Management*, with three questions. The *first* inquiry is when the book would be translated into such languages as Chinese, Spanish, and Portuguese, among other languages. The Chinese translation was published in late 1998. The Portuguese version came out in October 1999. Japanese and Spanish translations are also well under way. Our book has become truly global as it is read not only in the English-speaking regions of the world but also in countries where instruction is in various other languages.

The *second* inquiry is whether we could upload on our textbook website our views on the recent Asian financial crisis and marketing under the euro, a new currency, in the European Union. Up until the mid-1990s, we were pretty certain that the Asian economy would grow at a fairly fast pace, as it had done in the last 30 years. However, to everyone's surprise, the Asian economic miracle was brought to a screeching halt by the region's financial crisis toward the end of 1998. The ramifications of the Asian financial crisis are not limited to Asian countries and their trading partners. Another epoch-making event was the introduction of a common European currency, known as the euro, on January 1, 1999. Many pundits expected a gradual evolutionary development toward the unification of the European Union. To address these issues, we added an update to our book in 1999. Now in this second edition, we have fully incorporated the issues on marketing implications of the Asian financial crisis and marketing in Euro-Land.

The *third* inquiry is more or less the question that many instructors started asking themselves: How does the revolutionary growth of the Internet and electronic commerce (e-commerce) affect the way we do business internationally? This is a new phenomenon that we need to have a careful look at. Everyone seems to believe that business transactions will be faster and more global early on. And it is generally true. However, the more deeply we have examined this issue, the more convinced we have become that certain things will not change, or could even become more local as a result of the globalization that the Internet and e-commerce bestows on us. For example, many more peoples around the world are trying to emphasize cultural and ethnic differences—as well as accept those differences—than ever before. Just think about how many new countries are being born around the world as well as 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 non-tariff barriers). In this second edition, we have incorporated issues surrounding the Internet and e-commerce in all the chapters where they are relevant.

Indeed, the changes we observed in the last few years of the 1990s are more than extraordinary. In our preface to the first edition of this book, we began by stating:

“Markets have become truly global. If you stand still in your domestic market, you will likely be trampled by competitors from around the world. As one globe-trotting executive put it, ‘If you don’t act right now, somebody else will always do it for you at your expense . . . and quickly.’ This book is designed to portray this competitive urgency and present how executives should design and execute marketing strategies to optimize their market performance on a global basis.”

We practiced what we stated. It was a lot of work. But it was well worth the effort to hear so many favorable comments that satisfied readers expressed to us.

In the second edition of our book, we emphasize the enormous changes that have taken, and are taking, place as we speak. We incorporated an entirely new chapter (Chapter 19) that looks at the interface between the Internet and international marketing. We have added many examples that have occurred in the last few short, but epoch-making, years. However, we do not sacrifice logical depth in favor of brand-new examples.

We strongly believe that case studies 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 kept several cases from the first edition voted as *favorites* by our textbook users and their students. We have a total of 23 cases to go with this edition. The cases represent many products and services and many regions and countries as well as many nationalities. Ten of them are included in the book itself, and the rest are placed on the textbook website for easy download.

Many users of the first edition commented that while our book is academically rigorous and conceptually sound, it is 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 second 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, 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 re-shaping the industry. Often, those fundamen-

tal 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 (inter-national) 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 throughout our book.

We have seen textbooks replacing the word, “international,” with “global.” Such a change amounts to 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 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 the 21st 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 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 could work effectively with marketing people for the same corporate goal.

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:

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 Western 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 Japan and Mexico, other components from Malaysia, and also from its domestic sources in the United States, and assembles a finished product in its Singapore plant for export to Western 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 the technical know-how. A domestic supplier in the

Global Orientation

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, subsidiary operation, local assembly, and R&D, all managed directly or indirectly by the U.S. company. And add the realities of market complexities. Think about how these arrangements could affect the company's decisions over 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.

Interdisciplinary Perspective

To complement our global orientation, we will offer an interdisciplinary perspective in all relevant chapters. We are of the strong belief that you cannot become a seasoned marketing practitioner without an understanding of how other functional areas interface with marketing. The reverse is also true for non-marketing managers. Some of the exemplary areas in which such a broad understanding of the interface issues are 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 are increasingly adopting 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' interest 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 sufficiently 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 which 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 devoid of its authors' background, expertise, and experiences. Our book represents an amalgam of our truly diverse backgrounds, expertise, and experiences across the North and South Americas, Asia, and Western and Eastern Europe. Given our upbringing and work experience in Japan and Western Europe, respectively, as well as our educational back-

ground 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 similarities; or else, 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 such terms as “standardization vs. adaptation” (1960s), “globalization vs. localization” (1970s), “global integration vs. local responsiveness” (1980s), and most recently, “scale vs. sensitivity” (1990s). Terms have changed, but the quintessence of the strategic dilemma that multinational firms face today has not changed and will probably remain unchanged for years to come. However, they 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.

We strongly believe that theory is useful to the extent it helps practices. And there are many useful theories in 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—rather 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 just like a Pandora’s box. Once you move into the international arena, there are many more facts, concepts, and frameworks 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 which 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 languages. Our effort is reflected well in our textbook. This leads to our next orientation.

Research Orientation

Practical Orientation

Not only is this book designed to be user-friendly, but also it 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.

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 cultural and legal as well as consumer needs differences—are bound to prevent it from becoming an instantaneous free-wheeling 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 be dealing with upon graduation. Chapter 19 serves not as an epilogue to the second edition but as a prologue to your exciting career ahead of you.

Not only is this book designed to be user-friendly, but also it 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:

- **Global Perspectives**, which appear 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.
- **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 a total of 23 cases covering various aspects of marketing situations as well as products, regions, and nationalities of firms. Ten of them are included in the text and the rest are placed on the textbook website for easy download.
- **Video Cases** provide contemporary, yet fundamental, business problems and issues facing the international marketing managers today. These Video Cases may be used effectively as lively “short cases” or “vignettes” for class discussions.

- **Maps** which 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 devoid of understanding economic geography.
- **Review Questions** which 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 an active working knowledge, rather than passive knowledge by rote learning.
- **Discussion Questions** which 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.
- **Information Sources for Global Marketing Management** are available on the Web at <http://www.wiley.com/college/kotabe>. This comprehensive list of sources includes not only published information compiled by various international agencies, governments, and corporations, but also various useful Web sites for accessing international business information on the Internet. A brief description is also provided about the types of information available from each information source.
- **The Instructor's Manual** that is designed 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) Exercises Using Various Web Sites on the Internet: The explosion of information available on the Internet has changed the milieu for intelligence gathering for business decision making forever. Students need to be well versed in this new information technology. We strongly believe that actual hands-on use of Web site materials on the Internet for solving business problems will provide students with a systematic opportunity to learn how to find and how to use available information for competitive advantage.
 - d) 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.
 - e) Power Point Slides: Available on the Web to assist the instructor in preparing presentation materials.
 - f) Video Materials: As indicated earlier, videos provide for students' visualization of critical issues discussed in the cases as well as in the text itself.
 - g) Home Page on the Web: Make sure to visit our Website <http://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 can 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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As we indicated in the Preface, we would like to hear from you as you are our valued customers. Thank you!

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