

International Marketing

Managerial Perspectives

Subhash C. Jain/Lewis R. Tucker, Jr.



Second Edition

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International Marketing: Managerial Perspectives

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International Marketing: Managerial Perspectives

Preface

Internationalization of business has become a fact of life. Company after company have found that decisions made elsewhere in the world have a deep impact on operations both domestic and international. The significance of the internationalization of business is further reflected by the policies of the American Assembly of the Collegiate Schools of Business (AACSB), the accrediting agency of business schools in the United States. In 1977, the AACSB mandated that all accredited business schools incorporate an international perspective into their core requirements. Different schools have adopted different strategies to fulfill this requirement.

Consequently, a growing number of business schools have found a course in international marketing a desirable route to internationalizing their curriculums; nowhere are international influences more prevalent than in the field of marketing. Accelerating change in all quarters of the international marketing environment has created immense challenges for the prospective and practicing marketing managers. The very fact that international marketing faces increasing complexity requires a commitment among its participants to a process of lifelong learning.

The purpose of the first edition of *International Marketing: Managerial Perspectives* was to contribute to that lifelong learning process through carefully selected readings that blend theory and application in the coverage of international marketing strategy.

Given the book's strong reception among schools and students, the second edition attempts to build upon and further the same purpose. Instead of simply reprinting the first edition, however, we launched a thorough literature search to identify relevant new articles reporting on new developments in the field. Such an approach was necessary because the past five years have witnessed a number of dramatic changes taking place

in the practice of international marketing which have spawned a proliferation of new articles on the subject.

The second edition contains twenty-seven articles, of which twenty-five are new, covering different facets of formulating international marketing strategy. The articles have been chosen for their conceptual and practical contributions as well as their timeliness and readability. The sequencing of the articles was undertaken with the objective of introducing concepts and techniques that would then be further developed through subsequent articles on practical applications. As a result, the reader will find that articles from such diverse publications as the *Journal of Marketing*, *Columbia Journal of World Business*, *MSU Business Topics*, *European Journal of Marketing*, and the *Journal of International Business Studies* have been purposefully integrated in the eight sections that are contained in the book. It should also be noted that at the end of each article is a set of discussion questions that are designed not only to enhance the reader's understanding of concepts but also generate an appreciation of their strategic implications.

The first section of the book introduces the field of international marketing. The second section underscores the turbulence of the international marketing environment through a discussion of emerging issues which create new problems and opportunities for international marketing managers. Next, the complex environment of international marketing and the need to investigate its various economic, social, political, and legal dimensions are addressed from a conceptual, methodological, and applications perspective. How these environmental implications must be factored into marketing programs are the subject of the next four sections, each of which separately addresses international product, pricing, distribution, and promotion strategies. The concluding section focuses on the integration of marketing strategies through a treatment of the topics of international marketing planning, organization, and control.

We are greatly indebted to a number of individuals and organizations who have provided various kinds of support in bringing our efforts to fruition. In addition to our students, who provided us valuable feedback on articles, we would like to specifically acknowledge the help of Anne Hjarne and Shirley Blonenberg in the physical preparation of the manuscript. We wish to extend our thanks to the authors and publishers who permitted us to reprint the articles that are included in this book.

We are grateful to our wives and children, whose patience, assistance, and encouragement made the completion of our task less difficult and more satisfying. We wish to acknowledge the support of David Anthony and Leslie Baker at Kent Publishing Company.

We hope that these readings will in some small way stimulate all students of international marketing to extend the conceptual framework

presented here through the design and conduct of bold and imaginative international strategies. In this way, the experiences of past, present, and future international marketers can be combined to create a greater understanding of a most challenging international marketplace.

SCJ
LRT

International Textbooks Correlated with the Reader

The following matrix can be used as a comparison tool for determining the relevance of each reading in *International Marketing: Managerial Perspectives* for different chapters in currently available international marketing textbooks.

Chapter	Jain ¹	Kahler ²	Cateora ³	Keegan ⁴	Terpstra ⁵	Kirpalani ⁶	Cundiff & Hilger ⁷
1	1, 2	1, 2, 8	1, 2	1, 2, 10	1, 2, 10	1, 2	1, 2, 10
2	5, 14	1, 3, 14	1, 4	3, 14	3, 14	3, 14	1, 4
3	1, 25	3, 10	3, 14	3, 4	4, 14	3, 4, 8	3, 14
4	11, 14	13, 27	5, 6	5, 6, 7	5, 6, 7	5, 6	4, 10
5	3, 4, 7	9, 11, 13	4, 7	4, 11	4, 6, 7	4, 6, 7	5, 6
6	3, 4	5, 6	4, 8	6, 7	3, 4	4, 10	3, 4
7	5, 6	6, 7, 25	6, 7	3, 25	9, 11, 13	4, 14, 26	4, 6, 7
8	4, 7	4, 14, 26	7, 10	9, 11, 13	11, 12	6, 7, 15, 23	9, 11, 13
9	6, 7	25, 26	9, 11, 13	9, 11, 13	13, 14, 15	4, 5, 12, 13	4, 8
10	3, 4, 5, 8	17, 18, 19, 21	8, 9	13, 27	3, 8, 13	9, 10, 11, 13	11, 12, 13
11	11, 12, 13, 14	7, 20	8, 10	8, 25, 26	17, 18, 19, 20, 21	13, 27	12, 14, 15
12	15, 16, 17	11, 12, 13, 14, 15	25, 26	11, 12, 13, 14, 15	13, 22, 23	25, 26	15, 16, 17
13	18, 19, 20, 21	6, 13, 22, 23, 24	11, 12, 13, 14	15, 16, 17	6, 10, 24	11, 12, 13, 14, 15	13, 22, 23, 24
14	6, 22, 23	15, 16, 17	12, 14, 15	17, 18, 19, 20, 21	15, 16, 17	6, 13, 22, 23, 24	17, 18, 19, 20, 21
15	7, 24	4, 14, 26	13, 22, 23	6, 7, 22, 23, 24	25, 26, 27	17, 18, 19, 20, 21	11, 24
16	3, 8, 9	7, 20, 27	6, 24	7, 20, 27	11, 25	15, 16, 17	25, 26, 27
17	7, 17, 18, 27	18, 26	15, 16, 17	12, 25			25, 26, 27
18	4, 10	12, 13, 21	18, 19, 20	25, 26			
19	25, 26	4, 11	18, 21	26, 27			
20		9, 11, 17	7, 20, 27	2, 3			
21			4, 14, 26				
22			25, 26				

¹Subhash C. Jain, *International Marketing Management* (Boston, Mass.: Kent Publishing Co., 1984).

²Ruel Kahler, *International Marketing* (Cincinnati, Ohio: South-Western Publishing Co., 1983).

³Philip R. Cateora, *International Marketing*, 5th ed. (Homewood, Ill.: Richard D. Irwin, Inc., 1983).

⁴Warren J. Keegan, *Multinational Marketing Management*, 3rd ed. (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1985).

⁵Vern Terpstra, *International Marketing*, 3rd ed. (Hinsdale, Ill.: Dryden Press, 1983).

⁶V. H. Kirpalani, *International Marketing* (New York: Random House, Inc., 1985).

⁷Edward W. Cundiff and Marge Tharp Hilger, *Marketing in the International Environment* (Englewood Cliffs, N.J.: Prentice-Hall, Inc., 1984).

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Introduction

Perspectives on International Marketing

The world has come a long way since Columbus discovered America. Today the economies of most countries are so intimately interconnected with each other that no nation can afford to isolate itself from the rest of the world. The United States, because of its economic and political significance, must be particularly sensitive to the interdependencies existing in the international marketplace. The articles in this book provide a marketing perspective on both the obligation and the need of the United States to become economically involved in worldwide markets. Particular emphasis is placed on the past, present, and future role of multinational corporations in the conduct of national marketing strategies.

United States Involvement in International Marketing

While many United States firms have long been engaged in foreign business ventures, the real impetus to overseas expansion came after the Second World War. In attempts to reconstruct war-torn economies, the United States government, through the Marshall Plan, provided financial assistance to European countries. As the postwar American economy emerged as the strongest in the world, its economic assistance programs, in the absence of competition, stimulated extensive corporate development of international strategies. It has been said that:

In those halcyon years, nothing seemed more seductive to U.S. business than a foreign climate. American manufacturing companies of all types trekked abroad in prodigious numbers, and wherever they migrated, their banks, advertising agencies, and accounting firms went with them. The

book value of United States foreign direct investment swelled from about \$12 billion in 1950 to more than \$50 billion in 1966. It is now [1977] estimated at between \$140 billion and \$150 billion.¹

At the end of 1983, the U.S. direct investment abroad stood at \$226.1 billion, up from \$215.4 billion in 1980.

Exhibit 0-1 not only provides an appreciation of the extensiveness of United States direct investments overseas but also indicates where American business has concentrated its efforts. Traditionally over 75 percent of United States investments overseas have been in the developed countries. However, as many underdeveloped countries (LDCs) gained political freedom after the war, the governments of these countries also sought United States aid to modernize their economies and improve living standards. Thus, LDCs provided additional opportunities for the American corporations, especially in those more politically stable countries where U.S. foreign aid programs were in progress. It is apparent, though, that for a variety of reasons—cultural, political, and economic—United States corporations found more viable opportunities in Western Europe, Canada, and, to a lesser extent, Japan.

In recent years, overseas business has become a matter of necessity from the viewpoints of both American corporations and the federal government. The increased competition facing many industries, resulting from the saturation of markets and the competitive threats from overseas corporations doing business domestically, has forced United States corporations to look to overseas markets. At the same time the unfavorable balance of trade, partly due to increasing energy imports and the strength of the dollar, has made the need to expand exports a matter of vital national interest. Thus, while in the past international business was characterized as a means of capitalizing on new opportunity, in today's changing economic environment it has become a matter of survival.

Modes of Business Overseas

The mode in which business is conducted overseas is a function of a firm's commitment to the pursuit of foreign markets. A firm's overseas involvement may be categorized as: (1) no marketing overseas, (2) infrequent marketing overseas, (3) regular marketing overseas, or (4) worldwide marketing operations. Given the tremendous opportunities and governmental incentives to engage in overseas marketing, it is surprising that 90 percent of United States firms confine themselves to domestic markets.² Often it is only through infrequent efforts to capitalize on an *ad hoc* opportunity that firms first become involved in foreign markets. For ex-

Exhibit 0-1. U.S. Direct Investment Position Abroad and Income, by Country, 1980 to 1983, and by Selected Industries, 1983

Country	Direct Investment Position (at year end)						
	1980	1981	1982	Total ¹	1983, prel.		
					Man- ufac- turing	Petro- leum	Finance, insur- ance ²
All areas	215,375	228,348	221,512	226,117	90,124	59,785	17,238
Developed countries	158,214	167,439	164,157	169,582	71,744	38,879	20,585
Canada	45,119	47,073	46,183	47,538	19,849	10,874	7,453
Europe ³	96,287	101,601	99,459	102,461	43,959	23,640	11,747
Euro. Economic Community (EEC) ⁴	77,152	80,743	77,777	78,788	40,125	19,335	7,463
Belgium and Luxembourg	6,911	6,943	6,417	6,369	2,983	(D)	785
Denmark and Ireland	3,585	4,078	4,263	5,075	3,422	824	(D)
France	9,347	9,132	7,807	6,900	4,228	927	228
Germany	15,415	15,841	15,860	15,994	9,907	3,261	988
Italy	5,397	5,275	4,642	4,790	3,139	820	77
Netherlands	8,039	8,813	8,566	8,649	3,310	3,366	573
United Kingdom	28,460	30,316	29,914	30,851	13,061	9,279	4,367
Other Western Europe ⁴	19,135	20,858	21,682	23,584	3,833	4,305	4,284
Switzerland	11,280	12,499	13,326	15,065	1,238	261	3,932
Japan	6,225	6,762	6,928	8,059	4,071	2,011	347
Australia, New Zealand, South Africa	10,583	12,003	11,588	11,524	3,865	2,354	1,039
Developing countries⁵	53,206	56,163	52,441	50,978	18,380	16,572	-3,347
Latin American Republics ⁶	26,535	30,026	30,826	30,083	14,176	4,949	3,561
Mexico, Panama, other Central America	10,193	11,810	10,773	10,330	4,450	858	2,224
Argentina	2,540	2,757	3,002	3,054	1,651	808	39
Brazil	7,704	8,247	8,995	9,022	6,128	395	1,046
Chile	536	847	617	627	67	78	(D)
Colombia	1,012	1,170	1,638	1,871	659	802	(D)
Peru	1,665	1,926	2,266	2,316	108	(D)	4
Venezuela	1,908	2,252	2,328	1,641	689	(D)	158
Other Western Hemisphere	12,226	8,812	1,720	-582	573	1,890	-8,318
Africa ⁷	3,778	4,206	5,072	5,188	490	3,501	152
Middle East ⁸	2,163	2,001	2,378	2,992	220	943	163
Asia and Pacific	8,505	11,117	12,445	13,297	2,921	5,289	1,095
International⁹	3,955	4,747	4,913	5,557	-	4,334	-

-Represents zero.

D—Suppressed to avoid disclosure of individual companies.

¹Includes industries not shown separately.

²Excludes affiliates that are banks.

³Includes Mediterranean possessions and Eastern Europe.

⁴As of Jan. 1, 1973, United Kingdom, Denmark, and Ireland became members of the EEC. For consistency, data for all years are shown on same basis. Beginning in 1981, includes Greece, previously reported under "Other Western Europe."

⁵Shipping companies operating under flags of convenience, primarily Panama and Liberia, are included in "International."

⁶Includes countries not shown below.

⁷Includes Egypt and all other in Africa except South Africa.

⁸Includes Bahrain, Iran, Iraq, Israel, Jordan, Kuwait, Lebanon, Neutral Zone, Qatar, Saudi Arabia, South Yemen, Oman, United Arab Emirates, and Yemen.

SOURCE: U.S. Bureau of Economic Analysis, *Survey of Current Business*, August 1984, and supplement titled *Revised Data Series on U.S. Direct Investment Abroad, 1966-78*.

ample, an overseas customer may approach a domestic firm to buy its product without ever being solicited by the United States operator. Alternatively, the firm may look to overseas markets during recessionary periods in the United States to liquidate its inventories. Regular marketing refers to deliberate attempts to serve the overseas markets on a continuing basis, mainly through exporting. A worldwide marketing operation is a stronger commitment where export activity is supplemented by assembly and/or manufacturing conducted on foreign soil.

Each level of involvement in overseas marketing can generally be associated with a specific mode of business. Four different modes of business are available to a company entering foreign markets: (1) exporting, (2) contractual agreements, (3) joint ventures, and (4) manufacturing. A company may minimize its risk in exporting domestically manufactured products either by minimally responding to inquiries or by systematically developing demand in export markets. As evidenced by a 21 percent annual growth rate since 1980,³ a major part of the overseas involvement of large United States firms is through export trade.

Contractual agreements consist of several types: (1) patent licensing agreements, with managerial training included on either a fixed fee or royalty basis; (2) turnkey operations, which include plant construction, personnel training, and setup of initial production runs, which are based on a fixed fee or cost-plus arrangement; (3) coproduction agreements, where the plant is built and operated with part of the output used as payment (most common in the socialist countries); and (4) management contracts, which involve a multinational corporation providing key personnel to operate the foreign enterprise for a fee until local people have acquired the ability to independently manage the business (currently widely practiced in the Middle East).

The remaining modes of business, joint ventures and manufacturing, represent higher-risk alternatives in that they require various levels of direct investment. A joint venture between a United States firm and a native operation involves a sharing of the risk to accomplish a mutual enterprise. This, incidentally, is the most common form of entry once a firm moves beyond the exporting stage to a more regular overseas involvement. One example of a joint venture is Ford Motor Company's partnership with an Egyptian firm to establish a plant for the assembly of trucks and diesel engines. In Brazil, a subsidiary of Hercules, Inc., is engaged in a joint venture to build a polypropylene plant with three other firms.

A multinational corporation may also establish itself in an overseas market by direct investment in a manufacturing and/or assembly subsidiary. Because of the volatility of worldwide economic, social, and political conditions, this form of involvement is most risky. Chesebrough-Pond's

operation of plants in Japan, England, and Monte Carlo is one example of direct investment in overseas manufacturing.

Marketing Decisions and the International Environment

Not only are the risk factors underlying the mode of entry largely contingent on the nature of the foreign environment, but these environmental forces also influence the development of marketing strategies. Decision making for the exploitation of international markets is strategically similar to the decision-making process guiding domestic marketing endeavors. More specifically, four marketing decision variables—product, price, distribution, and promotion—need to be as systematically addressed in the context of international marketing as they would be in formulating domestic marketing strategies. What is different about international marketing, however, is the environment in which marketing decisions must be made and the influence that environment has in shaping marketing strategies. The principal components of the international marketing environment include cultural, political, legal, commercial, and economic forces. Each of these forces represents informational inputs that must enter into the decision-making process.

Culture

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

In puritanical cultures it is customary to think of cleanliness as being next to godliness. The body and its functions are covered up as much as possible.

But in Catholic and Latin countries, to fool too much with one's body, to overindulge in bathing or toiletries, has opposite meaning. Accordingly, an advertising approach based on puritanical principals,