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INTERNATIONAL MARKETING

FIFTEENTH EDITION



International Marketing

fifteenth edition

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INTERNATIONAL MARKETING

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To Nancy

To the people who led me down this
career path:

Richard Burr, Trinity University

Tom Barry, Southern Methodist University

Betsy Gelb, University of Houston

To Geert Hofstede

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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.

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Professor of Marketing at the Paul Merage School of Business, University of California, Irvine. She received her B.A. from Trinity University in San Antonio, Texas; her M.B.A. from Southern Methodist University in Dallas, Texas; and her Ph.D. from the University of Houston. Dr. Gilly has been at UCI since 1982 and has served as Vice Dean, Associate Dean, Director of the Ph.D. Program and Faculty Chair in the school of business, as well as the Associate Dean of Graduate Studies for the campus. She has been on the faculties of Texas A&M University and Southern Methodist University and has been a visiting professor at the Madrid Business School and Georgetown University. Professor Gilly has been a member of the American Marketing Association since 1975 and has served that organization in a number of capacities, including Marketing Education Council, President, Co-Chair of the 1991 AMA Summer Educators' Conference, and member and chair of the AMA-Irwin Distinguished Marketing Educator Award Committee. She currently serves as Academic Director for the Association for Consumer Research. Professor Gilly has published her research on international, cross-cultural, and consumer behavior topics in *Journal of Marketing*, *Journal of Consumer Research*, *Journal of Retailing*, *California Management Review*, and other venues.

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PREFACE

At the start of the last millennium, the Chinese were the pre-eminent international traders. Although a truly global trading system would not evolve until some 500 years later, Chinese silk had been available in Europe since Roman times.

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, the United States had surged past a faltering Japan to retake the lead in global commerce. The American domination of information technology has since been followed by the political upheaval of 9/11 and the economic shocks of 2001 and 2008. China started that decade as the largest military threat to the United States, and at the decade's end, it has become a leading, often difficult trading partner.

What surprises do the new decade, century, and millennium hold in store for all of us? Toward the end of the last decade, natural disasters and wars 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 begin to try to retire after 2012? 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. Will the economic tsunami of 2008–2009 evolve into something even worse? 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 the hoped for rebound in purchasing power provides consumers with new means of satisfying new demands.

With the recent downturn in the industrialized countries and the continued growth in emerging markets has come a new competitive landscape, one 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. Fareed Zakaria reported:

“During the last two years, 124 countries grew their economies at over 4 percent a year. That includes more than 30 countries in Africa. Over the last two decades, lands outside the industrialized West have been growing at rates that were once unthinkable. While there have been booms and busts, the overall trend has been unambiguously upward. Antoine van Agtmael, the fund manager who coined the term ‘emerging markets,’ has identified the 25 companies most likely to be the world's next great multinationals. His list includes four companies each from Brazil, Mexico, South Korea, and Taiwan; three from India, two from China, and one each from Argentina, Chile, Malaysia, and South Africa. This is something much broader than the much-ballyhooed rise of China or even Asia. It is the rise of the rest—the rest of the world.”¹

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 potential global recession emanating from the United States
- 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),

¹Fareed Zakaria, “The Rise of the Rest,” *Newsweek*, May 3, 2008.

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 Asia-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 fifteenth 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 also included. 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 fifteenth 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 impacts on how international business is conducted cannot be minimized. In the third millennium, people in the "global village" will grow closer than ever before and will hear and see each other as a matter of course. An executive in Germany can routinely connect via VoIP (Voice over Internet Protocol) to hear and see his or her counterpart in an Australian company or anywhere else in the world. In many respects (time zone differences is a prominent exception), geographic distance is becoming irrelevant.

Telecommunications, 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 fifteenth 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
- Evolving global middle-income households
- Bottom-of-the-pyramid markets

- World Trade Organization
- Free trade agreements
- Multicultural research
- Qualitative and quantitative research
- Country-of-origin effects 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, multi-domestic 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.

We have reorganized Part 3 of the book into four chapters on 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.

Separate chapters on economic development and the Americas (Chapter 9); Europe, Africa, and the Middle East (Chapter 10); and the Asia Pacific Region (Chapter 11) reflect the evolving marketing organizations of many multinational companies in response to the costs of travel and communications across time zones, as well as the steady creation and growth of regional market groups in all three regions. The discussions in all three chapters include details about both established and emerging markets present in each region.

The strategic implications of the dissolution of the Soviet Union and 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 China and 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 12. 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 13 and 14 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 of quality, innovation, and technology as the keys to marketing success is explored.

Chapter 15 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. We also have redistributed key material from a previous chapter on exporting logistics to this and other related sections of the book.

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, counter-trade 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 thorough coverage of its subject, with a 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 in which 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 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, the fifteenth edition comprises a selection of short and long cases located online at www.mhhe.com/cateora15e. 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 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 fifteenth edition. A case correlation grid at the beginning of the case note offers alternative uses for the cases.

The Test Bank is also available on the Online Learning Center 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 on-line testing feature is also available.

- **Videos.** The video program has been revised for the fifteenth edition and contains 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 Instructor's Manual and at the Web site.
- **PowerPoint slides.** This edition has PowerPoint slides for both the instructor and students. The PowerPoint presentation that accompanies *International Marketing*, fifteenth edition, contains exhibits from the text and other sources.
- **Web site:** www.mhhe.com/cateora15e. Included on the site are instructor resources such as downloadable files for the complete Instructor's Manual, PowerPoint slides, test bank, and links to current events and additional resources for the classroom. Instructors can also link to PageOut to create their own course Web site. For students, our site provides links to Web sites, Cases, an interactive version of the Country Notebook, online quizzing, and chapter PowerPoint Slides.

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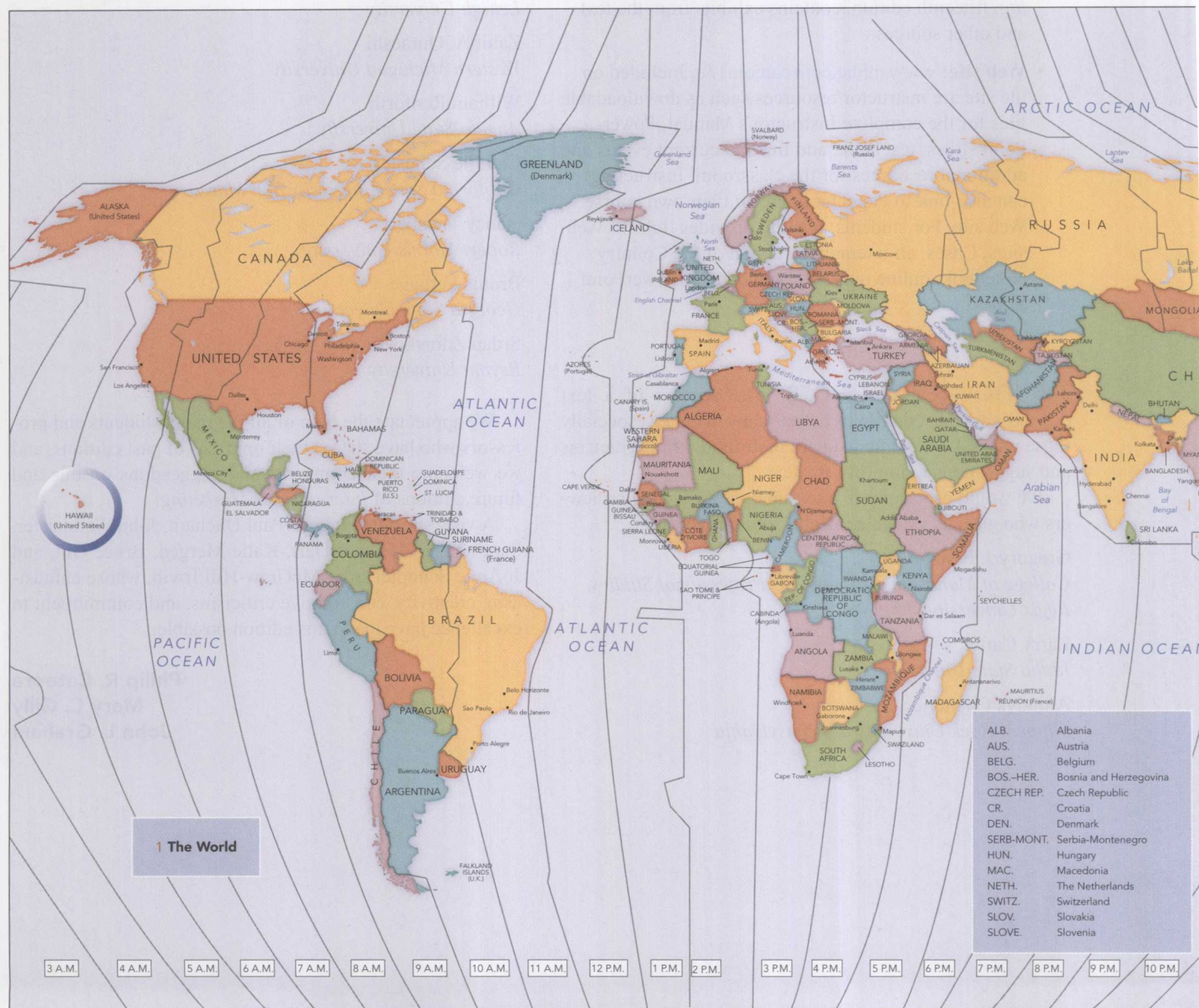
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Philip R. Cateora
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WALKTHROUGH

A quick look at the new edition

International Marketing by Cateora, Gilly, 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 increased coverage of technology's impact on the international market arena.



Global Marketing on the Web at Marriott

The Internet today is the most global of any media invented so far, having leapfrogged television and radio—which may yet become global some day but are far from doing so. It is the only medium that approaches true global reach. The power of the Internet results from its many unique attributes. It is unique in its ability to:

- Encompass text, audio and video in one platform.
- Operate in a dialogue versus monologue mode.
- Operate simultaneously as mass media and personalized media.
- Build global "communities," unconfined by national borders.



These attributes make it the most powerful medium on earth, unparalleled in its ability to communicate, especially to a global world. It is an international marketer's dream. However, leveraging these characteristics in an effective manner requires dealing with various substantive issues. These issues include:

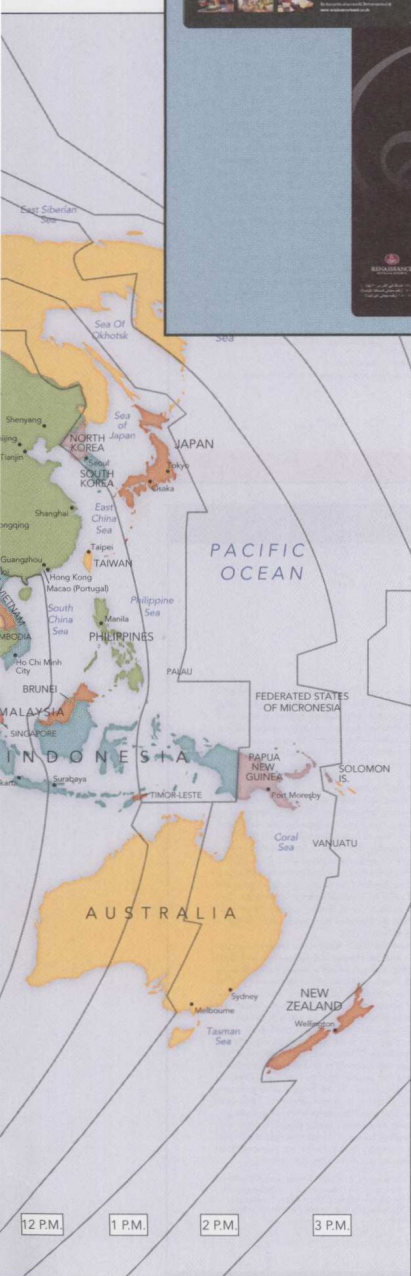
- Major differences in Internet adoption rates across the globe ranging from greater than 70 percent adoption in North America to less than 2 percent for the continent of Africa. This difference greatly influences the role of the Web as part of the marketing mix in international markets. Even for advanced EU economies, the variability of adoption is great, ranging from 88 percent in the Netherlands to 49 percent in Belgium. The average for the entire continent of Africa is around 1 percent (see www.internetworldstats.com).
- Unique issues caused by technology including broadband versus narrow-band, which drive what products and services can be marketed and how. In the narrow-band world, highly graphic and video-based Web sites are not viable. An example is the elaborate photo tours of hotels on www.Marriott.com, which download quickly on broadband connections but take inordinately long on narrow band. Therefore, a site designed for one market can be ineffective in another.

Renaissance is a Marriott-owned hotel brand. It uses various media to lead customers to its all-important Web sites, including print, television, Internet, and outdoor. Three 2-page print ads are directed toward U.K., Middle Eastern, and Chinese customers, and each of them lists the Web site addresses—the first two citing www.renaissancehotels.co.uk, and the last noting www.renaissancehotels.com.cn. Even though the same Web site ultimately serves customers in both the United Kingdom and the Middle East, the ad presentation is adapted to the more conservative dress appropriate in the latter region. Finally, you can see how this campaign is also used on the streets of Shanghai. Ask your classmates what "Be fashionable" translates into on the latter two ads.



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

A Chapter Outline provides students an at-a-glance overview of chapter topics, while Chapter Learning 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.

Chapter 1

The Scope and Challenge of International Marketing

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 most of the company's history, 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 U.S. military spending and the damage done to tourism by terrorism.¹ Even so, the company still counts customers in more than 90 countries, and its 158,000 employees work in 70 countries. The new 787 Dreamliner includes parts from around the world, including Australia, France, India, Italy, Japan, Russia, and Sweden.² Its more than 12,000 commercial jets in service worldwide 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 more³ 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.

Another class of companies that promotes global dialogue and therefore peace is the mobile phone industry. During 2007 the number of mobile phone subscribers exceeded 3.0 billion, and this number is expected to grow beyond 4.5 billion by 2012. Nokia (Finland), the market leader, is well ahead of the American manufacturers Motorola and Apple, Samsung (S. Korea), LG (S. Korea), 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 Lubetzky's company, PeaceWorks. Mr. Lubetzky 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 combined basil pesto from Israel with other raw materials and glass jars supplied by an Arab partner to produce the first product in a line he called Moshe & Ali's Gourmet Foods. The company now sells four different product lines in 5,000 stores in the United States and has its headquarters on Park Avenue in New York, as well as business operations in Israel, Egypt, Indonesia, Turkey, and Sri Lanka. 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.

International marketing is hard work. Making sales calls is no vacation, even in Paris, especially when you've been there 10 times before. But international marketing is important work. It can enrich you, your family, your company, and

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
The Orientation of International Marketing

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 1:

- LO1 The benefits of international markets
- LO2 The changing face of U.S. business
- LO3 The scope of the international marketing task
- LO4 The importance of the self-reference criterion (SRC) in international marketing
- LO5 The increasing importance of global awareness
- LO6 The progression of becoming a global marketer

¹Circa 2011, approximately half of Boeing's business is defense related (<http://www.boeing.com>).

²W.J. Hennigan, "Dreamliner Is Causing Nightmares for Boeing," *Los Angeles Times*, October 15, 2009, pp. B1-2.

³The European commercial aircraft manufacturer Airbus is beginning to catch up, employing 57,000 people around the world (<http://www.airbus.com>, 2008).

Chapter 6

The Political Environment: A CRITICAL CONCERN

Global Perspective

WORLD TRADE GOES BANANAS

Rather than bruising Chiquita Bananas, the wrath of politics instead hammered Prosciutto di Parma ham from Italy, handbags from France, and both milk and soaps from Germany. These and a host of other imported products from Europe were all slapped with a 100 percent import tariff as retaliation by the U.S. government against European Union banana-import rules that favored 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 past 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, Reha Enterprises, for example, sells bath oil, soaps, 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 \$37,783 from 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 Reha 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 the USTR, an official there 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 Reha 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 Mattel, and maybe his products would have been dropped from the targeted list, just as theirs were. Scores of European products, from clothing to stoves to glass 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 Reha's reading list.

In that case, he was told, he should have hired a lobbyist in Washington to keep him briefed. Good advice—but it doesn't make much sense to a company that grosses less 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 customs 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 EU'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 political campaign contributions increased from barely over \$40,000 in 1991 to \$1.3 million in 1998.

A settlement was finally reached that involved high tariffs on Latin American bananas and quotas (with no tariffs) on bananas from Europe's former colonies. But the settlement over bananas continued, and not in a straightforward way. In 2007 the issue shifted to banana bending. That is, bananas from Latin America tend to be long and straight, while those from the non-tariff countries are short and bent. Because the latter are not preferred by the shippers or retailers (the bendier ones don't stack as neatly and economically), the bananas from the former colonies were still not preferred. And new regulations were adopted by the European Commission that mandated that bananas must be free from "abnormal curvature of the fingers." So the bendy banana producers threatened to renege on the whole agreement. Circa 2007 everyone involved found this prospect very unappealing.

The tale does have a happy ending though. In 2009, after marathon meetings among all parties in Geneva, the 16-year banana split was finally healed: The EU cut import tariffs on bananas grown in Latin America by U.S. firms.

Sources: "U.S. Sets Import Tariffs in Latest salvo in Ongoing Battle over Banana Trade," *Minneapolis Star Tribune*, March 4, 1999; Timothy Dowd, "Hit by a \$200,000 Bill from the Blue," *Time*, February 7, 2006, p. 54; Jeremy Smith, "EU Heading for Trade Crunch over Bananas," *Reuters*, November 14, 2007.

CHAPTER OUTLINE

Global Perspective: World Trade Goes Bananas
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 Domestication
Economic Risks
Political Sanctions
Political and Social Activists and Nongovernmental Organizations
Violence, Terrorism, and War
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:

- LO1 What the sovereignty of nations means and how it can affect the stability of government policies
- LO2 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries
- LO3 The political risks of global business and the factors that affect stability
- LO4 The importance of the political system to international marketing and its effect on foreign investments
- LO5 The impact of political and social activists, violence, and terrorism on international business
- LO6 How to assess and reduce the effect of political vulnerability
- LO7 How and why governments encourage foreign investment

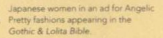
These invaluable boxes offer anecdotal company examples. These entertaining examples are designed to encourage critical thinking and guide students through topics ranging from ethical to cultural to global issues facing marketers today.

Seeds of Fashion: Eastern vs. Western Counter-Culture Movements and A Look at the Gothic Lolitas of Harajuku, Japan

In the past, youth subcultures generally have emerged from Western society and diffused globally. But the Harajuku subculture began in the East and is moving West, marking a shift in the cultural current. The Harajuku subculture is also an example of the difference between Eastern and Western counterculture movements. Whereas maturity in Western cultures is associated with authority and individuality, in Confucian Japan, maturity is the ability to cooperate with a group, accept compromises, and fulfill obligations to society. Therefore, rebellion in Japanese youth culture means rebellion against adulthood as well. Rather than engaging in sexually provocative or aggressive behaviors to emphasize their maturity and independence, as occurs among Western rebels, Japanese Gothic Lolitas display

Most participants (aged 13–30 years) are students or have jobs that require them to wear a uniform everyday. On Sundays, they feel they have reached the time they can truly be themselves. Their lifestyle is frowned upon, making it very common to see teenagers carrying bags with their "harajuku outfit" on the train and changing at the park so their parents never see their outfits. Other wear the clothing as their normal daily dress, but the vast majority save it for Sundays, when they congregate at Jingu Bridge and Yoyogi Park to show off their fashions, hang out, and meet others like them. Some go just to have their pictures taken by the subculture magazine photographers, who search for shots of new trends, or by tourists.

Source: Kristen San Jose, working paper, Paul Merage School of Business, University of California, Irvine, 2010.



When instant cake mixes were introduced in Japan, the consumers' response was less than enthusiastic. Not only do Japanese reserve cakes for special occasions, but they prefer the cakes to be beautifully wrapped and purchased in pastry shops. The acceptance of instant cakes was further complicated by another cultural difference: many Japanese homes do not have ovens. An interesting sidebar to this example is the company's attempt to correct for that problem by developing a cake mix that could be cooked in a rice cooker, which all Japanese homes have. The problem with that idea was that in a Japanese kitchen,

New cases accompany the fifteenth edition, enlivening the material in the book and class discussions while broadening a student's critical thinking skills. These cases bring forth many of the topics discussed in the chapters and demonstrate how these concepts are dealt with in the real world.

- 3.1 International Marketing Research at the Mayo Clinic
- 3.2 Selfies, Higher, Stronger, Deeper
- 3.3 Marketing to the Bottom of the Pyramid
- 3.4 Continued Growth for Zara and Inditex
- 3.5 A Sea Launch Recovery?

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The *Sea Launch* Commander was specially constructed for *Sea Launch* at a Scottish shipyard by the maritime unit of Kvaerner, then a leading Norwegian industrial company. Measuring 556 feet long and 105 feet wide, the command ship was outfitted with more than 600 tons of rocket support equipment in Russia before sailing to Long Beach in 1998. The massive ship's crew quarters are home to *Sea Launch*'s international employees during their stay in the United States.

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.

Global Perspective

TRADE BARRIERS—AN INTERNATIONAL MARKETER'S MINEFIELD

We all know the story about U.S. trade disputes with Japan. Japan has so many trade barriers and high tariffs that U.S. manufacturers are unable to sell in Japan as much as Japanese companies sell in the United States. The Japanese claim that "unique" Japanese snow requires skin made in Japan, and U.S. baseballs are not good enough for Japanese baseball. Even when Japan opened its rice market, popular California rice had to be mixed and sold with inferior grades of Japanese rice. And, at this writing, the Japanese government continues to exclude American beef from the Japanese diet based on disputes about mad cow disease.¹

However, the Japanese are not alone; every country seems to take advantage of the open U.S. market while putting barriers in the way of U.S. exports. The French, for example, protect their film and broadcast industry from foreign competition by limiting the number of American shows that can appear on television, the percentage of American songs broadcast on radio, and the proportion of U.S. movies that can be shown in French theaters. Most recently, France launched its own "French" version of CNN with strong government financial support. Not only do these barriers and high tariffs limit how much U.S. companies can sell, they also raise prices for imported products much higher than they sell for in the United States.

Another trade protection tactic even involved Britain's Supreme Court of Judicature, which has finally answered a question that has long puzzled late-night dorm-room snackers: What, exactly, is a Pringle? With citations ranging from Baroness Hale of Richmond to Oliver Wendell Holmes, Lord Justice Robin Jacob concluded that legally it is a potato chip. The decision is bad news for Procter & Gamble U.K., which now owes \$160 million in value-added taxes to the state. It is this good news for Her Majesty's Revenue

and Customs—and for fans of no-nonsense legal opinions. It is also a reminder, as conservatives in the United States attack Justice Sonia Sotomayor for not being a "strict constructionist," of the pointlessness of such labels. In Britain, most foods are exempt from the value-added tax (VAT), but potato chips (known there as crisps) and "similar products made from the potato, or from potato flour" are taxable. Procter & Gamble, in what could be considered a strict constructionist plea, argued that Pringles are about 40 percent potato flour but also contain corn, rice and wheat and therefore should not be considered potato chips or "similar products." Rather, they are "savory snacks."

The VAT and Duties Tribunal disagreed, ruling that Pringles, marketed in the United States as "potato chips," are taxable. "There are other ingredients," the Tribunal agreed, but a Pringle is "made from potato flour in the sense that one cannot say that it is not made from potato flour, and the proportion of potato flour is significant being over 40 percent."


Barriers to trade, whatever form they take, both tariff and nontariff, are one of the major issues confronting international marketers. Nations continue to use trade barriers for a variety of reasons: some rational, some not so rational. Fortunately, tariffs generally have been reduced to record lows, and substantial progress has been made on eliminating nontariff barriers. And work continues around the world to further reduce these pesky hurdles to peace and prosperity.

Sources: Adapted from Todd G. Buchholz, "Free Trade Keeps Prices Down," *Consumer Research Magazine*, October 1995, p. 22; Thomas Kolster, "What Crisps?" *Forbes*, April 28, 2003, p. 52; Jonathan Lynn, "WTO Negotiators to Tackle Obstacles to Farm Deal," *Business Week*, January 3, 2004; Adam Cohen, "The Lord Justice Hath Ruled: Pringles Are Potato Chips," *The New York Times*, June 1, 2009.

¹See James Day Hodgson, Yoshihiro Sato, and John L. Graham, *Doing Business in the New Japan, Succeeding in America's Richest Foreign Market* (Boulder, CO: Rowman & Littlefield, 2008) for the complete story.

Online Learning Center

Numerous resources available for both instructors and students are online at www.mhhe.com/cateora15e. Instructor resources include downloadable versions of the Instructor's Manual, PowerPoint presentation, and Instructor Notes to accompany the videos. Student study tools include Chapter Quizzes, PowerPoint International Resource Links, Cases, and the Country Notebook Online with an interactive component so students can complete this popular marketing plan project online.



INTERNATIONAL MARKETING
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15/E

Information Center


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International Marketing, 15/e

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