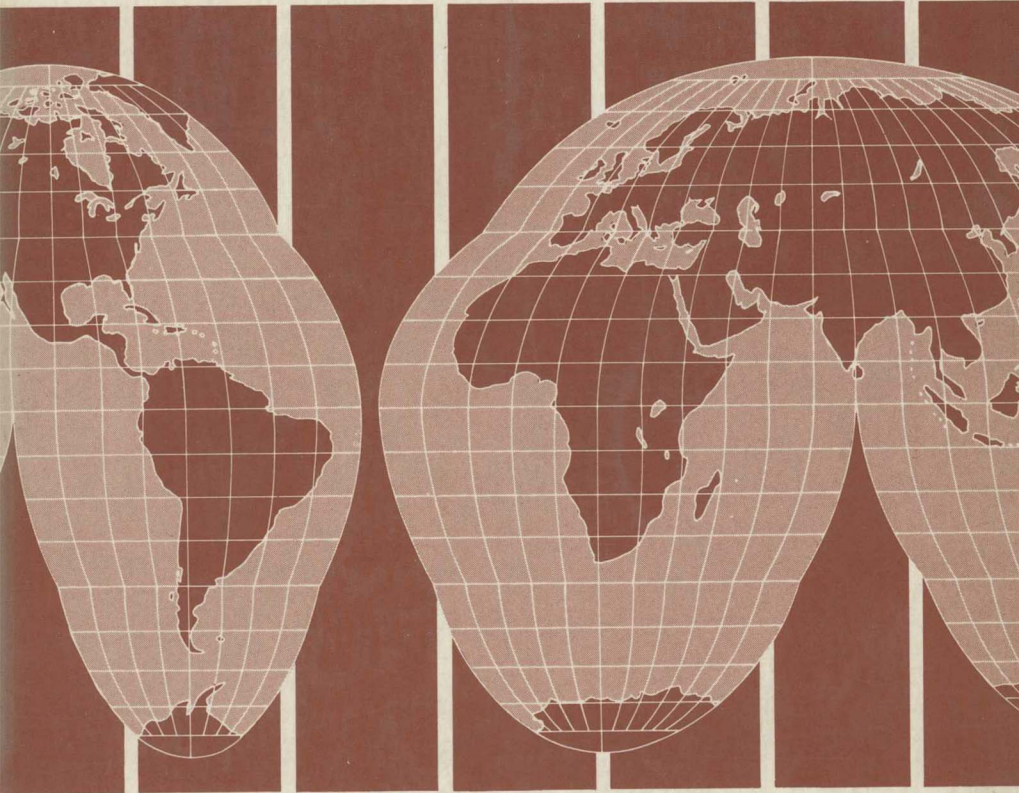


Vern Terpstra

International Marketing

Third Edition



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International Marketin

Third Edition

Vern Terpstra

*Graduate School of Business Administration
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Preface

This third edition of *International Marketing* introduces the reader to the nature and contemporary practice of international marketing management. It follows the format of the earlier editions but incorporates much revision and updating to reflect the international marketing challenges of the 1980s. The latest research findings have been incorporated, and scores of new examples of company experience are spread throughout the text. This edition contains forty-three cases, ten of which are new and three of which have been revised from the second edition. The cases accompany each chapter, facilitating the application of the concepts discussed in the chapter. In addition, there is a new appendix with six new cases which can be used at different parts of the course or for examinations. The appendix includes several longer, more complex cases.

The text is *managerial* in that it focuses on the problems and decisions facing contemporary international marketing management. Indeed the text is used in seminars for practicing international marketers. The author is indebted to these managers for much useful material in this new edition. The text is *comprehensive* in that it covers the environment of international marketing, the problems of marketing *across* national boundaries as well as those arising from marketing *within* a number of different national markets. It treats at length the situation of the domestic firm which is exporting and also analyzes in detail the challenges facing those firms which assemble, license, or produce in foreign markets. In other words, *International Marketing* considers the full range of international involvement from the exporter to the multinational firm.

Part One covers the environment in which international marketing takes place. The international manager must recognize the relevant aspects of that environment in order to operate successfully in it. An introduction to the economic, cultural, political, and legal dimensions of the world economy is contained in Chapters 2–5. The eleven cases on these topics add practical application to the coverage.

Part Two is the major part of the text and deals specifically with the problems and decisions facing international marketing management. This part follows the format of many basic marketing texts, that is, it reflects the kinds of product,

pricing, promotion, and other decisions that marketing managers must make. The text assumes familiarity with general marketing principles and analyzes their application in an international context. Chapters 6–14 show the distinctive character of *international* marketing management and include hundreds of company examples to show both the problems and the approaches used to solve them. The cases with each chapter give students an opportunity to do their own analysis and problem solving on these issues.

Part Three discusses how firms can integrate and coordinate their marketing programs in many diverse foreign markets. A major potential advantage of the international marketing firm is its ability to achieve synergy in its multi-country operations. However, this synergy does not occur automatically. Managers must make it happen. Chapters in Part Three discuss how managers use planning, organization, and control to coordinate their international marketing and to achieve the desired synergy. Again, the cases provide useful applications with company experiences.

I am happy to acknowledge the contributions of others to this new edition. Professors who have used earlier editions have contributed suggestions and research material for this edition. Among them are John Brasch, University of Nebraska; Andrew Grosse, Cleveland State University; and John Ryans, Kent State University. International marketing executives have provided many inputs, including cases. The three professors who reviewed the manuscript for this revision made many valuable suggestions. They were John S. Ewing, The University of Calgary; Arthur P. Leonard, The University of Texas at Dallas; and Marilyn L. Liebreinz, The George Washington University. Ms. Shirley McCoy worked patiently at preparing the manuscript and was a pleasant collaborator. My thanks to them all.

Vern Terpstra

Ann Arbor, Michigan

January 1983

Contents

Part One

The International Environment

Chapter 1

Introduction to International Marketing 3

Some Definitions and Distinctions	3
The Firm Faces the World Market	8
Levels of International Marketing Involvement	10
Many Roads to Foreign Markets	12
The Approach of This Book	13

Questions	15
Further Readings	16
<i>Case 1.1: Illinois Products Company: What Involvement in Foreign Markets?</i>	17

Chapter 2

Economic Environment: The World Economy 22

Nation Trades with Nation	22
Other Dimensions and Institutions in the World Economy	35
GATT, UNCTAD and the Firm	38
The Firm Looks East	40

Questions	50
Further Readings	50
<i>Case 2.1: Foreign Exchange Rates</i>	52
<i>Case 2.2: U.S. Pharmaceuticals, Inc.—A</i>	53

Chapter 3

Economic Environment: The Foreign Economies 55

Size of the Market	55
Nature of the Economy	68
Questions	80
Further Readings	81

<i>Case 3.1: American Mining Machinery, Inc.</i>	82
<i>Case 3.2: Medical Specialties, Inc.</i>	83
<i>Case 3.3: Unicola</i>	84

Chapter 4

Cultural Environment: The People of the World 85

What is Culture? 86	Conclusion 112
Material Culture 87	Questions 113
Language 92	Further Readings 113
Aesthetics 96	<i>Case 4.1: Bottled Spirits</i> 114
Education 98	<i>Case 4.2: Foremost Dairy in Thailand</i> 115
Religion 101	<i>Case 4.3: An American Firm Wins in Japan</i> 117
Attitudes and Values 108	
Social Organization 110	

Chapter 5

The Political-Legal Environment 119

The Political Environment 119	<i>Case 5.1: Ford Motor Company: Facing the Arab Boycott</i> 150
The Legal Environment 128	<i>Case 5.2: U.S. Pharmaceuticals, Inc.—B</i> 153
Webb-Pomerene Associations 131	
Questions 148	
Further Readings 149	

Part Two

International Marketing Management

Chapter 6

Marketing to the World 157

The International Marketing Task 157	The International Marketing Manager 171
Internal Determinants of the International Marketing Task 161	Questions 173
A Philosophy for International Marketing? 169	Further Readings 173
	<i>Case 6.1: Selling American Cheese to Europe</i> 174

Chapter 7

International Marketing Intelligence 176

Breadth of the Task 176	Information Sources for International Marketing 207
Problems in International Marketing Research 179	Conclusion 216
Dealing with International Marketing Research Problems 187	Questions 217
Other Techniques for Developing Countries 191	Further Readings 218
Evaluating Information 198	<i>Case 7.1: American Microwave Cooking Products</i> 219
Organizing for International Marketing Intelligence 201	<i>Case 7.2: The Madrona Chemical Company: Marketing Research for International Division</i> 222

Chapter 8***International Product Policy: The Basic Product and Its Attributes* 226**

What to Sell 226
 The Product Itself 230
 Packaging and Labeling 237
 Brands and Trademarks 241
 Warranty and Service Policies 251
 Questions 258
 Further Readings 259

*Case 8.1: Colgate-Palmolive Company:
 Selling Marketing Services* 260

*Case 8.2: World Wide Publishers:
 Marketing Greeting Cards in
 Germany* 262

Case 8.3: Kellogg's Corn Flakes 267

*Case 8.4: American Motors-Jeep:
 International Product Policy* 269

Chapter 9***International Product Policy: Product Line and Product Planning* 271**

International Product Line 271
 International Product Planning and
 Development 281
 Conclusion 303
 Questions 306
 Further Readings 307

*Case 9.1: Hills Brothers, A Brazilian
 Multinational Product Line
 Expansion* 308

*Case 9.2: American Brands,
 Philippines* 311

*Case 9.3: Foreign Research and
 Development* 316

Chapter 10***Distribution: Entering Foreign Markets* 319**

How to Enter Foreign Markets 319
 Indirect Exporting 323
 Direct Exporting 333
 Foreign Manufacturing as Foreign Market
 Entry 342
 Conclusions 357
 Questions 360
 Further Readings 361

*Case 10.1: Scientific Instruments
 Company, Inc.: Appointing an Export
 Manager* 362

*Case 10.2: Designer Jeans: Designs on
 World Markets* 368

*Case 10.3: BMW: Marketing Subsidiaries
 in Foreign Markets* 371

Chapter 11***Distribution: Foreign Market Channels and Global Logistics* 373**

Managing Foreign Distribution 373
 Marketing through Foreign Distribution
 Channels 385
 Logistics for International Marketing 394
 Logistics within the Foreign Market 395
 Multimarket Logistics 396
 Management of International
 Logistics 398

Questions 404
 Further Readings 405

*Case 11.1: General Foods, Ltd. (Japan):
 Distributing Processed Food Products in
 Japan* 406

*Case 11.2: Midwest Auto Parts: Currency
 Devaluation and Logistics
 Planning* 409

Chapter 12

International Promotion: Advertising 411

- | | |
|---|---|
| Advertising 411 | Further Readings 450 |
| Constraints on the International Advertising Program 412 | <i>Case 12.1: Household Products, Inc.: Selection of an Advertising Agency for Europe</i> 451 |
| Advertising Decisions Facing the International Marketer 416 | <i>Case 12.2: Nestlé Alimentana S.A.: Can Advertising Be a Killer?</i> 457 |
| Conclusions 449 | |
| Questions 449 | |

Chapter 13

International Promotion: Other Factors 462

- | | |
|--|--|
| Personal Selling 462 | <i>Case 13.1: Personna Razor Blades Company (Philip Morris), U.K.: Using a Company Sales Force in a Foreign Market</i> 494 |
| Sales Promotion 470 | <i>Case 13.2: Eberhard Faber: Special Forms of Promotion</i> 496 |
| The Marketing Mix as Persuader 472 | <i>Case 13.3: Buy-Back Arrangements in East-West Trade: Examples of Countertrade</i> 498 |
| Special Forms of International Promotion 478 | |
| Miscellaneous Efforts 483 | |
| Public Relations—External Affairs 487 | |
| Conclusion 492 | |
| Questions 492 | |
| Further Readings 493 | |

Chapter 14

Pricing in International Marketing 501

- | | |
|---|--|
| Export Pricing and Terms 501 | Questions 540 |
| Transfer Pricing in International Marketing 518 | Further Readings 541 |
| Foreign Market Pricing 525 | <i>Case 14.1: Federal Cash Registers: Price Competition Overseas</i> 542 |
| Coordinating Pricing in International Marketing 535 | <i>Case 14.2: F. Hoffman-La Roche & Co. A.G.: International Pricing and Government</i> 544 |
| Conclusions 540 | |

Part Three

Coordinating International Marketing

Chapter 15

International Marketing Planning 551

- | | |
|---|---|
| Introduction 551 | Further Readings 570 |
| Short-Range or Operational Planning 552 | <i>Case 15.1: International Market Structure Profile Analysis: A Systematic Approach to Assessing Growth Opportunities in the International Marketplace</i> 571 |
| The Planning Task 554 | |
| Long-Range or Strategic Planning 560 | |
| Conclusions and Trends 567 | |
| Questions 569 | |

*Case 15.2 A: Potential Impact of Alternate
1975–1985 World Scenarios on General
Electric's International Business* 580

*Case 15.2 B: Scenario Planning at Shell—
Alternative to Forecasting* 585

Chapter 16

Organization and Control of International Marketing 588

Organization 588

Controlling International Marketing 601

Conclusions 612

Questions 612

Further Readings 613

*Case 16.1: Cadbury Schweppes Ltd.:
Integrating Multinational
Marketing* 614

Part Four

Appendix: Supplementary Cases

*Case A.1: Radio Shack Goes to
Europe* 621

*Case A.2: Dong Ah Construction Meets
American Truck* 625

Case A.3: AB Thorsten 630

*Case A.4: Clark Equipment
Company* 639

Case A.5: Aurora Lotion 657

*Case A.6: Gillette International—
Platinum Plus* 669

Company Index 693

Name Index 697

Subject Index 699

Part One

The International Environment

In Part One we will look at the world environment in which international marketing takes place. Just as space scientists and astronauts must study the expected environment on the moon and other planets, so international marketers must analyze the environment in which they will be operating. The kind of steps they can take and the adaptations they must make will be determined largely by this environment. Therefore, in Part One we will attempt to gain some familiarity with the international marketer's sphere of operation, dwelling particularly on the uncontrollable variables and how they affect the international marketing task.

Chapter 1

Introduction to International Marketing

“The world is too much with us,” said Wordsworth. In a different sense, that could be the complaint of many American businesses who see themselves threatened by imported goods. In any case, the interdependence suggested by such terms as *Global Village*, *Spaceship Earth* and *World Economy* is being recognized by business managers as much as by politicians and ecologists. This book deals with the significance of this international interdependence for the business firm. We will discuss how firms relate to the people and markets of the world. Before we look at the management of international marketing, however, it is useful to identify the vocabulary and environment of international marketing.

Some Definitions and Distinctions

Marketing

Marketing has been defined in several ways. In this book, we define marketing broadly as the collection of activities undertaken by the firm to relate profitably to its market. Whereas the firm is, in some sense, master in its own house, its ultimate success depends primarily on how well it performs outside in the marketplace. This requires knowledge of the market. Therefore, the first task of the firm is to study its prospective buyers. Who are they? Where are they? What factors are important in their purchase (or nonpurchase) of our product? The second task of the firm is to develop products or services which satisfy customer needs and wants.

A third marketing task is to set prices and terms on these products that appear reasonable to buyers, while at the same time returning a fair profit. The fourth task is distribution, making the products available when and where buyers can conveniently get them. As its fifth task, the firm must inform the market about its wares; it will probably have to use some persuasion to get buyers interested. Furthermore, although the firm's marketing responsibility is thought to end with the sale, this is not always true. There is an implied warranty of satisfaction with the product; thus the firm must occasionally reassure the buyer, and, in many cases, perform after-sale service. Marketing involves all of these activities. *Marketing management* is the planning and coordination of these activities in order to achieve a successful, integrated marketing program.

International Marketing

The collection of activities just described (market intelligence, product development, pricing, distribution, and promotion) constitutes the essence of marketing for the purpose of this book. What then is *international marketing*? At its simplest, it is the performance of one or more of these activities across national boundaries. At its most complex, it involves the performance of all these functions in many countries. A small exporting firm can be an international marketer to a limited extent merely by distributing its products in foreign markets. That same firm becomes a more complete international marketer to the degree that it participates in the pricing, promotion, and other marketing activities for its products in foreign markets.

If the activities and goals of international marketing are the same as those of domestic marketing, one might well wonder what need there is for a separate text and a special study of international marketing. But although the basic functions (product development, promotion, and so on) are the same in both markets, implementation of the firm's marketing programs can be very different; that is, managing international marketing can be significantly different from managing domestic marketing.

A major goal of this book is to analyze and illustrate the unique dimensions of *international marketing management*. Domestic marketing management is often portrayed as the task of responding to the uncontrollable factors in the firm's environment while manipulating the controllable factors. International marketing management has the same task, but with the critical distinction that both the "uncontrollables" and the "controllables" are different internationally. One can easily imagine that the "uncontrollable" factors would not be the same in, say, France, Brazil, India, and the United States. Among other things, the nature of demand, competition, and the distribution structure will have characteristics peculiar to each national market. The firm's marketing program must adapt to these market characteristics if it is to be successful.

What may be less obvious is that even the controllable factors may vary from market to market internationally. These factors are considered to be price, product, channels of distribution, and promotion. However, the firm's cost and price structure, products and product line, and promotional capabilities are probably somewhat different in each of its foreign markets. Thus, virtually all the determinants of the marketing program can vary, giving rise to problems in each foreign market that are not encountered in the domestic market.

An added dimension of international marketing management is multinational marketing management: the problem of coordination and integration of the firm's many national marketing programs into an effective multinational program. Indeed, a principal rationale of multinational business operations, as opposed to the alternative of independent national companies, is that the division of labor and the transfer of know-how in international operations enable the whole to be greater than the sum of its parts.

A practical result of these differences is that one needs to acquire competence as an *international marketing manager*, a competence broader than that required for marketing in a specific foreign country and distinctly different from that de-

manded by domestic marketing management. Failure to recognize this may account for the fact that a majority of the blunders committed by American firms abroad are in the field of marketing.¹

In other words, the international marketing manager has a threefold responsibility: *international marketing* (marketing across national boundaries); *foreign marketing* (marketing within foreign countries); and *multinational marketing* (coordinating marketing in multiple markets). These three aspects of international marketing management are discussed further in Chapter 6 and illustrated throughout Part Two.

Foreign and Comparative Marketing

An American company engages in foreign marketing when it markets its products in a foreign country. There are obvious differences between the situation and needs of the American firm marketing in France and that of a purely local French company. For example, a small French manufacturer of consumer goods selling to a regional market in France probably gives no thought to international considerations in marketing. On the other hand, the international marketer must be aware of both international considerations and the domestic marketing practices of the countries in which a product is selling. The concern of the multinational firm, however, is not a broad study of domestic marketing in many nations, but only those aspects that affect its own operations.

The international firm needs to study foreign marketing primarily to answer questions such as the following: How can we best market our products in country X? Do we need to adapt our American marketing approach to the local market? Can we introduce marketing innovations to serve the market better than it is being served by local concerns? What this book will try to present, therefore, will not be a survey of foreign domestic marketing, but rather the critical aspects of *foreign marketing systems* as they affect the marketing functions under discussion.

Another topic we touch on in this book is *comparative marketing*. Comparative marketing is the organized study of marketing systems in many countries—the similarities, differences, and reasons therefore. Such study is useful in broadening our understanding of marketing and in developing, perhaps, useful classification systems. Thus, knowledge of comparative marketing can be applied to international marketing. Although we discuss aspects of the subject in this text, a study of comparative marketing requires approaches and analytical techniques different from those used in studying the management and international marketing, which is our major concern. Therefore, these related topics will enter our discussion only as they help us to understand the problems facing the international marketing manager.²

¹David Ricks, Marilyn Y. C. Fu and Jeffrey S. Arpan, *International Business Blunders* (Columbus, Ohio: Grid, 1974).

²For studies in comparative marketing see Robert Bartels, ed., *Comparative Marketing: Wholesaling in Fifteen Countries* (Homewood, Ill.: Irwin, 1963); Jean Boddewyn, *Comparative Management and Marketing* (Glenview, Ill.: Scott, Foresman, 1969); David Carson, *International Marketing* (New York: Wiley, 1967); Watson Dunn and E. S. Lorimer, eds., *International Advertising and Marketing* (Columbus, Ohio: Grid, 1979).