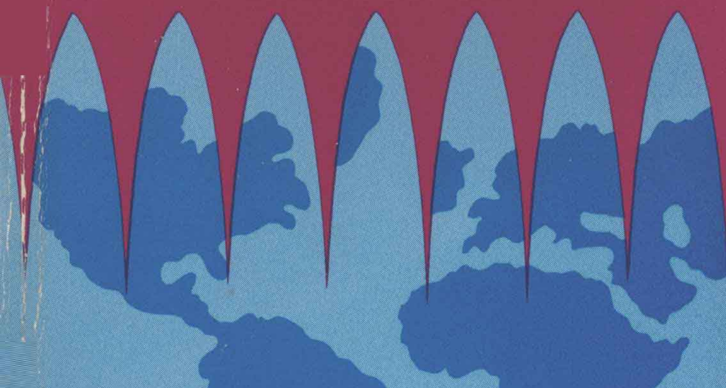
INTERNATIONAL Dimensions of Marketing

Vern Terpstra



The Kent International Business Series

INTERNATIONAL DIMENSIONS OF MARKETING

Vern Terpstra
University of Michigan

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Cover and Book Designer: Armen Kojoyian
Production Coordinator: Linda Card

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Series Foreword

Prior to World War II, the number of firms involved in foreign direct investment was relatively small. Although several U.S. companies were obtaining raw materials from other countries, most firms were only interested in the U.S. market. This changed, however, during the 1950s—especially after the creation of the European Economic Community. Since that time, there has been a rapid expansion in international business activity.

The majority of the world's large corporations now perform an increasing proportion of their business activities outside of their home country. For many of these companies, international business returns over one-half of their profits, and it is becoming more and more common for a typical corporation to earn at least one-fourth of its profits through international business involvement. In fact, it is now rather rare for any large firm not to be a participant in the world of international business.

International business is of great importance in most countries and that importance continues to grow. To meet the demand for increased knowledge in this area, business schools are attempting to add international dimensions to their curricula. Faculty members are becoming more interested in teaching a greater variety of international business courses and are striving to add international dimensions to other courses. Students, aware of the increasing probability that they will be employed by firms engaged in international business activities, are seeking knowledge of the problem-solving techniques unique to international business. As the American Assembly of Collegiate Schools of Business has observed, however, there is a shortage of information available. Most business textbooks do not adequately consider the international dimensions of business and much of the supplemental material is disjointed, overly narrow or otherwise inadequate in the classroom.

This series has been developed to overcome such problems. The books are written by some of the most respected authors in the various areas of international business. Each author is extremely well known in the Academy of International Business and in his other professional academies. Each possesses an outstanding knowledge of his subject matter and a talent for explaining it.

These books, in which the authors have identified the most important international aspects of their fields, have been written in a format which facilitates their use as supplemental material in business school courses. For the most part, the material is presented by topic in approximately the same order and manner as it is covered in basic business textbooks. Therefore, as each topic is covered in the course, material is easily supplemented with the corresponding chapter in the series book.

The Kent Series in International Business offers a unique and much needed opportunity to bring international dimensions of business into the classroom. The series has been developed by leaders in the field after years of discussion and careful consideration, and the timely encouragement and support provided by Keith Nave, Kent Senior Editor on this project. I am proud to be associated with this series and highly recommend it to you.

David A. Ricks

Consulting Editor to the
Kent Series in International Business
Professor of International Business,
University of South Carolina

Preface

Sales of *foreign* affiliates of United States' companies total over $500 billion. One third of United States' corporate profits are derived from sales outside the country. Exports and imports together equal one-fourth of United States' Gross National Product. These are just a few of the indicators of how the United States has been integrated into the World Economy. In spite of these economic realities, however, most American business school students finish their programs without any preparation for international business. This book is intended to rectify that situation for students of marketing by giving some insight into the international dimensions of that major business function. The book is too brief to be a handbook on the subject but it can help to understand the nature of the marketing task as the firm seeks to sell outside its home market. Marketing skills are essential for success in the market place. Today, for more and more U.S. firms (and marketers) that market place is a global one, both in finding new customers and in meeting new competitive challenges.

Contents

Chapter 1

Marketing and International Marketing

Why should one read about or study international marketing? Such an exercise can only be justified if international marketing requires different knowledge and/or a distinctive competence. Let us examine that question by considering the nature of marketing. Among the various definitions of marketing, there are several common elements. *Marketing* is usually defined as the activities undertaken by the firm to relate profitably to its market. These include:

1. Analysis of the market
2. Development of products or services
3. Pricing of these products or services
4. Distribution—making the product or service available to the market
5. Promotion—informing and persuading the market

Marketing management involves the organization, planning and control of all these activities.

What is international marketing? In what way does marketing change when it goes international? We must recognize first that international marketing is *marketing.* It involves the same collection of activities as does domestic marketing. What distinguishes international marketing is not the activities or functions performed but *the way they are performed.* The parameters and determinants of the international marketing task are different from those influencing domestic marketing. This will be seen in detail as we discuss the different marketing functions in later chapters.

One way to recognize the distinctiveness of the international marketing task is to consider what we might call the three dimensions of international marketing. They are: 1) international marketing, 2) foreign marketing, and 3) multinational marketing.

1. The international marketing dimension involves *marketing across national borders.* This is different from domestic marketing because the mere fact of crossing the border confronts the marketer with new economic, political, and legal constraints, such as floating exchange rates, boycotts, and international law. These constraints will usually force modification of the firm's marketing program as it crosses national boundaries.

2. The foreign marketing dimension involves *marketing within foreign countries*, as when a U.S. firm markets in Belgium or Brazil. Such marketing is unlike domestic marketing because that firm faces different kinds of competition, consumer behavior, distribution channels, and promotional possibilities in Belgium or Brazil from what it is familiar with at home. The task is further complicated because each country has an individual, idiosyncratic marketing environment. In other words, Belgium is not only different from the United States, it is also different from Brazil or France, Iran or India. Thus, each foreign market presents a new challenge to the international marketer.

3. The multinational marketing dimension emphasizes the *coordination and integration* of the firm's marketing in many diverse foreign environments. The unique nature of each foreign market fragments the international marketing effort and brings diseconomies of scale. The international marketer must plan and control carefully to maximize the integration and synergy in the global marketing program while minimizing the costs of adapting to each foreign market.

THE NEED TO THINK INTERNATIONAL

The fact that international marketing is different from domestic marketing is suggested as one reason for studying the subject. It is not, however, a sufficient reason. If the person or firm has no need to market internationally, there would be no incentive to learn about it. Does American business need to think international? There are a couple of reasons for answering *yes*.

One reason is indicated by terms such as *world economy, global village,* and *spaceship earth* which are used to suggest the interdependence facing all dwellers of this planet. OPEC and high oil prices are a fact of life for all countries. The Olympics is usually a global experience. Phenomena such as inflation and recession are now global rather than national concerns. Today more than ever, no country can be isolationist. This interdependence that nations and individuals now perceive is not, however, the major reason why U.S. firms should think international. Their need lies in more personal and selfish considerations.

U.S. firms need to think in international terms for two primary reasons, competition and markets. The *competition* facing them domestically is increasingly from foreign firms. The problem is not just that Sony and Toyota are household words. There is also competition in ham and golf carts from Poland and in shoes, clothing, and cameras from such countries as Brazil, Taiwan, and Singapore. In other words, competition comes not only from rich industrial nations, but also from Communist countries and developing nations. Whether they like it or not, American firms are in a global market place. It is advantageous for them to learn about these global competitors.

The other major reason for U.S. firms to think international is to find *market opportunities* and growth. Markets mean people and 95 percent of the world's population lives outside of the United States. Of course, not all of those people can match the purchasing power of the U.S. citizen. Nevertheless, over 75 percent of the world's purchasing power also is found outside of the United States. This means that for many products and services, the potential markets are abroad. To reach them, the firm must think international.

Our discussion has focused on the need for U.S. firms to think international. It is obvious, however, that the same arguments would generally apply with even greater force to firms in other countries. In terms of market opportunities, European, Latin American or Asian firms will have a smaller domestic market than do U.S. firms and, therefore, relatively greater opportunities in international marketing. Furthermore, they will usually be subject to the same kind of international competition that U.S. firms face. The Europeans, for example, are as worried about Japanese competition as the Americans are.

THE EXTENT OF INTERNATIONAL BUSINESS IN U.S. FIRMS

The United States' largest firms have discovered the world market. Most of the *Fortune* 500 are marketing internationally. The same is true of the larger accounting firms, advertising agencies, banks and consulting firms. It should be noted that although our discussion and examples will often relate to manufacturing firms, international marketing is also necessary for service organizations, such as banks or accounting firms, as well as for such public organizations as the World Bank or the U.S. State Department. For example, for the United States' five largest banks, foreign deposits average over 50 percent of the total. A dramatic indicator of U.S. international business involvement is the fact that about one-third of all corporate profits derive from abroad. Furthermore, sales of U.S. affiliated firms abroad reached $500 billion by 1978, a sum larger than the Gross National Product of most countries of the world. Table 1–1 shows the extent of international involvement for selected U.S. companies.

International marketing is not the exclusive preserve of large corporations, however. We just happen to know a lot more about them because they are publicly owned, advertise, and receive lots of publicity. Actually there are thousands of small U.S. companies engaged in international marketing. Indeed, 60% of U.S. exporters have fewer than one hundred employees. These companies' names are not household words but they often find foreign markets as important to them as to many of the *Fortune* 500 firms. U.S. farmers sell one-third of their output abroad. A different example of international marketing is the Pentagon which does billions of dollars in business abroad. For example, on just one type of fighter plane, the Pentagon hopes to sell over $12 billion to other countries over the life of the model (in 1978 dollars). Actually, the Pentagon promotes the foreign sales of its domestic suppliers to reduce the cost of developing military hardware for the United States.

We have noted the extensive involvement of U.S. firms in international marketing. This does not deny the fact that the majority of U.S. firms are not engaged in international marketing. While most of the United States' small and medium sized businesses are not selling abroad, many more of them could be.

TABLE 1-1 *U.S. Multinationals' Foreign Activity 1978*

Company	*Foreign Revenue ($ Billions)*	*Foreign Revenue Percent*	*Foreign Assets Percent*
1. Exxon	$44	74%	55%
2. Mobil	20	59	52
3. Texaco	19	66	54
4. Ford	15	35	49
5. General Motors	14	22	24
6. Standard Oil, Calif.	14	61	50
7. I.B.M.	11	52	53
8. I.T.T.	10	52	45
9. Gulf	9	51	39
10. Citicorp	5	68	65
11. Englehard Min.	5	50	44
12. General Electric	4	22	25
13. Standard Oil, Indiana	4	26	31
14. Continental Oil	3	35	38
15. Bank America	3	49	44
16. Dow	3	47	50
17. Sears Roebuck	3	11	6
18. Xerox	3	47	47
19. Chase Manhattan	3	63	56
20. Goodyear	3	36	42
21. Kodak	3	38	32
22. Occidental	3	42	41
23. Du Pont	3	24	24
24. Chrysler	3	19	24
25. Union Carbide	3	32	29
26. Colgate-Palmolive	2	57	51
27. Procter & Gamble	2	27	22
28. Sun Company	2	29	23
29. Woolworth	2	34	39
30. Pan Am	2	92	N.A.

SOURCE: Annual Reports.

The Multinational Firm

We shall use the terms *international firm* and *multinational firm* interchangeably, or even just the name *multinational.* This term is used to designate a company that has production facilities in foreign countries. Multinationals obviously engage in international marketing but a firm does not have to be a multinational to do so. Most U.S. firms selling abroad do not have foreign production facilities and thus can't be called multinationals. They have all of their production facilities in the United States, but some of them export to as many as one hundred countries and are thus heavily engaged in international marketing. As we shall see, both multinationals and exporters are international marketers, but they face somewhat differing marketing problems and opportunities.

ALTERNATIVE WAYS OF MARKETING INTERNATIONALLY

Sales of goods across national borders totaled about $2,000 billion in 1980. This giant volume of business was transacted in many different ways. Here we shall merely introduce some of the major ways firms sell to foreign markets. These methods of marketing internationally will be discussed in greater detail in Chapter 6 on International Distribution Decisions.

Indirect Exporting

It is possible for the firm to sell its products abroad with minimal effort on its part, where the sale is in fact a domestic sale. There are several kinds of firms which might buy the products in the United States and carry them to foreign markets.

EXAMPLES:

> Multinational firms will often incorporate U.S. equipment in their foreign factories. Many suppliers to multinationals began their international marketing in this way.
>
> Large foreign firms in manufacturing, mining, and retailing maintain procurement offices in the United States. They, too, have introduced many U.S. firms to foreign markets.
>
> International trading companies, of which the most famous are the Japanese, also seek out U.S. goods that they can sell in other markets.
>
> Export management companies, as their name implies, will take over the complete management of exports for a firm. They effectively act as the

firm's export department although they are a separate company. They are pure international marketing companies and service thousands of U.S. producers.

Direct Exporting

This is the most common form of international marketing. It involves the firm taking responsibility for selling its products abroad. The exporter/international marketer in this case is based in the firm's domestic facilities and sells through distributors or agents in foreign markets.

Licensing

Licensing is international marketing by proxy. In a licensing arrangement, a domestic firm gives a foreign firm the right to produce and market its products in the licensee's country, receiving in return a royalty on sales. For example, this allows a U.S. firm facing high transportation costs or duties in a foreign market to both produce and market its products there with no capital outlay and little effort on its part. It may involve little international marketing effort also because the licensee does the marketing in the foreign country and the product doesn't cross national borders.

Foreign Marketing Subsidiary

When the firm has its own sales/marketing office in a foreign country, instead of an independent distributor there, it is called a marketing subsidiary. Firms operate foreign marketing subsidiaries for the same reasons they have their own sales force domestically—they believe they get more aggressive marketing and greater market share when their own people are doing the marketing rather than independent intermediaries.

A foreign marketing subsidiary represents a much greater commitment by the firm than any of the methods discussed previously. It requires more money, personnel and effort. The firm must not only market across national borders as it exports to its subsidiary, but also be responsible for marketing within the foreign country (foreign marketing).

Foreign Production by the Firm

The greatest commitment a firm can make to a foreign market is to have its own production facilities there. This costs much more money and causes many more complications than any other method. It does not, however, mean a great difference in international marketing as most of the extra costs and problems are production related rather than marketing related. The international marketing task here is essentially the same as with the foreign marketing subsidiary.

There are many methods for reaching foreign markets and we have noted just some of the major alternatives. These alternatives are available not only to U.S. firms but to firms in any countries that wish to market internationally. Each method has its own constraints and opportunities. The marketing implications of these alternatives will be discussed in Chapters 4 through 8.

INTERNATIONAL MARKETING AND THE UGLY AMERICAN

U.S. firms have been criticized for bringing their products and marketing methods into countries which are dissimilar from the United States. This is sometimes called cultural imperialism. There are several reasons why firms might try to market in foreign countries as they do at home. 1) The methods are proven in the sense that they probably made the firm successful in its home market. 2) It is what they know best and thus is the easiest and cheapest approach. 3) There are probably economies in managing a marketing program that is the same in all countries.

Arguing against a standardized approach is the old advice, when in Rome, do as the Romans do. This sounds like reasonable counsel. In a competitive situation, however, there are two reasons to question it. First, if one behaves like the Romans while in their city, the Romans will probably win every time: they are very good at being Romans. Second, Rome has a lot of Romans and probably doesn't need any more. Any foreigner who tries to be a pseudo-Roman probably won't contribute much to Rome, except more congestion. On the other hand, a foreigner who is a bit different might be both more attractive and more valuable to the Romans.