INTERNATIONAL MARKETING

Fifth Edition

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To Nancy
and
Deborah, Phyllis, and Hank

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PREFACE

Never in modern history have United States businesses been so deeply involved in international trade. An increasingly larger number of businesses are exporting, importing, and/or manufacturing abroad. Others, though not directly engaged in foreign business, do not escape the effects of their customers and competitors doing business overseas. The world is moving closer to being a one-world economic market system and whether or not a company wants to participate, it is becoming less and less feasible to escape its influence. For the business student today not to have an understanding of international business is to have an incomplete business education.

This Fifth Edition of *International Marketing* focuses on marketing management problems, techniques, and strategies necessary to incorporate the marketing concept into the framework of the world marketplace. The necessity of understanding the impact of a country's culture and environment on a marketing program is emphasized as well as the problems of competing in markets of different cultures. Also, this edition reflects an increasing awareness of many U.S. firms, especially the smaller firm, to international marketing. Thus, the problems and techniques of export marketing are highlighted. Underlying the strategic approach of this edition is an awareness of and concern with the continually expanding social consciousness of business. Worldwide consumerism, business ethics, economic and social development of countries, and the fundamental questions which arise when a multinational corporation intrudes on the fabric of a country's culture are examined.

It is assumed the reader understands fundamental marketing concepts, so no attempt is made to cover all areas of basic marketing or to explain commonly used marketing terms. Rather than present principles of marketing using international examples, the book explores those aspects of marketing unique to international business. The differences in marketing from country to country are less conceptual than environmental; thus, consistent focus is on the environment and on the modifications of marketing thought and practices occasioned by environmental differences.

The environmental approach to international marketing permits a truly worldwide 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 readers with an approach and framework to identify and analyze the important environmental uniqueness of each nation or region. In the author's opinion, the key to successful international marketing is adaptation—adapting to an ever-changing, mostly uncontrollable, and to the inexperienced, frequently incomprehensible environment. A primary objective of the text is to raise the student's consciousness of the importance of culture in marketing so when confronted with the task of marketing in a foreign milieu, the impact of crucial cultural issues will not be overlooked.

The text portion of the book provides a thorough coverage of the subject with specific emphasis on the planning and strategic problems confronting companies that market into and from all foreign countries. Throughout the text cultural differences are stressed, and "How are cultures different?" is frequently asked. The "boxes" are designed to provide the reader with interesting and sometimes humorous examples of these differences while illustrating points made in the text. The case mix includes short cases reflecting a single, specific problem, and longer, more integrated cases applicable to the general subject of the section. The cases can be analyzed using the information provided in the case, or they lend themselves to more in-depth analysis with the student engaging in additional research and data collection.

Many individuals have contributed to the completion of this book. I especially want to acknowledge the support and creative assistance of Nancy Cateora without whose help this edition would never have been completed on schedule. In addition, I wish to acknowledge the helpful assistance of Myra Ramos, Cathy Morris, and Tammy Priday who provided the author with valuable research assistance and manuscript preparation, and the many students who read and criticized this and earlier editions. To the publishers and authors who permitted the reproduction of articles, cases, and other materials, I am also indebted.

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Chapter 1

Scope and challenge of international marketing

A small fishing-tackle company in Boulder, Colorado, annually sells about $6,000 worth of hand-tied fishing flies to the Japanese; the H. J. Heinz Company sells 1,400 different products to consumers in the United States and 150 foreign markets for a total sales volume in excess of $2 billion. Neither company is the smallest nor the largest U.S. firm engaged in international business, but they epitomize the trend in the internationalization of U.S. business and company attitudes about foreign marketing. The attitude was best expressed by the Colgate-Palmolive Company official who said, "The thinking no longer is U.S. market versus international market; now we consider the United States just one of all our markets."

For many businesses today, foreign involvement demands increasingly more effort and resources than domestic interests. Export trade, which once played only a minor part in the country's economic picture, now occupies a huge, rapidly expanding role. Exports from the United States totaled approximately $245 billion in 1981. In terms of jobs, this means over 4.6 million persons now have export-related jobs; i.e., about 1 million more than in 1973 and twice the total of the early 1960s. One manufacturing job in six involved an export product in 1982, whereas in the mid-1960s, the comparable ratio was 1 in 14.

A recent study reported that 3,540 U.S. companies had over $200 billion invested in 24,666 foreign affiliates, up considerably from the mid-1950s when 2,842 U.S. companies had about $25 billion invested abroad. In 1981, U.S. foreign investments generated an estimated $40 billion of profit for an approximate 20 percent return on investment.[1]

World business, multinational company, transnational and *world enterprise* are all terms being used with greater frequency as a significantly larger number of businesses become international both in philosophy and in scope of operations. For a continually growing number of firms, the entire world is considered a marketplace for their products. Rather than ask: "Where in our country should a new plant be built or a new market be developed?" more firms are asking: "Where in the *world* should a new

[1] "Companies Profit From Investments They Made Years Ago in Plants Overseas," *The Wall Street Journal,* March 11, 1981, p. 48.

product be made or sold?" No longer is foreign business an afterthought as was often the case among U.S. companies prior to World War II. Businesses are taking a more interested look at the potential profits that result from active participation in markets outside the political boundaries of the United States. A few U.S. companies are going so far as to think of themselves as international concerns with large U.S. operations instead of American companies with foreign plants. General Motors, for example, talks about manufacturing "world cars" that can be assembled from parts made wherever production would be most efficient; in fact, the J car is just such a car. It is theoretically possible for GM to build a J car with a West German front end, an Australian rear, an American suspension, a Japanese transmission, and a Brazilian engine. In reality, the company's manufacturing units in each country produce most of the parts needed for domestic assemblage; but certain key components, including engines and transmissions, are produced in specialized locations and used around the world.[2] (See Box 1–5.) With the increased activity in international business has come a corresponding emphasis on international marketing.

INTERNATIONAL MARKETING DEFINED

International marketing is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation. The striking similarity of this definition of foreign marketing and that of domestic marketing is intended. The difference between domestic marketing and international marketing is that the activities that take place are in more than one country. While this may appear a minor difference, it accounts for the complexity and diversity found in international marketing operations. The definition above is operational because marketing principles are universally applicable, and the marketer's task is the same whether applied in Dimebox, Texas, or Dar es Salaam, Tanzania. If this is the case, why the study of international marketing? The answer lies not with the mechanics of marketing but with the environment within which the marketing plan must be implemented. The uniqueness of foreign marketing is found in the diversity of unfamiliar problems and the variety of strategies necessary to cope with the different levels of uncertainty encountered in foreign markets. Further, by studying the familiar, *marketing,* in a new setting, *a different environment and culture,* we can better understand the familiar much in the same way that studying a foreign language helps us to understand the structure of our own language. Finally, not to be conversant with the international dimension of business is to be partially prepared for the responsibilities of today's business world.

[2] "GM Unveils Its 'J Car' in Europe," *World Business Weekly,* September 14, 1981, pp. 22–23.

INCREASED INTEREST IN FOREIGN MARKETS

Current interest in international marketing can be explained in terms of changing competitive structures coupled with shifts in demand characteristics in markets throughout the world. Many U.S. firms are meeting competition on all fronts (i.e., not only from other domestic firms but from foreign firms as well). As one source reports: the pianos at the Hilton and the Americana are not Steinways but Yamahas. So are the NBC organs that play background music for the "Tonight Show." Japanese products have assumed the proportions of a *tsunami*—tidal wave—that has swept the United States. Eighty-five percent of the binoculars, 70 percent of the calculators, 50 percent of the radios and motorcycles, and 30 percent of the television sets sold in this country are Japanese. The increased competition, however, comes from both East and West. Norelco (Holland), Libby (Swiss), Volkswagen (Germany), Honda (Japan), Necchi (Italy) are familiar brands in the United States, and for U.S. industry, they are formidable opponents in a competitive struggle for U.S. and world markets. Many familiar U.S. companies are now foreign controlled: Baskin Robbins and Good Humor Ice Cream (English), Motorola's Quasar (Japanese), Paul Masson Wines (Canadian), as well as Travelodge, Gimbles, Grand Union Department Stores, Keebler Cookies, and many others are all owned or controlled by foreign multinational businesses.

The vast domestic market that was once the private domain of U.S. businesses and provided them with an opportunity for continued growth has finally reached a point where the opportunity for limitless expansion is leveling off. For many businesses new market opportunities must be sought if profit margins are to be maintained. Companies with just domestic markets have found it increasingly difficult to sustain customary rates of growth, and many are seeking foreign markets to absorb accumulating surplus productive capacity. Companies with foreign operations have found earnings soaring from previously neglected overseas operations; the return on foreign investments is frequently higher than on investments in the United States. Reviewing the figures in Exhibit 1–1, it becomes obvious that for some companies the profit generated on investment abroad as well as the profit from foreign sales is better than in the United States. Understandably, the opportunity for high profit margins is a very important impetus for "going international."[3]

What occurred almost simultaneously with the economic changes in the United States was an appreciable increase in the economic well-being of other countries creating a ready-made market for U.S.-made products. The European Community [4] is a market comparable in size and potential to that

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[3] Walter Kiechel III, "Playing The Global Game," *Fortune*, November 16, 1981, pp. 111–26.

[4] Formerly known as European Common Market or European Economic Community (EEC) but as of 1976 officially known as the European Community.

EXHIBIT 1–1: Some big players in the global game

Company	*1980 Foreign earnings as percent of total*	*1980 Foreign assets as percent of total*
Black and Decker	70.5	51.9
Boise Cascade	31.6	12.3
Carnation	25.4	23.6
Coca-Cola	65.5	41.4
F. W. Woolworth	56.0	38.3
Gillette	50.6	67.0
H. J. Heinz	37.5	41.9
IBM	52.4	45.9
Johnson & Johnson	53.9	35.8
NCR	59.9	45.2
Pfizer	62.8	57.2
Polaroid	62.9	30.5
Tonka	35.0	18.6
Xerox	44.9	42.8

Source: "Foreign Profit Performance," *Business International*, August 14, 1981, p. 263; August 21, 1981, p. 268; September 4, 1981, p. 287; and September 11, 1981, p. 293.

of the United States. Japan and other Far-Eastern countries, the Mid East, Latin America, and Africa have all become important markets for multinational companies. For those willing to leave the confines of their home territory, a wide variety of opportunities is available. Many U.S. companies that never ventured abroad until recently are now seeking new foreign markets. Companies which have foreign operations realize that they must cease running them with their left hand if they are to continue to grow. They have found it necessary to spend more money and time improving their marketing positions abroad since the competition for these growing markets from companies around the world is becoming more intense. For the firm venturing into international marketing for the first time, and for those already experienced, the requirement is generally the same—a thorough and complete commitment to foreign markets.

THE INTERNATIONAL MARKETING TASK

The task of marketing managers is to mold the controllable elements of their decisions in light of the uncontrollable elements of the environment in such a manner that marketing objectives are achieved. In general, the elements comprising the marketing environment with which the marketer must contend can be examined in terms of the degree to which their effect on marketing activities can be controlled by the decision-maker. Some of the environmental considerations can be viewed as internal to the firm in that greater control can be exerted over their influence on marketing operations. Generally included are such controllable elements as product, price,