LECTURE NOTES

CHAPTER OPENING EXAMPLE

TATA – A GLOBAL CONGLOMERATE

- The Tata Group is based in India and consists of 27 publicly listed enterprises in seven business sectors, with operations in 85 countries on six continents.

- One of the main drivers for going global is to reduce the Group's vulnerability to a single economy.

- Instead of transplanting India to the countries it operates in, Tata seeks to adapt itself to the culture of the local place. Each company has to first access its capabilities of succeeding in an overseas market and the opportunities for growth before going global.

I. DYNAMICS OF WORLD TRADE [LO1]

- The dollar value of world trade has more than doubled in the past decade and will exceed $12 trillion in 2010.

- Manufactured goods and commodities account for 74 percent of world trade; service industries represent the other 26 percent.

A. World Trade Flows

World trade flows reflect interdependencies among industries, countries, and regions and manifest themselves in country, company, industry, and regional exports and imports.

1. Global Perspective.

a. The United States, Europe, Canada, China, and Japan together account for more than two-thirds of world trade.

b. An estimated 15 to 20 percent of world trade involves **countertrade**, the practice of using barter rather than money for making global sales. This practice is popular with many Eastern European, Russian, and Asian countries.

c. The *trade feedback effect* is a phenomenon where exports and imports are viewed as complementary economic flows: a country's imports affect exports and vice versa. This is one argument for free trade among nations.

2. **Asian Perspective**.

   a. Japan is the world's second largest economy in terms of **gross domestic product** (**GDP**), which is monetary value of all goods and services produced in a country during one year.

   b. Japan is among the world's leaders in exports due partly to its prominence in steel and metal products, ships, transport machinery and automobiles, industrial machinery, scientific and optical equipment, chemicals, and electronics.

   c. China, with a GDP estimated at US$2.6 trillion, is poised to overtake Germany (with a GDP of about US$2.9 trillion) to become the world's third largest economy.

   d. The difference between the monetary value of a nation's exports and imports is called the **balance of trade**.

      - When exports exceed imports, it incurs a balance of trade surplus.
      - When imports exceed exports, a deficit results.

   e. Japan has consistently achieved trade surpluses over the past 20 years.

   f. India, on the other hand, experienced a trade deficit of US$79.9 billion in 2007.

B. Competitive Advantage of Nations

- Michael Porter suggests a "diamond" that contains four key elements to explain a nation's competitive advantage and why some industries and firms become world leaders:

  1. *Factor conditions*. These reflect a nation's ability to turn its natural resources, education, and infrastructure into a competitive advantage.

  2. *Demand conditions*. These include both the number and sophistication of domestic customers for an industry's product.

  3. *Related and supporting industries*. Firms and industries seeking leadership in global markets need clusters of world-class suppliers that accelerate innovation.

4. *Company strategy, structure, and rivalry*. These factors include the conditions governing the way a nation's businesses are organized and managed, along with the intensity of domestic competition.

- A firm that succeeds in global markets has first succeeded in intense domestic competition. The resulting competitive advantage is due to a strategy of continuous improvement, innovation, and change.

- The pursuit of a country's competitive advantage in global markets has a dark side—*economic espionage*, which is the clandestine collection of trade secrets or proprietary information about competitors.

  a. This practice is common in high-technology industries where technical know-how and trade secrets separate global industry leaders from followers.

  b. Such industries include electronics, specialty chemicals, industrial equipment, aerospace, and pharmaceuticals.

LEARNING REVIEW

1. What is the trade feedback effect?

Answer: The phenomenon in which one country's imports affect the exports of other countries and vice versa, thus stimulating economic activity in all the nations involved.

2. What variables influence why some companies and industries in a country succeed globally while others lose ground or fail?

Answers: (1) factor conditions; (2) demand conditions; (3) related and supporting industries; and (4) company strategy, structure, and rivalry.

II. MARKETING IN A BORDERLESS ECONOMIC WORLD [LO2]

Four trends in the past decade have significantly influenced the landscape of global marketing:

1. Gradual decline of economic protectionism by individual countries.
2. Formal economic integration and free trade among nations.
3. Global competition among global companies for global consumers.
4. Development of a networked global marketspace.

A. Decline of Economic Protectionism

- **Protectionism** is the practice of shielding one or more industries within a country's economy from foreign competition through the use of tariffs or quotas.

  a. The economic argument for protectionism is that it limits the outsourcing of jobs, protects a nation's political security, discourages economic dependency on other countries, and encourages the development of domestic industries.

  b. **Tariffs** are a government tax on goods or services entering a country, primarily serving to raise prices on imports. This gives a price advantage to domestic goods competing in the same market.

  - The average tariff on manufactured goods in industrialized countries is 4 percent. However, wide differences exist across nations.
  - The effect of tariffs on world trade and consumer prices is substantial.

MAKING RESPONSIBLE DECISIONS

Global Ethics and Global Economics—The Case of Protectionism

World trade benefits from free and fair trade among nations. Nevertheless, governments of many countries continue to use tariffs and quotas to protect their various domestic industries. Why? Protectionism earns profits for domestic producers and tariff revenue for the government. There is a cost, however. Protectionist policies cost consumers who pay higher prices because of tariffs and other protective restrictions.

Regional trade agreements, such as those found in the provisions of the European Union and the North American Free Trade Agreement, may also pose a situation whereby member nations can obtain preferential treatment in quotas and tariffs but nonmember nations cannot. Protectionism, in its many forms, raises an interesting global ethical question. Is protectionism, no matter how applied an ethical practice?

c. A **quota** is a restriction placed on the amount of a product allowed to enter or leave a country.

- Import quotas seek to guarantee domestic industries access to a certain percentage of their domestic market.
- Import quotas seek to guarantee domestic industries access to a certain percentage of their domestic market.

- Protectionism has declined over the past 50 years due in large part to the *General Agreement on Tariffs and Trade (GATT)*. This international treaty limited trade barriers and reduced tariffs but did not address nontariff trade barriers, such as quotas and world trade in services.

- The major industrialized nations of the world formed the **World Trade Organization** (WTO) in 1995 to address a broad array of world trade issues.

a. There are 153 WTO member countries, including the U.S. and Japan, which account for more than 90 percent of world trade.

b. The WTO sets rules governing trade between its members through panels of trade experts who decide on trade disputes between members and issue binding decisions.

B. Rise of Economic Integration

A number of countries with similar economic goals have formed transnational trade groups or signed trade agreements to promote free trade among member nations and enhance their individual economies.

1. European Union (EU).

a. The EU consists of 27-member countries that have eliminated most trade barriers across their borders.

b. As a single market, the EU has more than 500 million consumers with a combined GDP larger than the U.S.

c. 14 of the EU countries have adopted a common currency called the *euro*, which has been a boon to electronic commerce in the EU by eliminating the need to continually monitor currency exchange rates.

d. Pan-European marketing strategies are possible due to:

- Greater uniformity in product and packaging standards.
- Fewer regulatory restrictions on transportation, advertising, and promotion imposed by countries.
- Removal of most tariffs that affect pricing practices.
- Fewer locations for Europeanwide distribution are feasible given open borders.

2. North American Free Trade Agreement (NAFTA).

a. NAFTA lifted many trade barriers between Canada, Mexico, and the U.S. to create a marketplace with more than 450 million consumers.

b. NAFTA has stimulated trade among member nations as well as cross-border retailing, manufacturing, and investment.

c. Negotiations are under way to create a 34-country Free Trade Area of the Americas that would include the nations of North America, Latin America, and the Caribbean.

3. Asian Free Trade Agreements.

a. The South Asian Free Trade Area consisting of India, Pakistan, Nepal, Sir Lanka, Bangladesh, Bhutan, and the Maldives, provides for zero customs duty on trade for the region by end 2012.

b. The ASEAN Free Trade Area seeks to reduce intraregional tariffs while allowing members to set their own tariffs for nonmember countries.

c. An East Asian Free Trade Area can potentially be the world's largest regional trade agreement since it will include Japan and China as its center.

C. A New Reality: Global Competition among Global Companies for Global Consumers

The emergence of a borderless economic world has created a new reality for marketers.

1. Global competition exists when firms originate, produce, and market their products and services worldwide.

a. It broadens the competitive landscape for marketers.

b. To meet the demands of global competition, collaborative relationships are becoming common. **Strategic alliances** are agreements among two or more independent firms to cooperate for the purpose of achieving common goals, such as a competitive advantage or customer value creation.

2. **Global Companies**. Consists of three types of companies; all three employ people in different countries, and many have administrative, marketing, and manufacturing operations (often called *divisions* or *subsidiaries*) globally.

    a. *International firms* market their existing products and services in other countries the same way they do in their home country.

    b. *Multinational firms*.

    - View the world as consisting of unique parts and markets to each part differently.
    - Use a **multidomestic marketing strategy**, which means they have as many different product variations, brand names, and advertising programs as countries in which they do business.

    c. *Transnational firms*.

    - View the world as one market and emphasizes cultural similarities across countries or universal consumer needs and wants more than differences.
    - Employ a **global marketing strategy**—the practice of standardizing marketing activities when there are cultural similarities and adapting them when cultures differ.
        - A global marketing strategy allows marketers to realize economies of scale from their production and marketing activities.
        - Are popular among many business-to-business marketers.
    - Market a **global brand**—a brand marketed under the same name in multiple countries with similar and centrally coordinated marketing programs.
        - Global brands have the same product formulation or service concept, deliver the same benefits to consumers, and use consistent advertising across multiple countries and cultures.
        - Adaptation occurs only used when necessary to better connect the brand to consumers in different markets.

3. **Global Consumers**. Global competition often focuses on the identification and pursuit of global consumers.

    - **Global consumers** consist of consumer groups living in many countries or regions of the world who have similar needs or seek similar features and benefits from products or services.

- Evidence suggests the emergence of a global middle-income class, a youth market, and a global elite segment, each consuming or using a common assortment of products and services regardless of geographic location.

MARKETING MATTERS

The Global Teenager—A Market of 500 Million Consumers with US$100 Billion to Spend

The global "teenager market" consists of 500 million 13- to 19-year-olds who live in Europe, North and South America, and industrialized nations of Asia and the Pacific Rim. The similarities among teens in these countries are greater than their differences in terms of clothes, cosmetics, video games, and music. They spend $100 billion annually for these products. Global teenagers have been influenced by the fashion and culture exhibited by American teens.

D. Emergence of a Networked Global Marketspace

Internet-based technology is a growing tool for exchanging goods, services, and information on a global scale.

- Over 1 billion businesses, educational institutions, government agencies, and households worldwide are expected to have Internet access by 2010.
- It enables the exchange of goods, services, and information from companies *anywhere* to customers *anywhere* at *any time* and at a lower cost.
- Ninety percent of global electronic commerce revenue arises from business-to-business transactions among a dozen countries in North America, Western Europe, and the Asia/Pacific Rim.
- Marketers recognize that the networked global marketspace offers unheard of access to prospective buyers on every continent.
- Companies manage multiple country and language websites that customize content and communicate with consumers in their native tongue.

LEARNING REVIEW

3. **What is protectionism?**

   Answer: Protectionism is the practice of shielding one or more industries within a country's economy from foreign competition, usually through the use of tariffs or quotas.

4. **The South Asia Free Trade Agreement was designed to promote free trade among which countries?**

   Answer: India, Pakistan, Nepal, Sir Lanka, Bangladesh, Bhutan, and the Maldives

5. **What is the difference between a multidomestic marketing strategy and a global marketing strategy?**

   Answer: A multidomestic marketing strategy means that firms have as many different product variations, brand names, and advertising programs as countries in which they do business. A global marketing strategy standardizes marketing activities when there are cultural similarities and adapts them when cultures differ.

III. A GLOBAL ENVIRONMENTAL SCAN [LO3]

Global companies conduct continuous environmental scans. Three of the environmental forces—cultural, economic, and political-regulatory—affect global marketing practices differently than those in domestic markets.

A. Cultural Diversity

- Marketers must be sensitive to the cultures of different societies to create successful exchange relationships with global consumers.
- Marketers must conduct a **cross-cultural analysis**, which involves the study of similarities and differences among consumers in two or more nations or societies.
- A thorough cross-cultural analysis involves an understanding of and an appreciation for the values, customs, symbols, and language of other societies.

[*SLN 7-1: Examples of Values, Customs, Cultural Symbols, and Language*]

1. **Values**.

    a. A society's **values** represent personally or socially preferable modes of conduct or states of existence that tend to persist over time.

    b. Cultural values become apparent in the personal values of individuals that affect their attitudes and beliefs toward specific behaviors and attributes of goods and services.

2. **Customs** are what is considered normal and expected about the way people do things in a specific country. These can vary from country to country.

    a. The custom of giving token business gifts is popular in many countries where they are expected and accepted.

    b. Bribes, kickbacks, and payoffs to entice someone to commit an illegal or improper act on behalf of the giver for economic gain are considered corrupt in most cultures.

    c. The **Foreign Corrupt Practices Act (1977)** is a law, amended by the *International Anti-Dumping and Fair Competition Act* (1998), that makes it a crime for U.S. corporations to bribe an official of a foreign government or political party to obtain or retain business in a foreign country.

    d. Customs also relate to nonverbal behavior of individuals in different cultural settings.

3. **Cultural symbols** are things that represent ideas and concepts.

    a. Symbols play a role in cross-cultural analysis because different cultures attach different meanings to things.

    b. **Semiotics** is the field of study that examines the correspondence between symbols and their role in the assignment of meaning for people.

    c. Global marketers can tie positive symbolism to their products, services, and brands to enhance their attractiveness to consumers.

    d. Global marketers must be aware that cultural symbols evoke deep feelings; improper use of symbols can spell disaster.

    e. Global marketers must also sensitive to the fact that the country of origin or manufacture of products and services can symbolize superior or poor quality in some countries.

4. **Language**. Global marketers should know the native tongues of countries in which they market as well as the nuances and idioms of a language.

   a. English, French, and Spanish are the principal languages used in global diplomacy and commerce.

   b. The best language to communicate with consumers is their own.

   c. Global marketers use **back translation**, the practice whereby a translated word or phrase is retranslated into the original language by a different interpreter to catch errors.

   d. The importance of language in global marketing is assuming greater importance in an increasingly networked and borderless economic world.

5. **Cultural Ethnocentricity**.

   a. *Cultural ethnocentricity* is the belief that aspects of one's culture are superior to another's. This view is an impediment to successful global marketing.

   b. **Consumer ethnocentrism** is the tendency to believe that it is inappropriate, indeed immoral, to purchase foreign-made products and not on the basis of price, features, or performance.

      - Ethnocentric consumers believe that buying imported products is wrong because such purchases are unpatriotic, harm domestic industries, and cause domestic unemployment.
      - This view exists to some extent among various segments of the population in every country.

B. Economic Considerations

Global marketing is also affected by economic considerations. Therefore, a scan of the global marketplace should include assessments of:

1. **Stage of Economic Development**.

   a. The 260 countries can be classified into two groups:

   - *Developed countries* have somewhat mixed economies. Private enterprise dominates, although they have substantial public sectors as well.
   - *Developing countries* are in the process of moving from an agricultural to an industrial economy. Some have made the move while others remain locked in a pre-industrial economy.

2. **Economic Infrastructure**.

   a. Consists of a country's economic communications, transportation, financial, and distribution systems and is a critical consideration in determining whether to try to market to a country's consumers and organizations.

   b. The communication infrastructure in many developing countries is limited or antiquated compared with that of developed countries.

   c. The lack of formal financial and legal systems in some countries can cause problems when dealing with financial institutions or engaging in private property transactions.

3. **Consumer Income and Purchasing Power**.

   a. Global marketers must consider what the average per capita or household income is among a country's consumers and how the income is distributed to determine a nation's purchasing power. Per capita incomes vary widely between nations.

   b. A country's income distribution is important because it gives a more reliable picture of a country's purchasing power.

c. Generally speaking, the greater the number of middle-class households, the greater a nation's purchasing power.

d. People in developing countries, who often have government subsidies for food, housing, and health care, are actually promising customers for a variety of products.

f. Income growth in developing countries of Asia, Latin America, and Eastern Europe is expected to stimulate world trade well into the twenty-first century.

4. Currency Exchanges Rates. A **currency exchange rate** is the price of one country's currency expressed in terms of another country's currency.

a. Failure to consider exchange rates when pricing products for global markets can have dire consequences.

b. Exchange rate fluctuations have a direct impact on global companies.

- When foreign currencies can buy more U.S. dollars, U.S. products are less expensive for the foreign customer.
- Short-term fluctuations in exchange rates can have a significant effect on the profits of global companies.

C. Political-Regulatory Climate

- Marketers need to not only identify a country's current political and regulatory climate but also how long a favorable or unfavorable climate may last.
- This assessment includes an analysis of a country's political stability and trade regulations.

1. Political Stability. Billions of dollars in trade have been lost in the as a result of internal political strife, terrorism, and war.

a. Political stability in a country is affected by numerous factors, including a government's orientation toward foreign companies and trade with other countries, which combine to create a political climate that is favorable or unfavorable for marketing and financial investment in the country or region.

b. Marketing managers monitor political stability by tracking country risk ratings supplied by the PRS Group.

Web Link

Checking a Country's Political Risk Rating

The political climate in every country regularly changes. Governments can make new laws or enforce existing policies differently. Consulting firms prepare political risk analyses that incorporate a variety of variables such as the risk of internal turmoil, external conflict, government restrictions on company operations, and tariff and nontariff trade barriers.

The PRS Group has several databases of country-specific information and projections, including political risk ratings, which can be accessed at www.prsgroup.com. Visit the website to find out what countries have the most and the least favorable business climates.

2. **Trade Regulations**.

    a. Countries have rules that govern business practices within their borders, which often serve as trade barriers. Japan has some 11,000 trade regulations.

    b. Trade regulations also appear in free trade agreements among countries. EU nations abide by some 10,000 rules that specify how goods are to be made and marketed.

    c. Many European companies require suppliers to be ISO 9000 certified as a condition of doing business with them.

LEARNING REVIEW

6. **Semiotics involves the study of _________.**

    Answer: the correspondence between symbols and their role in the assignment of meaning for people

7. **When foreign currencies can buy more Japanese Yen, are Japanese products more or less expensive for a foreign consumer?**

    Answer: less expensive

III. GLOBAL MARKET-ENTRY STRATEGIES [LO4]

- Once a company has decided to enter the global marketplace, it selects a means of market entry: (1) exporting, (2) licensing, (3) joint venture, and (4) direct investment.

- The amount of financial commitment, risk, marketing control, and potential profit increases as the firm moves from exporting to direct investment.

A. Exporting

- **Exporting** is a global market-entry strategy in which a company produces goods in one country and sells them in another country.
- This entry option allows a company to make the least number of changes in its product, organization, and corporate goals.
- Host countries usually do not like this practice because it provides less local employment than under alternative means of entry.
- Two forms of exporting exist:

a. *Indirect exporting* is when a firm sells its domestically produced goods in a foreign country through an intermediary.

- It has the least amount of commitment and risk but will probably return the least profit.
- This is ideal for the company that has no overseas contacts but wants to market abroad.
- The intermediary is often a distributor that has the marketing know-how and resources necessary for the effort to succeed.

b. *Direct exporting* is when a firm sells its domestically produced goods in a foreign country without intermediaries.

- Companies use direct exporting when they believe sales will be sufficiently large and easy to obtain so that they do not require intermediaries.
- Direct exporting involves more risk than indirect exporting for a firm but can provide increased profits.
- Exporting is commonly employed by large firms and is the prominent strategy among small- and medium-sized companies.

MARKETING MATTERS

Creative Cosmetics and Creative Export Marketing in Japan

A medium-sized U.S. cosmetics firm has had marketing success in Japan because of its top-quality product, effective advertising, and export marketing program relying on savvy Japanese distributors. Creative Cosmetics does not sell to department stores, which are supplied by two leading Japanese cosmetics firms. Rather, the company sells its Moodmatcher lipstick through Japanese distributors that reach Japan's 40,000 beauty salons.

B. Licensing

- Under licensing, a company offers the right to a trademark, patent, trade secret, or other similarly valued items of intellectual property in return for a royalty or a fee.

    a. Advantages of licensing:

    - Low risk, allowing the licensee to gain information that allows it to start with a competitive advantage.
    - Chance to enter a foreign market at virtually no cost.
    - Foreign country gains employment by having the product manufactured locally.

    b. Disadvantages of licensing:

    - Licensor gives up control of its product and reduces the potential profits gained from it.
    - The licensor may be creating its own competition because some licensees are able to modify the product and enter the market themselves with the product and marketing knowledge gained from the licensor.
    - If the licensee is a poor choice, the name or reputation of the company may be harmed.

- Two variations of licensing represent alternative ways to produce a product within the foreign country.

    a. With *contract manufacturing*, a company may contract with a foreign firm to manufacture products according to stated specifications. The product is then sold in the foreign country or exported back to the home country.

    b. With *contract assembly*, the company may contract with a foreign firm to assemble (not manufacture) parts and components that have been shipped to that country.

    c. The advantage to the foreign country is the employment of its people, and the licensor firm benefits from the lower wage rates in the foreign country.

- A third variation of licensing is *franchising*.

    a. Franchising is one of the fastest-growing market-entry strategies.

    b. More than 35,000 franchises of U.S. firms are located in countries throughout the world.

    c. McDonald's is a premier global franchiser with more than 70% of its stores franchised and over 70% of its sales coming from non-U.S. operations.

C. Joint Venture

A **joint venture** is a global market-entry strategy in which a foreign company and a local firm invest together to create a local business in order to share ownership, control, and profits of the new company.

- Advantages of a joint venture:

    a. One firm may not have the necessary financial, physical, or managerial resources to enter a foreign market alone.

    b. A government may require or encourage a joint venture before it allows a foreign company to enter its market.

- Disadvantages of a joint venture:

    a. The two companies may disagree about policies or courses of action.

    b. Government bureaucracy may bog down the effort.

D. Direct Investment

- The biggest commitment a firm can make when entering the global market is **direct investment**, which is a global market-entry strategy that entails a domestic firm actually investing in and owning a foreign subsidiary or division.

- For many firms, it often follows one of the other three market-entry strategies.

- Advantages include cost savings, better understanding of local market conditions, and fewer local restrictions.

- Disadvantages include the financial commitments and risks (political, currency, etc.) involved.

LEARNING REVIEW

8. What mode of entry could a company follow if it has no previous experience in global marketing?

Answer: indirect exporting through intermediaries

9. How does licensing differ from a joint venture?

Answer: In licensing, the firm offers the right to a trademark, patent, or trade secret in return for a fee or royalty. In a joint venture, a foreign and a local firm invest together to produce some product or service. The two companies share ownership, control, and profits of the new entity.

IV. CRAFTING A WORLDWIDE MARKETING PROGRAM [LO5]

- The choice of a market-entry strategy is a necessary first step for a global marketer. The next step involves the task of designing, implementing, and controlling marketing programs worldwide.

- Global marketers standardize global marketing programs whenever possible and customize them wherever necessary based on a global environment scan, experienced judgment, and marketing research.

A. Product and Promotion Strategies

- Global companies have five strategies for matching products and their promotion efforts to global markets, which focus on whether a company extends or adapts its product and promotion message for consumers in different countries and cultures.

- A product may be sold globally in one of three ways: (1) in the same form as in its home market, (2) with some adaptations, or (3) as a totally new product:

- A product may be sold globally in one of three ways:

  1. *Product extension*. Selling virtually the same product in other countries. Works best when the target markets share the same desires, needs, and uses for the product.

  2. *Product adaptation*. Changing a product to make it more appropriate for a country's climate or consumer preferences.

  3. *Product invention*. Companies can invent totally new products designed to satisfy common needs across countries.

- Companies can:

  a. Use an identical promotion for product extension and product adaptation strategies.
  b. Adapt promotion messages, selling the same product but advertising it differently in different countries.

  c. Use a dual adaptation strategy, modifying both their products and promotional message.

B. Distribution Strategy

- The availability and quality of retailers and wholesalers as well as transportation, communication, and warehousing facilities are determined by a country's stage of economic development.

- The starting point is the seller, who is responsible for the successful distribution to the ultimate consumer.

- Intermediaries then bring buyers and sellers together to distribute the product from one country to another.

- Once the product is in the foreign nation, that country's distribution channels take over. These channels can be very long or surprisingly short, depending on the product.

- The sophistication of a country's distribution channels increases as its economic infrastructure develops.

C. Pricing Strategy

- Global companies face many challenges in determining a pricing strategy as part of their global marketing effort. Individual countries, even those with free trade agreements, may impose considerable competitive, political, and legal constraints.

- Pricing too low or too high can have dire consequences:

  a. When prices appear too low in one country, companies can be charged with **dumping**, which is when a firm sells a product in a foreign country below its domestic price or below its actual cost.

  b. When companies price their products very high in some countries but competitively in others, they face a **gray market** (or *parallel importing*), a situation where products are sold through unauthorized channels of distribution.

  - Gray marketing occurs when individuals buy products in a lower-priced country from a manufacturer's authorized retailer, ship them to higherpriced countries, and then sell them below the manufacturer's suggested retail price through unauthorized retailers.

- Parallel importing is legal in the U.S. and some Asian countries such as Singapore, but illegal in the EU.

LEARNING REVIEW

10. Products may be sold globally in three ways. What are they?

Answers: Products can be sold: (1) in the same form as in its home market (product extension); (2) with some adaptations (product adaptation); and (3) as a totally new product (product invention).

11. What is dumping?

Answer: Dumping is when a firm sells a product in a foreign country below its domestic price or below its actual cost.

APPLYING MARKETING KNOWLEDGE

1. What is meant by this statement: "Quotas are a hidden tax on consumers, whereas tariffs are a more obvious one?"

Answer: Quotas represent a hidden tax on consumers because they limit supply of products, which in turn increases prices. Tariffs are literally a government tax imposed on imported goods.

2. Is the trade feedback effect described in the text a long-run or short-run view on world trade flows? Explain your answer.

Answer: Long run. The trade feedback effect is a chain reaction of the effect of changes in export on imports or vice versa. As the exports of one country increase, its national output and income rise, which in turn leads to an increase in the demand for imports. Each of this changes require a substantial period of time for the effects to be seen and thus the whole cycle is a long term view on world trade flows.

3. The United States is considered to be a global leader in the development and marketing of pharmaceutical products, and Merck & Co. of New Jersey is a world leader in prescription drug sales. What explanation can you give for this situation based on the text discussion concerning the competitive advantage of nations?

Answer:
1.Factor conditions.
- Large investments from government and foreigners into research and medicine.
- Leader in technology advancements.

- Status as a 1st world country.
- Highly educated and skilled workforce with focus on research.
- Highly regulated industry gives credibility of products.
- Consumers are very connected to media

2. Demand conditions.
- Big foreign market (world look to US for advances in western medicine)
- Big local market (U.S. consumers have strong spending power and high disease incidence).
- Sophisticated consumers.
- Poor bargaining power.

3. Related and supporting industries.
- Many good medical schools and research faculty.
- Reliable law system for patents to be enforced.
- Active manufacturers
- Many retail pharmacies and hospitals
- Bio cluster in Philadelphia
- Advance biotechnological industry.

4. Company strategy, structure, and rivalry.
- Many similar companies and research faculties
- highly competitive industry

4. How successful would a television commercial in Japan be if it featured a husband surprising his wife in her dressing area on Valentine's Day with a small box of chocolates containing four candies? Why?

Answer: This commercial would be a failure. It violates a number of cultural norms in Japan: (1) Japanese consider it inappropriate for a husband to intrude on his wife; (2) Japanese women give men chocolates on Valentine's Day; and (3) four is an unlucky number in Japan.

5. As a novice in global marketing, which alternative global market-entry strategy would you be likely start with? Why? What other alternatives do you have for a global market entry?

Answer: The best alternative for a novice firm is *indirect exporting*—selling its domestically produced goods in a foreign country through an intermediary, such as a distributor, that has the marketing know-how and the resources necessary for the effort to succeed. This will allow consumers in the target country to try the firm's products and to begin to recognize its name. It also entails the lowest risk and investment from the firm.

Other alternatives in order of increasing level of risk and investment are:

a. **Direct exporting**. Selling the firm's domestically produced goods in a foreign country without intermediaries.

b. **Licensing**. Offering the right to a trademark, patent, trade secret, or other intellectual property in return for a royalty or fee.

c. **Joint venture**. Occurs when a firm and local firm invest together in a foreign country to create a local business.

d. **Direct investment**. Entails a domestic firm actually investing in and owning a foreign subsidiary or division.

5. **Coca-Cola is sold worldwide. In some countries, Coca-Cola owns the bottling facilities; in others, it has signed contracts with licensees or relies on joint ventures. When selecting a licensee in each country, what factors should Coca-Cola consider?**

Answer:

Among the risks of licensing are the licensor's losing control of its products and the licensor's creating its own competition by the licensee's somehow modifying the product. Before selecting a licensee, Coca-Cola should perform a cross-cultural analysis of the target country, reviewing regulations and business customs in the country to be sure its patents will be respected.

Selecting a licensee requires careful background checks into its values, past business practices, and finances. The licensing agreement should set up a monitoring process over the licensee's production and over its marketing and distribution. All of these steps must be taken with sensitivity in order to protect Coca-Cola's brand without offending the licensee and consumers in the country. The people at Coca-Cola that are monitoring production, marketing, and distribution should be fluent in the language and customs of the country and should be committed to developing a relationship over time with the licensee.

BUILDING YOUR MARKETING PLAN

Does your marketing plan involve reaching global customers outside your country? If the answer is no, read no further and do not include a global element in your plan.

If the answer is yes, try to identify:

1. **What features of your product are especially important to potential customers.**

2. **In which countries these potential customers live.**

3. Special marketing issues that are involved in trying to reach them.

Answers to these questions will help in developing more detailed marketing mix strategies described in later chapters.

Special issues for students to consider if marketing a product to another country include:

1. Regulations dealing with imports, including tariffs and quotas.
2. Assistance programs from the World Trade Association, U.S. government, or state trade office.
3. Whether a website will be developed in the language of the targeted country.
4. An assessment of the country's values, customs, and symbols when developing the marketing mix.
5. An assessment of any relevant economic (income, inflation, currency exchange rate, etc.) and infrastructure issues (communication, transportation, energy, distribution, etc.).
6. Political stability.
7. Market-entry strategy to be used.
8. Whether the product will need to be adapted.

While the global customers are important to food chains like McDonald's or manufacturers like General Electric, most student marketing plans will not need to consider global customers. Rare exceptions might be a small manufacturer or a retail shop located on or near the border with Canada or Mexico.

SLN 7-1: SUPPLEMENTAL LECTURE NOTE

Examples of Values, Customs, Cultural Symbols, and Language

Values

Swiss women consider washing dishes or cleaning floors as central to their role as a homemaker. They reject commercial appeals that emphasize saving time and effort in performing these tasks.

Travel advertising in culturally divided Canada will portray a wife alone for the English audience, but portray a husband and wife together for the French audience. Why? The French are traditionally more closely bound by family ties.

Customs

In China, gifts should be presented privately with the exception of collective ceremonial gifts at banquets.

The formality of dress for working business meetings differs across European Union countries. The British and Dutch will often remove their jackets and roll up their sleeves. A Spaniard will only loosen a necktie. Germans refrain from such informality entirely.

Cultural Symbols

An eagle bearing a snake in its claws and alighting on a cactus is the official seal of Mexico and appears on its flag. When McDonald's featured this seal on paper mats for trays to commemorate Mexico's Flag Day, Mexican authorities confiscated the paper mats because they were disrespectful.

Language

The "Jolly Green Giant" was translated into Arabic as "intimidating green ogre."

In French-speaking countries, the toothpaste brand name "Cue" is often a crude slang expression for derrière.

Source: Philip R. Catora and John L. Graham, *International Marketing*, 12th ed. (Burr Ridge, Ill.: McGraw-Hill/Irwin, 2005) and Paul A. Herbig, *Handbook of Cross-Cultural Marketing* (New York: Haworth Press, 1998).