

Lecture 1

Nature of International Marketing

We are citizens of the world – and citizens of every city and village where we do business.

Douglas N. Daft, Chairman and CEO, The Coca-Cola Company

Challenges and Opportunities

- Process of International Marketing
- International Dimensions of Marketing
- Domestic Marketing vs. International Marketing
- Multinational Corporations (MNCs)
- The Process of Internationalization
- Benefits of International Marketing

Definition of FEA Marketing

- Multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services and to create exchanges that satisfy individual and organizational objectives

Dimensions of Marketing

- Consumer Marketing vs. Business-to-Business Marketing
- Domestic Marketing vs. Foreign Marketing
- Comparative Marketing
- International Marketing vs. Global/Multinational Marketing
- Domestic Marketing vs. International Marketing
 - similar in nature but not in scope (scale)?
 - different in degree but not in kind?

Internationalization Philosophies

Domestic Marketing	Export Marketing	Multinational Marketing	FEA, Global Marketing
<p>Low or no international commitment</p> <p>Focus on domestic consumers and home country environment</p> <p>Domestic focus</p>	<p>Limited international commitment</p> <p>Involves direct or indirect export</p> <p>Ethnocentric</p>	<p>Substantial international commitment</p> <p>Focus on different international countries</p> <p>Polycentric</p>	<p>Extensive international commitment</p> <p>Focus on regions market segments rather than countries</p> <p>Regiocentric Geocentric</p>

Raising commitment/ involvement to international markets

MNCs (MULTINATIONAL CORPORATIONS)

- Cons
 - Exploitation
 - Erosion of a Nation's Sovereignty
- Pros
 - Power and Prestige
 - Social Responsibility
 - Market Performance

Transnationality Index (TNI)

- Foreign Assets/Total Assets
- Foreign Sales/Total Sales
- Foreign Employment/Total Employment

Characteristics of MNCs

- **Definition by Size**
 - market value
 - sales
 - profits
 - assets
 - number of employees

Characteristics of MNCs

- **Definition by Structure**
 - number of countries in which the firm does business
 - citizenship of corporate owners and top managers

Characteristics of MNCs

- **Definition by Performance**
 - commitment of corporate resources to foreign operations
 - amount of rewards from that commitment

Characteristics of MNCs

- **Definition by Behavior**
 - ethnocentricity
 - polycentricity
 - geocentricity

Behavior/ Attitude

- **Ethnocentricity**
 - orientation toward home country
 - centralization of decision making
 - efficient but not effective

Ethnocentric Orientation

- Guided by *domestic market extension concept*
- Domestic strategies, techniques, and personnel are perceived as superior.
- International markets are secondary, regarded primarily as outlets for surplus domestic production.
- International marketing plans are developed in-house by the international division.
- E.g. Disney resort in France: Disneyland Resort Paris had to adapt it to local preferences: European fairy tales, food, and dress code for staff.

Behavior/ Attitude

- **Polycentricity**
 - strong orientation to host country
 - decentralization of decision making
 - effective but not efficient

Polycentric Orientation

- Guided by the *multidomestic marketing concept*
- Focuses on the importance and uniqueness of each international market
- Firms establish independent businesses in each target country.
- Fully decentralized, minimal coordination with headquarters
- Marketing strategies are specific to each country.
- Outcomes:
 - No economies of scale
 - Duplicated functions
 - Higher final product costs

Regiocentric Orientation

- Guided by the *global marketing concept*
- World regions that share economic, political, and/or cultural traits are perceived as distinct markets. (e.g. EU, NAFTA*)
- Divisions are organized based on location.
- Regional offices coordinate marketing activities.

*North American free trade agreement

Behavior/ Attitude

- **Geocentricity**
 - world orientation
 - centralization + decentralization + coordination
 - efficient and effective

Geocentric Orientation

- Guided by the *global marketing concept*
- Marketing strategies aimed at market segments, rather than geographic locations
- Maximizes efficiencies worldwide and provides standardized product or service throughout the world
- E.g. McDonalds

Internationalization Process

- Stages of Internationalization
 - Domestic business
 - Sporadic exporting
 - Frequent exporting
 - Overseas manufacturing
- Born Global
 - Mission of being global from birth
 - Resources committed to international activities

Benefits of International Marketing

- Survival and Growth
- Sales and Profits
- Diversification
- Inflation and Price Moderation
- Employment
- Standards of Living
- Understanding of Marketing Process

International Expansion Drivers

Business Environment Drivers	Firm specific Drivers
<ul style="list-style-type: none">• Competition• Regional Economic and Political Integration• Technology• Improvements in Transportation and Telecommunication• Economic Growth• Transition to Market Economy• Converging Consumer Needs	<ul style="list-style-type: none">• Product Life Cycle• High New Product Development Costs• Standardization• Economies of Scale• Cheap Labor• Experience Transfers

International Expansion Drivers: Business Environment (contd.)

Competition

- Example: McCann Erickson has been handling the Coca-Cola account in 129 countries since 1942. Therefore the advertising agency, follows longtime client, Coca Cola, Inc., to all countries where Coke is present. Nevertheless Coca-Cola moved the management of its dedicated Red Lounge China marketing unit from McCann Erickson to Leo Burnett, a competing advertising agency (2007). At the same time Leo Burnett lost some international accounts of its longtime client, McDonald's.

International Expansion Drivers: Business Environment (contd.)

Regional Economic and Political Integration

- Example: Regional agreements such as NAFTA, and the European Union (EU) lower and eliminate barriers and promote trade within these markets.
- Subsidiaries can be established in these markets to take advantage of free trade within the region.

International Expansion Drivers: Business Environment (contd.)

Technology

Examples:

- Consumers worldwide are exposed to similar products, services, and entertainment, and marketing communications.
- The Web and the Internet have revolutionized the way companies conduct business.

International Expansion Drivers: Business Environment (contd.)

Transportation and Telecommunications

- Lower cost and higher quality communication due to satellite technology, teleconferencing, and e-mail
- Efficient transportation due to containerization and just-in-time technology

International Expansion Drivers: Business Environment (contd.)

Economic Growth

- Emerging middle class with increasing buying power in big emerging markets such as Brazil and India.
- Opening of new markets previously closed, such as the markets of China and Vietnam.

International Expansion Drivers: Business Environment (contd.)

Transition to a Market Economy

- Transition of the Eastern Bloc to a market economy created important new markets.
- Created opportunities to transform inefficient government-owned companies into successful enterprises.

International Expansion Drivers: Business Environment (contd.)

Transition to a Market Economy

Yum! Brands in
China and Taiwan
(e.g. Taco Bell,
KFC, Pizza Hut)
do well -
in spite of E.coli
(East cost) and
rat infestation in NY



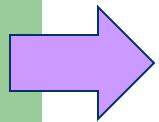
Yum! Brands is omnipresent in China and Taiwan

International Expansion Drivers: Business Environment

Converging Consumer Needs

Uniform consumer segments emerging worldwide:

- Global teenagers
- Global elite



Loyal to international brands (Nike, Levi's, Coca-Cola, Heineken, Ralph Lauren, MTV, TV shows)

Converging Consumer Needs

SALOMON BAGELS

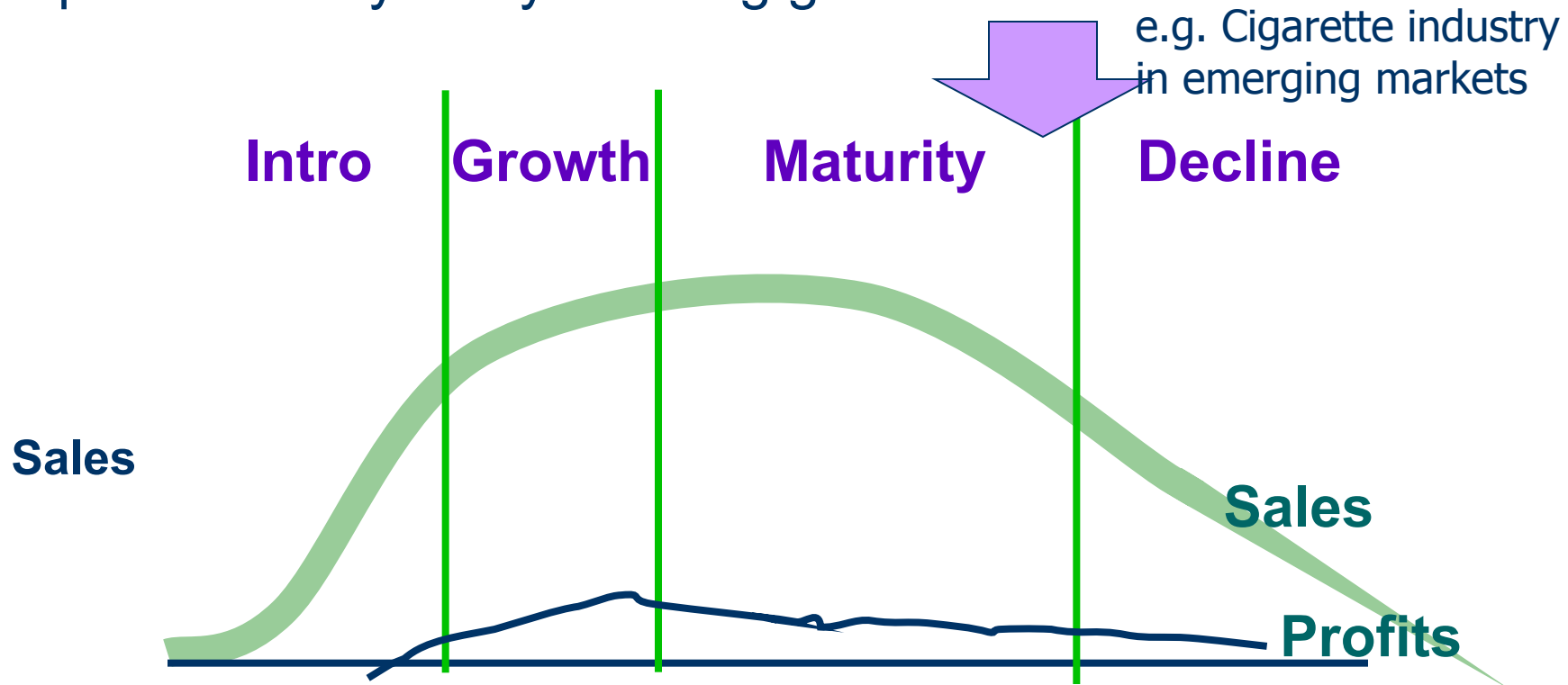
ZUM MITNEHMEN / TO GO

BAGELS		BAGEL-SANDWICHES		PEZZABAGELS	
	Antsal 1,70 € Sesam 1,55 € Maiz 1,55 € Riesche 1,70 € Semmelbraten 1,55 € Molokare 1,55 € Vollkorn 1,55 €	Huhn 1,70 € Schinken 1,70 € Pommes 1,70 € Pommes-Sandw. 1,70 € Currywurst 1,70 € Pommes 1,70 € Wurst 1,70 € Wurst 1,70 €	Hammelsteak, Schinken oder Hering 2,30 € Sweet Bagel 1,55 € Veischnudel oder Bratete 1,55 € Chiken Cheese 1,55 € Whole Grain 1,55 € Wurst 1,55 € Wurst 1,55 € Wurst 1,55 € Wurst 1,55 €	Käse / Cheese 1,70 € Salami, Schinken o. Mettwurst 2,30 € Salami, Hahn u. Speck 1,55 €	Getränke 1,70 € Kaffee / Coffee 1,70 € Capuccino 1,70 € Latte Macchiato 1,70 € Malice Schokolade 1,70 € mit Chokolade 1,70 € Mineralwasser / Water 1,70 € Cola, Sprite, Lila 1,70 € Orsa, Soda, Diet Cola Light 1,70 €

Bagel shop in Berlin (Potsdamer Platz)

Firm-Specific Drivers (contd.)

product lifecycle by entering growth markets



Firm-Specific Drivers (contd)

High New Product Development Costs

- Firm must look beyond home-country market to recover investment costs.
- E.g. Nike: one year to develop a new product, that last only half a year on the shelves in the US

Firm-Specific Drivers

Standardization, Economies of scale, Cheap Labor

Price competition during the maturity of the product life cycle drives firm to new international markets in search of cheap labor. The firm lowers costs—thus prices—due to economies of scale and saving from standardization processes.

Experience Transfers

Experience in one country serves as basis for strategies in new international markets.

Obstacles to Internationalization

within the company	outside
<ul style="list-style-type: none">• Finances• Psychological: unknown environment• Self-Reference Criterion	<ul style="list-style-type: none">• Government Barriers• Barriers imposed by International Competition

Obstacles to Internationalization

Self-Reference Criterion

- Conscious and unconscious reference to own national culture while operating in the host country. (e.g. eye contact US-Japan)
- To counter the impact of the self-reference criterion, the corporation must select appropriate personnel for international assignments and engage in sensitivity training.

Obstacles to Internationalization

Government Barriers

- Restriction placed on foreign corporations by imposing tariffs, import quotas and other limitations, such as restrictive import license awards.

Obstacles to Internationalization

Barriers imposed by International Competition

- Blocked channels of distribution
- Exclusive retailer agreements
- Cutting prices
- Advertising blitzes

QUESTIONS

- 1 What are the strengths and limitations of the AMA's definition of marketing as adapted for the purpose of defining international marketing?
- 2 Distinguish among: (a) domestic marketing, (b) foreign marketing, (c) comparative marketing, (d) international marketing, (e) multinational marketing, (f) global marketing, and (g) world marketing.
- 3 Are domestic marketing and international marketing different only in scope but not in nature?
- 4 Explain the following criteria used to identify MNCs: (a) size, (b) structure, (c) performance, and (d) behavior.
- 5 Distinguish among: (a) ethnocentricity, (b) polycentricity, and (c) geocentricity.
- 6 What are the benefits of international marketing?