

Seventeenth Edition

INTERNATIONAL MARKETING



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International Marketing

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Seventeenth edition

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INTERNATIONAL MARKETING, SEVENTEENTH EDITION

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This book is printed on acid-free paper.

1 2 3 4 5 6 7 8 9 0 DOW/DOW 1 0 9 8 7 6 5

ISBN 978-0-07-784216-1

MHID 0-07-784216-2

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Compositor: *MPS Limited*
Printer: *R. R. Donnelley*

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Library of Congress Cataloging-in-Publication Data

Cateora, Philip R., author.
International marketing / Philip R. Cateora, Mary C. Gilly, John L. Graham, R. Bruce Money.
Seventeenth edition. | New York, NY : McGraw-Hill Education, [2016]
LCCN 2015036297 | ISBN 9780077842161 (alk. paper)
LCSH: Export marketing. | International business enterprises.
LCC HF1416 .C375 2016 | DDC 658.8/4—dc23 LC record available at <http://lccn.loc.gov/2015036297>

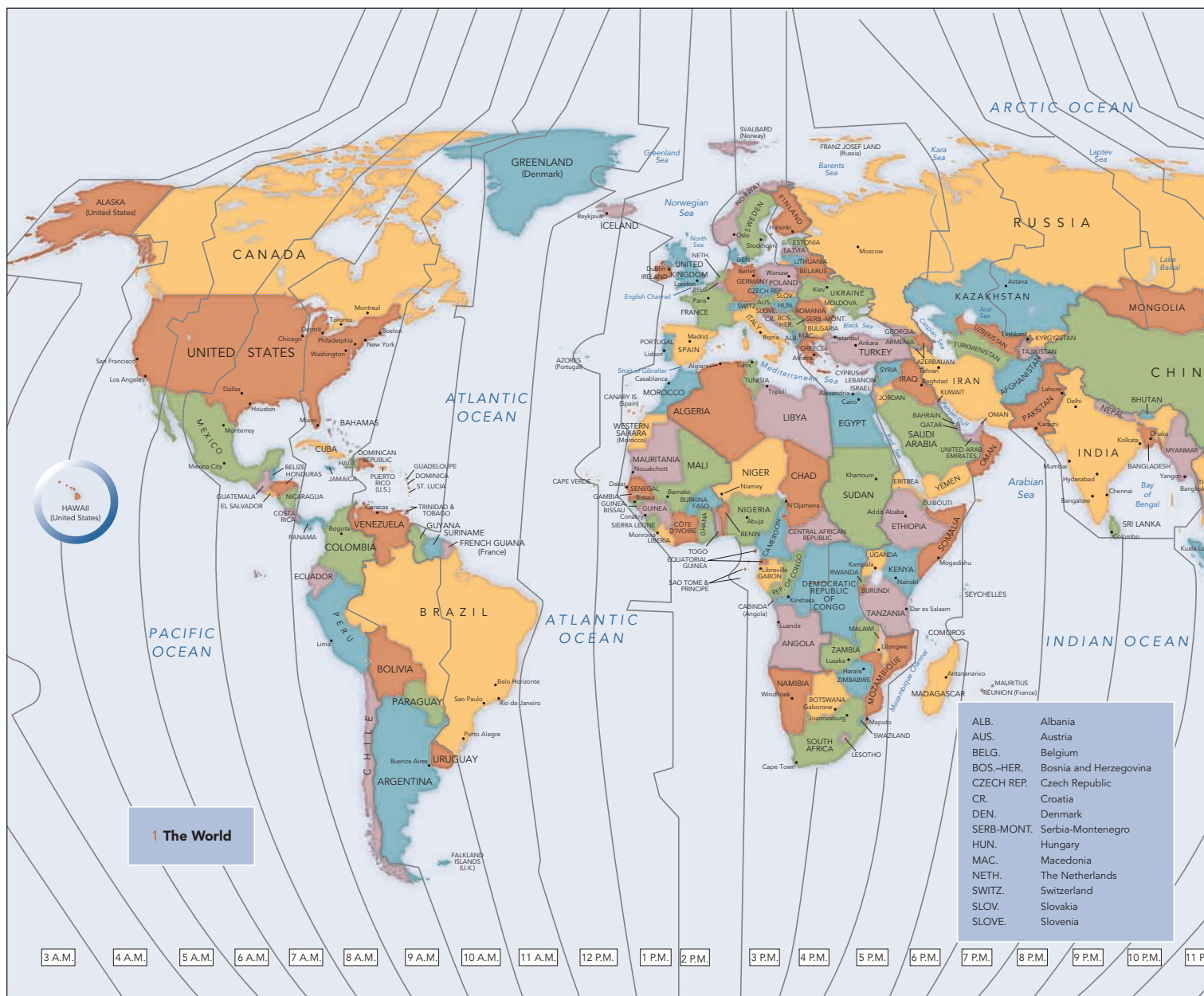
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To Steve Jobs, the best international
marketer and inventive negotiator
of his generation

WALKTHROUGH

A quick look at the new edition **International Marketing** by Cateora, Gilly, and Graham has always been a pioneer in the field of international marketing. The authors continue to set the standard in this edition with new and expanded topics that reflect the swift changes of an expanding competitive global market, as well as increased coverage of technology's impact on the international market arena. We are happy that Bruce Money has now joined our team.



Global Marketing on the Web at Marriott

The Internet today is the most global of any media. The power of the Internet results from its unique capabilities to:

- Encompass text, audio and video in one platform.
- Operate in a dialogue versus monologue mode.
- Operate simultaneously as mass media and personalized media.
- Build global "communities," unconfined by national borders.

However, leveraging these advantages effectively requires dealing with various substantive issues, including:

- Major differences in Internet penetration rates across the globe ranging from 87 percent penetration in North America to 27 percent for the continent of Africa. This difference greatly influences the role of the Web as part of the marketing mix in international markets. Even for advanced EU economies, the variability of adoption is great, ranging from 95 percent in Sweden to 50 percent in Romania. (www.internetworldstats.com)



- Unique issues caused by technology including broadband versus narrow-band, which drive what products and services can be marketed and how. In the narrow-band world, highly graphic and video-based Web sites are not viable. An example is the elaborate photo tours of hotels on www.Marriott.com, which download quickly on broadband connections but take inordinately long on narrow band. Therefore, a site designed for one market can be ineffective in another. Costs to globalize can be enormous if multiple language sites need to be built. For example, translating the 110,000-page Marriott.com Web site is a very costly undertaking, both on a one-time and ongoing basis. Add to that the costs of translating the back-end systems that feed the site, and the costs rise exponentially. For sites with a lot of constantly changing content and heavy dependence on back-end systems, maintaining foreign language sites can be prohibitively expensive.
- Implications of differing labor costs that affect return on investment (ROI). For example, in the United States, the cost of an online booking for Marriott is less than half that of a phone booking. That differential may not apply in many Third World countries, where labor costs are often very low, making it difficult to justify a Web site investment.

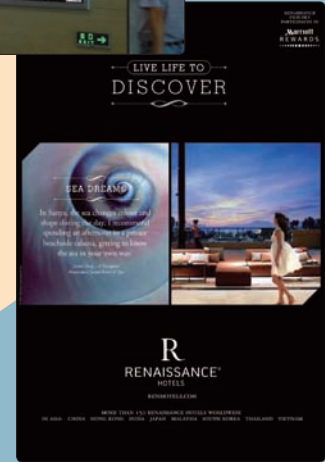
- Different approaches to privacy, access, and infrastructure investment also require changes to strategy by market.
- On privacy. For example, EU laws are much more stringent than U.S. laws; as a result, the e-mail marketing strategy in the European Union is much more cautious than in the United States.
- On access. Some countries regulate access to the Internet. For example, China only allows access to approved sites, whereas the United States does not limit Internet access.



- On infrastructure investment. Some countries have private investment fueling the development of the telecom technology systems required to enable Internet access (e.g., the United States), whereas in other countries, state-owned phone companies have this responsibility. In general, markets that have depended state investment have been laggards in the Internet space.

Apart from all of these issues, one of the most important challenges for companies contemplating a global Internet presence is determining whether they should build "foreign market sites" or "foreign language sites." In an ideal world, with infinite resources, the answer could be to build both. However, that option is rarely possible given resource constraints. This challenge has been a key issue for Marriott International, which has responded in different ways, depending on market situations. In some cases, the company tried one approach before moving to the other. In fact, Marriott's experience in this area is an excellent illustration of the issue.

A good example is the question of using French or English. Should we have a global site in French that caters to all French-speaking customers, no matter which country they live



4-Color Design

New color maps and exhibits allow for improved pedagogy and a clearer presentation of international symbols and cultural meanings in marketing and advertising. In addition, photos that depend on full color for maximum impact easily bring many global examples to life. This visually stimulating combination works together to make the text material reader-friendly and accessible for both instructors and students.

Chapter Openers

A Chapter Outline provides students an at-a-glance overview of chapter topics, while Chapter Learning Objectives summarize the chapter's goals and focus. Each chapter is introduced with a Global Perspective, a real-life example of company experiences that illustrates significant issues discussed in the chapter. Companies featured in the Global Perspective vignettes range from exporters to global enterprises.

Chapter 1



The Scope and Challenge of International Marketing

CHAPTER OUTLINE

Global Perspective: Global Commerce Causes Peace

The Internationalization of U.S. Business

International Marketing Defined

The International Marketing Task

Marketing Decision Factors

Aspects of the Domestic Environment

Aspects of the Foreign Environment

Environmental Adaptation Needed

The Self-Reference Criterion and Ethnocentrism: Major Obstacles

Developing a Global Awareness

Stages of International Marketing Involvement

No Direct Foreign Marketing

Inherent Foreign Marketing

Regular Foreign Marketing

International Marketing

Global Marketing

The Orientation of International Marketing

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 1:

- LO1 The benefits of international markets
- LO2 The changing face of U.S. business
- LO3 The scope of the international marketing task
- LO4 The importance of the self-reference criterion (SRC) in international marketing
- LO5 The increasing importance of global awareness
- LO6 The progression of becoming a global marketer

Global Perspective

GLOBAL COMMERCE CAUSES PEACE

Global commerce thrives during peacetime. The economic boom in North America during the late 1990s was in large part due to the end of the Cold War and the opening of the formerly communist countries to the world trading system. However, we should also understand the important role that trade and international marketing play in producing peace.

Boeing Company, one of America's largest exporters, is perhaps the most prominent example. Although many would argue that Boeing's military sales (aircraft and missiles) do not exactly promote peace, over most of the company's history, that business has constituted only about 20–25 percent of the company's commercial activity. The company still counts customers in more than 150 countries, and its 169,000 employees work in 65 countries! The new 787 Dreamliner was parts from around the world, including Australia, France, India, Italy, Japan, Russia, and Sweden. Its more than 12,000 commercial jets in service worldwide carry about 1 billion travelers per year. Its NASA Services division is the lead contractor in the construction and operation of the 16-country International Space Station, first manned by an American and two Russians in the fall of 2000. The Space and Intelligence Systems Division also produces and launches communications satellites affecting people in every country.

All the activity associated with the development, production, and marketing of commercial aircraft and space vehicles requires millions of people from around the world to work together. Moreover, no company does more to enable people from all countries to meet face-to-face for both recreation and commerce. All this interdependence, not just the mutual gain associated with business relationships but also personal relationships and mutual understanding. The latter are the foundation of global peace and prosperity.

Another group of companies that promotes global dialogue and therefore peace is the mobile phone industry. By 2015, the number of mobile phone subscribers exceeded 7.0 billion. Samsung (South Korea), Nokia (Finland), and Apple (United States) are the market leaders.

Individuals and small companies also make a difference—perhaps a subtler one than large multinational companies, but one just as important in the aggregate. Our favorite example is Daniel Lubetzky's company, PeaceWorks. Mr. Lubetzky used a fellowship at Stanford Law School to study how to foster joint ventures between Arabs and Israelis. Then, following his own advice, he created a company that combined basal pesto from Israel with other raw materials and glass jars supplied by an Arab partner to produce the first product in a line he called Moshe & Ali's Gourmet Foods. The company now sells four different product lines in 15,000 stores in the United States and has its headquarters on Park Avenue in New York, as well as business operations in Israel, Egypt, Indonesia, Turkey, and Sri Lanka. Again, beyond the measurable commercial benefits of cooperation between the involved Arabs, Israelis, and others is the longer-lasting and more fundamental appreciation for one another's circumstances and character.

International marketing is hard work. Making sales calls is no vacation, even in Paris, especially when you've been there 10 times before. But international marketing is important work. It can enrich you, your family, your company, and your country. And ultimately, when international marketing is done well, by large companies or small, the needs and wants of customers in other lands are well developed, and prosperity and peace are promoted along the way!

Sources: For more details, see <http://boeing.com>, <http://apple.com>, <http://peaceworks.com>; Heidi Vogt, "Making Change: Mobile Pay as a Force for Good," *Forbes*, January 2014, p. 6. Cell phone sales data are available at <http://www.statista.com>.

Boeing's 2014 Annual Report (<http://www.boeing.com>).

The European commercial aircraft manufacturer Airbus is beginning to catch up, employing 63,000 people around the world (see Airbus's 2014 Annual Report, <http://www.airbus.com>).

"In response to criticisms of globalization catalyzed by the riots in Seattle in 1999, a growing literature argues for trade as a fundamental cause of peace. For a variety of such arguments, see Jagdish Bhagwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004); Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005); Clifford J. Schatz, H. Timothy J. Burkink, Bruno Garza, and Naitana Renda, "When Policies and Marketing Systems Explain: An Assessment of Food Marketing in the War-Ravaged Balkans and Implications for Recovery, Sustainable Peace, and Prosperity," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 24–37; William Hernandez Requejo and John L. Graham, *Global Negotiation: The New Rules* (New York: Palgrave Macmillan, 2008), Chapter 13; Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (New York: Viking, 2011); *The Capitalist Case for Terrorism*, *Wall Street Journal*, October 10, 2014, online.

Chapter 6



The Political Environment: A CRITICAL CONCERN

CHAPTER OUTLINE

Global Perspective: World Trade Goes Bananas

The Sovereignty of Nations

Stability of Government Policies

Forms of Government

Political Parties

Nationalism

Targeted Fear and/or Animosity

Trade Disputes

Political Risks of Global Business

Confiscation, Expropriation, and Demoralization

Economic Risks

Political Sanctions

Political and Social Activists and Nongovernmental Organizations

Violence, Terrorism, and War

Cyberterrorism and Cybercrime

Assessing Political Vulnerability

Politically Sensitive Products and Issues

Forecasting Political Risk

Lessening Political Vulnerability

Joint Ventures

Expanding the Investment Base

Licensing/Franchising

Planned Domestication

Political Bargaining

Political Payoffs

Government Encouragement

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 6:

- LO1 What the sovereignty of nations means and how it can affect the stability of government policies
- LO2 How different governmental types, political parties, nationalism, targeted fear/animosity, and trade disputes can affect the environment for marketing in foreign countries
- LO3 The political risks of global business and the factors that affect stability
- LO4 The importance of the political system to international marketing and its effect on foreign investments
- LO5 The impact of political and social activists, violence, and terrorism on international business
- LO6 How to assess and reduce the effect of political vulnerability
- LO7 How and why governments encourage foreign investment

Global Perspective

WORLD TRADE GOES BANANAS

Rather than praising Chiquita Bananas, the wrath of politics instead hammered Prosciutto di Parma ham from Italy, handbags from France, and bath oils and soaps from Germany. These and a host of other imported products from Europe were all slapped with a 100 percent import tariff as retaliation by the U.S. government against EU banana-import rules that favored Caribbean bananas over Latin American bananas. Keep in mind that no bananas are exported from the United States, yet the United States has been engaged in a trade war over the past 7 years that has cost numerous small businesses on both sides of the Atlantic millions of dollars. But how can this be, you ask? Politics, that's how!

One small business, Reha Enterprises, for example, sells bath oil, soaps, and other supplies imported from Germany. The tariff on its most popular product, an herbal bath foam, was raised from 5 percent to 100 percent. The customs bill for 6 months spiraled to \$37,783 from just \$1,851—a 1,941 percent tax increase. For a small business whose gross sales are less than \$1 million annually, it was crippling. When the owner of Reha heard of the impending "banana war," he called everyone—his congressperson, his senator, the United States Trade Representative (USTR). When he described his plight to the USTR, an official there expressed amazement. "They were surprised I was still importing," because they thought the tariff would cut off the industry entirely. That was their intention, which of course would have meant killing Reha Enterprises as well.

In effect, he was told it was his fault that he got caught up in the trade war. He should have attended the hearings in Washington, just like Gillette and Mattel, and maybe his products would have been dropped from the targeted list, just as theirs were. Scores of European products, from clothing to silver to glass Christmas ornaments, dolls, and ballpoint pens, that were originally targeted for the retaliatory tariffs escaped the tariff. Aggressive lobbying by large corporations, trade groups, and members of Congress got most of the threatened imported products off the list. The USTR had published a list of the targeted imports in the Federal Register, inviting affected companies to testify. Unfortunately, the Federal Register was not on Reha's owner's reading list. In that case, he was told, he should have hired a lobbyist in Washington to keep him briefed. Good advice—but it doesn't make much sense to a company that grosses less than \$1 million a year. Other advice received from the office of the USTR included the off-the-record suggestion that he might want to change the customs number on the invoice so it would appear that he was importing goods not subject to the tariff, a decision that could, if he were caught, result in a hefty fine or jail. Smaller businesses in Europe faced similar problems as their export business dried up because of the tariffs.

How did this banana war start? The European Union imposed a quota and tariffs that favored imports from former colonies in the Caribbean and Africa, distributed by European firms, over Latin American bananas distributed by U.S. firms. Chiquita Brands International and Dole Food Company, contending that the EU's "illegal trade barriers" were costing \$520 million annually in lost sales to Europe, asked the U.S. government for help. The government agreed that unfair trade barriers were damaging their business, and 100 percent tariffs on selected European imports were levied. Coincidentally, Chiquita Brands' annual political campaign contributions increased from barely over \$40,000 in 1991 to \$1.3 million in 1998.

A settlement was finally reached that involved high tariffs on Latin American bananas and quotas (with no tariffs) on bananas from Europe's former colonies. But the bruising over bananas continued, and not in a straightforward way! In 2007 the issue shifted to banana bending. That is, bananas from Latin America tend to be long and straight, while those from the non-tariff countries are short and bent. Because the latter are not preferred by the shippers or retailers (the bender ones don't stack as neatly and economically), the bananas from the former colonies were still not preferred. And new regulations were adopted by the European Commission that mandated that bananas must be free from "abnormal curvature of the fingers." So the bendy banana producers threatened to renege on the whole agreement. Coca 2007 everyone involved found this prospect very unappealing.

The tale does have a happy ending, though. In 2010, after marathon meetings among all parties in Geneva, the 16-year banana split was finally healed: The European Union cut import tariffs on bananas grown in Latin America by 50 percent. Most recently, there's also an epilogue. Chiquita has now become a Brazilian brand. The U.S. corporation was purchased recently by two South American investors for \$742 million.

Sources: "U.S. Set Import Tariffs in Latest salvo in Ongoing Battle over Banana Trade," *ForeignDirect.com*, March 8, 1999; Timothy Dowd, "Hit by a \$200,000 Bill from the Blue," *Time*, February 7, 2000, p. 54; Geneva Agreement on Trade in Bananas, signed May 15, 2010, <http://www.ec.europa.eu>; "Chiquita's Top Banana," *Two Brazilians Win Bid*, *Associated Press*, October 27, 2014, online.

Crossing Borders Boxes

These invaluable boxes offer anecdotal company examples. These entertaining examples are designed to encourage critical thinking and guide students through topics ranging from ethical to cultural to global issues facing marketers today.

CROSSING BORDERS 13.2

Seeds of Fashion: Eastern vs. Western Counter-Culture Movements and a Look at the Gothic Lolitas of Harajuku, Japan

Where do new ideas come from? Since its origin, the Gothic Lolita subculture of Harajuku has continued to fascinate people around the world. This group is just one example of the counterculture fashion movements that have emerged from the Harajuku district of Japan, each group identified by a specific look that conveys a visual message. Gothic Lolita fashion infuses Victorian-era clothing with elements of Goth and Japanese anime to create a unique form of dress. Adherents take notes from the *Gothic & Lolita Bible* (a quarterly magazine with an estimated circulation of 100,000) and rely on their distinctive appearance to proclaim their subcultural identity. As in other counterculture movements, youths' fantasies of liberation, rebellion, and revolution have become embedded in the cultural mode of a changing nation.

By examining the fashion of the Harajuku, we can gain a more in-depth understanding of group affiliation and construction of self in counterculture movements. Definitive of a counterculture, the Gothic Lolita's in-group behavior and fashion evokes opposition and displays a symbolic rebellion against mainstream Japanese culture. These attitudes are reflected in norm-breaking and attention-grabbing styles.

In the past, youth subcultures generally have emerged from Western society and diffused globally. But the Harajuku subculture began in the East and is moving West, marking a shift in the cultural current. The Harajuku subculture is also an example of the difference between Eastern and Western counterculture movements. Whereas maturity in Western cultures is associated with authority and individuality, in Confucian Japan, maturity is the ability to cooperate with a group, accept compromises, and fulfill obligations to society. Therefore, rebellion in Japanese youth culture means rebellion against adulthood as well. Rather than engaging in sexually provocative or aggressive behaviors to emphasize their maturity and independence, as occurs among Western rebels, Japanese Gothic Lolitas display themselves in a childlike and vulnerable manner to emphasize their immaturity and inability to meet the social responsibilities and obligations of adulthood.

Likely because of this refusal to cooperate with social expectations, mainstream Japan views the subculture as selfish, especially considering its indulgent consumption behaviors. Unlike contemporary Western youth cultures, such as punk and grunge, the Gothic Lolita subculture does not condemn materialism or other aspects of modern consumer culture.



Japanese women in an ad for Angelic Pretty fashions appearing in the *Gothic & Lolita Bible*.

Instead, one outfit (as seen in the accompanying photo) can cost as much as \$300-\$1000! Because personal consumption is regarded as both antisocial and immoral in Japanese society, the subculture opposes normative social values by indulging in the conspicuous consumption.

Most participants (aged 13-30 years) are students or have jobs that require them to wear a uniform every day. On Sundays, they feel they have reached the time they can truly be themselves. Their lifestyle is frowned upon, making it very common to see teenagers carrying bags with their "harajuku outfit" on the train and changing at the park so their parents never see their outfits. Others wear the clothing as their normal daily dress, but the vast majority save it for Sundays, when they congregate at Jingu Bridge and Yoyogi Park to show off their fashions, hang out, and meet others like them. Some go just to have their pictures taken by the subculture's magazine photographers, who search for shots of new trends, or by tourists.

Source: Kristen Schiele, "How Subcultures Regain Control through Reclamation: A Case of Commodification in Japan," working paper, Marjorie School of Business, University of California, Irvine, 2015.

When analyzing a product for a second market, the extent of adaptation required depends on cultural differences in product use and perception between the market the product was originally developed for and the new market. The greater these cultural differences between the two markets, the greater the extent of adaptation that may be necessary.²⁹ Research has also shown that firms with strong organizational identities can

²⁹An excellent new book on this topic is John A. Quelch and Katherine E. Jocz's *All Business is Local* (New York: Portfolio/Penguin, 2012).

PART SIX

Cases 3

ASSESSING GLOBAL MARKET OPPORTUNITIES

OUTLINE OF CASES

- 3-1 International Marketing Research at the Mayo Clinic
- 3-2 Swiffer, Higher, Stronger, Deeper
- 3-3 Marketing to the Bottom of the Pyramid
- 3-4 Continued Growth for Zara and Inditex
- 3-5 A Sea Launch Recovery?

CASE 3-5 A Sea Launch Recovery?

CIRCA 2008

Sea Launch engineers say the three-week round-trip journey across the Pacific Ocean is the most complex part of their job. The crane is the culmination of nearly two months of work preparing the rocket, payload, and launch team for the mission. Prior to operations at Hovore Port, about 18 months go into the planning, flight design, and inspection. "We really don't go to launch until the rocket is over and we're finally ready to launch," said Bill. Experience, mission director for the company's next flight.

More than 300 people take the trip to the company's equatorial launch site about 1,400 miles south of Hawaii. The crew includes workers from several nations, including Ukraine, Russia, Norway, the Philippines, and the United States. Ukrainian-owned Ukrainian and Ukrainian hold the Zvezda 350, India's first and second stages, while Europe's Ariane manufacturers the third, 200-ton, upper stage for the rocket. Norwegian ship outfitting manages marine operations, and Filipinos include work on both the Sea Launch Commander and the Orbiter launch platform. U.S. employees from the Boeing Co. do management roles and provide the flight design payload facility, and another design. Automatic, a contractor, receives processing of customer payloads inside a clean room at the company's Payload Processing Facility at Hovore Port in Long Beach, California.

After 27 months in nine years of business, Sea Launch is thriving in the worldwide commercial launch industry. The company's Zvezda 350 rocket has fulfilled three orbits in their time. They were used in orbit. The rocket's success rate places it among the top tier of heavy-lift launchers on the commercial market, and the company's launch backlog seems to continue that. Sea Launch

is already booking payloads for launch in the future. Next year is sold out, according to company officials.

Sea Launch Three Port is a decommissioned U.S. Navy facility on the tip of a remote peninsula on the Point of Long Beach. The Sea Launch buildings are all left over from the Navy except for the Payload Processing Facility, which the company built in the late 1990s. The company's port is home to two sets of orbital platforms. The Sea Launch Commander carries about 200 people, ranging from rocket technicians and company leaders to clients and helicopter pilots. The Commander houses a state-of-the-art launch control center divided between two sections designed for Ukrainian and Russian engineers and American engineers and managers. The commander rocket assembly and checkout hall is located on the command ship's lower deck and stretches nearly the entire length of the vessel. The facility is capable of supporting non-simultaneous launch campaigns using staging and integration compartments and a firing cell. Client access inside the high bay is through a set of stairs, which also can bypass a gate into the lower integration room floor. The rocket's ground support equipment inside the Sea Launch Commander is centrally distributed in hardware used for Zvezda launches at the Russian Cosmotechnics in Kazakhstan according to Sea Launch officials.

The Sea Launch Commander was specially constructed for Sea Launch at a Scottish shipyard by the Russian state of Cosmotechnics, a leading Norwegian industrial company. Measuring 556 feet long and 200 feet wide, the command ship was built at a cost of about \$400 million of rocket support equipment in Russian before sailing to Long Beach in 1998. The mission ship crew quarters are home to Sea Launch's international employees during their stay in the United States.

The Sea Launch Commander and the Orbiter platform are seen here docked at Hovore Port.

Credit: Chris Miller/SpaceFlight Now

NEW Cases

New cases accompany the seventeenth edition, enlivening the material in the book and class discussions while broadening a student's critical thinking skills. These cases bring forth many of the topics discussed in the chapters and demonstrate how these concepts are dealt with in the real world. These cases can be found in Connect and SmartBook.

A Wealth of Supplements

Global Perspectives

At the beginning of each chapter, Global Perspectives give examples of current company experiences in global marketing. Illustrating chapter concepts, these profiles help students to combine the theory they read about with real-life application.

PART ONE

Global Perspective

GLOBAL COMMERCE CAUSES PEACE

Global commerce thrives during peacetime. The economic boom in North America during the late 1990s was in large part due to the end of the Cold War and the opening of the formerly communist countries to the world trading system. However, we should also understand the important role that trade and international marketing play in producing peace.

Boeing Company, one of America's largest exporters, is perhaps the most prominent example. Although many would argue that Boeing's military sales (aircraft and missiles) do not exactly promote peace, over most of the company's history, that business has constituted only about 20–25 percent of the company's commercial activity. The company still counts customers in more than 150 countries, and its 169,000 employees work in 65 countries.¹ The new 787 Dreamliner uses parts from around the world, including Australia, France, India, Italy, Japan, Russia, and Sweden. Its more than 12,000 commercial jets in service worldwide carry about 1 billion travelers per year. Its NASA Services division is the lead contractor in the construction and operation of the 16-country International Space Station, first manned by an American and two Russians in the fall of 2000. The Space and Intelligence Systems Division also produces and launches communications satellites affecting people in every country.

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Another group of companies that promotes global dialogue and therefore peace is the mobile phone industry. By 2015, the number of mobile phone subscribers exceeded 7.0 billion. Samsung (South Korea), Nokia (Finland), and Apple (United States) are the market leaders.

Individuals and small companies also make a difference—perhaps a subtler one than large multinational companies, but one just as important in the aggregate. Our favorite example is Daniel Labetzky's company, PeaceWorks. Mr. Labetzky used a fellowship at Stanford Law School to study how to foster joint ventures between Arabs and Israelis. Then, following his own advice, he created a company that combined basil pesto from Israel with other raw materials and glass jars supplied by an Arab partner to produce the first product in a line he called Moshe & Ali's Gourmet Foods. The company now sells four different product lines in 15,000 stores in the United States and has its headquarters on Park Avenue in New York, as well as business operations in Israel, Egypt, Indonesia, Turkey, and Sri Lanka. Again, beyond the measurable commercial benefits of cooperation between the involved Arabs, Israelis, and others is the longer-lasting and more fundamental appreciation for one another's circumstances and character.

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Sources: For more details, see <http://boeing.com>, <http://airbus.com>, <http://peaceworks.com>; Heidi Vogt, "Making Change: Mobile Pay in Africa," *The Wall Street Journal*, January 2, 2015, p. B6. Cell phone sales data are available at <http://www.mobileworldwide.com>.

¹Boeing's 2014 Annual Report (<http://www.boeing.com>).

²The European commercial aircraft manufacturer Airbus is beginning to catch up, employing 63,000 people around the world (see Airbus's 2014 Annual Report, <http://www.airbus.com>).

³In response to criticisms of globalization catalyzed by the riots in Seattle in 1999, a growing literature argues for trade as a fundamental cause of peace. For a variety of such arguments, see Jagdish Bhagwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004); Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005); Clifford J. Schultz III, Timothy J. Bartels, Bruno Gebasa, and Natasia Renko, "When Policies and Marketing Systems Explode: An Assessment of Food Marketing in the War-Ravaged Balkans and Implications for Recovery, Sustainable Peace, and Prosperity," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 24–37; William Hernandez Roaigo and John L. Graham, *Global Negotiation: The New Rules* (New York: Palgrave Macmillan, 2008), Chapter 13; Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (New York: Viking, 2011); Hernando de Soto, "The Capitalist Cure for Terrorism," *Wall Street Journal*, October 10, 2014, online.



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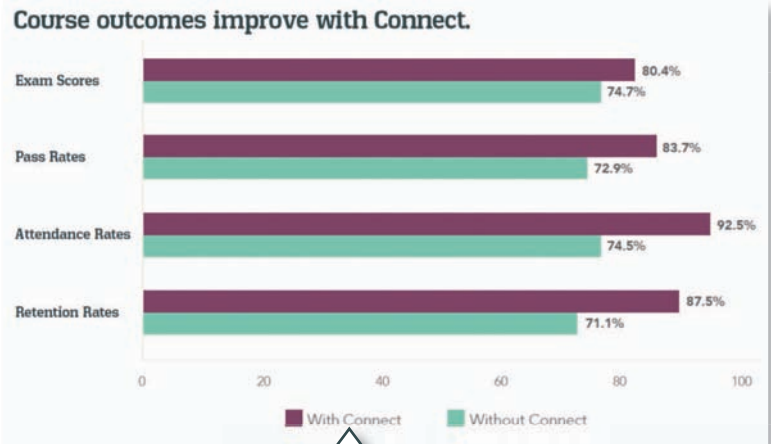
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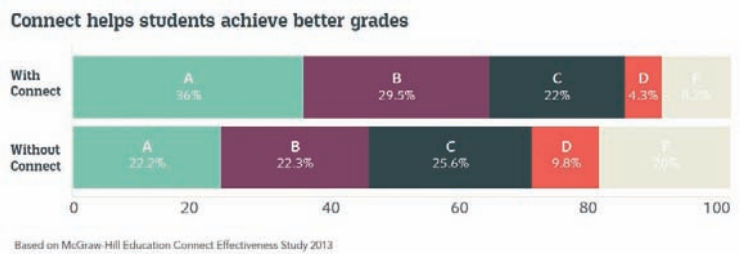
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of *China Now, Doing Business in the World's Most Dynamic Market*, McGraw-Hill, 2007; (with Yoshihiro Sano and James Hodgson, former U.S. Ambassador to Japan) of *Doing Business with the New Japan*, Rowman & Littlefield, 4th edition, 2008; and editor (with Taylor Meloan) of *Global and International Marketing*, Irwin, 2nd edition, 1997. He has published articles in publications such as *Harvard Business Review*, *Journal of Marketing*, *Journal of International Business Studies*, *Strategic Management Review*, *Journal of Consumer Research*, *Journal of International Marketing*, and *Marketing Science*. Excerpts of his work have been read into the *Congressional Record*, and his research on business negotiation styles in 20 cultures was the subject of an article in the January 1988 issue of *Smithsonian*. His 1994 paper in *Management Science* received a citation of excellence from the Lauder Institute at the Wharton School of Business. He was selected for the 2009 International Trade Educator of the Year Award, given by the North American Small Business International Trade Educators' Association.

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PREFACE

At the start of the last millennium, the Chinese were the preeminent international traders. Although a truly global trading system would not evolve until some 500 years later, Chinese silk had been available in Europe since Roman times.

At the start of the last century, the British military, merchants, and manufacturers dominated the seas and international commerce. Literally, the sun did not set on the British Empire.

At the start of this century, the United States had surged past a faltering Japan to retake the lead in global commerce. The American domination of information technology has since been followed by the political upheaval of 9/11 and the economic shocks of 2001 and 2008. China started the 21st century as the largest military threat to the United States, and within a decade it had become a leading, often difficult trading partner.

What surprises do the new decade, century, and millennium hold in store for all of us? In this century, natural disasters and wars hampered commerce and human progress. Just in the last decade, we have witnessed the human tragedy and economic disaster of a 1000-year earthquake and tsunami and a nuclear meltdown in Japan; protests and revolutions—the so-called Arab Spring—across the Middle East and North Africa (MENA); widespread economic protests across the developed countries; and the ongoing potential for a financial meltdown in the European Union. The battle to balance economic growth and stewardship of the environment continues. The globalization of markets has certainly accelerated through almost universal acceptance of the democratic free enterprise model and new communication technologies, including cell phones and the Internet. Which will prove the better, Chinese gradualism or the Russian big-bang approach to economic and political reform? Will the information technology boom of the previous decade be followed by a demographics bust as American baby boomers continue to retire in greater numbers. Or will NAFTA and the young folks in Mexico provide a much needed demographic balance? Ten years out the debate about global warming should be settled—more data and better science will yield the answers. Will the economic tsunami of 2008–2009 evolve into something even worse? So far the recovery in the United States in Europe, and Japan has been both tepid and uneven. China's growth is slowing; will the landing be a hard or soft one? What unforeseen advances or disasters will the biological sciences bring us? Will we conquer AIDS/HIV in Africa? Will weapons and warfare become obsolete?

International marketing will play a key role in providing positive answers to all these questions. We know that trade causes peace and prosperity by promoting creativity, mutual understanding, and interdependence. Markets recently burgeoning in emerging economies in eastern Europe, the Commonwealth of Independent States, China, Indonesia, Korea, India, Mexico, Chile, Brazil, Argentina, and across sub-Saharan Africa have begun sputtering. These emerging economies still hold the promise of huge markets in the future. In the more mature markets of the industrialized world, opportunity and challenge also abound as consumers' tastes become more sophisticated and complex and as the hoped for rebound in purchasing power provides consumers with new means of satisfying new demands.

With the recent downturn in the industrialized countries and the stalled growth in emerging markets has come a new competitive landscape, one vastly different from that earlier period when U.S. multinationals dominated world markets. From the late 1940s through the 1960s, multinational corporations (MNCs) from the United States had little competition; today, companies from almost all the world's nations vie for global markets.

The economic, political, and social changes that have occurred over the last decade have dramatically altered the landscape of global business. Consider the present and future impact of the following:

- The ever-present threat of global terrorism as represented by the September 11, 2001, attacks
- Major armed conflicts in sub-Saharan Africa and the Middle East
- The potential global recession emanating from the United States

- The emerging markets in eastern Europe, Asia, and Latin America, where more than 75 percent of the growth in world trade over the next 20 years is expected to occur
- The reunification of Hong Kong, Macau, and China, which finally puts all of Asia under the control of Asians for the first time in over a century
- The European Monetary Union and the successful switch from local-country currencies to one monetary unit for Europe, the euro, and its apparent fragility
- The rapid move away from traditional distribution structures in Japan, Europe, and many emerging markets
- The shrinking of middle-income households the world over
- The continued struggles of regional market groups such as the European Union (EU), the North American Free Trade Area (NAFTA), the Central American Free Trade Area (CAFTA), ASEAN Free Trade Area (AFTA), the Southern Cone Free Trade Area (Mercosur), and the Asia-Pacific Economic Cooperation (APEC)
- The so far unsuccessful completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the creation of the World Trade Organization (WTO), the latter now including China and Taiwan
- The restructuring, reorganizing, and refocusing of companies in telecommunications, entertainment, and biotechnology, as well as in traditional smokestack industries around the world
- The continuing integration of the Internet and cell phones into all aspects of companies' operations and consumers' lives

These are not simply news reports. These changes affect the practice of business worldwide, and they mean that companies will have to constantly examine the way they do business and remain flexible enough to react rapidly to changing global trends to be competitive.

As global economic growth occurs, understanding marketing in all cultures is increasingly important. *International Marketing* addresses global issues and describes concepts relevant to all international marketers, regardless of the extent of their international involvement. Not all firms engaged in overseas marketing have a global perspective, nor do they need to. Some companies' foreign marketing is limited to one country; others market in a number of countries, treating each as a separate market; and still others, the global enterprises, look for market segments with common needs and wants across political and economic boundaries. All, however, are affected by competitive activity in the global marketplace. It is with this future that the seventeenth edition of *International Marketing* is concerned.

Emphasis is on the strategic implications of competition in different country markets. An environmental/cultural approach to international marketing permits a truly global 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 an approach and framework for identifying and analyzing the important cultural and environmental uniqueness of any nation or global region. Thus, when surveying the tasks of marketing in a foreign milieu, the reader will not overlook the impact of crucial cultural issues.

The text is designed to stimulate curiosity about management practices of companies, large and small, seeking market opportunities outside the home country and to raise the reader's consciousness about the importance of viewing international marketing management strategies from a global perspective.

Although this revised edition is infused throughout with a global orientation, export marketing and the operations of smaller companies are also included. Issues specific to exporting are discussed where strategies applicable to exporting arise, and examples of marketing practices of smaller companies are examined.

New and Expanded Topics in This Edition University students around the country (and the world) are particularly interested in the threats of global climate change, thousands even protesting on the topic. The major improvement in the 17th edition is the strengthened emphasis on how international marketing can help. The new material starts with the cover which demonstrates the use of electricity (that is, energy) around the world. We focus on Europe because that continent has done the best job of reducing their carbon footprint. The image also reflects the high population density in India, the continuing reductions in the polar icecaps, and the brightness of our immense consumption of energy in North America. Seven different chapters include new information on fossil and renewable energy and sustainability.

Other new and expanded topics in this seventeenth edition reflect issues in competition, changing marketing structures, ethics and social responsibility, negotiations, and the development of the manager for the 21st century. Competition is raising the global standards for quality, increasing the demand for advanced technology and innovation, and increasing the value of customer satisfaction. The global market is swiftly changing from a seller's market to a buyer's market. This is a period of profound social, economic, and political change. To remain competitive globally, companies must be aware of all aspects of the emerging global economic order.

Additionally, the evolution of global communications and its known and unknown impacts on how international business is conducted cannot be minimized. In the third millennium, people in the “global village” will grow closer than ever before and will hear and see each other as a matter of course. An executive in Germany can routinely connect via VoIP (Voice over Internet Protocol) to hear and see his or her counterpart in an Australian company or anywhere else in the world. In many respects (time zone differences is a prominent exception), geographic distance is becoming irrelevant.

Telecommunications, the Internet, and satellites are helping companies optimize their planning, production, and procurement processes. Information—and, in its wake, the flow of goods—is moving around the globe at lightning speed. Increasingly powerful networks spanning the globe enable the delivery of services that reach far beyond national and continental boundaries, fueling and fostering international trade. The connections of global communications bring people all around the world together in new and better forms of dialogue and understanding.

This dynamic nature of the international marketplace is reflected in the number of substantially improved and expanded topics in this sixteenth edition, including the following:

- All data, text, pictures, and exhibits have been updated throughout the text. Out-of-date materials have been deleted. More than 100 new academic articles and their findings have been also integrated and cited throughout.
- **Chapter 1** New material on the role of entrepreneurship in international marketing and environmental issues has been added to Chapter 1.
- **Chapter 2** The bumpy road of international marketing is exemplified by new trade talks between America and its Pacific and Atlantic neighbors. Meanwhile the United States and China agree to collaborate on reducing carbon emissions in the midst of a trade dispute over solar panels.
- **Chapter 3** Population growth and emerging economies both put new pressures on the international marketing system with respect to environmental impact. Both challenges and opportunities are created.
- **Chapter 4** This chapter includes a discussion of how culture and language are evolving in the environment of new communication technologies, from thumb typing to emoji.

- **Chapter 5** A new Crossing Borders box about how women's roles are changing in Japan has been added.
- **Chapter 6** Data, text, pictures, and exhibits have been updated. New material on how governments support environmental projects is provided.
- **Chapter 7** We continue the narrative of how technological changes push government policies (taxes, censorship, and cyberterrorism) around the world.
- **Chapter 8** Another scary new story about privacy and data collection is added in a new Crossing Borders box.
- **Chapter 9** The data included on Cuba suggest the international marketing potential now that the half-century embargo by the United States is being lifted.
- **Chapter 10** New emphasis is placed on the political/economic problems of Russia's annexation of Crimea and its ongoing dispute with the Ukraine and the associated trade sanctions imposed by both the EU and the United States.
- **Chapter 11** New Crossing Borders include a discussion of spam (both the meat and Internet sort) and how Asian culture affects the United States (think Gangnam Style). Also, American marketing errors in China are discussed in some detail.
- **Chapter 12** Market entry strategies are discussed for American media producers such as Netflix selling content and services in Europe.
- **Chapter 13** A section further describing how diversity yields innovation is added, and a new section extends the definition of product quality to include public health and safety concerns.
- **Chapter 14** Toyota's revolutionary introduction of hydrogen fuel cell vehicles is discussed along with innovations in the use of wood pellets as carbon neutral fuels in the European Union.
- **Chapter 15** Crossing Borders boxes are added on American-style food trucks in Paris and the importance of shipping container technology. The section on Marriott Internet technology approaches is updated, and a rare error made by Alibaba in China is noted.
- **Chapter 16** The continuing decline of print, the coming decline of TV, and the growing dominance of the Internet are charted. A new Crossing Borders further demonstrates the challenges associated with translation of advertising messages. The distinction between public relations and advertising is illustrated through a marketing mistake made by Samsung in Italy.
- **Chapter 17** New emphasis on the importance of learning foreign languages is presented.
- **Chapter 18** A new Global Perspective provides details about chocolate and sugar price volatility and controls, both affecting the price of Oreos around the world. Also, new data on oil price volatility is presented.
- **Chapter 19** New materials on the topic of inventive international negotiation are included.
- **Three new cases:** (1) Club Med and the Global Consumption of Leisure, (2) Pricing Gillette's New Razor for the Developing World, and (3) Child Labor in IKEA's Global Supply Chain. All the cases will be available within Connect and SmartBook.

Structure of the Text The text is divided into six parts. The first two chapters, Part 1, introduce the reader to the environmental/cultural approach to international marketing and to three international marketing management concepts: domestic market expansion, multidomestic marketing, and global marketing. As companies restructure for the global economic and competitive rigors of the 21st century, so too must tomorrow's managers. The successful manager must

be globally aware and have a frame of reference that goes beyond a country, or even a region, and encompasses the world. What global awareness means and how it is acquired is discussed early in the text; it is at the foundation of global marketing.

Chapter 2 focuses on the dynamic environment of international trade and the competitive challenges and opportunities confronting today's international marketer. The importance of the creation of the World Trade Organization, the successor to GATT, is fully explored. The growing importance of cell phones and the Internet in conducting international business is considered, creating a foundation on which specific applications in subsequent chapters are presented.

The five chapters in Part 2 deal with the cultural environment of global marketing. A global orientation requires the recognition of cultural differences and the critical decision of whether it is necessary to accommodate them.

Geography and history (Chapter 3) are included as important dimensions in understanding cultural and market differences among countries. New emphasis is placed on the concern for the deterioration of the global ecological environment and the multinational company's critical responsibility to protect it.

Chapter 4 presents a broad review of culture and its impact on human behavior as it relates to international marketing. Specific attention is paid to Geert Hofstede's study of cultural values and behavior. The elements of culture reviewed in Chapter 4 set the stage for the in-depth analyses in Chapters 5, 6, and 7 of business customs and the political and legal environments. Ethics and social responsibility are presented in the context of the dilemma that often confronts the international manager, that is, balancing corporate profits against the social and ethical consequences of his or her decisions.

We have organized Part 3 of the book into four chapters on assessing global market opportunities. As markets expand, segments grow within markets; as market segments across country markets evolve, marketers are forced to understand market behavior within and across different cultural contexts. Multicultural research, qualitative and quantitative research, and the Internet as a tool in the research task are explored in Chapter 8.

Separate chapters on economic development and the Americas (Chapter 9); Europe, Africa, and the Middle East (Chapter 10); and the Asia Pacific Region (Chapter 11) reflect the evolving marketing organizations of many multinational companies in response to the costs of travel and communications across time zones, as well as the steady creation and growth of regional market groups in all three regions. The discussions in all three chapters include details about both established and emerging markets present in each region.

The strategic implications of the dissolution of the Soviet Union and the emergence of new independent republics, the shift from socialist-based to market-based economies in Eastern Europe, and the return of South Africa, Cuba, and Vietnam to international commerce are examined. Attention is also given to the efforts of the governments of China and India and many Latin American countries to reduce or eliminate barriers to trade, open their countries to foreign investment, and privatize state-owned enterprises.

These political, social, and economic changes that are sweeping the world are creating new markets and opportunities, making some markets more accessible while creating the potential for greater protectionism in others.

In Part 4, Developing Global Marketing Strategies, planning and organizing for global marketing is the subject of Chapter 12. The discussion of collaborative relationships, including strategic alliances, recognizes the importance of relational collaborations among firms, suppliers, and customers in the success of the global marketer. Many multinational companies realize that to fully capitalize on opportunities offered by global markets, they must have strengths that often exceed their capabilities. Collaborative relationships can provide technology, innovations, productivity, capital, and market access that strengthen a company's competitive position.

Chapters 13 and 14 focus on product and services management, reflecting the differences in strategies between consumer and industrial offerings and the growing importance

in world markets for both consumer and business services. Additionally, the discussion on the development of global offerings stresses the importance of approaching the adaptation issue from the viewpoint of building a standardized product/service platform that can be adapted to reflect cultural differences. The competitive importance in today's global market of quality, innovation, and technology as the keys to marketing success is explored.

Chapter 15 takes the reader through the distribution process, from home country to the consumer in the target country market. The structural impediments to market entry imposed by a country's distribution system are examined in the framework of a detailed presentation of the Japanese distribution system. Additionally, the rapid changes in channel structure that are occurring in Japan, as well as in other countries, and the emergence of the World Wide Web as a distribution channel are presented.

Chapter 16 covers advertising and addresses the promotional element of the international marketing mix. Included in the discussion of global market segmentation are recognition of the rapid growth of market segments across country markets and the importance of market segmentation as a strategic competitive tool in creating an effective promotional message. Chapter 17 discusses personal selling and sales management and the critical nature of training, evaluating, and controlling sales representatives.

Price escalation and ways it can be lessened, countertrade practices, and price strategies to employ when the dollar is strong or weak relative to foreign currencies are concepts presented in Chapter 18.

In Part 5, Chapter 19 is a thorough presentation of negotiating with customers, partners, and regulators. The discussion stresses the varying negotiation styles found among cultures and the importance of recognizing these differences at the negotiation table.

Pedagogical Features of the Text The text portion of the book provides thorough coverage of its subject, with a subject emphasis on the planning and strategic problems confronting companies that market across cultural boundaries.

The use of the Internet as a tool of international marketing is stressed throughout the text. On all occasions in which data used in the text originated from an Internet source, the web address is given. Problems that require the student to access the Internet are included with end-of-chapter questions. Internet-related problems are designed to familiarize the student with the power of the Internet in his or her research, to illustrate data available on the Internet, and to challenge the reader to solve problems using the Internet. Many of the examples, illustrations, and exhibits found in the text can be explored in more detail by accessing the web addresses that are included.

Current, pithy, sometimes humorous, and always relevant examples are used to stimulate interest and increase understanding of the ideas, concepts, and strategies presented in emphasizing the importance of understanding cultural uniqueness and relevant business practices and strategies.

Each chapter is introduced with a Global Perspective, a real-life example of company experiences that illustrates salient issues discussed in the chapter. Companies featured in the Global Perspectives range from exporters to global enterprises.

The boxed Crossing Borders, an innovation of the first edition of *International Marketing*, have always been popular with students. They reflect contemporary issues in international marketing and can be used to illustrate real-life situations and as the basis for class discussion. They are selected to be unique, humorous, and of general interest to the reader.

The book is presented in full color, allowing maps to depict geographical, cultural, and political boundaries and features more easily. Color also allows us to better communicate the intricacies of international symbols and meanings in marketing communications. New

photographs of current and relevant international marketing events are found throughout the text—all in color.

The Country Notebook—A Guide for Developing a Marketing Plan, found in Part 6, Supplementary Material, is a detailed outline that provides both a format for a complete cultural and economic analysis of a country and guidelines for developing a marketing plan.

In addition to The Country Notebook, the seventeenth edition comprises a selection of short and long cases located in Connect. The short cases focus on a single problem, serving as the basis for discussion of a specific concept or issue. The longer, more integrated cases are broader in scope and focus on more than one marketing management problem; new cases focus on services marketing, pricing, and ethics. The cases can be analyzed using the information provided. They also lend themselves to more in-depth analysis, requiring the student to engage in additional research and data collection.

Acknowledgments The success of a text depends on the contributions of many people, especially those who take the time to share their thoughtful criticisms and suggestions to improve the text.

We would especially like to thank the following reviewers who gave us valuable insights into this revision:

Anthony Di Benedetto
Temple University

Stefanie Mayfield-Garcia
University of Central Florida

Richard Nasby
Regis University

Ruth Taylor
Texas State University

We appreciate the help of all the many students and professors who have shared their opinions of past editions, and we welcome their comments and suggestions on this and future editions of *International Marketing*.

A very special thanks to Susan Gouijnstook, Kim Leister, Heather Darr, Elizabeth Schonagen, Jessica Portz, and Kerry Shanahan, whose enthusiasm, creativity, constructive criticisms, and commitment to excellence have made this edition possible.

Philip R. Cateora
Mary C. Gilly
John L. Graham
R. Bruce Money

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International Marketing

Chapter 1

The Scope and Challenge of International Marketing



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The Internationalization of U.S. Business

International Marketing Defined

The International Marketing Task

Marketing Decision Factors

Aspects of the Domestic Environment

Aspects of the Foreign Environment

Environmental Adaptation Needed

The Self-Reference Criterion and Ethnocentrism:
Major Obstacles

Developing a Global Awareness

Stages of International Marketing Involvement

No Direct Foreign Marketing

Infrequent Foreign Marketing

Regular Foreign Marketing

International Marketing

Global Marketing

The Orientation of *International Marketing*

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What you should learn from Chapter 1:

- L01** The benefits of international markets
- L02** The changing face of U.S. business
- L03** The scope of the international marketing task
- L04** The importance of the self-reference criterion (SRC) in international marketing
- L05** The increasing importance of global awareness
- L06** The progression of becoming a global marketer

Global Perspective

GLOBAL COMMERCE CAUSES PEACE

Global commerce thrives during peacetime. The economic boom in North America during the late 1990s was in large part due to the end of the Cold War and the opening of the formerly communist countries to the world trading system. However, we should also understand the important role that trade and international marketing play in producing peace.

Boeing Company, one of America's largest exporters, is perhaps the most prominent example. Although many would argue that Boeing's military sales (aircraft and missiles) do not exactly promote peace, over most of the company's history, that business has constituted only about 20–25 percent of the company's commercial activity. The company still counts customers in more than 150 countries, and its 169,000 employees work in 65 countries.¹ The new 787 Dreamliner uses parts from around the world, including Australia, France, India, Italy, Japan, Russia, and Sweden. Its more than 12,000 commercial jets in service worldwide carry about 1 billion travelers per year. Its NASA Services division is the lead contractor in the construction and operation of the 16-country International Space Station, first manned by an American and two Russians in the fall of 2000. The Space and Intelligence Systems Division also produces and launches communications satellites affecting people in every country.

All the activity associated with the development, production, and marketing of commercial aircraft and space vehicles requires millions of people from around the world to work together. Moreover, no company does more² to enable people from all countries to meet face-to-face for both recreation and commerce. All this interaction yields not just the mutual gain associated with business relationships but also personal relationships and mutual understanding. The latter are the foundation of global peace and prosperity.

Another group of companies that promotes global dialogue and therefore peace is the mobile phone industry. By

2015, the number of mobile phone subscribers exceeded 7.0 billion. Samsung (South Korea), Apple (United States), and Lenovo (China) are the market leaders.

Individuals and small companies also make a difference—perhaps a subtler one than large multinational companies, but one just as important in the aggregate. Our favorite example is Daniel Lubetzky's company, PeaceWorks. Mr. Lubetzky used a fellowship at Stanford Law School to study how to foster joint ventures between Arabs and Israelis. Then, following his own advice, he created a company that combined basil pesto from Israel with other raw materials and glass jars supplied by an Arab partner to produce the first product in a line he called Moshe & Ali's Gourmet Foods. The company now sells four different product lines in 15,000 stores in the United States and has its headquarters on Park Avenue in New York, as well as business operations in Israel, Egypt, Indonesia, Turkey, and Sri Lanka. Again, beyond the measurable commercial benefits of cooperation between the involved Arabs, Israelis, and others is the longer-lasting and more fundamental appreciation for one another's circumstances and character.

International marketing is hard work. Making sales calls is no vacation, even in Paris, especially when you've been there 10 times before. But international marketing is important work. It can enrich you, your family, your company, and your country. And ultimately, when international marketing is done well, by large companies or small, the needs and wants of customers in other lands are well understood, and prosperity and peace are promoted along the way.³

Sources: For more details, see <http://boeing.com>; <http://airbus.com>; <http://peaceworks.com>; Heidi Vogt, "Making Change: Mobile Pay in Africa," *The Wall Street Journal*, January 2, 2015, p. B6. Cell phone sales data are available at <http://www.mobithinking.com>.

¹Boeing's 2014 Annual Report (<http://www.boeing.com>).

²The European commercial aircraft manufacturer Airbus is beginning to catch up, employing 63,000 people around the world (see Airbus's 2014 Annual Report, <http://www.airbus.com>).

³In response to criticisms of globalization catalyzed by the riots in Seattle in 1999, a growing literature argues for trade as a fundamental cause of peace. For a variety of such arguments, see Jagdish Bhabwati, *In Defense of Globalization* (Oxford: Oxford University Press, 2004); Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005); Clifford J. Schultz III, Timothy J. Burkink, Bruno Grbac, and Natasa Renko, "When Policies and Marketing Systems Explode: An Assessment of Food Marketing in the War-Ravaged Balkans and Implications for Recovery, Sustainable Peace, and Prosperity," *Journal of Public Policy & Marketing* 24, no. 1 (2005), pp. 24–37; William Hernandez Requejo and John L. Graham, *Global Negotiation: The New Rules* (New York: Palgrave Macmillan, 2008), Chapter 13; Steven Pinker, *The Better Angels of Our Nature: Why Violence Has Declined* (New York: Viking, 2011); Hernando de Soto, "The Capitalist Cure for Terrorism," *Wall Street Journal*, October 10, 2014, online.)



The relationships between mobile phones and riots is well demonstrated by these two pictures. Mobile devices enable demonstrators to communicate and organize to great effect, even supporting successful revolutions such as those in Egypt in 2009. Particularly valuable are the photographic capabilities now available, which deliver the world as a witness to violence. Pictured on the left is Silicon Valley entrepreneur Micha Benoliel during the 2014 democracy protests in Hong Kong. His start-up, Open Garden, has produced an app branded as FireChat that allows smartphones to talk directly to one another via their embedded Bluetooth and Wi-Fi radios. He happened to be in Hong Kong on a layover between visits to potential customers in India and China. The tech-savvy demonstrators (Hong Kong has the highest concentration of cell phones of any city at 2.39 per person) appreciate the app—it allows them to organize even if the government shuts down cell phone services.⁴ Meanwhile, nobody in the world works harder to keep order than the Chinese authorities in Beijing. The 2012 riot over unavailability of the latest Apple iPhone is, of course, nothing like those in Cairo or Hong Kong, and even might seem a little bit humorous, except that people were injured there as well.

LO1

The benefits of international markets

Never before in American history have U.S. businesses, large and small, been so deeply involved in and affected by international business. A global economic boom, unprecedented in modern economic history, has been under way as the drive for efficiency, productivity, and open, unregulated markets sweeps the world. Powerful economic, technological, industrial, political, and demographic forces are converging to build the foundation of a new global economic order on which the structure of a one-world economic and market system will be built.

When we wrote those words 15 years ago to open the eleventh edition of this book, the world was a very different place. The nation was still mesmerized by the information technology boom of the late 1990s. Most did not visualize the high-tech bust of 2001 or the Enron and WorldCom scandals. No one could have imagined the September 11, 2001 disasters, not even the perpetrators. The wars in Afghanistan and Iraq were not on the horizon. The major international conflict grabbing headlines then was the series of diplomatic dustups among China, Taiwan, and the United States. Who could have predicted the disruptions associated with the 2003 SARS outbreak in Asia? The great Indian Ocean tsunami of 2004 was perhaps impossible to anticipate. Oil priced at more than \$100 per barrel was also unthinkable then—the price seemed to have peaked at about \$40 per barrel in late 2000. Then in 2015, the world price of oil collapsed again to below \$50 per barrel from more than \$100 per barrel a few months earlier. We wrote about the promise of the space program and the international space station, whose future is now clouded by the demise of the space shuttle program and NASA budget cuts.

Through all these major events, American consumers had continued to spend, keeping the world economy afloat. Layoffs at industrial icons such as United Airlines and Boeing and a generally tough job market did not slow the booming American housing market until the fall of 2007. Lower government interest rates had yielded a refinancing stampede, distributing the cash that fueled the consumer spending, which finally began flagging in early 2008. Then in September and October of that year, the housing bubble burst, and the world financial system teetered on collapse. The ever faithful American consumer stopped buying, and world trade

⁴Noam Cohen, “Hong Kong Protests Propel FireChat Phone-to-Phone App,” *New York Times*, October 5, 2014, online; and “It’s Not Over,” *The Economist*, January 2, 2015, pp. 16–17.

experienced its deepest decline in more than 50 years, a drop of 12.0 percent. It had dropped only twice during the previous half century: in 1975 by -3.1 percent after the OPEC oil crisis and in 1992 by -0.3 percent. Then in 2011, the earthquake and tsunami that hit Japan and floods in Thailand caused major trade disruptions. And seeing into the future is harder now than ever. Most experts expect global terrorism to increase, and the carnage in Bali, Madrid, London, and Mumbai seem to prove the point. Finally, as the global economy tries to recover, international trade tensions take on new importance. Competition from new Chinese companies continues to raise concerns in the United States. Brazilian and Indian multinationals are stepping up competitive pressures as well, particularly as their and other emerging economies fared better during the most recent global downturn.⁵ Perhaps the best news in these rather glum times is that we have not experienced a dramatic nationalistic rise of trade protectionism, as in the 1930s. Additionally, the steady growth of the U.S. trade and balance of payments deficits dramatically abated during 2009, along with American consumer spending.

More recently, the turn of the decade brought astonishing surprises in the form of global protests and violence in response to the inequities that marked the financial losses suffered by citizens, both within and across countries. The so-called Arab Spring was ignited by a Tunisian street vendor's self-immolating protest of economic conditions and police harassment. Large-scale protests ensued in 15 countries in North Africa and the Middle East, resulting in the overthrow of autocratic governments in Tunisia, Egypt, and Libya. Along the Mediterranean coast, Greece, Italy, and Spain are feeling the pain of the global recession, creating the potential for a new north-south schism in the European Union. The protests in Greece were particularly violent. Both China and India experienced widespread protests against the heavy hands of governments there. In the United States, the Occupy Wall Street protests were imitated in several other cities around the nation and the world.

The continuing violence in the Middle East has again drawn the United States and an array of allies into the conflicts in Iraq and Syria. No one sees an end to this ongoing tragedy, and many believe outside interventions will make little difference, or just make things worse. The West African ebola debacle transformed from a scare into a real threat for the rest of the world.⁶ The oil and gas boom caused by new discoveries and technologies has

Trade also is easing tensions between Taiwan and China⁷ and among North Korea, its close neighbors, and the United States. Here a rail link between North and South Korea has opened for the first time in nearly 60 years to provide transportation of raw materials and managers from the South, bound for a special economic development zone at Kaesong in the North.⁸



⁵“Counting Their Blessings,” *The Economist*, January 2, 2010, pp. 25–28.

⁶Manny Fernandez and Jack Healy, “CDC Says It Should Have Responded Quicker to Dallas Ebola Case,” *New York Times*, October 15, 2014, p. A19.

⁷Andrew Jacobs, “Ma Ying-jeou Is Re-Elected Taiwan President, a Result that Is Likely to Please China,” *The New York Times*, January 14, 2012.

⁸Bruce Wallace, “2 Trains Cross Korean Border,” *Los Angeles Times*, May 17, 2007, p. A4.



Close neighbors are going in different directions. The European Parliament votes to start discussions with Turkey about joining the European Union. Trade is beginning to bridge the religious divide between Christian Europe and Muslim Asia Minor. Despite this positive vote, European equivocation is pushing Turkey toward building stronger trade links with its Arab neighbors. Ultimately, this may be a positive turn of events if Turkey is finally invited to join the European Union. Meanwhile, as Turkey grows economically, Greek citizens protest austerity measures forced on them by other EU nations. Ultimately Greece's continued membership in the EU is being threatened by its continuing economic malaise.⁹

been a pleasant surprise in the United States. However, environmentalists decry the consequent increases in use of fossil fuels and the dangers of fracking. While the U.S. and U.K. economies are weakly recovering from the 2009 economic earthquake, the rest of the world continues to struggle.

International marketing is affected by and affects all these things. In particular, the costs of risks in the politically and financially unstable North Africa/Middle East region have burgeoned. The potential economic disruptions in the European Union affect the forecasts and prospects for all multinational firms around the world. Even before the 2009 financial crisis, and for the first time in its history, McDonald's had closed its operations in a few Middle Eastern and Latin American countries. Damaged economies, increasing competition, and anti-Americanism have affected sales revenues everywhere. Indeed, the salient lesson for those involved in international commerce is to expect the unexpected. Any executive experienced in international business will verify that things never go as planned in global commerce. You still have to plan and forecast, but markets, particularly international ones, are ultimately unpredictable. The natural fluctuations in markets are best managed through building strong interpersonal and commercial relationships and broad portfolios of businesses. Flexibility means survival.

Perhaps now, more than ever, whether or not a U.S. company wants to participate directly in international business, it cannot escape the effects of the ever-increasing number of North American firms exporting, importing, and manufacturing abroad. Nor can it ignore the number of foreign-based firms operating in U.S. markets, the growth of regional trade areas, the rapid growth of world markets, and the increasing number of competitors for global markets.

⁹“The Euro's Next Crisis, Greece's Election,” *The Economist*, January 3, 2015, p. 10.

Of all the events and trends affecting global business today, four stand out as the most dynamic, the ones that will influence the shape of international business beyond today's "bumpy roads" and far into the future: (1) the rapid growth of the World Trade Organization and new free trade agreements around the world; (2) the trend toward the acceptance of the free market system among developing countries in Latin America, Asia, and eastern Europe; (3) the burgeoning impact of the Internet, mobile phones, and other global media on the dissolution of national borders; and (4) the mandate to manage the resources and global environment properly for the generations to come.

Today most business activities are global in scope. Technology, research, capital investment, and production, as well as marketing, distribution, and communications networks, all have global dimensions. Every business must be prepared to compete in an increasingly interdependent global economic and physical environment, and all businesspeople must be aware of the effects of these trends when managing either a domestic company that exports or a multinational conglomerate. As one international expert noted, every American company is international, at least to the extent that its business performance is conditioned in part by events that occur abroad. Even companies that do not operate in the international arena are affected to some degree by the success of the European Union, the export-led growth in South Korea, the revitalized Mexican economy, the economic changes taking place in China, military conflicts in the Middle East, and climate change.

The challenge of international marketing is to develop strategic plans that are competitive in these intensifying global markets. For a growing number of companies, being international is no longer a luxury but a necessity for economic survival. These and other issues affecting the world economy, trade, markets, and competition are discussed throughout this text.

The Internationalization of U.S. Business

LO2

The changing face of U.S. business

Current interest in international marketing can be explained by changing competitive structures, coupled with shifts in demand characteristics in markets throughout the world. With the increasing globalization of markets, companies find they are unavoidably enmeshed with foreign customers, competitors, and suppliers, even within their own borders. They face competition on all fronts—from domestic firms and from foreign firms. A huge portion of all consumer products—from automobiles to dinnerware—sold in the United States is foreign made. Sony, Norelco, Samsung, Toyota, and Nescafé 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 or headed in that direction. When you drop in at a 7-Eleven convenience store or buy Firestone tires, you are buying directly from Japanese companies. Some well-known brands no longer owned by U.S. companies are Carnation (Swiss), *The Wall Street Journal* (Australian), and the all-American Smith & Wesson handgun that won the U.S. West, which is owned by a British firm. The last U.S.-owned company to manufacture TV sets was Zenith, but even it was acquired by South Korea's LG Electronics Inc., which manufactures Goldstar TVs and other products. Pearle Vision, Universal Studios, and many more are currently owned or controlled by foreign multinational businesses (see Exhibit 1.1). Foreign direct investment in the United States is more than \$3 trillion.¹⁰ Companies from the United Kingdom lead the group of investors, with companies from the Japan, the Netherlands, Canada, and France following, in that order.

Other foreign companies that entered the U.S. market through exporting their products into the United States realized sufficient market share to justify building and buying manufacturing plants in the United States. Honda, BMW, and Mercedes are all manufacturing in the United States. Investments go the other way as well. Ford bought and sold Volvo; PacifiCorp acquired Energy Group, the United Kingdom's largest electricity supplier and second-largest gas distributor; and Wisconsin Central Transportation, a medium-sized U.S. railroad, controls all U.K. rail freight business and runs the Queen's private train via its English, Welsh & Scottish Railway unit. It has also acquired the company that runs rail

¹⁰<http://www.bea.gov>.

Exhibit 1.1

Foreign Acquisitions of U.S. Companies

Sources: Compiled from annual reports of listed firms, 2015.

U.S. Companies/Brands	Foreign Owner
7-Eleven	Japan
Ben & Jerry's (ice cream)	U.K.
Budweiser	Belgium
Chrysler	Italy
Chrysler Building (NYC)	Abu Dhabi
Church's Chicken	Bahrain
CITGO	Venezuela
Columbia Pictures (movies)	Japan
French's Mustard (not France!)	U.K.
Firestone (tires)	Japan
Frigidaire	Sweden
Genentech	Switzerland
Gerber	Switzerland
Holiday Inn	U.K.
Huffy Corp. (bicycles)	China
Oroweat (breads)	Mexico
Random House (publishing)	Germany
RCA (televisions)	France/China
Smith & Wesson (guns)	U.K.
Swift & Company (meatpacking)	Brazil
<i>The Wall Street Journal</i>	Australia
T-Mobile	Germany
Waldorf Astoria Hotel (NYC)	China

shuttles through the Channel Tunnel. Investments by U.S. multinationals abroad are nothing new. Multinationals have been roaming the world en masse since the end of World War II, buying companies and investing in manufacturing plants. What is relatively new for U.S. companies is having their global competitors competing with them in “their” market, the United States. One of the more interesting new entrants is Chivas USA, a Mexican-owned soccer team that plays its matches in Southern California.

Once the private domain of domestic businesses, the vast U.S. market that provided an opportunity for continued growth must now be shared with a variety of foreign companies and products. Companies with only domestic markets have found increasing difficulty in sustaining their customary rates of growth, and many are seeking foreign markets in which

Along with NAFTA have come two of Mexico's most prominent brand names. Gigante, one of Mexico's largest supermarket chains, now has several stores in Southern California, including this one in Anaheim. On store shelves are a variety of Bimbo bakery products. Grupo Bimbo, a growing Mexican multinational, has recently purchased American brand-named firms such as Oroweat, Webers, Sara Lee, and Mrs. Baird's Bread.



CROSSING BORDERS 1.1

Blanca Nieves, La Cenicienta, y Bimbo (Snow White, Cinderella, and Bimbo)

Bimbo is a wonderful brand name. It so well demonstrates the difficulties of marketing across borders. In *Webster's Dictionary* "bimbo" is defined as ". . . a term of disparagement, an attractive, but empty-headed person, a tramp."

Meanwhile, in Spain, Mexico, and other Spanish-speaking countries, the word "bimbo" has no pejorative meaning. Indeed, it is often simply associated with the little white bear logo of Bimbo brand bread. Bimbo is the most popular brand of bread in Mexico and, with the North American Free Trade Agreement (NAFTA), is stretching its corporate arms north and south. For example, the Mexican firm most recently acquired the U.S. brands Sara Lee and Bestfoods; Mrs. Baird's Bread, the most popular local brand in Dallas, Texas; and Fargo, the most popular bread brand in Argentina. And you can now see 18-wheelers pulling truckloads of Bimbo products north on Interstate 5 toward Latino neighborhoods in Southern California and beyond.

Perhaps Bimbo is the reason the city leaders in Anaheim so feared Gigante's entrance into their city. Gigante, the Mexican-owned supermarket chain, features Bimbo buns, tomatillos, cactus pears, and other Latino favorites. Gigante already had three stores in Los Angeles County. But it was denied the city's permission to open a new market near the "Happiest Place on Earth." One has to wonder if Disneyland, Anaheim's biggest employer, may have been fretting over the juxtaposition of the Bimbo brand and its key characters, blonde, little, all-American Alice and her cinema sisters. Actually, a better case can be made that the Gigante-Anaheim imbroglio was more a matter of a mix of nationalism, xenophobia, and even racism. The city council eventually was forced to allow Gigante to open.

American firms have often run into similar problems as they have expanded around the world. Consider French nationalism. French farmers are famous for their protests—throwing lamb chops at their trade ministers and such. Or better yet, Culture Minister Jack Lang's comments about the U.S. Cartoon Network: "We must fight back against this American aggression. It is intolerable that certain North American audiovisual groups shamelessly colonize our countries."

Consider our own fear and loathing of "Japanese colonization" in both the 1920s and the 1980s. This apparent xenophobia turned to racism when Americans stoned Toyotas and Hondas but not Volkswagens and BMWs or when we decried Japanese takeovers of American firms and ignored Germany's gorging on the likes of Bankers Trust, Random House, and Chrysler.

PEMEX's current ban on American investments in the oil and gas industry in Mexico is a good example of nationalism. However, when British Petroleum buying ARCO is no problem, but Mexican cement giant CEMEX buying Houston's Southdown is, that's racism at work.

A cruel irony regarding Gigante's problems in Anaheim is well revealed by a quick drive around Tijuana. During the last few decades, the change in Tijuana's retail facade has been remarkable. In this border town, after NAFTA, McDonald's, Costco, Smart & Final, and other American brands now dominate the signage.

Sources: John L. Graham, "Blanca Nieves, La Cenicienta, y Bimbo," *La Opinion*, February 22, 2002, p. C1 (translated from the Spanish); Culture Minister Jack Lang quoted in Scott Kraft, 'Culture Clash: New Turner Network Is Galling the French', *Los Angeles Times*, September 25, 1993; Clifford Kraus, "New Accents in the U.S. Economy," *The New York Times*, May 2, 2007, pp. C1, C14; "Sara Lee Completes Sale to Bimbo," *Chicago Sun-Times*, November 7, 2011; <http://www.GrupoBimbo.com>, accessed 2015.

to expand. Companies with foreign operations find that foreign earnings are making an important overall contribution to total corporate profits. A four-year Conference Board study of 1,250 U.S. manufacturing companies found that multinationals of all sizes and in all industries outperformed their strictly domestic U.S. counterparts. They grew twice as fast in sales and earned significantly higher returns on equity and assets. Furthermore, U.S. multinationals reduced their manufacturing employment, both at home and abroad, more than domestic companies. Another study indicates that despite the various difficulties associated with internationalization, on average, firm value is increased by global diversification.¹¹ Indeed, at least periodically, profit levels from international ventures exceed those from domestic operations for many multinational firms.

Exhibit 1.2 illustrates how important revenues generated on investments abroad are to U.S. companies. In many cases, foreign sales were greater than U.S. sales, demonstrating the global reach of these American brands. Apple's performance has been most impressive, with total revenues exploding from just \$6 billion in 2003 to \$24 billion in 2007, \$108 billion

¹¹John A. Doukas and Ozgur B. Kan, "Does Global Diversification Destroy Firm Value?" *Journal of International Business Studies* 37 (2006), pp. 352–71.