

INTERNATIONAL Eleventh Edition MARKETING

Czinkota | Ronkainen | Cui



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INTERNATIONAL MARKETING

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To Ilona and Margaret Victoria—MRC
To Susan, Sanna, and Alex—IAR
To Yisong, Aaron, and Ella—APC

PREFACE

Thank you for reading our book! Practicing international marketing and writing a text on the subject have much in common. The focus is on delighting the customer; it is a lot of work, the competition is tough, and it's fun to succeed. It is therefore with great pleasure that we present the eleventh edition of *International Marketing* to you.

In the rapidly changing world of business, only a small portion of textbooks ever see a second edition, much less an eleventh one. Publishers change, markets move in new directions, competitors emerge, and authors adjust their commitments to new life situations. So we are very pleased to have served the international marketing market for 34 years now, which is largely a sign of the continued faith and confidence of our colleagues and students in our work. Thank you for allowing us to shape the field and have a major impact on what people know about international marketing today.

Over the years, we have always made key improvements in our new editions. There has been unprecedented change in the field of international marketing, ranging from reinterpretation of trade rules to redefining collaboration with global players. When domestic economic activities decrease, then international marketing decreases as well, only much more so. Austerity brings changes in production and consumption patterns and introduces new dimensions into the decision-making process. The role of governments is growing by leaps and bounds. They are key entities that dictate the direction and strength of international marketing. Nationalism is on the rise, and global uncertainties abound.

International marketers precipitate social change and provide insight to help society understand the trade-offs and consequences of actions. Business and marketing are looked upon expectantly by nations and their governments. International marketing is often the key option that can deliver major improvements in economic activity.

The challenge is great. Nations around the world attempt to stabilize and revitalize their economies. Mostly, each nation's emphasis rests with domestic issues. But international interventions of one nation are likely to rapidly affect other countries as well. Protectionism, once introduced, can quickly become contagious. Market economies are no longer automatically subscribed to. Key traditional tenets of the marketing discipline, such as risk, profit, competition, and ownership, are being redefined and reassessed.

International marketers develop the knowledge and talents to make economies work. They explain that nations must be willing and able to buy each other's goods if world prosperity is to blossom. They demonstrate that a rising tide can lift all boats, but only if the boat and the sails are in good condition and the crew is prepared and well trained.

Through their understanding of culture and emotions, international marketers can make major strides in creating a better world. When there is disagreement or even sparring, we ask you to apply to international marketing the advice rendered by the great scholar Ludwig von Wittgenstein: "A philosopher who is not taking part in discussions is like a boxer who never goes into the ring."

But international marketing is not an uncontroversial discipline. There is a large historic burden carried by the field of marketing. Marketers like to sell more, but have focused little on their societal impact. Certain marketing strategies have created long-term repercussions on consumers (e.g., obesity due to overconsumption of fast food) and on the chain of consumption. Vampire marketing charges consumers more money as they intensify their product usage. For example, the minibar

in a hotel room late at night becomes your only option to assuage hunger. We have developed the concept of “curative marketing,” which identifies malpractices of the past, avoids them in the future, and makes major efforts to cure the negative effects of the past transgressions. At various places in the book, we highlight the capability of curative marketing to “do better.”

There have been key changes in data collection and use. There is much to be learned for the marketing discipline. However, just like for most things in life: moderation is crucial. By looking at numbers only, some analysts forget that international marketing is a social science applied across borders. In spite of growing quantification, international marketing remains a discipline linked most deeply with people, their emotions, and their behavior. Therefore, even a researcher with a white lab coat, who may prefer to work with numbers only, must pay major attention to human interaction in order to achieve societal benefit. This issue is particularly relevant to international marketing, where variations in contexts, cultures, and behaviors bring out the importance of direct interaction and individual awareness. We must understand the people who contribute to decisions and consider their contextual constraints. Our book takes this guideline as its mission for its analyses and its approach to the future.

The focus on international marketing is rising. We see great increases in student enrollment. In times of slack resources, one can explore new market opportunities, customs, and customers. When economic conditions get better, one can convert that capability into market results and receive a payoff from all the prior work. International marketing is a vital economic stimulus, which makes this eleventh edition of *International Marketing* the best one yet!

We reflect many new dimensions, emotions, and boundaries that affect the discipline. Here are the key features that make this book stand out:

- We paint a broader picture of the implications of adopting or rejecting a market orientation. In doing so, we introduce the concept of curative marketing, which highlights ethical and sustainability issues, discusses the shortcomings of corporate transparency and executive veracity, and develops new alternative explanations and approaches.
- We provide substantial data analyses and international data support. For example, we discuss all economic regions, offering comparative benchmarks not only from the United States, but also from China, Australia, Kenya, and Brazil.
- We cover the full spectrum of international marketing, from start-up operations to the formation of virtual alliances. We offer a thorough discussion of the operations of multinational corporations, and also present a specific focus on the activities of small- and medium-sized firms, which are increasingly major players in the international market.
- We provide a hands-on analysis of the growing interaction between government and business. We have served in government positions and advised international policy marketers. As governments take on an expanding role in business, our orientation greatly enhances the managerial relevance of this book.
- We cover both the theory and the practice of international marketing. Based on our personal research record and business experience, we can offer research insights from around the globe and show how corporations are adjusting to the marketplace realities of today. This way, we enhance the presentation of our material by closely linking concepts with parables, analogies, and similes so that the meaning becomes more obvious to the reader and is better recalled.
- We acknowledge and give clear examples of how the world has changed in an era of terrorism, hostility, and distrust. We look at the marketing repercussions of these changes on people management, sourcing policies, cargo security, inventory management, and port utilization. However, we also draw on our work with corporations to find new forms of collaboration and network building without compromising safety or security. We reflect the use of social media in reaching out to customers, suppliers, and even competitors in order to achieve greater satisfaction and more progress for society.
- We address the concerns of emerging and developing markets throughout the text. We present the issue of underserved markets, with a population of 5 billion, and also explore and suggest how these people and countries need to become greater participants in international marketing efforts.
- Our analysis and presentation is offered from a truly global perspective. By addressing, confronting, and examining the existence of different environments, expectations, and market conditions, we highlight the need for awareness, sensitivity, and adaptation.
- We integrate the impact of the Internet on the international marketer. We discuss the revolutionary changes in communication between firms and their customers and suppliers, and present the latest consequences for international market research and entry.

Personal Support

Most importantly, we fully stand behind our product and we will work hard to delight you. Should you have any questions or comments on this book, you can contact us, talk to us, and receive feedback from us.

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ORGANIZATION

The text is designed primarily for the advanced undergraduate student with prior exposure to the marketing field. Because of its in-depth coverage, it also presents an excellent challenge for graduate instruction and executive education.

The text is divided into four parts. We open with the examination of the international marketing environment, where we examine economic and cultural contexts, shifts brought about by globalization, and key international institutions, regulations, and legal issues. We then examine how to find global customers by first analyzing the global consumer in detail, followed by strategic planning, the juxtaposition of people and markets, market entry activities, and the necessary organization for international marketing. Our third part concentrates on the global marketing mix by presenting the core international adjustments and expansions that have to be built on top of purely domestic considerations. We conclude with a section on leadership in global marketing, where we present the impact of social networks and communications, analyze the meaning of responsibility and sustainability, and highlight new directions and challenges.

KEY FEATURES

This eleventh edition reflects the highly dynamic nature of international marketing. We offer a perspective on the shift in the role of market forces and the impact of this revolution on international marketers in terms of outreach, research, and competition. Our *International Marketplace* vignettes reflect corporate practices. To make it easier for the reader to follow up on information obtained through the book, we have included *Recommended Readings*. These often present resources and links to the websites of companies, data sources, governments, international organizations, and monitors of international marketing issues.

Our focus on the physical environment and geography is strong. Updated maps provide context in terms of social and economic data. An appendix directly addresses the relationship between geography and international marketing. New text components, marketplaces, and cases specifically focus on the environment and the opportunities, challenges, and ambiguities that it poses to international marketers.

We also have emphasized international institutions and their role for the international marketer. The World Bank, the World Trade Organization, the International Monetary Fund, and the United Nations are covered along with the public debate surrounding these institutions.

We broaden our highlights of emerging markets by systematically addressing the bottom of the income pyramid. Our revised strategy section is now linked directly with organization, implementation, and research concerns. We have recast the chapter on market entry and expansion to include a wider variety of ways in which firms go global. All of these strategies are now integrated into one chapter, organized around our model of the internationalization process.

Our appendix on international employment opportunities helps students prepare for the implementation steps they have yet to take.

INNOVATIVE LEARNING TOOLS

Contemporary Realism

Each chapter offers current examples of real-world business situations in *The International Marketplace* boxes. The Challenge Us section at the end of each chapter details complex issues and asks the student questions for discussion. These features allow the reader to develop an appreciation for and an understanding of the linkage between theory and practice. These materials focus on real marketing situations, including the environment and sustainability, and help students absorb the presented materials. The instructor can highlight the boxes to exemplify theory or use them as mini cases for class discussion.

Research Emphasis

An effort has been made to provide current research information and data from around the world. Chapter notes are augmented by lists of relevant recommended readings incorporating the latest research findings. In addition, a wide variety of sources and organizations that provide international information are offered in the text. These materials enable the instructor and the student to go beyond the text when desired.

Internet Focus

The Internet affects all of international marketing. We highlight how the way of reaching customers and suppliers has changed given the new technology. We explain the enhanced ability of firms to position themselves internationally in competition with other larger players. We offer insights into the electronic marketing research process and present details of how companies cope with new market realities. Whenever appropriate, we direct readers to internet resources that can be useful in obtaining up-to-date information.

GEOGRAPHY

This edition contains several maps covering the social, economic, and political features of the world. In addition, several chapters have maps particularly designed for this book, which integrate the materials discussed in the text and reflect a truly global perspective. These maps enable the instructor to visually demonstrate concepts such as socioeconomic variables or exposure to terrorism. An appendix dealing specifically with the impact of geography on international marketing is part of Chapter 1.

CASES

Following each part of the text are a variety of cases. Most of our cases are updated especially for this edition. These cases present students with real business situations and cover international marketing conditions from around the world. All cases address the activities of actual or former companies and cover a broad geographic spectrum. Challenging questions accompany each case, permitting in-depth discussion of the materials covered in the chapters.

ACKNOWLEDGMENTS

We are deeply grateful to professors, friends, and our reading public in general. Most instrumental were Gary Knight, Charles Skuba, and Susan Ronkainen, who have helped us all in major ways. Their work was crucial in refining the text, providing additional research, and further discussion of societal dimensions. Thank you very much!

We are grateful to all the professors, students, and professionals using this book. Your interest demonstrates the need for more knowledge about international marketing. As our market, you are telling us that our product adds value to your lives. As a result, you add value to ours. Thank you!

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Valuable research assistance was provided by our elite student research team. They made important and substantive contributions to this book. They pursued research information with tenacity and relentlessness; they organized and analyzed research materials, prepared drafts of vignettes and cases, and reinforced everyone on the fourth floor of the Hariri Building with their can-do spirit.

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Michael R. Czinkota
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Washington, DC
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Dr. Czinkota served in the U.S. government administrations of Presidents Ronald Reagan and George H. W. Bush. As deputy assistant secretary at the Department of Commerce, he was responsible for trade. He served as head of the U.S. delegation to the OECD Industry Committee in Paris. In the Bureau of Export Administration, he was Senior Advisor for Export Controls.

Dr. Czinkota was a partner in a fur trading firm and in an advertising agency. His academic work has focused on export development strategies and the linkage between terrorism and international business. He is well known for his 25 years of Delphi Method studies, with participation by policy makers, business executives, and researchers from nations around the globe, to forecast international business change. He has written more than 140 articles in leading academic journals on the topics and was named one of the top three contributors to the international business literature by the *Journal of International Business Studies*. In 2019, the Academy of International Business awarded him the Medal for Research Leadership in the past 50 years. The American Marketing Association presented Czinkota with its lifetime achievement award. Due to his academic engagement on terrorism, Dr. Czinkota has worked with the U.S. Department of State and has testified 12 times before Congress.

He has authored 28 books in the fields of business, marketing, and trade. He also wrote three leading college textbooks, *International Marketing*, 11th edition; *International Business*, 9th edition; and *Fundamentals of International Business*, 3rd edition.

Dr. Czinkota served on the Global Advisory Board of the American Marketing Association, the Global Council of the American Management Association, the Board of Governors of the Academy of Marketing Science, and as a member of the American Council on Germany. For his work in international business and trade policy, he has been awarded honorary degrees by the Universidad del Pacífico in Lima, Peru, and the Universidad Pontificia Madre y Maestra in the Dominican Republic. The Universidad Ricardo Palma of Lima named its Global Marketing School after Dr. Czinkota.

He was named a Distinguished Fellow of the Academy of Marketing Science and a Fellow of the Royal Society of Arts in the United Kingdom. Dr. Czinkota serves on several corporate boards and has worked with corporations such as AT&T, IBM, GE, Nestlé, and US WEST. He has advised the Executive Office of the President and the U.S. General Accountability Office on trade policy issues. He also serves as an advisor to the United Nations and the World Trade Organization. Dr. Czinkota was born and raised in Germany and educated in Austria, Scotland, Spain, and the United States. He studied law and business administration at the University of Erlangen-Nürnberg and was awarded a two-year Fulbright Scholarship. He holds an MBA in International Business and a Ph.D. in Logistics from The Ohio State University.

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Dr. Ronkainen has published extensively in both academic journals and the trade press. He is co-author of *International Business* (9th edition) and *International Business* (3rd edition). His trade books include *The International Marketing Imperative* and *Mastering Global Markets*. He serves on the editorial boards of *Journal of Business Research*, *International Marketing Review*, and *Multinational Business Reviews*.

He has received the undergraduate teaching and research award twice, as well as recognition from the International Executive MBA program at Georgetown as the Outstanding Professor of the Year. He is the founder and director of the McDonough School of Business's summer program in Hong Kong.

Dr. Ronkainen holds a doctorate and a master's degree from the University of South Carolina as well as a master's of science (economics) degree from the Helsinki School of Economics. He has served as a consultant to a wide range of U.S. and international institutions. He has worked with entities such as IBM, the Rand Organization, and the Organization of American States. He maintains close relations with a number of Finnish companies and their internationalization and educational efforts.



ANNIE PENG CUI's expertise is in the field of international branding and culture. She is the Kmart Chair of Marketing in the Chambers College of Business and Economics, West Virginia University, where she has served on the faculty since 2008. Dr. Cui is also the Director of Business Honors Program at West Virginia University. She holds a Ph.D. degree in Marketing from Kent State University.

Dr. Cui's research has appeared in top international journals, and she has served on the Editorial Review Board for *Journal of International Marketing* since 2015. Dr. Cui has served on the Global SIG Advisory Board of the American Marketing Association since 2008, and chaired this Advisory Board between 2014 and 2017.

Dr. Cui has taught an innovative Export Management class to EMBA, MBA and undergraduate students for over a decade. This class has helped more than 70 American companies export to over 100 countries. She has been invited to chair export-related training programs at government agencies and universities around the world.

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PART

One

The International Marketing Environment

Part One introduces the international trade framework and environment. It highlights the need for international marketing activities and explores recent developments in world trade and global markets, including an overview of regional and international trade agreements. These chapters are largely devoted to macroenvironmental forces that firms and managers must be aware of when marketing internationally. In order to be successful, the marketer must adapt to the international environment and must be able to resolve conflicts stemming from differences in cultural, economic, political, and legal factors.

- 1 Global Environmental Drivers**
- 2 International Trade Frameworks and Policy**
- 3 The Role of Culture**
- 4 The Economic Environment**
- 5 The Political and Legal Environment**

Cases



Juergen Stumpe/Image Professionals GmbH/Alamy Stock Photo

Global Environmental Drivers

LEARNING OBJECTIVES

By the time you complete this chapter, you will be able to:

- Understand the rationale behind international marketing.
- Appreciate the linkages between international marketing and international trade.
- See the benefits and challenges to which international marketing exposes and is exposed to consumers, suppliers, competitors both at home and abroad.
- recognize the repercussions which the impact international marketing has on other nations and people.

The International Marketplace 1.1

Global Trends Impose New Strategic Marketing Requirements

International marketing experts agree that global business trends are even more important to marketing strategy than they were only a few years ago. Keeping on top of global trends with a focus on long-term profitable growth and competitive advantage will be vital to success. A look at the business plans of top global marketers confirms the importance of emerging markets as drivers of significant growth. For example, population increases and urbanization in large emerging markets are reshaping international marketing strategy. With an eye to the needs of global consumers, Coca-Cola, Danone, and Nestlé increasingly market nutrition rather than just food.

We expect a greater emphasis on the markets provided by second-tier cities, which are large cities not yet in the political or economic spotlight, particularly in China, India, Brazil, and Russia. In China, for example, many cities beyond Beijing, Shanghai, and Guangzhou have millions of increasingly affluent consumers yet are unfamiliar to most Western marketers. Firms will need to expand their distribution and market-entry strategies to these large population centers, thus creating new regional hubs. There must also be collaboration with the public sector to encourage infrastructural investments in these regions.

Smaller firms can also benefit from the globalization of markets by seeking opportunity in niche markets, especially those neglected or abandoned by the large players. As large corporations seek economies of scale and category dominance through billion-dollar global brands, smaller players

may discover important customer needs that have been left underserved. Valuable smaller brands may be jettisoned by the giants. For example, P&G has divested great brands like Pringles, Folgers, and Jif. Of course, smaller players will need to seek efficiencies through strategic alliances and other joint efforts to compete globally. They will also be heavily dependent on industry and government efforts to establish open markets and global technology standards.

Nations, countries, regions, and cities will also pursue niche strategies as they further specialize in the development of industry clusters. Firms will open subsidiaries, R&D centers, and representative offices in order to take advantage of proximity to customers, suppliers, new channels, research providers, and competitors. Governments will seek advantage through clusters and place greater emphasis on the special educational needs of the workforce in those industrial centers.

With more dynamic growth coming from emerging markets, the more developed economies seem destined for slower growth patterns. Inevitably, those who do not participate in economic expansion will become frustrated and seek relief through government remedies. Government has again become, and will remain, an important factor in international marketing. The dangers of an insular focus lurk. Changing times will require strong leadership from the public sector and corporations to avoid the easy, but wrong, answer of protectionism.

SOURCE: Michael R. Czinkota and Charles J. Skuba, "International Business Not as Usual," *Marketing Management*, Summer 2010.

You are about to begin an exciting, important, and necessary task: the exploration of international marketing. International marketing is enticing because it combines the science and the art of business with many other disciplines. Economics, anthropology, cultural studies, geography, history, languages, jurisprudence, statistics, demographics, and many other fields combine to help you explore the global market. Different business environments will stimulate your intellectual curiosity, which will enable you to absorb and understand new phenomena. International marketing has been compared by many who have been active in the field to the task of mountain climbing: challenging, arduous, and exhilarating.

International marketing is important because the world has become globalized and this process on occasion has become quite controversial. Increasingly, we all are living up to the claim of the Greek philosopher Socrates, who stated, "I am a citizen, not of Athens or Greece, but of the world." International marketing takes place all around us every day, has a major effect on our lives, and offers new opportunities and challenges. After reading through this book and observing international marketing phenomena, you will see what happens, understand what happens, and, at some time in the future, perhaps even make it happen. All of this is much better than to stand by and wonder what happened.

International marketing is necessary because, from a national standpoint, economic isolationism has become impossible. Failure to participate in the global marketplace assures a nation of declining economic capability and its citizens of a decrease in their standard of living. Successful international marketing, however, holds the promise of an improved quality of life, a better society, and more efficient business transactions. *The International Marketplace 1.1* not only highlights how global market forces and marketers need to adjust to a changing environment but also clarifies how market forces and marketers are the critical catalysts between individuals, businesses, and society.

This chapter is designed to increase your awareness of what international marketing is about. It describes current levels of world trade activities, projects future developments, and discusses the repercussions on countries, institutions, and individuals worldwide. Both the opportunities and the threats that spring from the global marketplace are highlighted, and the need for an international "marketing" approach on the part of individuals and institutions is emphasized.

While international marketing may provide consumption advantages to consumers, it also opens up markets to competition, which in many instances has been unexpected and is difficult to cope with. As a result, international marketing activities do not favor everyone to the same degree. Just like Janus, the two-faced god of the Romans, international marketing can bring benefits and opportunity to some, while delivering drawbacks and problems to others. International marketers, as well as consumers of international products and services, need to understand how to make globalization work for them as well as to think about how to ensure that these benefits are afforded to a wide variety of people and countries. Therefore, both as an opportunity and a challenge, international marketing, both with its costs and benefits, is of vital concern to countries, companies, and individuals.

This chapter concludes with an explanation of the major organizational thrust of this book, which differentiates in each functional chapter between the beginning internationalist and the global corporation. This theme ties the book together by taking into account the concerns, capabilities, and goals of firms that will differ widely based on their level of international expertise, resources, and involvement. The approach to international marketing taken here will therefore permit you to understand the entire range of international activities and allow you easily to transfer your acquired knowledge into practice.

In today's time even amongst a highly digitized economy, there's often a claim that rapidity of decision making is of foremost importance. However, the authors do not

believe in such a haphazard approach to decision making in international marketing. Rather, they consider steady and focused decision making as critical for long term sound outcomes. Keep this in mind as we together proceed with our learning and analysis regarding international marketing.

International Marketing Defined

The American Marketing Association defines **international marketing** as the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.¹ International marketing has forms ranging from export–import trade to licensing, joint ventures, wholly owned subsidiaries, turnkey operations, and management contracts.

As this definition indicates, international marketing very much retains the basic marketing tenets of *value* and *exchange*. There is also the focus on stakeholders and society whose present positions are to be improved. The fact that a transaction takes place across national borders highlights the difference between domestic and international marketing. The international marketer is subject to a new set of macro-environmental factors, to different constraints, and to quite frequent conflicts resulting from different laws, cultures, and societies. The basic principles of marketing still apply, but their applications, complexity, and intensity may vary substantially. It is in the international marketing field where one can observe most closely the role of marketing as a key agent of societal change and as a key instrument for the development of socially responsive business strategy. When we look, for example, at the economies of China and Russia, we can see the many new challenges confronting international marketing. How does the marketing concept fit into these societies? How can marketing contribute to economic development and the improvement of society? How should distribution systems be organized? How should the price mechanism work? Similarly, in the areas of social responsibility and ethics, the international marketer is faced with a multicultural environment of differing expectations and often inconsistent legal systems when it comes to monitoring environmental pollution, maintaining safe working conditions, copying technology or trademarks, or paying bribes.² In addition, the long-term repercussions of marketing actions need to be understood and evaluated in terms of their societal impact, using not just today's criteria but considering also the long-term perspective of future affected parties. These are just a few of the issues that the international marketer needs to address. The capability to master these challenges successfully affords a company the potential for new opportunities and high rewards. *The International Marketplace 1.2* shows how General Electric (GE) leverages its leadership in environmental business areas to seek new ideas and communicate its international marketing strategy.

The emphasis on stakeholders and society at large indicates the need for the marketer to look beyond narrow self-interest and to understand that there are many parties touched by marketing. Willing or unwilling, they all participate in the outcome of the marketing effort, and their interests must be considered.

International marketing also focuses on the need to create, communicate, and deliver value internationally. These dimensions indicate that marketing internationally is an activity that needs to be pursued, often aggressively. Those who do not participate in the transactions are still exposed to international marketing and subject to its changing influences. The international marketer is part of the exchange and recognizes the constantly changing nature of transactions. This need for adjustment, for comprehending change, and, in spite of it all, for successfully delivering value highlights the fact that international marketing is as much an art as it is a science.

To achieve success in the art of international marketing, it is necessary to be firmly grounded in its scientific aspects. Only then will individual consumers, policymakers, and business executives be able to incorporate international marketing considerations into their thinking and planning. Only

Environment and Sustainability: A Global Challenge for Ideas

Environmental concerns have become a global phenomenon, and marketers see opportunity. Clean energy, water stewardship, and sustainable manufacturing practices have become high priorities for global marketers as customers and governments worldwide have increased their expectations for corporate environmental performance.

Some corporations have chosen not only to implement sustainability programs but also to align their business strategies with the global movement toward sustainability. One such company is GE, which has included its “ecomagination” program as part of its global marketing campaign of “imagination at work.” In the first of two phases of GE’s Ecomagination Challenge, a “Powering the Grid” challenge was conducted in 2010 to invite ideas on how to build the next-generation power grid. Beth Comstock, GE’s chief marketing officer, commented about the first phase: “We ended up with about 4,000 submissions from 150 different

countries. We awarded \$55 million to over 20 different great ideas.”

In the second phase of its Ecomagination Challenge, GE launched a \$200 million “Powering Your Home” challenge in to seek new business ideas. GE invited technologists and entrepreneurs worldwide to submit ideas on how to improve household energy efficiency and to harness wind, solar, hydro, and biomass power. The 856 entrants to the challenge had the opportunity to win cash prizes and to partner with GE to develop their ideas with capital backing from leading venture capital firms. Regarding the second phase, Comstock said: “What we’re hoping is that the world’s great inventors can come up with more of these kind of ideas that we can fund, that we can maybe bring to market, that we can license.” With its Ecomagination Challenge, GE focuses its search for product innovation on global customer needs and highlights it with a global public relations program.



Korea Smart Green City Jeju display model.

SOURCE: “GE and Partners Seek Best Ideas for Eco Home of the Future in Next Phase of \$200 Million ‘Ecomagination Challenge,’” GE press release, www.genewscenter.com/Press-Releases/GE-and-Partners-Seek-Best-Ideas-for-Eco-Home-of-the-Future-in-Next-Phase

-of-200-Million-ecomagination-Challenge-2db8.aspx; and Adam Aston, “What GE Has in Store for Round 2 of the Ecomagination Challenge,” GreenBiz.com, www.greenbiz.com/blog/2011/01/28/what-ge-has-store-round-2-ecomagination-challenge.

then will they be able to consider international issues and repercussions and make decisions based on answers to questions such as the following:

- Where are my current and potential customers?
- Does my market have borders?
- Does international activity increase risk?
- What marketing adjustments are or will be necessary?
- What threats from global competition should I expect?
- How do innovation and entrepreneurship change the global marketplace?
- What are my strategic global alternatives?
- how can international marketing improve the global standard of living and contribute to improving life's pleasures?

If all these issues are integrated into each decision made by individuals and by firms, international markets can become a source of growth, profit, needs satisfaction, and quality of life that would not have existed for them had they limited themselves to domestic activities. The purpose of this book is to aid in this decision process.

The Importance of World Trade

World trade has assumed an importance heretofore unknown to the global community. In past centuries, trade was conducted internationally, but never before did it have the broad and simultaneous impact on nations, firms, and individuals both positive and negative that it has today.

- As of 2020, world trade suffered.. suffered a slowdown in both merchandise (down 3 percent from 2018) and recorded services before suffering from a sharp reduction with the emergence of the coronavirus pandemic.
- Experts estimate that world trade is likely to continue its decline. Some of this reduction in global trade retains its relative importance for nations, companies, and consumers.³
- Global growth of trade has typically out-performed the growth of domestic economies in the past few decades. However, as Exhibit 1.1 shows, forecasts vary substantially for the next few years.

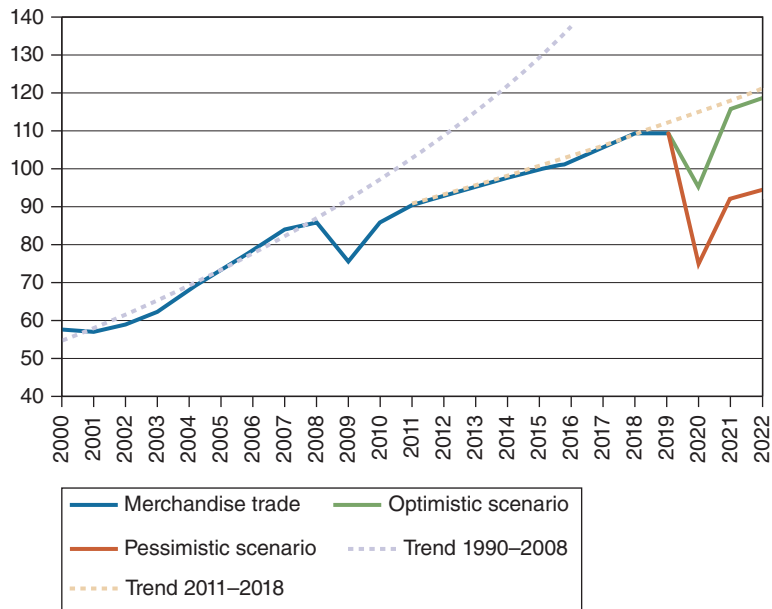


Arni Saeberg/Bloomberg/Getty Images

Ash plume from Eyjafjallajokull Volcano.

The Iron Curtain has disintegrated and newly emerging economies have liberalized their economic systems, bringing billions of new consumers into the global economic system and offering a vast array of new marketing opportunities—albeit amid uncertainty. Firms invest on a global scale, with the result that entire industries shift their locations. International specialization and cross-sourcing have made production much more efficient. New technologies have changed the way we do business, allowing us to both supply and receive products from across the world by using the Internet. As a result, consumers, union leaders, policymakers, and sometimes even the firms themselves are finding it increasingly difficult to define where a particular product has been made. There are trading blocs such as the European Union in Europe, CUSMA

Exhibit 1.1 Volume of World Merchandise Exports, 2000–2022



SOURCE: WTO Secretariat, www.wto.org/english/news_e/pres11_e/pr628_e.htm.

in North America, MERCOSUR in Latin America, and ASEAN in Asia. These blocs encourage trade relations among their members, but, through their rules and standards, they also affect the trade and investment flows of non-member countries.

Individuals and firms have come to recognize that they are competing not only domestically but also globally. World trade has given rise to global linkages of markets, technology, and living standards that were previously unknown and unanticipated. At the same time, it has deeply affected domestic policymaking and has often resulted in the emergence of totally new opportunities as well as threats to firms and individuals. *The International Marketplace* 1.3 provides an example. (Interdependence rightfully reflects mutual dependence as well.) World trade has forged a network of **global linkages** that bind us all—countries, institutions, and individuals—much more closely than ever before.

The International Marketplace 1.3

New Sources for Outsourcing

Since the 1980s, corporations in developed nations have been sending entire business functions and management roles to developing countries. Companies have been outsourcing by using efficient call centers for information technology and technical and software support. Multinational companies cut costs while developing countries benefit from an upsurge in jobs and income. Outsourcing of business processes (BPO), information technology (ITO), and infrastructure management services allow firms to remain focused on their core business capabilities but access innovative best practices and technologies in noncore areas by delegating to outsourcing specialists.

During the financial crisis of 2008 and 2009, there was significant concern that the global outsourcing business would suffer. A 2021 report by Grand View Research indicated that those concerns had been misplaced. The research indicated that the global business process outsourcing market size was valued at USD \$232.32 billion in 2020, which is expected to experience annual growth rate of 8.5% from 2021 to 2028.

However, the shape and geography of the sourcing industry continues to evolve. In its 2011 survey of the world's offshore outsourcing market, Morrison & Foerster reported that outsourcing to China is increasing relative to India and was

“boosted by the Chinese government’s announcement of generous tax incentives to outsourcing service providers in China’s most important cities.” The survey showed that outsourcing to China was principally in the area of information technology but that there was growth as well in areas such as R&D and film animation.

The annual *A.T. Kearney Global Services Location Index 2021* found that Asian countries were the top locations for offshoring of services, with India, China, Malaysia, Indonesia, Thailand, Vietnam, and the Philippines ranked among the top 10 locations.

“India, with its first-mover advantage and deep skill base, still maintains the lion’s share of the IT services market” and “is the all-around stand-out, able to provide manpower for any type of offshoring activity.” A.T. Kearney reported that “China has ‘high degrees of labor skill and corporate output—both of which buoy the nation’s digital-resonance score’” and that China’s “is ‘establishing larger tech nodes in such regions as the Southern Pearl River Delta.’”

SOURCE: <https://www.grandviewresearch.com/industry-analysis/business-process-outsourcing-bpo-market>. Morrison & Foerster Global Sourcing Group, January 2011; and <https://www.kenney.com/digital/article/?a/the-2021-kenney-global-services-location-index>.

These linkages were first widely recognized during the worldwide oil crisis of 1970, but they continue to increase, as was demonstrated dramatically in the financial crisis that was triggered in 2007.

U.S. subsidies for ethanol production from corn affect prices for other agricultural crops and livestock in the far reaches of the world. European and American business executives learned how to pronounce *Eyjaflajajokull* in 2010 as plumes of ash from that Icelandic volcano closed airports and stranded air travelers in many European cities. They received another Icelandic language lesson in 2011 when the Grimsvotn volcano erupted, although with a lesser aviation effect. Grimsvotn caused then-President Obama to cut short his visit to Ireland to avoid potential flight problems. The March 2011 earthquake and tsunami off the northeastern coast of Japan caused massive casualties and destroyed or damaged much of the regional Japanese port and highway infrastructure. This also caused a series of disasters at the Fukushima Daiichi nuclear plant that led to a level 7 “major accident” on the International Nuclear and Radiological Event Scale. This resulted in worldwide disruptions in manufacturing and trade with automotive plant closures or production cutbacks in Japan, the United States, Europe, and other parts of the world. The “just-in-time” supply chains of the automotive, semiconductor, smartphone, digital camera, and personal computer industries were immediately placed in peril around the world.

These linkages have also become more intense on an individual level. Communication has built new international bridges, be it through music or international programs transmitted by CNN, BBC, Al Arabiya, Al Jazeera, and social media. All this has encouraged similar activities around the world—where many of us wear jeans, dance to the same music on our iPods, and eat kebabs, curry, and sushi. Transportation linkages let individuals from different countries see and meet each other with unprecedented ease. Common cultural pressures result in similar social phenomena and behavior—for example, more dual-income families are emerging around the world, which leads to more frequent, but also more stressful, shopping.

World trade is also bringing about a global reorientation of corporate processes, which opens up entirely new horizons. Never before has it been so easy to gather, manipulate, analyze, and disseminate information—but never before has the pressure been so great to do so. Ongoing global technological innovation in marketing has direct effects on the efficiency and effectiveness of all business activities. Products can be produced more quickly, obtained less expensively from sources around the world, distributed at lower cost, and customized to meet diverse clients’ needs. As an example, it would have been thought impossible for a firm to produce parts for a car in more than one country, assemble the car in yet another country, and sell it in still other nations. Today, such global investment strategies, coupled with production and distribution sharing, are becoming a matter of routine. Of course, these changes increase the level of global competition, which in turn increases the challenge of staying in a leadership position.

Advances in technology also allow firms to separate their activities by content and context. Firms can operate in a “market space” rather than a marketplace by keeping the content while changing the context of a transaction. For example, a newspaper can be distributed online globally rather than house-to-house on paper, thereby allowing outreach to entirely new customer groups.

The level of global investment is at an unprecedented high. The shifts in financial flows have had major effects. They have resulted in the buildup of international debt by governments, affected the international value of currencies, provided foreign capital for firms, and triggered major foreign direct-investment activities. Societies can grow concerned about these shifts. For example, in the United States, the PATRIOT Act defines critical infrastructure as systems and assets so vital that any breakdown in them “would have a debilitating impact on security, national economic security, national public health, or safety.” A national strategy was developed for the protection of critical infrastructure in 11 sectors: agriculture and food, water, public health, emergency services, defense industrial bases, telecommunications, energy, transportation, banking and finance, chemical industry and hazardous material, and postal services and shipping. The “key assets” identified are national monuments and icons, nuclear power plants, dams, government facilities, and commercial key assets.⁴ The fact that there is increasing foreign investment in such key assets indicates that nations, firms, and people grow more and more dependent on one another.

This interdependence, however, is not stable. For the first 200 years of its history, the United States looked to Europe for markets and sources of supply. Today, U.S. two-way trade with Asia far outpaces U.S. trade with Europe. Africa may rise in importance due to its natural resources. The participants in international marketing also are changing their roles. For example, the International Monetary Fund (IMF) was founded in 1944 to help restructure impoverished economies. More recently, however, the fund has been assisting nations that used to be categorized as “wealthy,” such as Iceland, and member states of the European Union, such as Greece. It appears to become increasingly difficult to differentiate between “rich” and “poor.” For example, based on its foreign currency reserves of \$3.2 trillion, China easily qualifies for the upper echelons of the wealthy countries.⁵ However, the nation’s GDP per capita would still let it be classified as a developing nation.

Not only is the environment changing, but the pace of change is accelerating as well. Atari’s Pong was first introduced in the early 1980s; today, action games and movies are made with computerized humans. The first office computers emerged in the mid-1980s; today, tablet computers have become commonplace. E-mail was introduced to a mass market only in the 1990s; today, many college students hardly ever send personal notes using a stamp and envelope and are more likely to communicate with each other via texting than e-mail.⁶

These changes and the speed with which they come about significantly affect countries, corporations, and individuals. One change is the role participants play. For example, the United States accounted for nearly 25 percent of world merchandise exports in the 1950s, but by 2010 this share had declined by two-thirds. Also, the way countries participate in world trade is shifting. As Exhibit 1.2 shows, since 2005 trade by developing nations has grown far more quickly than that of developed nations.⁷

Of course, one needs to consider the base from which this growth has taken place. Here the European Union, China, and the United States are the consistent leaders. Also, in the past two decades, the role of primary commodities in international trade has dropped precipitously, while the importance of manufactured goods and services has increased. Most important, the growth in the overall volume and value of both merchandise and services trade has had a major impact on firms, countries, and individuals.

Domestic Policy Repercussions

The effects of closer global linkages on the economics of countries have been dramatic. Policymakers have increasingly come to recognize that it is very difficult to isolate domestic economic activity from international market events. Decisions that once were clearly in the domestic purview have now become subject to revision by influences from abroad, and domestic policy measures are often canceled out or counteracted by the activities of global market forces.

A lowering of interest rates domestically may make consumers happy or may be politically wise but can quickly lead to major imbalances if it results in a large outflow of funds to countries that offer higher interest rates. The amounts involved are significant.

As of June 2020 the U.S. Federal Reserve had supported \$2.3 trillion in lending to affected households, employers, financial markets, and state and local governments.⁸ The European Central Bank, during the same time, had provided 750 billion euro to its economy.