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# Tapping into Global Markets

## Marketing Management:

An Asian Perspective  
(5<sup>th</sup> edition)

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## Tapping into Global Markets

# 21

With faster communication, transportation, and financial flows, the world is rapidly shrinking. Products developed in one country—Louis Vuitton purses, Mont Blanc pens, McDonald's hamburgers, Japanese sushi, Chanel suits, German BMWs—are finding enthusiastic acceptance in others. An Indonesian businessman may wear an Armani suit to meet a Hong Kong friend at a Thai restaurant, who later drives home in a car made in India to drink Japanese tea and watch an American sitcom on a Korean TV. Consider the international success of Nokia.



# Learning Objectives:

1. What factors should a company review before deciding to go abroad?
2. How can companies evaluate & select specific foreign markets to enter?
3. What are the major ways of entering a foreign market?
4. To what extent must the company adapt its products & marketing program to each foreign country?
5. How should the company manage & organize its international activities?

# Competing on a Global Basis

- **Global industry**
  - Strategic positions of competitors in major markets affected by global positions
- **Global firm**
  - Operates > one country
  - Advantages (*eg R&D, production*) in costs & reputation *not available to domestic competitors*

# Competing on a Global Basis

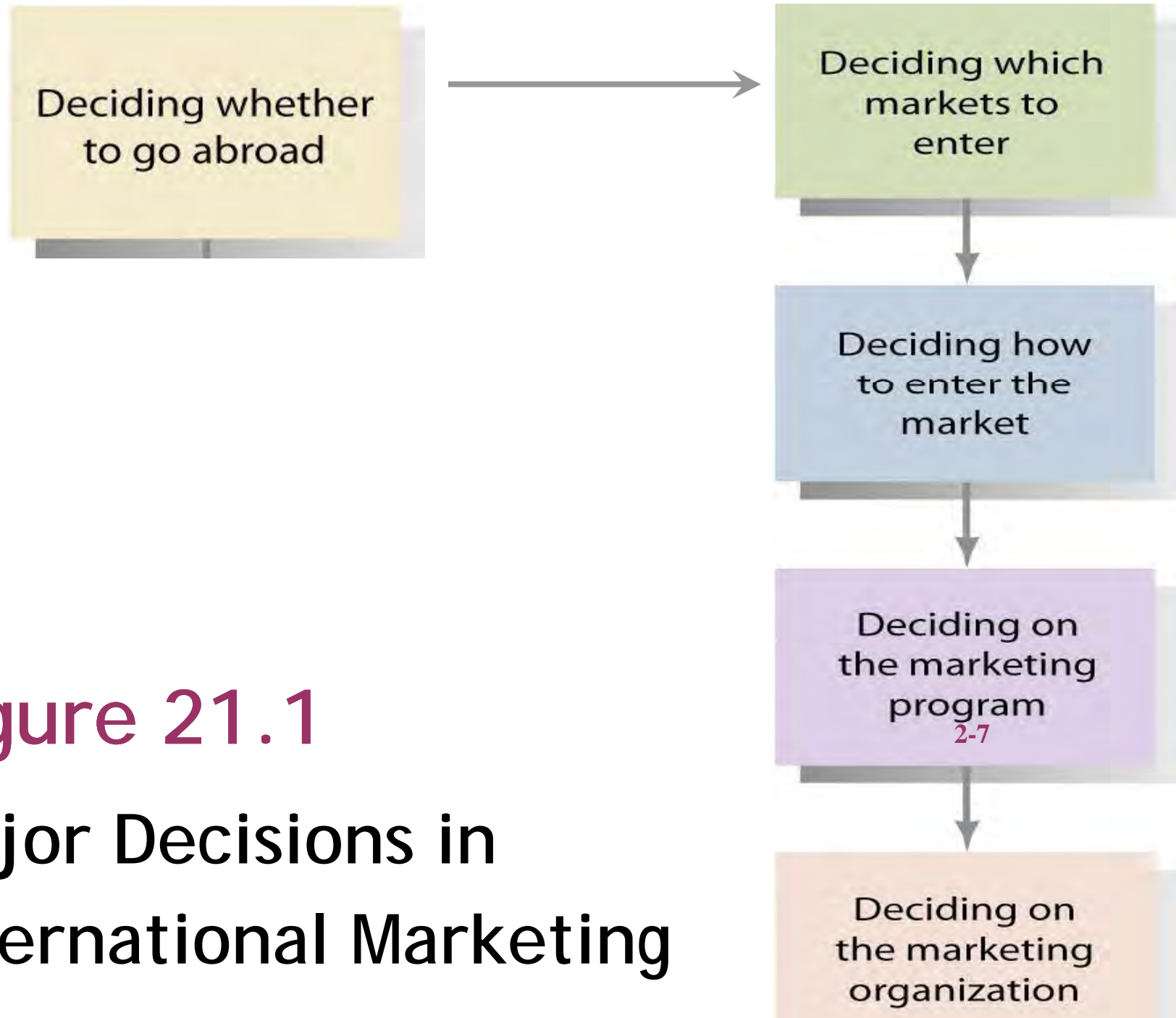
- Firm need not be large to sell globally
- Small/medium firms can practice global nichemanship

## *Competing on a Global Basis*



Besides *Chinese* sauces,  
Lee Kum Kee  
also sells *Malay* sauces such as  
*Satay Stir-fry* Sauce

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**Figure 21.1**

## Major Decisions in International Marketing

# Deciding Whether to Go Abroad

*Why companies drawn into international arena:*

1. Foreign markets - opportunities
2. Larger customer base - economies of scale
3. Reduce dependence on one market
4. Counterattack competitors - their markets
5. Customers go abroad - global service
6. Enhance home image
7. Emerging market buyers - prefer local brands - made inroads in global markets
8. Acquire foreign expertise & technology

# Deciding Whether to Go Abroad

- Risks of going abroad:
  - 1) Foreign preferences, not understood
  - 2) Business culture – lack knowledge
  - 3) Foreign regulations - unexpected costs
  - 4) Lacks managers - international experience
  - 5) Foreign country - expropriate foreign property
    - i. Change commercial laws
    - ii. Devalue currency
    - iii. Political revolution
  - 6) Foreign competitors

# Deciding Whether to Go Abroad

- Few firms participate in global trade
- Lack foreign exchange earning to pay for needed imports
- Domestic firms hurt/taken over by foreign multinationals
- Sponsor export-promotion programs to get firms to export

# Deciding Whether to Go Abroad

*Internationalization process* has 4 stages

- 1) No regular export activities
- 2) Export via independent agents
- 3) Establish  $\geq 1$  sales subsidiaries
- 4) Establish production facilities abroad

# Deciding Which Markets to Enter

## - *How Many Markets to Enter*

How many countries & how fast to expand?

- 2 approaches to entry strategy:
  1. *Waterfall* approach: slowly enter sequentially
  2. *Sprinkler* approach: countries entered simultaneously in a period
- Technology-intensive firms - *born global*

# Deciding Which Markets to Enter

*- How Many Markets to Enter*

## Types of countries to consider?

- Product
- Geography
- Income
- Population
- Political climate

# Deciding Which Markets to Enter

## *- Developed Versus Developing Market*

- Unmet needs of emerging world - huge potential
- Capitalize on that - HOW?
  - Change usual marketing practices
  - Smaller packaging & lower prices
- Local competition stiff- global marketer
- Domestic success encourage overseas expansion

- Strategies 4 types of EMCs adopt:
  - 1) *Dodger* - assets work only at home - dodges competition - restructure assets
  - 2) *Defender* - defensible local assets - barriers to international entry
  - 3) *Extender* - local market defended & extend to similar markets - leverage assets
  - 4) *Contender* - competes in international markets - upgrade capabilities & resources to match MNCs

# Deciding Which Markets to Enter

## *- Regional Free Trade Zones*

- Regional economic integration - trading agreements between blocs of countries
- Free trade zone or economic community
  - Groups of nations organized
  - Common goals in regulation of international trade

# Deciding Which Markets to Enter

## *- Regional Free Trade Zones*

- 1) The Asian Pacific Economic Cooperation (APEC)
- 2) The European Union (EU)
- 3) The North American Free Trade Agreement (NAFTA)
- 4) The Latin American Free Trade Area (MERCOSUL)

# Deciding Which Markets to Enter

## *- Regional Free Trade Zones*

- **APEC** - 21 Pacific Rim countries  
Pan-Pacific free trade area
  - Regional economic integration in Caribbean, Southeast Asia & parts of Africa
- **EU** - 25 countries, > 454 million consumers - 23% world's exports
  - Common currency - the euro
  - Threats - EU firms grow big & competitive
  - EU - not homogenous market

# Deciding Which Markets to Enter

## *- Regional Free Trade Zones*

- NAFTA - the U.S., Canada & Mexico - 360 million people- \$6.7 million yearly
- MERCOSUL - Brazil, Argentina, Paraguay, Uruguay, Chile & Mexico
- May merge with NAFTA to form an all-Americas free trade area

# Deciding Which Markets to Enter

## - *Evaluating Free Trade Zones*

- Each nation - unique features

- Readiness & attractiveness depend on:

1. *Economic*
2. *Political-legal*
3. *Cultural environments*

- Companies use:

1. Physical proximity - neighboring countries
2. *Psychic proximity*<sup>2-20</sup>

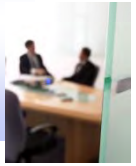
# Deciding Which Markets to Enter

## *- Evaluating Free Trade Zones*

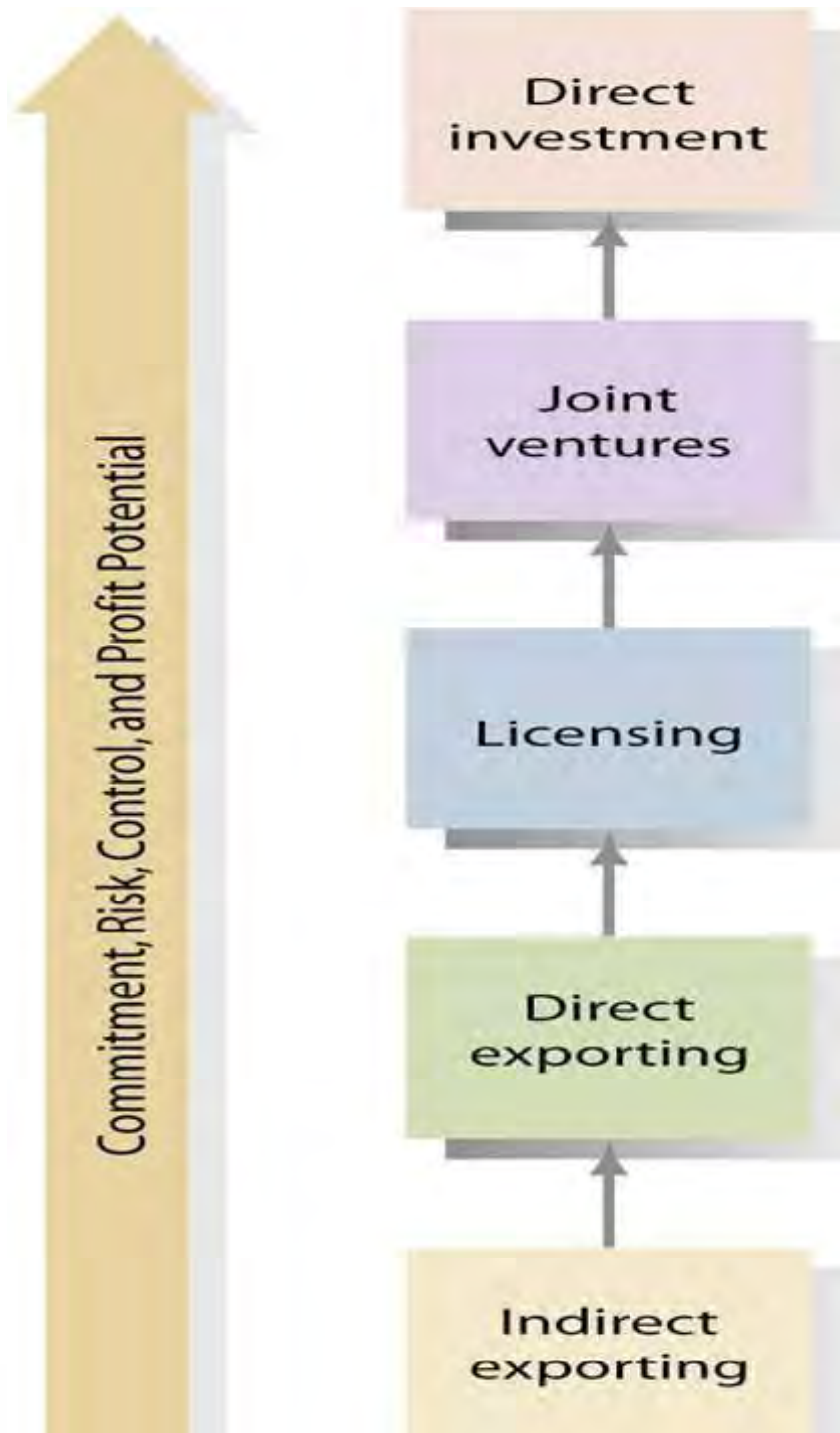
- Careful - markets - use cultural distance
- Prefers to enter countries
  - Rank high on market attractiveness
  - Low in market risk
  - Competitive advantage
- Earn enough to cover risk factors or negatives

# Deciding How to Enter the Market

## - *Indirect & Direct Export*



- Mode of entry
  1. *Indirect exporting*
  2. *Direct exporting*
  3. *Licensing*
  4. *Joint ventures*
  5. *Direct investment*



Each succeeding strategy  
- more commitment, risk,  
control & profit potential

**Figure 21.2** Five  
2-23  
Modes of Entry into  
Foreign Markets

# Deciding How to Enter the Market

## - *Indirect & Direct Export*

- *Occasional exporting*
  - Passive, time to time
- *Active exporting*
  - Commit, expand to market

# Deciding How to Enter the Market

## *- Indirect & Direct Export*

- Indirect export has **2** advantages:
  1. Less investment
    - Need not develop export department, overseas sales or global contacts
  2. Less risk
    - International-marketing intermediaries bring know-how, seller - fewer mistakes

# Deciding How to Enter the Market

## *- Indirect & Direct Export*

- **Ways to export directly:**
  1. *Domestic-based export department or division*
  2. *Overseas sales branch or subsidiary*
  3. *Traveling export sales representatives*
  4. *Foreign-based distributors or agents*

# Deciding How to Enter the Market

## *- Using a Global Web Strategy*

- Internet reach worldwide markets
- Sites: country-specific content, local language
- Internet used to:
  - Free exporting data
  - Conduct market research
  - Distant customers secure process - order & pay for products

# Deciding How to Enter the Market

## *- Using a Global Web Strategy*

### “Going abroad” on Internet - *challenges*:

- Governmental or cultural restrictions
  - *Eg: China & Japan, credit card usage - low*
  - *Adaptations - Internet transactions*
  - *Cash-on-delivery services*
  - *3rd party - pays for goods first*
  - *& purchaser pays 3rd party upon collection*

# Deciding How to Enter the Market

## - *Licensing*

For fee/royalty, Licensor licenses to firm:

- Manufacturing process
  - Trademark
  - Patent, trade secret etc
- Licensor gains entry at little risk
  - Licensee gains production expertise or well-known product/brand name

# Deciding How to Enter the Market

## - *Licensing*

### Disadvantages:

- Less control over licensee than own facilities
- If licensee successful, firm given up profits
- When contract ends, firm created competitor

### To avoid this:

- Supply licensee proprietary components needed in product (*eg Coca-Cola*)
- Licensor to lead in innovation

# Deciding How to Enter the Market

## - *Licensing*

### Licensing not entry strategy in Asia WHY?

1. Local producers cannot absorb & apply advanced technologies
  2. Poor legal protection for foreign intellectual property
- But now - education & skill levels rise
  - Licensing more viable strategy

# Deciding How to Enter the Market

## - *Licensing*

### Variations on licensing arrangement:

- *Management contracts*
- *Contract manufacturing*
- *Franchising*
  - Franchiser offers complete brand concept & operating system
  - Franchisee invests & pays fees

# Deciding How to Enter the Market

## - *Licensing*

### *Top 5 franchisor gripes with franchisees:*

1. Do not join in marketing promotions
2. Do not follow chain's business policies
3. Do not accept chain's product prices
4. Want more area than can handle
5. Do not repay loans

# Deciding How to Enter the Market

## - *Licensing*

### Top 5 franchisee complaints on franchisor

1. Too little marketing support
2. Products - unsatisfactory quality
3. Store sales < expectations
4. Excessive restrictions on items sold
5. Charge too much for goods sold in store

# Deciding How to Enter the Market

## - *Joint Ventures*

- **Joint venture**
  - Foreign investors join local investors
  - Share ownership & control
- **Economic or political reasons**
  - Foreign firm -lack resources
  - Foreign government require joint ownership
- **Asian firms - joint ventures when expand overseas**

# Deciding How to Enter the Market

## - *Joint Ventures*

- Joint ownership – Drawbacks:
  1. Disagree over investment, marketing or other policies
  2. Prevent multinational company - carry out specific policies globally

# Deciding How to Enter the Market

## - *Joint Ventures*

- *Foreign companies team up with 4 types of Asian partners:*
  - 1) High net-worth families
  - 2) Small companies in same business
  - 3) Large companies
  - 4) Government or governmental-linked companies

## Starting the JV

- Choose the right partner - critical
- **3** major elements of a good partner:
  - 1) Compatibility
  - 2) Can contribute complementary strengths & resources
  - 3) Commitment to keep venture going through difficult times



# Guidelines for Managing Joint Ventures in Asia

Living with JV: *6 tenets essential for success:*

- 1) Mutual trust
- 2) Able to compromise
- 3) Favorable business conditions - JV mistakes, no upset & profits - build strength
- 4) Grant JV autonomy - develop
- 5) Agree on future direction & goals of JV
- 6) Build separate culture for JV

# Guidelines for Managing Joint Ventures in Asia

- *Managing the Breakup - Success at separation when JV partners:*
  - 1) Recognize possibility of dissolution at venture's outset
  - 2) Separation clauses in JV contract for equitable valuation of assets
  - 3) Set up transitional supplier agreements
  - 4) Recognize importance of communicating & dealing fairly with employees of JV

# Deciding How to Enter the Market

## - *Direct Investment*

- Direct ownership of foreign-based facilities

### **Distinct advantages:**

- 1) Cost economies
- 2) Strengthens image - host country
- 3) Deep relations with government, customers, local suppliers & distributors
- 4) Full control over investment
- 5) Access to market if goods required to have domestic content

# Deciding How to Enter the Market

## - *Direct Investment*

- Direct investment - underperformance of overseas joint ventures

### Disadvantages:

1. Blocked or devalued currencies
2. Worsening markets
3. Expropriation
4. Expensive to reduce/close operations
  - ◆ Huge severance pay to employees

# Deciding on the Marketing Program

- How much to adapt marketing strategy to local conditions?
- Globally *standardized marketing mix*
  - Standard product, communication & distribution channels
- *Adapted marketing mix*
  - Adjusts marketing to each target market

## Table 21.1 Global Marketing Pros & Cons

### **Advantages**

- Economies of scale in production and distribution
- Lower marketing costs
- Power and scope
- Consistency in brand image
- Ability to leverage good ideas quickly and efficiently
- Uniformity of marketing practices

### **Disadvantages**

- Differences in consumer needs, wants, and usage patterns for products
- Differences in consumer response to marketing-mix elements
- Differences in brand and product development and the competitive environment
- Differences in the legal environment
- Differences in marketing institutions
- Differences in administrative procedures

# Deciding on the Marketing Program

4 cultural dimensions  
differentiate countries:

- 1) *Individualism vs collectivism*
- 2) *High vs low power distance*
- 3) *Masculine vs feminine*
- 4) *Weak vs strong uncertainty avoidance*

# The 10 Commandments of Global Branding

- 1) *Understand similarities, differences - global landscape*
- 2) *No shortcuts in brand-building*
- 3) *Marketing infrastructure*
- 4) *Integrated marketing communications*
- 5) *Brand partnerships*
- 6) *Balance standardization & customization*
- 7) *Balance global & local control*
- 8) *Operable guidelines*
- 9) *Global brand equity measurement system*
- 10) *Leverage brand elements*

## *Deciding on the Marketing Program*

### **Tokyo Disneyland**

retains much of Americana

*This concert has a Rock-and-Roll theme*



# Deciding on the Marketing Program

## - *Product*

*Product adaptation strategies to foreign market:*

- 1) Straight extension: product no change
- 2) Product adaptation: alter product
  - *Regional, country, city, retailer versions*
- 3) Product invention:
  - Backward: earlier product - to foreign need
  - Forward: new product - to foreign need

## Figure 21.3 Five International Product & Communication Strategies

		Product		
		Do Not Change Product	Adapt Product	Develop New Product
Communications	Do Not Change Communications	Straight extension	Product adaptation	Product invention
	Adapt Communications	Communication adaptation	Dual adaptation	

# Deciding on the Marketing Program

## - *Product*

- Product invention – costly- payoffs great if parlay innovation to countries
- Global launch - brand elements change
- Different standards in countries
  - Adapt products
- Add 10 -15 % to operating costs

# Deciding on the Marketing Program

## - Product

- Global launch - brand elements change
  - *Eg:*
  - Pepsi's *"Come Alive with Pepsi"*
  - *translated as*
  - *"Come out of the Grave with Pepsi"*  
*in China*

## Deciding on the Marketing Program

### - Product



## Table 21.2

### Blunders in International Marketing

- Philips began to earn a profit in Japan only after it had reduced the size of its coffeemakers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands.
- Coca-Cola had to withdraw its two-liter bottle in Spain after discovering that few Spaniards owned refrigerators with large enough compartments to accommodate it.
- Procter & Gamble's Crest toothpaste initially failed in Mexico when it used the U.S. campaign. Mexicans did not care as much for the decay-prevention benefit, nor did scientifically oriented advertising appeal to them.
- General Foods squandered millions trying to introduce packaged cake mixes to Japanese consumers. The company failed to note that only 3 percent of Japanese homes were equipped with ovens.
- S. C. Johnson's wax floor polish initially failed in Japan. The wax made the floors too slippery, and Johnson had overlooked the fact that Japanese do not wear shoes in their homes.

# Deciding on the Marketing Program

## - *Communications*

- **Communication adaptation** - Same communications used in home market or change for local market
- **Dual adaptation:** adapts *both* product & communication

# Deciding on the Marketing Program

## - *Communications*

1. Consider the message
  - One message - vary language, name, colors
2. Same global theme: adapt to local market
3. Develop global pool of ads
  - Each country selects most appropriate one
4. Allow country managers to create country-specific ads within guidelines

# Deciding on the Marketing Program

## - *Communications*

- Communication adaptation reflected in how companies structure relationships with ad agencies
- Use of media requires
  - International adaptation
  - Media availability varies - country to country

# Deciding on the Marketing Program

## - *Communications*

- Adapt creative strategies to suit different Asian markets prevalent
  - Vary in cultural orientation
- Adapt promotion techniques to different markets
- Some Asian countries: laws prevent or limit sales-promotion tools
  - *Eg: Discounts, rebates etc*

# Deciding on the Marketing Program

## - Price

- *Pricing problems when selling abroad:*

1. Price escalation
2. Transfer prices
3. Dumping charges
4. Gray markets

# Deciding on the Marketing Program

## - *Price*

How to set prices in different countries?

*3 choices:*

- 1) Uniform price everywhere*
- 2) Market-based price - each country*
- 3) Cost-based price - each country*

# Deciding on the Marketing Program

## - Price

### Price - local purchasing power parity (PPP)

- Work back from PPP to price product
- **Transfer price set - ship to subsidiaries**
  - Too high price - higher tariff duties
  - Too low price - charged with dumping
- **Dumping: company charges**
  - Less than its costs or
  - Less than it charges in home market
- **To enter or win a market**

# Deciding on the Marketing Program

## - *Price*

- Governments watch for abuses
  - Get companies - charge *arm's-length price*
  - Competitors' price - same/similar product
- Many MNCs - *gray-market problem*
  - Branded products diverted from normal or authorized distribution channels

# Deciding on the Marketing Program

## - *Price*

- Prevent gray markets - HOW?
  - Police distributors
  - Raise prices to lower-cost distributors
  - Alter product characteristics or service warranties for different countries
- *Price transparency* - price easily known
- Products - most innovative, specialized or necessary, least affected by it

# Deciding on the Marketing Program

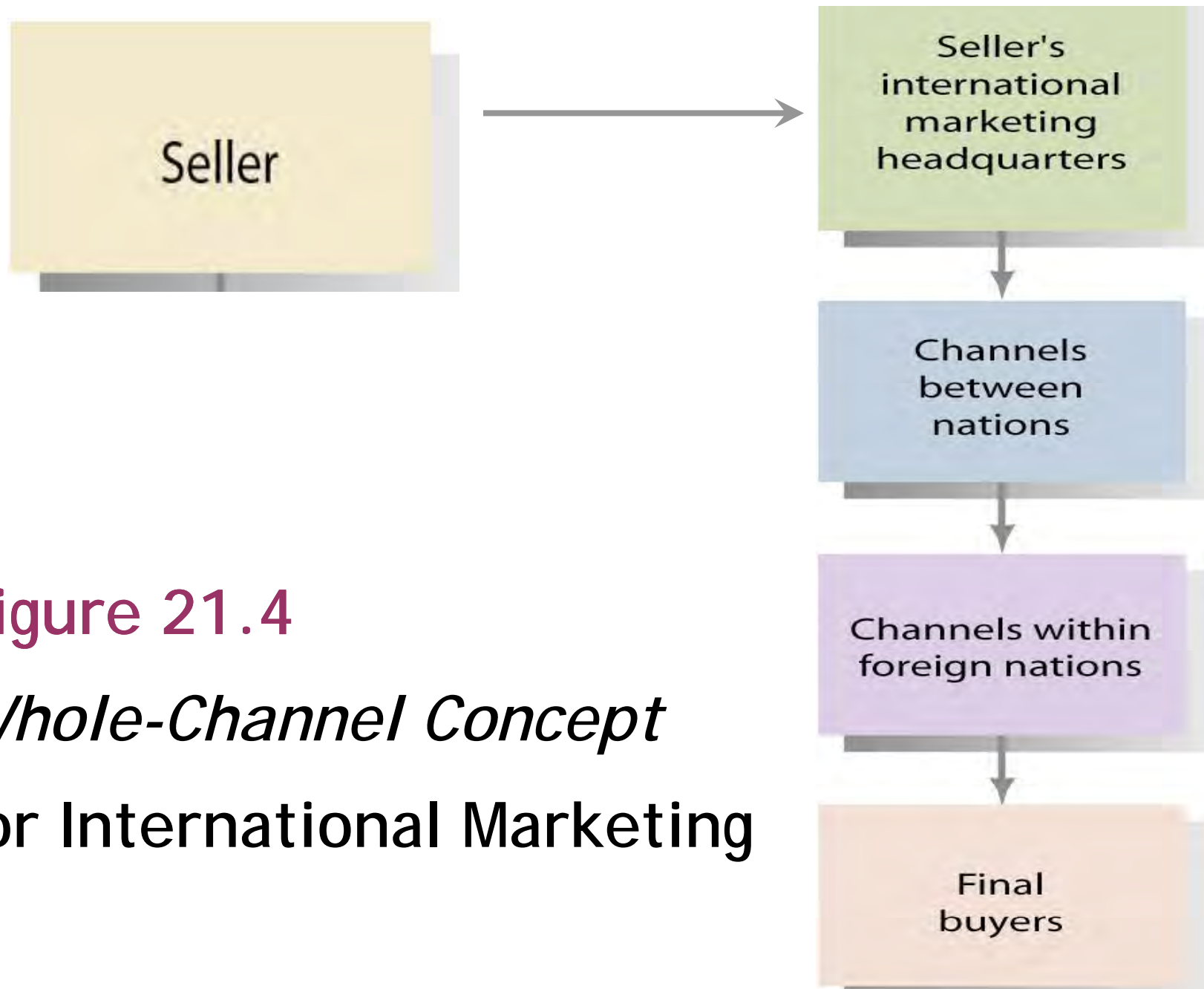
## - Price

- Internet reduce price differentiation
- Global price challenge
  - Overcapacity, cheap currencies & need to export
  - Lower prices & devalue currencies
- MNCs - price pressure- emerging market
  - *Eg: "China price" - pressure U.S. firms - China's low wages & high technology*

# Deciding on the Marketing Program

## - *Distribution Channels*

- Manufacturer - take whole-channel view
- Seller's international marketing headquarters
  - Channels & marketing
- Channels between nations
  - Get products - borders of foreign nation
  - Intermediaries, transportation & financing & risk arrangements
- Channels within foreign nations
  - Get products - entry point to final users



**Figure 21.4**  
*Whole-Channel Concept*  
for International Marketing

# Deciding on the Marketing Program

## - *Distribution Channels*

- Distribution channels in countries vary
- Size & character of retail units abroad
  - *Large-scale chains dominate developed Asian economies*
  - *But much in hands of small, independent retailers*
- MNCs enters country
  - *Work with local distributors*
  - *But friction arises later*

# Deciding on the Marketing Program

## *- Distribution Channels*

- Government regulations dictate distribution strategy - adapt accordingly
- Ensure good logistical support overseas
- Supply chain challenges - Asian companies expand outside region



# Country-of-Origin Effects

- Government officials & marketers
  - How attitudes & beliefs on their country affect consumer & business decision making
- *Country-of-origin perceptions*
  - Mental associations & beliefs triggered by a country



# Country-of-Origin Effects

## - *Building Country Images*

- Image of cities & countries
  - Affects more than tourism
  - Important commerce value
- Attract foreign business - *Improve*
  - Local economy
  - Infrastructure
  - Provide jobs
- Countries marketed like any brand



# Country-of-Origin Effects

## *- Consumer Perceptions of Country-of-Origin*

- Buyers - distinct attitudes & beliefs on products from different countries
- Country-of-origin perceptions affect consumer decision making
- If brand perceived as global success - lend credibility & respect



# Country-of-Origin Effects

## *- Consumer Perceptions of Country-of-Origin*

### *Studies found:*

- People - ethnocentric & favor own products
- Better a country's image - more prominent "Made in . . . " label
- Country-of-origin impact varies - product type
- Some countries - reputation for certain goods
- Country-of-origin perception can cover entire country's products



# Country-of-Origin Effects

## - *Consumer Perceptions of Country-of-Origin*

- Favorability of country-of-origin perceptions - domestic & foreign perspective
- Products competitively priced *but* place of origin turns consumers off - *Options?*
  1. Co-production- foreign firm with better name
  2. Target niches - foot in new market
  3. Build local roots - increase relevance

## Deciding on the Marketing Organization - *Export Department*

- Firm normally gets into international marketing by shipping its goods
- Sales increase, export department is expanded

# Deciding on the Marketing Organization - *International Division*

- Companies - international markets & ventures
- International divisions - international activity
- Operating units organized - several ways:
  1. *Geographical organizations*
  2. *World product groups*
  3. *International subsidiaries*
- Many MNCs shift between organization types

# Deciding on the Marketing Organization - *Global Organization*

Forces that favor “global integration”

*Capital-intensive production*

*Homogeneous demand*

Versus

*“National responsiveness”*

*Local standards & barriers*

*Strong local preferences*

- Blend of centralized global control with local & regional marketers' input

# Deciding on the Marketing Organization - *Global Organization*

- 3 organizational strategies:
  1. *Global strategy: world, single market*
  2. *Multinational strategy: world, portfolio of national opportunities*
  3. *“Glocal” strategy:*
    - ❖ *Standardizes certain core elements*
    - ❖ *Localizes other elements*

### Marketing Debate

#### Is the World Coming Closer Together?

Many social commentators maintain that youth & teens are becoming more & more alike as time goes on. Others, while not disputing that fact, point out that the differences between cultures at even younger ages by far exceed the similarities.

**Take a position:** People are becoming more & more similar versus The differences between people of different cultures far outweigh their similarities.

### Marketing Discussion

Think of some of your favorite brands. Do you know where they come from? Where & how are they made or provided? Do you think this would affect your perceptions of quality or satisfaction?