

International Marketing:

*Theory and Practice
from Developing Countries*

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Goodluck Charles
and Wineaster Anderson

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By Goodluck Charles and Wineaster Anderson

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LIST OF ABBREVIATIONS

AGOA	African Growth and Opportunity Act
ARIPO	African Regional Industrial Property Organization
ASEAN	Association of Southeast Asian Nations
ATC	Air Tanzania Corporation
ATCL	Air Tanzania Company Limited
BEST	Business Environment Strengthening for Tanzania
BET	Board of External Trade
BoP	Balance of Payments
BRELA	Business Registration and Licensing Agency
BRICS	Brazil, Russia, India, China, and South Africa
CBI	Caribbean Basin Initiative
CEO	Chief Executive Officer
CFR	Cost and Freight
CM	Common Market
CIF	Cost, Insurance and Freight
CMR	Convention Merchandise Routiers
CMS	Castle Milk Stout
COMESA	Common Market for Eastern and Southern Africa
CPRA	Centre for Policy Research and Advocacy
CTI	Confederation of Tanzania Industries
CU	Custom Union
CVO	Certificate of Value and Origin
DDP	Delivery Duty Paid
DDU	Delivery Duty Unpaid
DES	Delivery Ship
DRC	Democratic Republic of Congo
DRTV	Direct Response Television
DSM	Dar es Salaam
DITF	Dar es Salaam International Trade Fair
D&DO	Delivery and Disposal Order
EABL	East African Breweries Limited
EAC	East African Community
EAITE	East Africa's International Trade Exhibition
ECOWAS	Economic Community of West African States
EEC	European Economic Community

EEU	European Economic Union
EMCs	Export Management Company
EPZ	Export Processing Zone
EPZA	Export Processing Zone Authority
EXQ	Ex-quay
EU	European Union
EWURA	Energy and Water Utilities Regulatory Authority
EXW	Ex-works
FAS	Free Alongside Ship
FCA	Free Carrier
FCC	Fair Competition Commission
FDIs	Foreign Direct Investment
FOA	Free on Board Airport
FOB	Free on Board
FOR	Free on Rail
FRC	Free on Board Carrier
FTA	Free Trade Area
GAPCO	Gulf Africa Petroleum Corporation
GATT	General Agreement on Tariffs and Trade
GNP	Gross National Product
HACCP	Hazard, Analysis, Critical Control Point
IAABD	International Academy of African Business and Development
IATA	International Air Transport Association
IBRD	International Bank of Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communication Technology
IDF	Import Declaration Form
IFC	International Finance Corporation
IMF	International Monetary Fund
Incoterms	International Commercial Terms
IP	Intellectual Property
IPRs	Intellectual Property Rights
ISO	International Standard Organization
ITC	International Trading Company
KCB	Kenya Commercial Bank
LAFTA	Latin America Free Trade Area
LDCs	Least-Developed Countries
LPG	Liquefied Petroleum Gas
MIGA	Multilateral Investment Guarantee Agency

MFNs	Most Favored Nations
MNEs	Multinational Enterprises
NAFTA	North American Free Trade Area
NSE	Nairobi Stock Exchange
NTMs	Non-Tariff Measures
OECD	Organization of Economic Cooperation and Development
OLI	Ownership, Localization and Internationalization
OMCs	Oil Marketing Companies
PLC	Product Life Cycle
PR	Public Relations
PSI	Population Services International
PSRC	Presidential Parastatal Sector Reform Commission
QMS	Quality Management Systems
RUTF	Ready-to-Use Therapeutic Food
R&D	Research and Development
SAA	South African Airways
SACU	Southern African Custom Union
SAFI	Sumbawanga Animal Feeds Industries
SAAFI	Sumbawanga Agriculture and Animal Feeds Industries
SAPs	Structural Adjustment Programs
SADC	Southern African Development Community
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SBE	Single Bill of Entry
SCBHK	Standard Chartered Bank Hong Kong
SDR	Special Drawing Right
SPS	Sanitary and Phytosanitary
SMEs	Small and Medium Enterprises
TAN	Tax Assessment Note
TANESCO	Tanzania Electric Company
TAZARA	Tanzania Zambia Railway Authority
TBL	Tanzania Breweries Limited
TBTs	Technical Barriers to Trade
TBS	Tanzania Bureau of Standards
TCCIA	Tanzania Chamber of Commerce Industries and Agriculture
THA	Tanzania Harbors Authority
TIC	Tanzania Investment Centre
TIPER	Tanzania International Petroleum Reserves
TNCs	Transnational Companies
TPSF	Tanzania Private Sector Foundation

TRA	Tanzania Revenue Authority
TRIPS	Trade Related Aspects of Intellectual Property Rights
TV	Television
UAE	United Arab Emirates
UIM	Uppsala Internationalization Model
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNHCR	United Nations High Commissioner for Refugees
UPOV	The International Union for the Protection of New Varieties of Plants
USA	United States of America
USD	United States Dollar
US\$	United States Dollar
VAT	Value Added Tax
WIPO	World International Property Organization
WTO	World Trade Organization
ZIPA	Zanzibar Investment Promotion
ZSTC	Zanzibar State Trading Corporation

PREFACE

Not more than two decades ago, marketing abroad was considered prestigious, a sign of a nation's maturity. Today, it is imperative for nations and their companies, so as to remain effective players in the world market. This book, *International Marketing: Theory and Practice from Developing Countries*, offers a perspective drawn on both theoretical and practical lessons from developing countries. It is particularly designed for academics, researchers, students, practitioners, and policy-makers in the fields of international marketing, international business, and international trade. To make it easy to read, various concepts are supported by exhibits, examples, and illustrations from developing countries.

The main objective of this book is to develop readers' knowledge on the basic concepts, techniques, and strategies underlying international marketing, and to enable them to appreciate those international environmental factors that are relevant for carrying out the task of an international marketer. The ultimate aim is to enable readers to develop skills for effective planning, organization, execution, and control of international marketing operations. We expect the users of *International Marketing: Theory and Practice from Developing Countries* to be able to demonstrate knowledge and understanding of contemporary theories and their applications in the field of international marketing and international business, providing them with the opportunity for originality in developing, applying, and implementing ideas in the area of international marketing. Likewise, they will be able to analyze and assess marketing environments in internal and external markets, and derive managerial and policy decisions on an organization's governance and international expansion, based on a set of environmental factors in a particular business situation. Ultimately, the book develops readers' knowledge on how to solve international marketing problems by applying their insight into strategic and operational decision making.

In view of this, the book covers international marketing functions at both the governmental and the enterprise level. At the governmental level, the problems of international marketing include the creation of a favorable environment for exports within and outside the country, providing information and fiscal and financial incentives, and promoting the nation's products abroad. At the enterprise level, major international marketing

decisions include identification of opportunities abroad, how to choose the appropriate foreign market entry strategies, and decisions on the international elements of the marketing mix – product, promotion, pricing, and distribution decisions.

Chapter One introduces the concepts of international marketing, with emphasis on the reasons for firms to go global. It identifies actors involved in international marketing, describes the distinct levels of international marketing, and finally explains the international marketing orientations.

Chapter Two traces the nature and evolution of international trade theories and explains their implications in economic and business decisions in the economies of different nations. It also explains the essence of specialization in international trade, while demonstrating how international trade theories are used to explain international trade trends in emerging economies.

In Chapter Three, readers are exposed to the global environmental forces that impact on international marketing involvement. The chapter places emphasis on the international financial system, variations in culture, and the political, legal, natural, and technological environment, as well as recent global trends that have shaped businesses. It reflects on the implications of the international marketing environment in developing and implementing international marketing programs and strategies.

Chapter Four describes the basic international market entry decisions. It covers the market entry strategy selection criteria, strategies used to enter international markets, and the advantages and risks associated with each strategy. It compares and contrasts the functions of actors involved in entering foreign markets. Finally, the chapter describes the financial implications associated with each of the foreign market entry modes.

The product decisions and product strategies suitable for international marketing are presented in Chapter Five. The chapter covers the concept of the product and its attributes, classifies products according to their degree of potential for global marketing, and describes global product strategies. It highlights the implications of product standardization and adaptation, and presents the various types of branding strategies. Finally, it describes the importance of the service sector in the world economy.

Chapter Six describes promotion decisions in international marketing. The chapter presents a number of decisions on promotional campaigns and highlights the implications of using standardized “promo-tools” in foreign markets. It evaluates the characteristics of different media options and promotional programs. It also examines foreign countries’ laws and their implications in international marketing promotional campaigns. The chapter identifies the constraints in designing campaigns for international

markets and the criteria for selecting appropriate promotional media. In the end, it identifies the different types of promotion mix elements and the factors influencing the choice of promotion tool.

In Chapter Seven, pricing decisions for the export market are presented. The chapter examines the various pricing options and identifies the major determinants of export prices and pricing methods. It describes the steps involved in setting prices for export while describing the difficulty or desirability of having standardized prices for a company's products. Finally, it outlines various International Commercial Terms (Incoterms) and their implications for the parties engaging in international business.

Chapter Eight describes the main channels of distribution used in exporting a product, and identifies the criteria for selecting a distribution channel in the international markets. It explains the factors that need to be considered when designing marketing channels in international markets. It discusses the role of the distribution system with respect to international marketing. Finally, the chapter describes the steps involved in distribution planning, and identifies the factors determining the distribution channel level in foreign markets.

Commercial documentation and financing methods in international markets are covered in Chapter Nine. The chapter assesses the various sources of financing international businesses and the risks associated with each source. It explains how various financing risks can be minimized or eliminated. It assesses the implications of the different methods of payment applied in international businesses, and discusses methods used in financing exports. Finally, the chapter assesses various insurance policies and their implications in insuring goods and services as they move across borders.

In order to assist readers in understanding key concepts, each chapter opens with an introduction which presents its key objectives, and ends with chapter summary and review questions. The questions presented at the end of each chapter aim to give readers the opportunity to assess their understanding of the chapter, to apply ideas and concepts in various settings, and to generate discussion that will help them internalize the materials covered.

ACKNOWLEDGEMENTS

Writing a book consumes a lot of time, energy, and effort. It is apparent that without ample support it can become difficult to produce a book with numerous cases and exhibits drawn from the field. The dream and success of writing this book was therefore made possible by the invaluable support of several people who in one way or another supported and encouraged us. We are indebted to all our colleagues for their remarkable contributions to the development and production of this book.

We would like to thank our past undergraduate and postgraduate students of international marketing and international business at the University of Dar es Salaam, who inspired us to write a book on International Marketing with emphasis on the developing country context. Their demand for relevant and context-specific cases and examples on international marketing motivated us to write and publish this book. Most importantly, we want to appreciate their invaluable contributions and input toward improving and revising various chapters.

We acknowledge the support we received from our colleagues at the University of Dar es Salaam Business School in terms of reference materials and moral support during the entire process of collecting the data and eventually writing the book. Their readiness and willingness to use the book in teaching were the source of our motivation and energy to continue researching and writing this edition. We are particularly indebted to those who read the various versions of the draft manuscripts and gave us their input for improvement.

We are also indebted to the owners of the companies and organizations who provided us with the information and data used in various exhibits. Without their readiness to share the information needed it would be difficult to contextualize this book. Above all, we are grateful to those who read the initial drafts of the exhibits and validated the data and information presented in this book.

We would like to thank our respective families for putting up with our preoccupations whilst researching and writing. Indeed, we are grateful for their patience and understanding during those times when the work seemed monumental. They have been wonderful partners to us over the years.

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CHAPTER ONE

NATURE AND SCOPE OF INTERNATIONAL MARKETING

Introduction

Over the last three decades a fundamental shift has occurred in the global economy and in the economies of specific nations. Countries have moved away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to trade and investment and by national differences. Due to recent global drivers, the world economy is now more open, with an increasing number of companies participating in international business. Although internationalization began to gain momentum after the industrial revolution, especially in industrialized countries, the degree of internationalization in the emerging and developing economies of the Middle East, South America, and Africa is also increasing rapidly. Whether or not a firm wants to participate directly or indirectly in international operations, most companies today are compelled by global forces either to go international or at least to think globally. Perhaps now more than ever, businesses cannot escape the effects of the ever-increasing number of global firms exporting, importing, and manufacturing abroad. The world has recently witnessed a large number of multinational companies crossing borders to market their products and services globally. This has encouraged most companies to adopt various marketing and global strategies to market and compete within and outside their countries. Nowadays every firm must become international in its orientation, as in most cases business performance is conditioned in part by events that occur abroad. Based on this, firms are expanding the scope of their operations from domestic to export marketing, international marketing, and global marketing.

Even though global operations are diverse, covering a wide variety of operations (such as global production and manufacturing, international finance, and international management), international marketing is one of the key global functions of any international business, given the strategic

importance of marketing in today's competitive environment. Most managers around the globe have recognized the increasing necessity for their companies and organizations to develop the appropriate marketing skills, aptitude, and knowledge to compete effectively in international markets. The emergence of a more open world economy, the globalization of consumer tastes, and the unabated global expansion of internet access have increased interconnections between national economies across the world, and this makes marketing an important component of any international business. Current interest in international marketing can also be explained by changing competitive structures, coupled with shifts in demand characteristics in markets throughout the world. With the increasing globalization of markets, companies are unavoidably enmeshed with foreign customers, competitors, and suppliers, even within their own borders. In view of this, the field of international marketing is growing. Numerous programs, publications, and research projects are cutting across developed and developing economies. In emerging economies, the need to understand internationalization and international marketing has increased substantially following the recent global expansion of firms and their increased involvement in internationalization. In line with this, it has become important for students, researchers, marketers, and firms to have a clear understanding of the nature and scope of international marketing. This also calls for a thorough understanding of the nature and development of internationalization as the basis for a deeper understanding of international marketing.

The focus of this chapter is to develop a framework for international marketing, which will enable readers to understand international business operations and give an insight into why some companies decide to market abroad. After reading the chapter, readers should be able to: (i) describe the meaning of international marketing and the reasons for a firm to go global; (ii) identify the actors involved in international marketing; (iii) differentiate between domestic and international marketing; (iv) describe the levels of international marketing, ranging from domestic to global marketing; and (v) explain the international marketing orientations.

Concepts of International Marketing

Not more than two decades ago marketing abroad was considered prestigious, a sign of a nation's maturity. Today, it is imperative for nations and companies, in order to remain effective players in the world market. For nations and companies to effectively participate in international marketing it is important to understand the basis of marketing itself.

Marketing refers to the process of finding out customers' needs and wants and profitably satisfying them more effectively and efficiently than competitors. It involves carrying out business activities directed at the flow of goods and services from producer to consumers or the collection of activities undertaken by the firm to relate profitably to its market. A firm's first activity in this context is to study its own prospective buyers. Who are they? Where are they? What factors are important in their purchase of our product or service? The second activity is to develop products or services that satisfy the customers' needs and wants. The third matter is to set prices and terms on these products that appear reasonable to buyers, while at the same time returning a fair profit. Distribution is the fourth activity, which entails making products available when and where buyers can be conveniently accessed. The fifth action is promotion, which is about informing and persuading the market about the products or services on offer. Marketing managers must plan and coordinate these activities in order to produce successful, integrated marketing programs. For services, there are further functions that marketing managers must take into account, including the process of service delivery, service providers (people), physical evidence, and positioning.

What then is international marketing? International marketing is simply performing one or more of the marketing activities listed above across national boundaries; at its more complex, it involves the performance of all the marketing functions in more than one country (the difference between single-country, dual-country, or multi-country marketing). Whether an organization markets its goods and services domestically or internationally, the definition of marketing still applies. However, the scope of marketing is broadened when the organization decides to sell across international boundaries, primarily due to the numerous other dimensions which the organization has to account for. International marketing is therefore defined as the performance of business activities designed to plan, price, promote, and direct the flow of a company's goods and services to consumers in more than one nation, for profit. The key difference between the definitions of domestic and international marketing is that in the latter case marketing activities take place in more than one country. This apparently minor difference, "in more than one country," accounts for the complexity and diversity found in international marketing operations. Marketing concepts, processes, and principles are universally applicable, and the marketer's task is the same whether doing business in China, UK, USA, or Dar es Salaam, Tanzania. However, the uniqueness of international marketing comes from the range

of unfamiliar problems and the variety of strategies necessary to cope with the differing levels of uncertainty encountered in foreign markets.

Why Firms Go International

Going international is an important and complex decision made by companies at different levels of growth. In the face of the general forces that drive international trade and internationalization, there are specific factors that motivate firms to go international. At the national level, there are several trends that open business opportunities and motivate companies to become international. Such factors include: emerging regional economic and political integration; enhancement in technology; improvements in transportation and telecommunication; world economic growth; transition to market economies; and converging consumer needs. Economic integration, for instance, lowers or eliminates barriers and promotes trade within common markets. As a result, subsidiaries are established in specific markets to take advantage of free trade within the region. In recent years, consumers worldwide have been exposed to similar products, services, and entertainment, largely due to technological advancement, which has created a common demand. Lower costs and higher-quality communication due to satellite technology, tele-conferencing, and e-mail have increased business opportunities at the international level. Also, efficient transportation due to containerization and just-in-time technology are creating more international business opportunities. An emerging middle class with increasing buying power in large emerging markets such as China, Brazil, and India makes them viable trade partners. The transition of the Eastern Bloc to a market economy created important new markets and opportunities to transform inefficient government-owned local companies into successful international enterprises.

These factors are expected to trigger internationalization between nations and create opportunities for companies to participate in international marketing; however, there are more specific factors that attract individual firms to acquire a global orientation and go international. While managers should observe general global trends and make their decisions in light of them, internationalization of their firms is much more influenced by factors that have direct implications on their marketing decisions.

First and foremost, most companies go international for the purpose of growth and expansion in terms of sales, profits, global coverage, customer base, etc. It is well established in trade theory that strategically selected foreign markets can offer great opportunities for the growth of international companies if they are able to take advantage of those markets. Given the

experience of multinational companies, the majority of them are able to expand to markets that have a great growth potential and manage to achieve significant growth. For example, most multinational companies today are targeting countries like China, India, Brazil, and South Africa because of the growth potential they provide to their businesses. By going international, most companies have succeeded in broadening their customer base, sales revenue, and returns.

Second, companies go abroad because expanding the size and scope of markets helps them to achieve economies of scale in their operations and in marketing costs. Participating in international marketing enables companies to attain economies of scale in terms of sharing of costs and risks between markets. Economies of scale occur when the unit cost of a product declines as production volume increases. Therefore, some companies look to foreign countries for lower-cost manufacturing, technological assistance, and other services, in order to achieve economies of scale and maintain a competitive advantage.

Third, a product may be near the end of its life cycle in the domestic market but at the same time experience a growth market abroad. For the purpose of rejuvenating the product life cycle, the firm selling the product may opt to go international. This is mainly the case where innovations take place in advanced economies, and some products are extended to poor countries even as they are already declining in home countries. The approach is viable when the demand for the declining product is increasing in the foreign market. It is also worth noting that price competition during maturity drives firms to new international markets.

Fourth, for some product lines, competition in foreign markets may be less intense than domestically and the firm moves to a less competitive market to take advantage of that market. For instance, a lot of foreign companies have in recent years entered sub-Saharan Africa in various sectors, including manufacturing and services (telecommunications, banking, transportation, tourism, etc.), due to the low competition in these sectors as compared to the level of competition experienced in developed economies.

Fifth, if the firm or country has excess capacity, it can produce for export to foreign markets at a favorable marginal cost per unit. The main motivation is to utilize the excess capacity while taking advantage of the business opportunities abroad.

Sixth, geographical diversification (that is, going international) may be a more desirable alternative than product-line diversification. This is used by firms that intend to have wide global networks with their products and services.

Seventh, perhaps the most obvious reason to consider world markets is the potential they offer compared to domestic markets. Sometimes the product may be available in one country only, while several countries require the same product.

Overall, the drivers of internationalization appear to fall under two categories: general drivers, and firm-specific drivers. Both categories are important and have a role to play in influencing the internationalization of firms. While most general drivers open up business opportunities abroad, firm-specific drivers are crucial in guiding a business's international marketing decisions.

Exhibit 1.1: Excess Capacity of Cloves from Zanzibar State Trading Corporation

Zanzibar is a semi-autonomous state within Tanzania, made up of the islands of Unguja and Pemba. Cloves were introduced in Zanzibar from Mauritius in 1818. By the year 1856, Zanzibar is reported to have been producing about 75% of the world's cloves – an average of about 3,000 tons per annum.

The entrance of Zanzibar into the world clove market in the 1830s transferred the dominating role from Indonesia to Zanzibar. In 1834, Zanzibar produced 35,000 metric tons of cloves and controlled 90% of the world market. Zanzibar's virtual monopoly continued to be maintained until the 1940s, when Indonesia regained its lead in the world clove market, both in terms of production and exportation. Indonesia produces between 80,000 and 120,000 tons of cloves, most of which are consumed domestically.

Asked why they went international, Zanzibar State Trading Corporation (ZSTC) responded with a simple statement: "the product market is much more outside the country, than the domestic market." According to ZSTC, cloves are used as medicine, as a spice, and as raw materials in the manufacture of cigarettes. "There is large surplus excess of cloves produced, especially in Pemba Island. Zanzibar cannot consume all the produced cloves as spices; Zanzibar does not have any factory which uses cloves as the main raw materials. Thus, due to large amount of production, we have to sell the product abroad," added the ZSTC.