

The Changing Landscape of Global Businesses

The Changing Landscape of Global Businesses:

Principles and Practices

Edited by

Babu George and John Rogers

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PREFACE

The management of international markets must be responsive to changes in business environments in order to be effective. To remain competitive, companies must hold marketing accountable for responsiveness to various shifts in marketing management processes and changes in marketing communication stemming from the growth of global competition and global markets (Šalkovska, Batraga, & Ogsta, 2014).

An increasing number of companies have multiple product lines and are conducting business in multiple geographic markets, so flexibility is a key component to ensuring marketing decisions appropriately address special circumstances (Brown, 2005). At the same time, companies must also maintain a common marketing approach to avoid inconsistency in market management decision making (Challagalla, Murtha, & Jaworski, 2014).

Despite the fact that increasing numbers of people live in multicultural environments devoid of a single dominant culture, little is known about how the products and consumption practices from different cultures manifest when combined. Whether this is a function of adoption, experimentation, or a gradual extension leading consumers beyond their comfort zone, it is clear that culture plays an important role in determining a marketing strategy (Demangeot & Sankaran, 2012).

The Standard of Standardization

The issues considered in the analysis herein are contemporary in nature, but hardly new. Differences between local and standardized strategy, the role of cultural patterns in a society, and how they affect consumption have both been addressed in peer reviewed literature for more than 15 years. Geng & Quiming (2001) discussed how to integrate emerging consumer segments in transitional economies into the global marketing strategies of multinational corporations. Kotabe & Omura (1989) discussed the relative performance of companies using local strategies in lieu of standardized strategies for market management. Lazer (1993) predicted growth of international markets triggering a reshaping of marketing approaches and concepts based on cultural sensitivities, mores, social values, and behavioral

patterns with regard to consumption. The reviews included in this book will attempt to synthesize these concepts across the years through which they have been studied and present an accurate perspective of where they currently lie.

The Dividing Lines that Separate Global Consumers

Key to successfully synchronizing these elements is determining the target audience. Fortunately, there are methods for dividing broad target markets into subsets of consumers, businesses, or countries that have, or are perceived to have, common needs, interests, and priorities. This allows us to intelligently design and implement strategies to target them (Sarvary & Elberse, 2006). Foedermayr & Diamantopoulos (2008a) tell us that market segmentation can be conceptually defined as the process of subdividing a market into distinct subsets of customers exhibiting similar consumption behaviors or having similar needs.

Each of these subsets represents a potential opportunity for a distinctive marketing strategy. Dibb, Stern, & Wensley (2002) continue this thought by describing market segmentation as a means of dividing a heterogeneous market into relatively homogenous parts, and designing a marketing mix for each of them with the aim of better meeting the particular needs of identified customers. As a result, a better understanding of customer needs and decision-making processes can be reached.

Ying, Ram, Lusch, & Brusco (2010) offer a list of ten generally accepted criteria for evaluating the effectiveness of a particular market segmentation. These include identifiability, by which we mean discovering measurable, differentiating attributes of target market segments; responsiveness, meaning that the segment should respond substantially better to a distinct marketing mix than to a generic offering; substantiality, meaning that segments are large enough to justify the resources required to target them; accessibility, meaning that segments must be reachable through communication and distribution networks; stability, by which we mean relatively stable over time (because segments that change radically in a short time are precarious investments); actionability, meaning that the company must have the capacity to implement a distinctive marketing mix for each market segment; differential behavior, meaning that each defined segment must have unique market response characteristics; feasibility, which is about determining what portion of the market can be captured provided every condition within the environment is perfect and there is very little competition; profitability, or determining whether a given segment provides

a greater potential return on investment than any other available investment after administrative and start-up costs; and finally projectability, meaning that the results of the segmentation effort should be projectable to the entire market place. It is an exhaustive, comprehensive list, but therein lies the conundrum.

While market segments should be homogeneous within each segment, they can be affected internally by any number of marketing activity variables such as response to a particular marketing program, product positioning effort, or significant shifts in how marketing practices evolve. This leads us to the first question for consideration: What do we mean by the evolution of the segmentation process over time?

As a result of the emergence of global markets, companies search for global consumer groups spanning national borders who attach similar meanings to people, places, and things. These groups are referred to as consumer segments (Alden, Steenkamp, & Batra 1999). Discussing the emergence of a global consumer culture, Alden, et al (1999) address the concept of global consumer culture positioning as a marketing strategy to reach global consumer segments, versus the more traditional approach of local consumer culture positioning. Their findings show that more than 85% of advertisements studied exhibited one of these two particular cultural positioning strategies. To effectively employ them, however, marketers must determine which strategy, or what combination of the two strategies is appropriate for their target market. One method for doing this is to research the product characteristics consumers of both persuasions find appealing, and integrate them into a global positioning strategy.

As a resource intensive prospect, it is worth exploring why having an excellent global positioning is one of the principal assets of a brand. As markets become increasingly global with faster introductions of new products and more intense competition than ever, firms need to know how new products will spread across the global marketplace, which of those markets are the most innovative, and how quickly those markets adopt new products (Chandrasekaran & Tellis, 2008). This poses a second question: What are successful global brands and what are the reasons behind their success? This book will draw insights from existing literature in order to effectively address these two questions.

Pricing, Promotion, and Channel Structures

Pricing decisions are more complex in international marketing than they are in domestic marketing because there are more variables to consider. Depending on the competition and regulatory environment, a company may have to follow different pricing strategies in different markets. Whatever strategy is selected, however, pricing has to reflect the proper value in the eyes of the consumer. Pricing is an important competitive weapon both strategically and tactically in international marketing, but incorrectly applied it can also be a huge liability. Pricing is only one of a network of considerations international market managers must address. This book will address this by describing factors affecting price and pricing decisions in international markets.

Channel structures and strategies are also critical to international market management. The importance of marketing channel strategy decisions is highlighted by their inherent long-term consequences and the constraints and opportunities that they represent (Wren, 2007). Integration with channel structures related to or in support of the marketing effort can be an important factor in developing a comprehensive, mutually supporting system that allows expansion of customer base and the ability to standardize or localize marketing efforts as required. This book will address the factors that influence channel structures and strategies in international markets.

Kashani & Quelch (1990) tell us that consumer and trade perceptions of promotional incentives are frequently culturally inspired and can vary dramatically from market to market, so a localized advertising strategy is often appropriate in international markets. At the same time, Levitt (1983) strongly endorses the idea that the rapid advancement of technology has created an unstoppable trend toward convergence, and that corporations geared to that reality can reap enormous benefits with regard to economies of scale, marketing, and management. The relative advantages and disadvantages of standardized versus localized advertising are extensively discussed in this book.

An Overview of Strategy Considerations

A comprehensive introduction to marketing strategy considerations for international markets is needed. We will begin with a description of emerging conditional changes leading to a greater corporate focus on global and international marketing. Four basic points of marketing strategy domain as posited by Weitz & Wensley (1988) are introduced and further expanded

and articulated (Smith, 1986; Montoya-Weiss & Calantone, 1999; Kowalkowski, Persson Ridell, Røndell, & Sörhammar, 2012; Sengupta, Bamel, & Singh, 2015). A discussion of the benefits and drawbacks of standardized versus localized marketing strategies follows to define the environment, and the associated combined applications of these two perspectives are discussed in the context of international market management considerations including economic factors, cultural factors, political factors, and legal factors.

Douglas & Craig (1986) tell us that advances in world infrastructure, such as improved and more efficient transportation and communication systems, have triggered an accelerating move toward the globalization of business and integration of markets for a wide variety of goods and services. For this reason, more attention has been focused on integrating and coordinating marketing strategies across national boundaries in order to take advantage of potential synergies in international markets. Slater (1995) expands this thought by saying that although marketing is an organizational function, its central role in the success or failure of a business brings it closer to being a strategy in and of itself than any other organizational function. Weitz & Wensley (1988) define four points of marketing strategy domain as 1) the establishment of appropriate marketing objectives, 2) selecting appropriate market segments to be targeted within the context of the broader market, 3) developing a value proposition that establishes a competitive advantage to support positioning, and 4) committing sufficient resources to the organizational function of marketing to ensure effective communication with customers and to deliver the promised value.

In the interest of clearly defining the establishment of appropriate market objectives, Smith (1986) categorizes them as strategic, tactical, normative, and repeating. Strategic objectives are defined as statements of integrating purpose to which all departments can subscribe. Tactical objectives are statements of precisely defined innovative steps needed to achieve the integrating purposes. Normative objectives are statements of routine activity existing prior to the implementation of tactical objectives. Repeating objectives are statements, usually of normative objectives, repeated in marketing themes over several years with only small word changes.

Selecting appropriate market segments to be targeted within the context of the broader market and can be broken into a three stage process (Montoya-Weiss & Calantone, 1999). The first stage is problem structuring, which engages management in problem definition and the model building process.

The objective of the first stage is to elicit critical evaluation criteria and related measures, and to assess the implementation context. The second stage is segment formation, which identifies and describes groups of customers that are homogeneous in product preferences. The objective of the second stage is to generate multiple segmentation schemes that are valid and distinctly identifiable for the purpose of targeted marketing efforts. The third stage is segment evaluation and selection, which involves developing and implementing a multi-criteria decision model. The objective of the third stage is to evaluate and select appropriate market segments to be targeted from among the possible market segments identified in the second stage.

For developing a value proposition that establishes a competitive advantage to support positioning, Kowalkowski, Persson Ridell, Røndell, & Sörhammar (2012) propose a general outline of practices supported by understandings, procedures, and engagements. Understandings are the marketing related knowledge, skills, and experiences of each marketing manager. Procedures are the marketing related rules, principles, and cultural norms of each marketing manager. Engagements are the marketing related wants and needs, goals, and purposes to which each marketing manager is committed. Taken together, these constitute the script that each marketing manager draws upon when developing a value proposition. Sengupta, Bamel, & Singh (2015) acknowledge that the process for developing a value proposition is difficult to define. It is about managing intangibles, combining brand superlatives with organizational strengths, and leveraging individual creative talent to generate competitive advantage. Measuring effectiveness, however, is a simpler task. Hlava & Camlek (2010) offer eight questions to confirm whether or not a true value proposition has been achieved.

- Is it framed from the customer's perspective, instead of your own?
- Is it superior? Would the value proposition, if delivered, surpass alternatives? Would customers agree?
- Can you deliver it? If not, could you build the capabilities needed?
- Does it align with your strategy?
- Is it sustainable? If so, for how long? How fast would competitors react? What about other changes in the business environment?
- Is it profitable to both the customer and to you?
- Does it address the customer's pain points or areas of high interest?
- Is it measurable?

There is no requirement to provide a value proposition, but a carefully crafted one has the potential to bolster competitive advantage when it is utilized as a strategic marketing tool.

On the subject of committing sufficient resources to the organizational function of marketing, Barney, Wright, & Ketchen (2001) indicate that differentials in company performance can be linked to differing resource levels among companies. Srivastava, Fahey, & Christensen (2001) agree, stating that company specific resources which differ in value, rarity, inimitability, and non-substitutability drive superior company performance and that the value of those resources must be reflected in superior marketplace performance. If not, those resources will be redirected to higher yield opportunities (Mantrala, Sinha, & Zoltners, 1992).

Each of these four points of marketing strategy domain directly informs a company's behavior across a spectrum of considerations. In international markets, defining the geographic extent of operations and direction for expansion is obviously of critical importance, but the long-term impact varies based on where a company is in the process of going international. In most cases, it makes sense to initially emphasize geographic expansion. Subsequently, geographic consolidation and growth within each country centers around expansion of product lines and the transfer of product ideas so that the concept of a domestic market disappears. From that point in a company's development, planning is formulated on a global basis (Douglas & Craig, 1989).

Marketing Strategy Environment

There has been an ongoing debate in international marketing about standardization versus localization, and how to determine the appropriate mix of each. The question is somewhat complicated by inexact terminology, but Onkvisit & Shaw (1999) offer clarification by defining three categories as localized, standardized, and global. A localized advertisement is designed specifically to appeal to a particular country. Standardized advertisement is initially designed to be local for a specific country, but its use is later expanded into other countries. By contrast, a global advertisement is designed to target multiple countries from the beginning, so market differences and similarities are considered at the outset (Rogers, 2016a).

Local market strategy is employed when client and customer consumption patterns tend to favor products from or reflective of their particular region or locality, which is the strategy of choice for many small companies just

starting out. Cheney, Gowin, & Wann (2015) explore the marketing strategies of e-cigarette store owners, who identify local market strategy as key to their success. Stores specifically targeted the local community not only to increase their customer base, but to establish their store as a community gathering place. Utilization of social media to promote the stores hosting local events, such as cook-outs and comedy shows, was also an effective tactic.

Wyner (2007) discusses the importance of tailoring marketing strategies to local markets, noting that significant differences remain between markets located in different parts of the world. Technology linkage and usage can vary dramatically, and diversity of people and cultures in such areas as language, age, and income level often result in marketing environments that are widely divergent with regard to categorization, brand development, marketing spending, and media choices available (Rogers, 2016a). Kashani & Quelch (1990) tell us that consumer and trade perceptions of promotional incentives are often culturally inspired and can vary dramatically from market to market, so a localized advertising strategy can be appropriate in international markets (Rogers, 2016a). Melewar & Vemmervik (2004) agree, stating that the differences between cultures are so vast that standardization is first, not possible and second, that any large scale attempt at standardization results in lost competitive advantage and lower sales. This strategy supports the idea that organizations should introduce a unique product in each expansion effort with the understanding that tastes differ so much between countries that it is necessary to start over in creating a marketing strategy for each market. Each country should be approached separately as a different market and the marketing strategy should be customized for that particular market (Herbig, 1998).

Levitt (1983), through whom the term “global standardization” has become widely known, argues that well managed companies have by necessity moved from an emphasis on customizing items to offering globally standardized products that are advanced, functional, reliable, and low priced. He strongly endorses the idea that the rapid advancement of technology has created an unstoppable trend toward convergence, and that corporations geared to that reality can reap enormous benefits with regard to economies of scale, marketing, and management (Rogers, 2016). Supporters of standardization believe that the force driving this process is technology, which has facilitated communication, information capital, transport, and travel. The recent resurgence of interest in the international standardization issue, therefore, is attributable to such global influences as TV, films, widespread travel/increased tourism, telecommunications, and

the computer (Levitt, 1983). De Mooij (2003) offers the idea that globalization is an inevitable consequence of income, media, and technology coming together to homogenize consumer needs, tastes, and lifestyles. Levitt (1983) is also a strong supporter of this idea, operating under the premise that rational consumers would prefer standardized products based on high quality and low price. Based on the collective work of McCracken (1989), Süerdem (1993), and Antonides (1998), however, De Mooij (2003) allows that an overconfidence in the trend toward standardization underestimates the potential impact of cultural influence. Because of this, many companies that expected to see an increase in efficiency as a result of standardization instead saw declining profitability in some markets (Rogers, 2016a).

Martin (2005) discusses a variation on international advertisements in France, indicating that despite a certain cultural snobbery, French consumers are increasingly open to standardized advertising strategies with minor language modifications. While French government-imposed translations of English text in print advertisements had been altered somewhat to reflect French culture and world view, Martin (2005) found that English language jingles were frequently used on French television. The indication is that while a certain amount of localization still works to the advantage of an advertiser, there is certainly a trend toward standardization of message and images. Martin's findings further suggest that Onkvisit & Shaw (1999) will need to update their terminology to reflect a fourth category describing the minor tailoring of what they call a global advertisement to appeal to local cultural tastes.

Factors to Consider in the Strategic Choice

The work of van Heerden & Barter (2008) tells us that following a local or a standardized market strategy in international markets depends on a variety of factors including culture, politics and economics. Karappur (1995) follows with the idea that firms marketing products in global markets appear to adopt global marketing strategies, multi-domestic strategies, and various intermediate strategies that encompass different degrees of standardization. Hult, Keillor, & Hightower (2000) conclude that to maximize opportunities in marketing products to consumers in both developed and emerging economies, each market must be investigated to fully understand the best means of employing product attributes for gaining competitive advantage. Roth (1995) makes a strong case for market analysis with regard to regional

socioeconomics and degree of heterogeneity, showing a direct relationship between the two (Rogers, 2016).

Cultural Factors

Cultural Factors are the set of basic values, perceptions, wants, and behaviors that are learned by a consumer from their families and other important social institutions. Wang & Lin (2009) remind us that even in the face of globalization trends, the influence of tradition remains strong in most cultures. As a basic source of consumer wants and behavior, culture can be the foundation of a consumer's world view. Mostly a learned behavior, culture is constructed by the society in which a consumer grows up. That society teaches the consumer basic values, perceptions, wants, and behaviors (Sun, D'Alessandro, & Johnson 2014).

Invoking the Weitz & Wensley (1988) four points of marketing strategy domain previously mentioned, the first to consider is establishment of appropriate marketing objectives from a cultural perspective. This is heavily reliant on a strong understanding of and familiarity with cultural factors. For instance, White (1986) points out that markets in Asia are notoriously driven by price reduction, so sudden bursts of marketing activity are typically ineffective. The suggestion is that in order to penetrate Asian markets, a sustained image building campaign is needed to support promotional activities. Secondly, selecting appropriate market segments to be targeted within the context of the broader market is also heavily influenced by culture. Continuing with the previous example, White (1986) tell us that while Asian markets are quickly adapting to new ideas and technology, it is also a region deeply rooted in tradition. Although target segments are easy to identify, communicating with them must be done on a country-by-country basis because of the local and parochial nature of the media. The third point, developing a value proposition that establishes a competitive advantage to support positioning, is directly connected to culture. Using the example of loyalty programs, Mattison-Thompson & Chmura (2015) surveyed 569 consumers from five countries (Brazil, Russia, India, China, and Germany). Their results suggest that consumers from developed markets, (i.e., Germany) make different loyalty program choices than consumers from emerging markets (i.e., Brazil, Russia, India, and China). Specifically, they found consumers from emerging markets more willing to engage in loyalty programs offering both related and unrelated rewards, whereas consumers from Germany, a developed country, preferred either immediate rewards or had no interest in loyalty programs. Such a cultural

difference could have an enormous impact on a standardized marketing strategy, though a localized marketing strategy would likely understand the appeal of the proposed value proposition prior to implementation. The last point, committing sufficient resources to the organizational function of marketing to ensure effective communication with customers and to deliver the promised value, can be a delicate cultural undertaking. Returning to White (1986), we are reminded that cultures vary from country to country. In some countries corruption is widespread, so bribery and extortion are part of the business landscape. In others, significant market barriers exist to protect local commerce. Each case may require a different mix and level of resource commitment, and is at least partially dependent on educating the consumer.

What a consumer can be taught varies greatly in different parts of the world. In the United States, for example, a child will learn such values as liberty, democracy, freedom, American exceptionalism, working hard, making one's own success, and family values. Children in many Asian countries will learn such values as social harmony, concern for social and economic well-being over individual, civil, and human rights, loyalty toward authority, and well-being of the family over the well-being of self (Earley, 1997). Marketers must bear in mind that every group or society has a culture, and that cultural influences can and will vary greatly from country to country and social group to social group. If one does not account for these values in marketing plans, campaigns could be at best ineffective, and, at worst, embarrassing (Russell & Valenzuela, 2005). As subcomponents of culture, we now examine language, taste, regional values, and consumer habits.

Language

Language, or more specifically language translation, must be closely monitored when one is engaged in international marketing. Business literature is replete with embarrassing missteps in international advertising that did not serve the merchant well. Balance (2007) identifies five considerations for translating marketing materials. First, it is important to consider cultural awareness and sensitivity. It is not uncommon for translations to be correct linguistically, but convey a different message than intended. Idioms and aphorisms that work in English may be incomprehensible to a non-speaker. Second, simple messages are more likely to translate accurately in word and intent. Using short, simple sentences is a reliable way to reduce translation complications, so it is smart

business to avoid complex messages and long, drawn out sentence structures. Third, consistently writing at the standard literacy level for the target market makes translation a smoother process. Fourth, a continuing effort to market to a selected segment at a static literacy level implies that there is likely a continued need for similar words and phrases. Establish a glossary to support translation efforts so that the same work does not have to be done more than once. Finally, begin work with the end in mind. Knowing that translation will be a permanent part of the process, develop materials with an idea of how they may translate into other languages. This allows a very localized process to begin taking its first steps toward a more standardized approach.

Taste

Entering international markets can be difficult for many companies because some countries have distinct palates and eating habits. McDonald's had to totally make over its image when it came to marketing itself in a country like India, which sees beef consumption as being inappropriate. They ended up being successful there only by introducing vegetarian and regional choices to the menu selection. Many international fast food chains such as Kentucky Fried Chicken, Wendy's, and McDonald's had to start offering menu selections with rice dishes in order to break into the Asian market (Sarin & Barrows, 2005). Taste, however, can also refer to non-food goods. Buckley and Casson (2001) postulate that the expansion of Western cultural through global media has provided entrepreneurs with unrivalled opportunities to shape consumer tastes, and the globalization of consumer product markets has reinforced this tendency.

Consumer Habits and Regional Values

As shown in the previous three discussions on language, taste, and regional values, culture and personality combine to shape consumer behavior in every part of the world. When you want to market a product to a foreign country, you need to first determine whether it is an individualistic society (free-thinking culture) or a collective society (the peer group has the most influence on buying decisions) (Vickers & Fisher, 1999). You also have to consider other societal and psychological factors that influence buying decisions in the country you are targeting to sell your goods or services. For instance, what is the role of age and demographics? These play a key role in international marketing just as they do in domestic marketing, so companies have to pay very close attention to them. (Bashar, Ahmad, &

Wasiq, 2013). A company is probably not going to be successful marketing laptops to senior citizens in a third world country where there is very little internet, and a large percentage of the citizens over the age of 60 are computer illiterate (Chinn & Farlie, 2010). This illustrates the importance of understanding age and other demographics in countries where a potential market for goods or services may exist because they are both reliable and useful for making major marketing decisions (Feik & Price, 1987).

Some counties have extreme regional differences that must be accounted for when determining a marketing strategy. One example of this is Canada; they have large French speaking populations around Montreal and Quebec that are culturally much different than the English speaking communities found throughout the rest of the country (Tse, Lee, Vertinsky, & Wehrung, 1988). In their discussion on Asian values in particular, however, Vickers & Fisher (1999) dismiss that idea as only being valid on a case by case basis. The notion that peoples from Turkey to Japan to Aru to Indonesia have a common set of definable values does not hold up well to scrutiny, and is mainly used as an alternative to Western values. Despite arguments to the contrary, Vickers & Fisher (1999) point out that participating in global markets with segments seeking to avoid the appropriation of Western cultural does not preclude the application of standardized market strategy.

Economic Factors

The economy surrounding a target market segment always has an impact on marketing, whether that impact is weak or strong, and marketers may be affected positively or negatively by a strong or weak economy. Weak economies can benefit certain types of businesses, while strong economies can be negative for others. Regardless of the nature of a company's business, it is critical for it to understand markets and the effect the economy will have on them in order to avoid being blindsided by confluences of economic factors moving against them (Buttell, 2009). From an internal perspective, economies of scale and scope are best accomplished by employing a standardized marketing strategy. When unique economic factors are present but unobserved or unmitigated, however, a standardized marketing strategy could prove financially disastrous (Dahringer & Cundiff, 1986). Again invoking the Weitz & Wensley (1988) four points of marketing strategy domain, the first point of establishing appropriate marketing objectives is inextricably tied to economic factors and directly feeds the second point, selecting appropriate market segments to be targeted within the context of the broader market.

Tynan & Drayton (1987) report that socio-economic classification has the advantage of being both widely understood and used as a basis for classification for many years. Income is a related segmentation base, and one which has been well researched. There are always difficulties in establishing household income because of people's reluctance to divulge this type of information, but it can be reasonably argued that income is an effective demographic base for segmenting markets. The third point, developing a value proposition that establishes a competitive advantage to support positioning, is clearly linked to economic factors. Saarijärvi (2012) confirms that a company's customer value proposition is built on the economic competencies and resources the company is able to utilize more effectively than its competitors, which are unique and can drive a competitive advantage.

Finally, the need to commit sufficient resources to the organizational function of marketing to ensure effective communication with customers and to deliver the promised value is almost self-explanatory in the context of economic factors. Beck, Chapman, & Palmatier (2015) tell us that customers with strong habits rarely stray from their previous behaviors, and a well-constructed, well-funded, properly targeted marketing strategy will activate habits by reinforcing situational cues that trigger associated purchase behaviors. As subcomponents of economy, we now examine per capita income, relevant class structure, and financial structures and banking.

Per Capita Income

A country's wealth is a huge factor when determining potential target market countries and how to market products to those countries. For example, 66.4% of Eritreans live below the poverty line with an income of less than \$15 USD as measured in 2007 (Rena, 2007). Regardless of how inexpensively they can be made and how dire the need for them, it is unlikely to be a good market to sell \$1000 side-by-side washers and dryers. It is not, however, always necessary to have an overwhelming number of people in a certain income bracket in a foreign market if a product is considered high end. If a company sells luxury automobiles in the \$60,000 – \$80,000 range, maybe less than 1% of the people in a country such as Egypt can afford a car at that price. If, however, that group numbers 10,000 people or more and 5000 fit the profile of likely customer, that country is still relevant as far as potential sales are concerned (Elshamy, 2015). Because luxury goods are marketed to target segments based on affluence

where cultural factors are likely to sublimate to status, a standardized marketing strategy may be appropriate.

Relevant Class Structure

When marketing a product or service internationally, a company must also take into consideration class structure because of wide variations from country to country. Most countries have an upper, middle, and lower class, but the numbers of people in these classes can be significantly different from country to country. The U.S. stands well above the rest of the world in this regard, with more than half (56%) of Americans determined to be high income by the global standard of living on more than \$50 per day in 2011 (the latest year that could be analyzed with the available data). Another 32% were upper-middle income. In simple terms, almost nine out of ten Americans had a standard of living that was above the global middle-income standard. Only 7% of people in the U.S. were considered middle income, 3% low income and 2% poor.

Compared with the rest of the world, 13% of people globally could be considered middle income in 2011. Most people in the world were either low income (56%) or poor (15%), and relatively few were upper-middle income (9%) or high income (7%) (Kochhar, 2015). Class structure by itself is not a deciding variable in whether a standardized or localized marketing strategy is the best approach for a given segment, but the resulting demographic information certainly informs the choice.

Financial Transactions and Banking

Consideration for how a company will be paid for the products and services marketed and sold internationally is important as well. In more prosperous countries, it is taken for granted that one can buy goods internationally and pay for them with credit cards, debit cards, online payment processors, and cash transfer businesses, but that is not necessarily the case everywhere in the world. These types of financial realities can greatly impact a marketing strategy. Chuan-Fong, Dedrick, & Kraemer (2005) tell us that when transactions are conducted electronically, there must be widely available means to transfer payments. In some countries cash-on-delivery or bank drafts are the only means available. These methods are not only less convenient than credit or debit cards, they are also significantly less reliable. Oxley and Yeung (2001) found a positive correlation between credit card use and the adoption of e-commerce technologies, so credit card penetration

represents a convenient and secure transaction facilitator. While this information by itself does not advocate a standardized or localized marketing strategy, it does inform the type of market being developed which, in turn, informs whether a standardized or localized approach is optimal.

There is always risk when a company does business in the currency of a foreign country to which they are marketing products or services. If economic events unfold in the wrong way, a company could lose millions of dollars. Stockman (1980) has shown that as long as traded prices of currency differ between countries, relative price changes will cause the equilibrium exchange rate to change. Currency risk is a function of how the rates of U.S. and foreign currency compare at a given time taking into consideration deviations from purchasing power parity and the effects of these deviations on the company's cash flows. For this reason, companies that engage in international trade mitigate currency risk by placing derivative options, mainly puts and calls, on denominations in the international market to reduce their downside risk.

Political and Legal Factors

Despite the continuing globalization of business, companies must abide by the local rules and regulations of the countries in which they operate. Until recently, governments were able to directly enforce the rules and regulations based on their own political and legal philosophies. The Internet has started to change this by providing sellers and buyers have easier access to each other, but countries still have the ability to regulate or strong-arm companies into abiding by their rules and regulations. As a result, global businesses must continuously evaluate the political and legal climate in the countries in where they currently operate or hope to operate in the future (Scherer & Palazzo, 2011). Markets such as China, India, Japan, and the European Union each have a different legal, regulatory, social, and economic framework that companies must understand in order to effectively market their products and services, and to not coherently address aspects of foreign markets in business plans and strategies makes any determination of a standardized or local approach to marketing superfluous (Kurylo & Maffei, 2007).

Once again invoking the Weitz & Wensley (1988) four points of marketing strategy domain, it can be argued that the establishment of appropriate marketing objectives is at least in part linked to political and legal factors. McCubbins (1994) explains that while the trend toward globalization has

opened up many new opportunities for multinational businesses, difficulties are more and more frequently encountered when foreign business dealings break down and they have to seek protection of financial interests through the international legal system. It is of little benefit to negotiate the numerous, complex aspects of a marketing transaction, only to find that the agreement cannot be enforced through existing international legal structures. The second point, selecting appropriate market segments to be targeted within the context of the broader market, is also supported by White (1986), who points out that as with cultural factors, legal and political factors come into play in countries where corruption is widespread and bribery and extortion are part of the business landscape. Developing a value proposition that establishes a competitive advantage to support positioning must always be done in the context of local laws and political influences.

There is a strong interaction between political systems and economic influences, including the distinction between a Free Trade Area (FTA) and a Customs Union (CU), which can have fundamental consequences for lobbying activities (Bilal, 1998). The last point, committing sufficient resources to the organizational function of marketing to ensure effective communication with customers and to deliver the promised value, is the opposite side of the point made by White (1986), that legal and political factors come into play in countries where corruption is wide-spread and bribery and extortion are simply part of the business landscape. In such cases, there may or may not be an opportunity to deliver promised value regardless of whether localized or standardized strategy is used. As subcomponents of politics and legal factors, we now examine laws, licensing and permits, taxes, fees, tariffs, and currency risks.

Laws, Licensing, and Permits

There are circumstances where laws in some countries may greatly affect a company's ability to do business there, or even prohibit it altogether. For example, The Wall Street Journal reported in 2015 that the Australian government had announced a lower threshold for foreign investment review in the agriculture lands space. It did so to better control foreign ownership in farming and secure Australia's national interests. Similar ideas have been proposed with respect to Australia's real estate market based on rising Chinese investment in Australian agriculture, triggering an emotional, national-level debate on food security and foreign ownership of national assets (Taylor, 2015).

There is a chance that the only way to do business in a foreign country is to pay for an expensive permit or license for another business in that country to manufacture and sell your product for you. Governments do these things as a way of making sure a larger percentage of income from product sales stays in the home country. This has the potential to create a dissonant business environment because the host country's activities are likely to have a negative and significant impact on exports and affiliated sales. Increased protection costs in high-risk countries tend to increase licensing pressure and reduce the potential for successful marketing strategies, whether local or standardized.

Taxes and Fees

Taxes are another way that governments can cash in on foreign businesses operating and selling products in their country, so their citizens' spending does not allow much money to leave the country. Taxes can impact a company's ability to make a profit selling goods and services in a foreign country, and for that reason impacts the international marketing strategy. High tax rates on goods sold, like those in the USA, can make it hard for a business to stay on the right side of that fine line between profit and loss. The greater the extent of their desire to protect local business, the greater the imposition of additional taxes (Gutmann & Arian, 2015).

When marketing products for sale in a foreign country, a company may be subject to pay certain fees for the right to do that. These fees can be a one-time occurrence or recurring, and they can be substantial in circumstances where they are attached to luxury items. Miller (1993) relates the importance of negotiating fees carefully, because a lack of understanding between the company and its attorneys can sometimes lead to unpleasant surprises. The company must provide sufficient information regarding its legal assistance needs so attorneys can project the costs adequately. At the same time, the law firm must provide guidance regarding the types of agreements needed to do business in foreign markets, accounting for all fees involved.

Tariffs are meant to balance trade between countries and protect national companies from losing business to foreign competitors. This can be a significant factor in international trade and marketing a company's products or services. Sumner, Smith, & Rosson (nd) explain that the use of tariffs manifests more specifically to protect incomes of domestic producers from foreign competition. This protection comes at an economic cost to domestic consumers who pay higher prices for competing imported goods, and the

economy as a whole because of inefficient allocation of resources to the domestic industry. In 1948 tariffs on most manufactured goods were in excess of 30 percent in most developed economies, but the emergence of international markets has influenced those economies to reduce tariffs on manufactured goods through negotiations.

Concluding Remarks

In the foregoing sections we presented a comprehensive discussion of marketing strategy considerations for international markets. Beginning with a description of emerging conditional changes leading to a greater corporate focus on global and international marketing, we moved to a literature review discussing the relative benefits and drawbacks of localized versus standardized marketing strategies. We then applied the four basic points of marketing strategy domain as posited by Weitz & Wensley (1988) as common measure to define the environment, and the associated combined applications of these two perspectives are discussed in the context of international market management considerations including economic factors, cultural factors, political factors, and legal factors. We showed that as a basic source of a consumer's wants and behavior, culture can be the foundation of a consumer's world view. What a consumer can be taught, however, varies greatly in different parts of the world. Whatever is not accounted for culturally can make marketing plans and campaigns plans at best ineffective, and at worst, embarrassing.

With regard to economic factors, we demonstrated that regardless of the nature of a company's business, it is critical for it to understand their markets and the effect the economy will have on them in order to avoid being blindsided by confluences of economic factors moving against them. From an internal perspective, economies of scale and scope are best accomplished by employing a standardized marketing strategy, but when unique economic factors are present unobserved or unmitigated, a standardized marketing strategy could prove financially disastrous.

Finally, we established that global businesses must continuously evaluate the political and legal climate in the countries in where they currently operate or hope to operate in the future. Until recently, governments were able to directly enforce the rules and regulations based on their own political and legal philosophies. Although near-universal access to the internet has begun to change this by providing sellers and buyers easier access to each other, countries are still capable of strong-arming companies into abiding by their rules and regulations.

Collectively, the discussions within this chapter show that carefully and comprehensively examining cultural, economic, and political/legal factors when developing an entry strategy into an international market provides a solid baseline analysis for determining whether to pursue a localized marketing strategy, a standardized marketing strategy, or some combination of the two.

The success of international business is heavily reliant upon marketing products at the optimal price, utilizing the most efficient and effective channel structures for distribution and marketing, and presenting the product in the most appealing light to the appropriate consumer (Baalbaki & Malhotra, 1993). Establishing and linking these processes is a complex endeavor, but key to maximizing the value for all involved.

Management for any organization on the global level can be an immensely complex undertaking. Tadjewski & Jones (2014) discuss the historical implications of the various facets of market management, pointing out that marketing is not simply the amalgamation of advertising and promotion, nor is it just branded products and consumerism. From their perspective, the essence of marketing management is the strategy employed to create superior value in the eyes of the customer through the use of marketing mix elements such as product, promotion, price, and distribution. Also, the current editors take a view that business management overall should be seen through the perspective of the market – especially the customers. That is why this book on international business is broadly oriented around international marketing practices.

Babu George and John Rogers
Editors

INTRODUCTION:
A BROAD OVERVIEW OF THE LANDSCAPE
OF INTERNATIONAL BUSINESS

MICHAEL HANNA AND BABU GEORGE

The Rationale for Internationalization

There are many factors which come into play for an industry to become global or remain local or regional. The airline industry, for example, is a global industry. Development and production of large aircraft involves great cost, but because the aircraft industry itself enjoys both significant market size and demand based on the size and demand of both the international and regional travel market, the aircraft industry is also destined to be global. Working at the local or regional market level could never recoup the cost of development and maintenance. On the other hand, some industries work better at the local market level. Because fresh bakery items are perishable, the fresh bakery industry tends to perform best as a local or regional concern. While there has been considerable improvement in shipping and delivery of perishable goods, taking advantage of economies of scale requires a scope that most small bakery firms cannot reach. It is far more cost effective for small bakery firms to trade on freshness by catering to local markets.

Some industries prefer to penetrate higher level markets by duplicating capabilities in numerous local markets, while other industries expand centralized capabilities to address those requirements. The decision to pursue global markets is based on both the maturity of local and regional level markets and the point at which the efforts to capture new markets result in a loss of profit margin, or diminishing returns on investment. If economies of scale cannot be leveraged at the local or centralized level in such a way that a reduced rate of return is overcome by volume increases, a firm should not attempt to compete at the global market level.

Another consideration in a firm's decision to expand operations to the global market level is the expansion plan itself, which will be completely

different depending on whether the firm engages in providing a service or manufacturing a product. Expansion in the service industry is different from the manufacturing industry in several ways. Any manufacturing firm, for instance, must account for the location, set up, and operation of a physical plant. Raw materials become the product, which is then shipped to the end user. Most of the actual work is done at the plant under tightly centralized control and standards. By contrast, the service industry is less concerned about raw materials and logistics than conceptual development of the service, after which it is distributed and the actual work delivered at the client location. Global expansion of either company type requires a clear understanding the market in terms of the clients to whom they cater and expected delivery methods.

In summary, it is clear that type of industry, market size, cost, product life, resource availability, government regulation, client location and preference, and uniformity of customer taste play an essential role in determining whether the industry should consider going global or stay local.

Absolute vs Comparative Advantage

Imagine a doctor in private practice: A young doctor opens a practice working alone, and within a few months has developed a substantial clientele. Initially she performed her own clerical work, including filing, typing and answering the phone. With an increasingly busy schedule, however, she realizes that she could be seeing more patients and bringing in more revenue if she hired an assistant.

As it happens, this young professional is not only a brilliant doctor, but also lightning-fast at typing and filing. She is, in fact, better at doing both jobs than the clerical assistant she hires. In other words, she has an absolute advantage at both medical diagnosis and clerical work.

Does it make sense then for the doctor and her assistant to share both tasks, each spending part of the day diagnosing patients and doing clerical work? Of course not. By having the assistant perform all the clerical work, the doctor is able to maximize her more lucrative, higher level skill and see more patients. The patients are undoubtedly better off as well, being treated by the doctor rather than the assistant. Although the assistant is less competent at performing either task than the doctor, the assistant provides a comparative advantage to the doctor by doing the clerical work because it frees the doctor to maximize a more profitable use of her time. By working

together and trading their services, the doctor and the assistant mutually benefit.

The example above helps to explain international trade, allowing countries to specialize in the production of what they do best and make the most efficient use of their resources. This, in turn, reduces the price of goods for consumers on both sides of the trade agreement. No matter how inefficiently a country produces goods, it always has a comparative advantage in at least one. This determines which goods and services a country produces and subsequently exports, and which goods and services they import.

Strategy Development

Strategy formulation is the process of choosing the most appropriate course of action to realize organizational goals and objectives, thereby achieving the organizational vision. The process of strategy formulation involves six easily followed steps, and, excepting “Choice of Strategy”, not constrained by rigid chronological order.

Setting an Organization's Objectives - The key component to any strategy statement is Identifying the long-term objectives of the organization. Objectives reflect the desired endstate for which the strategy is being employed, and the strategy entails both the fixation of objectives and the methods and processes by which they will be realized. Strategy also accounts for deployment of resources to achieve the objectives.¹¹ When fixing organizational objectives, it is essential to identify and analyze all factors that could influence the outcomes so that reasonable strategic decisions are taken in the context of desired endstate.

Evaluating the Organizational Environment - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organization's competitive position, including a qualitative and quantitative review of the organization's existing product line. The purpose of such a review is to ensure that factors important for competitive success in the target market are identified and management can inventory internal strengths and weaknesses as well as those of their competitors. Once this is established, an organization must track competitor activities in order to leverage opportunities and mitigate threats to its market or supply sources.

Setting Quantitative Targets - In this step, an organization must assign quantitative target values for organizational objectives where appropriate.

The idea is to evaluate potential contributions by various product zones or operating departments based on long term customer activity.

Aiming in Context with the Divisional plans - In this step, the contributions made by each department, division, or product category within the organization is identified and strategic planning done for each sub-unit. This requires a careful analysis of macroeconomic trends.

Performance Analysis - Performance analysis includes identifying and analyzing the gap between the expected and desired performance. This includes a critical evaluation of the organization's past performance and present condition as compared to desired future conditions, and identifies any gaps between current reality and long-term aspirations of the organization. Further analysis estimates an organization's probable future condition if the current trends persist, sometimes called "worst case scenario".

Choice of Strategy - The ultimate step in Strategy Formulation, of course, is choosing the best course of action after considering organizational goals, organizational strengths, potential, and limitations as well as the external opportunities.

Choosing Business Locations and Service Operations

A firm must consider multiple factors when selecting a location for a production facility, including country-related issues, product-related issues, government policies, and organizational issues. Country-related issues affect resource availability and cost, infrastructure, and country-of-origin marketing effects. Product-related issues affect the product's value-to-weight ratio, the required production technology, and the importance of customer feedback. Government policies are important in terms of the stability of the political process, national trade policies, economic development incentives, and the existence of foreign trade zones. Finally, organizational issues revolve around the firm's business strategy and its organizational structure.

Likewise, there are numerous factors to address when managing international service operations, including the difficulty in assessing a service's value and/or quality because of its intangible and possibly subjective nature. An organization must take into account the degree of perishability of a service. Capacity planning is an absolutely critical task for consistently delivery requirements because some services may require