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# INTERNATIONAL MARKETING

FIFTEENTH EDITION



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# International Marketing

fifteenth edition

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## INTERNATIONAL MARKETING

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To Nancy

To the people who led me down this  
career path:

Richard Burr, Trinity University

Tom Barry, Southern Methodist University

Betsy Gelb, University of Houston

To Geert Hofstede



# ABOUT THE AUTHORS

**Philip R. Cateora** Professor Emeritus, The University of Colorado at Boulder. Received his Ph.D. from the University of Texas at Austin where he was elected to Beta Gamma Sigma. In his academic career at the University of Colorado he has served as Division Head of Marketing, Coordinator of International Business Programs, Associate Dean, and Interim Dean. His teaching has spanned a range of courses in marketing and international business, from fundamentals through the doctoral level. He received the University of Colorado Teaching Excellence Award and the Western Marketing Educator's Association's Educator of the Year Award.

Professor Cateora has conducted faculty workshops on internationalizing principles of marketing courses for the AACSB and participated in designing and offering similar faculty workshops under a grant by the Department of Education. In conjunction with these efforts, he co-authored *Marketing: An International Perspective*, a supplement to accompany principles of marketing texts. Professor Cateora has served as consultant to small export companies as well as multinational companies, served on the Rocky Mountain Export Council, and taught in management development programs. He is a Fellow of the Academy of International Business.

**Mary C. Gilly** Professor of Marketing at the Paul Merage School of Business, University of California, Irvine. She received her B.A. from Trinity University in San Antonio, Texas; her M.B.A. from Southern Methodist University in Dallas, Texas; and her Ph.D. from the University of Houston. Dr. Gilly has been at UCI since 1982 and has served as Vice Dean, Associate Dean, Director of the Ph.D. Program and Faculty Chair in the school of business, as well as the Associate Dean of Graduate Studies for the campus. She has been on the faculties of Texas A&M University and Southern Methodist University and has been a visiting professor at the Madrid Business School and Georgetown University. Professor Gilly has been a member of the American Marketing Association since 1975 and has served that organization in a number of capacities, including Marketing Education Council, President, Co-Chair of the 1991 AMA Summer Educators' Conference, and member and chair of the AMA-Irwin Distinguished Marketing Educator Award Committee. She currently serves as Academic Director for the Association for Consumer Research. Professor Gilly has published her research on international, cross-cultural, and consumer behavior topics in *Journal of Marketing*, *Journal of Consumer Research*, *Journal of Retailing*, *California Management Review*, and other venues.

**John L. Graham** Professor of International Business and Marketing at the Paul Merage School of Business, University of California, Irvine. He has been Associate Dean and Director, UCI Center for Citizen Peacebuilding; Visiting Scholar, Georgetown University School of Business; Visiting Professor at Madrid Business School in Spain; and Associate Professor, University of Southern California. Before beginning his doctoral studies at UC Berkeley, he worked for a division of Caterpillar Tractor Co. and served as an officer in the U.S. Navy Underwater Demolition Teams. Professor Graham is the author (with William Hernandez Requejo) of *Global Negotiation: The New Rules*, Palgrave-Macmillan, 2008; (with N. Mark Lam) of *China Now. Doing Business in the World's Most Dynamic Market*, McGraw-Hill, 2007; (with Yoshihiro Sano and James Hodgson, former U.S. Ambassador to Japan) of *Doing Business with the New Japan*, Rowman & Littlefield, 4th edition, 2008; and editor (with Taylor Meloan) of *Global and International Marketing*, Irwin, 2nd edition, 1997. He has published articles in publications such as *Harvard Business Review*, *Journal of Marketing*, *Journal of International Business Studies*, *Strategic Management Review*, *Journal of Consumer Research*, *Journal of International Marketing*, and *Marketing Science*. Excerpts of his work have been read into the *Congressional Record*, and his research on business negotiation styles in 20 cultures was the subject of an article in the January 1988 issue of *Smithsonian*. His 1994 paper in *Management Science* received a citation of excellence from the Lauder Institute at the Wharton School of Business. He was selected for the 2009 International Trade Educator of the Year Award, given by the North American Small Business International Trade Educators' Association.



# PREFACE

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

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

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

What surprises do the new decade, century, and millennium hold in store for all of us? Toward the end of the last decade, natural disasters and wars hampered commerce and human progress. The battle to balance economic growth and stewardship of the environment continues. The globalization of markets has certainly accelerated through almost universal acceptance of the democratic free enterprise model and new communication technologies, including cell phones and the Internet. Which will prove the better, Chinese gradualism or the Russian big-bang approach to economic and political reform? Will the information technology boom of the previous decade be followed by a demographics bust when American baby boomers begin to try to retire after 2012? Or will NAFTA and the young folks in Mexico provide a much needed demographic balance? Ten years out the debate about global warming should be settled—more data and better science will yield the answers. Will the economic tsunami of 2008–2009 evolve into something even worse? What unforeseen advances or disasters will the biological sciences bring us? Will we conquer AIDS/HIV in Africa? Will weapons and warfare become obsolete?

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

With the recent downturn in the industrialized countries and the continued growth in emerging markets has come a new competitive landscape, one vastly different from that

earlier period when United States multinationals dominated world markets. From the late 1940s through the 1960s, multinational corporations (MNCs) from the United States had little competition; today, companies from almost all the world's nations vie for global markets. Fareed Zakaria reported:

"During the last two years, 124 countries grew their economies at over 4 percent a year. That includes more than 30 countries in Africa. Over the last two decades, lands outside the industrialized West have been growing at rates that were once unthinkable. While there have been booms and busts, the overall trend has been unambiguously upward. Antoine van Agtmael, the fund manager who coined the term 'emerging markets,' has identified the 25 companies most likely to be the world's next great multinationals. His list includes four companies each from Brazil, Mexico, South Korea, and Taiwan; three from India, two from China, and one each from Argentina, Chile, Malaysia, and South Africa. This is something much broader than the much-ballyhooed rise of China or even Asia. It is the rise of the rest—the rest of the world."<sup>1</sup>

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

- The ever-present threat of global terrorism as represented by the September 11, 2001, attacks
- Major armed conflicts in sub-Saharan Africa and the Middle East
- The potential global recession emanating from the United States
- The emerging markets in eastern Europe, Asia, and Latin America, where more than 75 percent of the growth in world trade over the next 20 years is expected to occur
- The reunification of Hong Kong, Macau, and China, which finally puts all of Asia under the control of Asians for the first time in over a century
- The European Monetary Union and the successful switch from local-country currencies to one monetary unit for Europe, the euro
- The rapid move away from traditional distribution structures in Japan, Europe, and many emerging markets
- The growth of middle-income households the world over
- The continued strengthening and creation of regional market groups such as the European Union (EU),

<sup>1</sup>Fareed Zakaria, "The Rise of the Rest," *Newsweek*, May 3, 2008.



the North American Free Trade Area (NAFTA), the Central American Free Trade Area (CAFTA), ASEAN Free Trade Area (AFTA), the Southern Cone Free Trade Area (Mercosur), and the Asia-Pacific Economic Cooperation (APEC)

- The successful completion of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) and the creation of the World Trade Organization (WTO), the latter now including China and Taiwan
- The restructuring, reorganizing, and refocusing of companies in telecommunications, entertainment, and biotechnology, as well as in traditional smokestack industries around the world
- The continuing integration of the Internet and cell phones into all aspects of companies' operations and consumers' lives

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

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

Emphasis is on the strategic implications of competition in different country markets. An environmental/cultural approach to international marketing permits a truly global orientation. The reader's horizons are not limited to any specific nation or to the particular ways of doing business in a single nation. Instead, the book provides an approach and framework for identifying and analyzing the important cultural and environmental uniqueness of any nation or global region. Thus, when surveying the tasks of marketing in a foreign milieu, the reader will not overlook the impact of crucial cultural issues.

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

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

## New and Expanded Topics in This Edition

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

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

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

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

- A deeper look at the causes of cultural differences
- The Internet and cell phones and their expanding role in international marketing
- Negotiations with customers, partners, and regulators
- Evolving global middle-income households
- Bottom-of-the-pyramid markets



- World Trade Organization
- Free trade agreements
- Multicultural research
- Qualitative and quantitative research
- Country-of-origin effects and global brands
- Industrial trade shows
- A growing emphasis on both consumer and industrial services
- Trends in channel structures in Europe, Japan, and developing countries
- Ethics and socially responsible decisions
- Green marketing
- Changing profiles of global managers

**Structure of the Text** The text is divided into six parts. The first two chapters, Part 1, introduce the reader to the environmental/cultural approach to international marketing and to three international marketing management concepts: domestic market expansion, multi-domestic marketing, and global marketing. As companies restructure for the global competitive rigors of the 21st century, so too must tomorrow's managers. The successful manager must be globally aware and have a frame of reference that goes beyond a country, or even a region, and encompasses the world. What global awareness means and how it is acquired is discussed early in the text; it is at the foundation of global marketing.

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

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

Geography and history (Chapter 3) are included as important dimensions in understanding cultural and market differences among countries. Not to be overlooked is concern for the deterioration of the global ecological environment and the multinational company's critical responsibility to protect it.

Chapter 4 presents a broad review of culture and its impact on human behavior as it relates to international marketing. Specific attention is paid to Geert Hofstede's study of cultural values and behavior. The elements of culture reviewed in Chapter 4 set the stage for the in-depth analyses

in Chapters 5, 6, and 7 of business customs and the political and legal environments. Ethics and social responsibility are presented in the context of the dilemma that often confronts the international manager, that is, balancing corporate profits against the social and ethical consequences of his or her decisions.

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

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

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

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

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

Chapters 13 and 14 focus on product and services management, reflecting the differences in strategies between consumer and industrial offerings and the growing importance in world markets for both consumer and business services. Additionally, the discussion on the development of



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

Chapter 15 takes the reader through the distribution process, from home country to the consumer in the target country market. The structural impediments to market entry imposed by a country's distribution system are examined in the framework of a detailed presentation of the Japanese distribution system. Additionally, the rapid changes in channel structure that are occurring in Japan, as well as in other countries, and the emergence of the World Wide Web as a distribution channel are presented. We also have redistributed key material from a previous chapter on exporting logistics to this and other related sections of the book.

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

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

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

## Pedagogical Features of the Text

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

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

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

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

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

The book is presented in full color, allowing maps to depict of geographical, cultural, and political boundaries and features more easily. Color also allows us to better communicate the intricacies of international symbols and meanings in marketing communications. New photographs of current and relevant international marketing events are found throughout the text—all in color.

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

In addition to The Country Notebook, the fifteenth edition comprises a selection of short and long cases located online at [www.mhhe.com/cateora15e](http://www.mhhe.com/cateora15e). The short cases focus on a single problem, serving as the basis for discussion of a specific concept or issue. The longer, more integrated cases are broader in scope and focus on more than one marketing management problem; new cases focus on services, marketing, and marketing strategy. The cases can be analyzed using the information provided. They also lend themselves to more in-depth analysis, requiring the student to engage in additional research and data collection.

**Supplements** We have taken great care to offer new features and improvements to every part of the teaching aid package. Following is a list of specific features:

- **Instructor's Manual and Test Bank.** The Instructor's Manual, prepared by the authors, contains lecture notes or teaching suggestions for each chapter. A section called Changes to This Edition is included to help instructors adapt their teaching notes to the fifteenth edition. A case correlation grid at the beginning of the case note offers alternative uses for the cases.

The Test Bank is also available on the Online Learning Center for ease of use. The Test Bank contains more than 2,000 questions, including true/false, critical thinking, and essay formats. Computerized testing software with an online testing feature is also available.

- **Videos.** The video program has been revised for the fifteenth edition and contains footage of companies, topics videos, and unique training materials for international negotiations. Teaching notes and questions relevant to each chapter in the text are available in the Instructor's Manual and at the Web site.
- **PowerPoint slides.** This edition has PowerPoint slides for both the instructor and students. The PowerPoint presentation that accompanies *International Marketing*, fifteenth edition, contains exhibits from the text and other sources.
- **Web site:** [www.mhhe.com/cateora15e](http://www.mhhe.com/cateora15e). Included on the site are instructor resources such as downloadable files for the complete Instructor's Manual, PowerPoint slides, test bank, and links to current events and additional resources for the classroom. Instructors can also link to PageOut to create their own course Web site. For students, our site provides links to Web sites, Cases, an interactive version of the Country Notebook, online quizzing, and chapter PowerPoint Slides.

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

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**Philip R. Cateora**  
**Mary C. Gilly**  
**John L. Graham**



# WALKTHROUGH

A quick look at the new edition

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



# Global Marketing on the Web at Marriott

The Internet today is the most global of any media invented so far, joining leapfrogged television and radio—which may yet become global some day but are far from doing so. It is the only medium that approaches true global reach. The power of the Internet results from its many unique attributes. It is unique in its ability to:

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



These attributes make it the most powerful medium on earth, unparalleled in its ability to communicate, especially to a global world. It is an attentional marketer's dream! However, leveraging these characteristics as an effective medium requires dealing with various substantive issues. These issues include:

- Major differences in Internet adoption rates across the globe ranging from greater than 70 percent adoption in North America to less than 2 percent for the continent of Africa. This difference greatly influences the role of the Web as part of the marketing mix in international markets. Even for advanced EU economies, the rate of adoption is slow, ranging from 48 percent in the Netherlands to 49 percent in Belgium. The average for the entire continent of Africa is around 1 percent for some developed economies.
- Unique issues created by technology including broadband versus narrow-band, which free video products and services can be marketed and used in the narrow-band world, highly graphic and video-based Web sites are not viable. An example is the elaborate photo tours of hotels on [www.marriott.com](http://www.marriott.com), which downloaded quickly on broadband connections but did so extremely long on narrow-band. Therefore, a site designed for one market can be ineffective in another.

Recreation is a Marriott owned hotel brand. It can connect with its local customers to its all-important Web site, including print, television, banner, and outdoor. These 2 page print ads are designed toward U.S., Middle Eastern, and Chinese customers, and each of them lists the Web site address—the first two offers were unsuccessful in use, and the last using some rewordings worked very well. Even though the same Web site address is common to both the United Kingdom and the Middle East, the ad presentation is adjusted to the more conservative dress appropriate to the other region. Finally, you can see how the campaign is also used on the streets of Shanghai. Ask your classmates what “Be Party with Us” connotes in the latter market.



## 4-Color Design

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



# Chapter Openers

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

## Chapter 1

## The Scope and Challenge of International Marketing

### CHAPTER OUTLINE

**Global Perspective: Global Commerce Causes Peace**

The Internationalization of U.S. Business

International Marketing Defined

The International Marketing Task

Marketing Decision Process

Aspects of the Successful Internationalization of Foreign Enterprises

Environmental Adaptation Needed

The Self-Reference Criterion and Ethnocentrism: Major Obstacles

Developing a Global Awareness

Stages of International Marketing Improvement

No-Draw Foreign Marketing

International Foreign Marketing

Export Foreign Marketing

International Marketing

Global Marketing

The Organization of International Marketing

### CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 1:

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

### Global Perspective

#### GLOBAL COMMERCE CAUSES PEACE

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

Being Company America's largest exporter, it perhaps the most prominent example. Although some would argue that Boeing's military sales (aircraft and missiles) do not qualify as exports, over most of the company's history, that business has constituted only about 20 percent of the company's commercial activity. By year-end 2007, Boeing's total sales fell 10 percent from 2006, about 65 percent came from sales of commercial jets around the world and another 15 percent from space and communications technologies. Unfortunately, that, however, statistics are being skewed by U.S. military spending and the damage done to Boeing by terrorism. For six, the company will count operations in more than 90 countries and in 130,000 employees work in 70 countries. The new 787 Dreamliner includes parts from around the world, including Australia, France, India, Italy, Japan, Russia, and Sweden. To meet that 12,000-component jet in service worldwide every about one billion travelers per year, its 3,500 Boeing divisions is the lead contractor in the construction and operation of the 14 existing international airports. Boeing, led by an American and two Russians in the fall of 2008. The Space and Intelligence Service Division also produces and handles communications satellite affecting people in every country.

All the activity associated with the development, production, and marketing of commercial aircraft and space vehicles requires millions of people from around the world to work together. Moreover, no company can expect to enable people from all countries to work together for the

both economic and commerce. All that interaction helps not just the nations but also the people who work in those nations. It also provides relationships and mutual understanding. The latter is the foundation of global peace and prosperity.

Another class of companies that generate global dialogue and therefore peace is the world phone industry. During 2007 the number of mobile phone subscriptions exceeded 5.0 billion, and this number is expected to grow beyond 4.2 billion by 2012. Nokia (Finland), the market leader, is well ahead of the American companies Motorola and Apple, Samsung (S. Korea), LG (S. Korea), and Sony (Japan) (Japan Wireless).

Individuals and small companies also make a difference, perhaps a smaller one, than large multinational companies, but one just as important to the progress. Our favorite example is David Lubatky's company, PeaceWorks. Mr. Lubatky went to following at Stanford Law School to study law, to honor joint contract between Arabs and Israelis. That, following his own advice, he created a company that conducted bond gave him hand with other raw materials and plants are supplied by an Arab partner or producer the tree product is a tree he called Middle East Olive (MEO). The company now sells low oil-free olive products from 10,000 stores in the United States and has 100 employees in Park Avenue in New York, as well as business operations in Israel, Egypt, Indonesia, Turkey, and Sri Lanka, Africa. Beyond the economic and social benefits of cooperation between the Israeli Arabs, Israelis, and others, it's the longer lasting and more fundamental approach to one another's circumstances and character.

International marketing is hard work. Making nice often is an oxymoron, even in Paris, especially when you're there from 10 years before. But successful marketing is worth the work. It was created here, your health, your company, and

## Chapter 6

## The Political Environment: A CRITICAL CONCERN

### CHAPTER OUTLINE

**Global Perspective: World Trade Goes Bananas**

The Sovereignty of Nations

Stability of Government Policies

Forms of Government

International Organizations

Export-Import Administration

Trade Agreements

Political Risks of Global Business

Corruption, Bribery, and Government

Economic Policy

Political Instability

Political and Social Instability and Regional Instability

Organizations

Politics, Terrorism, and War

Government and Government

Developing Political Viability

Partially Service Products and Issues

Forecasting Political Risk

Lessening Political Vulnerability

Joint Ventures

Exporting the Investment Base

Learning

Political Risk Management

Political Risk

Government Encouragement

### CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 6:

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

### Global Perspective

#### WORLD TRADE GOES BANANAS

Before that (Chapter 6), the work of political and international marketing of PeaceWorks has been well known. PeaceWorks, and both side and scope from Germany, Thailand and other imported products that change, were all shipped with a 100 percent import tariff as indicated by the U.S. government against European Union business-import rules that favored Caribbean banana over Latin American bananas. Keep in mind that no banana are exported from the United States, yet the United States has been engaged in a trade war over the past couple years that has not otherwise small businesses on both sides of the Atlantic millions of dollars. Not here can the be, you ask? Politics, that's how!

One of the banana, Baha Enterprises, the example, with both side, and other supplies imported from Germany. The rest of it for the most popular product, in both sides both, was imported from 1 percent to 100 percent. The banana bill was an annual tariff of \$17.95 from just \$0.31, a 1,480 percent increase. For a small business, whose gross sales are less than \$1 million annually, it was crippling. When Baha heard of the agreement, "bananas were" he called everyone—the congressman, his senator, the United States Trade Representative (USTR). When he described his plight to the USTR, an official there responded immediately. "They were surprised I was still negotiating because they thought the tariff would cut off the industry entirely. That was their intention, which of course would have meant killing Baha Enterprises as well."

In effect, he was told it may be fair that he got caught up in the trade war. He should have translated the language in Washington, not like Obama and Mond, and maybe his products would have been dropped from the targeted list, just as they were. Some of European products, from clothing to shoes to glass Christmas ornaments, dolls, and holiday gear, that were originally targeted for the voluntary tariff except the tariff. Aggressive lobbying by large corporations, trade groups, and members of Congress got most of the targeted imported products off the list. The USTR had published a list of the targeted imports in the Federal Register, inviting affected companies to testify. Unfortunately, the Political Register was not on Baha's reading list.

In that case, he was told, he should have had a lobbyist in Washington to keep him informed. Global advice—and it doesn't make much sense to a company that grows here

that \$1 million a year. Other advice included that an official of the USTR included the off-the-record suggestion that he might want to change the banana market on the service or it would appear that he was importing goods not subject to the tariff, a decision that could, if he were caught, result in a hefty fine or jail. Baha's business in Europe faced similar problems as their export business dried up because of the tariff.

How did the banana war start? The European Union imposed a quota and tariff, but favored imports from banana colonies in the Caribbean and Africa, distributed by Karampano Bros. over Latin American bananas distributed by U.S. firm, Chiquita Brands International and Dole Food Company, concluding that the U.S.'s "illegal trade barrier" was costing \$25 million annually in lost sales to Europe, and the U.S. government (or help). The government agreed that until the trade barriers were dropped, they had to pay 100 percent tariff on selected European imports were limited. Consequently, Chiquita Brands' annual political campaign expenditures increased from barely over \$40,000 in 1991 to \$1.1 million in 1998.

A settlement was finally reached that involved high tariffs on banana from Europe's former colonies, that the trading partner banana cost would be set at a not higher level until 2007 the same tariff to banana trading. That is, banana from Latin America had to be long and straight, while those from the former EU colonies are short and bent. Because the latter are not produced by the European or produce the latter are not as costly and consequently, the banana from the former colonies were still protected, the banana rights were signed by the European Commission that mandated that banana must be free from "domestic protection of the sugar." In the trade banana products were signed to emerge on the whole agreement. Over 2007 European market liberal has prospered very successfully.

The banana trade is kept in check through a 2008, what resulted in meetings among all parties in Geneva. The banana trade was finally settled. The EU set import tariffs on banana grown in Latin America by U.S. firms.

Lesson: "It is not enough to be a successful company that you should have a lobbyist in Washington to keep you informed. Global advice—and it doesn't make much sense to a company that grows here

# Crossing Borders Boxes

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

CROSSING BORDERS 13.3

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

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

By examining the fashion of the Harajuku, we can gain a more in-depth understanding of group affiliation and construction of self in counterculture movements. Defective of a counterculture, the Gothic Lolita in-group behavior and fashion evokes opposition and displays a symbolic rebellion against mainstream Japanese culture. These attitudes are reflected in non-binding and atypical gendering styles.

In the past, youth subcultures generally have emerged from Western society and diffused globally. But the Harajuku subculture began in the East and is moving West, marking a shift in the cultural current. The Harajuku subculture is also an example of the differences between Eastern and Western counterculture movements. Whereas maturity in Western cultures is associated with authority and individuality, in Confucian Japan, maturity is the ability to cooperate with a group, accept compromise, and fulfill obligations to society. Therefore, rebellion in Japanese youth culture means rebellion against adulthood as well. Rather than engaging in socially provocative or aggressive behaviors, it emphasizes their maturity and independence, as occurs among Western models. Japanese Gothic Lolitas display

themselves in a childlike and adorable manner to emphasize their maturity and subtly to reject the social responsibilities and obligations of adulthood.

Lolity because of the refusal to accede with social expectations, mainstream Japan views the subculture as selfish, especially considering its indulgent consumption behaviors. Unlike contemporary Western youth culture, such as punk and grunge, the Gothic Lolita subculture does not condemn male roles or other aspects of modern consumer culture. Instead, one outfit (as seen in accompanying photo) can cost as much as \$100-\$1000. Because personal consumption is regarded as both virtuous and normal in Japanese society, the subculture opposes restrictive social values by indulging in conspicuous consumption.

Most participants aged 13-20 years are students or have jobs that require them to wear a uniform everyday. On Sundays, they feel they have reached the time they can truly be themselves. Their lifestyle is frowned upon, making it very common to see teenagers carrying bags with the "Harajuku Lolita" on the front and changing at the park to their parents never see their outfits. Other wear the clothing as their normal daily dress, but the vast majority wear it for Sundays, when they congregate at Jingu Bridge and Yoyogi Park to show off their fashions, hang out, and meet others like them. Some go just to have their pictures taken by the subculture's magazine photographers, who search for shots of new trends, or by tourists.

Source: Hiroshi San-Joon, writing paper, Paul Herges School of Business, University of California, Irvine, 2002.

When analyzing a product for a second market, the extent of adaptation required depends on cultural differences in product use and perception between the market the product was originally developed for and the new market. The greater these cultural differences between the two markets, the greater the extent of adaptation that may be necessary.

When instant cake mixes were introduced in Japan, the consumers' response was less than enthusiastic. Not only do Japanese reserve cakes for special occasions, but they prefer the cakes to be beautifully wrapped and presented in pretty shops. The acceptance of instant cakes was further complicated by another cultural difference: many Japanese homes do not have ovens. An interesting solution to this example is the company's attempt to correct for that problem by developing a cake mix that could be cooked in a rice cooker, which all Japanese homes have. The problem with that idea was that in a Japanese kitchen,



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3-1 Assessment of Market Opportunity  
 3-2 Market Entry Strategy  
 3-3 Marketing Strategy for the Internet  
 3-4 Expansion Strategy for the Retailer  
 3-5 The Local Market

### CASE 3-5 A Sea Launch Recovery?

**ORCA 2008**  
 The Orca 2008 mission was the first in a series of missions to launch the Orbital Reef space station. The mission was a joint effort between the U.S. and Russia. The mission was a joint effort between the U.S. and Russia. The mission was a joint effort between the U.S. and Russia.

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## NEW Cases

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

# A Wealth of Supplements

## Global Perspectives

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

PART ONE

### Global Perspective

#### TRADE BARRIERS—AN INTERNATIONAL MARKETER'S MINERFIELD

We all know the story about U.S. trade disputes with Japan. Japan has so many trade barriers and high tariffs that U.S. manufacturers are unable to sell in Japan or even to Japanese consumers left in the United States. The Japanese claim that "tariffs" Japanese never exports like auto to Japan, and U.S. tariffs are not good enough for Japanese household. Even when Japan opened its own market, people in California still had to be wined and dined with colorful gifts of Japanese rice. And at this writing, the Japanese government continues to exclude American beef from the Japanese diet based on disputes about mad cow disease.<sup>1</sup>

However, the Japanese are not alone; every country seeks to take advantage of the open U.S. market while protecting barriers to the way of U.S. exports. The French, for example, protect their wine and perfume industries from foreign competition by limiting the number of American shops that can appear on sidewalks, the percentage of American songs broadcast on radio, and the percentage of U.S. movies that can be shown in French theaters. Most recently France has asked to even "threaten" removal of 1500 million strong government financial support. Not only do these barriers and high tariffs limit low-cost U.S. competition on sell, but they also raise prices for imported goods much higher than they sell for in the United States.

Another trade protection tactic even involved Boeing's Japanese Client of Suppliers, which has finally answered a question that has long puzzled the right along more trade war. What exactly is a Boeing 787? Well, it's a Boeing 787 Dreamliner. Heck of a Dreamliner is Other World's Dreamliner, Lord Justice Boeing, which concluded that despite it is a plane ship. The dreamer is built from the Boeing A. Giacinto U.K., which now owns \$100 million in value added from the plane. It is that good news for the Boeing's Dreamer and Customer—and the fear of economic legal disputes. It is also a constant, an uncertainty in the United States which France's State Department has not being a "more one agreement," of its position of such levels in terms, most levels are except from the value added tax (VAT), but provide claim claims from its energy and "tariffs problems made from the public, or from public trust" are visible. Professor A. Giacinto, in what could be considered a first countermeasure plan, argued that France is about 48 percent price than the state system, and not only where and therefore should not be considered from claims or "tariffs products." Rather they are "tariffs products."

The WTO and Dispute Tribunal disagreed, ruling that the practices, restricted in the United States as "tariffs ships," are visible. "There are other arguments," also Tribunal agreed, but it's France is "tariffs three years that is for the sake that one cannot see that it is not made from public trust, and the proportion of public trust is significant being over 48 percent."

Further to make, whatever these free trade, both tariff and content, are one of the major issues involving international systems. Nations continue to use trade barriers for a variety of reasons, some national, some not as national. The reality, tariffs generally have been reduced to record lows, and national programs have been made or eliminating new tariff barriers. And work continues around the world to further reduce these policy barriers to peace and prosperity.

Source: Adapted from David B. Forrester, "The Trade Wars from Japan," *Executive Decision Magazine*, October 2002, p. 22; James B. Giffen, "The War" *Business*, April 18, 2002, p. 72; American Trade Policy Reporter, "U.S. Negotiations with China on Trade Issues," *Business Week*, January 3, 2004, inside cover; "The Last Issue of the Book Project for France," *The New York Times*, June 3, 2004.

The French Tariff, *Wall Street Journal*, and John L. Graham, *Using Business in the New Open Economy* (International Business Press, 2004) (London, U.K.: Business in a Cultural World, 2004) for the complexity.

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INTERNATIONAL MARKETING PHILIP R. CATEORA, MARY C. GILLY, JOHN L. GRAHAM 15/E

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**International Marketing, 15/e**

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