Global Marketing

Key Terms: globalization, exporting, direct ownership, licensing, management contracting, contract manufacturing, product adaptation, backward invention, joint ventures, tariffs, quotas, and embargoes.

Each billion dollars of trade deficit results in the loss of 25,000 American jobs. It is therefore very important for American industry to focus on exporting.

Environmental Forces to consider in international marketing:

Economic environment – There are economic differences between the US and other countries. Some countries have much lower standards of living.

Political-Legal environment – Some countries do not have stable governments. They may have a different legal system than the United States.

Cultural environment – There are cultural differences that have to be taken into account. For instance, what is a pet in the United States might be food in another country. Pork is not eaten in many countries.

Social environment – There may be differences in family structure.

Technological differences – In many countries, few households have a personal computer. In many parts of the world, a large number of households do not have electricity, telephones, or indoor plumbing.

Adaptations of marketing mixes:

(1) Don’t change the product/Don’t change the promotion (straight extension)
There are some world brands that are marketed the same way throughout the world. Some examples: Coke and Marlboro. Some argue that we have globalization of markets and the world is becoming a very small place. People all over the world have very similar needs. Other scholars disagree and claim that most products to have to be adapted for exporting: company might have to change the name, package, color, product features, price, advertising theme, advertising media, and/or materials used.

(2) Don’t change product/Adapt promotion (communication adaptation)
For instance, bicycles are promoted for recreation in the United States but they are transportation in many parts of the world. [This excellent example of communication adaptation is from my student, Barbara Laniado--Thank you!] Scarves are fashion accessories in the United States and women purchase them together with a dress to enhance a certain look. An online advertisement for a line of scarves might show a very elegant woman wearing one with a sexy outfit. Try selling a line of scarves for women in Moslem countries. In many Moslem countries, women wear a scarf for religious/modesty reasons. Since the purpose of the scarf is for modesty, any

advertising for it will definitely not show an elegant woman wearing one with a sexy outfit. Ads for the scarf would not stress style but emphasize that it is of high quality, made of light-weight material, and good for all seasons.

(3) Adapt product/Don't change promotion (product adaptation)
For instance, children all over the world play with dolls. Dolls have to be modified when sold in Moslem countries. They have to be dressed modestly and do not have boyfriends. In one Moslem country, a Leilah and brother doll set is being marketed, not Ken and Barbie. In general, dolls have to modified to look like the dominant culture of the country in which they are sold. There are different water conditions throughout the world and some detergents are reformulated to work in hard water. Thus, changing a product to make it more appropriate for another country's climate, religious values, or taste would be an example of **product adaptation**. This is why McDonald's has different menus in different countries (see
[http://hubpages.com/hub/McDonalds_Strange_Menu_Around_the_World)](http://hubpages.com/hub/McDonalds_Strange_Menu_Around_the_World)
In Norway, where people love fish, you will find McLaks, a sandwich made of grilled salmon and dill sauce; in Germany they serve beer with the hamburgers. You can't sell beef in India, so you will find Maharaja Mac there; it is made of lamb or chicken. They also sell vegetarian burgers in India. In Israel, they have a few kosher McDonald's so they do not serve milk and meat together. This means, no cheeseburgers. They do serve a McShawarma there -- kosher meat in a pita.

(**4) Adapt product/Adapt promotion (dual adaptation)**
Playtex had to change its bras when marketing them in the Middle East. Asian women have different shapes than American women. Furthermore, in many Moslem countries, women cannot be shown in advertising modeling bras. Playtex had to use new advertisements showing fully-clothed women holding up bras on hangers.

Product invention
Sometimes you have to create a new product for a particular foreign market. Two types:

Backward invention – You remove some of the new technology and sell a low-tech, less complex version of your product to another country. For instance, a crank-operated radio (or flashlight) for sale in poor countries.

Some countries might have a special need and this means that you will have to develop a new product for their special need. For instance, there may be a need for pure water in certain countries and you invent a machine that purifies water.

Ways to enter foreign markets:

(1) Exporting
This is an easy way to enter foreign markets. Problem: foreign countries can impose high tariffs and quotas to protect domestic manufacturers.

(2) Direct Ownership via wholly-owned foreign subsidiaries

Several American companies own foreign subsidiaries throughout the world. Japanese companies own plants throughout the U.S.

(3) Licensing
The licensee pays royalties for the use of a patent, process, trade secret, or trademark. This is what lawyers often refer to as intellectual property. In effect, the company is offering its intellectual property in return for a licensing fee.

(4) Contract manufacturing
The domestic company turns over the manufacturing of the product to foreign companies; the marketing, however, is performed by the domestic firm. For example, Reebok uses foreign contract manufacturers to produce some of its products.

(5) Management contracting
The domestic firm supplies the management skills and the foreign firm supplies the capital. This is the way the Hilton hotel chain works. A foreign company puts up the money and builds the hotel and the Hilton organization supplies the management expertise and runs the hotel. This example does not deal with global marketing but is a similar idea on a local level: There is a famous restaurateur in NYC who owns one famous restaurant but manages several for other owners.

(6) Joint venture
A domestic firm and a foreign firm become partners. Some foreign countries insist that American firms take in a foreign partner if they wish to do business in their country.

Some risks to consider in international marketing:

(1) Nationalization — If you own factories in other countries and there is a revolution, your factories might be taken away. This may not be much of a concern when doing business in a stable democracy.

(2) Changing value of currencies — When the dollar is strong relative to other currencies, it becomes more difficult for foreigners to buy American goods. Look at a newspaper and you will notice that the value of a dollar relative to the Euro, Mexican Peso, or Japanese Yen fluctuates daily. This is a serious concern in international trade because you may have to wait several weeks before you get paid for your merchandise.

(3) Imposition of **tariffs**, **quotas**, and **embargoes** on your goods. Tariffs are taxes on imports. Suppose, a foreign government imposes a 200% tariff on your American-made product … what will this do to your sales? What effect will the imposition of quotas, *i.e.,* limits on the quantity of a particular goods that can be imported during a specific time period, have on your sales? There may even be an outright ban on your product (i.e., an embargo). One reason the Japanese have purchased companies and built factories all over the United States is because it is virtually impossible to impose tariffs and quotas on goods manufactured in the United States, even if the firm is owned by a Japanese

company, say, Honda. Several Japanese companies manufacture their products in the United States using American labor and sell them here.

Case: Taiwan Semiconductor Manufacturing Company (TSMC), the world's largest manufacturer of advanced computer chips, is planning on investing $40 billion in a factory in Arizona. Because of the problems with China, TSMC is moving production to the US and Japan. The factory construction costs in the US are at least 4 times the cost in Taiwan. In addition, American engineers are much more difficult to manage than Taiwanese engineers. Americans tend to challenge managers and question whether there are better ways to manufacture the chips. Taiwanese engineers do what they are told.

To learn about any country, go to the CIA's World Factbook site:
https://www.cia.gov/the-world-factbook/
