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International Marketing Compact

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Part I: Prospects for Understanding International Marketing Challenges

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When the subject of international marketing comes up, many questions arise. Why do firms focus on other markets even though it is most probably more convenient and less costly to be active only in the domestic market environment? Is a focus on international marketing neglecting a global focus? What about multinational firms: where should we position them? What are the forces behind today's internationalization attempts? In fact, when we try to understand the historical evolution of international marketing, can we also shed light on the 21st century approach of international focus in world markets? And last but not least, how do the various new trends in the internationalization process of firms affect the marketing operations in various markets abroad? This part of the book on international marketing tries to reflect the answers to the questions listed so far. Because without an understanding of the evolution of international marketing, the challenges of international environments and the new trends, it is not easy to obtain a strategic focus on the right market and market entry and on the right operations in the chosen markets.

The right link to the markets abroad would also start with a 'relevant definition' of ***what international marketing is about.*** International marketing can be seen as 'the profit-oriented business activities of firms in various nations with a close and a continuous follow up of market conditions for an effective flow of goods and services to buyers in these markets'[1]; 'covering an ever ongoing scanning of the micro and macro environments, systematic marketing planning, strategy formulation, implementation and control in a dynamic and competitive global environment with a focus on customer perspective, network marketing activities and adaptation of marketing mix policies according to local market requirements'[2]. 'This process of planning and undertaking exchange transactions beyond national borders not only means being confronted with macro environmental conditions of the host markets, but also necessitates a focus on different forms of market entry ranging from simple exporting to more complex wholly owned acquisitions'[3]. In a way, "*international marketing is the application of marketing orientation and marketing capabilities to international business*"[4]. It is 'a process by which needs and wants of consumers are identified in different international markets, the reach is via different market entry modes, as to provide the right goods and services to meet the market specific expectations and to gain global competitive advantage'[5], whereby the transaction related interaction between the parties such as the governments and firms and other related organizations are not to be neglected[6].

The international marketing focus incorporates many markets with different cultures, customers, segments and needs, as well as many challenging macro and micro forces and competitors. For firms to be eager to be part of such a complicated, challenging and costly market environment, there must be some very important factors pushing the firms, as well as some very important dreams to be realized. In fact, the question triggering the mind should be ***why do firms decide to operate internationally?*** The answer is more or less the same for most of the scholars working in the field of international marketing over the decades. It is reflected in Table 1.1.

Antecedents	Consequences
• **Market reasons:** – Domestic market problems: – – Saturation – – Slow development – – Exchange rate volatility – – Environmental regulations – – Unethical competition – – Political crisis killing market needs – Foreign market attraction: – – High purchase ability – – High market potential – – Liberal trade environment • **Managerial reasons:** – Top management interest – High need for market expansion – Vision to strengthen the market position with – – New markets – – New customer groups • **Product & production reasons:** – Product at decline stage in home market – Excess production capacity utilization – High cost of production at home	• **Market outcomes:** – Foreign market opportunities: – – Brand recognition – – Brand loyalty – Foreign market attractions: – – High profitability – – Long term promising perspectives – – Healthy competition abroad • **Production outcomes:** – Cost advantages – wages, materials, transportation – Economies of scale in production – Learning from advanced know how and ease of know-how transfer • **Managerial outcomes:** – Foreign market subsidiaries provide marketing benefits – Growth in foreign market – Higher level of control via backward or forward integration

Table 1.1: Why do Firms Decide to Go International? [Source: Compiled based on Terpstra, Vern/Foley, James/Sarathy, Ravi, *International Marketing,* 10^{th} Edition, Naper Publishing Group, IL 2012; Bradley, Frank, *International Marketing Strategy*, 5^{th} Edition, Pearson Education Limited, London 2005.]

Hence one can conclude that for a firm to gain an international focus based on the reasons and consequences above means running its business activities beyond the domestic target markets, beyond just selling products abroad, beyond understanding the market needs in one country so that for long term success an ongoing market analysis for regions of interest and adjustment of marketing mix strategies according to differences observed in different markets is necessary. The effects of uncontrollable or so-called macro environmental forces in each market abroad are not to be forgotten at this point. The way this international focus evolves and also turns into a multinational and global focus, resulting in a transnational approach in the 21^{st} century is also part of the first chapter of this part of the book. After these general perspectives for internationalization, the following chapters of part one will deal with the macro environmental forces, the so-called uncontrollable factors relevant for and different in each market abroad. These forces bring along the responsibility that for the firm going international it is not sufficient to focus on the domestic uncontrollable factors but also to consider those relevant for each international market separately, without relying on the market knowledge from one country, since solutions appropriate for one market do not necessarily fit to other markets.

What are the uncontrollable factors that differ highly from one market to the other and affect the internationalization process of the firms? The answer covers the macro-forces such as[7]:

- **Political/legal environment** with limiting or liberalizing effects of laws and regulations affecting international trade;
- **Economic environment** with inflationary pressures, purchasing power parities, per capita income influencing the demand and payment conditions;
- **Competitors** from the host market or other international firms with their capacities to invest in high technology products or their interest in market expansions;
- **Cultural environment** affecting the negotiations, communication with the customers and even the packaging, branding and promotion strategies;
- **Technological environment** with the development level of material culture in a host market, assuring the availability of infrastructure for Internet or roads and any kind of communication making it possible or not possible to reach different market segments located in different regions;
- **Natural environment** with the geography, topography and climate, affecting the product choice and even the timing for the launch and many other strategies such as exiting the market, or developing new market existence and distribution. In extreme cases it also includes natural disasters such as hurricanes, floods, earthquakes or tsunamis and other geological processes.

The ban on trade exposed by the USA to products from Iraq during the Iraq war, the economic crisis the European Union (EU) is going through with the collapsing or ailing financial systems of Greece, Cyprus, Spain and Portugal, which could be overcome with EU support, the instable government systems of the Commonwealth of Independent States (CIS) countries would be stated as limitations on international expansions of foreign direct investments. On the other hand, the United States (US) president Barack Obama's visit to several countries in Africa aimed to open new gates for many African firms to start trade relations with the USA and for US firms provides new investment opportunities in the African markets.

1. Developments and Trends in International Marketing

Nevertheless, understanding international marketing environment challenges necessitates at first a historical look at the evolution of the international marketing and a look at the 21st century approaches with new trends and their impact on the marketing operations abroad. These will be discussed in detail in the following subchapters.

1.1. The Historical Evolution of International Marketing

Historical evolution of international marketing, or in other words the developments along the path of internationalization of firms. No matter how we shape the focus, it has to do with the slow or quick start of a firm's relations in other markets in launching, selling products and expanding its horizons. In terms of customer basis, profits, market share, and learning from the competition as well as with many other reasons.

Hence, the next two questions we need to raise are ***what are the basic international marketing orientations and how does the evolution of international marketing take place?*** Various authors of international marketing books published in different parts of the world, briefly state a flow of operations starting with domestic orientation ending with global orientation. In other words the evolution of international marketing across borders follows the path of domestic marketing, export marketing, international marketing, multinational marketing and global marketing[8]. For some, up to the multinational level the operations abroad are just a matter of 'perspective of marketing orientation' with success abroad shaped by either a systems or exchange or even value focus or rather by a process-oriented approach[9]. In any case, an important question to be raised is the question of who the initiators of these decisions on how to approach markets abroad are while discussing the different strategies applied. For example, are the top managers encouraged by the information collected through the interaction with host market local people ranging from intermediaries to customers, or are they influenced by the competitors' strategies? Or are the initiators the export managers and marketing managers?

The flow of these orientations for marketing abroad can be also grouped as being domestic with an ethnocentric vision, being multi-domestic with a polycentric or region-centric vision and being global with a geocentric vision as a three step approach[10]: The first step is **domestic market extension** with an ethnocentric vision. Here the primary focus is still the home market for production activities, and export markets are some different market segments to be served. As the extension of the domestic market environment, the firm does not feel obliged to make any changes on the product, a standard product or service[11] sold in home markets is also launched in these foreign markets. Export focus falls into this category. At second step, the **multi-domestic market concept** with a polycentric vision is reached. The aim is to adjust the marketing mix according to different needs and expectations in each market since it is clear that each market abroad is very unique. As for the region-centric approach, it is also clear to the firm that along the globe different regions also reflect types of governance, so that marketing activities need to be individually or locally developed. The third step is about the **global market** focus with a geocentric vision. The entire world as one big opportunity for a standard product of choice with a look at common cultural values and cross cultural similarities of mutually agreed common points in each market build the focus of interest for a standardized launch with efficiency gains of economies of scale. Management is also promoted based on equal share of decision power and responsibility along the line of different markets. Step 1 can be seen as ‘domestic and export Orientation’; Step 2 can be seen as ‘international and multinational orientation’, and Step 3 can be seen as the ‘global orientation’.

Looking at the different approaches reveals the following basic differences: When a firm operates only **domestically**, it is not involved in foreign operations. Production and marketing take place only in the home country. The **import/export** orientation will reflect that the firm is buying variety of finished or semi-finished goods abroad to use as input for production of its own goods and services, running the business operations or for trade purposes. In case of the exports, the firm sends the domestically produced goods and services abroad. But even this international operation might be limited by volume and time constraints, i.e. the involvement in operations abroad can take place on an irregular and rather occasional basis, according to ready market demand and only these markets are served with the products from the home market. In this case, the firm does not make the effort to change the product based on different market needs, hence what is sold in the home market is delivered to the markets abroad unless some mandatory changes with regulations need to be made. This kind of international marketing takes place in different ways. Possible importers whom the firm managers met at international trade fairs approach the firm; then domestic wholesalers, distributors, or export management firms can deliver the products to different markets abroad. The exporting company does not have much information about who the customers abroad will be. And since the relations are occasional or on a temporary basis, when there is a demand shortage in the export market, the relations might also stagnate or break up. Hence the firm sees this export activity rather as an opportunity to place the surplus unsold on home markets or enjoy higher capacity utilization for a while.

But the moment the interaction with customers abroad gets intensified so that there is export activity on a regular basis, production and marketing gradually become based on market preferences, the domestic firm now needs to learn more about the needs and expectations and evaluations of the host market customers and at this point it is wise to talk about an **international** orientation of the domestic firm. Doing international marketing research is now part of the game, necessitated by the ‘regular’ interaction with importers. And the products are getting a ‘touch’ of host market requirements via some level of adaptation. Over time, the firm does no longer want to rely on what the available intermediaries, the different types of distributers offer as chances to enter the market and sell its products. The starting point for a better interaction with the market abroad is perceived to be the firm establishing its own intermediaries, direct representative offices abroad or other institutions of that kind. And the moment the activities necessitate a pure individual, unique focus on individual market specifications and changing needs, the firm begins operating with a multinational focus. At this time, the marketing and production activities are also becoming highly decentralized, executed by the individual subsidiaries so that the fit assured for each market is an on-going process, and the firm has establishments and investments in more than one country abroad. At this level, each geographic region is seen as a different market and as a result, the decision making for marketing mix operations is highly decentralized. The firm takes the shape of a matrix organization with independent strategic focus rights of different head offices all around the world. Since one of the core aims is also productivity, production is no longer limited to home market facilities, but the facilities in markets abroad with skilled labor, raw materials and investment opportunities are also utilized. But at some point, running a matrix organization can also have its financial and managerial burdens. Economies of scale as the final focus of attention, making the most out of the slightest investments is triggering the minds to perceive the world as one big market without differentiation. Of course there are customers all over the world with similar, homogeneous needs, expectations and interests. Utilizing production facilities abroad, operating in many markets at the same time and using some of these markets for an efficiency gain in production with an outsourcing orientation is leading to a new focus of attention in international marketing, namely the **global** focus: Looking at homogeneity in market settings results in standardization of the offer, with the same marketing mix as much as possible, while only mandatory changes necessitated by differences such as in the legal environment are taken into account. A worldwide recognition with a standard product launch is possible, assuring integration in world markets. *Levitt*'s argument was[12] that the power of technology shapes a rather global understanding in the world, enforcing the standardization of products, assuring economies of scale for manufacturers, and although the differences in markets are to be kept in mind, the convergence over time is not to be avoided or neglected.

But for some scholars, the global focus is not enough. The more relevant approaches to internationalization of operations can be listed as the global or the transnational approaches, mentioned not by all but some scholars with a vision for long term success[13]. That is, globalization of the market with one unique, standardized product is not assuring a long-term market success in most cases. It is rather a global marketing focus with a look at the individual market expectations that can lead to success, i.e. the 'think globally, act locally' perspective. In case of global and transnational orientation now the slogan is **think locally, act globally**. A close look at these international marketing approaches is reflected in the following pages. Before we analyze the forces behind a global and transnational focus, we also need to understand the forces behind the globalization attempts.

In other words, ***what are the strategic driving forces accelerating the globalization of markets?*** A six-point approach called TMFPLC[14] is that **technology** allows proceeding in world markets in a protective way via patents and any kind of intellectual property rights (IPR). The role of regulations is not to be neglected. Firms have the opportunity to make use of resources in different parts of the world for **manufacturing**. The resulting cost efficiencies and cost minimizations make the products affordable to a wider customer group and market penetration increases their market shares. Local currencies become more and more convertible, regional blocks assure the use of one currency as in the case of the Eurozone and this all helps to overcome the exchange rate fluctuations in **financial** terms. Another asset is about **personnel** issues with the transfer of skilled people or hiring the experienced people in new markets ensuring a better know-how about market needs so that higher expertise and job definition standardization helps provide a better wide look. Worldwide networks in **logistics** ensure the safe and quick delivery of parcels; just in time (JIT) applications help to save warehousing costs and to allow better inventory control in different markets abroad. Also **competitive responses** need a focus of attention when it is about pricing strategies, the launch of new technologies and related products and market shares in different geographic regions.

But reflecting on ***what forced the firms to think in pure global terms*** is important in order to understand the global focus of internationalization, which is still very relevant. The question is, ***what are the benefits of global orientation?*** or ***what are the challenges of global orientation?***

With the global market orientation, there is the focus on a high level of standardization. This results in certain **benefits** such as[15]: economies of scale with efficiency in production and marketing activities; efficiency through know-how transfer, experience transfer and the coordination of efforts; transfer of uniform positive global image to new markets with quick recognition, the so-called halo effect generating brand awareness; and ease of control and coordination of activities, since standardization ensures the follow up of marketing mix programs, quality measures, inventories and standards to be met.

There are also long globalization cycles to follow: a better equipped and skilled labor force, competitive advantage via overseas production, optimization of locational advantages in various markets, integration and global efficiency, use of networks in host markets.

Many US- and Japan-based products find high recognition in big emerging markets (BEMs) like China, Turkey or Russia, based on quality recognition and trust. Russia is a great market for Japanese products such as Nissan, Toyota, Mitsubishi, Sony, Panasonic, JVC, Yamaha, Honda, Kawasaki and the Russians love to travel and enjoy Japanese art and culture[16]. McDonald’s first Turkish store was opened in 1985 in Istanbul without much promotion about the brand besides announcing the opening date. Many people were there to try the different menus they had heard about or were familiar with from their visits to the USA. IKEA, for example, also created quick brand recognition in Turkey with the ready-to-assemble products (RTA), which had become attractive for the Turkish consumer over the previous decade anyway with the efforts of some domestic company efforts. Car brands like Toyota from Japan or Hyundai from South Korea are preferred over the numerous well-known Western brands in many emerging markets because of their higher level of affordability. All of these examples have considered market needs and gone beyond a global focus. At the same time, many emerging market firms from Turkey and India grow their operations beyond just exports or outsourcing for some foreign firms. They are developing their own brands and also investing in many other markets. Eczacibasi Group from Turkey purchased 51 % of Villeroy & Boch in March 2007[17], Arcelik of KOC Holding owns Elektra Bregenz, Tata from India purchased the British Jaguar Land Rover, resulting in new product design development now from these big emerging market firms[18].

In speaking about **challenges, we should consider** that while new products are being developed with high technology investments, the resulting planned obsolescence – especially in the information technology (IT) sector – shortens the product life cycles. New consumer needs arise, quality orientations change, affordability becomes a problem, enforcing new payment systems such a paying on credit-card installment plans. This fact is highly relevant in emerging markets where the buyers like to follow the latest trends, but the purchasing power parity puts a limit to consumption.

Firms in world markets can take into account the challenges of the host market environments and enjoy globalization for the benefits in the long run with efficiency gains. But still it is a societal responsibility to consider the question: ***Is globalization to blame for income inequalities?*** The **negative perspective** says yes. The social injustice is also relevant for industrialized countries such as the USA or Germany where governments feel obliged to emphasis education for the masses[19] with the goal to eliminate the income inequalities of the next generations. The higher requirements for higher skilled people lower the employment chance of less skilled ones and although globalization assures work place for masses in outsourcing countries, skilled workers' incomes rise faster. The GINI coefficient[20] for EU 27 reflects an average of 0.30 income inequality level for the year 2010[21] and for the BRIC countries except for India the GINI coefficient has reflected a steady decrease since 2003 for Brazil, a steady increase up to the 2008 crisis and a steady decrease afterwards for China and Russia[22]. Based on the difference in per capita disposable income in rural and urban areas the figures are above the warning level 0.4 of United Nations (UN)[23].

The **positive perspective** says no. The economic gap in emerging economies results from evolving technology investments. Protectionism hinders the growth of healthy competition and the possibility for the consumers to choose among alternatives with affordable prices and good quality[24]. With the widespread use of IT in the world, the connectedness of people and the increased interdependencies are part of the new world order. Here it is important to cite the famous Austrian economist J.A. Schumpeter. His visions about the 'creative destruction' are guidelines for marketing strategies of today's international business world, since in Schumpeter's eyes the market is dynamic; innovativeness is the key for success[25].