Part I Introduction and Overview

CHAPTER 1

Introduction to Global Marketing

The new electronic interdependence re-creates the world in the image of a global village.

—Marshall Herbert McLuhan *The Medium is the Message* (1967)

Marketing is too important to be left to the marketing department.

—David Packard *Cofounder of HP*

Learning Objectives

1. Summarize the evolution of marketing (3–6).
2. Identify the three basic principles of marketing (6–7).
3. Discuss global marketing practices and strategies (7–11).
4. Discuss the growth of global market opportunities (12–15).
5. Compare and contrast management orientations (15–18).
6. Describe the driving forces behind the increased pace of global integration (18–26).
7. Identify three restraining forces that hinder global marketing efforts (26–27).

INTRODUCTION

We live in a fast-paced, global marketplace. Wherever we live, whether it is in Europe, the Americas, Asia, Africa, or the Middle East, we take for granted products and services that come from around the world. From our laptops, cell phones, tablets, cars, furniture, artwork, and food, to our shoes, jeans, tee shirts, and watches, the world and its products are ours. A myriad of cultural influences and shared interests have become a backdrop to our daily lives as technology and travel push the envelope to provide us with faster and deeper connections with just about everyone and everything on the planet.

In this context, where does marketing fit—what role does it play and what value does it add? Does the field and practice of marketing globally contribute to or detract from the welfare of the global population?

Global marketing management requires a strategically integrated focus on customers, competition, technology, regulation, and economic, political, and social trends and factors…in a word, everything. An aligned marketing effort in a global enterprise requires an alignment of organizational design, corporate culture, leadership, employee motivation and compensation, creativity and innovation, and the rethinking of traditionally distinct functional policies and programs.

In the past two centuries, a sweeping transformation has profoundly affected the world economy. Prior to 1840, students sitting at their desks would not have had any item in their possession that was manufactured more than a day's horseback ride from where they lived—with the possible exception of the books they were reading. Many countries—most notably Great Britain—were actively involved in international trade in the mid-nineteenth century. This involvement increased until the world withdrew into autarky as a response to the collapse of aggregate demand that resulted in the global depression of 1929–1939.

The world economy began its recovery in the 1930s with military spending in Germany and Japan followed by military spending in the US, the UK, and USSR. At the end of World War II, Germany, Japan, Eastern Europe, and Western USSR were in ruins; Britain was broke and exhausted. The US mainland had been untouched by any enemy invasion or bombardment and had recovered from the Great Depression to become the most productive, innovative and richest country in the world. In the war-torn countries, the challenge was reconstruction. For the United States, the challenge was converting a wartime economy that had supplied not only its own military forces, but also those of its British and Soviet allies, to peacetime needs and wants. Remarkably, both the victors and the defeated made a remarkably speedy recovery in rebuilding their peacetime economies. The United States became a colossus with more than half of global GDP, and Japan and Germany rapidly became the second and third largest countries in the world in GDP after the United States. The USSR and the dream of a communist utopia eventually collapsed, and the threat of international communism fell into the dustbin of history.

Since World War II, there has been an unparalleled expansion into global markets by companies that previously focused principally on customers located in their home country. Three decades ago, the phrase *global marketing* did not even exist. Today, businesses look to global marketing for the realization of their full commercial and societal potential. However, there is another even more critical reason why companies need to take global marketing seriously: survival. A company that fails to become global in outlook and practice risks losing its domestic business to competitors who have lower costs, more relevant experience, and better products.

What is global marketing? How does it differ from domestic marketing? Marketing can be defined as a series of activities leading to an exchange between a seller and a buyer at a profit. Marketing activities center on an organization's efforts to satisfy customer wants and needs with products and services that offer competitive value. The marketing mix—product, price, place, and promotion—is a marketer's primary tool. Marketing is a discipline, as applicable in Australia as it is in Zanzibar, in all industries and sectors from high to low tech and from for-profit to not-for-profit firms and for all products from consumer to industrial.

This book is about global marketing, its context, concepts, tools, and practice. An organization that engages in global marketing focuses its resources on global market opportunities and threats. One difference between domestic marketing and global marketing is in the scope of activities. A company that engages in global marketing conducts key marketing activities outside the home-country market. These activities include marketing intelligence gathering, which provides the information foundation for a market-driven, integrated marketing mix that address the opportunity and competition in every addressed global market. Another difference is that global marketing involves an understanding of specific concepts, considerations, and strategies that must be skillfully applied, in conjunction with universal marketing fundamentals, to ensure success in global markets. This book concentrates on the major dimensions of global marketing. A brief overview of marketing is presented next, although the author assumes the reader has completed introductory marketing and international business courses or has equivalent experience.

MARKETING: A UNIVERSAL DISCIPLINE

The foundation for a successful global marketing program is a sound understanding of the marketing discipline. Marketing is the process of focusing the resources and objectives of an organization on environmental opportunities and needs. The first and most fundamental fact about marketing is that it is a universal discipline. Marketing is a set of concepts, tools, theories, practices and procedures, and experience. Together, these elements constitute a teachable and learnable body of knowledge. Although marketing is universal, marketing practice, of course, varies from country to country, region to region, and across markets within a single country. Just as each person is unique, each country or market is unique. This reality of differences means that, as marketers, we cannot always directly apply experience from one country to another or from one market to another. It is certain that if customers, competitors, channels of distribution, and available media are different, to name only a few of the varying contingencies that exist in diverse markets, it will be necessary to change our marketing plan. On the other hand, even though markets are unique, each shares many similarities with other markets. The astute global marketer recognizes these similarities and creates greater value by extending elements of the marketing program wherever possible. Successful global companies recognize that one product can serve needs worldwide and that the global product is more competitive because it provides greater value to customers at a lower cost. Of course, global products are adapted to local languages, laws, regulations, and the physical and cultural environments of markets, when adaptation is required and when the cost of adaptation does not exceed the gain in competitiveness achieved by adaptation.

The Marketing Concept

During the past century, the concept of marketing has changed dramatically. As shown in Figure 1-1, it has evolved from a focus on the product and on producing a better product based on internal standards and values defined by the company in isolation from the customer. An example of this stage of the marketing concept was Henry Ford's famous reply to executives who wanted Ford to offer the Model T in colors other than the standard black in order to better compete with General Motors. Ford's reply: "Any customer can have a car painted any color that he wants so long as it is black." In Ford's mind, the Model T was a perfect car, and there was no point in wasting money on offering different colors. Profitability was the sole objective of product-focused marketing. The means was a sale based on persuading the customer to exchange his or her money for the company offering. Messaging involved 'pushing' the product into the market space and to the end user by mass advertising in print, on TV, or through in-store promotion.

Marketing Is Everything

	Marketing Concept		
	Old	**"New" (1960's)**	**Strategic (Emerging)**
Focus	Product	Customer	Way of Doing Business
Means	Telling and Selling	Integrated Marketing Mix	Knowledge and Experience
End	Profit	Profit	Mutually Beneficial Relationship
Marketing Is...	Selling	A Function	Everything

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FIGURE 1-1 Marketing Is Everything

THE NEW CONCEPT OF MARKETING AND THE FOUR PS The new concept of marketing, which appeared about 1960, shifted the focus of marketing from the product to the customer. The objective was still profit, but the means of achieving the objective expanded to include the entire marketing mix, or the Four Ps as they became known: product, price, place (channels of distribution), and promotion. For a discussion of the new concept of marketing see "The 18 Guiding Principles of Legacy Marketing" in the appendix at the end of this chapter.

THE STRATEGIC CONCEPT OF MARKETING By the 1990s, it was clear that the new concept of marketing was outdated and that the times demanded a strategic concept. The strategic concept of marketing, a major evolution in the history of marketing thought, shifted the focus of marketing from the customer or the product to the customer in the context of the broader external environment. Knowing everything there is to know about the customer is not enough. To succeed, marketers must know the customer in a context including the competition, regulation and government policy, and the broader economic, social, political, scientific, and technological macro forces that shape particular markets and their evolution. The strategic concept of marketing recognizes that sustainable profitability is the reward for performance, which must be achieved by satisfying customers in a socially and environmentally responsible and sustainable way.[1] In the final chapter of this book, I discuss the Big New Idea in marketing: creating shared value. Today, is it urgent for marketers to understand that real success can only be realized by creating an economic value for both customers and society. Social and community needs and challenges must be an integral part of the economic value-creation process. In the strategic concept of marketing, addressing social needs is not an exercise in corporate philanthropy but rather an exercise in creating shared value. What society needs is a healthy enterprise system that creates

[1] Regis McKenna, "Marketing is Everything," *Harvard Business Review* (January–February 1991).

competitive products and jobs that sustain employees. When a company is creating shared value, employees and suppliers will be directly supporting community needs with strong, secure families, tax-supported government community projects, and their own private contributions.

A revolutionary development in the shift to the strategic concept of marketing is in the marketing objective—which shifts from profit to stakeholder benefits. Stakeholders are individuals or groups who have an interest in the activity of a company. They include the employees and management, customers, society, government, and shareholders, to mention only the most prominent. For example, to compete in today's market, it is necessary to have an employee team committed to continuing innovation and to producing quality products in an environmentally sustainable manner. In other words, marketing must focus on the customer in context and deliver value by creating stakeholder benefits for customers, employees, and the communities they serve and, in turn, affect.

Profitability is not forgotten in the strategic concept. Indeed, it is a critical means to the end of creating stakeholder benefits. The means of the strategic marketing concept is strategic management, which integrates marketing with the other management functions. One of the tasks of strategic management is to make a profit, which can be a source of funds for investing in the business and for rewarding shareholders and management. Thus, profit is still a critical objective and measure of marketing success, but it is not an end in itself. The aim of marketing is to create value for stakeholders, and the key stakeholder is the customer. If your customer can get greater value from your competitor because your competitor is willing to accept a lower level of profit reward for investors and management, the customer will choose your competitor, and you will be out of business. The spectacular entry of Apple, the new North American player, into the global cell phone market has been responsible for the precipitous decline in market share and revenue of the former leaders from Europe, the "cradle of innovation and scale in mobile," in the words of one leading consultant. Nokia, the former leader, is now a distant third in sales trailing Apple and Samsung. This massive market shift occurred because Apple and RIM pioneered the design and deployment of smartphones, which have completely displaced traditional phones in the top end of the market. Apple pulls in more than half of the profits in the world's mobile industry despite having only a 4 percent share of the world market in units. Apple's success is based on its ability to create value for customers. Stephen Elop, Nokia's new boss, underlined what a threat this is to the former world leader. "We are standing on a burning platform," he wrote in a memo to all 132,000 Nokia employees.[2]

Finally, the strategic concept of marketing has shifted the focus of marketing from a company-centric maximization paradigm to managing strategic partnerships and positioning the firm in the value chain to create value for customers. This expanded concept of marketing was termed *boundaryless marketing* by Jack Welch, former chairperson and chief executive officer (CEO) of General Electric. The notion of *boundaryless* marketing is shown in Figure 1-2.

Figure 1-2 depicts marketing's set of activities as encompassing the business processes, from the initial identification of customer needs and wants to the end product or service offering that creates the best relative customer value vis-à-vis the competition. Marketing can be conceptualized as the process of focusing the resources and objectives of an enterprise on customer and consumer needs. Market-driven firms are focused, agile, and tactically responsive both through differentiated marketing planning strategies and marketing mix elements. It is ultimately the marketing mix

[2] "Blazing Platforms," *The Economist,* February 12, 2011, 69.

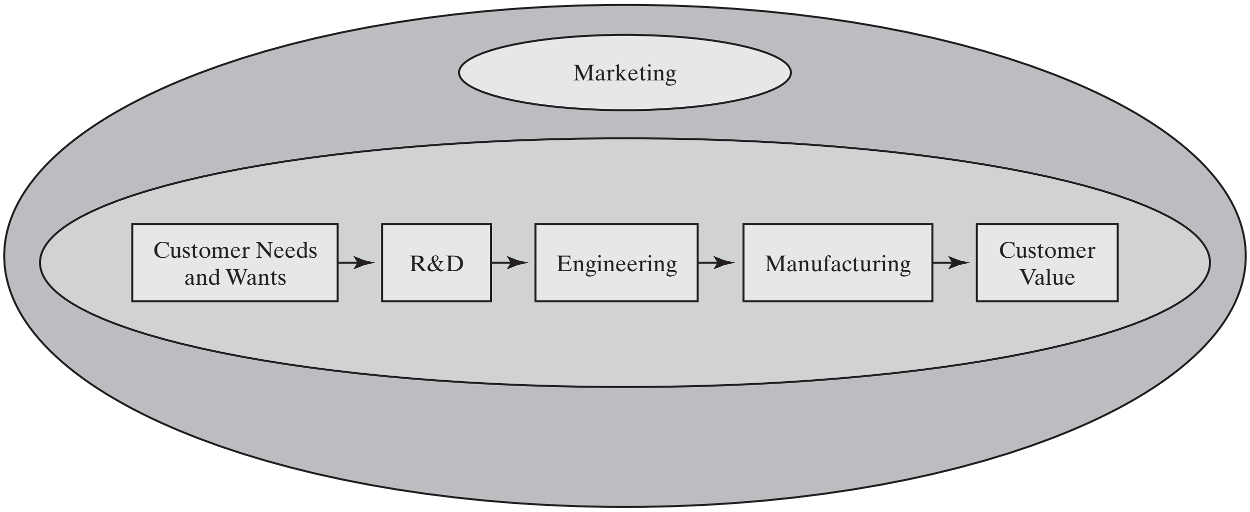

FIGURE 1-2 Value Chain Boundaryless Marketing

that integrates the organization's offers, logistics, and communications into a viable offering, which is, in turn, experienced by the customer as the overall marketing strategy. The three basic principles that underlie marketing are discussed next.

THE THREE PRINCIPLES OF MARKETING

The essence of marketing can be summarized in three great principles. The first principle identifies the purpose and task of marketing, the second identifies the competitive reality of marketing, and the third identifies the essential requirement for achieving the first two principles.

Customer Value and the Value Equation

The task of marketing is to create customer value that is greater than the value created by competitors. The value equation, shown in Figure 1-3, is a guide to this task. As suggested in the equation, value for the customer can be increased by expanding or improving product and/or service benefits, by reducing the price, or by a combination of these elements. Companies with a cost advantage can use this advantage to gain a sustainable competitive edge in any of the marketing mix elements: product, price, promotion, or place. Knowledge of the customer combined with innovation and creativity can lead to a total offering that offers superior customer value. If the benefits

Key Marketing Principles

Action	*Knowledge*
• Customer Value = Benefits/Price (B/P)	• **Company**
• Focus	• **Customer**
• Comptitive Advantage	• **Competition**

FIGURE 1-3 Key Marketing Principles

are strong enough and valued enough by customers, a company does not need to be the low-price competitor to win customers. On the other hand, the value equation may lead to a focus on price as the key element of competitive advantage.

Competitive or Differential Advantage

The second great principle of marketing is competitive advantage. A competitive advantage is a total offer, vis-à-vis relevant competition that is more attractive to customers. The advantage can exist in any element of the company's offer: the product, the price, advertising and point-of-sale promotion, or the distribution of the product. One of the most powerful strategies for penetrating a new national market is to offer a superior product at a lower price. The price advantage will get immediate customer attention and, for those customers who purchase the product, the superior quality will make an impression.

Focus

The third great principle of marketing is focus, or the concentration of attention. Focus is required to succeed in the task of creating customer value at a competitive advantage through the mobilization of organizational effort and resources. All great enterprises, large and small, are successful because they understand and apply this principle.

Apple retains its edge as a leader in product design and benefits, often disrupting older technologies, because it is more clearly focused on how to take advantage of technology to design and make products that offer unique consumer benefits, and because it knows how to position and communicate unique benefits to target markets. Apple's selection and integration of marketing activities, including brand-building retail stores that offer not only value-creating products but unique services for existing and prospective customers, contribute to its continuing distinctive advantage. Starbucks is another example of driven focus and often obsessive attention to every element of branding behavior and consistent customer experience. This attention to detail can be seen in Starbucks' ads, in-store promotions, décor and ambiance, products, product sizes, brand messaging, and training of the baristas behind the counter. Such laser focus and brand experience sometimes comes from an entrepreneurial leader who himself embodies the values of the brand, such as Starbucks' Howard D. Schultz.[3]

GLOBAL MARKETING: WHAT IT IS AND WHAT IT IS NOT

Although the marketing discipline is universal, markets and customers are quite differentiated. This means that marketing practice must vary not only from region to region but also from country to country, and even between the different market segments within a country. Companies that attempt to transfer irrelevant or inappropriate experience from one market to another will suffer a loss both in investment, credibility, and market share. One famous example involves Nestlé's attempt to create a market for iced tea in India. Nestlé received a cold response, as Indian consumers traditionally like to have their tea beverages hot. Procter and Gamble provides another well-known example with its attempted introduction of Cheer laundry detergent in Japan. P&G overlooked the fact that the Japanese wash their clothes in cold water. Accordingly, the advertising campaign highlighting washing clothes at "all temperatures" was meaningless to this target audience.

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[3] Scott Bedbury and Stephen Fenischell, *A New Brand World: 8 Principles for Achieving Brand Leadership in the 21st Century* (New York: Penguin Book Group, 2002).

A major issue in global marketing practice and theory involves the extent of adaptation or standardization of products for diverse markets. With the growth of the global, competitive marketplace, international marketing has transformed into integrated global marketing. The global marketing manager's focus has shifted from a focus on the functional differences between national or regional markets to a focus on understanding the transnational differences and similarities of target markets.[4] The prime driver of marketing globally is the synergistic benefits and productivity improvements obtained through global marketing initiatives. These value-creating initiatives include each of the elements of the marketing mix as well as other supporting business functions, such as accounting, procurement and channel management, production, and research and development (R&D).

The Standardization Debate

Robert Buzzell offered the first theoretical discussion of standardization as an international marketing strategy in 1968.[5] He argued that dissimilarities among countries led multinational firms to perceive marketing planning in each country as a local problem with localized solutions. Buzzell provided several rationales for an international standardization strategy, most importantly, cost savings arising from standardization of the marketing mix elements and the creation of a single marketing strategy spanning the globe. Following Buzzell's work, Professor Theodore Levitt's 1983 seminal article in the *Harvard Business Review*, "The Globalization of Markets," argued that marketers were confronted with a "homogenous global village."[6] Levitt advised organizations to develop standardized, high-quality world products and market them around the globe using standardized advertising, pricing, and distribution. He recognized that "success in a world with homogenized demand requires a search for sales opportunities in similar segments across the globe." In fact, he contended that "the most effective world competitors incorporate superior quality and reliability into their cost structures.... They compete on the basis of appropriate value—the best combinations of price, quality, reliability, and delivery for products that are globally identical with respect to design, function, and even fashion." Levitt introduced the importance of creating value by offering functional, quality, low-priced products. One way of doing this is through the use of standardization of the marketing mix and marketing process.

Some well-publicized failures by companies seeking to follow Levitt's advice brought his proposals into question. The business press frequently quoted industry observers who disputed Levitt's views. For example, Carl Spielvogel, chairman and CEO of the Backer Spielvogel Bates Worldwide advertising agency, told *The Wall Street Journal,* "Theodore Levitt's comment about the world becoming homogenized is bunk. There are about two products that lend themselves to global marketing—and one of them is Coca-Cola."[7] Indeed, it was global marketing that made Coke a worldwide success. However, that success was not based on a total standardization of marketing

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[4] Jagdish N. Sheth and Atul Parvatiyar, "The Antecedents and Consequences of Integrated Global Marketing," *International Marketing Review*, 18, iss. 1 (2001): 16–29. See also, Hongsik John Cheon, Chang-Hoan Cho, and John Sutherland, "A Meta-Analysis of Studies on the Determinants of Standardization and Localization of International Marketing and Advertising Strategies," *Journal of International Consumer Marketing*, 19, no. 4 (2007): 109.

[5] R. D. Buzzell, "Can You Standardize Multinational Marketing?," *Harvard Business Review*, 46, no. 6 (1968): 102–133.

[6] Theodore Levitt, "The Globalization of Markets," *Harvard Business Review*, 61, no. 3 (1983): 92–102.

[7] Joanne Lipman, "Ad Fad: Marketers Turn Sour on Global Sales Pitch Harvard Guru Makes," *The Wall Street Journal,* May 12, 1988, 1.

mix elements. In his book *The Borderless World,*[8] Kenichi Ohmae explains that Coke's success in Japan could be achieved only by spending a great deal of time and money becoming an "insider" to that market. That is, the company built a complete local infrastructure with its sales force and vending machine operations. Coke's success in Japan, according to Ohmae, was a function of its ability to achieve "global localization," the ability to be as much of an insider as a local company, but still reap the benefits that result from world-scale operations.

What does the phrase *global localization* really mean? In a nutshell, it means a successful global marketer must have the ability to "think globally and act locally." As we will see many times in this book, global marketing may include a combination of standard (e.g., the actual product) and nonstandard (e.g., distribution, messaging, or packaging) approaches. A global product may be the same product everywhere and yet different. Global marketing requires marketers to behave in a way that is global and local at the same time by responding to similarities and differences in world markets. This being the case, a review of the literature reflects an evolving state of knowledge and practice with respect to a multidimensional view of global marketing strategy when it comes to standardization/adaptation decisions. In 1969, Keegan, using the global marketing mix, identified four strategic alternatives based on product standardization versus adaptation and promotion standardization versus adaptation dimensions.[9] Much literature in the field of international marketing builds on this initial multidimensional perspective[10] and looks beyond single-strategy dimensions. Heterogeneity among various cross-border markets does not allow standardization in any absolute sense. Important variables of differentiated markets include cultural, legal, and social dictates, as well as differences in local media and distribution vehicles and capabilities, trade restrictions, and government regulation. Yet, the expense involved in adaptation of many of the elements of the marketing program can be prohibitively expensive. Finding the balance and merging the benefits of standardization and adaptation may be a key determinant of successful integrated global marketing campaigns.[11]

Indeed, the Coca-Cola Company has demonstrated that its ability to think globally and act locally can be a source of competitive advantage. By adapting taste and product elements, sales promotion, distribution, and customer service initiatives to local needs, Coke established a strong brand preference.

Not only is tailoring the global marketing concept to fit a particular product, business, or market of crucial importance, it is necessary to understand that global marketing does not mean entering every country or region in the world. Global marketing requires widening business horizons to encompass the world while scanning for opportunity and threat. The decision to enter markets outside the home country depends on a company's resources and its stage of development, its managerial mind-set, and the nature of opportunities along with existing competitive threats. Globalization challenges companies to recognize what they do well within the global marketplace and be where they have competitive strength. For example, the most globally successful auto companies have been gaining market share. Toyota, Mercedes, and BMW rely on a strong single- or dual-brand strategy across all their markets.

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[8] Kenichi Ohmae, *Borderless World: Power and Strategy in the Interlinked Economy* (New York: HarperCollins, 1999).

[9] W. J. Keegan, "Multinational Product Planning: Strategic Alternatives," *Journal of Marketing*, 33, no. 1 (1969): 58–62.

[10] See, for example, J. A. Quelch and E. J. Hoff, "Customizing Global Marketing," *Harvard Business Review*, 64, no. 3 (1986): 59–68.

[11] See, for example, Cheon, Cho, Sutherland, "A Meta-Analysis of Studies"; and Andreas Birnik and Cliff Bowman, "Marketing Mix Standardization in Multinational Corporations: A Review of the Evidence," *International Journal of Management Reviews*, 9, no. 4 (2007): 303–324 (22).

They bring their branding strengths to new markets as compared with GM, which lost market share over the past five decades with its failure to apply the three principles of marketing. Any understanding of these principles would have led GM to the conclusion that in order to be competitive, it needed to reduce the number of brands in its global product portfolio. It is only after being forced into bankruptcy and a government bailout that GM finally sold or closed the brand franchises that stood between them and a chance at competitive global parity. As this example shows, globalization is not a one-size-fits-all solution for companies. Remaining domestic or regional rather than becoming weakened by expanding focus and expending resources globally may be the best strategy for some companies. Indeed, by remaining a predominantly regional company until recently, Fiat, based in Turin, Italy, was able to enter the US market with a controlling investment in Chrysler, America's third largest car company.

Many other companies have successfully pursued global marketing by creating strong global brands. In the automotive industry, Daimler has gained global recognition for its Mercedes nameplate, as has its competitor, Bayerische Motoren Werke Aktiengesellschaft, Munich, for its nameplate BMW automobiles and motorcycles. However, as shown in Table 1-1, global marketing strategies can also be based on product or system design and innovation, product positioning, packaging, distribution and logistics, customer service, and sourcing considerations. For example, McDonald's has designed a restaurant system that can be set up virtually anywhere in the world, but, like Coca-Cola, McDonald's customizes its menu offerings in accordance with local eating and entertainment customs. In Jakarta, Indonesia, for example, McDonald's is positioned as upscale dining. In Israel, Big Macs are served without cheese in many outlets to permit the separation of meat and dairy products required by kosher dietary laws. Unilever formerly used a teddy bear in various world markets to communicate the benefits of the company's fabric softener and now relies on the tag line "Brands for Life" and a strong Internet and Facebook presence to support its sales in over 170 countries worldwide. Harley-Davidson's motorcycles are positioned around the world as the all-American bike. Italy's Benetton and Spain's Zara utilize a sophisticated distribution system to quickly deliver the latest fashions to its worldwide network of stores. The backbone of Caterpillar's global success is a network of dealers that supports a promise of "24 hour parts and service" anywhere in the world. China's Foxconn's sourcing strategies have made it an indispensable partner to the likes of

TABLE 1-1 Examples of Global Marketing Strategies

Global Marketing Strategy	Company/Home Country
Brand Name	Coca-Cola (US), Apple (US), BMW (Germany)
Product Design	McDonald's (US), Toyota (Japan), Apple (US), Google (US)
Product positioning	Unilever (Great Britain/Netherlands), Harley-Davidson (US), Apple (US), Samsung (S. Korea)
Packaging	Gillette (US), Apple (US)
Distribution	IKEA (Sweden), Apple (US), H&M (Sweden)
Customer service	Caterpillar (US), Dell (US), Brother (Japan), Apple (US), Lexus (Japan)
Sourcing	Toyota (Japan), Honda (Japan), Nike (US), Wal-Mart (US), Apple (US), Foxconn (China)
Innovation	Apple (US), Google (US), Samsung (S. Korea), Tata (India), Ford (US)

IBM, Microsoft, Nokia, Sony, Hewlett-Packard, and Apple. Information technology has given CEMEX of Mexico its competitive advantage in delivery of cement and building products in the 50 countries in which it operates. Southwest Airlines, the largest US-based airline, is known throughout the aviation industry as a "low-cost carrier" because of its unique business model. Over the past several years, Ford successfully repaired its struggling business through the innovation of styling, fit and finish, safety, and fuel economy technology. The success of Honda and Toyota in world markets was initially based on exporting cars from factories in Japan. Now, both companies have invested in extensive assembly and manufacturing facilities abroad, including the United States and major markets.

The particular approach to global marketing that a company adopts will depend on industry conditions and its source or sources of competitive advantage. Should Harley-Davidson start manufacturing motorcycles in a low-wage country such as Mexico or China? Because Harley's competitive advantage is based in part on its "Made in the USA" positioning, shifting production outside the United States may not be advisable. Toyota and Honda's historic success abroad is partly attributable to their ability to transfer world-class manufacturing skills to global markets while using advertising to stress that its products are built in market countries with components manufactured and purchased in the market countries. Toyota and Honda have positioned themselves as global brands independent of the location of manufacture and assembly. A Toyota is a Toyota wherever it is made. Similarly, Hyundai is a recent example of an Asian automaker that entered the North American market three decades ago with quality problems and with unit volumes similar to Chinese competition of today. It took the company almost two decades to establish a presence in the mature North American market through competing on price and building its sales network and brand image. Today, Hyundai is moving toward successfully positioning its brand independent of country of origin. Yet, there remain brands, such as Harley-Davidson motorcycles that, if made abroad, would clash with the brand image linking Harley to its country of origin, the USA.

Apple is a world leader in every category of marketing strategy highlighted in Table 1-1 and had an equity market value of more than $500 billion in 2012.[12] With its iconic music player the iPod, Apple confirmed its reputation for innovation and fueled its financial success. The iPhone sold 3.8 million units in three months in 2009 during the height of the Great Recession, attesting to its strong marketing program and product value. And with the 2010 launch of Apple's iPad positioned in a new category, the tablet, Apple added to its family of tech gadgets creating mobile platforms for digital communication, information, and entertainment. The explosive growth of mobile apps since Apple's App Store launch in 2008 has increased innovation in the product categories as well as competition. From computers to smartphones, Apple products are known for their style, uncluttered ease of use, technical sophistication, and power. Apple innovation involves leaping ahead of existing technology, anticipating needs, and "delivering capabilities that redefine product categories."[13] Driving these offerings was the marketing genius of Steve Jobs, "a gifted marketer and showman, but also a skilled listener to the technology....to judge when an intriguing innovation is ready for the marketplace. Technical progress, affordable pricing and consumer demand must jell to produce a blockbuster product."[14] Jobs knew that controlling the product is less important than controlling our desire.[15]

[12] As of December 12, 2012.
[13] David B. Yoffie, cited in "The Apple in His Eye," *The New York Times*, January 31, 2010.
[14] Ibid.
[15] Devin Leonard, "The Last Pitchman," *Businessweek*, June 14–20, 2010.

GLOBALIZATION AND GLOBAL MARKETING

The largest national market in the world, the United States, today represents roughly 25 percent of the total world market for all products and services. Despite significant economic growth over the last 40 years in Asia and India, with advances in innovation, technology, and productivity, the United States' share of total world output has remained constant. US companies wishing to achieve maximum growth potential must go global, as three quarters of world market potential is in the rest of the world (ROW).

Non-US companies have an even greater motivation to seek market opportunities beyond their own borders—their opportunities include the 308 million people in the United States. Non-Chinese firms have the greatest market opportunity by globally targeting China's 1.34 billion consumers. China surpassed Japan's market value in August 2010 to become the second largest economy after the United States, leading both India and Germany in fourth and fifth position, respectively. Goldman Sachs estimates that China will overtake the United States in total GDP in 2019, although estimates vary.[16] Japanese firms now have 85 percent of world market potential outside their home market, while German firms have 94 percent of world market potential outside of their borders. Non-EU companies have just over 500 million people in the member states of the EU to target with their products and services.

Thousands of companies have recognized the importance of conducting business activities outside their home country. Industries that were strictly national in scope only a few years ago are dominated today by global companies with home bases on all continents and in all world regions. The rise of the global corporation closely parallels the rise of the national corporation, which emerged from the local and regional corporation in the 1880s and the 1890s in the United States. The auto industry provides a dramatic example. In the first quarter of the twentieth century, there were thousands of auto companies in the world and more than 500 in the United States alone. Today, *Fortune* tracks 30 automotive companies worldwide in its survey of Global 500 companies. (See Table 1-2.) In most industries, the companies that will survive and prosper in this century will be global enterprises. Companies that do not respond to the challenges and opportunities of globalization will be absorbed by more dynamic enterprises. As Thomas Middelhoff, chairman of Bertelsmann AG, said recently, "There are no German and American companies. There are only successful and unsuccessful companies."[17]

It is interesting to note that none of the top 15 automobile and parts companies are Chinese. In 2009, China became the world's largest market for cars. Initially, China's automobile market was supplied by purely local competitors. However, as the value-for-money products available reached a certain level of quality, global firms jumped into the rapidly expanding market in a big way. Today, General Motors is selling more cars in China than in the American domestic market. Emerging economies made up more than half of global sales for the first time in 2010. Sales in the Chinese market was projected to be 6 million more vehicles than sold in the US market, as low vehicle penetration (only 24 vehicles per 1,000 people vs. 79 vehicles per 1,000 people in the mature markets of the G7), rising incomes, competitive pricing, and credit availability support increased car sales.[18] American and European carmakers have been introducing their best technology to their plants in China to compete against growing competition from domestic Geely, Chery, and Lifan. Global competitive advantage is also to be

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[16] http://www.istockanalyst.com/article/viewarticle/articleid/4894427
[17] As quoted in "Global Mall," *The Wall Street Journal,* May 7, 1998, 1.
[18] http://parts.olathetoyota.com/2011-car-sales-statistics.html

TABLE 1-2 Total Motor Vehicle and Parts Sales Worldwide, 2009

	2009 Revenues in millions	Global 500 Rank
Toyota	204,352	10
Volkswagen	166,579	14
General Motors	148,979	18
Ford	146,277	19
Daimler	140,328	23
Honda	99,652	51
Fiat	86,914	64
Nissan	83,982	67
Peugeot	79,560	75
BMW	77,864	78
Hyundai	72,542	87
Robert Bosch	66,052	98
Renault	55,314	130
Volvo	46,057	163
Johnson Controls	38,062	198
All Other (15)	376,980	—

gained by leveraging Chinese sourcing and providing access to lowest-price, high-quality components, or establishing an R&D facility and becoming a desirable employer, leveraging China's pool of low-cost but high-quality engineering talent for global product development.[19] However, to build market share, bringing popular Western models to the Chinese market is not necessarily a successful strategy. For example, the sport-utility craze in the United States has not translated well into the Chinese new middle-class consumer's experience; SUVs are regarded as being work vehicles with "peasant" connotations. Chinese buyers have gravitated more toward high margin, affordable sedans such as the Honda Accord, Volkswagen Passat, and Buick Regal.[20]

To defend their home market turf, domestic Chinese firms have been pursuing Western automotive companies, their assets, and research capabilities, as demonstrated by Geely Automobile's acquisition of Volvo, as well as joint ventures to share latest designs, technology, and manufacturing expertise. Such sharing has helped China become a car exporter,[21] putting increasing pressure on the likes of GM, VW, Ford, and other industry giants which are losing market share and sales to home-grown foreign rivals. In fact, BYD Auto, a Chinese battery maker, has been focusing on the design and manufacture of an electric car, which it is positioning for the North American market early this decade.[22] In light of domestic market constraints, including pollution and greenhouse gas emissions, and the need to decrease reliance on

[19] See Jeff Galvin, Jimmy Hexter, and Martin Hirt, "Building a Second Home in China," *The McKinsey Quarterly* (June 2010), accessed July 1, 2010, http://www.mckinseyquarterly.com/article.
[20] See, for example, Dan Lienert, "The Rising Chinese Car Market," Forbes.com (2003), accessed March 7, 2011, www.forbes.com/2003/12/15/cx_dl_1215feat.html.
[21] http://parts.olathetoyota.com/2011-car-sales-statistics.html
[22] See Ian Rowley, "China: Car Capital of the World?," *Businessweek*, May 18, 2009.

fossil fuels, Chinese carmakers could very well leapfrog current engine technology and develop strong competitive advantage in hybrid, electric, or other leading technologies.[23] However, marketing, as conducted by leading Western global firms, is a nascent practice in China, where home-grown companies develop products for the local market on the basis of experience with customer needs or intuition. Formal market research that leads to a more detailed understanding of the target market and which propels product and service innovation has been rare but is a growing practice. Coca-Cola, P&G, and Colgate-Palmolive are examples of global packaged-goods firms which are competing across categories in the Chinese market based on their years of experience in sophisticated marketing research techniques and protocols, product development, and brand management.[24] Despite these strong marketing programs, many globalizing firms continue to make mistakes, such as segmenting groups and roll-out strategies as they would in more mature markets, instead of recognizing cultural and geographic differences in urban or smaller urban markets across China's vast country market.[25]

Table 1-3 shows the top 10 of the *Forbes* Global 2000, a list of global companies for 2010 ranked in terms of market capitalization—that is, the market value of all shares of stock outstanding. Table 1-4 provides a different perspective: the top 10 of *Forbes'* 2010 ranking of the largest global firms by revenues.[26] Comparing the top 10

TABLE 1-3 The World's Largest Corporations by Market Value (US$Billions), April 2010[27]

Rank	Company/Country	Industry	Market Value
1	PetroChina/China	Oil & Gas	$333.84
2	ExxonMobil/US	Oil & Gas	308.77
3	Microsoft/US	Software Services	254.52
4	ICBC/China	Banking	242.23
5	Wal-Mart Stores/US	Retail	205.37
6	China Mobile (HK-China)	Telecom	199.73
7	BHP Billiton/Australia/UK	Materials	192.46
8	Berkshire Hathaway/US	Financials	190.86
9	Petrobras/Brazil	Oil & Gas	190.34
10	Apple/US	Tech, Hardware, & Equip	189.51[28]

[23] Filipe Barbosa and Damian Hattingh, "Applying Global Trends: A Look at China's Auto Industry," *The McKinsey Quarterly* (July 2010), accessed August 23, 2010, http://www.mckinseyquarterly.com.

[24] See Andrew Martin, "Smelling An Opportunity: P&G Capitalizes By Expanding Brand Outside the Home," *The New York Times*, December 9, 2010.

[25] Galvin, Hexter, and Hirt, "Building a Second Home in China."

[26] There are many different ways to value a global company, each of which creates a different ranking of the world's largest or most profitable companies. For example, the *Fortune* Global 500 ranking list is based on revenues. For the *Financial Times* Global 500, the ranking is based on market value or market capitalization, which takes a snapshot of the share price multiplied by the number of outstanding shares. Finally, the *Forbes* Global 2000 uses a combination of sales, profit, assets, and market value that are equally weighted to determine the top public companies. Each of the rankings has its own strengths and weaknesses. Even where a company is listed on one or more of the published rankings, market values, for example, can be different in light of timing or variations in accounting standards.

[27] *Forbes*, The Global 2000, April, 21, 2010, accessed December 13, 2012, http://www.forbes.com/lists/18/global-2000-10_The Global-2000_MktVal.html.

[28] Apple's market capitalization was $314.08 billion the first quarter of 2011.

TABLE 1-4 The Global 2000: Largest Companies by Revenue (US$ Billions), April 2010[29]

Rank 2010	Company/Country	Sales ($Bill)	Profits
1	Wal-Mart Stores/US	408.21	14.34
2	Royal Dutch Shell/ Netherlands	278.19	12.52
3	ExxonMobil/US	275.56	19.28
4	BP/UK	239.27	16.58
5	Toyota Motor/ Japan	210.84	–4.49
6	Sinopec-China Petroleum/China	208.47	4.37
7	ING Group/ Netherlands	167.49	–1.30
8	Total/France	160.68	12.10
9	Chevron/US	159.29	10.48
10	PetroChina/China	157.22	16.80

Since 1955, when the first Fortune 500 list was compiled, in excess of 1,800 companies have been included. Between 1975 and 1995, 60 percent of the companies on the *Fortune* 500 were replaced.[30]

companies in each table, it is striking to note that while five out of ten of the largest global firms measured by market value are North American, on the most profitable list of the *Forbes* 2000 2010 ranked companies, the top 10 global firms are from more diverse countries, including the Netherlands, UK, Japan, China, and France. In light of China's growth as an industrial exporter over the past decade, it is not surprising that three of the top 10 biggest global competitors are from China: PetroChina, China Mobile in telecommunications, and ICBC, the Industrial and Commercial Bank of China. Although two of the *Forbes* 2000 2010 top 10 largest global companies are in the oil and gas industry, five of the top 10 most profitable global firms are in oil and gas extraction, clearly beating out other industries such as banking, automobiles, retail, and high-tech services and equipment. Toyota of Japan is the only automobile company on either top 10 list, as compared with a decade ago when the top three global firms measured by revenue were in the automobile industry: General Motors, DaimlerChrysler, and Ford Motor Company. Wal-Mart Stores, being the largest global company based on sales, is only one of two global firms in the top 10 of both lists measured by market value and sales. It has organically grown to the top sales position over the past decade through a growth strategy of retail expansion and not through mergers and acquisitions.

MANAGEMENT ORIENTATIONS

The form and substance of a company's response to global market opportunities depend greatly on management's assumptions or beliefs—both conscious and unconscious—about the nature of the world. The worldview of a company's personnel can be described as ethnocentric, polycentric, regiocentric, or geocentric.[31] Management

[29] Adapted from "The Global 2000," Forbes.com. Ranked by Sales, April 2010, accessed March 8, 2011, http://www.forbes.com/lists/2010/18/global-2000-10_The-Global-2-10_Sales.html.

[30] W. Chan Kim and Renèe Mauborgne, "How to Discover the Unknown Market," *The Financial Times,* May 6, 1999, 12.

[31] Adapted from Howard Perlmutter, "The Tortuous Evolution of the Multinational Corporation," *Columbia Journal of Business* (January–February 1969).

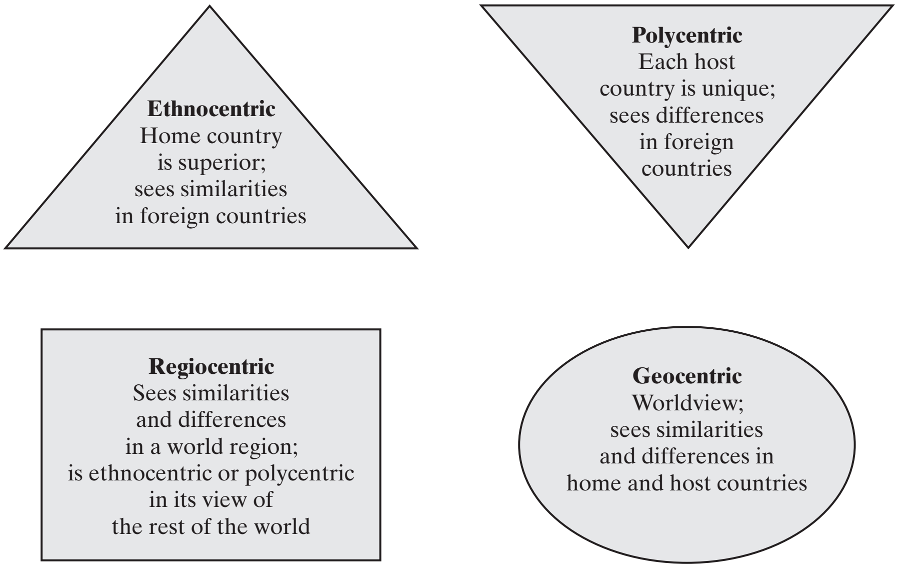

FIGURE 1-4 Orientation of Management and Companies

at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism. The orientations—collectively known as the EPRG framework—are summarized in Figure 1-4.

Recent studies have demonstrated that the cognitive orientation of top-level management can either help propel organizations toward fast track internationalization—born globals—or toward lower-risk, international commitments such as exporting in the early phases of internationalization. These domestic mind-sets refer to management's knowledge and knowledge structures prior to going international and are based on cultural values and managerial experience and learning. They are the lens through which management perceives the environment and makes decisions. Activities that cultivate greater learning and knowledge creation can lead to a management mind-set which fosters, for example, new ways to compete and differentiate offerings from competitors. In other words, a more complex knowledge base can lead to stronger and often faster or earlier international commitment and risk taking. In contrast, consistent use of the same home market patterns of competition and business activity can lead to inertia, which may prevent firms from expanding both their mind-sets and markets.[32]

In later chapters, we will discuss global organizational design and the importance of management of human resources and talent capital worldwide. For now, it is important to note that cognitive orientations of management are vital to enterprise-wide growth and expansion strategies.[33]

Ethnocentric Orientation

A person who assumes his or her home country is superior compared with the rest of the world is said to have an ethnocentric orientation. The ethnocentric orientation means company personnel see only similarities in markets and assume the products and

[32] Sucheta Nadkarni and Pedro David Perez, "Prior Conditions and Early International Commitment: The Mediating Role of Domestic Mindset," *Journal of International Business Studies*, 38 (2007): 160–170.
[33] See, for example, Orly Levy, Schon Beechler, et al., "What We Talk About When We Talk About 'Global Mindset': Managerial Cognition in Multinational Corporations," *Journal of International Business Studies*, 38 (2007): 231–258.

practices that succeed in the home country will, due to their demonstrated superiority, be successful anywhere. At some companies, the ethnocentric orientation means that opportunities outside the home country are ignored. Such companies are sometimes called domestic companies. Ethnocentric companies that do conduct business outside the home country can be described as international companies; they adhere to the notion that the products that succeed in the home country are superior and, therefore, can be sold everywhere without adaptation.

In the ethnocentric international company, foreign operations are viewed as being secondary or subordinate to domestic operations. An ethnocentric company operates under the assumption that tried and true headquarters' knowledge and organizational capabilities can be applied in other parts of the world. Although this can sometimes work to a company's advantage, valuable managerial knowledge and experience in local markets may go unnoticed. For a manufacturing firm, ethnocentrism means foreign markets are viewed as a means of disposing of surplus domestic production. Plans for overseas markets are developed utilizing policies and procedures identical to those employed at home. No systematic marketing research is conducted outside the home country, and no major modifications are made to products. Even if consumer needs or wants in international markets differ from those in the home country, those differences are ignored at headquarters.

Fifty years ago, most business enterprises—and especially those located in a large country such as the United States—could operate successfully with an ethnocentric orientation. Today, ethnocentrism is a fatal orientation for companies who are competing in a global or globalizing industry.

Polycentric Orientation

The polycentric orientation is the opposite of ethnocentrism. The term *polycentric* describes management's often unconscious belief or assumption that each country in which a company does business is unique. This assumption lays the groundwork for each subsidiary to develop its own unique business and marketing strategies in order to succeed; the term *multinational company* is often used to describe such a structure. An executive offered the following description of his polycentric company: "We were like a medieval state. There was the king and his court, but it was the in-country barons who were in charge. The king and his court might declare this or that, but the land barons went and did their thing."

Regiocentric and Geocentric Orientations

In a company with a regiocentric orientation, management views regions as unique and seeks to develop an integrated regional strategy. For example, a European company that focuses its attention on the EU or Europe is regiocentric. A company with a geocentric orientation views the entire world as a potential market and strives to develop integrated world market strategies. A company whose management has a regiocentric or geocentric orientation is a global or transnational company.[34]

[34] Although the definitions provided here are important, to avoid confusion we will use the term *global marketing* when describing the general activities of global companies. Another note of caution is in order: usage of the terms *international, multinational,* and *global* varies widely. Alert readers of the business press are likely to recognize inconsistencies; usage does not always reflect the definitions provided here. In particular, companies that are global as defined in this book are often described as multinational enterprises (abbreviated MNE) or multinational corporations (abbreviated MNC). The United Nations prefers the term *transnational company* rather than *global company.* When we refer to an international company or a multinational, we will do so in a way that maintains the distinctions described in the text.

The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a worldview that sees similarities and differences in markets and countries and seeks to create a global strategy that is fully responsive to local needs and wants. A regiocentric manager might be said to have a worldview on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two. Many companies seek to strengthen their regional competitiveness as a first stage in globalization rather than moving directly to worldwide operations. These companies have a global strategy and are focusing on establishing a regional competitive advantage as the first stage of globalization.

The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively. A crucial difference between the orientations is the underlying assumption for each. The ethnocentric orientation is based on a belief in home-country superiority. The underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that it is impossible and futile to attempt to transfer experience across national boundaries, except in exceptional cases where the product or service is driven to global standards and has become a truly global product. The geocentric company believes that there are similarities and differences in markets and that they can create the greatest value by recognizing when to extend a global element of their offer and when to adapt to regional, national, and subnational differences.

DRIVING AND RESTRAINING FORCES

The remarkable growth of the global economy over the past 60 years has been shaped by the dynamic interplay of various driving and restraining forces. During most of those decades, companies from different parts of the world in different industries achieved great success by pursuing international, multinational, or global strategies. Over the past two decades, changes in the global business environment have presented significant challenges to the more industrial-age, purely domestic ways of doing business. The growing importance of global marketing stems from the fact that driving forces have significantly more momentum than restraining forces in defining the competitive global environment. The forces affecting global integration are shown in Figure 1-5.

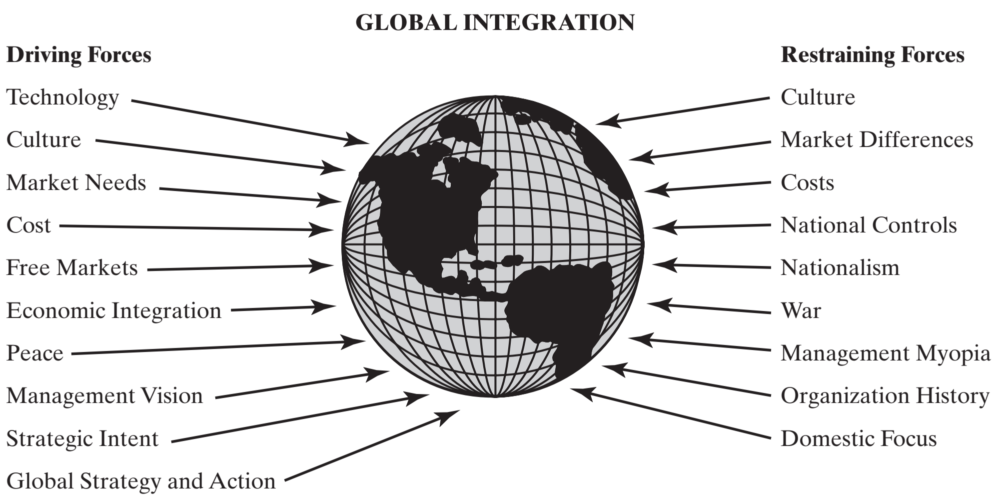

FIGURE 1-5 Global Integration

Driving Forces

Converging market needs and wants; technology advances; pressure to cut costs; pressure to improve quality; access to labor, talent, raw materials and energy needs; dramatic improvements in communication and transportation technologies; global economic growth; and opportunities for leverage, all represent important driving forces. Almost all industries are subject to these forces and, therefore, are candidates for globalization.

TECHNOLOGY Technology is a significant, universal factor that crosses national, regional, and cultural boundaries. Technology is truly stateless; there are no cultural boundaries limiting its application. Once a technology is developed, it soon becomes available everywhere in the world. With 43 percent of the world's online population residing in Asia, China accounts for 17 percent of the global online population. China will have 1.3 billion subscribers and 957 million mobile web users by 2014 and has already surpassed the United States in the use of mobile Internet apps.[35] India's Internet population has grown to 71 million. Japan has about 21.8 million social network users, with about one-half actively managing their profiles. The Philippines has more than 106 million Facebook users and is ranked eighth in the world for countries with the highest number of residents using the social networking site. This growing phenomenon of online and mobile use supports Levitt's prediction concerning the emergence of global markets for standardized products. In his landmark Harvard Business Review article, Levitt anticipated the communication revolution that has, in fact, become a driving force behind global marketing[36] and the emergence of a true global village. The Internet's first ad appeared in October 1994 on Wired magazine's news site. It was part of the AT&T's "You Will" campaign showcasing technologies of the future—most of which we now take for granted.[37] It's "tech's time of tumult" and an historic moment in the history of technology and its innovations as the world shifts to a mobile, ad-supported, on-demand, socially connected, truly global network.[38] In regional markets such as Europe, the increasing overlap of advertising across national boundaries along with the mobility of consumers and their awareness of the latest trends and technologies have created opportunities for marketers to pursue pan-European product positioning.

The new goal and opportunity is to make marketing personal and individualized around the world. The Internet differs from previous disruptive technologies like the telephone, automobile, radio, and television. It connects companies to a ready-made marketplace: a multitrillion dollar network of connections spanning the globe with an access point to billions of customers located around the world, every day all day. Web 2.0 companies such as Facebook, LinkedIn, and YouTube and their online communities are powerful platforms for creating customer loyalty, building brands, co-creating products and business strategy, extracting more value from interactions, and tapping into the world of talent.

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[35] The Nielsen Company, as reported by Jack Marshall, ClickZ online newsletter (August 6, 2010), accessed August 8, 2010.

[36] Levitt, "The Globalization of Markets."

[37] Just over ten years ago, Sir Tim Berners-Lee, the inventor of the web, said, "I have a dream for the web [in which computers] become capable of analyzing all the data on the web—the content, links, and transactions between people and computers. A 'Semantic Web' which should make this possible, has yet to emerge, but when it does, the day-to-day mechanisms of trade, bureaucracy, and our daily lives will be handled by machines talking to machines. The 'intelligent agents' people have touted for ages will finally materialize." As reported by Vin Crosbie, "The New Media Stone Age," ClickZ online newsletter (February 6, 2009), accessed February 6, 2009, http://www.clickz.com/clickz/column/1709191/the-new-media-stone-age.

[38] David Kirkpatrick, "Tech's Time of Tumult," CNNMoney Fast Forward Newsletter (October 19, 2007), accessed October 19, 2007, CNNMoney.com.

REGIONAL ECONOMIC AND POLITICAL AGREEMENTS A number of multilateral trade agreements have accelerated the pace of global integration. Examples include the mother of all regional unions, the European Union, which began after World War II as a free trade union and is today an economic and political union with a common currency, the euro. The EU includes 27 countries, 17 of which are in the euro zone. In addition, there are four candidate member states: Turkey, Croatia, Iceland, and the Former Yugoslav Republic of Macedonia.

The North American Free Trade Agreement (NAFTA) was signed by the governments of Canada, Mexico, and the United States, creating a free trade area in North America. The agreement came into force on January 1, 1994. It superseded the Canada–United States Free Trade Agreement signed in 1989.

The General Agreement on Tariffs and Trade (GATT), which was ratified by more than 120 nations in 1994, was replaced by the World Trade Organization to promote and protect free trade, but has come under attack by developing countries. The goal of several of the multilateral agreements is to facilitate South–South trade such as between Latin American (Mercosur also known as the Southern Common Markets) or African countries. The Commonwealth of Independent States (CIS) exists between 11 of the former 15 Soviet Republics. APEC (Asia-Pacific Economic Cooperation) is made up of 21 members, most with a coastline on the Pacific Ocean. The ASEAN Free Trade Area was created to promote regional stability and foster economic growth among its 10 Southeast Asian country members.

MARKET NEEDS AND WANTS A study of markets around the world reveals cultural universals as well as cultural differences. The common elements of human nature provide an underlying basis for the opportunity to create and serve global markets. The word *create* is deliberate. Most global markets do not exist in nature; they must be created by marketing effort. For example, no one needs soft drinks, and yet today, in some countries, per capita soft-drink consumption exceeds the consumption of water. Marketing has driven this change in behavior, and today the soft-drink industry is global. Consumer needs and wants around the world are converging today as never before. This creates an opportunity for global marketing. Multinational, multicountry strategy companies pursuing strategies of product adaptation run the risk of being overtaken by global competitors that have recognized opportunities to serve global customers with global products. Philips Lighting, the world's largest producer of industrial and consumer lighting products, is playing a large role in the ongoing global transformation from incandescent to solid-state lighting using LED technology. Focusing on worldwide innovation, Philips understands that new technology is "just a vehicle to respond to needs.…It's really about [looking] outside and understanding what the market needs are, what the future applications are, what the requirements are for lighting solutions and experiences in various places and spaces."[39]

Market needs and consumer desires will, in great part, be defined by the growing middle class of emerging economies. Until recently, the world's middle class has been located in the triad of Europe, North America, and Japan. In 2000, developing countries accounted for 56 percent of the global middle class. By 2030, this figure is expected to reach 93 percent, with China and India accounting for two-thirds of the growth. As a result, multinationals, which have viewed developing economies largely as a source of cheap labor, are now in the position to benefit from workers now able to afford more than life's necessities. In almost every country, the growing middle

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[39] "Philips Lighting CEO Rudy Provost: Innovation Means Putting Consumers' Needs First," Knowledge@ Wharton (February 20, 2008), accessed February 25, 2008, http://knowledge.wharton.upenn.edu/article.

class spurs market trends and the creation of new products.[40] The global push to address this growing worldwide, middle-class, consumer audience is comprised of multifaceted integrating forces, such as digital information networks and globally integrated R&D, marketing programs, and distribution channels.[41]

Global customers, and not only those in the middle class, are suddenly beginning to look similar across international markets, and this similarity itself is an integrating force. For example, Japanese consumers are similar to consumers in Europe and the United States in their interest in seeking quality, value, and convenience and a less expensive product. Japanese consumers, like their European and North American counterparts, are flocking to discount and online retailers. Affordable private-label foods have increased significantly, and many consumers across the globe, despite smaller living spaces, are purchasing in bulk, eating at home instead of at restaurants, and packing their own lunches. This shift in attitude toward more cost consciousness and economy is projected to continue despite any longer term, global economic recovery.[42]

TRANSPORTATION AND COMMUNICATION IMPROVEMENTS The time and cost barriers associated with distance have fallen tremendously over the past 100 years. The jet airplane revolutionized communication by making it possible for people to travel around the world in just over one day's time. Tourism enables people from many countries to see and experience the newest products being sold abroad. One essential characteristic of the effective global business is face-to-face, real-time communication among business leadership and employees and between the company and its customers. Along with modern jet travel, communication technologies, which range from simple point-to-point voice communication to multiparty, multichannel, and multimedia applications, are reducing the barriers of distance and time. Examples of communications technology platforms include cellular systems, wireless LANs, and wireless personal area networks. Basic communications technology such as e-mail, fax, and pagers are found worldwide. Skype is a popular example of a VoIP (Voice over Internet Protocol) product,[43] with an estimated 600 million accounts worldwide. VoIP allows customers, executives, and managers to conduct business face-to-face in real time from virtually any part of the globe at almost no cost.

A similar revolution has occurred in transportation technology. Physical distribution has declined in terms of cost; the time required for shipment has been greatly reduced. For example, a distributor of a tablet PC located in Austin, Texas, can have the product shipped from a manufacturer outside Shanghai by FedEx Corp. in a total of five days. With finished product delivered to a truck, loaded on a plane in Shanghai to Anchorage, and then delivered by a series of flights and trucks to Austin, FedEx has become a de facto partner in thousands of retail operations around the globe, eliminating warehousing and inventory costs and offering competitive air express rates. This just-in-time value proposition offered by FedEx has made it number one in the China–US air express market.[44] With transport capabilities increasing and cost decreasing, distance factors matter less. For example, the per-unit cost of shipping automobiles from Japan and

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[40] "The New Global Middle Class: Potentially Profitable—But Also Unpredictable," Knowledge@Wharton (July 9, 2008), accessed August 25, 2008, http://knowledge.wharton.upenn.edu/article.

[41] See, for example, Christopher P. Beshouri, "A Grassroots Approach to Emerging-Market Consumers," *The McKinsey Quarterly*, no. 4 (2006), accessed January 15, 2007, http://www.mckinseyquarterly.com/article.

[42] Brian Salsberg, "The New Japanese Consumer," *The McKinsey Quarterly* (March 2010), accessed March 12, 2010, http://www.mckinseyquarterly.com/article.

[43] Skype was first released in 2003, written by Estonian developers Ahti Heinla, Priit Kasesalu, and Jaan Tallinn. It has developed into a platform with over 600 million users and was acquired by Microsoft in 2011 for $8.5 billion; Wikipedia, Skype, accessed December 12, 2012.

[44] Dean Foust, "Taking Off Like 'A Rocket Ship,'" *Businessweek*, April 3, 2006, 76.

Korea to the United States by specially designed auto-transport ships is less than the cost of overland shipping from Detroit to either US coast.

PRODUCT DEVELOPMENT COSTS The pressure for globalization is intense when new products require major investments and long periods of development time. The pharmaceuticals industry provides a striking illustration of this driving force. According to the Pharmaceutical Manufacturers Association (PMA), the cost of developing a new drug in 1976 was $54 million; by 1982, the cost had increased to $87 million. By 1993, the cost of discovering, developing, and launching a new drug had reached $359 million,[45] and by 2003, studies indicate the cost had more than doubled to $802 million.[46] Other estimates indicate that costs may have more than quadrupled during the same time period to 1.7 billion.[47] The same kind of expenditures and development times are common in other industries. These outlays provide an incentive to expand globally to recover costs of discovery and development and realize the potential returns of additional market revenue.

QUALITY Global marketing strategies can generate greater revenue and greater operating margins, which, in turn, support the cost of world-class design and manufacturing quality. A global and a domestic company may each spend 5 percent of sales on R&D, but the global company will have many times the total revenue of the domestic because it serves the world market. Global companies raise the bar for all competitors in an industry. Global competition has forced all companies to improve quality. For truly global products, uniformity can drive down research, engineering, design, and production costs across business functions. Quality, uniformity, and cost reduction were all driving forces behind Ford's development of its "World Car." Manufacturing of the 2012 Focus, an all-new sedan and five-door hatchback, ramped up at Wayne Assembly in Michigan. Across the Atlantic, Ford's Saarlouis factory in Germany built virtually the same cars for Europeans. Manufacturing plants in Louisville, Kentucky (US), Vsevolozhsk, St Petersburg (Russia), and the Valencia plant in Spain were also scheduled to build the new-shape models. The global Focus is built and sold in the United States; the availability of diesel engines and a wagon body style in Europe will be the only significant regional differentiators for the model series in global markets.[48]

The global success or failure of this new Focus, the idea of engineering one car, one platform, one set of powertrains for one model that will be sold in the same segment the world over, is the true test of Ford's goal to become a global vehicle manufacturer.

WORLD ECONOMIC TRENDS There are three reasons why economic growth has been a driving force in the expansion of the international economy and the growth of global marketing. First, world growth has created market opportunities that provide a major incentive for companies to expand globally. At the same time, slower growth in a company's domestic market can signal the need to look abroad for opportunities in nations or regions with high rates of growth.

Second, economic growth has reduced resistance that might otherwise have developed in response to the entry of foreign firms into domestic economies. When

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[45] PMA figures cited in T. W. Malnight, "Globalization of an Ethnocentric Firm: An Evolutionary Perspective," *Strategic Management Journal*, 16, no. 2 (2006): 123.
[46] Joseph A. DiMasi, Ronald W. Hansen, and Henry G. Grabowski, "The Price of Innovation: New Estimates of Drug Development Costs," *Journal of Health Economics* (February 2003).
[47] "Has the Pharmaceutical Blockbuster Model Gone Bust?," Bain & Company press release (December 8, 2008).
[48] Glenn Brooks, "All Eyes Focus on Alan Mulally's One Ford Strategy," AutomotiveWorld.com (March 17, 2011), http://www.automotiveworld.com/news//86323-all-eyes-focus-on-alan-mulally-s-one-ford-strategy

a country is growing rapidly, policy makers are likely to look favorably on outsiders. A growing country means growing markets; there is often plenty of opportunity for everyone. In a growing market, it is possible for a foreign company to enter a domestic economy and establish itself without taking business away from local firms. Without economic growth, global enterprises may indeed take business away from domestic ones. Domestic businesses are more likely to seek governmental intervention to protect their local position if markets are not growing.

Worldwide movement toward deregulation and privatization is another driving force. The trend toward privatization is opening up formerly closed markets significantly, and tremendous opportunities are being created as a result. For example, when a nation's telephone company is a state monopoly, it is much easier to require it to buy only from national companies. An independent, private company will be more inclined to look for the best offer, regardless of the nationality of the supplier. Privatization of telephone systems around the world is creating opportunities and threats for every company in the industry.

LEVERAGE A global company possesses the unique opportunity to develop leverage. Leverage is simply some type of advantage that a company enjoys by virtue of the fact that it conducts business in more than one country. Four important types of leverage are experience transfers, scale economies, resource utilization, and global strategy.

1. *Experience transfers.* A global company can leverage its experience in any market in the world. It can draw on management practices, strategies, products, advertising appeals, or sales or promotional ideas that have been tested in actual markets and apply them in other comparable markets.
2. *Scale economies.* The global company can take advantage of its greater manufacturing volume to obtain traditional scale advantages within a single factory. Also, finished products can be produced by combining components manufactured in scale-efficient plants in different countries. Globalizing firms continue to look to economies of scale in their merger and acquisition activities as well as their overall global manufacturing strategy.

   Leverage from scale economies is not limited to manufacturing. Economies of scope, advantages gained by providing services across several product categories or geographical markets, drive industries toward globalization. For example, global firms such as Procter and Gamble, Colgate-Palmolive, and Unilever, in the household and personal care product categories, derive significant benefits from sharing the same distribution, marketing, design, and research capabilities across product categories and customer needs. By centralizing functional activities, global firms also create opportunities to improve corporate staff competence and quality, and affect worldwide corporate culture.
3. *Resource utilization.* A major strength of the global company is its ability to scan the entire world to identify people, money, and raw materials and use them effectively to compete in world markets. For many, if not all companies, talented people are a prime source of competitive advantage. The digital global economy is fueled by intellectual capital and the sharing of knowledge across worldwide enterprises. Global managers recognize that flat and networked organizations populated by empowered employees and managers are indispensable to quick decision making and response to rapidly changing marketplace demands. This is equally true for established companies and start-ups. Executives worldwide rank human performance and attracting and retaining people as their number one strategic priority. Global investment in human performance areas will be critical to building cross-cultural human talent. These include creating a high–performance

workforce by matching talent with the right global opportunities, measuring and developing talent in real time and across borders, and linking workforce goals to business strategy and results. Building human assets involves understanding how a new generation of employees and corporate leadership from all points of the globe will function.

4. *Global strategy.* The global company's greatest single advantage can be its global strategy. A global strategy is built on an information system that scans the world business environment to identify opportunities, trends, threats, and resources. When opportunities are identified, the global company adheres to the three principles identified earlier in the chapter. It leverages its skills and focuses its resources to create superior perceived value for customers and achieve competitive advantage. The global strategy is a design to create a winning offering on a global scale. This takes great discipline, much creativity, and constant effort. The reward is not just success—it is survival.

BOX 1-1

Side Bar: Nokia "Blinded by the Light"[49]

Why do individuals and organizations fail to see the need for change? Answer: We fail to see because we are blinded by the light of what we already see.

In 2000, Motorola was displaced by Nokia, a Finnish company emerging as a global competitor from nowhere during the shift from analog to digital phones in the 1990s. Nokia had been through several transformations since it was founded in 1865 as a pulp mill in Southern Finland. After purchasing a cable company, electronics accounted for only 3 percent of the company's business. In the 1980s, Nokia moved into several new businesses, including television manufacturing and information technology. By 1994, Nokia had divested its other divisions to focus on telecommunications. At that time, it had over 50,000 employees at 17 production plants in nine countries and 14 R&D facilities in 14 countries. By the early 2000s, both Nokia and Motorola were being challenged by Asian consumer-electronics companies such as Samsung, Sanyo, LG, and Sony Ericsson. The Asian electronics companies got the leg up on incorporating new multimedia capabilities into mobile telephony because of the rapid growth of Asian data networks conducive to these new capabilities and the growing Asian consumer demand. At the same time, wireless carriers sought to highlight their own brand names and services along with manufacturers' brands, to the detriment of Nokia's traditionally strong brand and marketing. Until this time, Nokia had done a good job of combining technology and marketing new and fashionable products to its customers.

By the early 2000s, the global market was essentially split into two markets: replacement markets in regions such as Western Europe and North America which continued to drive sales, and new sales in emerging markets such as Africa, parts of Eastern Europe, and China. By 2003, Nokia led the worldwide mobile handset industry with over one-third of the market with strong growth in Asia/Pacific, Central and Eastern Europe, and the Middle East and Africa. Through 2007, Nokia saturated the mobile phone market with everything from expensive, often stylish multicapacity phones to basic models after learning lessons from Motorola and its misplaced reliance on a few top-selling models such as the Razr. Management of Nokia's supply chain, manufacturing, and marketing was arguably the best in the world. They had a strong head start in the fast-growing markets of China and India. Nokia's global market share reached almost 40 percent, twice the combined share of its two closest rivals, Motorola and Samsung Electronics.

[49] ***Nokia "Blinded by the Light"*** adapted from J. Stewart Black and Hal B. Gregersen, ***It Starts With One: Changing Individuals Changes Organizations*** (Upper Saddle River, NJ: Pearson Education Inc., Wharton School Publishing, 2008).

Yet, by 2007, despite the steady increase of unit sales, annual revenues were decreasing. Sales in developing regions such as India, China, and Latin America were shifting Nokia's sales mix to less lucrative models. Operating margins that had been above 20 percent were dropping significantly. New management had to find alternative avenues of growth, address sliding profit margins, and confront ever-stronger competitors. Motorola, Samsung, and LG Electronics were creating products targeted to the middle class in emerging markets as well as the ultra-inexpensive phones, both Nokia's mainstay products. As phone sales accounted for 60 percent of Nokia's revenues, leadership pushed R&D efforts by investing more than $8 billion in 2008 and sped to market higher-end products. Even earlier than 2007, there were signs of Nokia's fallibility. It lagged in offering mobile phone color-screens and trailed Motorola in supporting enhanced European GSM standards. Shelves were chock-full of sleek Samsung flip phones, new fashionable designs by Sony Ericsson, and big-screen color models by Sharp and Sagem. Nokia failed to anticipate changes in North American consumer tastes such as flip phones and touch screens, instead it continued its practice of mass production for the global market to reduce production costs. In addition, Nokia had only a small market share in CDMA phones—a growing segment dominated by Samsung and used by an estimated one-half of the American market—and lagged in camera phones that transmit photos—wireless technology then dominated by Japanese firms such as NEC, which leveraged their decades of experience making consumer electronics to produce multimedia phones.[50]

"Nokia misread the market," said one industry analyst. "When markets start to evolve from the low end to being more modern, Nokia's share usually starts to fall," said another influential analyst.[51] If in fact Nokia lost its feel for consumer taste and demands, it began to cast a wider net for high-margin growth opportunities outside of traditional handsets; they moved toward the "convergence market" through efforts of their multimedia group and focused on exploiting Nokia's technology assets with new standardized, yet flexible software and new modular hardware. In 2008, Nokia purchased London-based Symbian, the leading maker of operating system software for advanced mobile phones, the smartphone. This move was intended to counter new entrants to the competitive field including Apple and Google. Google backed the Android operating system with the goal of creating a web-friendly software platform, and Apple raised the bar and redefined the market with its popular iPhone and expansive support for software development, mobile applications.

Nokia continued to lose ground in the smartphone market—its global share fell to 28 percent at the end of 2010, down almost 10 percent from a year earlier. Mr. Elop, Nokia's chief executive, stated that Nokia found itself losing in "a war of ecosystems," including software, games, advertising, search, and other mobile services.[52] Mr. Elop acknowledged Nokia had to take bold action to make up for lost ground.[53] Historically, even tech giants have had a difficult time playing catch up with new leaders redefining the market. Xerox, Lucent, Kmart, IBM, and Sony are a few of the past giants who have floundered and sometimes failed because they didn't recognize disruptive market changes, the influences of market newcomers on customer needs, technology trends, or the introduction of new products with greater value.

"Every major personal or company change rarely occurs in isolation but contains a context, a history. In virtually every case, individuals or companies were doing the right thing and doing it well before something in the environment changed."[54] Although Nokia continues to sell more smartphones than any other company globally, to address the shifting landscape it has formed an alliance with Microsoft and will switch from Symbian to Windows Phone software on its smartphones. With HP's purchase of Palm in 2010, the competitive field continues to shift. No longer business leading consumers, consumers are leading business strategy.[55]

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[50] Kevin O'Brien, "Nokia Struggles to Regain Market Share in the U.S.," *The New York Times,* November 3, 2009.
[51] Jack Ewing, "Mad Dash for the Low End," *Businessweek,* February 18, 2008.
[52] Steve Lohr, "Playing Catch-Up: Nokia and HP Try To Innovate," *The New York Times*, February 10, 2011, B1.
[53] Ibid.
[54] "Of Cell Phones, Maps, and Mental Models: Why Doing What Was Right is Sometimes Wrong," Knowledge@ Wharton (August 2008), http://knowledge.wharton.upenn.edu/article
[55] Randall Stross, "Microsoft+Nokia=A Challenge for Apple," *The New York Times*, April 3, 2011.

THE GLOBAL/TRANSNATIONAL CORPORATION The global/transnational corporation, or any business enterprise that pursues global business objectives by linking world resources to world market opportunity, is the organization that has responded to the driving, restraining, and underlying forces in the world. Within the international financial framework and under the umbrella of global peace, the global corporation has taken advantage of the expanding communications and information technologies to pursue market opportunities and serve needs and wants on a global scale. The global enterprise has both responded to market opportunity and competitive threat by going global and, simultaneously, has been one of the forces driving the world toward greater globalization.

Restraining Forces

Despite the impact of the driving forces identified earlier in the chapter, several restraining forces may slow a company's efforts to engage in global marketing. Three important restraining forces are management myopia, organizational culture, and national controls. As we have noted, however, in today's world the driving forces predominate over the restraining forces. That is why the importance of global marketing continues to grow.

MANAGEMENT MYOPIA AND ORGANIZATIONAL CULTURE In many cases, management simply ignores opportunities to pursue global marketing. A company that is nearsighted and ethnocentric will not expand geographically. Myopia is also a recipe for market disaster if headquarters attempts to dictate when it should listen and to whom it should listen. Global marketing is not effective without strong country market teams that can creatively respond to local market opportunities and threats. A global company needs to be able to respond creatively in all markets: home and the rest of the world. New ideas and initiatives in a global company should come from the entire world, not just from the home market. It is the failure to develop this capability that has been the downfall of many once-leading companies such as Sears and JC Penney in retail, Wang and DEC in computing, and Sony in portable personal sound. Now, as opposed to thirty years ago, competitors in all regions of the world come from everywhere.

In companies in which subsidiary management knows it all, there is no room for vision from the top. As we will see in Chapter 16, executives and managers at successful global companies have learned how to integrate global vision and perspective with local market initiative and input. A striking theme emerged during interviews conducted by the author with executives of successful global companies: respect for local initiative and input by headquarters executives, and corresponding respect for headquarters' vision by local executives.

NATIONAL CONTROLS AND BARRIERS Every country protects local enterprise and interests by maintaining control over market access and entry in both low- and high-tech industries and advertising. Such control ranges from a monopoly controlling access to certain markets to national government control of broadcast, equipment, and data transmission markets. Today, tariff barriers have been largely removed in the high-income countries, thanks to the World Trade Organization (WTO), NAFTA, and other regional and bilateral economic agreements. However, nontariff barriers (NTBs) still make it more difficult for outside companies to succeed in foreign markets. The only way global companies can overcome these barriers is to become insiders in every country in which they do business.

Global advertising and promotion are also hampered by government regulations. It is illegal in some countries to use comparative advertising. In other countries, such as Germany, premiums and sweepstakes are illegal. Also working against global advertising is the use of different technical standards around the world. However, over the past 20 years, digital compatibility has helped facilitate global marketing programs and market insight. And continuing improvement of the mobile web, the growth of smartphones, and the success of tablets, as well as improved user experience across devices with the roll out of 4G and carrier improvements, will only serve to strengthen mobile's growth as one of the most powerful platforms available to global marketers.

OUTLINE OF THIS BOOK

The book is divided into six parts. Part I is an introduction and overview of Global Marketing Management.

Part II addresses the Global Marketing Environment: socioeconomic conditions including the location of income and population; patterns of trade and investment; stages of market development; and social, political, legal and regulatory, and cultural elements.

Part III, Analyzing and Targeting Market Opportunities, begins with Chapter 5 which focuses on global customers and marketing across global diversity, Chapter 6, outlines global marketing information systems and research and chapter 7 addresses Global segmentation, targeting, and positioning.

Part IV, Global Marketing Strategy, is the bridge between the first seven chapters which address the external environment of global marketing, and the next nine chapters which address the formulation of a competitive global marketing strategy. Chapter 8 outlines alternative entry and expansion strategies and the key concepts and frameworks needed to formulate global competitive analysis and strategy.

Part V focuses on the global marketing mix: the formulation and integration of product, price, channel, and marketing communications decisions to create value for customers and a sustainable global competitive advantage for the firm.

Part VI, Managing the Global Marketing Program, focuses on the implementation of a global strategy and the future of global marketing. It begins with a chapter on global structure, organization and leadership and continues with a chapter that is new to this edition: corporate social and environmental responsibility. Chapter 16 concludes the book with a discussion of the the major forces and concepts that will shape the future of global marketing.

Chapter Summary

Global marketing is the process of focusing the resources and objectives of a company on global marketing opportunities. Companies engage in global marketing for two reasons: to take advantage of opportunities for growth and expansion, and to survive. Companies in globalizing industries that fail to pursue global opportunities will eventually lose their domestic markets because they will be pushed aside by stronger and more competitive global competitors. This book presents the theory and practice of applying the universal discipline of marketing to the global opportunities found in world markets.

The basic goals of marketing are to create customer value and competitive advantage by maintaining focus. Company management can be classified in terms of its orientation toward the world: ethnocentric, polycentric, regiocentric, and geocentric. An ethnocentric orientation characterizes domestic and international companies; international companies pursue marketing opportunities outside the home market by extending various elements of the marketing mix. A polycentric worldview predominates at a multinational company, where the marketing mix is adapted by country managers operating autonomously. Managers at global and transnational companies are regiocentric or geocentric in their orientation and pursue both extension and adaptation strategies in global markets.

Global marketing's importance today is shaped by the dynamic interplay of several driving and restraining forces. The former include market needs and wants, technology, transportation improvements, costs, quality, global peace, world economic growth, and a recognition of opportunities to develop leverage by operating globally. Restraining forces include market differences, management myopia, organizational culture, and national controls.

Discussion Questions

1. What are the basic goals of marketing? Are these goals relevant to global marketing?
2. What is meant by global localization? Is Coca-Cola a global product? Explain.
3. Describe the differences among ethnocentric, polycentric, regiocentric, and geocentric management orientations.
4. Identify and briefly describe some of the forces that have resulted in increased global integration and the growing importance of global marketing.
5. Define leverage, and explain the different types of leverage utilized by companies with global operations.
6. What, in your view, is the future of a company such as Nokia? Will it be able to continue as an independent company? Why? Why not?
7. What are some major trends in the world that will affect marketing?

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APPENDIX

The 18 Guiding Principles of Legacy Marketing[1]

BY HERMAWAN KARTAJAYA[2]

INTRODUCTION

Welcome to the global marketplace! Regardless of size, profitability, and market strength, every company, no matter where it is located, has entered a new era of competition, where competitors can come from anywhere, be involved in any industry, and serve any number of customers.

The change drivers of increasing ubiquitous technology, integrated economies, and market conditions have redefined almost every industry sector and the way we do business. The dynamic changes in economies and social conditions have revolutionized consumer behavior and attitudes and brought many millions of people into the middle class worldwide. The new breed of consumer wants high-quality products at affordable prices within their convenient reach. Conventional disciplines that guaranteed market leadership in the past have lost their adaptability. In order to survive and prosper in the twenty-first century global marketplace, companies need a new set of strategies and tools, including a set of guiding principles, to create competitive advantage. They need to become a new breed of company: The Marketing Company!

What is the Marketing Company? It is not just a marketing-oriented company or a market-driven company. It is a company that adopts the 18 Guiding Principles as its credo; its guiding values, principles to compete in the global marketplace. Because of these principles, it can endure external and internal change, more demanding customers, and fiercer competition.

Principle #1. The Marketing Company: Defining Marketing as Strategy

Many businesspeople continue to have misconceptions of marketing and perceive it to be the same as selling, advertising, and the marketing mix. Marketers have realized that marketing does not only concern these programs and tactics but includes conceptual frameworks to aid in marketing programming such as segmentation, targeting, and positioning. More advanced marketers understand the value of branding as a strategy to build lasting customer relationships.

While these views are common, they all view marketing as a function or set of functions. Marketing is the centerpiece of business strategy. Peter Drucker argued: "The business enterprise has

[1] Edited by Warren J. Keegan. Copyright 2012 Hermawan Kartajaya.

[2] Hermawan Kartajaya is founder of MarkPlus, a leading Southeast Asia marketing and strategy consulting firm and former President of World Marketing Association. In 2003, he was named by the United Kingdom Chartered Institute of Marketing as one of the "50 Gurus Who Have Shaped the Future of Marketing."

two—and only these two—basic functions: marketing and innovation. Marketing and innovation produce results; all the rest are costs." David Packard—cofounder of Hewlett Packard—claimed: "Marketing is too important to be left to the marketing department." Al Ries, the well-known marketing consultant and author, declared: "A good chief executive officer should also be a chief marketing officer."

Like strategy—defined by Michael Porter as choosing what to do and not to do—marketing is full of choices. Marketing is about making strategic decisions such as which customers to target and which to ignore, when to launch a product, and when to use a single brand or a multi-brand approach. Without these strategic decisions, other business decisions involved in operations, finance, human resources, and information technology have little basis or foundation. Marketing must be the centerpiece of business strategy and is market driven, that is, customer centric. This first principle is the foundation for the principles that follow.

The American Marketing Association's definition of marketing: Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large. The AMA's older definition focused on marketing as an organizational function better known as "marketing management." The new definition focuses on marketing as including other actors, individuals, and processes in society.

A corollary and important related principle of marketing as strategy is that marketing is everyone's business. All departments are marketing departments and all functions are marketing functions. Together they make up a marketing community. Everyone in the organization is a marketer in the sense that everyone has the responsibility of acquiring, satisfying, and retaining customers, on top of their specific job descriptions.

Principle #2. The Principle of Competition: Marketing Is About Value

This principle is the second foundation of the Marketing Company. The Marketing Company does not pursue short-term profits: It creates customer value as the basis for long-term relationships. Unfortunately, this foundation principle does not parallel with stockholders' often short-term orientation. The Marketing Company regards profit as short term and value creation as long term. By continuously and consistently creating customer value, the company will generate profits. Profit follows value. Marketing is about value creation and communicating that value.

While value is defined as total customer benefits received divided by total customer expense, there are five value-creating formula alternatives to beat the competition. First, increase benefits and lower expenses. Second, increase benefits and hold expenses constant. Third, hold benefits constant and lower expenses. Fourth, increase benefits significantly and increase expenses, and fifth, lower benefits and significantly lower expenses. As the value impact among the formula alternatives varies, sometimes significantly, the core idea behind the principle remains unchanged. Value is the key to winning and keeping customers. Therefore, the Marketing Company improves customer value to beat competition.

Principle #3. The Principle of Four Cs: Understand the Dynamic, Competitive Landscape

A business does not live in vacuum. To create a good strategy, a Company—the first C—must understand its business landscape. It serves segments of Customers along with a group of Competitors—the second and third C, respectively. These three Cs exist in almost any market. They were introduced by Kenichi Ohmae in *The Mind of the Strategist* in 1982.

Marketing is about winning the game between a company and its competitors to deliver better value to customers. A company must understand its customers more deeply to beat the competition. Peter Drucker wrote, "The aim of marketing is to know and understand the customer so well, the product or service fits him and sells itself." To understand customers, companies must observe, analyze, and anticipate changes in customer behavior. Customers will create value for a company if the company creates value for them.

A company cannot determine its strategy going forward without understanding competitors and anticipating their actions and reactions. Like customers, competitors are dynamic. Moreover, competitors come and go; some competitors are visible, others are invisible. Michael Porter argued that companies should not only track existing and new competitors but also track substitutes as indirect competitors. Even suppliers and channel partners are often competitors. In ancient times, Sun-Tzu wrote: "If you know the enemy and know yourself, you need not fear the results of a hundred battles." Today, this argument still stands.

Change—the dynamic fourth C—has become critically important. Technological, political-legal, economic, sociocultural, and market changes are influencing how companies and their competitors serve customers. A company should anticipate change and be proactive in coping with change; that is, it must be adaptive and responsive.

Change drivers—technology, economy, and market conditions—have increasingly redefined every industry sector and the way we do business. The advancement of information and communications technology has transformed the marketplace. It has provided industry players a vast array of alternatives to compete more strategically and interact with customers, bringing them into dialogue and relationship with the company. Changes in economic and social conditions have revolutionized consumer behavior and attitudes across the globe.

Today it is clear that Old Economy marketers had the rules of the game pretty much right. The Internet and digital media, mobile telephony, and convergence of platforms do not change the fundamental rules of marketing; rather, they provide the capabilities to get better results from the old rules. What has changed are new opportunities in untapped markets; new threats from just about anywhere and across industry sectors; and new understandings of customer behavior, knowledge, and control in the way products and services are marketed and sold.

Principle #4. The Principle of Retention: Concentrate on Loyalty, Not Just Satisfaction

The Customer is the primary stakeholder of the company, the primary inspiration for developing value propositions, and the primary source of a company's long-term sustainability.

As we enter the *era of choices*, there is no guarantee that a satisfied customer will stay a loyal customer. Satisfaction has increasingly become a commodity. Satisfaction is only part of the process, not the end result. The final goal is customer loyalty and the *quality of profit* not just the *quantity of profit*.

Principle #5. The Principle of Integration: Concentrate on Differences, Not on Averages

In order for the Marketing Company to create the loyal customer, the subject of Principle #4, it has to concentrate on customers individually. This principle demands that the company build intimate relationships with customers, intimate enough to learn about customers' needs and wants, close enough to understand their expectations.

It is a dangerous assumption to think that customers have roughly similar needs and wants. This assumption can lead to the creation of mediocre and average offerings for what is, in fact, a diverse set of customer needs and wants. Customers are uniquely different and their needs are distinctively diversified. In other words, there are no average customers. In order to build customer loyalty, a company must concentrate on differences, not just averages.

Principle #6. The Principle of Positioning: Lead Your Customers Credibly

Yoram Wind, a marketing strategy professor, defines positioning as the reason for being. He advocates that positioning is about defining the company's identity and personality in the customer's mind. Beyond this, positioning can be defined as the strategy which leads the company's customers credibly. Yesterday's mass marketing approach has given way to a model where market savvy customers are in control of the way products and services are marketed and sold—how, when and where they are marketed. Customers can no longer be managed; they are to be led through persuasive, ethical, and valuable, often interactive, dynamic communications and highly personalized experience across multiple channels and customer touch points, such as online in-game advertisement or product placement. To do this, companies need to have credibility. Positioning is not just about persuading and creating an image in the consumer's mind. If the company, in relationship with its customers, is successful, customers will have reason to have the company or product in mind.

Principle #7. The Principle of Differentiation: Integrate Content, Context, and Infrastructure

Michael Porter wrote that differentiation, cost leadership, and focus are the three generic strategies for any company. In marketing, however, differentiation is the core ingredient, while cost leadership and focus are essentially the two most common types of differentiation. Companies can differentiate themselves from the rest of the competition by being the cost leader or by being focused, in other words, a niche player. There are many other differentiation options companies can pursue. Companies may opt to determine their positioning before building their supporting differentiation or, alternatively, understand their existing differentiation and craft their positioning from it.

Differentiation is fundamentally evidence of positioning. It is proof that the company can deliver what it promises. While positioning is at the conceptual and strategic level, differentiation becomes important at the implementation and tactical levels. Positioning targets mind share while differentiation targets market share.

There are three elements of differentiation: content, context, and infrastructure. Content is about "what to offer," context is about "how to offer" what is being offered, and infrastructure is about "the people, technology, and facility enablers" of the offer. If these three elements are aligned, in all likelihood, the differentiation of the product or service offering will be strong.

Principle #8. The Principle of "Nine Core Elements": Strategy, Tactics, and Value

Marketing is not only about developing strategy and tactics but about creating value, as we've discussed. In marketing, strategy is about winning mind share, tactics are about winning market share, and value is about winning heart share. Companies need to win all three to beat the competition.

Strategy consists of segmentation, targeting, and positioning. Strategy is essentially understanding the market, finding the right target audience segment(s), and positioning the brand in the segment(s) clearly. On the other hand, tactics consists of differentiation, marketing mix elements including the Four Ps, and selling. Tactics are about translating differentiation into the marketing mix elements of product, price, place, and promotion and selling it. Finally, value consists of brand, service, and process. Creating value means building strong brands and supporting them with good service and business processes. All together, marketing has "nine core elements": segmentation, targeting, positioning, differentiation, marketing mix (the Four Ps), selling, brand, service, and process. Each should be consistently developed and applied.

Principle #9. The Principle of Brand: Avoid the Commodity-like Trap

This is one of the more significant value-creating principles of the Marketing Company. To the company, brand is not just a name, a logo, or symbol. Brand is the value indicator of the Marketing Company. It can be the umbrella that represents the product or service, company, person, or even country. It is the equity of the company that adds value to its offerings. Brand is an asset that creates value for consumers by enhancing the satisfaction and recognition of quality. With brand, the Marketing Company is able to liberate itself from the supply–demand curve of commodities.

There is no marketing without brands. Every product can and should be branded. Theodore Levitt once wrote: "There is no such thing as a commodity," because even commodities can be branded. Commodities follow the law of supply and demand while branded goods avoid what can be a trap. With brands, companies can be price makers, not price takers. Brands are the symbol of positioning and differentiation and act as the reservoir of the image created from positioning and differentiation. It is therefore important for a company to have a brand to hold this well-earned equity.

Principle #10. Principle of "Positioning-Differentiation-Brand ("P-D-B"): Align Identity, Integrity, and Image

In essence, marketing is about building a consonant triangle of positioning, differentiation, and brand (PDB). Positioning a brand is about giving the brand an identity. A strong identity should be manifested in solid differentiation to reflect brand integrity and provide solid proof that a brand is delivering what it promises.

In other words, the outcome of positioning-differentiation-brand is a clear Identity, strong Integrity, and Image, or the 3 I's. Brand identity is about positioning your brand in the minds of the customers. The positioning should be unique for the product's brand to be heard and noticed in the cluttered marketplace. It should also be relevant to the needs and wants of the customers. On the other hand, brand integrity is about fulfilling what is claimed through positioning and differentiation of the brand. Finally, brand image is about acquiring a strong share of customers' emotions. Your brand value should appeal to customers' emotional needs and wants beyond product functionalities and features.

Decisions relating to positioning-differentiation-brand will serve as a guideline for the design of corporate strategy, offering, and tactical initiatives in terms of customer, product, and brand management.

Principle #11. The Principle of Segmentation: View Your Market Creatively

Segmentation is generally defined as the process of segmenting or partitioning the market into several segments. However, segmentation, to the Marketing Company, is about viewing the market creatively. It is about mapping a market into several categories by gathering consumers with similar behaviors or meaningful attributes into a segment. Segmentation is an art to identify and pinpoint opportunities emerging in markets. Winning companies segment the market using meaningful and actionable variables that are new in their industries. At the same time, it is a science to view markets based on the more typical geographic, demographic, psychographic, and behavioral variables. Markets may be made up of the same audience, but how each company sees and describes them often is completely different. Understanding the market beyond the traditional statistics is key.

The Marketing Company should be creative enough to view a market from a unique angle. *Market opportunities are in the eyes of the beholder*. This creative angle is the initial step that determines the raison d'être of the company.

Principle #12. The Principle of Targeting: Allocate Your Resources Effectively

Targeting is the process of selecting the right target market for a company's products and services. Targeting is also a strategy to allocate the company's limited resources effectively and stay focused. There are several criteria to select an appropriate market segment(s) for a company's resources.

The first criterion is market size. The company has to select a market segment that has sufficient size to generate the expected financial returns. The bigger the market size, the more lucrative the segment is to the company. The second criterion in choosing market segment is growth. The potential growth of a market segment is a crucial attribute for the company. The better and more sustained growth is, the more promising the market segment to the company.

The third criterion is competitive advantage. Competitive advantage is a way to measure whether the company has the strength and expertise to dominate the chosen market segment. The fourth criterion is competitive situation. The company has to consider the competition intensity within the industry, including the number of players, suppliers, and entry barriers. Using these main criteria, the company has to find its fit with the right market segment.

Principle #13. The Principle of Marketing Mix: Combine Offer and Access

Marketing mix was first coined by Neil Borden in the 1950s and then translated by Jerome McCarthy into the Four Ps (product, price, place, and promotion) in the 1960s. Additional Ps such as people, process, public opinion, and political power were later added by academics and practitioners alike. However, the original Four Ps are still the most popular as they concisely explain the generic practices of marketing: develop a product, determine the price, conduct the promotion, and set up the place of distribution.

The Four Ps can essentially be grouped into two elements: offer and access. Offer is about product and price while access is about place and promotion. For the Marketing Company, the marketing mix is about integrating the company's offer, logistics, and communications and, in effect, is the tip of an iceberg—that is, the most visible activities of the company in the marketplace. The marketing mix is the *creation tactic* of the company as it is the creation of content, context, and infrastructure differentiation in the market. With creative uses of the marketing mix elements, value is built into the offering with the careful design of positioning, differentiation, and branding beforehand.

Principle #14. The Principle of Selling: Building Relationship

The principle of selling does not refer to personal selling nor is it related to the activities of selling product to customers. For the Marketing Company, what is referred to instead are the tactics to create a long-term relationship with customers through the value inherent in the company's offering. What is meant by selling is the tactic to integrate the Marketing Company with its customers through a long-term relationship. The principles of differentiation, the marketing mix, and selling are *drivers* to win market share.

Principle #15. The Principle of Service: Service Means Relationship and Solutions

The concept of service to the Marketing Company relates to the readiness of an enterprise to always be reliable, responsive, assuring, and empathetic in all aspects of its business. Remember, if the goal is to build long-term loyalty and relationship with customers, the concept of service in marketing is the answer to Peter Drucker's question: "What business are you in?" Service in this context does not mean after-sales service as it relates to product offerings nor does it mean service during the traditionally conceived selling effort. It is not customer online help nor toll-free numbers, although these may be elements of business responsiveness to maintain two-way dialogue and build continuing relationship with customers.

Why? It is because *service means solution* and customers are seeking just that. Everyone in the Marketing Company must align their business activities to contribute to value creation through service.

Principle #16. The Principle of Process: Refine Quality, Cost, and Delivery

The real value creation to customers is being implemented at the business processes level. In fact, processes are the real value-creating activities of this generation of business design. Process-based value creation will allow everyone in the Marketing Company to think and take action with respect to their marketing activities, whether they are in the budget and finance department, IT, manufacturing, or R&D departments. Quality should be customer defined (albeit not always the highest possible), cost should be minimized (albeit not always the industry's lowest), and delivery should be in–time.

But what is most important is that processes must create unique value for the target audience. Processes—both visible activities and those that are invisible yet necessarily transparent to those involved with them—are the manifestation of the positioning-differentiation-brand decisions at the operational level. The creation of unique value is the key reason why process review and development are integral to the Marketing Company's activities.

Principle #17. The Principle of Agility: Market Intelligence Leads to Marketing Success

To operate in a competitive, dynamic, global environment, where technology, consumer behavior, and competitor movement change in chaotic and often disruptive patterns, a company must be agile to survive.

The principle of agility requires a company to continually engage in monitoring activities specifically targeted to gather market intelligence on competitors' movement and consumer behavior and trends. The company will analyze the information gathered and cull useful insight about its operating environment. Lastly, it will utilize these insights in its business and marketing strategies and in its tactical development processes. In sum, the Marketing Company demonstrates its agility by using its business and market intelligence to respond and preempt competitor movement and to anticipate changing consumer demands.

The principle of agility backed by important market knowledge has the capacity to be a *change surpriser*—not just an agent of change or driver of change—to create sustainable and long-term growth and market leadership.

Principle #18. The Principle of Horizontalization: New Wave Marketing

Global marketing needs constant redefinition as the business landscape changes. Vertical approaches to marketing using high-budget ads targeting mass audiences and physical distribution of products are no longer appropriate in many business sectors. The emergence of Web 2.0 facilitates this trend. Now popular and horizontal New Wave Media such as social media and networking including Facebook, Twitter, and blogs, as well as converging technologies and mobile telephony, turn much of what marketers have done with traditional media on its head. Social media does not originate with the marketer. It originates instead in the public domain where experiences are being talked about and shared on the social web.

In the era of New Wave, marketing should be horizontal. It is no longer about sending a company's message and products across the vertical hierarchy of traditional media into the market. Customers are the new marketers and distributors. The more corporate marketers are connected, the more successful marketing campaigns will be. Therefore, Connection—the fifth C—is introduced.

The practice of marketing is shifting. Global marketers are moving from a make-and-sell mentality to a sense-and-respond way of doing business. The Marketing Company is moving from controlling assets to partnering to gain access. Marketing practice and tools are shifting from mass markets or one-to-many to markets of one or one-to-one marketing, from just-in-time to real time, and from marketplace to marketspace. New drivers of customer value will hinge on the Marketing Company's ability to develop offerings of products, services, and experiences to meet individual customer's demands. The Marketing Company's success will depend on its ability to create and deliver customer value in a global, competitive environment defined by the digital revolution, namely electronic connectivity and interactivity among the company, its partners, and collaborators, as well as current and future customers with the goal of building long-term loyalty, relationship, and profitability.

Discussion Questions

1. Highlight the "differentiating" concepts and goals of The 18 Guiding Principles of Marketing as compared to conventional marketing thinking. What are the differences you see from what you have learned in your basic marketing classes or from your experience as a marketer or someone working in a challenging business environment?
2. Is marketing a universal discipline? Do marketing concepts, tools, and methodology used in one's home country need to be modified or changed when used in other country markets? Explain your answer.
3. What, in your view, are the key principles of marketing? Explain their importance in global marketing success. Are there others that have not been addressed here?
4. Are the 18 Principles outlined in this chapter relevant to the digital age or do they need to be modified? What changes would you suggest? Explain your rationale for suggested changes.
5. Is the concept of brand still relevant? If so, how? If not, why not?
6. Which companies in your home country have applied these Principles successfully? Can you point to failing marketing initiatives that could have been made successful by following these Principles?

Part II The Global Marketing Environment

CHAPTER 2

The Global Economic Environment

Free trade, one of the greatest blessings which a government can confer to a people, is in almost every country unpopular.

—Lord Macaulay, 1800–1859

Learning Objectives

1. Summarize significant historical changes in the global economic environment (38–39).
2. Identify trends in the world economy that affect global marketing decisions (39–46).
3. Describe how economic measures of freedom help drive or hinder global business expansion and growth (46–49).
4. Describe the stages of market development (49–57).
5. Explain how global income distribution and population patterns affect marketing decisions (57–64).
6. Discuss the balance of payments and global trade patterns (64–72).

INTRODUCTION

The macro dimensions of the environment are economic, social and cultural, political, regulatory and legal, scientific and technological. Each is important, but perhaps the single most important characteristic of the global market environment is the economic dimension. With money, all things (well, almost all!) are possible. Without money, many things are impossible for the marketer. Luxury products, for example, cannot be sold to low-income consumers. Hypermarkets for food, furniture, or durables require a large base of consumers with the ability to make large purchases of goods and the ability to drive away with those purchases. Sophisticated industrial products require sophisticated industries as buyers.

Today, in contrast to any previous time in the history of the world, there is global economic growth. For the first time in the history of global marketing, markets in every region of the world are potential targets for almost every company from high to low tech, across the spectrum of products from basic to luxury. Indeed, the fastest-growing markets, as we shall see later in the chapter, are in countries at earlier stages of development. The economic dimensions of this world market environment are of vital importance. This chapter examines the key characteristics of the world economic environment from a marketing perspective.

Income levels, cultural dictates, infrastructure capacities, and legal constraints or protections all are examples of macroeconomic dimensions that have major impact on strategic marketing decisions. Although significant competitive factors differ by industry, understanding and anticipating macroeconomic trends and aligning business decisions to those most critical can be the foundation for growth and sustained profitability.[1]

Economic growth was once concentrated in the high-income countries of the North Atlantic, Western Europe, and North America and then achieved in Japan and Singapore and other South East Asian countries. It has now extended to markets in every region of the world and to countries of all sizes, including the largest countries in the world, China and India.

The global marketer is fortunate in having a substantial body of data available that charts the nature of the environment on a country-by-country basis to aid in understanding economic dimensions of targeted markets. Each country has national accounts data, indicating estimates of gross national product, gross domestic product, consumption, investment, government expenditures, and price levels. Also available on a global basis are demographic data indicating the number of people, their distribution by age category, and rates of population growth.

National accounts and demographic data do not exhaust the types of economic data available. A single source, The Statistical Yearbook of the United Nations, contains global data on agriculture, mining, manufacturing, construction, energy production and consumption, internal and external trade, railroad and air transport, wages and prices, health, housing, education, and communications. This data is available for all high-income countries. The less developed a country is, the scarcer the availability of economic data. In the low-income countries of the world, one cannot be certain of obtaining anything more than basic national accounts and demographic and external trade data.

Especially in emerging markets, there are many challenges to obtaining accurate and timely micro and macro market data. Despite these issues, the marketer's problem is not one of an absence of data but rather one of abundance. Official statistical data compiled by the International Monetary Fund, the United Nations Environmental Programme, or GEO Data Portal are examples of authoritative sources for composite and comparable data that can be found online. Many business and nonprofit organizations provide online access to database sets, including Nielsen Online or GlobalEdge's database of international business statistics. These, as well as many other organizations, repackage official data from different sources including the CIA and World Factbook. Similar to many other interactive sites, comparative data is made available in a variety of user-generated formats.

This chapter will identify the most salient characteristics of the economic environment to provide the framework for further consideration of the elements of a global marketing program.[2]

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[1] See, for example, "Going from Global Trends to Corporate Strategy," *The McKinsey Quarterly* (June 19, 2007).
[2] Chapter data is based on research completed in 2010 and 2011 from data from the latest available sources that offer data on a comparable basis.

THE WORLD ECONOMY—AN OVERVIEW

The world economy has changed profoundly since World War II. Perhaps the most fundamental change is the emergence of global markets; responding to new opportunities, global competitors have steadily displaced local ones. Concurrently, the integration of the world economy continues to increase. Economic integration stood at 10 percent at the beginning of the twentieth century; today, it exceeds 50 percent. Integration is increasing in all world regions.

Thomas Friedman discusses ten forces that have contributed to the flattening of the world.[3] This leveling of the global competitive playing field has been accomplished by a series of interlocking political, economic, and technological factors. For example, the fall of the Berlin Wall "tipped the balance of power" to countries "advocating democratic, consensual, free market-oriented governance." Open sourcing and the power of "self-organizing collaborative communities" made possible by growing computing and software power has had significant impacts on human communications, interactions, and behavior. Offshore research and development and manufacturing have been facilitated by advances in communications technology which have driven down costs and vastly increased the speed and capacity of global communications. Technology has similarly increased the speed and reduced the cost of global transportation of goods and people and has been responsible for a major shrinking of the world. As firms move to collaborative, networked relationships with the goal of realizing supply and scale efficiencies around the world, flattening continues. Important to the strategic marketer, as networked supply chains grow, common standards are fostered between companies. These common standards eliminate inefficiencies in communications and supporting technologies. The points of friction created by national boundaries become smaller as global integration expands.

Countries in emerging markets have achieved sustained high rates of growth by taking advantage of lower labor costs to produce for the global marketplace. At the same time, companies in high-income, high-labor-cost countries have been able to create sustained competitive advantages by combining their understanding of customer needs and wants with innovation in design and manufacturing to offer competitive products and services.

Supported by the flow of capital around the globe, some corporations no longer call any country home-base. With worldwide corporate functions and globally-informed consumers, these firms are linked by cyber technology.[4] Along with seeking customers in all corners of the globe, almost every global firm's strategy includes reducing costs and getting closer to fast-growing markets by locating manufacturing and production operations as well as research facilities around the world. Firms no longer make their largest capital expenditures domestically, instead they respond to customers worldwide and seek out talent to support global information technology (IT), R&D, and channel partners around the world.[5]

The automobile industry is a good example. In the past, European nameplates such as Renault, Citroën, Peugeot, Volvo, BMW, Daimler (Mercedes), VW, and others were radically different from North American and Japanese models. These companies

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[3] Thomas Friedman, *The World Is Flat: A Brief History of the Twenty-First Century* (New York: Farrer, Straus and Giroux, 2005).

[4] See Chapter 1, Kenichi Ohmae, *Borderless World: Power and Strategy in the Interlinked Economy* (New York: HarperCollins, 1999). See also Donald A. DePalma, *Business Without Borders: A Strategic Guide to Global Marketing* (New York: John Wiley & Sons, Inc., 2002) and Lowell Bryan et al., *Race For the World: Strategies to Build a Great Global Firm* (Boston: Harvard Business School Press by McKinsey & Company, 1999).

[5] See Michael Mandel, "What Spending Slowdown?," *Businessweek*, April 23, 2007.

produced local cars built by local talent destined predominantly for local or regional markets. Today, the world car, based on global designs and components sourced from locations around the world, is a reality for every global company in the industry, including those in Korea. Ford, for example, has made the world car a centerpiece of its strategic efforts worldwide and based design and marketing efforts on data from its European customers as well as customers who purchased Hondas in the US market and Toyotas in China.[6]

Production, R&D, and product modifications reflect larger organizational changes as well: the world's largest automakers have evolved into companies which compete in a global industry with global strategies. Ford has been an international company since the early twentieth century, but its overseas divisions long operated as semi-autonomous units focused on individual markets. With a single engineering platform for its world car, operations include a development team that draws from European designers and members from Asia and the Americas. It is envisioned that by 2013, 80 percent of Ford's products will be built on global platforms which leverage its global resources and talent. Ford's marketing campaigns tied to these global platforms are limited to four or five strategies around the world. As James Farley, Ford's global marketing chief, puts it, "diversity of the marketing [program] is created by the customer we want to reach, and not by the differences in the vehicles."[7]

As a result, with the exponential growth of both global trade and investment, nations and markets have become increasingly economically interdependent. Implications of this integration are profound. The unfolding of the 2007 global credit crisis unraveled the global financial markets to an extent that was exceeded in the past century only by the Great Depression of the 1930s. As a result, the global marketplace faced the possibility of economic collapse as far-flung economies from Iceland to China to Turkey felt the impacts of systemic contraction.

THE WORLD ECONOMY: IMPORTANT TRENDS

Within the past decade, along with the growth of global markets and worldwide economic integration, there have been several remarkable changes in the world economy and related business and industry trends that hold important implications for global marketing decision making.

A business leader's ability to assess trends in a rapidly changing competitive marketplace, and use these to appropriately gauge their impact on profitability of the firm, is a critical competence. Some of the questions to consider as you read these and other important industry-specific trends are: How should strategic marketing planners go about the task of analyzing the impact of a complex global trend? What role does the marketing planning process play in identifying growth opportunities and the product portfolio mix? How can a globally integrated firm use its skills to drive the product-to-market innovations that can put it out front of important trends?

Analyzing what may appear to be an isolated trend could be a mistake. Trends are often made up of a variety of subtrends that may impact various industries in different ways or to varying degrees. For example, we will see that the growing worldwide middle class's demand for goods and services is an important factor in decisions from product design to sourcing. However, a corollary subtrend is that increased demand from this expanding consumer base will place increasing stress on already

[6] David Kiley, "Can Ford's 'World Car' Bet Pay Off?," *Businessweek*, Innovation and Technology, June 4, 2009, accessed April 7, 2010, http://www.businessweek.com/magazine/content/09.

[7] James Farley, Ford's Chief of Global Marketing. Bill Vlasic, "Ford's Bet: It's a Small World After All," *The New York Times,* January 10, 2010, B1.

constrained resources and create unsustainable environmental degradation.[8] How companies respond to this sustainability challenge will be critical to competitive success.

Economic Activity Will Shift from West to East

The ongoing shift in in the balance of global economic activity toward developing countries in the East and away from the developed countries in the West and the growth in the number of consumers in emerging markets represent two of the major global trends that must be recognized as critical changes that will impact business strategy and profitability.[9] Global business leaders expect the eastward shift in global business to accelerate, but many indicate their companies are not well prepared for competition from their Asian counterparts.[10] Indicative of this shift, over the next decade, it is anticipated that India and China will average GDP growth of 6.8 and 6.5 percent annually, respectively, and will far outpace the United States' projected growth of 2.5 percent.[11] It is anticipated that China's GDP, in PPP terms,[12] will rise by US$14.5 trillion[13] over the next decade, or the equivalent of the United States' entire 2010 economy. Over the same period, India is expected to add US$5.6 trillion to its GDP in PPP terms, which exceeds the current GDP of Japan.

This growth will be spurred in great part by shifting both production and marketing towards domestic consumption and away from the region's decades of successful export-driven growth. Private consumption as a proportion of GDP in China, for example, is projected to grow dramatically to 52 percent of GDP by 2020.[14] As more consumers reach US$5,000 annual income per household member, the sale of consumer goods accelerates.[15]

Global companies entering new markets will need to adapt their offerings, distribution systems, and operations to local demand and custom. As noted by Victor Fung Kwok-King, group chairman of the global trading group Li & Fung, "Preferred brands, shopping styles, distribution networks, and, therefore, opportunities change as one moves around the country."[16] China, with its highly fragmented consumer markets and varied provincial as well as regional customs and business practices, requires local knowledge and experience. Dr. Fung reiterates the important need for both Western and Asian firms to embrace new customers in these fast-growing markets while not alienating their existing market base in developed regions of the world.[17]

In fact, certain industries and corporate functions, such as manufacturing and IT, will shift even more dramatically, resulting, in great part, from economic liberalization,

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[8] Wendy M. Becker and Vanesa M. Freeman, "Going from Global Trends to Corporate Strategy," *The McKinsey Quarterly* (August 2008), accessed July 1, 2010, http://www.mckinseyquarterly.com.

[9] "Five Forces Reshaping the Global Economy: The McKinsey Global Survey Results," *The McKinsey Quarterly* (May 2010), accessed May 9, 2010, http://www.mckinseyquarterly.com/article_print.aspx?L2=21&L3=33&ar=2581.

[10] "The Big Tilt: The Rise of the East and What it Means for Business," a special report of the Economist Intelligence Unit, *The Economist* (2010), 8.

[11] Ibid., 9.

[12] Purchasing power parity is a currency conversion rate that equalizes the purchasing power of different currencies. For example, PPP adjusts for the lower cost of living in China.

[13] The $ symbol in this text refers to US$ unless otherwise indicated.

[14] "The Big Tilt," *The Economist*, 14.

[15] Although it is clear that total income numbers of the emerging high population countries are comparable or will exceed high income countries, per capita numbers are not comparable and will take many years of growth to become comparable.

[16] "The Big Tilt," *The Economist*, 14.

[17] Ibid., 15.

demographic changes, technological advances, and capital market developments. These shifts of income and population are discussed in greater detail later in this chapter.

An argument can be made that although regulated free-market economies and capitalism have shown sustained strength for the past century, the ascendency of China demonstrates that rapid development may accompany a system where the state is a principle actor and arbiter in the national economy, driving investment and setting the rules of competition, production, and communication. Therefore, differences in the regulatory, political, and cultural business environment are major challenges for multinationals doing business, as Google found out in 2010, leaving China's mainland search engine industry to Baidu, the State-supported search engine firm, in light of strict censorship rules.[18] BlackBerry maker Research In Motion had similar challenges as it faced regulatory pressures from Middle Eastern governments to provide access to customers' messages.[19]

Aging Worldwide Population Will Demand Increasing Levels of Productivity and Efficiency

The second change highlights the aging of populations across the globe. This trend will call for higher levels of productivity and efficiency. For example, Japan's population over the age of 75 is expected to increase 36 percent from 2005 to 2015. To meet this challenge, the increase in tax burden needed to maintain benefit levels at current levels of productivity for Japan's future generations is 175 percent. In Germany, to meet the same future benefit levels as are offered today, the increase in tax burden is 90 percent. Clearly, there is a great need for innovation to offer affordable social services to worldwide aging populations. This need is a major opportunity and challenge to companies and countries.

Shifts and Growth in Consumer Segments Will Result in Changes in the Global Consumer Marketplace

Shifts in consumer segments will result in a greatly expanded consumer marketplace populated by many new consumers around the globe. Within the next decade, an estimated one billion new consumers will demand products and services made possible by economic growth in emerging markets. This means in effect that the global middle class will double. Discretionary purchasing by these new consumers will increase as more households earn over US$5,000 annually. (A threshold income level of US$5,000 has been shown to be the level of household income needed to purchase discretionary items.) Accordingly, a large increase in consumer spending will take place with respect to products whose price points are 20 to 25 percent or less of their current functional equivalents. Through 2015, consumer spending power in emerging economies will increase from $4 trillion to more than $9 trillion, almost the current spending power of Western Europe. In addition, the estimated number of Chinese households to achieve European income levels by 2020 is 100 million people, assuming a real income growth rate of 8 percent annually. The reductions of Chinese annual growth to 6 percent annually will push this date forward into the later part of the decade.

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[18] See Bruce Einhorn, "Google and China: A Win for Liberty and Strategy," *Businessweek*, January 25, 2010, 35; Mark Landler, "Google Searches for a Foreign Policy," *The New York Times,* March 28, 2010; Miguel Helft and Michael Wines, "Making a Stand: Google Faces the Fallout," *The New York Times,* March 24, 2010; Dexter Roberts, "Closing for Business," *Businessweek,* April 5, 2010, 32. See also Eric Pfanner, "New To Russia: Google Struggles to Find Its Footing," *The New York Times*, December 18, 2006.

[19] Jenna Wortham, "BlackBerry's Maker Resists Pressure From Mideast Governments," *The New York Times,* August 4, 2010.

Consumer demographic trends in the more developed countries and regions will shift as well. For example, the purchasing power of Hispanics will rise from $1 trillion in 2010 to $1.5 trillion in 2015, accounting for nearly 11 percent of the United States' total buying power. In fact, the Hispanic market alone in the United States, at $1 trillion, is larger than the entire economies of all but 14 countries in the world—smaller than the GDP of Canada but larger than the GDP of Indonesia.[20]

Changing Industry Structures and Emerging New Models of Corporate Organization Will be Characteristic of Growing Global Competition

Shifting industry structures and emerging forms of corporate organization are characteristics of a growing competitive global economy.[21] For example, the pharmaceutical industry has been a leader in partnering to outsource product design and R&D.[22] In 2008, Daiichi Sankyo of Japan purchased a stake in Ranbaxy Laboratories, India's largest drug maker, helping to jump start the foreign drug manufacturer's push into India. Indeed, partnering can speed the growth of an emerging-market company. One example is Ranbaxy Laboratories, which cut its teeth under a unique patent regime that encouraged Indian companies to manufacture patent-protected drugs in order to make them affordable to the country's vast population of poor. Off of a demanding local market springboard of price-sensitive customers and a challenging distribution environment, Ranbaxy has become a leading generics producer in both the United States and Europe.[23]

One result of these shifting industry structures, cross-border partnerships, and the changing shape of ownership across national borders is that the heritage of many of the best known brands is morphing. Country of origin has a sometimes profound influence in brand-building; think of Toblerone and IBM's ThinkPad—originally Swiss and American, respectively—now South African and Chinese. Rover might be considered Indian as it owned by Tata Motors, which also purchased Jaguar from Ford in 2008. And although Volvo will remain based in Sweden and keep factories in Belgium, it is now owned by Chinese carmaker Geely after being purchased from Ford; Swedish automaker Saab is now owned by the Dutch manufacturer Spyker Cars.

Managing brand heritage in this complex, global environment is a challenge. From these examples, it is clear that where a company is headquartered may not be as important as its understanding and use of global branding and strategic marketing.[24]

The Demand for Natural Resources Will Continue to Grow, Resulting in Growing Pressure on an Already Strained Global, Natural Environment

The demand for natural resources will continue to grow as developing countries require fossil fuels and other resources to power their industrial growth, as did the developed world over the last century. For example, the tripling of demand in China for cooper, steel, and aluminum has made China a strong player in India's economy. Both India and China have paid a steep environmental price for rapid industrialization and population growth. Cities such as New Delhi, Chongqing, and Bombay are among the

[20] Despite recession, Hispanic and Asian buying power is expected to surge in the United States, according to the annual UGA Selig Center Multicultural Economy study, a report by the by the Selig Center for Economic Growth at the University of Georgia Terry College of Business, accessed December 12, 2012, http://www.terry.uga.edu/news/releases/2010/minority-buying-power-report.htm.

[21] Survey results published at "Acting on Global Trends: A McKinsey Global Survey," *The McKinsey Quarterly* (April 2007), http://www.mckinseyquarterly.com/article_page.aspx?ar=1998&L2=21&L3=34&srid=17.

[22] Ibid.

[23] Jayant Sinha, "Global Champions from Emerging Markets," *The McKinsey Quarterly* (May 2005), accessed July 1, 2010, http://www.mckinseyquarterly.com.

[24] David Kirkpatrick, "Gateway Wasn't Fabled, But I'll Miss It," CNNMoney.com: Fast Forward Newsletter (August 27, 2007).

world's most polluted. Forests and other natural habitat are rapidly vanishing.[25] Negative impacts of environmental degradation, among other problems, are impacting China's ability to compete as a major player on the global stage.[26]

This continuing demand for commodities will strain an already burdened global, natural environment. Among the most constrained resources are water and the atmosphere. These limited resources will require future technological innovation, worldwide regulation, and more limited use in order to support sustainable future economic growth and environmental practices over the long term.[27] In fact, price volatility and supply concerns are forcing firms to rethink their commodity exposure and strategy. For example, Chinese car and battery maker BYD purchased 18 percent of a Chinese lithium mine, while the candy company Mars has entered into a partnership with IBM and the US Agriculture Department to sequence the cacao genome to achieve a hardier cacao tree. ArcelorMittal, the world's largest steelmaker, purchases not just iron ore but coal mines in order to procure the materials it needs for iron ore production.[28]

China mines more than 95 percent of the global supply of light rare earths and metals—essential for smartphones, electric cars, computer components, and military hardware—and 99 percent of the least common rare earths, which are used in trace amounts but are important to many clean energy applications and electronics. Some rare earths now cost up to 10 times as much outside China as inside. Not coincidentally, China increasingly dominates the production of clean energy technologies that require these metals, including wind turbines and solar panels.[29]

Like providers of rare earths, key providers of oil are highly exposed to broader geopolitical instability which makes security of supply a major risk. Four countries—Iran, Iraq, Saudi Arabia, and Venezuela—hold 50 percent of known oil and gas reserves, and nationally owned oil companies control over 85 percent of those reserves.[30]

The implications are clear: Companies can no longer assume access to critical resources and relatively stable prices. With huge uncertainties looming, companies will have to consider options and outcomes under multiple scenarios.

Scrutiny of Global Firms' Worldwide Practices Will Increase as the Reach and Scale of Global Firms Expand; Increasing Regulation Will Shape the Structure and Conduct of Whole Industries

As global firms' reach and scale intensify, scrutiny of big business practices will increase. As demands on the environment grow more acute and the debilitating effects on the quality of human life worldwide become publicized through the World Wide

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[25] Pete Engardio, "Crouching Tigers, Hidden Dragons," *Businessweek,* August 22–29, 2005, 60.

[26] See, for example, Pete Engardio et al., "Broken China," *Businessweek*, July 23, 2007, 39 and Elizabeth Economy and Kenneth Lieberthal, "Scorched Earth: Will Environmental Risks in China Overwhelm its Opportunities?," *Harvard Business Review* (June 2007): 88.

[27] See, for example, Ian Davis and Elizabeth Stephenson, "Ten Trends to Watch in 2006: Macroeconomic Factors, Environmental and Social Issues, and Business and Industry Developments Will All Profoundly Shape the Corporate Landscape in the Coming Years," *The McKinsey Quarterly* (January 2006), accessed October 13, 2010, http://www.mckinseyquarterly.com/Strategy/Globalization/Ten_trends_to_watch_in_2006_1734.

[28] See, for example, Suzanne Wooley, "How Companies are Coping with Unstable Commodities," *Businessweek*, September 30, 2010.

[29] Keith Bradsher, "Unlocking a Grip on Rare Earths," *The New York Times*, December 15, 2010; "China to Cut Rare Earths Trade in 2011," *The New York Times*, December 29, 2010; "China Restarts Rare Earth Shipments to Japan," *The New York Times*, November 20, 2010; "The Illegal Scramble for Rare Metals," *The New York Times*, December 30, 2010; and "China Tightening Control of Rare Earth Minerals," *The New York Times*, September 1, 2009. See also Todd Woody, "In the Future, Already Behind: Silicon Valley's Solar Innovators Retool to Catch Up to China," *The New York Times*, October 13, 2010.

[30] For review of sources of conflict see Thom Shanker, "Why We Might Fight, 2011 Edition," *The New York Times* (December 2010).

Web, political and regulatory backlash is likely.[31] In addition, many current businesses are experiencing increasing scrutiny of their business practices. Regulatory changes may disrupt entire value chains and business models. When and if carbon is priced, for example, it could alter more than a few industries.

Regulatory issues abound in all industries. In the power industry, there is regulation stemming from the implementation of the Kyoto Protocol along with transmission regulation, to name two. In the telecom industry, for example, there is regulation of pricing and the bundling of Voice over Internet Protocol (VoIP) and mobile license renewals; in the food industry, there is regulation of advertising of junk food and calorie and ingredient messaging. To maximize long-term value, firms must link regulatory changes and mandates with product and market strategies.

The Economics of Information Will Be Transformed as the Ubiquitous Nature of Information Expands

The ubiquitous nature of information and its dissemination across various platforms is changing the economics of knowledge. New models of knowledge creation, including open-source methods founded in community activism as opposed to individual proprietorship, change not only ownership and the means of distribution but also potentially increase information's impact across sectors of society.

Information itself has the capacity to transform global strategy. The new economics of information is eliminating the trade-off between richness of content and the reach of distribution. The spread of digital connectivity and common standards are redefining how businesses interact with their customers, channel partners, and employees and other stakeholders.[32] Flows of information and data, capital, goods, and talent create a global grid that connects geographies, economies, and social and business groups in ways that optimize interactions leading to innovation and new business models. Large-scale interactions, which support information flows around the planet, have increased exponentially; trade flows have grown 1.5 times faster than global GDP; and cross-border capital flows have increased at three times the rate of GDP growth.[33]

These complex instantaneous transactions and flows have no single center as they grow and create connections with linkages in new directions. For example, trade flows that barely existed several years ago between Asia and Africa, the emerging markets, and Asia and the Middle East are supported by commercial networks and data flows. Cross-border and cross-region labor arbitrage and tools such as near-shoring or crowd sourcing, supported by the global grid, help global firms develop products, innovate ideas, target specifically trained and experienced employees, deliver face-to-face and remote services, and find the most definitive and efficient customer touchpoints for marketing outreach and programming.[34]

Virtualization and cloud computing have the power to reallocate technology costs and patterns of usage, supporting new business models and new ways for purchasers to consume and interact with goods and services. Over 4 billion consumers around the globe use cell phones, and for 450 million of them, the web is a mobile

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[31] See, for example, "Too Much Corporate Power?" *Businessweek*, September 11, 2000, 144.

[32] See Philip Evans and Thomas Wurster, *Blown to Bits: How the New Economics of Information Transforms Strategy* (Boston: Harvard Business School Press, 2000).

[33] Peter Bisson, Elizabeth Stephenson, and S. Patrick Viguerie, "The Global Grid," *The McKinsey Quarterly* (June 2010), http://www.mckinseyquarterly.com/The_global_grid_2626.

[34] Ibid.

experience.[35] Mobile broadband increases these capabilities and others. Users of the iPhone surf the Internet 75 percent more than regular cell phone users, and more than half use their phones to watch video content.

More than 200,000 apps, or applications, have been developed for the growing mobile phone market, with this number certain to grow. Nearly 50 percent of all new mobile devices purchased in developed markets are web-enabled smartphones, and in China alone, more than 100 million people use the country's 3G network.[36] Mobile telephony is providing billions of people their first entry point into the global economy and making them more informed consumers, purchasers, and job seekers, and giving them access to credit and finance through mobile payment systems.[37] With the introduction of broadband technology, access to cloud computing has become possible, which effectively turns what was a large capital expenditure in infrastructure into an operating expense for firms. However, cultural impediments, including lack of trust in third-party providers, the threat of hackers, power failures, as well as state regulation, continue to impede growing adoption in Asian markets.[38]

More than two-thirds of new products on the market include smart technology. This "Internet of Things"—inanimate objects connected to the Internet with routers, cameras, and sensors—connect their capabilities to the global grid, enabling companies to deploy new services and improve product offerings. GPS guidance systems are integral to John Deere tractor products, permitting targeted application of fertilizers to reduce farmers' costs and increase yields. Kraft and Samsung have partnered to develop a web-enabled vending machine which permits real-time updates of rich-media images of products.[39] Consumer-centric uses of smart technology will only grow as web-enabled devices move into the home and car.

Talent Pools Have Become Global in Nature; Assimilating Talent into the Leadership Structure of a Global Company Will Be a Competitive Advantage

Shifts in labor pools and talent will be more far-reaching than the migration of jobs to low-wage countries over the past decade. Increasingly, as competitive advantage is based in knowledge-based assets and processes, sources of talent are becoming increasingly global. There are 33 million university-educated young professionals available in developing nations, more than double the number available in developed countries.[40] Global firms are taking advantage of high-tech centers that span innovation hubs from Eastern Europe to the Middle East and Asia. In the twentieth century, international success meant coordinating the activities of individual business units through the efforts of a centralized headquarters. Now, the overarching challenge is to manage a globally dispersed workforce and the often diverse needs of multinational staff and leadership through a networked and collaborative model of work.

Geographic and business unit boundaries often prevented managers from accessing the best talent across the organization. Now, using social-network analysis, a

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[35] Jacques Bughin, Michael Chui, and James Manyika, "Clouds, Big Data, and Smart Assets: Ten Tech-Enabled Business Trends to Watch," The McKinsey Quarterly (August, 2010), accessed February 3, 2011, http://www.mckinseyquarterly.com/Clouds_big_data_and_smart_assets_Ten_tech-enabled_business_trends_to_watch_2647.

[36] Ibid.

[37] Ibid.

[38] Wayne Arnold, "Cloud Computing Grows in Asia, Despite Political and Technical Hurdles," *The New York Times*, October 12, 2010.

[39] Peter Bisson, Elizabeth Stephenson, and S. Patrick Viguerie, "The Global Grid," The McKinsey Quarterly (June 2010) http://www.mckinseyquarterly.com/The_global_grid_2626.

[40] Ian Davis and Elizabeth Stephenson, "Ten Trends to Watch in 2006: Macroeconomic Factors, Environmental and Social Issues, and Business and Industry Developments Will All Profoundly Shape the Corporate Landscape in the Coming Years," The McKinsey Quarterly, (January 2006), accessed October 13, 2010, http://www.mckinseyquarterly.com/Strategy/Globalization/Ten_trends_to_watch_in_2006_1734.

company has access to tools that will enable the mapping of information flows and knowledge resources among worldwide staff and establish communities of workers and leadership across previously siloed business units. New tools in personal computing and productivity software of both free-access and structured resources continue to improve productivity of this new pool of knowledge workers.[41]

THE MARKET STATE: VARYING DEGREES OF ECONOMIC FREEDOM

Moving into the second decade of the twenty-first century, national economic systems vary from free-market systems with no or little government intervention to controlled systems. In the past, countries could be classified based on the dominant method of resource allocation: market allocation, command or central plan allocation, or mixed allocation. In 1948, one hundred years after the publication of *The Communist Manifesto* by Marx and Engels, half of the world's population lived in command or central plan allocation systems. Today, with the exception of North Korea, almost all countries have mixed economic systems with a major reliance on market allocation.

A pure market allocation system is one that relies on consumers to allocate resources. Consumers write the economic plan by deciding what goods will be produced by whom. The market system is an economic democracy—citizens have the right to vote with their pocketbooks for the goods of their choice. The role of the state and regulatory agencies in a market economy is to promote competition and ensure consumer protection.

In a command allocation system, the state has broad powers to serve the public interest as it determines what that public interest is to be. These include deciding which products to make and how, when, and where to make them. Consumers are free to spend their money on what is available, but decisions about what is produced and, therefore, what is available, are made by state planners. As demand exceeds supply, marketing mix elements are not utilized. Similarly, there is little reliance on marketing tools such as product differentiation, advertising, and promotion. Distribution is handled by the government to cut out exploitation by intermediaries. North Korea and, until recently, Cuba, have clung to command allocation systems. The consequences have been low economic growth, poverty, and limited economic integration with the rest of the world.

Despite the recent history of command allocation economies, a vital new picture is emerging of the Central European countries that have moved aggressively onto the global competitive stage since the Iron Curtain fell. Today, a different reality exists as Poland, the Czech Republic, Slovakia, Slovenia, Hungary, Estonia, and Bulgaria, as well as Romania, Latvia, and Lithuania, compete in the talent-and-wage wars, seeking foreign investment and growing their national competitive advantages.

There are no pure market or command allocation systems today. All market systems have a command sector; in other words, they are mixed. In a market economy, the command allocation sector is the proportion of gross domestic product (GDP) that is taxed or spent by the government. For example, in comparison with the rest of the world, the EU27 tax ratio to GDP remains generally high and has been, in recent years, more than one-third above the levels in the United States and Japan. However, among the member states, the tax burden varies considerably, ranging in 2008 from 28 percent in Romania (28.0%), Latvia (28.9%), Slovakia (29.1%), and Ireland (29.3%), to just under 50 percent in Denmark and Sweden.[42]

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[41] Thomas H. Davenport, "Rethinking Knowledge Work: A Strategic Approach," *The McKinsey Quarterly* (February 2011), accessed February 3, 2011, http://www.mckinseyquarterly.com/Rethinking_knowledge_work_A_strategic_approach_2739.

[42] "Taxation trends in the European Union3," Eurostat, the statistical office of the European Union and the Commission's Directorate-General for Taxation and Customs Union (2010), http://europa.eu/rapid/pressReleasesAction.do?reference=STAT/10/95&format=HTML&aged=0&language=en&guiLanguage=en.

Taxes come in many forms: value-added tax, personal income tax, corporate profits tax, property tax, social security, and tax on goods and services, among others. For instance, the largest source of tax revenue in the EU27 is labour taxes,[43] representing over 40 percent of total tax receipts, followed by consumption taxes at roughly one quarter and taxes on capital at just over one fifth. Social security taxes also play a major role.

In a series of yearly reports by the Washington, DC–based Heritage Foundation/Wall Street Journal Index of Economic Freedom, more than 180 countries are ranked by degree of economic freedom. Ten key economic variables are considered indicative of economic openness, competitiveness, and the rule of law. These are trade policy, taxation policy, government consumption of economic output, monetary policy, capital flows and foreign investment, banking policy, wage and price controls, property rights, regulations, and the black market, with a composite average overall score for each. The rankings form a category continuum from "free" (scoring 80–100) to "repressed" (scoring below 50 points), with "mostly free" and "mostly unfree" in between. In 2013, only five countries earned a rating of "free." Another 29 were rated as "mostly free." The categories "moderately free" and "mostly unfree" had 47 and 58 countries, respectively. Thirty-two countries had "repressed" economies. The top ten 2011 findings are summarized in Table 2-1. This table has been picked up from http://www.heritage.org/index/topten.

Taking 2011 for example, the global average economic freedom score inched up by .3 points over 2010. The combined scores of 117 economies were stronger; the scores of 58 were weaker. Of the 117 economies whose scores improved, 102 are developing or emerging economies, many of which are in Sub-Saharan Africa and the South and Central America/Caribbean region. Indeed, all regions except Europe and North America recorded increased levels of economic freedom, with Hong Kong SAR, Singapore, Australia, New Zealand, Switzerland, and Canada solidifying their status as the world's most free economies. Policy responses to the global economic crisis of 2008–2010 have caused a major reshuffling of the top 20 economies; both Iceland and the United Kingdom are no longer in the top 20 economies. In 2013, the United States slipped to number ten.

As with previous editions of the Index, findings confirm that not only are higher levels of economic freedom associated with higher per capita incomes, but they also strongly correlate to overall well-being measures, which take into account factors such as health, education, security, personal freedom, economic growth, and prosperity. As reflected in The Heritage Foundation's 2008 Index, the world's most free nations had twice the average per capita income of the second quintile of countries and over five times the average income of the fifth quintile.[44] Four of the five quintiles in 2008, from most free to least free, had roughly equal populations, but the fourth quintile, which included China and India, contained half of the world's population. This fact suggests that when China and India further move toward higher economic freedom measures, there will be a major increase in global economic freedom.[45]

Consider Hong Kong SAR. This special administrative region is part of the People's Republic of China but retains its own political governance structure and economic system. It was a British colony until the 1997 transfer of sovereignty to China; however, it maintains the rule of law, free entry of foreign capital, the repatriation of

[43] Taxation on labour, as measured by the tax wedge, encompasses employers' social security contributions, personal income tax, and employees' social security contributions. See http://ec.europa.eu/europe2020/pdf/themes/16_tax_burden_on_labour.pdf.

[44] http://www.heritage.org/research/features/index/chapters/pdf/index2008_execsum.pdf, p. 3.

[45] Ibid., 6. See also "Real Wages and Productivity Thrive in Developing Countries that Open Their Markets," *Stanford GSB News* online newsletter (October 2008), http://www.gsb.standford.edu/research/.

TABLE 2-1 Index of Economic Freedom World Rankings, 2011 Top Ten

World Rank	Country & Region	Index Year	Overall Score	Change from Previous	Business Freedom	Trade Freedom	Fiscal Freedom	Government Size	Monetary Freedom	Investment Freedom	Financial Freedom	Property Rights	Freedom From Corruption	Labor Freedom
1	Hong Kong SAR	2011	89.7	0	98.7	90	93.3	89.6	87.1	90	90	90	82	86.2
2	Singapore	2011	87.2	1.1	98.2	90	91.1	91.3	86.2	75	60	90	92	98
3	Australia	2011	82.5	–0.1	90.1	84.4	61.3	64.7	85	80	90	90	87	92.2
4	New Zealand	2011	82.3	0.2	99.9	86.6	64.7	49.3	84.8	80	80	95	94	89.2
5	Switzerland	2011	81.9	0.8	80.2	90	68.4	69.3	83.8	80	80	90	90	87.8
6	Canada	2011	80.8	0.4	96.4	88.1	78	52.7	78.8	75	80	90	87	81.7
7	Ireland	2011	78.7	–2.6	92	87.6	72.1	47.1	80.7	90	70	90	80	77.5
8	Denmark	2011	78.6	0.7	99.7	87.6	43.2	19.5	81.4	90	90	90	93	92.1
9	United States	2011	77.8	–0.2	91	86.4	68.3	54.6	77.4	75	70	85	75	95.7
10	Bahrain	2011	77.7	1.4	77.4	82.8	99.8	80.2	74	75	80	60	51	97

earnings, and financial transparency, all important for foreign investment and capital movement.[46] The Index rates Hong Kong's economy as the freest in the world at 89.7 percent free. With highly competitive corporate tax rates, overall taxation is a relatively small percentage of GDP and simplified business regulations are supported by a flexible labor market. Investment is encouraged through legislated policy, with non-intrusive regulation of the banking and financial industries supported by judicial protection of property rights. The Hong Kong dollar is freely convertible and there are no controls or requirements on current monetary transfers, purchase of real estate, or access to foreign exchange.

Saudi Arabia's economy, by comparison, is rated as 66.2 percent free according to the 2011 Index. It is the largest Persian Gulf kingdom and has been ruled as an absolute monarchy by the Saud Dynasty since 1932. It is the world's largest oil producer and exporter and plays a leading role in the Organization of Petroleum Exporting Countries (OPEC). Since becoming a member of the World Trade Organization in 2005, through economic reforms, the government has looked to attract foreign investment and facilitate economic diversification. It is relatively easy to start a business and licensing takes less than the world average, indicative of the streamlining of the country's regulatory framework. However, tariff rates, import bans and restrictions, export controls, services market access barriers, non-transparent and inconsistent standards implementation, and domestic bias in government procurement all add to the cost of trade. Islamic law prohibits direct price controls, but the government influences pricing through regulation, subsidies, and state-owned businesses and utilities. Foreign investors are licensed yet must work with local partners in certain sectors. Minimum capital requirements and licensing processes are cumbersome. Saudi courts do not always enforce contractual obligations, and laws protecting intellectual property rights are in the process of being revised to comply with WTO's standards. Corruption is perceived as significant.[47]

State-dictated as well as democratically defined public policies help create and set market structures including tax, fiscal, and political agendas that are the basis for many government interventions, whether direct or indirect. Such interventions set the stage nationally as well as internationally, through trade groups and cooperative agreements, for business growth and expansion strategies and their success or failure on the world competitive stage.

STAGES OF MARKET DEVELOPMENT

Country markets are at different stages of development. Gross National Product per capita provides a very useful way of categorizing countries by their level of development. GNP per capita is also a popular indicator of the relative wealth of a country's citizenry.[48] Gross National Income (GNI) represents the total amount of money that country's consumers spend on all products and services per annum, divided by that country's population. GNP per capita includes only consumption that can be measured in money; therefore, these statistics do not capture the true

[46] http://www.heritage.org/Index/Country/HongKong.

[47] http://www.heritage.org/Index/Country/SaudiArabia.

[48] Academic and business leaders have been critical of traditional measures of prosperity, including the GDP. See, for example, Jon Gertner, "The Rise and Fall of the GDP," *The New York Times Magazine,* May 16, 2010, 60.

quality of life in a country and should not be taken to reflect a stereotyped lifestyle of all the citizens of that country.[49]

Using GNP as a base, The World Bank divides global markets into four categories. Each of these categories corresponds to a level of economic development with distinct economic and social characteristics, capabilities, and priorities. Thus, the stages provide a useful basis for business and marketing decisions regarding global market expansion, entry, and timing of that entry as well as market segmentation, target marketing, and product and brand positioning.

The categories are shown in Table 2-2. Low, lower-middle, and upper-middle income are often generally referred to as *developing countries*, while high-income countries are considered *developed countries*. Lower-middle income and upper-middle-income countries may also be referred to as *emerging markets*, denoting their general movement towards industrialization, among other factors.

Economies are divided according to 2011 gross national income (GNI) per capita, calculated using the World Bank Atlas method.[50] It is important to note that the relative size of economies, and changes in rankings from one year to the next, depend on the choice of specific indicators included and the method used to covert local currencies to US dollars. Year-to-year changes in the level of output or income of an economy are affected by a combination of forces: real growth, price inflation, and exchange rates. Changes in any of the three can affect an economy's relative size and, therefore, its ranking in comparison to other economies. Table 2-3 shows economies listed in each income group according to 2011 World Bank data.

Number of Economies in each group:

- Low income—36 economies
- Lower-middle income—54 economies
- Upper-middle income—54 economies
- High income: 70 economies

TABLE 2-2 World Bank List of Country Income Groups According to 2011 GNI Per Capita, Calculated Using the World Bank Atlas Method[51]

High-Income Countries	>$12,475
Upper-Middle-Income Countries	$4036—$12,475
Lower-Middle-Income Countries	$1036—$4035
Low-Income Countries	<$1025

[49] Gross Domestic Product (GDP) as contrasted to Gross National Product (GNP). For a country, GDP is the market value of all goods and services produced by labor and property located in that country and equals GNP minus the net inflow of labor and property incomes from abroad. Gross National Product or GNP per capita is one measure of a country's economic development, referred to also as Gross National Income (GNI). This statistic represents the total amount of money that country's consumers spend on all products and services per annum divided by that country's population. GNP per capita includes only consumption that can be measured in money; therefore, these statistics do not capture the true quality of life in a country and should not be taken to reflect a stereotyped lifestyle of all the citizens of that country.

[50] http://data.worldbank.org/about/country-classifications/world-bank-atlas-method. The World Bank's official estimates of the size of economies are based on GNI converted to current US dollars using the Atlas method. GNI takes into account all production in the domestic economy (i.e., GDP) plus the net flows of factor income (such as rents, profits, and labor income) from abroad. The Atlas method smoothes exchange rate fluctuations by using a three-year moving average, price-adjusted conversion factor.

[51] http://data.worldbank.org/about/country-classifications.

TABLE 2-3 Economies Classified by Income—2011 (Bold indicates change in classification)		
Low-income economies (36)[52]		
Afghanistan	Gambia, The	Mozambique
Bangladesh	Guinea	Myanmar
Benin	Guinea-Bissau	Nepal
Burkina Faso	Haiti	Niger
Burundi	Kenya	Rwanda
Cambodia	Korea, Dem Rep.	Sierra Leone
Central African Republic	Kyrgyz Republic	Somalia
Chad	Liberia	Tajikistan
Comoros	Madagascar	Tanzania
Congo, Dem. Rep	Malawi	Togo
Eritrea	Mali	Uganda
Ethiopia	**Mauritania**	Zimbabwe
Lower-middle-income economies (54)[53]		
Albania	Indonesia	Samoa
Armenia	India	São Tomé and Principe
Belize	Iraq	Senegal
Bhutan	Kiribati	Solomon Islands
Bolivia	Kosovo	**South Sudan**
Cameroon	Lao PDR	Sri Lanka
Cape Verde	Lesotho	Sudan
Congo, Rep.	Marshall Islands	Swaziland
Côte d'Ivoire	Micronesia, Fed. Sts.	Syrian Arab Republic
Djibouti	Moldova	Timor-Leste
Egypt, Arab Rep.	Mongolia	Tonga
El Salvador	Morocco	Ukraine
Fiji	Nicaragua	Uzbekistan
Georgia	Nigeria	Vanuatu
Ghana	Pakistan	Vietnam
Guatemala	Papua New Guinea	West Bank and Gaza
Guyana	Paraguay	Yemen, Rep.
Honduras	Philippines	Zambia
Upper-middle-income economies (54)[54]		
Angola	Ecuador	Palau
Algeria	Gabon	Panama
American Samoa	Grenada	Peru
Antigua and Barbuda	Iran, Islamic Rep.	Romania
Argentina	Jamaica	Russian Federation

(*continued*)

[52] http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income
[53] http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income
[54] http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Low_income

TABLE 2-3 Continued

Upper-middle-income economies (54)		
Azerbaijan	Jordan	Serbia
Belarus	Kazakhstan	Seychelles
Bosnia and Herzegovina	Latvia	South Africa
Botswana	Lebanon	St. Lucia
Brazil	Libya	St. Vincent and the Grenadines
Bulgaria	Lithuania	Suriname
Chile	Macedonia, FYR	Thailand
China	Malaysia	Tunisia
Colombia	Maldives	Turkey
Costa Rica	Mauritius	**Turkmenistan**
Cuba	Mexico	**Tuvalu**
Dominica	Montenegro	Uruguay
Dominican Republic	Namibia	Venezuela, RB
High-income economies (70)[55]		
Andorra	Germany	Oman
Aruba	Greece	Poland
Australia	Greenland	Portugal
Austria	Guam	Puerto Rico
Bahamas, The	Hong Kong SAR, China	Qatar
Bahrain	Hungary	San Marino
Barbados	Iceland	Saudi Arabia
Belgium	Ireland	Singapore
Bermuda	Isle of Man	Sint Maarten
Brunei Darussalam	Israel	Slovak Republic
Canada	Italy	Slovenia
Cayman Islands	Japan	Spain
Channel Islands	Korea, Rep.	**St. Kitts and Nevis**
Croatia	Kuwait	St. Martin
Curaçao	Liechtenstein	Sweden
Cyprus	Luxembourg	Switzerland
Czech Republic	Macao SAR, China	Trinidad and Tobago
Denmark	Malta	Turks and Caicos Islands
Estonia	Monaco	United Arab Emirates
Equatorial Guinea	Netherlands	United Kingdom
Faeroe Islands	New Caledonia	United States
Finland	New Zealand	Virgin Islands (U.S.)
France	Northern Mariana Islands	
French Polynesia	Norway	

[55] Ibid.

Low-Income Countries

Low-income countries are those with the lowest income category (incomes of less than $1025.00 per capita). They share the following characteristics:

1. Limited industrialization and a high percentage of the population engaged in agriculture and subsistence farming
2. High birth rates and low literacy rates, especially among women and girls.
3. Heavy reliance on foreign aid
4. High levels of poverty
5. Inequality of income distribution
6. Political instability and unrest due at least in part to disenfranchised social groups

Between 1981 and 2005, the share of the population in the developing world living below US$1.25 a day was halved from 52 to 25 percent, reducing the number of the poor by 500 million (from 1.9 billion to 1.4 billion) during that period. It is projected that global extreme poverty is likely to drop to about 920 million (15 percent) by 2015, according to a World Bank 2010 baseline forecast.[56] However, in light of the slowed global economy resulting from the financial crisis of 2008–2010, the pace of poverty reduction has been slowed, with an estimated 64 million more people expected to be living in extreme poverty than would have been without the global crisis.[57]

The decline in poverty between 1981 and 2005 varied considerably across regions. Led by China, the East Asia and the Pacific Region made dramatic progress, with poverty incidence dropping from 78 percent to 17 percent, using the US$1.25 a day poverty line at 2005 prices. At the other extreme is Sub-Saharan Africa (SSA) with a poverty rate of 51 percent in 2005—not much lower than in 1981. The poverty rate fell in South Asia, Latin America and the Caribbean, Middle East, and North Africa during the same period.[58]

The bottom of the economic pyramid is made up of the 2.5 billion people living on less than $2.50 per day.[59] Economic development experts, business leaders, and academicians have suggested business models which combine development and social transformation. They see opportunity at the bottom of the pyramid in the areas of product design and brand building, among others.[60]

As we pointed out in Chapter 1, marketing is a universal discipline. As such, the marketing process of focusing an organization's resources on targeted market opportunities can be applied to diverse markets at any stage of development or industrialization. The role of marketing—to be the link between the market and the enterprise—is the same in countries at every level of the income spectrum from low to high. To capture the complexities existing in emerging markets, companies need to recognize low-income markets as value-conscious. Based on this shift in thinking,

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[56] http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,contentMDK:20040961~menuPK:34480~pagePK:64257043~piPK:437376~theSitePK:4607,00.html (Accessed September 2010).

[57] Ibid.

[58] Ibid.

[59] T. London, "The Base-of-the-Pyramid Perspective: A New Approach to Poverty Alleviation," In G. T. Solomon (Ed.), *Academy of Management Best Paper Proceedings* (2008).

[60] S Allen Hammond, William J Kramer, Julia Tran, Rob Katz, Courtland Walker *The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid* (World Resources Institute, 2007): 164; C. K. Prahalad and S. L. Hart, "The Fortune at the Bottom of the Pyramid," *Strategy + Business,* 26: 54–67; C. K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Upper Saddle River, NJ: Wharton School, 2005): 407.

opportunities can be identified. Merely adapting products designed for high-income markets to meet the needs of emerging markets has serious limitations.

Demographics and the particularities and constraints of bottom-of-the-pyramid markets demand innovation. Lenovo's PC for rural peasant farmers is not only a simplified version but will include a keyboard and use the buyer's television set as a monitor. Websites provide much needed information suited to rural lifestyles including weather reports, product pricing, and agricultural information all aligned with the social, cultural, and environmental constraints of this market. In addition, packaging innovations such as sachetized cooking oil, sold for pennies, match economic constraints.

Global firms can meet the needs of these markets in addition to those of markets at higher income levels. For example, ICICI Bank deploys 2000 ATMs in urban neighborhoods and villages in India and, similar to microcredit organizations, organizes thousands of self-help community groups that provide loans for as little as $100 to poor entrepreneurial women starting businesses. ICICI is now India's dominant consumer bank with more than 15 million customers, moving 75 percent of its transactions online. Using its in-house financial software, ICICI plans to take its low-cost base to expand into the Canadian market and other developed countries.[61] Similarly, General Electric's health-care division is marketing a first-of-its-kind electrocardiogram machine in the United States—the smallest battery-powered electrocardiogram device on the market, weighing only six pounds. This innovative product will sell for only $2,500, which represents an 80 percent savings from similar products currently on the market. Most importantly, for our purposes, this diagnostic product was originally designed for health-care professionals in India and China in 2008.[62]

Carly Fiorina, former CEO of Hewlett-Packard, championed a program of World e-Inclusion which aimed company resources to product development for developing countries and their poor. The logic behind this and other programs is that by providing technology tools, the poor can increase their earning power and, accordingly, their power to consume more expensive technology. One of the technologies in greatest demand is the cell phone. Accordingly, Motorola, with its Motofone, a product designed for emerging markets, sells for about $30.00, with up to 400 hours of standby time on one charged battery, perfect for electricity-constrained market environments. Other examples of this cross-border learning are the $100 laptop developed by Nicholas Negroponte of MIT's Media Lab for markets in Latin America, rural Asia, and Africa and the $100 iPod shuffle.[63]

Until global firms begin to explore and build competitive advantage from these new markets, emerging markets with high levels of poverty remain invisible or will not be conceived to be attractive enough to warrant investment.

Lower-Middle-Income Countries

Lower-middle-income countries, also known as emerging markets, are those with a GNP per capita of more than $1026.00 and less than $4035.00. These countries are at the early stages of industrialization. Factories supply a growing domestic market with such items as clothing, batteries, tires, building materials, and packaged foods. These countries are also locations for the production of standardized or mature products such as clothing for export markets.

Consumer markets in these countries are expanding. These countries represent an increasing competitive threat as they mobilize their relatively cheap—and often

[61] Pete Engardio, "Business Prophet," *Businessweek*, January 23, 2006, 68.

[62] Reena Jana, "Inspiration from Emerging Economies," *Businessweek*, March 23 and 30, 2009, 38.

[63] David Kirkpatrick, "Tech Targets the Third World," CNNMoney.com, Fast Forward online newsletter (December 12, 2006), accessed December 22, 2006.

highly motivated—labor to serve target markets in the rest of the world. Emerging markets have a major competitive advantage in mature, standardized, labor-intensive products. Indonesia, the largest noncommunist country in Southeast Asia, is a good example of an *LDC (less developed country)* on the move: per capita income has risen from $250 in 1985 to $2,050 in 2009.

Vietnam is another attractive, emerging market. With GNI per capita of $930 (Atlas method, current US$), its economy is growing as briskly as is its middle class, numbering 7 million in 2003 and expected to grow to an estimated 25 million in 2013.[64] Its literacy rate stands at 92.5 percent with the number of university students doubling from 2003 to 2008. Six of its expanding cities, although mostly small, account for 40 percent of the country's sales.[65] The government estimates that retail sales attained $39.1 billion in 2009, just about twice sales five years earlier. Indeed, what Vietnamese consumers purchase is not surprising—reliable goods that enhance their daily lives. What makes Vietnam distinctive is how fast these middle-class consumers are leapfrogging, a term highlighted by Unilever's Vietnam chairman, Marijn van Tiggelen. In 2009, it was estimated that Vietnam had 5 million Internet subscribers and 18 million Internet users, impressive for a country still at the early stage of digital development. In Hanoi and Ho Chi Minh City, half the population is online, although expenditure on digital marketing for the country as a whole is still low, just $15 million. "TV is still king in Vietnam because women are the decision makers in the family and they spend a lot of time watching TV," observed Mai Huong Hoang, chairwoman of Saatchi & Saatchi.[66] To reach Vietnam's predominantly rural villages with limited country infrastructure, consumer goods company Unilever has established a model of trained, independent distributors to sell its products to these dispersed and fragmented markets.

The biggest LDC on the move of course is China, with its population of over 1.3 billion people. In 2010 it overtook Japan to become the number two global economic power. Previously unseating Germany, France, and Great Britain, China will, if it continues in successful sustained growth, one day overtake the United States, with its gross 2009 domestic product of about $14 trillion. China has passed the United States in 2009 as the largest market for passenger vehicles (in units but not in value) and is the world's largest exporter.[67] Another rapidly growing LDC, India's urban per capita GDP is projected to grow at a rate of 6 percent a year from 2005 to 2025, surpassed only by China with a projected growth rate of 7.4 percent. In light of the rapid urbanization and projected growth, market opportunities in both countries will be transportation, communications, food, and health care, followed by housing, utilities, recreation, and education.[68]

Upper-Middle-Income Countries

Upper-middle-income countries, also known as industrializing countries, are those with GNP per capita between $4036.00 and $12,475.00. In these countries, the percentage of population engaged in agriculture drops sharply as people move to the industrial sector and the degree of urbanization increases. Many of the countries in this stage—Malaysia, Argentina, Venezuela, Brazil, Mexico, and Turkey, for example, have rising wages, high rates of literacy, and advanced education, but still have significantly

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[64] Marco Breu, Brian S. Salsberg, and Ha Thanh Tu, "Growing Up Fast: Vietnam Discovers the Consumer Society," *The McKinsey Quarterly* (August 2010), accessed August 22, 2010 http://www.forbes.com/2010/08/23/vietnam-retailing-consumerism-leadership-managing-mckinsey.html.
[65] Ibid.
[66] Ibid.
[67] Ibid.
[68] Richard Dobbs and Shirish Sankhe, "Comparing Urbanization in China and India," *The McKinsey Quarterly* (July 2010), accessed July 15, 2010 http://www.mckinseyquarterly.com/Comparing_urbanization_in_China_and_India_2641.

lower wage costs than advanced countries. These countries, and others at this stage of development, frequently become formidable competitors and experience rapid, export-driven growth and home-grown global competition.

The expanding economies of Eastern Europe belong to this category. Turkey, for example, has gone from a volatile economy and disruptive political turmoil to relative stability. Turkey has sometimes sought admission to the EU. With active foreign investment from the likes of Ford, General Electric, and joint venture investment from Chinese companies competing for public infrastructure contracts and manufacturing for Europe's expansive single market, Turkey is the T in the BRIC-IT (Brazil, Russia, India, China, Indonesia, and Turkey) group of fast-growing emerging markets.[69]

High-Income Countries

High-income countries, also known as advanced, industrialized, or postindustrial, are those with GNP per capita above $12,475.00. With the exception of the relatively new oil-rich nations, the countries in this category reached their present income level through a process of sustained economic growth.

The phrase *postindustrial countries* was first used by Daniel Bell of Harvard to describe the United States, Sweden, Japan, and other advanced, high-income societies. Bell suggests there is a difference between the industrial and the postindustrial societies or information age that goes beyond mere measures of income. Bell's thesis is that the sources of innovation in postindustrial societies are derived increasingly from the codification of theoretical knowledge rather than from random inventions of more industrial production. Later renaming this concept the *information society*, he was one of the original theorists who postulated that postindustrial nations would move from being producers of goods founded in industrialized manufacturing to service economies where theoretical knowledge, technology, and information become the major drivers of productivity gains. This move was to be supported by, in Bell's view, information processing and exchange; the ascendancy of investments in knowledge over tangible capital as a key strategic resource; the growth of intellectual over mechanical technology; and the ascendance of science and scientific pursuit, especially the newer science-based industries. Information and those who know how to create, assemble, and disseminate it as a commodity would be more valued, in Bell's view, than the more traditional labor force. Other aspects of the postindustrial society stressed by Bell's original thinking was an orientation toward the future; he stressed that postindustrialized societies would need to learn how to predict the future rather than forecast in order to increase the number of theoretical future possibilities so that they might all be addressed or explored as society changed. Although forecasting remains an important strategic tool for global business, the rise of scenario planning in corporate strategic playbooks attests to the strength of Bell's original vision.

South Korea is a prime example. After the Korean War, South Korea evolved from one of the poorest countries in the region to a rapidly growing manufacturing powerhouse, making gains in eradicating poverty, malnutrition, and illiteracy among its population. Since the 1960s, it has increased its per capita GDP more quickly than any of its neighbors. However, Korea is squeezed among three economic and political powerhouses—China, Japan, and Russia—and being so positioned, it must now shift to an economy with a strong service sector supported by vibrant intellectual and knowledge assets.[70]

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[69] Steve Bryant and Ben Holland, "Turkey's Moment," *Businessweek,* April 25, 2010, 45. See also Judy Dempsey, "Building Bridges with Eastern Europe," *The New York Times*, September 22, 2010.

[70] Stephen S. Roach and Sharon Lam, "The Resilient Economy" in "South Korea: Finding Its Place on the World Stage," *The McKinsey Quarterly* (April 2010), http://www.koreabusinesscentral.com/forum/topics/mckinsey-quarterly-reportsouth.

Until recently, Korea has fallen short on quality when compared with Japan and cannot match China on price. South Korea's Samsung Electronics, for example, only a decade ago was the producer of lower-end consumer electronics. The global company has moved up the value chain by building strong brand image and innovation output. In 2009, Samsung ranked 19th on Interbrand's Best Global Brands list, the fastest growing among the top 100 global brands over the past decade. Indeed, South Korean mobile phones are at almost 50 percent market share of the US market. Its LCD-TV global market share has jumped to 37 percent in 2009, compared with 10 percent just two years earlier. For the next decade, the question is whether Korea can maintain its strategic advantage.[71] Korea's comparative advantage lies in technology and design, not the resource-intensive heavy manufacturing industries. Liberalization and openness to foreign competition in areas such as finance, distribution, professional services, and communications, as well as medical care, tourism, and education, will go a long way in building Korea's intellectual and intangible capital resources to spur continued growth and national competitive advantage.[72]

Perhaps among the most powerful nations of the postindustrial societies are the G20, a group of major developed countries which commenced in 1975 by a meeting of Central Bank governors as the G7 and included the United States, Canada, Japan, the United Kingdom, France, Germany, and Italy. Russia joined the group, forming the Group of Eight, in 1994. The G-20 was created as a response both to the financial crises of the late 1990s and to a growing recognition that key emerging-market countries were not adequately included in the core of global economic discussion and governance. The G-20 provides opportunities for dialogue on national policies, international cooperation, and international financial institutions and architecture.[73]

INCOME AND PURCHASING POWER PARITY AROUND THE GLOBE

When a company charts a strategic plan for global market expansion, it often finds that, for most products, income is the single most valuable economic variable. After all, a market can be defined as a group of people willing and able to buy a particular product or service. For some products, particularly those that have a very low unit cost—chewing gum, for example—population is a more valuable predictor of market potential than income. Nevertheless, for the vast range of industrial and consumer products in international markets today, the single most valuable and important indicator of potential is income.

Looking at Table 2-4, GNP and other measures of national income converted to US dollars can be calculated on the basis of purchasing power parities (i.e., what the currency will buy in the country of issue) or through direct comparisons of actual prices for a comparison basket of goods and services. This provides a comparison of the standards of living in the countries of the world. The reader must remember that exchange rates equate, at best, the prices of internationally traded goods and services. They often bear little relationship to the prices of those goods and services not traded internationally which form the bulk of the national product in most countries. Agricultural output and services, in particular, are often priced lower in relation to industrial output in developing countries than in industrial countries. For example, a visit to a doctor in India for an examination or treatment that costs $200 in the United

[71] Stephen S. Roach and Sharon Lam, "The Resilient Economy" in "South Korea: Finding Its Place on the World Stage," *The McKinsey Quarterly* (April 2010), http://www.koreabusinesscentral.com/forum/topics/mckinsey-quarterly-reportsouth.

[72] Ibid. See also Moon Ihlwan, "How Korea Greeted Its Way to Success," *Businessweek*, April, 19 2010, 56.

[73] See, for example, Matthew Saltmarsh, "France Seeks More Open Commodity Markets Among G20," *The New York Times*, January 20, 2011, B3.

Side Bar: 20 Major Economies of the G20[74]

In addition to these 20 members, also participating are the managing director of the International Monetary Fund, the chairman of the International Monetary Fund, the president of the World Bank, the International Monetary and Financial Committee, and the chairman of the Development Committee.

Region	Member
Africa	South Africa
North America	Canada
	Mexico
	United States
South America	Argentina
	Brazil
East Asia	China
	Japan
	South Korea
South Asia	India
Southeast Asia	Indonesia
Western Asia	Saudi Arabia
Eurasia	Russia
	Turkey
Europe	European Union
	France
	Germany
	Italy
	United Kingdom
Oceania	Australia

States might cost $2 in India. In this example, the Indian medical dollar has 100 times the purchasing power of the US medical dollar. Furthermore, agriculture typically accounts for the largest share of output in less developed countries. Thus, the use of exchange rates tends to exaggerate differences in real income and standard of living

[74] http://en.wikipedia.org/wiki/G-20_major_economies

TABLE 2-4 Stages of Economic Development/Global Income and Population 2009 Edition[75]

Income Group Per Capita GNP	GDP (Current US$)	GDP Growth (Annual %)	GNI, Atlas Method (Current US$)	GNI Per Capita, Atlas Method (Current US$)	Market Capitalization of Listed Companies (% of GDP)	Total Population	Population Growth (Annual %)
High income: nonOECD	$2,366,450,410,630	3.2	$2,138,722,627,530	$22,173	98.5	91,633,514	1.4
High income: OECD	$39,542,045,890,681	–3.4	$39,489,467,741,713	$39,473	82.9	1,024,918,221	0.6
Low income	$429,718,294,130	4.7	$209,999,600,000	$512	Not available	846,141,764	2.2
Lower-middle income	$8,812,199,032,923	6.8	$8,908,770,526,135	$2,316	83.0	3,810,798,383	1.2
Upper-middle income	$7,297,240,530,619	–2.5	$7,151,946,935,136	$7,495	65.4	1,001,743,859	0.9

between countries at different stages of economic development. Relative price differences require the use of purchasing power estimates in order to compare the standard of living between countries. Purchasing power differences can account for differential in demand of products and services, and also provide an indication on differences in costs.

Purchasing power parity comparisons of income provide better measures of standard of living of residents of an economy because they measure the economy's output in terms of buying power. The PPP rate is defined as the number of units of a country's currency required to buy the same amount of goods and services in the comparison country. By recognizing local prices, PPP rates deliver a measure of the standard of living in a country. Table 2-5 ranks the top 10 economies in terms of 2010 GNP per capita income and total GNP, both adjusted for purchasing power parity (PPP). Although, for example, Australia ranks 6th in income, its standard of living—measured by what money can buy—ranks 10th.

Table 2-5 ranks the top 10 economies in terms of 2010 per capita income at the 2010 US$ exchange rate at PPP. Beyond the exchange distortion illustrated in Table 2-5, there is the distortion of money itself as an indicator of a nation's welfare and standard of living. Although per capita GNI of Venezuela and Poland are similar—11,503 and 11,273 in 2010—PPP per capita GNI is different—12,341 versus 19,059, respectively. The typical consumer in Poland has just about one and a half times the purchasing power of the Venezuelan consumer.

The implications of this are profound. A visit to a mud house in Tanzania will reveal many of the things that money can buy: radios, an iron bed frame, a corrugated metal roof, beer and soft drinks, bicycles, shoes, photographs, and razor blades. What Tanzania's

[75] *Global Income and Population, 2012 Edition,* Warren Keegan Associates Press, 2012. Data Source: World Development Indicators, World Bank, 2009 Edition.

TABLE 2-5 GNP and PPP Per Capita, Top 10 Economies

Rank	GNP per capita	PPP adjusted GNP per capita
1	Luxembourg	Qatar
2	Norway	Luxemberg
3	Qatar	Singapore
4	Switzerland	Norway
5	Denmark	Brunei
6	Australia	United States
7	Sweden	Hong Kong SAR, China
8	United Arab Emirates	Switzerland
9	United States	Netherlands
10	Netherlands	Australia

Data Source: http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD.

per capita income of $542 in 2010 does not reflect is the fact that instead of utility bills, Tanzanians have the local well and the sun. Instead of nursing homes, tradition and custom ensure that families will take care of the elderly at home. Instead of expensive doctors and hospitals, villagers can turn to traditional doctors and healers. In industrialized countries, a significant portion of national income is generated by taking goods and services that would be free in a less developed country and putting a price on them. Thus, the standard of living in many countries is often higher than income data might suggest.

The income per capita and life expectancy in the world was relatively flat 175 years ago. Then Europe, the United States, Canada, Australia, and New Zealand broke out of the world average and began a long period of steady growth which resulted in a great gap between the income in these countries and the rest of the world. Japan was the first country outside of this set of countries to achieve high-income status. These countries accounted for 80 percent of global income and were called *the triad* (Europe, United States/Canada, and Japan). Table 2-6 shows the richest countries in the world measured by GDP (PPP).

TABLE 2-6 Richest Countries in the World GDP (PPP)[76]

Country	GDP (PPP) in 2010
United States	$ 14,657,800 trillion
China	10,085,708 trillion
Japan	4,309,432 trillion
India	3,060,392 trillion
Germany	2,940,434 trillion
United Kingdom	2,172,768 trillion
Brazil	2,172,258 trillion
France	2,145,287 trillion
Italy	1,773,547 trillion

[76] Wikipedia. Source: International Monetary Fund, World Economic Outlook Database, [2]. Data refer to the year 2010. (Accessed May 30, 2011.)

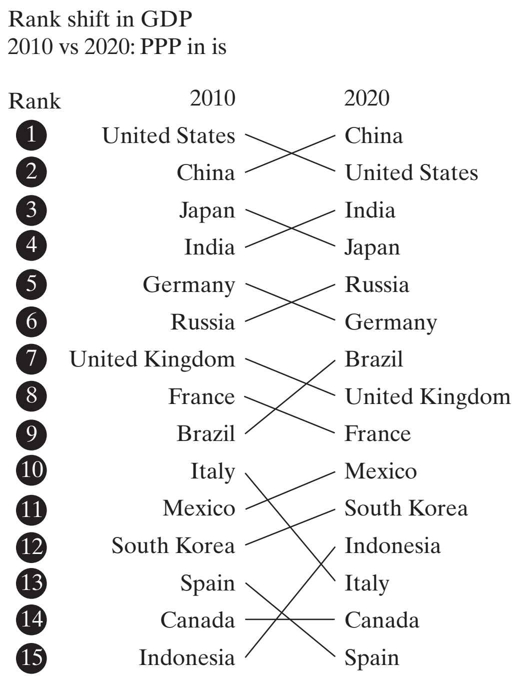


FIGURE 2-1 Rank Shift in GDP 2010 vs. 2020 ($US)
Source: http://euromonitor.typepad.com/files/gdp-rank-final.pdf

Ten years ago, the concentration of the world's wealth continued in the triad regions. The rapid growth of Asian countries, in particular China and India, as well as several fast-growing Latin American, Eastern European, Middle Eastern, and African countries, has led to what has been termed the "rise of the rest." This is a world where the mountain tops and valleys of income are becoming a wide plateau of high income.

By 2020 there will be a major shift in the global balance of economic power compared with 2010. Emerging economies will rise in importance and China will have overtaken the United States to lead the list of the world's top 10 largest economies by GDP measured in PPP terms. Consumer markets in emerging economies will present enormous opportunities; however, as we have begun to see today, their rapid growth poses a challenge to the sustainability of the global environment. Figure 2-1 shows rank shift in GDP 2010 vs 2020.

INTERNATIONAL COMPARISON PROGRAM (ICP) OF THE WORLD BANK

With the release in July of 2007 of the 2005 International Comparison Program (ICP), a significant window is opened to compare economic indicators around the world. The ICP data is a worldwide statistical operation involving data collection from 180 countries divided into five regions and then combined with a Eurostat-OECD PPP program. The primary outputs of the ICP are estimates of purchasing power parities benchmarked to the year 2005 which replace older estimates, some dating back to the 1980s. The measures are based on purchasing power parities (PPPs). To calculate the PPPs, the ICP holds surveys every five years to collect price and expenditure data for the whole range of final goods and services that comprise GDP, including consumer goods and services, government services, and capital goods.[77]

[77] See http://web.worldbank.org, The International Comparison Program.

The (ICP) is being implemented for the second time with the reference year 2011. It will build on well-programmed activities of a wide network of national and bi- and multilateral institutions that will engage in methodological research and review, survey activities, data processing, and analysis.[78]

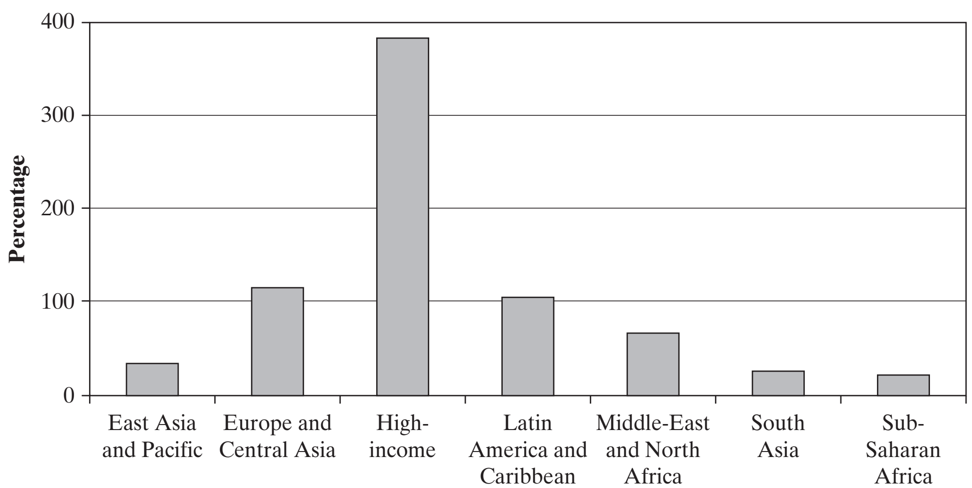
ACTUAL INDIVIDUAL CONSUMPTION

Actual individual consumption is measured by the total value of household consumption expenditure, expenditures by nonprofit institutions (such as NGOs and charities) serving households, and government expenditure on individual consumption goods and services (such as education or health).

As Table 2-7 indicates, there exists a signficant gap between the living standard of the majority of people in high-income countries and those in low-income countries. In fact, looking at the distribution of world income by population quintiles demonstrates that the concentration of world income is in the wealthiest quintile (fifth) of the world's population. Despite these statistics, champions of free trade and global capital movement stress that world income distribution is becoming more equal as globalization moves forward. If statistics showed this to be true, then the "law of even development" would appear to be true also. The "law of even development" says that all national economies gain from more integration in international markets, and lower-cost, capital-scarce economies (developing countries) are likely to gain more from fuller integration than higher-cost, capital-abundant economies (developed countries).[79]

As we have seen earlier in the chapter, the gap between the richest and poorest countries provides tremendous incentive for migration, both in the form of legal

TABLE 2-7 Actual Individual Consumption Per Capita[80]



[78] See http://siteresources.worldbank.org/ICPINT/Resources/ICPreportprelim.pdf for preliminary results of the 2005 data, published December 2007.

[79] Robert Hunter Wade, "The Rising Inequality of World Income Distribution, Finance, and Development," a quarterly magazine of the *International Monetary Fund*, 38, no. 4 (December 2001), http://imf.org/external/pubs/ft/fandd/2001/12/wade.htm.

[80] International Comparison Program 2005, Preliminary Results, December 17, 2007. at www.worldbank.org/data/icp.

and illegal immigration, to high-income countries to seek economic and educational opportunities and a higher standard of living.[81] Throughout the late nineteenth and twentieth centuries, industrial countries' share of world income increased. During this period of time, annual compound rates of growth profoundly altered the world's distribution of income. The magnitude of this change as compared with the previous 6,000 years of civilized world history is enormous: over one-third of the real income and about two-thirds of the industrial output produced by people throughout recorded history were generated in the industrialized countries and regions of the world over the past century. Through what can be considered systematized growth versus more incremental, average annual growth rates, the economic geography of the world has been transformed.

The concentration of income in the high-income and large-population countries means that a company can be global, that is, derive a significant proportion of its income from countries at different stages of development, while operating in a dozen or fewer countries. Table 2-7 shows actual individual consumption per capita for major regions of the world.

THE LOCATION OF POPULATION

For products whose price is low enough, population is a more important variable than income in determining market potential and consumer demand. Although population is not as concentrated as income, there is, in terms of size of nations, a pattern of considerable concentration. As shown in Table 2-8, the 10 most populous countries in the world account for roughly 60 percent of the world's population today.

TABLE 2-8 Top Ten Highest Populated Countries[82]

Top Ten Countries with the Highest Population

Rank	Country	2010 Population	2000 Population	Pop. Increase 2000–2010	Expected Pop. for Year 2050
1	China	1,330,141,295	1,268,853,362	61,287,933	1,424,161,948
2	India	1,173,108,018	1,004,124,224	168,983,794	1,656,553,632
3	United States	310,232,863	282,338,631	27,894,232	439,010,253
4	Indonesia	242,968,342	213,829,469	29,138,873	313,020,847
5	Brazil	201,103,330	176,319,621	24,783,709	260,692,493
6	Pakistan	177,276,594	146,404,914	30,871,680	276,428,758
7	Bangladesh	158,065,841	130,406,594	27,659,247	233,587,279
8	Nigeria	152,217,341	123,178,818	29,038,523	264,262,405
9	Russia	139,390,205	146,709,971	(7,319,766)	109,187,353
10	Japan	126,804,433	126,729,223	75,210	93,673,826
Top Ten Countries		4,011,308,262	3,618,894,827	392,413,435	5,070,578,794
Rest of the World		2,834,301,698	2,466,012,769	368,288,929	4,246,244,391
Total World Population		6,845,609,960	6,084,907,596	760,702,364	9,316,823,185

Notes: (1) The Top 10 Most Populated Countries of the World Table was updated June 30, 2010. (2) The China population data is for the mainland only.

[81] See, for example, "A World Ever More on the Move," *The New York Times,* June 27, 2010.

[82] Data are derived from Internet World Stats at http://www.internetworldstats.com/stats8.htm.

There are serious implications for the strategic marketer who has her sights only on mature, developed global markets. What worldwide opportunities are being missed? What regional strategies might be highlighted? What global partners or strategic alliances are not being assessed that might prove actionable for market entry or market expansion? What product or branding opportunities are being overlooked or what product design offerings or packaging alternatives do not see the light of day because their potential users are not identified?

GLOBAL TRADE AND INVESTMENT

The Balance of Payments

The balance of payments is a record of all of the economic transactions between residents of a country and the rest of the world. It is a macro-level picture of the economic transactions of a country. The balance of payments is divided into a so-called current and capital account. The current account is a record of all of the recurring trade in merchandise and service, private gifts, and public aid transactions between countries. The capital account is a record of all long-term direct investment, portfolio investment, and other short- and long-term capital flows. The capital account exerts a lot of pressure on exchange rates, which, in turn, impacts price of goods and services. In general, a country accumulates reserves when the net of its current and capital account transactions shows a surplus; it gives up reserves when the net shows a deficit. The important fact to recognize about the overall balance of payments is that it is always in balance. Imbalances occur in subsets of the overall balance.

The Asian economies, despite a dip in 2000–2001, have seen increasingly positive current account balances, with China leading with an account balance of 272.5 billion, way ahead of second-ranked Japan with 182.3 billion as shown in Table 2-9. Germany follows with current account balance of 162,300. The United States places last out of 191 countries with an account balance of negative 561 billion, far outpacing the nearest negative account balance of Spain with negative 66 billion. For the United States, the deficit on the overall balance of payments in

TABLE 2-9 Estimated 2010 Current Account Balance of the World's Top Ten Surplus Countries & Regions [83]

Rank	Country & Regions	Current Account Balance
1	China	272,500,000,000
2	Japan	182,300,000,000
3	Germany	162,300,000,000
4	Russia	68,850,000,000
5	Norway	60,230,000,000
6	Saudi Arabia	52,030,000,000
7	Switzerland	49,350,000,000
8	Netherlands	46,690,000,000
9	Singapore	40,440,000,000
10	Taiwan, China	39,000,000,000

[83] https://www.cia.gov/library/publications/the-world-factbook/rankorder/2187rank.html, accessed June 1, 2011.

current accounts, which includes goods, services, and foreign investment income combined, has risen since the early 1990s, worsening dramatically over the past decade.

China, Germany, and Japan offset their trade surplus with an outflow of capital. (Remember, the balance of payments always balances!) The United States offsets its trade deficit with an inflow of capital. As trading partners, the United States owns an increasing quantity of Chinese, Japanese, and German products. These three nations own more US real estate, government securities, and publicly traded company equity. Prior to the Great Recession of 2008–2009, trade surpluses allowed many developing countries to accumulate reserve assets as a protection against global financial crisis or balance-of-payments vulnerabilities. Strong reserves help lower interest rates and reassure global lenders. China's trade and foreign exchange-rate policy has been an issue for some time for global political and business leaders seeking a transition to a more global and sustainable trade and account balance equilibrium.[84] Clearly, the present Chinese trade surpluses and offsetting trade deficits in the rest of the world (ROW) and especially in the United States are not sustainable.

GLOBAL TRADE PATTERNS

Since the end of World War II and into the first decade of the twenty-first century, world merchandise trade has grown faster than world production. In other words, over the span of years, import and export growth has outpaced the rate of increase in GNP. In fact, in most countries the share of imports and exports as a percentage of the national economy has grown. In 2007, the world's major economic regions reflected synchronized growth trends in excess of 3 percent annually, while average global trade grew in real terms at 7.7 percent.[85] A year earlier, in 2006, the volume of world merchandise trade was 8 percent, while world gross domestic product reflected a 3.5 percent increase. Both years confirm a continuing trend since 2000 in which world merchandise trade has grown by twice the annual growth rate of output. The increase in both trade and investment flows is a major cause of economic globalization and a direct outcome of economic globalization. Figure 2-2 shows average PPP consumption across 146 countries. Figure 2-3 shows growth in volume of world merchandise trade and GDP from 1997 to 2007.

The composition of world trade has changed. Agricultural share of world exports has decreased 31 percent in the little more than a decade between 1995 and 2006, with a 19 percent decrease since the early years of 2000. Another trend worth noting is the real growth in services exports through the early 2000s. Manufacturing and mining have grown as a percentage of world exports while services exports have remained fairly constant most recently.[86]

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[84] Lowell Bryan, "Globalization's Critical Imbalances," *The McKinsey Quarterly* (June 2010), accessed June 24, 2010, https://www.mckinseyquarterly.com/article. See also "Worlds Apart: What's Behind the US-China Currency Dispute?," Knowledge@Wharton (October 13, 2010), accessed October 14, 2010, http://knowledge.wharton.upenn.edu/; and David Barboza, "Chinese Leader Fields Executives' Questions," *The New York Times*, September 23, 2010, 42.

[85] Based on World Bank preliminary estimates December 2008, World Trade Indicators 2008, Benchmarking Policy and Performance, The World Bank, Washington, D.C. 2008 at http://info.worldbank.org/etools/wti2008/docs/mainpaper.pdf.

[86] Ibid.

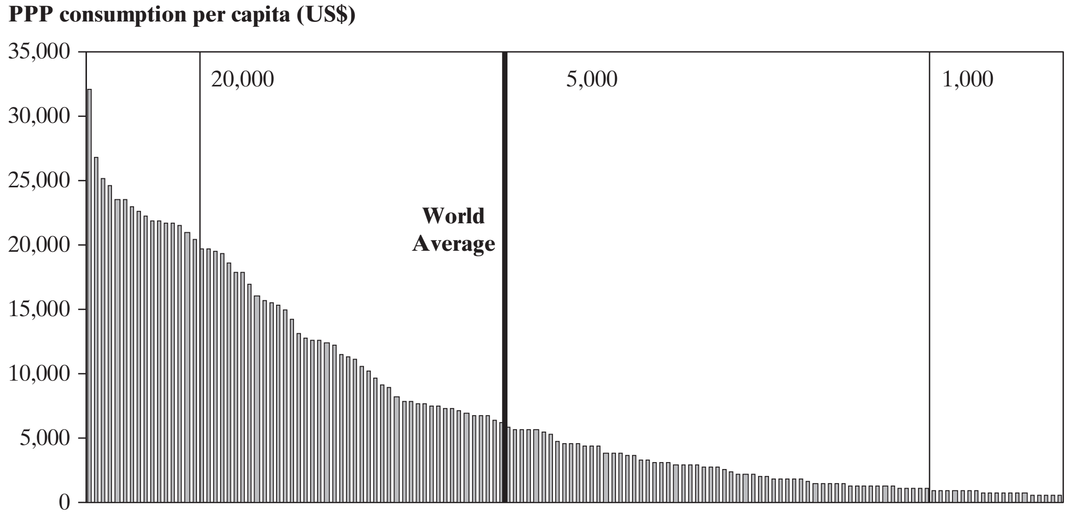

FIGURE 2-2 Average PPP Consumption Across 146 Countries

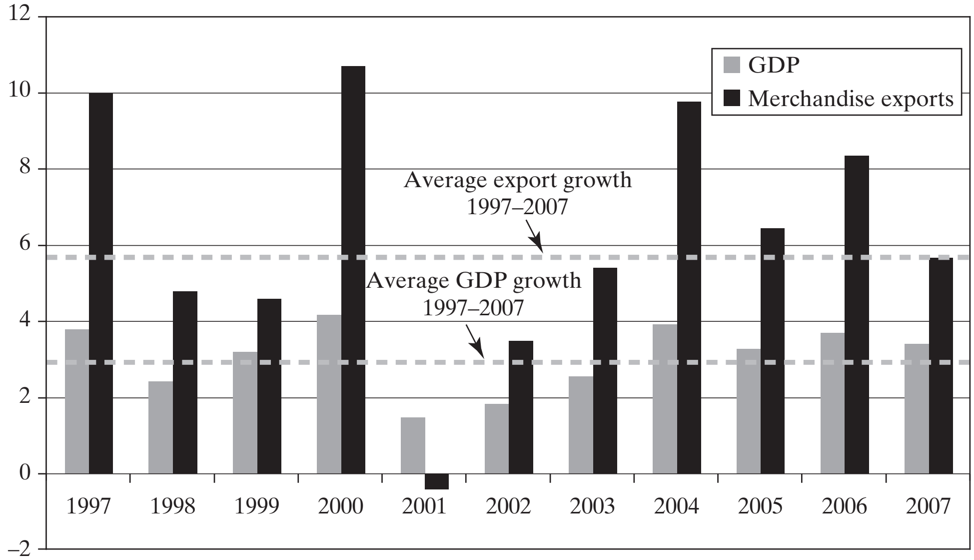

FIGURE 2-3 Growth in Volume of World Merchandise Trade and GDP 1997–2007
Source: WTO Secretariat.

Historically, world export trade growth has been uneven; however, over the past decade, trade and export growth have become more evenly distributed across the globe including both diverse regions and income groups. Accordingly to a recent World Bank forecast, global export trade will triple through 2030, with approximately half coming from developing countries.[87] In fact, although domestic policies of these developing countries support export growth, it is crucial that markets be open to exporter's products and services. Indicators suggest that it is often low-income countries that face the hardest hurdles to world markets, while middle-income countries face the least barrier restrictions for their products.[88] Clearly, merchandise and services

[87] Based on World Bank preliminary estimates December 2008, World Trade Indicators 2008, Benchmarking Policy and Performance, The World Bank, Washington, D.C. 2008 at http://info.worldbank.org/etools/wti2008/docs/mainpaper.pdf.
[88] Ibid.

FIGURE 2-4 GDP and Merchandise Trade by Region 2005–2007
(Annual percentage change at constant prices)

	GDP			Exports			Imports		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
World	3.3	3.7	3.4	6.5	8.5	5.5	6.5	8.0	5.5
North America	3.1	3.0	2.3	6.0	8.5	5.5	6.5	6.0	2.5
United States	3.1	2.9	2.2	7.0	10.5	7.0	5.5	5.5	1.0
South and Central America[a]	5.6	6.0	6.3	8.0	4.0	5.0	14.0	15.0	20.0
Europe	1.9	2.9	2.8	4.0	7.5	3.5	4.5	7.5	3.5
European Union (27)	1.8	3.0	2.7	4.5	7.5	3.0	4.0	7.0	3.0
Commonwealth of Independent States (CIS)	6.7	7.5	8.4	3.5	6.0	6.0	18.0	21.5	18.0
Africa and Middle East	5.6	5.5	5.5	4.5	1.5	0.5	14.5	6.5	12.5
Asia	4.2	4.7	4.7	11.0	13.0	11.5	8.0	8.5	8.5
China	10.4	11.1	11.4	25.0	22.0	19.5	11.5	16.5	13.5
Japan[b]	1.9	2.4	2.1	5.0	10.0	9.0	2.5	2.5	1.0
India	9.0	9.7	9.1	21.5	11.0	10.5	28.5	9.5	13.0
Newly industrialized economies (4)[c]	4.9	5.5	5.6	8.0	12.5	8.5	5.0	8.5	7.0

[a] Includes the Caribbean.
[b] Trade volume data are derived from customs values deflated by standard unit values and an adjusted price index for electronic goods.
[c] Hong Kong, China; Republic of Korea; Singapore and Chinese Taipei.

Source: WTO Secretariat.

exports by region are a result of a combination of factors including, but not limited to, pricing, exchange rates, demand, and market access. Figure 2-4 shows GDP and merchandise trade by region for the years 2005 through 2007.

EXCHANGE RATES

Exchange rates are the price of one currency in terms of another. If exchange rates change, so do the prices of exports and imports. Countries whose exchange rates are depreciating will find their exports becoming more price competitive and their imports relatively more expensive. If a seller of products or services expects payment for exports in any denomination other than their home currency, the total home-country receipts will change depending on the exchange rate at the time payment is made.

Because exchange rates can give a price advantage to producers, governments seek to manage exchange rates. This is done by using reserves to buy or sell foreign currencies. If reserves are not used, market supply and demand will decide the value of the currency. Countries can choose to *devalue* their currency purposefully to stimulate their economy's exports and limit imports. Devaluation means that more of their currency is now needed to buy the same amount of a foreign currency. In 1997, Asian countries devalued their currencies in an attempt to save their *fixed exchange-rate system*. However, the currencies were not devalued enough and the governments of these countries were no longer able to control the exchange rates at target prices. Countries that allow their exchange rates to trade freely are said to have a *floating exchange-rate system*. The currency value will be determined by demand and supply. The United States is an example of a country with a floating exchange rate.

Side Bar: Bunfight

Over the long term, price inflation is a good indicator of changes in exchange rates. If prices are up, the country's ability to compete on price will diminish, and the currency will have to depreciate to bring prices to par. One popular measure of price differentials in different countries is the Big Mac Index. In parts of China, for example, in 2010, a McDonald's Big Mac costs just 14.5 yuan on average, the equivalent of $2.18 at market exchange rates. In the United States, the same burger averages $3.71.

That makes China's yuan one of the most undervalued currencies in the Big Mac Index which is based on the idea of purchasing power parity; a currency's price should reflect the amount of goods and services it can buy. Since 14.5 yuan can buy as much hamburger as $3.71, a yuan should be worth $0.26 on the foreign-exchange market. However, in reality it costs $0.15, implying that it is undervalued by about 40 percent.[89]

Interest rates also exert pressure on exchange rates. Interest rates are the returns on various forms of capital. Governments often control interest rates through monetary policy to promote

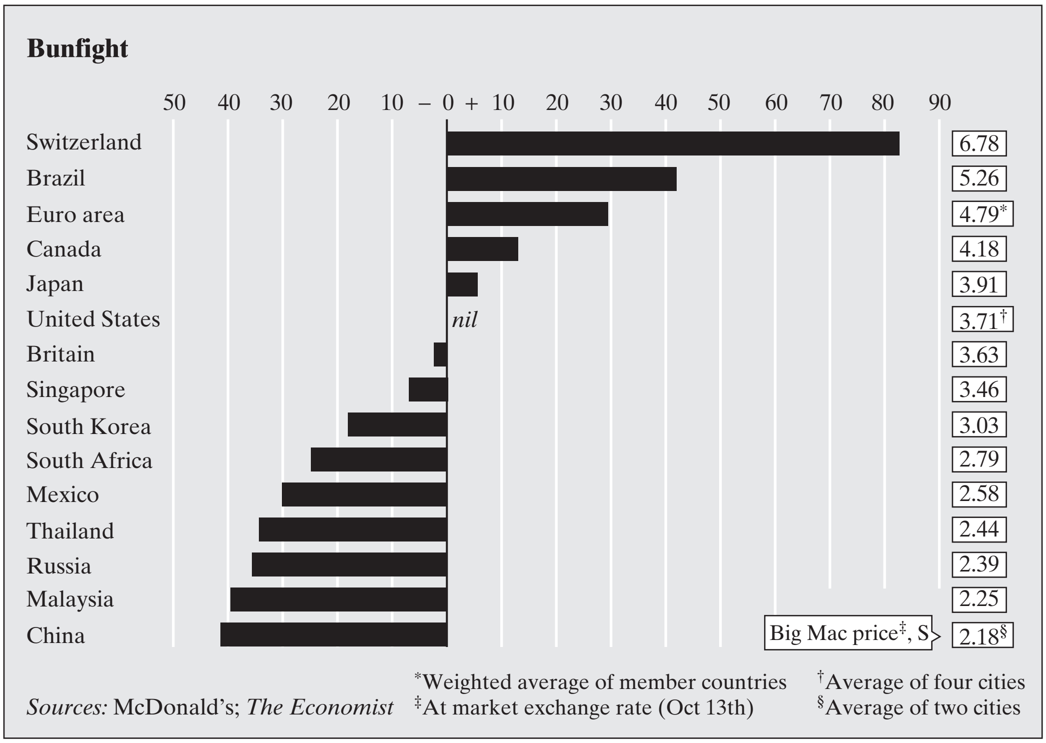

FIGURE 2-5 Big Mac Index: Local currency under (–)/Over (+) valuation against the dollar, in percent.
Source: http://www.economist.com/node/17275912

[89] For a list of all countries in the Index, see http://www.oanda.com/currency/big-mac-index.

economic growth. Capital seeks the highest return and will gravitate towards currencies that have the highest real interest rates. This will, in turn, put pressure on the currency to appreciate. Events such as wars, changes in economic policies, and political risks can also affect the attractiveness of a currency and, therefore, its value. These types of events typically increase the volatility of the currency, making it harder to predict.

If international marketers want to limit their exposure to fluctuations in exchange rates, a few options exist. (1) They can require payments to be made in dollars or, increasingly, in euros. This is typical in many contracts since dollars and euros are internationally major reserve currencies. (2) They can buy a forward contract, a contract available through a bank that guarantees the exchange rate at the time the transaction will take place. (3) They can buy an option, which is a derivative financial instrument that can give the purchaser the option to buy or sell a currency at a future point at a given price. (4) They can assume the exchange-rate risk and take the currency suggested by the international partner. Large multinational companies either hedge against exchange-rate risks or, if they are big and diversified geographically, often self insure. Smaller companies often rely on dollar-denominated or euro-denominated contracts because these currencies are perceived as stable.

DEGREES OF ECONOMIC COOPERATION

There are four degrees of economic cooperation and integration, as illustrated in Table 2-10.

A Free Trade Area

A free trade area (FTA) is a group of countries that has agreed to abolish all international barriers to trade among themselves. Countries that belong to a free trade area can and do maintain independent trade policies with countries outside of the free trade area. A system of certificates of origin is used to avoid trade diversion in favor of low-tariff members. The system discourages importing goods into the member country with the lowest tariff for shipment to countries within the area with higher external tariffs. The European Economic Area as well as the North American Free Trade Agreement (NAFTA) are FTAs.

A Customs Union

A customs union represents the logical evolution of an FTA where, in addition to eliminating the internal barriers to trade, members of a customs union agree to the establishment of common external barriers. Mercosur (Mercado Comun del Cono Sur), also known as the Southern Common Markets (SCCM), and the Andean Group are examples of customs unions.

TABLE 2-10 Degrees of International Economic Integration

Stage of Integration	Abolition of Tariffs and Quotas	Common Tariff and Quota System	Removal of Restrictions on Factor Movements	Harmonization of Economic, Social, and Regulatory Policies
Free trade area	Yes	No	No	No
Customs union	Yes	Yes	No	No
Common market	Yes	Yes	Yes	No
Economic union	Yes	Yes	Yes	Yes

A Common Market

A common market goes beyond the removal of internal barriers to trade and the establishment of common external barriers to the important next stage of eliminating the barriers to the flow of factors (labor and capital) within the market. It seeks to coordinate economic and social policy within the market to allow free flow of capital and labor from country to country. Thus, a common market creates an open market not only for goods but also for services and capital to support investment.

The full evolution of an economic union would involve the creation of a unified central bank, the use of a single currency, and common policies on agriculture, social services and welfare, regional development, transportation, taxation, competition, legal protections, and so on. Integration requires extensive political unity.

As seen from the descriptions given above, trade blocs have a range of reasons to protect the trade interests of their grouping:

1. To establish a form of regional control that promotes the interests of nations within that region
2. To facilitate regional security and political concerns
3. To promote South-South trade such as between Latin American or African countries
4. To establish tariffs that protect intraregional trade from outside forces
5. To promote economic and technical cooperation among developing countries in the region

In addition, trade blocs utilize several measures to restrain global competition:

1. Import quotas which limit the amount of imports into the country so that domestic consumers purchase products made by the countries in their immediate region
2. Customs delays by establishing bureaucratic formalities that slow down and sometimes curtail the ability for an imported product to enter the domestic market
3. Subsidies, which are government financial assistance to sectors of the home economy to enable them to be stronger competitors
4. Boycotts and technical barriers that restrain trade
5. Bribes and voluntary restraints to external trade[90]

A selection of the better known trade blocs include the following:

THE EU OTHERWISE KNOWN AS THE EUROPEAN UNION currently includes 27 countries on the European continent from Portugal to Romania, from east to west, and five candidate member states—Turkey, Serbia, Iceland, the Former Yugoslav Republic of Macedonia, and Montenegro.[91] In theory, economic development should be the main criteria for membership, however, in reality, political issues are involved as well. The EU has grown in size through the accession of new member states, now with close to 500 million consumers. It has facilitated a single economic market through standardized laws applying to products, goods, services, capital flows, and the movement of people throughout its member states, and maintains common trade as well as regional development policies. It has also formulated a role in foreign policy and represents its members in the WTO and other organizations as well as the United Nations. The euro, its common currency, has been adopted by 15 members. The EU operates in

[90] Regional Trade Blocs UC Atlas of Global Inequality at http://ucatlas.usc.edu/trade/subtheme_trade_blocs.php, accessed April 7, 2008.
[91] Along with Croatia as an acceding member. For an updated list of EU members see http://europa.eu/abc/european_countries/candidate_countries/index_en.htm.

part intergovernmentally as well as acting as a federal body in certain areas including finance and justice. Several important institutions have been created including the European Central Bank, the European Parliament, and the European Court of Justice.

THE ASIA-PACIFIC ECONOMIC COOPERATION OR APEC currently is made up of 21 member economies, which include Australia, Brunei Darussalam, Canada, Chile, China, Hong Kong (China), Indonesia, Japan, the Republic of Korea, Malaysia, Mexico, New Zealand, Papua New Guinea, Peru, the Philippines, the Russian Federation, Singapore, Taiwan (China), Thailand, the United States, and Vietnam, most with a coastline on the Pacific Ocean. India has requested membership and Mongolia, Pakistan, Laos, Colombia, and Ecuador along with Guam are among those seeking membership.

THE COMMONWEALTH OF INDEPENDENT STATES OR CIS is an international organization, or alliance, consisting of 11 former Soviet Republics: Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Russia, Tajikistan, Ukraine, and Uzbekistan. The creation of the Commonwealth of Independent States in 1991 signaled the dissolution of the Soviet Union. Its purpose was to "allow a civilized divorce" between the Soviet Republics. Since its formation, the member states of CIS have signed agreements addressing issues of integration and cooperation with respect to economics, defense, and foreign policy.

THE MERCOSUR OR MERCADO COMUN DEL CONO SUR ALSO KNOWN AS SOUTHERN COMMON MARKETS (SCCM) is a regional trade agreement with four member states—Brazil, Argentina, Uruguay, and Paraguay. Bolivia, Chile, Colombia, Ecuador, and Peru currently have associate member status, and Venezuela signed a membership agreement in 2006. SCCM was established in 1991 by the Treaty of Asunción, which was later amended and updated by the 1994 Treaty of Ouro Preto. Although seeking economic integration, the progress of Mercosur was weakened by the collapse of the Argentine economy in 2001. In light of continuing internal conflicts over trade policy, the status of integration remains uncertain. However, with more than 263 million consumers and a combined gross domestic product of its full member nations in excess of $2.78 (PPP adjusted) annually, it is the fifth largest economy in the world. In December 2004, it signed a cooperation agreement with the Andean Community trade bloc (CAN) and published a joint letter of intention for a future negotiation towards integrating all of South America.

THE NORTH AMERICAN FREE TRADE AGREEMENT OR NAFTA is a trade bloc created in 1994 with three members—Canada, Mexico, and the United States. It is supplemented by two additional agreements: the North American Agreement on Environmental Cooperation and the North American Agreement on Labor Cooperation. It remains the largest trade bloc based on the total GDP of its three members. NAFTA originally eliminated tariffs on products traded between and among the three members and subsequently reduced additional tariffs. The treaty is seen as trilateral in that its terms apply equally to all members except on certain tariff reductions and the protection of selected industries, which are negotiated on a bilateral basis. Further integration has been difficult as many issues remain outstanding, including environmental protections. In light of these, nonmember states often enter into separate bilateral trade agreements with each of the three member states.

THE ASEAN OR THE ASSOCIATION OF SOUTHEAST ASIAN NATIONS was established in 1967 in Bangkok by the five original Member Countries—Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Brunei Darussalam joined later in 1984, Vietnam in 1995, Lao PDR and Myanmar in 1997, and Cambodia in 1999. With a population in 2006 of about 560 million consumers, it has a combined gross domestic product of almost US$1.1 billion with total trade standing at about US$.1.4 billion. ASEAN's goals are to foster economic growth, social and cultural development among and between its member states, and to promote regional peace and stability. The ASEAN Free Trade Area of AFTA was created in 1992 with the aim of promoting the region's competitive advantage as a single production area with the elimination of tariff and nontariff barriers among the member countries. As of the beginning of 2005, most tariffs on products of six of the member countries were reduced.

As free trade agreements and foreign-trade zones develop as an important indicator of globalization and the economic interdependence between countries and across regions, global firms increasingly face decisions about where best to source and establish manufacturing. Companies need to optimize their understanding and knowledge of how best to utilize if not exploit FTAs and their regulatory, administrative, legal, and often judicial strategies for regional competitiveness in the global marketplace.[92]

Chapter Summary

The economic environment is a major determinant of global market potential and opportunity. Global marketers should factor into their marketing strategies the profound changes in the world economy and understand that global competition is now a feature of almost every national market. Centers of economic activity are shifting dramatically across the globe and across regions due to demographic changes, economic liberation, technological developments, and, over the next decade, an estimated one billion new consumers in emerging markets demanding products and services. Today, with the exception of North Korea, almost all countries have mixed economic systems with a major reliance on market allocation.

Countries can be categorized in terms of their stage of development: low income, lower-middle income, upper-middle income, and high income. It is possible to identify these distinct stages and formulate general estimates about the type of demand associated with a particular state of development. For many products, the single most important indicator of market potential is income; therefore, the first step in determining the potential of a country or region is to identify the total and per capita income levels. For products whose price is low enough, population may be just as important a variable as income in determining market potential and customer demand. State-dictated as well as democratically defined public policies help create and set market structures including tax, fiscal, and political agendas which are the basis for many government interventions. Such interventions set the stage for potential global business growth and expansion strategies and need to be carefully considered.

Market potential for a product can be evaluated by determining the product saturation levels in light of income levels. In general, it is appropriate to compare the saturation levels of countries or of consumer segments within countries or regions with similar income levels. Gross National Product or GNP per capita is the most widely accepted index for a country's financial success; however, purchasing power parity or PPP comparisons of income provide better measures of standard of living of residents in an economy. In addition, exchange rates tend to exaggerate differences in real income between countries at different stages of economic development, and balance-of-payments issues can also have economic impacts.

One of the ways of dealing with the complexity of a world with hundreds of national markets is to focus on economic cooperative agreements which seek to both manage and facilitate trade activities for identified regions. These agreements, of which the European Union with over 500 million consumers is the most successful example, have both economic as well as political implications. In the Asian-Pacific region, ASEAN typifies both the expansion and elimination of trade barriers in that region and throughout other regions of the world.

[92] "Global Sourcing Model Helps Companies Optimise Benefits from Free Trade Agreements," Knowledge@SMU Operations Management (November 3, 2007), accessed December 3, 2007, http://knowledge.smu.edu.sg/index.cfm?fa=printArticle&ID=1108.

Discussion Questions

1. What are the stages of national market development and what percentage of world income is found in each of the stages? Why is this information important to global marketers?
2. What are the major trends in the world economy in the first two decades of the twenty-first century? How do these trends impact global marketing decisions? Cite several subtrends that relate, in your opinion, to these major trends.
3. What is the pattern of income distribution in the world today? How is it different than even 10 years ago? What are the implications of these patterns of income distribution across the globe for the strategic marketer?
4. A manufacturer of an online gaming device is assessing the world market potential for her product. She asks you if she should consider emerging countries as potential markets. What advice would you give to her?
5. Are income and standard of living the same thing? What is meant by the term standard of living; how is this best measured and why?
6. Describe the importance of international trade alliances and economic cooperation agreements. In your view, are these beneficial to the global marketer? If so, why? If not, why not?
7. Interview several local business owners to determine their attitude toward world trade. Why, in your opinion, do they hold these attitudes and on what factual information or experience are they based?

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CHAPTER 3

The Political, Legal, and Regulatory Environments of Global Marketing

When you are at Rome live in the Roman style; when you are elsewhere live as they live elsewhere. Advice to St. Augustine

—St. Ambrose, AD 340–397

The global economy in which both managers and policymakers must now operate is not the neat, easily divisible sum of separate national economies. It has its own reality, its own rules, and its own logic.

—Kenichi Ohmae *The Next Global Stage* (2005)

Learning Objectives

1. Describe how the political environment affects global marketing decisions (76–80).
2. Discuss the functions of international law and the legal issues that affect global businesses (80–85).
3. Explain the significance of intellectual property rights, antitrust laws, and licensing agreements to global marketers (85–90).
4. Describe the nature of corruption in the global business environment (91–95).
5. Discuss the rising use of arbitration among international firms (95–98).
6. Explain the roles of regulatory agencies and trade agreements in international trade (98–100).

INTRODUCTION

While governments in many countries are studying environmental issues, particularly recycling, Germany already has a packaging ordinance that has shifted the cost burden for waste material disposal onto industry. The German government hopes the law, known as *Verpackungsverordnung,* will create a closed-loop economy. The goal is to force manufacturers to eliminate nonessential materials that cannot be recycled and adopt other innovative approaches to producing and packaging products. Despite the costs associated with compliance, industry appears to be making significant progress toward creating the closed-loop economy. Companies are developing new packaging that uses less material and includes more recycled content. More than 1,900 non-German companies are currently participating in the program.

The German packaging law is just one example of the impact that political, legal, and regulatory environments can have on marketing activities. Each of the world's national governments regulates trade and commerce with other countries and attempts to control the access of outside enterprises to national resources. Every country has its own unique legal and regulatory system that impacts the operations and activities of the global enterprise, including the global marketer's ability to address market opportunities. Laws and regulations constrain the cross-border movement of products, services, people, money, technology, and know-how. The global marketer must attempt to comply with each set of national—and in some instances, regional—constraints. These efforts are hampered by the fact that laws and regulations are frequently ambiguous and continually changing.

In this chapter, we consider the basic elements of the political, legal, and regulatory environments of global marketing, including current issues and some suggested approaches for dealing with those issues. Some specific topics, such as rules for exporting and importing industrial and consumer products, standards for health and safety, and regulations regarding packaging, labeling, advertising, promotion, and the Internet, are covered in later chapters devoted to individual marketing mix elements. Ethical issues are also discussed in this chapter.

THE POLITICAL ENVIRONMENT

Global marketing activities take place within the political environment of governmental institutions, political parties, and organizations through which a country's people and rulers exercise power. Any company doing business outside its home country should carefully study the government structure in the target country and analyze salient issues arising from the political environment. These include the governing party's attitude toward sovereignty, political risk, taxes, the threat of equity dilution, and expropriation.

Nation-States and Sovereignty

Sovereignty can be defined as supreme and independent political authority. A century ago, US Supreme Court Chief Justice Fuller said, "Every sovereign state is bound to respect the independence of every other sovereign state, and the courts in one country will not sit in judgment on the acts of government of another done within its territory." More recently, Richard Stanley offered the following concise description:

> A sovereign state was considered free and independent. It regulated trade, managed the flow of people into and out of its boundaries, and exercised undivided jurisdiction over all persons and property within its territory. It had the right, authority, and ability to conduct its domestic affairs without outside interference and to use its international power and influence with full discretion.[1]

Government actions taken in the name of sovereignty occur in the context of two important criteria: a country's stage of development and the political and economic system in place in the country.

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[1] See *Changing Concepts of Sovereignty: Can the United Nations Keep Pace?* (Muscatine, IA: The Stanley Foundation, 1992): 7.

Many governments in developing countries exercise control over their nation's economic development by passing protectionist laws and regulations. Their objective is to encourage economic development by protecting emerging or strategic industries. Conversely, when many nations reach advanced stages of economic development, their governments declare that (in theory, at least) any practice or policy that restrains free trade is illegal. Antitrust laws and regulations are established to promote fair competition. Advanced country laws often define and preserve a nation's social order; laws may extend to political, cultural, and even intellectual activities and social conduct. In France, for example, laws forbid the use of foreign words such as *le weekend* or *le marketing* in official documents.

Although, as noted in Chapter 2, most of the world's economies combine elements of command and market systems, the sovereign political power of a government in a predominantly command economy reaches quite far into the economic life of a country. By contrast, in a capitalist, market-oriented democracy, that power tends to be much more constrained. A current global phenomenon in both command and market structures is the trend toward privatization, that is, government actions designed to reduce direct governmental involvement in an economy as a supplier of goods and services. In essence, each act of privatization dilutes the command portion of a mixed economic system. The trend is clearly evident in Mexico, where, at one time, the government controlled over 1,000 parastatals. Most of them have been sold, including Mexican airlines, mines, banks, and other enterprises. Privatization in Mexico and elsewhere is evidence that national governments are changing how they exercise sovereign power.

Some observers believe global market integration is eroding national economic sovereignty. Economic consultant Neal Soss notes, "The ultimate resource of a government is power, and we've seen repeatedly that the willpower of governments can be overcome by persistent attacks from the marketplace."[2] Is this a disturbing trend? If the issue is framed in terms of marketing, the concept of the exchange comes to the fore: nations may be willing to give up sovereignty in return for something of value. If countries can increase their share of world trade and increase national income, perhaps they will be willing to cede some sovereignty. The European Union countries are giving up individual rights—to set their own product standards, for example—in exchange for improved market access.

Political Risk

Political risk—the risk of a change in government policy that would adversely impact a company's ability to operate effectively and profitably—can deter a company from investing abroad. When the perceived level of political risk is lower, a country is more likely to attract investment. The level of political risk is inversely proportional to a country's stage of economic development. All other things being equal, the less developed a country, the greater the political risk. The political risk of high-income countries, for example, is quite limited as compared with countries at earlier stages of development.

In 2011, the risk profile average for the world as measured by ECR (Euromoney Country Risk) was 44.56. The highest score in June of 2011 was Norway (92.44) and the lowest was Eritrea with 5.13 (the lower the score, the higher the risk). Russia scored 56, India and Indonesia scored 57, China 63, and Australia and New Zealand 85. Japan scored 74, South Korea 72.

In the Americas, the United States scored 82 versus 87 for Canada and 58 for Mexico; in South America, Brazil scored 62, Argentina 43, and Chile 74. These ratings are a combination of six categories: qualitative expert opinions (30%), economic

[2] Cited in Karen Pennar, "Is the Nation-State Obsolete in a Global Economy?" *Businessweek,* July 17, 1995, 80.

performance (30%), and four other measures. While these scores are subject to debate and discussion, most would agree that, in general, they do roughly reflect actual relative differences in levels of country risk.

Side Bar: National Controls Create Barriers for Global Marketing

Many countries attempt to exercise control over the transfers of goods, services, money, people, technology, and rights across their borders. Historically, an important control motive was economic: the goal was to generate revenue by levying tariffs and duties. Today, policymakers have additional motives for controlling cross-border flows, including protection of local industry and fostering the development of local enterprise. Such policies are known as protectionism or economic nationalism.

Differing economic and political goals and different value systems are the primary reasons for protectionism. Many barriers that were based on different political systems have come down with the end of the Cold War. However, barriers based on different value systems continue. The world's farmers—be they Japanese, European, or American—are committed to getting as much protection as possible from their respective governments. Because of the political influence of the farm lobby in every country, and in spite of the efforts of trade negotiators to open up agricultural markets, controls on trade in agricultural products continue to distort economic efficiency. Such controls work against the driving forces of economic integration. On the other hand, they do reflect the interests of the farm lobby in each country and, to some extent, the values of the wider population in each nation.

The price of protection can be very high for two basic reasons. The first is the cost to consumers: When foreign producers are presented with barriers rather than free access to a market, the result is higher prices for domestic consumers and a reduction in their standard of living. The second reason is the impact on the competitiveness of domestic companies. Companies that are protected from competition may lack the motivation to create and sustain world-class competitive advantage. One of the greatest stimuli to competitiveness is an open home market. When a company faces world competition, it must create and maintain sustainable competitive advantages in both home and global markets. Because of this, companies in open home markets have the advantage of incentives to compete while those in protected home markets are denied this incentive.

Taxes

It is not uncommon for a company to be incorporated in one place, do business in another, and maintain its corporate headquarters in a third. This type of diverse geographical activity requires special attention to tax laws. Many companies make efforts to minimize their tax liability by shifting the location of income. For example, it has been estimated that tax avoidance by foreign companies doing business in the United States costs the US government several billion dollars each year in lost revenue. In one approach, called *earnings stripping*, foreign companies reduce earnings by making loans to US affiliates rather than using direct investment to finance US activities. The US subsidiary can deduct the interest it pays on such loans, thereby reducing its tax burden.

There are no universal, international laws governing the levy of taxes on companies that do business across national boundaries. To provide fair treatment, many governments have negotiated bilateral tax treaties to provide tax credits for taxes paid abroad. The United States has dozens of such agreements in place. In 1977, the Organization for Economic Cooperation and Development (OECD) passed the Model Double Taxation Convention on Income and Capital to help guide countries in bilateral negotiations.

Generally, foreign companies are taxed by the host nation up to the level imposed in the home country, an approach that does not increase the total tax burden to the company.

Dilution of Equity Control[3]

Political pressure for national control of foreign-owned companies is a part of the environment of global business in lower-income countries. The foremost goal of national governance is to protect the right of national sovereignty, especially in all aspects of domestic business activity. Host-nation governments sometimes attempt to control ownership of foreign-owned companies operating within their borders. In underdeveloped countries, political pressures frequently cause companies to take in local partners.

Legislation that requires companies to dilute their equity is never popular in the boardroom, yet the consequences of such legislation are often surprisingly favorable. Dennis J. Encarnation and Sushil Vachani examined corporate responses to India's 1973 Foreign Exchange Regulation Act (FERA), which restricted foreign equity participation in local projects to 40 percent. The researchers identified four options available to companies faced with the threat of dilution:

- Follow the law to the letter. Colgate-Palmolive (India) took this course, became an Indian company, and maintained its dominant position in a growing market.
- Leave the country. This was IBM's response. After several years of negotiations, IBM concluded that it would lose more in shared control than it would gain from continued operations under the new rules.
- Negotiate under the law. Some companies used the equity dilution requirement to raise funds for growth and diversification. In most cases, this was done by issuing fresh equity to local investors. Ciba-Geigy increased its equity base 27 percent to $17.7 million, for example, and also negotiated an increase in production that doubled the sales of Hindustan Ciba-Geigy.
- Take preemptive action. Some foreign firms initiated defensive strategies well before FERA's passage. These included proactive diversification to take advantage of investment incentives, gradual "Indianization" of the company, and continuously updating technology and maintaining export sales.

Encarnation and Vachani's study offers some important lessons.

1. First, look at the range of possibilities. There is no single best solution, and each company should look at itself and at the country situation to decide on strategy.
2. Companies should use the law to achieve their own objectives. The experiences of many companies demonstrate that by satisfying government demands, it is possible to take advantage of government concessions, subsidies, and market protection.
3. Anticipate government policy changes. Create a win–win situation. Companies that take initiative are prepared to act when the opportunity arises. It takes time to implement changes; the sooner a company identifies possible government directions and initiatives, the sooner it will be in a position to propose its own plan to help the country achieve its objectives.
4. Listen to country managers. Country managers should be encouraged to anticipate government initiatives and to propose company strategy for taking advantage of opportunities created by government policy. Local managers often have the best understanding of the political environment. They may be in the best position to know when issues are arising and how to turn potential adversity into opportunity through creative responses.

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[3] This section is based on Dennis J. Encarnation and Sushil Vachani, "Foreign Ownership: When Hosts Change the Rules," *Harvard Business Review* (September–October 1985): 152–160.

The threat of equity dilution has caused some companies to operate in host nations via joint ventures or strategic alliances. These alternatives create special legal problems. There should be clauses in the joint venture or alliance agreement regarding its subsequent dissolution, as well as for the ownership of patents, trademarks, or technology realized from the joint effort. The agreement should also include clauses related to cross-licensing of intellectual property rights developed under joint operations.

Expropriation

The ultimate threat a government can pose toward a company is expropriation. Expropriation refers to governmental action to dispossess a company or investor. Compensation is generally provided to foreign investors, although not often in the "prompt, effective, and adequate" manner provided for by international standard. Nationalization occurs if ownership of the property or assets in question is transferred to the host government. If no compensation is provided, the action is referred to as confiscation.

Short of outright expropriation or nationalization, the phrase *creeping expropriation* has been applied to severe limitations on economic activities of foreign firms in certain developing countries. These have included limitations on repatriation of profits, dividends, royalties, or technical assistance fees from local investments or technology arrangements. Other issues are increased local content requirements, quotas for hiring local nationals, price controls, and other restrictions affecting return on investment. Global companies have also suffered discriminatory tariffs and nontariff barriers that limit market entry of certain industrial and consumer goods, as well as discriminatory laws on patents and trademarks. Intellectual property restrictions have had the practical effect of eliminating or drastically reducing protection of pharmaceutical products.

When governments expropriate foreign property, there are impediments to action to reclaim that property. For example, according to the US Act of State Doctrine, if the government of a foreign state is involved in a specific act, a US court will not get involved. Representatives of expropriated companies may seek recourse through arbitration at the World Bank Investment Dispute Settlement Center (International Centre for Settlement of Investment Disputes, or ICSID). It is also possible to buy expropriation insurance, either from a private company or the US government's Overseas Private Investment Corporation (OPIC). The expropriation of copper companies operating in Chile in 1970 and 1971 shows the impact that companies can have on their own fate. Companies that strenuously resisted government efforts to introduce home-country nationals into the company management were expropriated outright; other companies that made genuine efforts to follow Chilean guidelines were allowed to remain under joint Chilean–US management.

INTERNATIONAL LAW

International law may be defined as the rules and principles that nation-states consider binding upon themselves. There are two categories of international law: public law, or the law of nations, and international commercial law, which is evolving. International law pertains to trade and other areas that have traditionally been under the jurisdiction of individual nations.

The roots of modern international law can be traced back to the early Middle Ages in Europe and later to the seventeenth-century Peace of Westphalia. Early international law was concerned with waging war, establishing peace, and other political issues such as diplomatic recognition of new national entities and governments. Elaborate international rules gradually emerged—covering, for example, the status of neutral nations. The creation of laws governing commerce developed on a state-by-state basis, evolving into what is termed the *law of the merchant.* International law still has the function of upholding order, although in a broader sense than dealing with problems arising from war. At first, international law was essentially an amalgam of treaties, covenants, codes, and agreements. As trade grew among nations, order in commercial affairs assumed increasing importance. Whereas the law had originally dealt only with nations as entities, a growing body of law rejected the idea that only states can be subject to international law.

Paralleling the expanding body of international case law in the twentieth century, new international judiciary organizations have contributed to the creation of an established rule of international law. These include the Permanent Court of International Justice (1920–1945); the International Court of Justice (ICJ), the judicial arm of the United Nations established by article 7 of the United Nations Charter in 1946; and the International Law Commission, established by the United States in 1947. Disputes arising between nations are issues of public international law, and they may be taken before the ICJ located in The Hague, often referred to as the World Court. Article 38 of the ICJ Statute identifies recognized sources of public international law. As described in the supplemental documents to the United Nations Charter, article 38 of the ICJ Statute defines sources of international law.

> The Court, whose function is to decide in accordance with international law such disputes as are submitted to it, shall apply:
>
> a. international conventions, whether general or particular, establishing rules expressly recognized by the contesting states;
> b. international custom, as evidence of a general practice accepted as law;
> c. the general principles of law recognized by civilized nations;
> d. subject to the provisions of Article 59, judicial decisions and the teachings of the most highly qualified publicists of the various nations, as subsidiary means for the determination of rules of law.

What happens if a nation has allowed a case against it to be brought before the ICJ and then refuses to accept a judgment against it? The plaintiff nation can seek recourse through the UN's highest political arm, the United Nations Security Council, which can use its full range of powers to enforce the judgment.

Common Versus Code Law

Private international law is the body of law that applies to interpretations of and disputes arising from commercial transactions between companies of different nations. As noted earlier in the chapter, laws governing commerce emerged gradually. Forty-nine of the 50 states of the United States, nine of Canada's 10 provinces, and other former English colonies (Australia; New Zealand; India; Hong Kong; the English-speaking former African colonies, for example, with a colonial history) founded their systems on common law. Historically, much of continental Europe was influenced by Roman law and, later, the Napoleonic Code. Asian countries are split: India, Pakistan, Malaysia, Singapore—all former British colonies—are common-law jurisdictions. Japan, Korea, Thailand, Indochina, Indonesia, and China are civil-law jurisdictions. Today, the majority of countries have legal systems based on civil-code traditions, although an increasing number of countries are blending concepts, and hybrid systems are emerging. Despite the differences in systems, three distinct forms of laws are common to all nations. Statutory law is codified at the national, federal, or state level; administrative law originates in regulatory bodies and local communities; and case law is the product of the court system.

Under civil or code law, the judicial system is divided into civil, commercial, and criminal law. Thus, commercial law has its own administrative structure. Property rights, for example, are established by a formal registration of the property in commercial courts. Code law uses codified, written norms, which are complemented by court decisions. Common law, on the other hand, is established by tradition and precedents, which are rulings from previous cases; until recently, commercial law was not recognized as a special entity. Differences include the definition of acts of God; under common law, this phrase can refer only to floods, storms, and other acts of nature unless expanded by contract. In code-law countries, an "unavoidable interference with performance" can be considered an act of God. In code-law countries, intellectual property rights must be registered, whereas in common-law countries, some—such as trademarks but not patents—are established by prior use.

A significant recent development is the Uniform Commercial Code (UCC), fully adopted by 49 US states, which codifies a body of specifically designed rules covering commercial conduct. (Louisiana has adopted parts of the UCC, but its laws are still heavily influenced by French civil code.) The host country's legal system—that is, common or civil law—directly affects the form a legal business entity will take. In common-law countries, companies are granted the ability to operate by public authority. In civil-law countries, companies are formed by contract between two or more parties who are fully liable for the actions of the company.

SIDESTEPPING LEGAL PROBLEMS: IMPORTANT BUSINESS ISSUES

Clearly, the global legal environment is very dynamic and complex. Therefore, the best course to follow is to get expert legal help. However, the astute, proactive global marketer can do a great deal to prevent conflicts from arising in the first place, especially concerning issues such as establishment, jurisdiction, patents and trademarks, antitrust, licensing and trade secrets, and bribery.

The services of counsel are essential for addressing these and other legal issues. The importance of international law firms is growing as national firms realize that to properly serve their clients they must have a presence in overseas jurisdictions. As in many industries, global consolidation is increasing among international law firms. One forecast is that within a decade, only 5 to 10 global law firms will exist. Table 3-1 shows the top 10 law firms in the world and the percentage of lawyers outside the home country.

TABLE 3-1 The World's Largest Law Firms by 2010 Revenue[4]

Rank	Name	Revenue	Headquarters
1 ▲	Baker & McKenzie	$2,104.0m	USA (Chicago, IL)
2 ▲	Skadden, Arps, Slate, Meagher & Flom	$2,100.0m	USA (New York, NY)
3 —	Clifford Chance	$1,874.5m	UK (London)
4 ▼	Linklaters	$1,852.5m	UK (London)
5 ▲	Latham & Watkins	$1,821.0m	USA (New York)
6 ▼	Freshfields Bruckhaus Deringer	$1,787.0m	UK (London)
7 ▼	Allen & Overy	$1,644.5m	UK (London)
8 —	Jones Day	$1,520.0m	USA (Washington, DC)
9 ▲	Kirkland & Ellis	$1,428.0m	USA (Chicago)
10 ▼	Sidley Austin	$1,357.0m	USA (Chicago)

[4]Data source: http://en.wikipedia.org/wiki/List_of_100_largest_law_firms_by_revenue. (taken from American Lawyer, a publication of ALM at http://www.americanlawyer.com/current_issue.jsp

Establishment

Under what conditions can trade be established? To transact business, citizens of one country must be assured that they will be treated fairly in another country. In Western Europe, for example, the creation of the Single Market now assures that citizens from member nations get fair treatment with regard to business and economic activities carried out within the Common Market. The formulation of the governance rules for trade, business, and economic activities in the EU will provide additional substance to international law.

Side Bar: The Multilateral Agreement on Investment[5]

In 1995, the OECD began talks on a new initiative known as the Multilateral Agreement on Investment (MAI) that would set rules for foreign investment and provide a forum for dispute settlement. In some countries, so-called performance requirements favor local investors over foreigners. For example, foreign companies may be required to obtain some goods and services from local companies rather than the home office. Performance requirements can also take the form of stipulations that a certain number of senior managers must be local nationals or that the foreign company must export a set percentage of its production.

The existence of the MAI negotiations remained largely unknown to the general public until a Canadian consumer rights group obtained the text of MAI and posted it on the Internet. In fact, a large number of consumer and environmental action groups joined in opposition to the agreement. As Mark A. Vallianatos, an international policy analyst at Friends of the Earth, explained:

> Our fear is that MAI will give multinational corporations the opportunity to treat the whole world as their raw pool of natural resources and labor and consumer markets. It may allow them to do everything based on profit motives without environmental considerations providing sensible limits on how they operate. MAI gives new rights to corporations without addressing their responsibilities to workers and the environment. An MAI that is worth doing should deal with how investments will affect sustainable development, how they will affect workers' rights, and how they will affect excessive resource extraction—those kinds of issues.

Some industry experts downplay MAI's potential to contribute to environmental degradation. R. Garrity Baker, senior director at the Chemical Manufacturers Association, says, "When foreign companies that have better environmental performance come in and invest in a market [they] bring that know-how with them, then over time that know-how kind of trickles down to other companies. Foreign companies set an example that others can learn from." MAI supporters also point out that the agreement allows countries to adopt any measure deemed appropriate to ensure investment is undertaken in a manner that reflects sensitivity to environmental issues. Several years after its introduction, prospects for MAI approval in the United States were clouded by disagreements between key Washington agencies that might be affected by the agreement's provisions. The US State Department and Commerce Department are generally supportive, but the Environmental Protection Agency, the US Agency for International Development, and the Justice Department are concerned that MAI will lead to a rash of lawsuits against the United States. At the state level, a number of governors felt that MAI would impinge on state sovereignty. In February 2002, OECD released a large quantity of documents relating to the negotiations. These can be viewed at http://www1.oecd.org/daf/mai/toc.htm

[5] Bette Hileman, "A Globalization Conundrum," *Chemical & Engineering News,* 20 (April 1998): 45; "Bye-bye, MAI?" *Financial Times,* February 19, 1998, 13.

The United States has signed treaties of friendship, commerce, and navigation with more than 40 countries. These agreements provide US citizens the right to nondiscriminatory treatment in trade, the reciprocal right to establish a business, and, particularly, to invest. Commercial treaties provide one with the privilege, not the right, to engage in business activities in other than one's own country. This can create problems for business managers who may still be under the jurisdiction of their own laws even when they are out of their native country. US citizens, for example, are forbidden by the Foreign Corrupt Practices Act to give bribes to an official of a foreign government or political party, even if bribes are customary for conducting business in that country.

Jurisdiction

Company personnel working abroad should understand the extent to which they are subject to the jurisdiction of host-country courts. Employees of foreign companies working in the United States must understand that courts have jurisdiction to the extent that the company can be demonstrated to be doing business in the state in which the court sits. The court may examine whether the foreign company maintains an office, solicits business, maintains bank accounts or other property, or has agents or other employees in the state in question. In a demonstrative case, Revlon Inc. sued United Overseas Ltd. (UOL), in the US District Court for the Southern District of New York. Revlon charged the British company with breach of contract, contending that UOL failed to purchase some specialty shampoos as agreed. UOL, claiming lack of jurisdiction, asked the court to dismiss the complaint. Revlon countered with the argument that UOL was, in fact, subject to the court's jurisdiction; Revlon cited the presence of a UOL sign above the entrance to the offices of a New York company in which UOL had a 50 percent ownership interest. The court denied UOL's motion to dismiss.[6]

Normally, all economic activity within a nation is governed by that nation's laws. When a transaction crosses boundaries, which nation's laws apply? If the national laws of country Q pertaining to a simple export transaction differ from those of country P, which country's laws apply to the export contract? Which apply to the letter of credit opened to finance the export transaction? The parties involved must reach agreement on such issues, and the nation whose laws apply should be specified in a jurisdictional clause. There are several alternatives from which to choose: the laws of the domicile or principal place of business of one of the parties, the place where the contract was entered, or the place of performance of the contract. If a dispute arises under such a contract, it must be heard and determined by a neutral party such as a court or an arbitration panel. If the parties fail to specify which nation's laws apply, a fairly complex set of rules governing the "conflict of laws" will be applied by the court or arbitration tribunal. Sometimes, the result will be determined with the help of "the scales of justice," with each party's criteria stacked on different sides of the scale.[7]

Intellectual Property: Patents and Trademarks

Patents and trademarks that are protected in one country are not necessarily protected in another, so global marketers must ensure that patents and trademarks are registered in each country where business is conducted. In the United States, where patents, trademarks, and copyrights are registered with the Federal Patent Office, the patent holder retains all rights for the life of the patent even if the product is not produced or

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[6] Joseph Ortego and Josh Kardisch, "Foreign Companies Can Limit the Risk of Being Subject to U.S. Courts," *The National Law Journal,* 17, no. 3 (19 September 1994): C2.

[7] For a more extensive development of this point, see Robert J. Radway, "Legal Dimensions of International Business," in *International Encyclopedia of Business and Management*, Malcolm Warner, ed. (London: Thomson, 1996).

sold. Patent and trademark protection in the United States is very good, and American law relies on the precedent of previously decided court cases for guidance.

Companies sometimes find ways to exploit loopholes or other unique opportunities offered by patent and trademark laws in individual nations. In France, designer Yves Saint Laurent was barred from marketing a new luxury perfume called Champagne because French laws allow the name to be applied only to sparkling wines produced in the Champagne region. Saint Laurent proceeded to launch Champagne in the United States, England, Germany, and Belgium; "Champagne" and other geographic names are not protected trademarks in the United States. In France, the perfume is sold without a name.[8]

Trademark and copyright infringement is a critical problem in global marketing and one that can take a variety of forms. *Counterfeiting* is the unauthorized copying and production of a product. An *associative counterfeit*, or imitation, uses a product name that differs slightly from a well-known brand but is close enough that consumers will associate it with the genuine product. A third type of counterfeiting is *piracy*, the unauthorized publication or reproduction of copyrighted work. Piracy is particularly damaging to the entertainment and software industries; computer programs, videotapes, cassettes, and compact discs are particularly easy to duplicate illegally. Figure 3-1 shows the percentage of pirated software in select countries. Pirating cost the software industry an estimated $51 billion in 2009.

Side Bar: Software Piracy[9]

In Lebanon, one of the largest retailers of software sells the original Microsoft Office 97 Professional for $200, but it also sells the pirated version for $7. Selling pirated versions is rationalized for the following reasons: (1) Given a per capita GNP of approximately $3,000, the $7 version is certainly more affordable. (2) Islam religion says that no one can own science. Since the software is considered science, it should belong to everyone. (3) Dealers question, given the cost of production, the large price difference. "We know how much profit Microsoft is making." (4) Is the government going to enforce trademark law and, if so, how vigorously?

International Trademark Filings

A record 39,945 international trademark applications were received in 2007 by the World Intellectual Property Organization (WIPO) under the Madrid system for the international registration of trademarks, representing a 9.5 percent increase on figures for 2006. The largest share of trademark applications received by WIPO in 2007 was filed by companies in Germany (6,090 applications or 15.2% of the total). These were followed by companies in France, which accounted for 3,930 applications or 9.8 percent of the total. Users in the United States ranked third with 3,741 applications, or 9.4 percent of the total, only four years after the United States joined the Madrid system. Those filing their international applications through the EC's regional Trademark Office (OHIM) were fourth, only three years after the EC acceded (with 3,371 applications or 8.4% of the total). They were followed by Italy (2,664 or 6.7%), Switzerland (2,657 or 6.7%), Benelux (2,510 or 6.3%), China (1,444 or 3.6%), the United Kingdom (1,178 or 2.9%), and Australia (1,169 or 2.9%).

[8] Karla Vermeulen, "Champagne Perfume Launched in United States but Barred in France," *Wine Spectator* (October 31, 1994): 9.
[9] James Schofield, "Beating Software Piracy Proves to Be No Soft Touch," *Financial Times,* April 1, 1999, 7.

FIGURE 3-1 "Software piracy rate by country and region", Fifth Annual BSA and IDC Global Software Piracy Study

Rank	Countries and Regions	Amount	Rank	Countries and Regions	Amount
1	Armenia	93%	40	Peru	71%
2	Moldova	92%	41	Uruguay	69%
2	Bangladesh	92%	41	Philippines	69%
2	Azerbaijan	92%	41	India	69%
5	Zimbabwe	91%	44	Romania	68%
6	Sri Lanka	90%	44	Macedonia, Republic of	68%
7	Yemen	89%	44	Bulgaria	68%
8	Libya	88%	44	Bosnia and Herzegovina	68%
9	Venezuela	87%	48	Morocco	67%
10	Vietnam	85%	49	Ecuador	66%
10	Iraq	85%	49	Chile	66%
12	Pakistan	84%	51	Turkey	65%
12	Indonesia	84%	52	Kuwait	62%
12	Cameroon	84%	53	Oman	61%
12	Algeria	84%	53	Mexico	61%
16	Ukraine	83%	53	Costa Rica	61%
17	Zambia	82%	56	Jordan	60%
17	Paraguay	82%	56	Egypt	60%
17	Nigeria	82%	58	Malaysia	59%
17	China	82%	58	Brazil	59%
17	Botswana	82%	60	Greece	58%
17	Bolivia	82%	60	Colombia	58%
23	Kenya	81%	62	Poland	57%
23	El Salvador	81%	62	Mauritius	57%
23	Côte d'Ivoire	81%	62	Bahrain	57%
26	Senegal	80%	65	Lithuania	56%
26	Nicaragua	80%	65	Latvia	56%
26	Guatemala	80%	67	Qatar	54%
29	Kazakhstan	79%	67	Croatia	54%
29	Dominican Republic	79%	69	Saudi Arabia	51%
31	Thailand	78%	69	Hong Kong SAR	51%
31	Albania	78%	69	Estonia	51%
33	Tunisia	76%	72	Cyprus	50%
33	Serbia and Montenegro	76%	73	Italy	49%
35	Panama	74%	74	Slovenia	48%
35	Honduras	74%	74	Iceland	48%
35	Argentina	74%	76	Malta	46%
38	Russia	73%	77	Slovakia	45%
38	Lebanon	73%			

FIGURE 3-1 Continued

Rank	Countries and Regions	Amount	Rank	Countries and Regions	Amount
78	Puerto Rico	44%	93	Norway	29%
79	Spain	43%	94	Netherlands	28%
79	Portugal	43%	94	Australia	28%
79	Korea, South	43%	96	Germany	27%
82	Hungary	42%	97	United Kingdom	26%
82	France	42%	98	Switzerland	25%
84	Taiwan, China	40%	98	Sweden	25%
84	Réunion	40%	98	Finland	25%
86	Czech Republic	39%	98	Denmark	25%
87	Singapore	37%	98	Belgium	25%
88	United Arab Emirates	35%	98	Austria	25%
89	South Africa	34%	104	Japan	23%
89	Ireland	34%	105	New Zealand	22%
91	Canada	33%	106	Luxembourg	21%
92	Israel	32%	107	United States	20%

Source: Retrieved from http://www.NationMaster.com/graph/cri_sof_pir_rat-crime-software-piracy-rate.

China remained the most designated country in international trademark applications, reflecting increasing levels of trading activity by foreign companies in China.

WIPO Director General Dr. Kamil Idris welcomed the growing use of the "Madrid system," a user-friendly and cost-effective service that enables individuals and companies to acquire and maintain trademark protection in export markets. "The Madrid system has earned the trust and confidence of the business community as a reliable option for brands seeking export markets," he said. As Dr. Idris pointed out,

> Brand value is one of the most important assets that a business holds. From a legal perspective, brand creation and management translates into trademark protection. Trademarks are a key means by which businesses are able to add value to their day-to-day commercial operations and thereby secure their long-term financial viability. WIPO will continue to enhance its services to the private sector to enable companies to obtain and maintain trademark protection in a timely and cost-effective way.

Since October 2004, applicants from the EC have the option to file their international applications either through their national trademark office or through the EC's regional trademark office (OHIM). In 2007, the third full year of the EU's membership in the Madrid system, the number of international applications filed by applicants from the EC through OHIM rose by 37.9 percent. The 27 countries of the European Union (EU) together accounted for 26,026 applications in 2007. These figures include both the international applications filed through the national trademark offices of the countries concerned and those filed through OHIM (3,371).

A number of countries experienced significant growth in the number of international trademark filings in 2007. The United States, for instance, enjoyed an 18.8 percent increase, enabling it to strengthen its 3rd position in the ranking of top filer countries. Other countries included the United Kingdom (+11.8%) now ranking 9th (previously

11th), Japan (+16.2%) now ranking 12th (formerly 13th), Russian Federation (+42.9%) now 13th (formerly 15th), Denmark (+19.6%) now 16th (formerly 17th), Sweden (+19.5%) now 18th (formerly 19th), and Hungary (+101.8%) now 19th (formerly 25th).

Developing countries accounted for 2,108 filings in 2007, representing 5.3 percent of total filings and a 10.5 percent growth over 2006. The developing country that witnessed the most significant growth in international trademark filings in 2007 was the Republic of Korea with 330 applications (+73.7%).[10]

In the United States, trademarks are covered by the Trademark Act of 1946, also known as the Lanham Act. President Reagan signed the Trademark Law Revision Act into law in November 1988. The law makes it easier for companies to register new trademarks; as a result, the number of filings has increased dramatically. Table 3-2 shows the increase in foreign trademark filings in the United States for the decade starting 1988. There were 385,00 total filings and 225,00 registrations in the United States in the 2011 fiscal year.

Visit the WebSites

Visit www.uspto.gov for US information.

Visit www.european-patent-office.org for information about Europe.

Antitrust

Antitrust laws are designed to combat restrictive business practices and to encourage competition. American antitrust laws are a legacy of the nineteenth-century US trust-busting era and are intended to maintain free competition by limiting the concentration of economic power. The Sherman Act of 1890 prohibits certain restrictive business practices, including fixing prices, limiting production, allocating markets, or any other scheme designed to limit or avoid competition. The law applies to foreign companies conducting business in the United States and extends to the activities of US companies outside US boundaries as well, if the company conduct is deemed to have an effect on US commerce contrary to law. Similar laws are taking on increasing importance outside of the United States.

TABLE 3-2 Foreign Company Trademark Filings in the United States for Selected Economies[11]

Country / Region	1988	1998
Belgium	111	246
Britain	1,392	2,619
Canada	2,447	4,894
Germany	1,400	2,984
Hong Kong SAR, China	168	396
Israel	45	438
Japan	1,010	2,231
Mexico	126	693
South Korea	131	372
Total	6,830	14,873

[10] http://www.wipo.int/pressroom/en/articles/2008/article_0007.html
[11] US Patent and Trademark Office.

The European Commission prohibits agreements and practices that prevent, restrict, and distort competition. The interstate trade clause of the Treaty of Rome applies to trade with third countries, so a company must be aware of the conduct of its affiliates. The commission also exempts certain cartels from articles 85 and 86 of the treaty in an effort to encourage the growth of important businesses. The intent is to allow European companies to compete on an equal footing with Japanese and US companies.

In some instances, individual country laws in Europe apply to specific marketing mix elements. For example, some countries permit selective or exclusive product distribution. However, community law can take precedence. In one case, Consten, a French company, had exclusive French rights to import and distribute consumer electronics products from the German Grundig Company. Consten sued another French firm, charging the latter with bringing parallel imports into France illegally. That is, Consten charged that the competitor bought Grundig products from various foreign suppliers without Consten's knowledge and was selling them in France. Although Consten's complaint was upheld by two French courts, the Paris court of appeals suspended the judgment, pending a ruling by the European Commission on whether the Grundig–Consten arrangement violated articles 85 and 86. The commission ruled against Consten on the grounds that "territorial protection proved to be particularly damaging to the realization of the Common Market."[12] The principle being offended was that of the free flow of goods defined in articles 24 to 30 of the Treaty of Rome.

Licensing and Trade Secrets

Licensing is a contractual agreement in which a licensor allows a licensee to use patents, trademarks, trade secrets, technology, or other intangible assets in return for royalty payments or other forms of compensation (see Chapter 8 for a discussion of licensing as a marketing strategy). In the United States, laws do not regulate the licensing process per se as do technology transfer laws in the EU, Australia, Japan, and many developing countries. The duration of the licensing agreement and the amount of royalties a company can receive are considered a matter of commercial negotiation between licensor and licensee, and there are no government restrictions on remittances of royalties abroad. In many countries, these elements of licensing are regulated by government agencies.

Important considerations in licensing include analysis of what assets a firm may offer for license, how to price the assets, and whether to grant only the right to make the product or to grant the rights to use and to sell the product as well. The right to sublicense is another important issue. As with distribution agreements, decisions must also be made regarding exclusive or nonexclusive arrangements and the size of the licensee's territory.

To prevent the licensee from using the licensed technology to compete directly with the licensor, the latter may try to limit the licensee to selling only in its home country. The licensor may also seek to contractually bind the licensee to discontinue use of the technology after the contract has expired. In practice, host government laws, including US and EU antitrust laws, may make such agreements impossible to obtain. Licensing is a potentially dangerous action: it may be instrumental in creating a competitor. Therefore, licensors should be careful to ensure that their own competitive position remains advantageous. This requires constant innovation. There is a simple rule: if you are licensing technology and know-how that are going to remain unchanged, it is only a matter of time before your licensee will become your competitor, not merely

[12] Detlev Vagts, *Transnational Business Problems* (Mineola, NY: The Foundation Press, 1986).

with your technology and know-how but with improvements on that technology and know-how. When this happens, you are history.

As noted, licensing agreements can come under antitrust scrutiny. In one recent case, Bayer AG granted an exclusive patent license for a new household insecticide to S. C. Johnson & Sons. The German firm's decision to license was based in part on the time required for Environmental Protection Agency (EPA) approval, which had stretched to three years. Bayer decided it made better business sense to let the American firm deal with regulatory authorities in return for a 5 percent royalty on sales. However, a class action suit was filed against the companies, alleging that the licensing deal would allow Johnson to monopolize the $450 million home insecticide market. Then the US Justice Department stepped in, calling the licensing agreement anticompetitive. In a statement, Anne Bingaman, head of the Justice Department's antitrust unit, said, "The cozy arrangement that Bayer and Johnson maintained is unacceptable in a highly concentrated market." Bayer agreed to offer licenses to any interested company on better terms than the original contract with Johnson. Johnson agreed to notify the US government of any future pending exclusive licensing agreements for household insecticides. If Bayer is party to any such agreements, the Justice Department has the right to veto them. Not surprisingly, the reaction from the legal community has been negative. One Washington lawyer who specializes in intellectual property law noted that the case "really attacks traditional licensing practices." As Melvin Jager, president of the Licensing Executives Society, explained, "An exclusive license is a very valuable tool to promote intellectual property and get it out into the marketplace."[13]

What happens if a licensee gains knowledge of the licensor's trade secrets? Trade secrets are confidential information or knowledge that has commercial value, is not in the public domain, and for which steps have been taken to keep secret. Trade secrets include manufacturing processes, formulas, designs, and customer lists. To prevent disclosure, the licensing of unpatented trade secrets should be linked to confidentiality contracts with each employee who has access to the protected information. In the United States, trade secrets are protected by state law rather than federal statute; most states have adopted the Uniform Trade Secrets Act (UTSA). US law provides trade secret liability against third parties that obtain confidential information through an intermediary. Remedies include damages and other forms of relief.

The 1990s saw widespread improvements in laws pertaining to trade secrets. Several countries adopted trade secret statutes for the first time. Mexico's first statute protecting trade secrets became effective in 1991; China's first trade secret law took effect in 1993. In both countries, the new laws were part of broader revisions of intellectual property laws. Japan and South Korea also amended their intellectual property laws to include trade secrets. Many countries in Central and Eastern Europe have also enacted laws to protect trade secrets. When the North American Free Trade Agreement (NAFTA) became effective in 1994, it marked the first international trade agreement with provisions for protecting trade secrets. This milestone was quickly followed by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs) that resulted from the Uruguay Round of GATT negotiations. The TRIPs agreement requires signatory countries to protect against acquisition, disclosure, or use of trade secrets "in a manner contrary to honest commercial practices."[14] Despite these formal legal developments, in practice, enforcement is the key issue. Companies transferring trade secrets across borders should apprise themselves not only of the existence of legal protection but also of the risks associated with lax enforcement.

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[13] Brigid McMenamin, "Eroding Patent Rights," *Forbes,* October 24, 1994, 92.

[14] Salem M. Katsh and Michael P. Dierks, "Globally, Trade Secrets Laws Are All over the Map," *The National Law Journal,* 17, no. 36 (May 8, 1995): C12.

BRIBERY AND CORRUPTION[15]

History does not record a burst of international outrage when Charles M. Schwab presented a $200,000 diamond and pearl necklace to the mistress of Czar Alexander's nephew. In return for that consideration, Bethlehem Steel won the contract to supply the rails for the trans-Siberian railroad. Today, in the post-Soviet era, Western companies are again being lured by emerging opportunities in Eastern Europe. Here, as in the Middle East and other parts of the world, they are finding that bribery is a way of life and that corruption is widespread. American companies in particular are constrained in their responses to such a situation by US government policies of the post-Watergate age.

Corruption is defined as "the misuse of entrusted power for private gain"[16] and has existed throughout recorded history and in virtually every corner of the globe. "Corruption is an outcome—a reflection of a country's political, economic, legal, and cultural institutions."[17] Corporate scandals, like those that occurred at Enron, Worldcom, and Parmalat, have demonstrated that corruption is indeed a global phenomenon which takes place in countries with developed and developing economies alike. Expansion of the global business environment and intensification of international trade have increased transnational corporations' exposure to the risk of corruption. Empirical studies have demonstrated that increased global business linkages have been accompanied by growth in the level of corruption.[18]

When companies operate abroad in the absence of home-country legal constraints, they face a continuum of choices concerning company ethics. At one extreme, they can maintain home-country ethics worldwide with absolutely no adjustment or adaptation to local practice. At the other extreme, they can abandon any attempt to maintain company ethics and adapt entirely to local conditions and circumstances as they are perceived by company managers in each local environment. Between these extremes, one approach that companies may select is to utilize varying degrees of extension of home-country ethics. Alternatively, they may adapt in varying degrees to local customs and practices.

The existence of bribery as a fact of life in world markets may not change overnight because it is condemned by governments. What should a company do if competitors are offering a bribe? Three alternative courses of action are possible. One is to ignore bribery and act as if it does not exist. Another is to recognize the existence of bribery and evaluate its effect on the customer's purchase decision as if it were just another element of the marketing mix. A third is to inform the competitor that you intend to file bribery charges in his or her home country.

Complex relationships that exist among a global corporation and its suppliers, subcontractors, joint venture partners, and customers provide significant challenges to those in management responsible for corporate governance. The increasing role of the world's governments in the economies of their respective nations has resulted in higher levels of taxation, large increases in public spending, and more regulation of and controls on economic activities.[19] Given ever more competitive business conditions, transnational corporations are more likely to seek special treatment or other

[15] I am indebted to Tom D'Angelo, doctoral candidate at Pace University, for this section. It is adapted from his research paper on corruption which was prepared for my doctoral seminar in global strategic marketing.
[16] Transparency International, 2011, http://transparency.org, See for, example, European Neighbourhood Policy: Monitoring Azerbaijan's Anti-Corruption Commitments, March 11, 2010.
[17] J. Svensson, "Eight Questions about Corruption," *Journal of Economic Perspectives,* 19, no. 3 (2005): 19–42.
[18] R. Theobald, "Containing Corruption: Can the State Deliver?," *New Political Economy*, 7, no. 3 (2002): 435–449.
[19] V. Tanzi, "Corruption around the World," *IMF Staff Papers*, 45, no. 4 (1998): 559–593.

accommodations from bureaucrats in order to gain advantage through government-provided benefits or cost avoidance.

It is thus of critical importance that today's global business manager have an understanding of the dynamics of corruption. This includes recognizing its different forms, being familiar with the tools available for estimating its pervasiveness and magnitude, and having an awareness of characteristics that may indicate a higher probability of the existence of corruption within a country. Global managers must have knowledge of the regulations established to combat corruption, including international conventions and treaties as well as home- and host-country anticorruption laws.

Forms of Corruption

Corrupt activities take a variety of forms and can be generally categorized in a number of different ways. These range from the stereotypical bribing of a public official to highly complex, organized corruption that takes place on a large scale. Shah and Schacter segregate corruption into three broad forms: bureaucratic corruption, grand corruption, and influence peddling.[20] Bureaucratic corruption consists of isolated transactions executed by individual public officials that abuse their office. These transactions might include the demand for bribes and kickbacks, diversion or embezzlement of public funds, or the granting of favors in exchange for personal consideration. Grand corruption involves the misappropriation or misuse of large amounts of public resources by state officials who are often members of the political or administrative elite. Subsequent to the discovery of such prolonged activity, the magnitude of grand corruption often captivates the interest of the mainstream news media and these events are usually highly publicized. The grand corruption that was allegedly perpetrated during the regime of Mobutu Sese Seko, the former President of Zaire, was reported to be in excess of $5 billion. Influence peddling or state capture involves collusion between members of the private sector and public officials to gain mutual benefit. This form of corruption is also known as *state capture* because members of the private sector effectively capture the state, legislative, executive, or judicial apparatus for their own purpose.

Further distinction among forms of corruption is made by Transparency International,[21] who suggests that the bribes that are offered to public officials constitute two types of corruption: according-to-rule corruption and against-the-rule corruption.[22] According-to-rule corruption exists when bribes are made in order to receive preferential treatment for something that a public official can legally do. This might involve paying a public official to grant a business license that has been withheld from competitors. Against-the-rule corruption occurs when a bribe is made to facilitate a service that a public official cannot legally offer. This could involve public officials illegally granting contracts to preferred firms while circumventing a fair open-bidding process.

It is important to remember that corruption is, at a minimum, a two-sided transaction, and a distinction can be made between the briber or supply side and the bribee or demand side. While much of the focus on estimating the pervasiveness

[20] A. Shah and M. Schacter, "Combating Corruption: Look Before You Leap," *Finance and Development*, 41, no. 4 (2004): 40–43.

[21] Transparency International's website provides the following organizational description: "Transparency International, the global civil society organization leading the fight against corruption, brings people together in a powerful worldwide coalition to end the devastating impact of corruption on men, women, and children around the world. Transparency International's mission is to create change towards a world free of corruption." http://transparency.org (2011).

[22] Transparency International, 2011.

of corruption in a given host country is centered on the demand for bribes, there is equal culpability on the side of the bribe payer, whether domestic or foreign-based. Analogous to efforts to curtail the international trafficking of illegal drugs, understanding the distinction between the supply and demand sides of corruption is critical in the design of programs to effectively combat it.

Both centralized corruption and decentralized corruption can affect growth.[23] Centralized corruption is well organized, and the amount of bribes demanded as well as each participant's share of ill-gotten gains are determined by a central figure. Decentralized corruption involves the uncoordinated activity of individuals in which each participant seeks to maximize the amount extorted. Decentralized corruption is seen as a greater deterrent to growth because of the higher rate of bribes demanded and the lower likelihood of prosecution due to the relative weakness of the state.[24]

Estimating the Pervasiveness and Magnitude of Corruption

Unlike legitimate business transactions, corruption involves secrecy and a high level of risk. Public officials and private actors engaging in such activities are not likely to provide a paper trail documenting corrupt transactions nor will they report the details to government statistical bureaus. Therefore, disagreements exist among researchers regarding the overall magnitude of global corruption and the most accurate way to estimate it.

The World Bank estimated that worldwide bribery totaled in excess of $1 trillion or more than 3 percent of world income during 2002.[25] While this in itself is a staggering sum, it is an estimate that includes only the volume of bribes paid, not the total economic impact of corruption on growth and income. The cost of corruption is not merely limited to bribes paid but also must include the social costs, economic opportunity costs, environmental costs, and other immeasurable factors, such as the loss of confidence in a government.[26]

Although the very nature of corruption makes it difficult to quantify with any acceptable measure of precision, a number of resources exist that can be useful in estimating the pervasiveness of corruption within a particular country. One of the most prominent of these is the Corruption Perception Index published by Transparency International. The Corruption Perception Index ranks individual countries by the level of perceived corruption compiled from a variety of sources, including managers of transnational corporations, consultants, chambers of commerce, and members of the local population.[27] The organization also publishes the Global Corruption Barometer and the Bribe Payers Index, the latter publication evaluates the supply side of corruption. Other popular tools which provide estimates of the pervasiveness and magnitude of corruption are published by the World Bank, Global Integrity, and a number of private risk-assessment firms.

The sources cited in this section are helpful to the global manager in providing directional, if not quantifiable, information regarding corruption. These indices tend to be rough measures of the difficulty one might encounter while attempting to do

[23] W. Easterly, *The Elusive Quest for Growth: Economist' Adventures and Misadventures in the Tropics*, (Cambridge, MA: MIT Press, 2002): 49–69.
[24] Ibid.
[25] World Bank, 2003, http://worldbank.org.
[26] Transparency International, 2011.
[27] W. Sandholtz and W. Koetzle, "Accounting for Corruption: Economic Structure, Democracy, and Trade," *International Studies Quarterly*, 44 (2000): 31–50.

business internationally but should not be used to make precise bilateral comparisons between closely ranked countries.[28]

Characteristics of Countries with High Perceived Levels of Corruption

A review of the scholarly literature pertaining to corruption reveals the complex nature of the subject matter and the often blurred distinctions among its various causes and consequences. This chicken or egg type of quandary can be demonstrated by considering the relative level of a country's income and wealth and the pervasiveness of corruption within that country. Higher levels of income and wealth tend to be inversely correlated to perceived levels of corruption.[29] Does the lack of income and wealth cause corruption or does corruption have an adverse effect on income and wealth? Is there some degree of simultaneity? The answers are far from clear. One approach to circumventing some of the confusion inherent in the corruption cause-and-effect conundrum is to simply identify characteristics commonly associated with countries that tend to have pervasive corruption. These include certain economic, governmental, social, historic, geographic, and cultural characteristics which, given the presence or absence of such characteristics, can be useful in predicting the potential risk of corruption.

While the spectrum of national characteristics is broad, perhaps the most likely incentives that influence individuals to engage in corrupt behavior are those rooted in economic activity. There are a number of economic attributes that are shared by countries that have a high perceived level of corruption. As discussed previously in the chapter, empirical studies associate low economic growth rates and higher levels of poverty with corruption.[30] Low national average income leads to economic uncertainty, which tends to create structural incentives for corrupt behavior.[31]

A common economic characteristic of countries with pervasive corruption is a lack of integration with the global economy.[32] This may result from restrictive trade policies or other tight government controls exerted on the economy. High import tariffs might provide incentives to bribe customs officials.[33] This may also be manifest in low levels of foreign direct investment and other capital inflows, since transnational corporations avoid investing in countries where the risks of expropriation or confiscation are high. Large budget deficits are often present as politicians choose public works based on the opportunity they present for bribes and kickbacks rather than their intrinsic economic worth.[34] Other economic attributes include lower productivity, less effective industrial policies, and larger unofficial economies than commonly found in countries with less corruption.

In addition to economic attributes, similar observations may be made regarding governmental, social, historic, geographic, cultural, and other national characteristics associated with countries with high perceived levels of corruption. Critically, an understanding of the quality of a nation's institutions will provide some indication of the potential for the existence of corruption. A lack of transparency in regulations, rules, and

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[28] S. Rose-Ackerman, "The Challenge of Poor Governance and Corruption," *World Bank Copenhagen Consensus 2004* (2004): 1–48.

[29] S. D. Beets, "Understanding the Demand-Side Issues of International Corruption," *Journal of Business Ethics*, 57 (2005): 65–81.

[30] Ibid.

[31] Sandholtz and Koetzle, "Accounting for Corruption."

[32] Rose-Ackerman, "The Challenge of Poor Governance."

[33] Easterly, *The Elusive Quest for Growth*.

[34] V. Tanzi and H. Davoodi, "Roads to Nowhere: How Corruption in Public Investment Hurts Growth," *IMF Working Paper* (1998).

laws can create conditions that increase the risk of corruption.[35] Considering a broad matrix of country characteristics is likely to be a more effective approach in assessing corruption risk than attempting to evaluate individual characteristics in isolation.

Anticorruption Laws and Regulations

The United States took a leading role in adopting rules designed to eradicate business bribery by passing the Foreign Corrupt Practices Act (FCPA) of 1977. Generally, under the FCPA, US individuals (citizens, nationals, or residents) or enterprises face prosecution in their own country if they offer something of value to a foreign official in order to obtain an improper advantage to gain or retain business. Since the FCPA was enacted, many US businesses operating internationally felt that they were at a severe competitive disadvantage. While it is a criminal offense for a US business to bribe a foreign official, many foreign rivals faced no such disadvantage and would not only use bribery to secure government contracts but would also claim them as a business tax deduction.[36]

In 1999, the Organization for Economic Cooperation and Development (OECD) established the OECD Anti-Bribery Convention.[37] Countries that have signed the Convention are required to put in place legislation that criminalizes the act of bribing a foreign official. The US government fought hard for the OECD to adopt this type of anticorruption measure in order to address the disadvantage it believed US firms faced in pursuing business globally by having to comply with the provisions of the FCPA.[38] During 2003, the United Nations adopted the United Nations Convention Against Corruption (UNCAC). Provisions of the UNCAC include an emphasis on prevention, a call for the establishment of anticorruption organizations, and enhanced transparency in political finance.[39]

Reforms such as the Sarbanes-Oxley Act of 2002 in the United States and international conventions have succeeded in influencing some countries—especially those wishing to attract foreign direct investment—to enact more stringent anticorruption laws. Practices once seen as an inevitable part of doing business in many parts of the world are becoming increasingly unacceptable.[40] Corporate governance, with its emphasis on ethical business practices, transparency, and management accountability, has come to the forefront as the global enterprise's primary tool for preventing its employees from engaging in corrupt behavior.

CONFLICT RESOLUTION, DISPUTE SETTLEMENT, AND LITIGATION

Countries vary in their approach toward conflict resolution. Table 3-3 shows the number of practicing lawyers per 100,000 population in selected countries. The United States has more lawyers than any other country in the world and is arguably the most litigious nation on earth. In part, this is a reflection of the low-context nature of American culture, a spirit of confrontational competitiveness, and the absence of one important principle of code law: the loser pays all court costs for all parties. The degree of legal cooperation and harmony in the EU is unique and stems in part from the existence of code law as a common bond. Other regional organizations have made far less progress toward harmonization.

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[35] V. Tanzi, "Corruption around the World," *IMF Staff Papers*, 45, vol. 4 (1998): 559–593.
[36] F. Vogel, "Taking Corruption out of Global Business Levels the Playing Field for US Companies," *World Trade*, 17, no. 3 (2004): 8.
[37] Organization for Economic Cooperation and Development, 2011. http://www.oecd.org
[38] J. Bray, "International Agencies Are Ready to Escalate the Fight Against Corruption," *Accountancy*, 121, no. 1255 (1998): 30–31.
[39] United Nations, 2006, http://www.un.org/english/
[40] Transparency International, 2011.

TABLE 3-3 Lawyers: An International Comparison[41]

Country	People per Lawyer
United States	265
Brazil	326
New Zealand	391
Spain	395
UK	401
Italy	488
Germany	593
France	1403

Conflicts will inevitably arise in business anywhere, especially when different cultures come together to buy, sell, establish joint ventures, compete, and cooperate in global markets. For American companies, the dispute with a foreign party is frequently in the home-country jurisdiction. The issue can be litigated in the United States, where a company and its attorneys might be said to enjoy home court advantage. Litigation in foreign courts, however, becomes vastly more complex. This is due in part to differences in language, legal systems, currencies, and traditional business customs and patterns. In addition, problems arise from differences in procedures relating to discovery. In essence, discovery is the process of obtaining evidence to prove claims and determining which evidence may be admissible in which countries under which conditions. A further complication is the fact that judgments handed down in courts in another country may not be enforceable in the home country. For all these reasons, many companies prefer to pursue arbitration before proceeding to litigate.

Alternatives to Litigation for Dispute Settlement[42]

Extrajudicial, alternative approaches often provide a faster, easier, and less expensive way to resolve commercial disputes than litigation. Indeed, alternative approaches have a tradition that is centuries old. Chambers of trade and commerce first began to hear and resolve disputes as trade developed between different tribes or nations. Settlement of modern trade disputes takes various forms and occurs in many locations. Formal arbitration is one means of settling international business disputes outside the courtroom. Arbitration generally involves a hearing of all parties before a three-member panel. The result is usually a decision by which the parties agree in advance to abide. Courts of arbitration have long existed in London and Zurich. For decades, business arbitration has also been promoted through the Paris-based International Chamber of Commerce (ICC). The ICC recently modernized some of its older rules. However, because it is the best-known international business organization, it has the biggest backlog of cases. Thus, the ICC has gained a reputation for being slower, more expensive, and more cumbersome than some alternatives. The United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (also

[41] http://wiki.answers.com/Q/What_country_in_the_world_has_most_lawyers_per_capita, Data for 2007-2008.
[42] This section draws heavily on the work of Radway, Robert J., "United States Regulations and Acquisitions", 14 Vanderbilt Journal of Transnational Law 1981. Publication indicates that author is a practicing New York Attorney specializing in international law; formerly International Counsel to the McKee Corp. and Legal Advisor to the Council of the Americas.

known as the New York Convention) has more than 50 signatories. The New York Convention facilitates arbitration when disputes arise, and signatories agree to abide by decisions reached through arbitration.

Some firms and lawyers, inexperienced in the practice of international commercial arbitration, have used standard boilerplate arbitration clauses in contracts that cover merger, severability, choice of law, and other issues. US companies may stipulate that arbitration will take place in the United States; companies in other countries may choose their home country courts. Arbitration can be a minefield due to the number of issues that must be addressed. For example, if the parties to a patent licensing agreement agree in the arbitration clause that the validity of the patent cannot be contested, such a provision may not be enforceable in some countries. In a disagreement, which country's laws will be used as the standard for validity?

Pursuing such an issue on a country-by-country basis would be inordinately time consuming. In addition, there is the issue of acceptance: By law, US courts must accept an arbitrator's decision in patent disputes; in other countries, however, there is no general rule of acceptance. To reduce delays relating to such issues, one expert suggests drafting arbitration clauses with as much specificity as possible. To the extent possible, for example, patent policies in various countries should be addressed; persons drafting arbitration clauses may also include a provision that all foreign patent issues will be judged according to the standard of home-country law. Another provision could forbid the parties from commencing separate legal actions in other countries. The goal is to help the arbitration tribunal zero in on the express intentions of the parties.[43]

As US involvement in global commerce grew dramatically during the post-World War II period, the American Arbitration Association (AAA) became recognized as a very effective institution within which to resolve disputes. Each year, the AAA uses mediation to help resolve thousands of disputes. The AAA has entered into cooperation agreements with the ICC and other global organizations to promote the use of alternative dispute resolution methods; it serves as the agent to administer arbitration in the United States under ICC auspices. In 1992, the AAA signed a cooperation agreement with China's Beijing Conciliation Center.

Other agencies for settling disputes include the Swedish Arbitration Institute of the Stockholm Chamber of Commerce. This agency frequently administered disputes between Western and socialist countries and has gained credibility for its even-handed administration. Other alternatives have proliferated in recent years. In addition to those mentioned, active centers for arbitration exist in Vancouver, Hong Kong, Cairo, Kuala Lumpur, Singapore, Buenos Aires, Bogotá, and Mexico City. The World Arbitration Institute was established in New York; in the United Kingdom, the Advisory, Conciliation, and Arbitration Service (ACAS) has achieved great success at handling industrial disputes. The International Council for Commercial Arbitration (ICCA) was established to coordinate the far-flung activities of arbitration organizations. The ICCA meets in different locations around the world every four years.

The United Nations Conference on International Trade Law (UNCITRAL) has also been a significant force in the area of arbitration. UNCITRAL rules have become more or less standard, as many of the organizations named previously have adopted them with some modifications. Many developing countries, for example, long held prejudices against the ICC, AAA, and other organizations in developed countries. Representatives of developing nations assumed that such organizations would be biased in favor of multinational corporations. Developing nations insisted on settlement in national

[43] Bruce Londa, "An Agreement to Arbitrate Disputes Isn't the Same in Every Language," *Brandweek* September 18, 1994, 18. See also John M. Allen, Jr. and Bruce G. Merritt, "Drafters of Arbitration Clauses Face a Variety of Unforeseen Perils," *National Law Journal,* 17, no. 33 (April 17, 1995): C6–C7.

courts, which was unacceptable to the multinational firms. This was especially true in Latin America, where the Calvo Doctrine required disputes arising with foreign investors to be resolved in national courts under national laws. The growing influence of the ICCA and UNCITRAL rules, coupled with the proliferation of regional arbitration centers, has contributed to changing attitudes in developing countries and has resulted in the increased use of arbitration around the world.

THE REGULATORY ENVIRONMENT

The regulatory environment of global marketing consists of a variety of agencies, both governmental and nongovernmental, that enforce laws or set guidelines for conducting business. A number of regulatory agencies (sometimes referred to as international economic organizations, or IEOs) are identified in Table 3-4; and in Chapter 2, "The Global Economic Environment." These organizations address a wide range of marketing issues, including price control, valuation of imports and exports, trade practices, labeling, food and drug regulations, employment conditions, collective bargaining, advertising content, competitive practices, and so on. The decisions of IEOs are binding and are carried out by the member states.[44]

TABLE 3-4 International Economic Organizations

Abbreviation	Full Name
APPA	African Petroleum Producers' Association
ADB	Asian Development Bank
APEC	Asia-Pacific Economic Cooperation
ATPC	Association of Tin Producing Countries
CDB	Caribbean Development Bank
CCASG	Cooperation Council for the Arab States of the Gulf
ECLAC	Economic Commission for Latin America and the Caribbean
ECCAS	Economic Community of Central African States
FAO	Food and Agricultural Organization
ICAO	International Civil Aviation Organization
IEA	International Energy Agency
IFC	International Finance Corporation
ITPA	International Tea Promotion Association
IDB	Islamic Development Bank
MIGA	Multilateral Investment Guarantee Agency
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
UNITAR	United Nations Institute for Training and Research
WACU	West African Customs Union
WHO	World Health Organization
WMO	World Meteorological Organization

[44] See Sergei A. Voitovich, "Normative Acts of International Economic Organizations in International Law Making," *Journal of World Trade* (August 1990): 21–38.

The influence of regulatory agencies is pervasive, and an understanding of how they operate is essential to protect business interests and advance new programs. For example, in the United States, the International Trade Commission administers the Tariff Act of 1930. Section 337 prohibits "unfair methods of competition" if the effect of this competition is to destroy or substantially injure an industry. To seek relief or defend access to the US market if challenged under this act, a company should retain the services of specialized legal talent, supported by technical expertise in patents and in international marketing. It is useful to call on the assistance of home-country diplomatic staff to assist and support the effort to obtain a favorable ruling.

The European Union

The Treaty of Rome established the European Economic Community (EEC), the precursor to the EU. The treaty contains hundreds of articles, several of which are directly applicable to global companies and global marketers. Articles 30 to 36 establish the general policy referred to as "Free Flow of Goods, People, Capital, and Technology." Articles 85 and 86 contain competition rules, as amended by various directives of the EU Commission. These articles and directives constitute community law, which is somewhat analogous to US federal law.

The European Court of Justice, based in Luxembourg, hears disputes that arise among the 15 EU member nations on trade issues such as mergers, monopolies, and trade barriers. The court is also empowered to resolve conflicts between national law and EU law. In most cases, the latter supersedes national laws of individual European countries. Marketers must be aware, however, that national laws should always be consulted. National laws may be more strict than community law, especially in such areas as competition and antitrust. Community law is intended to harmonize, to the extent possible, national laws to promote the purposes defined in articles 30 to 36. The goal is to bring the lax laws of some member states up to designated minimum standards. However, more restrictive positions may still exist in some national laws.

The 1987 Single European Act amended the Treaty of Rome and provided strong impetus for the creation of a Single Market by December 31, 1992. Although technically the target was not completely met, approximately 85 percent of the new recommendations were implemented into national law by most member states by the target date, resulting in substantial harmonization.

One function of the European Union is to harmonize business regulations so as to facilitate business. Rather than conforming to individual country laws, a company now must follow the laws established by the legal arm that apply to all member countries. One law relates to product guarantees and became effective January 1, 2002. The EU countries agreed to a two-year guarantee on goods purchased. This quadrupled the guarantee period in Austria, Germany, Greece, Portugal, and Spain. In countries with longer guarantee periods (in the United Kingdom it is six years and in France and the Netherlands there are no limits), those time periods may be maintained.[45] Although harmonization is occurring, companies must comply with the laws of the individual countries. Table 3-5 provides some examples.

The World Trade Organization and Its Role in International Trade

In 1948, when 23 contracting countries signed the General Agreement on Tariffs and Trade (GATT), their objective was to reduce import tariffs. This was considered a milestone in international trade relations. GATT is based on three principles. The first concerns nondiscrimination: Each member country must treat the trade of all other

[45] Michael Smith, "Accord on Product Guarantees," *Financial Times,* March 23, 1999, 2.

TABLE 3-5 Uncommon Laws in the EU[46]

Italy	Bans all forms of tobacco advertising
Greece	Bans all advertising of toys
Finland	Bans speed as a feature in car advertising
Sweden	Bans television advertising directed at children under age 12
Netherlands	Bans claims about automobile fuel consumption

member countries equally. The second principle is open markets, which are encouraged by the GATT through a prohibition of all forms of protection except customs tariffs. Fair trade is the third principle, which prohibits export subsidies on manufactured products and limits the use of export subsidies on primary products. In reality, none of these principles is fully realized as yet, although much progress was made during the Uruguay Round on issues such as nontariff barriers, protection of intellectual property rights, and government subsidies.

Another major breakthrough at the Uruguay Round was the establishment of the World Trade Organization (WTO) in 1995, which replaced GATT. In contrast to GATT, which was more loosely organized, WTO as a permanent institution is endowed with much more decision-making power in undecided cases. These extended competencies have become manifest in visible consequences. During its 50 years of existence, only 300 complaints in international trade disputes were filed with GATT; since its installation in 1995, the WTO has already dealt with 200 cases.

ETHICAL ISSUES

Ethics, just as the legal environment, vary around the world. What is acceptable in one country may be considered unethical in another. In addition to the obvious moral questions, companies may suffer when negative publicity is generated. A case in point is the use of child labor or allegations of its use. Nike is well aware of this problem. Nike sources its goods in countries with low wages and poor labor regulations. Although Nike does not directly employ children in its overseas manufacturing, the sourcing agent may. A program has been established by Nike to monitor its suppliers but it is difficult when some locals may argue in favor of child labor. Regarding child labor in Pakistan, "trade bans on goods produced by child labor could have the unintended effect of forcing the children into other paid work at a lower wage"[47] and/or prostitution. The US Department of Labor has many publications on this specific issue.[48]

In order to do the right thing but also generate good publicity, companies can take an active approach to ethical issues. Reebok and Levi Strauss have done this by establishing standards that their contractors must follow, and they actively monitor results to ensure that standards are met.[49]

An increasing number of companies are addressing ethical issues. A recent survey of companies in 22 countries found that 78 percent of boards of directors were establishing ethical standards.[50] This is up significantly from 21 percent in 1987. The study also warns that regional differences can hinder effective implementation of any efforts.

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[46] Adapted from Brandon Mitchener, "Border Crossings," *The Wall Street Journal,* November 22, 1999, R41.
[47] Richard Adams, "Sanctions over Child Labor 'Can Backfire'," *Financial Times,* March 31, 1999, 4.
[48] U.S. Department of Labor, "The Apparel Industry and Codes of Conduct: A Solution to the International Child Labor Problem?" 1996.
[49] Philip Rosenzweig, "How Should Multinationals Set Global Workplace Standards?" Mastering Global Business Section of *Financial Times,* March 27, 1998, 11.
[50] "Global Ethic Codes," *The Wall Street Journal,* August 19, 1999, A1.

Summary

The legal and political environment of global marketing is the set of governmental institutions, political parties, and organizations that are the expression of the people in the nations of the world. In particular, anyone engaged in global marketing should have an overall understanding of the importance of sovereignty to national governments. The political environment varies from country to country, and risk assessment is crucial. It is also important to understand a particular government's actions with respect to taxes, dilution of equity control, and expropriation.

The legal environment consists of laws, courts, attorneys, and legal customs and practices. The countries of the world can be broadly categorized in terms of common-law system or code (civil)-law system. The United States, United Kingdom, and the British Commonwealth countries, which include Canada, Australia, New Zealand, the former British colonies in Africa, and India, are common-law countries; other countries are based on code law. Some of the most important legal issues pertain to establishment, jurisdiction, patents and trademarks, licensing, antitrust, and bribery. When legal conflicts arise companies can pursue the matter in court or use arbitration.

Corruption is a complex, global problem that depletes the economic, social, and environmental resources of a country and its citizens. Heightened awareness of the devastating costs of corruption in both the developed and developing nations of the world has facilitated efforts to combat it. Competition and short-term earnings pressure increase the temptation to engage in corrupt and other types of unethical behavior. The stakes are indeed very high: The impact of corruption scandals on global organizations have too often been the subject of sensational news stories during the past several years. Establishing a strategy in order to understand and confront the risks of corruption is a prerequisite to conducting business on a global scale.

The regulatory environment consists of agencies, both governmental and nongovernmental, that enforce laws or set guidelines for conducting business. Global marketing activities can be affected by a number of international or regional economic organizations; in Europe, for example, the EU makes laws governing member states. The WTO will have broad impact on global marketing activities in the years to come.

Although these three environments are complex, astute marketers plan ahead to avoid situations that might result in conflict, misunderstanding, or outright violation of national laws.

Discussion Questions

1. What is sovereignty? Why is it an important consideration in the political environment of global marketing?
2. The political risk scores for Taiwan and the United States were identical in June of 2011. Do you agree that these countries have an identical level of political risk? Why? Why not?
3. St. Ambrose said, "When you are in Rome live in the Roman style; when you are elsewhere live as they live elsewhere." Do you agree with his advice? Why? Why not?
4. Briefly describe some of the differences that relate to marketing between the legal environment of a country that embraces common law as opposed to a country that observes civil law.
5. Global marketers can avoid legal conflicts by understanding the reasons conflicts arise in the first place. Identify and describe several legal issues that relate to global commerce. What alternatives are available from a marketing perspective?
6. You are a sales representative of a multinational corporation traveling on business in West Africa. As you are leaving country X, the passport control officer at the airport tells you there will be a passport "processing" delay of one hour. You explain that your plane leaves in 30 minutes and the next plane out of the country does not leave for three days. You also explain how valuable your time is (at least $300 an hour) and that it is urgent that you catch the flight you have reserved. The official listens carefully to your appeal and then "suggests" that a contribution of $1,000 would definitely assure your passport clearance priority treatment, and considering how valuable your time is, it is quite a bargain.

   Would you comply with the "suggestion"? Why? Why not? If you would not comply, what would you do?

   If you comply with the suggestion, have you violated any laws? Explain.

   If the official requests $25, have you violated any laws?
7. "See you in court" is one way to respond when legal issues arise. What other approaches are possible?
8. If you were Nike, what would you do to prevent negative publicity regarding reports of unsafe factory conditions?

Suggested Readings

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VISIT THE WEBSITES

www.adb.org (Asian Development Bank)

www.eiu.com (Economist Intelligence Unit)

www.prsgroup.com (Political Risk Services)

www.beri.com (Business Environment Risk Intelligence)

www.icj-cij.org (International Court of Justice)

www.iccwbo.org (International Chamber of Commerce)

www.uncitral.org (United Nations Commission on International Trade Law)

www.adr.org (American Arbitration Association)

CHAPTER 4

The Global Cultural Environment[1]

I believe only in French culture, and regard everything else in Europe which calls itself "culture" as a misunderstanding. I do not even take the German kind into consideration.

—Friedrich Wilhelm Nietzsche, 1844–1900

I do not want my house to be walled in on all sides and my windows to be stuffed. I want the cultures of all the lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any.

—Mohandas K. "Mahatma" Gandhi, 1869–1948

Learning Objectives

1. Describe the components of culture and society that affect global marketing (105–111).
2. Use Maslow's hierarchy of needs to explain cultural universals (111–113).
3. Compare and contrast cultural classification methods (113–123).
4. Discuss methods for improving cultural understanding and perception (123–126),
5. Explain the significance of environmental sensitivity to global marketing (126–129).
6. Discuss cross-cultural complications and possible solutions (129–134).

[1] This chapter was written by Professor Steven Burgess, Director and Professor of Marketing, Nelson Mandela Metropolitan University Business School, South Africa, and Warren J. Keegan.

INTRODUCTION

The opening quote by the famous philosopher, Friedrich Nietzsche, is a reminder that culture has always been a source of disagreement and misunderstanding. What does Nietzsche mean when he says "culture"? As you will soon see, the meaning of culture to a global marketer is quite different than it was to Nietzsche, who is probably referring to art, literature, and perhaps even music in the preceding quote. All of these elements of culture are important, but as global marketers know, culture is about much more than art. The celebrated Indian spiritual and political leader, Mahatma Gandhi, refers to widely endorsed values and beliefs that guide one's actions in life. Culture comprises values, beliefs, habits, norms, roles, symbols, signs, and behaviors. It informs shared templates that people within groups use to interpret and respond to other people, their environment, and events in life and the institutions. When global marketers refer to culture, they refer to the formal and informal institutions in which cultural systems are preserved and communicated and the consumption-relevant behaviors through which culture is expressed.[2]

In Europe, where scones, croissants, and strudels have long been the pride of bakers and pastry chefs, trend-conscious consumers have started gobbling up American-style baked goods. It seems the Europeans are discovering what Americans have known all along: in addition to being tasty, brownies, muffins, and cookies are perfectly suited to on-the-go lifestyles that include snacking while traveling on the metro or riding a bicycle. Also, American baked goods have a shelf life of more than one day, unlike many traditional European baked goods such as fresh cream tarts. European bakers, many of whom regard pastries from across the Atlantic as inferior, had to make some adjustments to accommodate changing taste buds. As Bernard M. Schapiro of Millie's Foods Ltd. in Britain recalls, "It wasn't an easy sell. Here biscuits [cookies] are hard, and you don't find soft cookies. The perception was that it was underbaked."

American companies have also experienced culture shock. While British consumers snapped up soft, moist Otis Spunkmeyer muffins, the American company's managers soon discovered that the word *spunk* is slang for "semen" in Britain and other countries. After the disc jockey of a national radio show asked on the air, "Who's going to eat a product with a name like that?" the company sent him a free sample. The result was favorable publicity in the form of an on-air endorsement for the goodies. Now some bakeries that sell the muffins put stickers reading "American Muffin" over the offending word. In the final analysis, as Heather McEvoy of the Colorado Cookie Company points out, "A good pastry is a good pastry no matter where it comes from and no matter what country it's sold in. Any company making good pastries will have a market in Europe."

The warm reception in Europe for American baked goods shows that many products can achieve success outside the home-country cultural environment. This chapter focuses on the social and cultural forces that shape and affect individual and corporate behavior in the marketplace. The conceptual orientation of this chapter and this book is that the cultures of the world are characterized by both differences and similarities. Thus, the task of the global marketer is twofold. Marketers must be prepared to

[2]For example, Steven Michael Burgess and Jan-Benedict E. M. Steenkamp, "Marketing Renaissance: Research in Emerging Markets Advances Marketing Science and Practice," *International Journal of Research in Marketing,* 23, no. 4 (2006); Cheryl Nakata and K. Sivakumar, "Instituting the Marketing Concept in a Multinational Setting: The Role of National Culture," *Journal of the Academy of Marketing Science,* 29, no. 3 (2001); P. Christopher Earley and Soon Ang, *Cultural Intelligence: Individual Interactions across Cultures* (Stanford, CA: Stanford University Press, 2003); Lismen L. M. Chan, Margaret A. Shaffer, and Ed Snape, "In Search of Sustained Competitive Advantage: The Impact of Organizational Culture, Competitive Strategy and Human Resource Management Practices on Firm Performance," in *International Journal of Human Resource Management* (Routledge, 2004).

recognize and understand the differences between cultures and then incorporate this understanding into the marketing planning process so that appropriate strategies and marketing programs are adapted. At the same time, marketers should take advantage of shared cultural characteristics and avoid unneeded and costly adaptations of the marketing mix. Cultural similarities provide a basis for relatively standardized marketing strategies. Consider how global adoption of personal computers and mobile handheld devices has produced similarities in the style, format, and use of text and numbers across cultures.

Another fact about culture is that it constantly changes and evolves. At the beginning of the twentieth century, there was a culture of mistrust and ethnocentrism in Europe, which was a fundamental reason for the horror of World War I. At the beginning of the twenty-first century, the culture of Western Europe embraced the new European Union. Old suspicions and mistrust have been replaced with cooperation and integration. In the twenty-first century, the convergence of cultures could be enormously accelerated by the rapid expansion of the Internet and digitally enabled communications, information technology, and mobile telephony, including video and real-time photo sharing. Marketing communications including advertising, promotion, and entertainment as well as transactions have seen a radical shift to these mediums and platforms.

Global marketers must recognize and deal with the differences in the social and cultural environments of world markets. This chapter focuses on the important differences in world markets and the equally important similarities that express the fact of cultural universals. To help marketers better understand social and cultural dynamics in the global marketplace, several useful analytical approaches are explained. These include Maslow's hierarchy, Hofstede's cultural typology, the self-reference criterion, and environmental sensitivity. This chapter offers specific examples of the impact of culture and society on the marketing of both industrial and consumer products. The chapter ends with suggested solutions to cross-cultural difficulties and a review of cross-cultural training procedures currently being used in global companies.

BASIC ASPECTS OF SOCIETY AND CULTURE

What are cultures and societies? To answer that question, marketers have borrowed eclectically from other behavioral sciences which emphasize different cultural aspects. Anthropologists and sociologists emphasize "ways of living" and "patterns of behavior" that are learned and adopted by people within a society in response to events in their lives and the environment. To anthropologist Clyde Kluckhohn, "culture is to society what memory is to individuals."[3] To sociologist Geert Hofstede, culture is "the collective programming of the mind that distinguishes the members of one category of people from those of another."[4] Psychologists emphasize shared cognitions and behaviors. Cross-cultural psychologist Michael Bond captures all of these perspectives in the following definition:

> *Culture* is a shared system of beliefs (what is true); values (what is important); expectations, especially about scripted behavioral sequences (patterns of behavior); and behavior meanings (what is implied by engaging in a given action) developed by a group over time to provide the requirements of communal life (food and water, protection against the elements, security, belonging, social appreciation, and

[3] Harry C. Triandis, "Cultural Aspects of Globalization," *Journal of International Management,* 12, no. 2 (2006).

[4] Geert Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations Across Nations*, 2nd ed. (Thousand Oaks, CA: Sage Publications, 2001).

> the exercise of one's skills) in a particular geographical niche. This shared system enhances communication of meaning and coordination of actions among a culture's members by reducing uncertainty and anxiety through making its members' behavior predictable, understandable, acceptable, and valuable.[5]

Culture includes both conscious and unconscious values, ideas, attitudes, and symbols that shape human behavior. Culture is transmitted from one generation to the next. In this sense, culture does not include one-time solutions to unique problems, or passing fads and styles.

In addition to agreeing that culture is learned, not innate, most anthropologists share two additional views. First, all facets of culture are interrelated: influence or change one aspect of a culture and everything else is affected. Second, because it is shared by the members of a group, culture defines the boundaries between different groups.[6]

Culture consists of learned responses to recurring situations. The earlier these responses are learned, the more difficult they are to change. Taste and preferences for food and drink, for example, represent learned responses that are highly variable from culture to culture and can have a major impact on consumer behavior. Preference for color is culturally influenced as well. For example, although green is a highly regarded color in Muslim countries, it is associated with disease in some Asian countries. White, usually associated with purity and cleanliness in the West, can signify death in Asian countries. Red is a popular color in most parts of the world (often associated with full flavor, passion, or virility); however, it is poorly received in some African countries.[7] Of course, there is no inherent attribute to any color of the spectrum; all associations and perceptions regarding color arise from culture.

Attitudes toward whole classes of products can also be a function of culture. For example, in the United States, consumers have a cultural predisposition for product innovations that have a "gadgetry" quality. Thus, the electric knife and can opener, the electric toothbrush, the Water-Pik (for cleaning between teeth before brushing), and a host of other "labor-saving" small appliances find ready market acceptance. There is unquestionably a smaller predisposition to purchase such products in other developed markets such as Europe.

This difference is a result of cultural differences. As we noted in the last chapter, income levels also influence consumer behavior and attitudes around the world. Indeed, a basic question that must be answered by marketers who want to understand or predict behavior is, "How much do social and cultural factors influence behavior independent of income levels?" Sometimes the influence is strong. For example, US companies introduced fluffy, frosted cake mixes in the United Kingdom where cake is eaten at tea time with the fingers rather than as a dessert with a fork. Green Giant Foods attempted to market corn in Europe where the prevailing attitude is that corn is a grain fed to hogs, not people. In both instances, cultural differences resulted in market failures.

Cultures evolve in response to ecological, economic, technological, and sociopolitical influences.[8] Cultural evolution can produce convergence and fragmentation. *Cultural convergence* occurs when cultures become more similar. Convergence toward

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[5] Michael Harris Bond, "A Cultural-Psychological Model for Explaining Differences in Social Behavior: Positioning the Belief Construct," in *Culture and Behavior: The Ontario Symposium, Volume 10*, ed. Richard M. Sorrentino et al. (New York: Psychology Press, 2005).

[6] Edward T. Hall, *Beyond Culture* (Garden City, NY: Anchor Books, 1977), 16.

[7] Richard R. Still and John S. Hill, "Multinational Product Planning: A Meta Market Analysis," *International Marketing Review* (Spring 1985): 60.

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a global culture is promoted by factors such as globalized media, international travel, regional unification, standardized business processes and techniques, urbanization, and rising levels of formal education and literacy. Marketers can respond to cultural convergence with global or regional marketing strategies. Globally, the brand positioning of Coca-Cola and Levi Strauss emphasize youthful exuberance and excitement,[9] which is expressed in ways that are appropriate for regional cultures.

Cultural fragmentation occurs when population segments within a country diverge in culture. When cultures fragment, microcultures with different purchase and consumption preferences may emerge. This may be especially true in emerging markets, where rapid change typically contributes to cultural fragmentation. Emerging markets can be thought of as having two main segments.[10] In the *mass-market segment*, formal education and household income are low. Access to globalized media is relatively low. Culture emphasizes social connectedness and responsibilities that have been forged in generations of subsistence living. Letter writing is a popular way to stay in touch and maintain close social relationships. In the Philippines, Smart Communications appeals to this culturally motivated behavior by promoting its inexpensive SMS text-messaging service as a substitute for letter writing. The appeal of the SMS messaging is very different for the much smaller *urban-elite segment*. They have levels of formal education, household income, and living standards similar to those of high-income countries. Access to globalized media is higher and culture is more likely to be converging toward individual autonomy and independence. SMS messages provide a substitute for telephone calls.[11]

Nevertheless, the demand for convenience foods, luxury consumer products, electronic products, disposable products, and soft drinks in the United States, Europe, Asia, Africa, and the Middle East suggests that most consumer products have broad, almost universal, appeal. As communications continue to shrink the world, more and more products will be marketed and consumed globally. This implies that an important characteristic of culture—that it defines boundaries between people—will not limit the global reach of companies that want to extend their operations globally. This does not suggest, however, that these companies can ignore cultural factors. The fact that there is a global market for a product does not mean that you can approach the market in different countries identically. Cultural sensitivity to differences spells the difference between global success and failure.

If culture is a shared set of beliefs, values, expectations, and behaviors developed by a group, how does it affect an individual's behavior? Culture can also be thought of as having multiple layers, like an onion (see Figure 4-1).

The outside layer, *collective reality*, reflects the ecological, economic, and sociopolitical factors that determine the development of institutions within a culture and the core cultural ideas regarding what is good, what is moral, what is the self, and what is the group. Products can be symbols of individual or collective reality. *Sociopsychological processes* exert influence on the individual's reality at the next layer. These include formal and informal regulative and socioeconomic systems, customs, norms, practices, media, and reference group influences that reflect and promote the core ideas of society

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[9] Youth may share cultural values around the world, see Dannie K. Kjelgaard and Søren Askegaard, "The Globalization of Youth Culture: The Global Youth Segment as Structures of Common Difference," *Journal of Consumer Research* 33 (September 2006).

[10] Rajeev Batra, "Marketing Issues and Challenges in Transitional Economies," *Journal of International Marketing* 5, no. 4 (1997).

[11] Steven Michael Burgess and Pfavai Nyajeka, "Market Orientation and Performance in Low-Income Countries: The Case of Zimbabwean Retailers," in *Advances in International Management*, José Antonio Rosa and Madhubalan Viswanathan, eds. (Elsevier, 2007); Rajeev Batra et al., "Effects of Brand Local and Nonlocal Origin on Consumer Attitudes in Developing Countries," *Journal of Consumer Psychology* 9, no. 2 (2000).

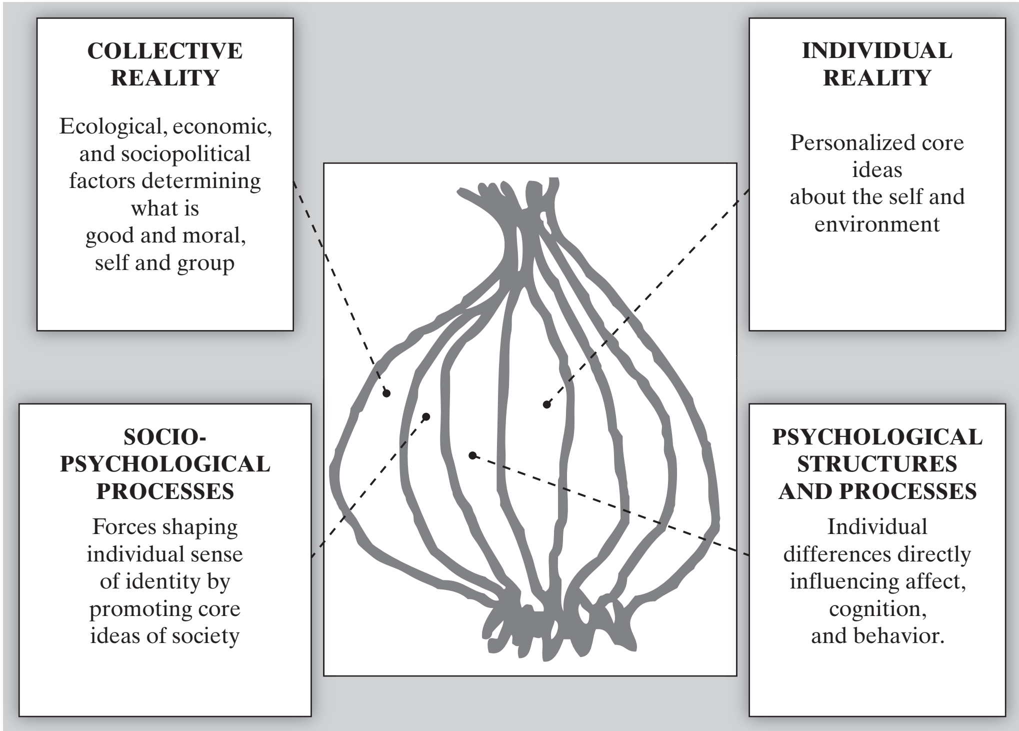

FIGURE 4-1 Culture Layers

and shape the individual's sense of identity. *Individual reality* is shaped by recurrent episodes in daily life, which personalize the core ideas communicated by the external world. Through a process of learning, individual reality helps shape psychological structures, such as needs, personality traits, values, attitudes, and beliefs that affect behavior by directing cognitive and hedonic processing and choices of appropriate behaviors. At the central layer, the individual's *psychological structures and processes* direct behavior.[12] Marketing strategies often relate to multiple layers of culture. For example, marketers of nutritional and nonprescription health-care products often attempt to stimulate consumption directly, with consumer marketing programs, and indirectly, through marketing activities targeting influential health-care professionals, educators, and government policy-makers.

Products, services, and marketing activities can play an important role in the creation and consumption of meaning in life.[13] Consumers evaluate two types of meaning when making purchase and consumption decisions. Consumers derive *utilitarian meaning* from products high in utilitarian value, which refers to a product's functional or physical qualities. They derive *hedonic meaning* from products high in hedonic value, which refers to the aesthetic and emotional properties and associations with personal, social, or cultural identity. Thus, consumer choices are part of a larger cultural process of creating and consuming meaning.

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[12] These four layers are described by Alan Page Fiske et al., "The Cultural Matrix of Social Psychology," in *The Handbook of Social Psychology*, Daniel T. Gilbert, Susan T. Fiske, and Gardner Lindzey, eds. (Boston: McGraw-Hill, 1998).

[13] Søren Askegaard, Dannie Kjelgaard, and Eric J. Arnould, "Reflexive Culture's Consequences," in *Beyond Hofstede: Cultural Frameworks for Global Marketing and Management*, Cheryl A. Nakata, ed. (New York: Palgrave Macmillan, 2009).

Anthropologist Grant McCracken theorizes that meaning transfers *from the culturally constituted world to consumer goods* through advertising promotional communications, fashion systems, and word-of-mouth communication.[14] It is then transferred *from consumer goods to consumers*, often through consumer rituals. Rituals refer to expressive, symbolic behaviors, which are comprised of many activities that occur in a fixed, episodic sequence and often with formality, seriousness, and inner-intensity.[15] Consumers use *possession rituals* to display, discuss, reflect, or maintain consumer goods, for the purpose of extracting qualities associated with the object. Young, globally aware consumers proudly display the Abercrombie and Fitch brand on their clothing around the world, despite the fact that Abercrombie and Fitch marketing operations are limited to the United States, London, and two provinces in Canada. Premium price beverages enjoy higher market share in restaurants, nightclubs, and bars where consumers often display consumption of prestige beverage brands as part of a nonverbal communication to others. During possession rituals, brands may become integral parts of a consumer's identity.[16]

The Search for Cultural Universals

An important quest for the global marketer is to discover cultural universals. A universal is a mode of behavior existing in all cultures. Universal aspects of the cultural environment represent opportunities for global marketers to standardize some or all elements of a marketing program. A partial list of cultural universals, taken from cultural anthropologist George P. Murdock's classic study, includes the following: athletic sports, body adornment, cooking, courtship, dancing, decorative art, education, ethics, etiquette, family feasting, food taboos, language, marriage, mealtime, medicine, mourning, music, property rights, religious rituals, residence rules, status differentiation, and trade.[17] The astute global marketer often discovers that much of the apparent cultural diversity in the world turns out to be different ways of accomplishing the same thing.

Music provides one example of how these universals apply to marketing. Music is part of all cultures, accepted as a form of artistic expression and source of entertainment. However, music is also an art form characterized by widely varying styles. Therefore, although background music can be used effectively in broadcast commercials, the type of music appropriate for a commercial in one part of the world may not be acceptable or effective in another part. A jingle might utilize a bossa nova rhythm for Latin America, a New Orleans jazz or rock rhythm for North America, and "high life" for Africa. Music, then, is a cultural universal that global marketers can adapt to cultural preferences in different countries or regions. It is no surprise that the music business is going global; global marketers in the business are always alert to the potential of extending a successful experience across national boundaries.

Increasing travel and digital communications mean that many national attitudes toward style in clothing, color, music, food, and drink are converging. The globalization of culture has been capitalized upon, and even significantly accelerated, by companies that have seized opportunities to find customers around the world.

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[14] See Grant McCracken, *Culture and Consumption: New Approaches to the Symbolic Character of Consumer Goods and Activities* (Bloomington, IN: Indiana University Press, 1988).

[15] Dennis W. Rook, "The Ritual Dimension of Consumer Behavior," *Journal of Consumer Research* 12, no. 3 (1985).

[16] For example, see Jennifer L. Aaker and Bernd H. Schmitt, "Culture-Dependent Assimilation and Differentiation of The Self: Preferences for Consumption Symbols in the United States and China," *Journal of Cross-Cultural Psychology* 32, no. 5 (2001).

[17] George P. Murdock, "The Common Denominator of Culture," in *The Science of Man in the World Crisis*, Ralph Linton, ed. (New York: Columbia University Press, 1945), 145.

Communication and Negotiation

Although English continues to grow in importance as the language of international travel and business, understanding and speaking the language of a country is an invaluable asset in understanding the country's culture. There is an often repeated maxim: You can buy in your home-country language, but you need to learn your customers' language to sell.

The ability to communicate in our own language is, as most of us have learned, not an easy task. Whenever languages and culture change, additional communication challenges will present themselves. For example, "yes" and "no" are used in an entirely different way in Japanese than in Western languages. This has caused much confusion and misunderstanding. In English, the answer "yes" or "no" to a question is based on whether the answer is affirmative or negative. In Japanese, this is not so. The answer "yes" or "no" may indicate whether or not the answer affirms or negates the question. For example, in Japanese the question, "Don't you like meat?" would be answered "yes" if the answer is negative, as in, "Yes, I don't like meat." The word *wakarimashita* means both "I understand" and "I agree." To avoid misunderstandings, Westerners must learn to distinguish which interpretation is correct in terms of the entire context of the conversation.

The challenges presented by nonverbal communication are perhaps even more formidable. For example, Westerners doing business in the Middle East must be careful not to reveal the soles of their shoes to hosts or pass documents with the left hand. In Japan, bowing is an important form of nonverbal communication that has many nuances. People who grow up in the West tend to be verbal, whereas those from the East are more nonverbal. Not surprisingly, there is a greater expectation in the East that people will pick up nonverbal cues and understand intuitively without being told.[18] Westerners must pay close attention not only to what they hear but also to what they see when conducting business in such cultures.

Social Behavior[19]

There are a number of social behaviors and comments that have different meanings in other cultures. For example, Americans generally consider it impolite to mound food on a plate, make noises when eating, and belch. However, some Chinese feel it is polite to take a portion of every food served and consider it evidence of satisfaction to belch.

Other social behaviors, if not known, will place the international traveler at a disadvantage. For example, in Saudi Arabia, it is an insult to question a host about the health of his spouse. In Korea, both hands should be used when passing objects to another person. Also in Korea, formal introductions are very important. In both Japan and Korea, ranks and titles are expected to be used in addressing hosts. In the United States, there is not a clear rule on this behavior, except in select fields such as the armed forces or medicine. In Indonesia, it is considered rude to point at another person with a finger. However, one may point with the thumb or gesture with the chin.

When greeting someone, it is appropriate in most countries to shake hands. In some countries the greeting includes a handshake and more. In Japan, a handshake may be followed by a bow, going as low and lasting as long as that of the senior person. In Brazil, Korea, Indonesia, and China, a slight bow is also appropriate.

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[18] See Anthony C. diBenedetto, Miriko Tamate, and Rajan Chandran, "Developing Strategy for the Japanese Marketplace," *Journal of Advertising Research* (January–February 1992): 39–48.

[19] Adapted from Gary Bonvillian and William A. Nowlin, "Cultural Awareness: An Essential Element of Doing Business Abroad," *Business Horizons*, 37, no. 6 (November 1994): 44.

In some countries, the greeting involves more contact. For instance, in Venezuela, close friends greet each other with a full embrace and a hearty pat on the back; in Indonesia, a social kiss is in vogue, and a touching of first the right then the left cheek as one shakes hands. In Malaysia, close friends grasp with both hands; in South Africa, people traditionally shake hands, followed by a clench of each other's thumbs and another handshake.

In most countries, addressing someone as Mr., Mrs., Miss, or Ms. is acceptable, but this is certainly not universal. Monsieur, Madame, and Mademoiselle are preferred in France, Belgium, and Luxembourg, while Señor, Señora, and Señorita are the norm in Spain and Spanish-speaking Latin America. It is sometimes the case that conversation occurs as greetings are exchanged. Greetings when meeting vary from country to country. In Sweden, the greeting is "goddag"; in the United Kingdom it's "how do you do"; in Tanzania it is "jambo bwana" or "jambo mama"; and in Israel it is "shalom." In many countries, men do not shake hands with a woman unless she extends her hand first. In India, women, or a man and a woman, greet each other by placing the palms of their hands together and bowing slightly, and in Mexico simply by a slight bow. In some countries it is not advisable for men to touch or talk alone with a woman.

ANALYTICAL APPROACHES TO CULTURAL FACTORS

Two general approaches to cultural analysis are discussed in following sections. *Standardized cultural classification* refers to the use of standardized measures to classify countries. Marketers began using standardized cultural classification information in the 1980s. Today, standardized cultural classification indices are available for most countries from several sources. *Ethnographic and other nonsurvey approaches* refer to qualitative techniques. Popular approaches include ethnographic analysis, hermeneutics, observation, depth interviews, and other approaches that ground theories in the naturalistic language and cultural patterns of a particular cultural context.

Maslow's Hierarchy of Needs

The late A. H. Maslow developed an extremely useful theory of human motivation that helps explain cultural universals.[20] He hypothesized that people's desires can be arranged into a hierarchy of five needs. As an individual fulfills needs at each level, he or she progresses to higher levels (see Figure 4-2).

Once physiological, safety, and social needs have been satisfied, two higher needs become dominant. First is a need for esteem. This is the desire for self-respect,

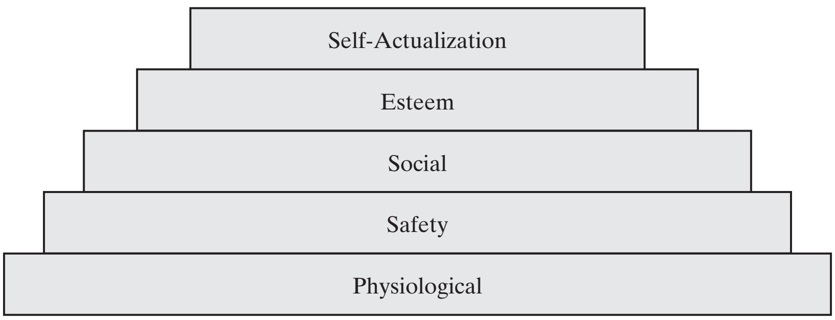

FIGURE 4-2 Maslow's Hierarchy of Needs

[20] A. H. Maslow, "A Theory of Human Motivation," in *Readings in Managerial Psychology*, Harold J. Levitt and Louis R. Pondy, eds. (Chicago: University of Chicago Press, 1964), 6–24.

self-esteem, and the esteem of others and is a powerful drive creating demand for status-improving goods. George Zeien, chairman of Gillette Corporation, understands this. Marketers in Gillette's Parker Pen subsidiary assume that shoppers in Malaysia and Singapore wishing to give an upscale gift will buy the same Parker pen as Americans shopping at Neiman Marcus. "We are not going to come out with a special product for Malaysia," Zeien says.[21] In East Africa, women who owned bras always wore them with straps exposed to show the world that they owned a bra. In Asia today, young women are taking up smoking—and showing a preference for Western brands—as a symbol of their improved status and increased affluence.

The final stage in the need hierarchy is self-actualization. When all the needs for food, safety, security, friendship, and the esteem of others are satisfied, discontent and restlessness will develop unless one is doing what one is fit for. A musician must make music, an artist must create, a poet must write, a builder must build, and so on. Maslow's hierarchy of needs is, of course, a simplification of complex human behavior. Other researchers have shown that a person's needs do not progress neatly from one stage of a hierarchy to another. For example, an irony of modern times is the emergence of the need for safety in the United States, one of the richest countries in the world. Indeed, the high incidence of violence in the United States may leave Americans with a lower level of satisfaction of this need than in many so-called poor countries. Nevertheless, the hierarchy does suggest a way for relating consumption patterns and levels to basic human need-fulfilling behavior. Maslow's model implies that as countries progress through the stages of economic development, more and more members of society operate at the esteem need level and higher, having satisfied physiological, safety, and social needs. It appears that self-actualization needs begin to affect consumer behavior as well.

For example, there is a tendency among some consumers in high-income countries to reject material objects as status symbols. The automobile is not quite the classic American status symbol it once was, and some consumers are turning away from material possessions. This trend toward rejection of materialism is not, of course, limited to high-income countries. In India, for example, there is a long tradition of the pursuit of consciousness or self-actualization as a first rather than a final goal in life. And yet, each culture is different. For example, in Germany today, the automobile remains a supreme status symbol. Germans give their automobiles loving care, even going so far as to travel to distant locations on weekends to wash their cars in pure spring water.

Hellmut Schütte has proposed a modified hierarchy to explain the needs and wants of Asian consumers. As shown in Figure 4-3, Maslow's Hierarchy, The Asian Equivalent, while the two lower-level needs are the same as in the traditional hierarchy, the three highest levels emphasize the intricacy and importance of social needs. Affiliation needs are satisfied when an individual in Asia has been accepted by a group. Conformity with group norms becomes a driving force of consumer behavior. For example, when Tamagotchis and other brands of electronic pets were the in toy in Japan, every teenager who wanted to fit in bought one (or more). Knowing this, Japanese companies develop local products specifically designed to appeal to teens. The next level is admiration, a higher-level need that can be satisfied through acts within a group that command respect. At the top of the Asian hierarchy is status, the esteem of society as a whole. In part, attainment of high status is character driven. However, the quest for status also leads to luxury badging, a phrase that describes consumers who engage in conspicuous consumption and buy products and brands

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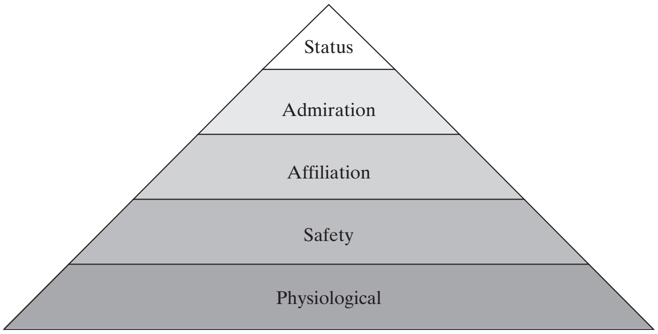
[21] Louis Uchitelle, "Gillette's World View: One Blade Fits All," *The New York Times*, January 3, 1994, C3.



Source: Hellmut Schütte, "Asian Culture and the Global Consumer," *Financial Times–Mastering Marketing,* Part II, 21 September 1998, p. 2.

FIGURE 4-3 Maslow's Hierarchy: The Asian Equivalent

that others will notice. The Asia-Pacific region, including Japan, now accounts for about 45 percent of sales at Prada and Richemont, the Swiss luxury goods group.

Standardized Cultural Classifications

In global marketing, cultural analysis traditionally has focused on standardized cultural classification of countries based on values.[22] Strictly speaking, the dimensions on which countries are classified by Hofstede, Inglehart, Trompenaars, and Project Globe are derived from values, beliefs, norms, moral obligation duties, needs, desires, interests, identifications, wants, goals, preferences, pleasures, likes, interpretations of life events, and many other concepts. This is an historical artifact of early borrowing from sociology, where values can include "anything that is preferable."[23] However, studies showing strong links between values and consumer behavior draw on a psychological definition of values.[24] Beginning in the 1980s, social psychologists such as Rokeach and Schwartz began making rapid advances that stimulated extensive marketing research. Social psychologists define *values* as enduring, centrally held beliefs that pertain to goals in life (i.e., desirable end-states and modes of conduct), transcend specific objects and situations, and guide attention, comprehension, and the selection or evaluation of people, behavior, and events in life.[25]

As fundamental motives that cognitively transform human needs and core elements of personality, values are relevant to just about any behavior that interests marketers. In the consumer context, values affect every stage of the consumer decision process, including information processing.[26] In the organizational context, values

[22] Jan-Benedict E. M. Steenkamp, and Frenkel Ter Hofstede, "International Market Segmentation: Issues and Perspectives," *International Journal of Research in Marketing* 19, no. 3 (2002).
[23] Steven Hitlin and Jane Allyn Piliavin, "Values: Reviving a Dormant Concept," *Annual Review of Sociology* 30 (2004): 359–393; Robin M. Williams, "Change and Stability in Values and Values Systems: A Sociological Perspective," in *Understanding Human Values: Individual and Societal*, M. Rokeach, ed. (New York: Free Press, 1979), 15–44.
[24] Steven Michael Burgess, "Personal Values and Consumer Research: An Historical Perspective," in *Research in Marketing*, Jagdish N. Sheth, ed. (Greenwich, Connecticut: JAI Press, 1992).
[25] See Shalom H. Schwartz et al., "Extending the Cross-Cultural Validity of the Theory of Basic Human Values with a Different Method of Measurement," *Journal of Cross-Cultural Psychology* 32, no. 5 (2001); Shalom H. Schwartz, "Value Priorities and Behavior: Applying a Theory of Integrated Value Systems," in *The Psychology of Values: The Ontario Symposium*, C. Seligman, J. M. Olson, and M. P. Zanna, eds. (Hillsdale, NJ: Lawrence Erlbaum Associates, 1996).
[26] Reviewed by Burgess, "Personal Values and Consumer Research"; Wagner A. Kamakura and Jose Afonso Mazzon, "Value Segmentation: A Model for the Measurement of Values and Value Systems," *Journal of Consumer Research* 18 (September 1991).

relate to sources of guidance used when making sense of the world, rule of law, preferences for corporate governance, reward systems, and many other behaviors that influence marketing success.[27]

We now discuss several important cultural classification schemes that are used in marketing, discussing the cultural value orientations theory of Schwartz and the social axioms theory of Leung and Bond in greatest detail because of their firm grounding in theory and rigorous validation by collaborative research teams in many countries. We begin with Hofstede's seminal cultural theory.

Hofstede's National Culture Dimensions

Geert Hofstede proposed the first overarching theory of national culture and launched a rapidly expanding body of cross-cultural research.[28] Employed as research director, Hofstede collected data on 32 work goals (or values) from 116,000 IBM employees in more than 40 countries between 1967 and 1973.[29] Hofstede empirically identified four dimensions of work goals across national cultures,[30] later adding a fifth cultural dimension observed by Bond and his colleagues in China (see Table 4-1).[31]

Hofstede's work stimulated research into culture's consequences for consumer and organizational buyer behaviors. His cultural dimensions were soon linked to national differences in the diffusion of innovations; divergence in patterns of consumer behavior and consumption of products, such as automobiles, mineral water, and Internet services;[32] as well as to organizational commitment, transformational leadership, preferences for reward allocation and management styles, and organizational values.[33] Today, Hofstede's measures, data, and methodology are increasingly criticized for Western cultural bias, reliance on unrepresentative samples, content and comprehensiveness of

[27] Julia Porter Liebeskind et al., "Social Networks, Learning, and Flexibility: Sourcing Scientific Knowledge in New Biotechnology Firms," *Organization Science* 7, no. 4 (1996); Shalom H. Schwartz, "A Theory of Cultural Values and Some Implications for Work," *Applied Psychology: An International Review* 48, no. 1 (1999); Peter B. Smith, Mark F. Peterson, and Shalom H. Schwartz, "Cultural Values, Source of Guidance, and Their Relevance to Managerial Behavior: A 47-Nation Study," *Journal of Cross-Cultural Psychology* 33, no. 2 (2002).

[28] Daphna Oyserman, Heather M. Coon, and Markus Kemmelmeier, "Rethinking Individualism and Collectivism: Evaluation of Theoretical Assumptions and Meta-Analyses," *Psychological Bulletin* 128, no. 1 (2002).

[29] Marieke de Mooij and Geert Hofstede, "Convergence and Divergence in Consumer Behavior: Implications for International Retailing," *Journal of Retailing* 78, no. 1 (2002).

[30] Geert Hofstede, *Culture's Consequences: International Differences in Work-Related Values*, 1st ed. (Newbury Park, CA: Sage Publications, 1980). Hofstede provides culture scores on his website at http://www.geert-hofstede.com/.

[31] The Chinese Culture Connection, "Chinese Values and the Search for Culture-Free Dimensions of Culture," *Journal of Cross-Cultural Psychology* 18, no. 2 (1987).

[32] See Earley and Ang, *Cultural Intelligence: Individual Interactions across Cultures*; de Mooij and Hofstede, "Convergence and Divergence in Consumer Behavior: Implications for International Retailing."; Marieke de Mooij, "The Future Is Predictable for International Marketers: Converging Incomes Lead to Diverging Consumer Behaviour," *International Marketing Review* 17, no. 2 (2000); Dianne A. van Hemert, Fons J. R. van de Vijver, and Ype H. Poortinga, "Multilevel Models of Individuals and Cultures: Current State and Outlook," in *Multilevel Analysis of Individuals and Cultures*, Fons J. R. van de Vijver, Dianne A. van Hemert, and Ype H. Poortinga, eds. (New York: Lawrence Erlbaum Associates, 2008).

[33] For example, Michele J. Gelfand, Harry C. Triandis, and Darius K. S. Chan, "Individualism Versus Collectivism or versus Authoritarianism?" *European Journal of Social Psychology* 26, no. 3 (1996); Yilmaz Esmer, "Globalization, 'McDonaldization' and Values: Quo Vadis?" *Comparative Sociology* 5, no. 2/3 (2006); Katrijn Gielens and Marnik G. Dekimpe, "Do International Entry Decisions of Retail Chains Matter in the Long Run?" *International Journal of Research in Marketing* 18, no. 3 (2001); Daniel J. Flint, "Innovation, Symbolic Interaction, and Customer Valuing: Thoughts Stemming from a Service Dominant Logic of Marketing," *Marketing Theory* 6, no. 3 (2006); Mikael Sondergaard, "Research Note: Hofstede's Consequences: A Study of Reviews, Citations, and Replications," *Organization Studies* 15, no. 3 (1994).

TABLE 4-1 Hofstede's Dimensions of National Culture[34]

Culture Dimension	Description
Power distance (high vs. low)	The extent to which less powerful individuals and groups accept unequal distribution of power in society. Represents inequality (more versus less), as defined by the less powerful. In high power-distance societies, inequality is expected by all. Paraphrasing Orwell, Hofstede contends that "all societies are unequal, but some are more unequal than others."
Individualism vs. Collectivism	The degree to which individuals are integrated into groups. Where individualism is high, individuals look after themselves and close others, such as their family. Where collectivism is high, people are integrated into strong, cohesive in-groups, often extended families that look after them and expect their unquestioning loyalty. In this sense, the word "collectivism" refers to any group and has no political meaning.
Masculinity vs. Femininity	The distribution of assertive/competitive roles versus modest/caring roles between genders. In masculine cultures, achievement and success are dominant values and performance is very important. In feminine cultures, caring for others and quality of life take precedence, status is not very important, and social relations are conducted in a humanistic manner.
Uncertainty avoidance (high vs. low)	The extent to which people feel threatened by, and try to avoid, uncertainty and ambiguity. Where uncertainty avoidance is high, societies typically employ strict laws and rules, safety and security measures, and dogmatic philosophical and religious beliefs to minimize uncertainty, and people typically show more emotion during social interactions. Where uncertainty avoidance is low, tolerance encourages people to show greater diversity in opinions and behavior and societies regulate behavior with far fewer rules. Innovation and entrepreneurship are higher. People typically show less emotion during interactions and are more contemplative.
Long-term vs. Short-term orientation	Derived from the teachings of the great Chinese philosopher Confucius, but applicable everywhere. Refers to a pragmatic, future-oriented perspective about achieving goals in life. Long-term orientation emphasizes thrift and perseverance. Short-term orientation emphasizes respect for tradition, fulfilling social obligations, and protecting one's public image.

the cultural dimensions, and methodology.[35] Notwithstanding these criticisms, Hofstede is recognized for his seminal contribution to cultural research.

Project Globe

Building on Hofstede, Project GLOBE is a recent study of managerial values, which helps explain cultural effects in organizational structures and processes.[36] Using a theory-driven approach, a team of more than 170 collaborators in 62 countries collected data on societal culture, organizational culture, and organizational leadership

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[34] Adapted from Hofstede, *Culture's Consequences: Comparing Values, Behaviors, Institutions, and Organizations across Nations*.

[35] For recent commentaries on Hofstede's contribution and evaluations of his work, see Michael Harris Bond, "Reclaiming the Individual from Hofstede's Ecological Analysis—A 20-Year Odyssey: Comment on Oyserman et al. (2002)," *Psychological Bulletin* 128, no. 1 (2002); Mansour Javidan et al., "In the Eye of the Beholder: Cross Cultural Lessons in Leadership from Project GLOBE," *Academy of Management Perspectives* 20, no. 1 (2006): 67; Peter B. Smith, "Culture's Consequences: Something Old and Something New," *Human Relations* 55, no. 1 (2002); Harry C. Triandis, "The Many Dimensions of Culture," *Academy of Management Executive* 18, no. 1 (2004); Galit Ailon, "Mirror, Mirror on the Wall: Culture's Consequences in a Value Test of Its Own Design," *Academy of Management Review* 33, no. 4 (2008). See also Geert Hofstede, "What Did GLOBE Really Measure? Researchers' Minds Versus Respondents' Minds," *Journal of International Business Studies* 37, no. 6 (2006); Hofstede, "Dimensions Do Not Exist: A Reply to Brendan McSweeney," *Human Relations* 55, no. 11 (2002); and Ana Maria Soares, Minoo Farhangmehr, and Aviv Shoham, "Hofstede's Dimensions of Culture in International Marketing Studies," *Journal of Business Research* 60, no. 3 (2007): 277–284.

[36] Robert J. House et al., "Understanding Culture and Implied Leadership Theories Across the Globe: An Introduction to Project GLOBE," *Columbia Journal of World Business* (2002); Mansour Javidan and Robert J. House, "Cultural Acumen for the Global Manager: Lessons from Project GLOBE," *Organizational Dynamics* 29, no. 4 (2001).

TABLE 4-2 Project GLOBE Cultural Dimensions[37]

Cultural Dimension	Description
Power distance	The degree to which individuals in organizations or societies expect and agree that power should be distributed unequally, favoring those at higher levels.
Uncertainty avoidance	The extent to which members of an organization or society make efforts to avoid uncertainty, often by relying on established norms and behaviors.
Humane orientation	The degree to which individuals in organizations or societies encourage and reward individuals for fairness, altruism, generosity, caring, and kindness toward others.
Collectivism (institutional)	The degree to which organizational and societal institutional practices encourage and reward resource distribution and action by the collective, as opposed to the individual.
Collectivism (in-group)	The degree to which individuals express pride, loyalty, and cohesiveness in their collective (e.g., organizations, families, membership groups).
Assertiveness	The degree to which individuals in organizations or societies are assertive, confrontational, and aggressive in interpersonal relations.
Gender egalitarianism	The degree to which an organization or a society promotes gender equality and minimizes differences in gender roles.
Future orientation	The degree to which individuals in organizations or societies engage in future-oriented behaviors such as planning, investing in the future, and delaying individual or collective gratification.
Performance orientation	The degree to which an organization or society encourages and rewards group members for performance improvements and excellence.

from more than 17,000 managers. The nine culture-level dimensions partially overlap Hofstede, reflecting societal and organizational cultures, not dimensions of national culture (see Table 4-2). Project GLOBE illustrates cross-cultural research best practices and holds promise in the study of business-to-business marketing.[38]

Inglehart's World Values Survey

Political scientist, Ronald Inglehart, has orchestrated the *World Values Survey* (WVS) in five waves beginning in 1981.[39] He has collected "attitudes, values, and beliefs" data in more than 70 countries representing 80 percent of the world's population, which detail pervasive changes in what people want in life and what they believe.[40] Motivated by Inglehart's research on materialist and postmaterialist values, the WVS maintains an informative website with links to national cultural dimension scores, social and political

[37] Adapted from Robert J. House et al, *Culture, Leadership, and Organizations: The GLOBE Study of 62 Societies* (Thousand Oaks, CA: Sage, 2004).

[38] See Atilla Yaprak, "Culture Study in International Marketing: A Critical Review and Suggestions for Future Research," *International Marketing Review* 25, no. 2 (2008): 215–29. The research team reports extensive information about their research design, measurement instrument properties, and results in House et al., *Culture, Leadership, and Organizations;* Javidan et al., "In the Eye of the Beholder"; Hofstede, "What Did GLOBE Really Measure? Researchers' Minds Versus Respondents' Minds"; Mansour Javidan et al., "Conceptualizing and Measuring Cultures and Their Consequences: A Comparative Review of GLOBE's and Hofstede's Approaches," *Journal of International Business Studies* 37, no. 6 (2006). See also Robbert Maseland and André van Hoorn, "Explaining the Negative Correlation between Values and Practices: A Note on the Hofstede-Globe Debate," *Journal of International Business Studies* 40, no. 3 (2009).

[39] The project included the European Values Survey. When we refer to the WVS, we refer to both surveys.

[40] Christian Welzel, Ronald Inglehart, and Hans-Dieter Klingemann, "The Theory of Human Development: A Cross-Cultural Analysis," *European Journal of Political Research* 42 (2003).

attitudes and behaviors, survey data files, technical information, and even an online data analysis tool.[41] A sixth wave of research began in 2012.

Schwartz's Cultural Value Orientations

The social psychologist, Shalom Schwartz, has conducted the most important programmatic stream of values research in cross-cultural psychology.[42] Schwartz refined the values concept and proposed the first systematic theory on the content and structure of human values. He defines *values* as *desirable, trans-situational goals that vary in importance and serve as guiding principles in life*. Working with more than 100 collaborators, Schwartz proposed his new theory, developed new scales to measure values, validated their measurement properties rigorously, and empirically validated his theory in studies involving more than 200,000 subjects in some 70 countries located on every inhabited continent. He proposes a theory on values at the level of individuals and cultures. At the individual level, Schwartz identifies 10 motivational value types that can be employed in microcultural analysis. In this chapter, we focus on his culture-level theory.

To develop a theory on national culture, Schwartz began by considering three basic problems that confront all societies.[43] The first problem concerns the nature of the relation between the individual and the group. Are people autonomous entities expected to place their own interests first; or should they prioritize the interests of the social groups in which they are embedded? The second problem confronting all societies concerns ways of ensuring responsible behavior that preserves the social fabric. Should power, roles, and resources be distributed equally among members of societies who are socialized to voluntarily cooperate and show concern for others; or should unequal distribution of power be legitimized in hierarchical social institutions? The third problem concerns the relations of humankind to the natural and social world. Should people demonstrate mastery, changing and bending the world to their will in an effort to exploit it for group interests; or should they accept and harmoniously adapt to the contingent world?

These basic societal issues provide the foundation for the *content* aspect of the theory, which rests on three bipolar dimensions on which national cultures differ: autonomy vs. embeddedness, egalitarianism vs. hierarchy, and mastery vs. harmony. Schwartz derives seven value types which are detailed in Figure 4-4 and Table 4-3,

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[41] For more information, visit http://www.worldvaluessurvey.org/. See Ronald Inglehart, "Mapping Global Values," *Comparative Sociology* 5, no. 2–3 (2006); Ronald Inglehart and Wayne E. Baker, "Modernization, Cultural Change, and the Persistence of Traditional Values," *American Sociological Review* 65 (2000); Ronald Inglehart et al., eds., *Human Beliefs and Values: A Cross-Cultural Sourcebook Based on the 1999–2002 Values Surveys* (Mexico City: Siglio XXI, 2004); Ronald Inglehart and Christian Welzel, *Modernization, Cultural Change and Democracy: The Human Development Sequence* (Cambridge: Cambridge University Press, 2005).

[42] Schwartz et al., "Extending the Cross-Cultural Validity of the Theory of Basic Human Values with a Different Method of Measurement"; Shalom H. Schwartz, "Are There Universal Aspects in the Content and Structure of Human Values?" *Journal of Social Issues* 50, no. 4 (1994); Shalom H. Schwartz, Sonia Roccas, and Lilach Sagiv, "Universals in the Content and Structure of Values: Theoretical Advances and Empirical Tests in 20 Countries," in *Advances in Experimental Social Psychology*, Mark P. Zanna, ed. (Orlando, FL: Academic Press, 1992).

[43] Shalom H. Schwartz, "A Theory of Cultural Value Orientations: Explication and Applications," *Comparative Sociology* 5, no. 2–3 (2006); Schwartz, "Mapping and Interpreting Cultural Differences around the World," in *Comparing Cultures: Dimensions of Culture in a Comparative Perspective*, Henk Vinken, Joseph Soeters, and Peter Ester, eds. (Leiden, The Netherlands: Brill, 2004); Schwartz, "A Theory of Cultural Values and Some Implications for Work"; Shalom H. Schwartz and Anat Bardi, "Cross-Cultural Similarities in Value Hierarchies: Evidence and Implications" (Jerusalem: Hebrew University of Jerusalem, 1997); Shalom H. Schwartz and Lilach Sagiv, "Identifying Culture-Specifics in the Content and Structure of Values," *Journal of Cross-Cultural Psychology* 26, no. 1 (1995).

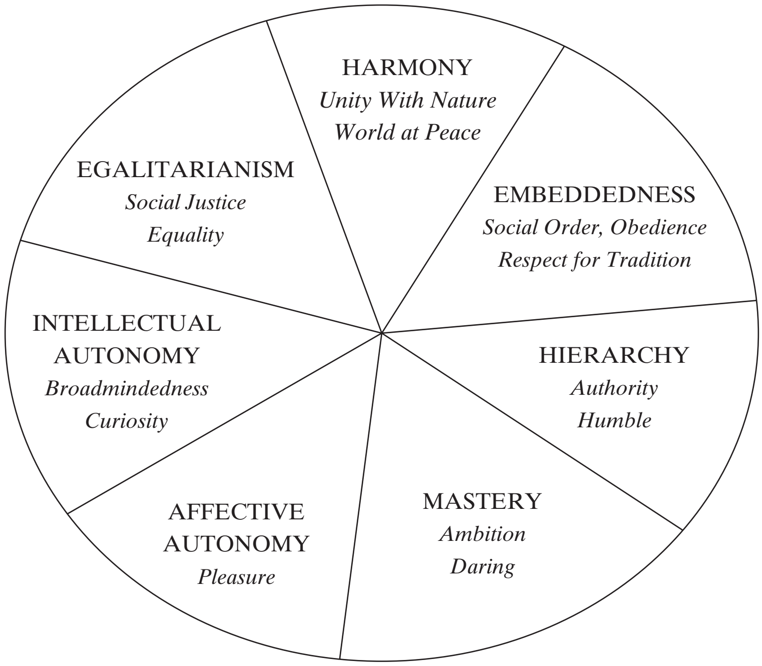

FIGURE 4-4 Prototypical Structure of Schwartz's National Cultural Value Dimensions

TABLE 4-3 Schwartz's National Culture Dimensions

Culture Dimension	Description
Autonomy vs. Embeddedness	How society determines the nature of the relation or the boundaries between the person and the group. In societies that emphasize *intellectual autonomy*, individuals are encouraged to be broad-minded, curious, and creative and pursue their own ideas and intellectual directions independently. Societies that emphasize *affective autonomy* encourage individuals to experience pleasure, excitement, novelty, and variation in life and to pursue affective positive experiences for themselves. Where *embeddedness* is emphasized, individuals are encouraged to respect social order and tradition and place importance on security, obedience, and wisdom. People view themselves as entities embedded in the collectivity. Their meaning in life comes largely through identification with the group, social relations, participating in a shared way of life, and striving toward its shared goals.
Egalitarianism vs. Hierarchy	How society induces individuals to consider the welfare of others, coordinate with them, manage their unavoidable interdependencies, and engage in the productive work necessary to preserve society. Where *egalitarianism* is emphasized, individuals are encouraged to recognize each other as equals who share basic interests as human beings. Society places importance on equality, social justice, responsibility, help, and honesty and socializes individuals to internalize a commitment to cooperate and be concerned about the welfare of others. In societies that emphasize *hierarchy*, individuals assume and expect unequal distribution of power, roles, and resources. Responsible, productive behavior is assured through hierarchical systems of ascribed roles. People are socialized to comply with the obligations and rules attached to roles in society and place importance on social power, authority, humility, and wealth.
Mastery vs. Harmony	How society expects individuals to manage their relations to the natural and social world. In societies that emphasize *mastery* through active assertion, individuals are expected to master, direct, and change the natural and social environment to attain group goals. Ambition, success, competence, and daring are important values. In societies that emphasize *harmony*, individuals are expected to understand and appreciate the world as it is and strive to fit in, rather than change, direct, or exploit other people or nature. Value priorities emphasize a world at peace, unity with nature, and protecting the environment.

distinguishing conceptually between intellectual (i.e., ideas and thoughts) and affective (i.e., feelings and emotions). National cultural orientations on these seven cultural values are presumed to arise over long periods of time, as societies respond to these basic issues or problems affecting the regulation of human activity. A particular society's orientation will depend on people recognizing these issues and problems, planning responses to them, and motivating one another to cope and respond.

A major update concerns the *structural aspect* of the theory, which describes the dynamic relations of compatibilities and contradictions among the seven cultural value types. Each cultural value is compatible with some values and in conflict with others, due to similarities and dissimilarities in their underlying motivations. This notion of compatibilities and conflicts is captured in a circular structure (see Figure 4-5). Compatible cultural value types are located adjacent to one another around the circle. Incompatible cultural value types are located in opposition. Compatibility with consumer values has important positive consequences for consumer information processing and consumer behavior.[44]

Value compatibilities and conflicts can be very helpful in choosing fundamental strategic approaches across countries and regions. An example is provided by the opposing cultural orientations of emerging markets and high-income Western markets, which are apparent in Figure 4-6. Emerging-markets cultures emphasize embeddedness and hierarchy. These cultural orientations share the assumption

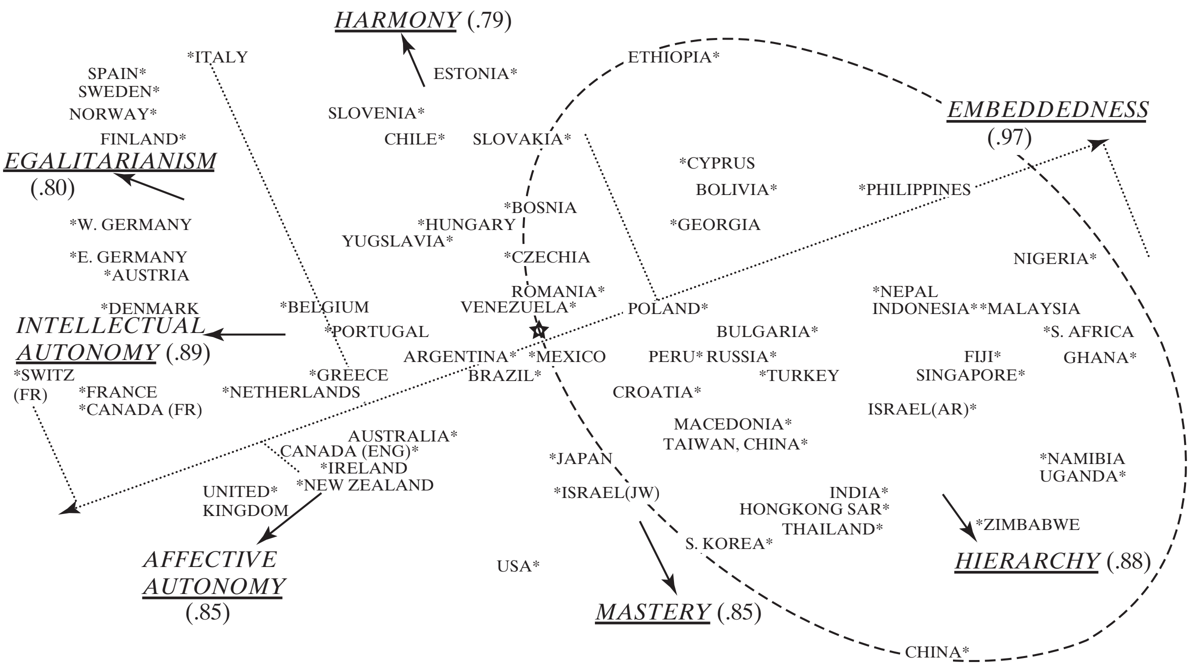

FIGURE 4-5 Co-Plot of 67 Countries and Regions on Schwartz's Cultural Orientations *Source:* Shalom H. Schwartz, "A Theory of Cultural Value Orientations: Explication and Applications," *Comparative* Sociology 5, no. 2/3 (2006): 156.

[44] James Agarwal, Naresh K. Malhotra, and Ruth N. Bolton, "A Cross-National and Cross-Cultural Approach to Global Market Segmentation: An Application Using Consumers' Perceived Service Quality," *Journal of International Marketing* 18, no. 3 (2010); Marieke de Mooij, *Consumer Behavior and Culture: Consequences for Global Marketing and Advertising*, 2nd ed. (Thousand Oaks, CA: Sage, 2011); Burgess, "Personal Values and Consumer Research."

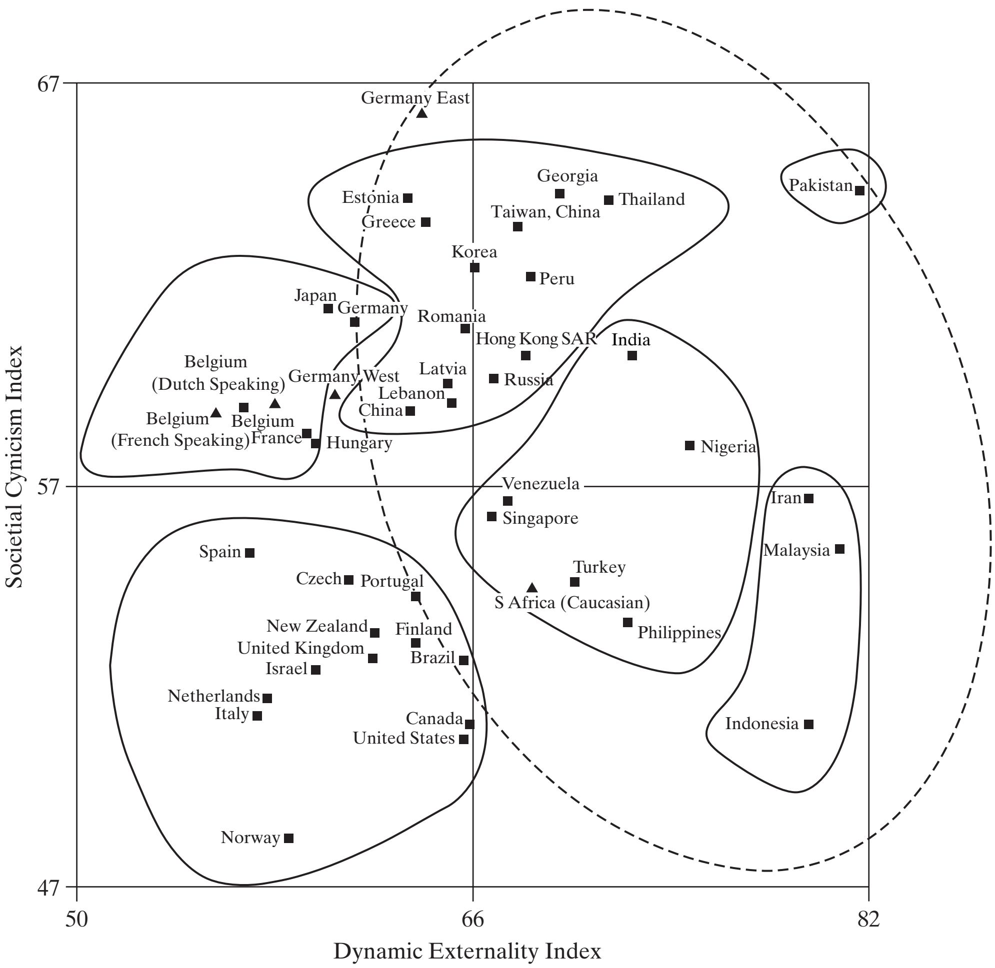

FIGURE 4-6 Co-Plot of 41 Economies on Cultural-Level Social Axioms *Source:* Adapted from Michael Harris Bond et al., "Culture-Level Dimensions of Social Axioms and Their Correlates across 41 Cultures," *Journal of Cross-Cultural Psychology*, 35, no. 5 (2004): 563.

that social rules and group obligations take precedence over personal aspirations or ideas. This promotes the importance of tradition, conformity, and maintaining social order. In contrast, Western European cultures emphasize autonomy and egalitarianism, which assume that individuals are responsible for their own actions and should make decisions based on their own personal understanding of the situation. These cultural orientations promote the importance of novelty, broadmindedness, creativity, curiosity, and change. These opposing cultural orientations relate to differences in fundamental motivations underlying consumer and organizational buyer behavior.

Applying the theory systematically across cultures has the potential for unlocking valuable behavioral insights, which can be reflected in a company's marketing mix across countries.[45] It provides a comprehensive and nearly universal set of

[45] Michel Laroche, "Globalization, Culture, and Marketing Strategy: Introduction to the Special Issue," *Journal of Business Research* 64, no. 9 (2011).

cultural values for use in marketing activities such as segmentation, positioning, and designing advertising content. In Africa and Latin America, where embeddedness and hierarchy encourage compliance with social norms and traditions, Aspen Pharmacare's generic brands, for example, are positioned more as tried and trusted products than as less expensive alternatives or new and improved products. Similarly, an effective advertising strategy in the UK is likely to apply in countries with similar cultural orientations, such as Australia and New Zealand, but less likely to apply where countries have opposing cultural orientations, such as Bolivia or the Philippines. (See Figure 4-3.)

Schwartz provides cultural orientation scores for many countries and seven world regions. Cultural correlations are provided with an encyclopedic array of socioeconomic variables that interest marketers, such as GNI per capita; life expectancy; educational attainment; measures of political institutions including democratization, rule of law, and shareholder rights; and population characteristics such as ethnic diversity, average family size, and gender equality.[46]

Leung and Bond's Social Axioms

So far, we have discussed standardized cultural classifications based on values. Culture is not limited to values. To broaden our understanding of culture, we need to explore new cultural constructs.[47] Social axioms are a new cultural construct that is the focus of a recent large-scale programmatic approach to cultural analysis in international business.[48] Research has already linked social axioms to more than 50 sociodemographic, psychographic, and organizational variables that are frequently used in market segmentation and has shown that social axioms add explanatory power over and above values in predicting human behavior.[49]

Social axioms are conceptualized as generalized expectancies that people hold about life and how it works. Learned during social interactions in daily life, social axioms express general beliefs about the relations of two concepts or entities. Statements such as "hard work is always rewarded," "every problem has a solution," and "power and status make people arrogant" are social axioms. Social axioms vary across individuals and cultures due to differences in life experiences, exposure to ecological factors, institutional influences, and other environmental influences and individual differences.

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[46] See Amir N. Licht, Chanan Goldschmidt, and Shalom H. Schwartz, "Culture, Law, and Corporate Governance," *International Review of Law and Economics* 25, no. 2 (2005); Licht, Goldschmidt, and Schwartz, "Culture Rules: The Foundations of the Rule of Law and Other Norms of Governance," *Journal of Comparative Economics* 35, no. 2 (2005); Schwartz, "A Theory of Cultural Value Orientations: Explication and Applications."

[47] For example, Eric J. Arnould and Jakki J. Mohr, "Dynamic Transformations for Base-of-the-Pyramid Market Clusters," *Journal of the Academy of Marketing Science* 33, no. 3 (2005); Peter B. Smith, "Nations, Cultures, and Individuals: New Perspectives and Old Dilemmas," *Journal of Cross-Cultural Psychology* 35, no. 1 (2004).

[48] Kwok Leung, Rabi S. Bhagat, Nancy R. Buchan, Miriam Erez, and Cristina B. Gibson, "Culture and International Business: Recent Advances and Their Implications for Future Research," *Journal of International Business Studies* 36, no. 4 (2005): 357–378.

[49] Michael Harris Bond et al., "Culture-Level Dimensions of Social Axioms and Their Correlates across 41 Cultures," *Journal of Cross-Cultural Psychology* 35, no. 5 (2004): 551; Kwok Leung et al., "Developing and Evaluating the Social Axioms Survey in Eleven Countries: Its Relationship with the Five-Factor Model of Personality," *Journal of Cross-Cultural Psychology*, 20(10), 1-25; Michael Harris Bond and Kwok Leung, "Cultural Mapping of Beliefs about the World and Their Application to a Social Psychology involving Culture: Futurescaping," in *Understanding Culture: Theory, Research, and Application*, Robert S. Wyer, Jr., Chi-yue Chiu, and Ying-yi Hong, eds. (New York: Psychology Press, 2009); Kwok Leung et al., "Social Axioms and Values: A Cross-Cultural Examination," *European Journal of Personality* 21, no. 2 (2007); Michael Harris Bond et al., "Combining Social Axioms with Values in Predicting Social Behaviors," *European Journal of Personality* 18, no. 3 (2004).

TABLE 4-4 Leung and Bond's Cultural Dimensions of Social Axioms[50]

Culture Dimension	Description
Dynamic externality	The degree to which societies are characterized by proaction in the face of external constraints. There is an outward-oriented, simplistic grappling with external forces that are construed to include fate and a supreme being. Characterized by engaged social systems in which individuals are mobilized psychologically to confront environmental difficulties and respond to expectations to succeed.
Societal cynicism	The degree to which societies are characterized by cognitive apprehension or assessment of the world confronting people. When societal cynicism is high, the world is believed to produce malignant outcomes. Individuals believe that the world is a dangerous place in which they are surrounded by powerful others who subject them to the depredations of willful and selfish individuals, groups, and institutions.

Leung and Bond have orchestrated the study of social axioms in 41 cultures. Cultural- and individual-level dimensions have been identified. The two cultural-level dimensions, *dynamic externality* and *societal cynicism*, are defined in Table 4-4. Five country clusters emerge within the 41 culture mapping (see Figure 4-6). The five individual-level dimensions, *reward for application*, *social complexity*, *fate control*, *religiosity*, and *social cynicism*, can be used to explore diversity within societies.[51] Social axioms are linked to important antecedents of market orientation and performance, including organizational citizenship behaviors, organizational commitment, conscientiousness in completion of tasks, and preferences for incentives, rewards, types of organizational structure, and styles of interdepartmental conflict resolution.[52]

Ethnographic and Other Nonsurvey Approaches

Global marketers use ethnographic and other nonsurvey data collection approaches when they suspect that their culture constructs or the nature or impact of their marketing efforts may differ across societies or be changing over time.[53] With a variety of research methods such as focus groups, depth interviews, and observation research, ethnographers collect qualitative data with the goal of understanding cultures and cultural change. Ethnographic data typically consists of words and images, which help explain how participants in a study understand their lives and social relations. This data usually is not intended to be used in predictive statistical models. Instead, value gleaned from ethnographic and other nonsurvey approaches provides rich portraits of people and their societies.

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[50] Adapted from Michael Harris Bond et al., "Culture-Level Dimensions of Social Axioms and Their Correlates across 41 Cultures," *Journal of Cross-Cultural Psychology* 35, no. 5 (2004): 548–585.

[51] Kwok Leung et al., "Social Axioms: The Search for Universal Dimensions of General Beliefs about How the World Functions," *Journal of Cross-Cultural Psychology* 33, no. 3 (2002); Leung et al., "Developing and Evaluating the Social Axioms Survey in Eleven Countries."

[52] Catherine T. Kwantes and Charlotte M. Karam, "Social Axioms and Organizational Behavior," in *Psychological Aspects of Social Axioms*, Kwok Leung and Michael Harris Bond, eds. (New York: Springer, 2009); Tobias Gress, "On the Nomological Relations of Culture and Market Orientation: The Case of the German and South African Automotive Industries," (University of Cape Town, 2009).

[53] See Eric J. Arnold and Amber Epp, "Deep Engagement with Consumer Experience: Listening and Learning with Qualitative Data," in *The Handbook of Marketing Research: Uses, Misuses, and Future Advances*, Rajiv Grover and Marco Vriens, eds. (Thousand Oaks, CA: Sage, 2006).

Side Bar: The Use of Ethnography in International Banking

More than 100 years old and tracing its roots to the former British colonies of India and South Africa, Standard Chartered Bank set out in the early 1990s to develop its franchise in Asia, the Middle East, and Africa in light of slow growth, demographic aging, and economic uncertainty in their traditional markets. Success depended on understanding and responding to cultural diversity, especially in the emerging markets where more than one billion people of Islamic faith reside. Banking in the Middle East must comply with Islamic Shari'ah law. In the Islamic faith tradition, the ability to discharge obligations depends not only on responsible behavior, but also the Will of God. Risk is shared by all parties to a financial arrangement and interest payments are forbidden. Fixed deposits, loans, and other traditional banking products are incompatible with Shari'ah law. Short-term insurance and life insurance also are forbidden. To operate profitably in these fast-growing markets, Western banks must understand and respond to this cultural complexity.

LIVING, WORKING, AND THRIVING IN DIFFERENT CULTURES

Living and working at the boundaries of cultures presents individuals with many interesting challenges and opportunities. *Acculturation* refers to a process of adapting to a foreign culture through continuous direct contact with it.[54] Acculturation does not require one to reject a home culture but rather to come to terms with the dominant logic of a foreign culture and its expectations for behavior. Individuals who cannot acculturate may experience *acculturative stress,*[55] which may manifest in complications such as anxiety, depression, and mood swings that diminish relationships with peers. Failing to adapt to a foreign culture can threaten the success of even the best-planned marketing strategies.

As we have seen, the reason cultural factors are a challenge to global marketers is that they are hidden from view. Because culture is learned behavior passed on from generation to generation, it is difficult for the inexperienced or untrained outsider to fathom. Becoming a global manager means learning how to let go of cultural assumptions. Failure to do so will hinder accurate understanding of the meaning and significance of the statements and behaviors of business associates from a different culture.

Understanding the Complexity of Identity

Becoming more aware of your identity can be a good place to begin adapting life and work across cultures. Identity is complex, including personal and social identities that affect your perceptions of others and the ways you choose to respond to them and events in life.[56] *Personal identity* includes all the perceptions a person holds about "who I am as an individual who can be compared to others." *Social identity* includes

[54] Lisa Penaloza and Mary C. Gilly, "Marketer Acculturation: The Changer and the Changed," *Journal of Marketing* 63, no. 3 (1999).
[55] John W. Berry, "Acculturation: Living Successfully in Two Cultures," *International Journal of Intercultural Relations* 29, no. 6 (2005).
[56] For an excellent review of social identity theory, see Marilynn B. Brewer and Rupert J. Brown, "Intergroup Relations," in *The Handbook of Social Psychology*, Daniel T. Gilbert, Susan T. Fiske, and Gardner Lindzey, eds. (Boston: McGraw-Hill, 1998).

all the perceptions a person holds about "who we are as members of emotionally important social groups" as well as the perceptions about "who I am in my relations and responsibilities to others."

The "minimal-group paradigm" experiments of French psychologist Henri Tajfel first brought social identity into prominence.[57] Tajfel observed that individuals categorized others into "in-groups" comprised of people similar to oneself and "out-groups" comprised of dissimilar people. His experiments showed that people evaluate and behave more favorably toward in-group members, even when people are placed in meaningless groups (e.g., greens and blues) just moments before they are observed. Social categorization is automatic and effortless, occurring as quickly as 55/1000s of a second in controlled laboratory experiments and often without an individual's awareness.[58]

People maintain a "digest of selves" (e.g., mother, friend, executive, Manchester United fan, plumber), which are situationally activated. Once activated, social identity is a lens through which people observe and categorize others based on their observable characteristics such as ethnicity, gender, age, home language, apparent religion, culture, and distinctive behaviors. Social identities are most likely to be activated when a person perceives meaningful behavioral differences between two or more groups, which include group members who are more similar to one another than members of other groups.[59] Magnetic resonance imaging shows that people acculturated to Western and Asian cultural identities activate different areas of their brains in response to Western or Asian situational cues.[60]

According to Tajfel, people strive universally to be part of positively evaluated in-groups, which marketers need to understand empathetically when interacting with people in a foreign culture. It is human nature to compare things to what one knows, and marketers often find themselves comparing a foreign culture to their own. People may even invite you to compare their culture to your home culture. Seasoned global marketers never fall into the trap of defending their home culture and politely avoid comparing cultures. Engaging in social comparison is likely to make someone feel that their group is less desirable than other groups. This is a threat to positive social identity.

When positive social identity is threatened, people employ three basic strategies. If group boundaries are permeable, they may move between groups (*social mobility*). In the global marketing contexts, social mobility strategies may cause associates within the company, its agents, distributors, or other important stakeholders to resign or give their allegiance to a competitive firm that does not evoke a perceived threat to positive social identity. If social mobility is not possible, people may respond to identity threats with *social creativity* (i.e., attempt to improve the desirability of group membership by associating groups with positive characteristics) or *social conflict* (i.e., actively challenge group desirability or overturn existing or imposed order). Social creativity or social conflict strategies may threaten harmonious relations within the company, distribution channel partners, or customers.

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[57] Henri Tajfel, *Differentiation between Social Groups: Studies in the Social Psychology of Intergroup Relations* (London: Academic Press, 1978), 63. Tajfel considered relational identity to be an aspect of social identity in his theory.

[58] Susan T. Fiske, "Stereotyping, Prejudice, and Discrimination," in *The Handbook of Social Psychology*, Daniel T. Gilbert, Susan T. Fiske, and Gardner Lindzey, eds. (New York: McGraw-Hill, 1998).

[59] Henri Tajfel and John C. Turner, "The Social Identity Theory of Intergroup Behavior," in *Psychology of Intergroup Relations*, S. Worschel and W. G. Austin, eds. (Chicago: Nelson, 1986); Henri Tajfel, "Social Identity and Intergroup Behavior," *Social Science Information* 13, no. 2 (1974).

[60] Sik Hung Ng and Shihui Han, "The Bicultural Self and the Bicultural Brain," in *Understanding Culture: Theory, Research, and Application*, Robert S. Wyer, Chi-yue Chiu, and Ying-yi Hong, eds. (New York: Psychology Press, 2009).

Astute global marketers consciously monitor others and themselves for signs of conscious or subconscious cultural defense. They are especially careful to respond to social creativity and social conflict strategies in a thoughtful way that is most likely to foster productive relations. Consulting trusted others, who are familiar with a foreign culture, can help a marketer respond appropriately.

To transcend ethnocentricity and cultural myopia, managers must make the effort to learn and internalize cultural differences. There are several guidelines that will improve the ability to learn about other cultures:

1. The beginning of wisdom is to accept that we will never fully understand ourselves or others. People are far too complex to be understood. As Carl Jung, the Swiss psychiatrist, observed, "There are no misunderstandings in nature…misunderstandings are found only in the realm of what we call understanding."[61]
2. Our perceptual systems are extremely limited. We "see" almost nothing. Our nervous systems are organized on the principle of negative feedback. That is, the only time our control system is brought into play is when input signals deviate from what we have learned to expect.
3. We spend most of our energy managing perceptual inputs.
4. When we do not understand the beliefs and values of a particular cultural system and society, things that we observe and experience may seem bizarre.
5. If we want to be effective in another culture, we must attempt to understand that culture's beliefs, motives, and values. This requires an open attitude that allows us to transcend perceptual limitations based on our own culture.

The Self-Reference Criterion and Perception

As we have shown, a person's perception of market needs is framed by his or her own cultural experience. A framework for systematically reducing perceptual blockage and distortion was developed by James Lee.[62] Lee termed the unconscious reference to one's own cultural values the *self-reference criterion,* or SRC. To address this problem and eliminate or reduce cultural myopia, he proposed a systematic four-step framework.

1. Define the problem or goal in terms of home-country cultural traits, habits, and norms.
2. Define the problem or goal in terms of the host culture, traits, habits, and norms. Make no value judgments.
3. Isolate the SRC influence and examine it carefully to see how it complicates the problem.
4. Redefine the problem without the SRC influence and solve for the host-country market situation.

The lesson that SRC teaches is that a vital, critical skill of the global marketer is unbiased perception, the ability to see what is so in a culture. Although this skill is as valuable at home as it is abroad, it is critical to the global marketer because of the widespread tendency toward ethnocentrism and use of the self-reference criterion. The SRC can be a powerfully negative force in global business, and forgetting to check for it can lead to misunderstanding and failure. While planning Euro Disney, chairman Michael Eisner and other company executives were blindsided by a lethal combination

[61] Carl G. Jung, *Critique of Psychoanalysis*, Bollingen Series XX (Princeton, NJ: Princeton University Press, 1975), 228.
[62] James A. Lee, "Cultural Analysis in Overseas Operations," *Harvard Business Review* (March–April 1966): 106–114.

of their own prior success and ethnocentrism. Avoiding the SRC requires a person to suspend assumptions based on prior experience and success and be prepared to acquire new knowledge about human behavior and motivation.

Environmental Sensitivity

Environmental sensitivity is the extent to which products must be adapted to the culture-specific needs of different national markets. A useful approach is to view products on a continuum of environmental sensitivity. At one end of the continuum are environmentally insensitive products that do not require significant adaptation to the environments of various world markets. At the other end of the continuum are products that are highly sensitive to different environmental factors. A company with environmentally insensitive products will spend relatively less time determining the specific and unique conditions of local markets because the product is basically universal. The greater a product's environmental sensitivity, the greater the need for managers to address country-specific economic, regulatory, technological, social, and cultural environmental conditions.

Independent of social class and income, culture is a significant influence on consumption behavior and durable goods ownership. Consumer products are more sensitive to cultural difference than industrial products. Hunger is a basic

Side Bar: A Matter of Culture: "Sincerely"

While it may be true that "brevity is the soul of wit," when it comes to signing a business letter, the French go far beyond the simple "Sincerely" that often suffices for anyone writing in English. Following are the top 10 ways to close a business letter in French.

1. *Nous vous prions d'agréer, Monsieur, l'expression de nos sentiments dévoués.*
   Literally: "We beg you to receive, sir, the expression of our devoted sentiments."
2. *Agréez, Monsieur, l'assurance de mes meilleurs sentiments.*
   "Accept, sir, the assurance of my best sentiments."
3. *Je vous prie d'agréer, Monsieur le Directeur, mes meilleures salutations.*
   "I beg you to accept, Mr. Director, my best greetings."
4. *Je vous prie d'agréer, Madame la Directrice, mes meilleures salutations.*
   "I beg you to accept, Ms. Director, my best greetings."
5. *Veuillez, croire, Messieurs, à l'assurance de ma haute considération.*
   "Please believe, Gentlemen, the assurance of my highest consideration."
6. *Recevez, Messieurs, mes sincères salutations.*
   "Receive, Gentlemen, my sincere greetings."
7. *Je vous prie d'agréer, Monsieur, l'expression de mes sentiments les meilleurs.*
   "I beg you to accept, Sir, the expression of my best sentiments."
8. *Je vous prie d'agréer, Mademoiselle, mes respectueuses salutations.*
   "I beg you to accept, Miss, my respectful greetings."
9. *Veuillez agréer, Monsieur, l'expression de mes sentiments distingués.*
   "Please accept, Sir, the expression of my distinguished sentiments."
10. *Je vous prie d'agréer, Messieurs, avec mes remerciements anticipés, l'expression de mes sentiments distingués.*
    "I beg you to accept, Gentlemen, with my anticipated thanks, the expression of my distinguished sentiments."

physiological need in Maslow's hierarchy; everyone needs to eat, but what we want to eat can be strongly influenced by culture. Evidence from the front lines of the marketing wars suggests that food is probably the most sensitive category of consumer products. CPC International failed to win popularity for Knorr dehydrated soups among Americans. The US soup market was dominated by Campbell Soup Company; 90 percent of the soup consumed by households was canned. Knorr was a Swiss company acquired by CPC that had a major share of the European prepared market in which bouillon and dehydrated soups accounted for 80 percent of consumer soup sales. Despite CPC's failure to change the soup-eating habits of Americans, the company went on to achieve success with Knorr as a sauce and gravy product in the United States.

At Campbell, by contrast, the figures are reversed: 64 percent of the soup, sauce, and beverage income is generated in the United States, and only 11 percent of income for the same category is from the rest of the world. When Campbell moved into global markets, it discovered that the attitude of homemakers toward food preparation is a cultural factor in marketing prepared foods. Recall that cooking was one of the identified cultural universals. However, cooking habits and customs vary from country to country. Campbell's research revealed that Italian housewives devoted approximately 4.5 hours per day to food preparation versus 1 hour a day spent by their US counterparts. The difference reflected cultural norms regarding the kitchen as well as the fact that a higher percentage of US women work outside the home. The differences, if anything, are increasing. The use of stoves in meal preparation in the United States has declined more than 30 percent since the 1990s, while a survey shows that over 80 percent of Italian men have a hot meal at home for lunch.

Campbell discovered a strongly negative opinion of convenience food in Italy. A panel of randomly selected Italian housewives was asked: "Would you want your son to marry a canned-soup user?" The response to this question was sobering: all but a small fraction of a percent of the respondents answered, "No." Increased incomes as well as product innovations may have an impact on Italian attitudes toward time and convenience, with a corresponding positive effect on the market for convenience foods.

Thirst also shows how needs differ from wants. Liquid intake is a universal physiological need. As is the case with food and cooking, however, the particular beverages people *want* to drink can be strongly influenced by culture. Coffee is a beverage category that illustrates the point. In the United Kingdom instant coffee has 90 percent of the total coffee market as compared with only 15 percent in Sweden. The other European countries fall between these two extreme points. Instant coffee's large share of the British market can be traced to the fact that, in the hot beverage category, Britain has historically been a nation of tea drinkers. Only in recent times have the British been persuaded to take up coffee drinking. Instant coffee is more like tea than ground coffee in its preparation. Not surprisingly, when the British did begin to drink coffee, they opted for instant since its preparation was compatible with past experience. Another reason for the popularity of instant coffee in Britain is the practice of drinking coffee with a large quantity of milk so that the coffee flavor is masked. Differences in the coffee flavor are thus hidden, so a "better cup" of coffee is not really important. In Sweden, on the other hand, coffee is the hot beverage of choice. Swedes consume coffee without large quantities of milk; therefore, the coffee flavor is not masked and brewed coffee is preferred.

Soft-drink consumption patterns also show conspicuous differences around the globe. Differences in soft-drink consumption are associated in part with much higher per capita consumption of other kinds of beverages in Europe. In France and

Italy, for example, 30 to 40 times as much wine is consumed as in America on a per capita basis. The French also prefer mineral water to soft drinks; the converse is true in America, where soft-drink consumption surpasses that of water. Germany far exceeds the United States in per capita consumption of beer. Does culture alone account for the difference between the popularity of soft drinks in Western Europe and the United States? No. In fact, several variables—including culture—are responsible for the differences.

These variables include other beverages' relative price, quality and taste, advertising expenditure and effectiveness of the beverage companies, availability of products in various distribution channels, climatic conditions, and income levels, to name but a few. Accordingly, culture is an influencing rather than a determining factor. If a soft-drink marketer in Western Europe launches an aggressive marketing program (including lower prices, more intensive distribution, and heavy advertising), consumption can be expected to increase. However, it is also clear that any effort to convert Europeans to soft drinks will run up against cultural tradition, custom, and competition from widely available alternative beverages. Culture in this case is a restraining force, but it can be overcome.

The penetration of the US beverage market by bottled water producers is another excellent example of the impact of an effective creative strategy on a firmly entrenched cultural tradition. Prior to the 1980s, drinking bottled water was not an important part of US culture. The general attitude in the United States was, "Why pay for something that is free?" Source Perrier SA, the French bottled water firm, decided to take aim at the US market. It hired Bruce Nevin, an experienced American marketing executive, and gave him a free hand to formulate a creative strategy.

Nevin decided to reposition Perrier from an expensive imported bottled water to a competitively priced, low-calorie beverage in the soft-drink market. To back up this positioning, Nevin launched a major consumer advertising campaign, lowered prices, and moved the product from the gourmet section of the supermarket to the soft-drink section. The strategy boiled down to significant adjustment of three marketing mix elements: price, promotion, and place. Only the product was left unchanged.

The campaign succeeded beyond even the most optimistic expectations, essentially creating an entirely new market. The success of this strategy was rooted in two indisputable facts: Americans were ready for bottled water and the tactics were brilliantly executed. The results illustrate how the restraining force of culture can be changed by a creative marketing strategy grounded in market possibilities.[63]

One of the clearest and most painful instances of a failure of one culture to perceive another culture's motivations and behaviors dates back to the beginnings of World War II. Throughout the war and even to this day, the United States encountered great difficulties in attempting to understand the empire of Japan, its enemy. In response to the obstacles the United States faced, studies of Japanese culture were commissioned, focusing on Japan's history, tradition, national character, social life and customs, family, personality, and mind. The result is such great works as Benedict's *The Chrysanthemum and the Sword*. Since the end of World War II, Japan has emerged as a leading competitor of the United States; thus, the body of studies and publications has continued to grow over the last 50 years, with the focus shifting somewhat from an emphasis on societal and individual values and motivations to business and corporate culture.

[63] Charles Fishman, Message in a Bottle, July 1, 2007 at http://www.fastcompany.com/59971/message-bottle. (Accessed February 18, 2013).

Side Bar: High- and Low-Context Cultures

Edward T. Hall has suggested the concept of high and low context as a way of understanding different cultural orientations.[64] In a low-context culture, messages are explicit; words carry most of the information in communication. In a high-context culture, less information is contained in the verbal part of a message. Much more information resides in the context of communication, including the background, associations, and basic values of the communicators. In general, high-context cultures function with much less legal paperwork than is deemed essential in low-context cultures. Japan, Saudi Arabia, and other high-context cultures place a great deal of emphasis on a person's values and position or place in society. In such cultures, a business loan is more likely to be based on who you are than on formal analysis of pro forma financial documents. In China, *guanxi* or *kuan-xie* is extremely important. *Guanxi* is roughly translated as "relationships," which take years to develop. In business and society, *guanxi* is even more important than laws. Chinning Chu quotes: "In China, it does not matter how many laws and how much righteousness are on your side, without Kuan-Xie, you have nothing. Even if you are outside the law and there is no righteousness to your position, if you have the right Kuan-Xie and Ho-Tai (backstage), you can do no wrong."[65] In a low-context culture such as the United States, Switzerland, or Germany, deals are made with much less information about the character, background, and values of the participants. Much more reliance is placed on the words and numbers in the loan application.

In a high-context culture, a person's word is his or her bond. There is less need to anticipate contingencies and provide for external legal sanctions because the culture emphasizes obligations and trust as important values. In these cultures, shared feelings of obligation and honor take the place of impersonal legal sanctions. This helps explain the importance of long and protracted negotiations that never seem to "get to the point." Part of the purpose of negotiating for a person from a high-context culture is to get to know the potential partner.

For example, competitive bidding may not be the best way to keep building costs down in a high-context culture. In a high-context culture, the job is given to the person who will do the best work and whom you can trust and control. In a low-context culture, one tries to make the specifications so precise that a builder is forced by the threat of legal sanction to do a good job. According to Hall, a builder in Japan is likely to say, "What has that piece of paper got to do with the situation? If we can't trust each other enough to go ahead without it, why bother?"

Table 4-5 summarizes some of the ways in which high- and low-context cultures differ.

CROSS-CULTURAL COMPLICATIONS AND SUGGESTED SOLUTIONS

Local marketing activities are conducted in an ever-changing environment that blends economic, cultural, and social forces. Stepping out of the global perspective for a moment, we should acknowledge one thing: even when the parties to a commercial transaction belong to the *same* low-context society—America, for example—and the terms of the deal are spelled out "in black and white," different understandings of the respective obligations of the parties will often occur.

Business relationships between parties of *different* cultures and/or nationalities are subject to additional challenges. Parties from different countries may have trouble coming to contract terms because of differences in the laws governing their respective activities and problems of enforcement across international boundaries. No matter what is stated in a contract, taking another party to court for breach of contract will

[64] See Hall, *Beyond Culture*, and Edward T. Hall, "How Cultures Collide," *Psychology Today* (July 1976): 66–97.
[65] Chin-ning Chu, *The Asian Mind Game* (New York: Rawson Associates, 1991), 199.

TABLE 4-5 High- and Low- Context Cultures

Factors/Dimensions	High Context	Low Context
Lawyers	Less important	Very important
A person's word	Is his or her bond	Is not to be relied on; "get it in writing"
Responsibility for organizational error	Taken by highest level	Pushed to lowest level
Space	People breathe on each other	People maintain a bubble of private space and resent intrusions
Time	Polychronic—everything in life must be dealt with in its own time	Monochronic—time is money. Linear—one thing at a time
Negotiations	Are lengthy—a major purpose is to allow the parties to get to know each other	Proceed quickly
Competitive bidding	Infrequent	Common
Country/regional examples	Japan, Middle East	United States, Northern Europe

probably require a suit in the defendant's own home turf, which may be an insurmountable advantage for the home-country participant.

When a party from a high-context culture takes part in a business understanding, the proceedings are likely to be further complicated by very different beliefs about the significance of formal business understandings and the ongoing obligations of all parties. The business environment in many countries can be characterized by much complexity: natural and human-induced catastrophes, political problems, foreign exchange inconvertibility, widely fluctuating exchange rates, depressions, and changes in national economic priorities and tariff schedules. One cannot predict precisely how the most carefully laid plans will go awry, only that they will. Marketing executives and managers with dealings outside the home market must build mutual trust, rapport, and empathy with business contacts; all are required to sustain enduring relationships. Appointing a host-country national to a position as sales representative will not automatically guarantee success. If a corporation constantly shuffles its international staff, it risks impeding the formation of what we might call "high-context subcultures" between home office personnel and host nationals. This diminishes the company's chances of effectively dealing with the business crises that will inevitably occur.

Training in Cross-Cultural Competency

Language competency and personal relationships are invaluable for the global businessperson. An increasing number of MBA programs require students to learn one or even two foreign languages. Speaking more than one language is a strong selling point for recruiters who feel that knowing another language allows employees to operate more effectively on global assignments.

Samsung Group, South Korea's largest company, recently launched an internationalization campaign. Prior to departing for overseas assignments, managers attend a month-long boot camp, where the topics range from Western table manners to sexual harassment. Hundreds of promising Samsung junior managers spend a year in Western countries pursuing an unusual assignment: goofing off. Notes one Korean management theorist, "International exposure is important, but you have to develop international taste. You have to do more than visit. You have to goof off at the mall, watch people, and develop international tastes." Park Kwang Moo, an employee at Samsung's trading subsidiary, didn't get to spend time in malls: His assignment was to visit the former Soviet Union. He spent his first six months immersed in language study and then traveled to all 15 former Soviet republics. Park's superiors were delighted with the 80-page report he filed upon his return, despite the fact that there was very little in it about business issues per se. A director at the trading company noted that the report was mostly about Russians' drinking habits and idiosyncrasies. "But," he noted, "in 20 years, if this man is representing Samsung in Moscow, he will have friends and he will be able to communicate, and then we will get the payoff."[66]

Another widely used approach to accomplish sensitization is the use of workshops incorporating case studies, role-playing, and other exercises designed to permit participants to confront a relevant situation, contemplate what their own thoughts and actions would be in such a situation, and analyze and learn from the results. Participants must be able to understand and evaluate their motivations and approaches. Often, role-playing will bring out thoughts and feelings that otherwise might go unexamined or even unacknowledged. A variety of other techniques have been used for cross-cultural training; the common goal is to teach members of one culture ways of interacting effectively in another culture.

Becoming internationally adept and culturally aware should be a goal of any professional who aspires to do business abroad. This generally means a conscious effort in training and professional development by organizations. The Canadian International Development Agency (CIDA) provides an excellent model. CIDA hosts a five-day predeparture briefing for Canadians that includes travel information, introduction to the geographical area of the host country, and presentations by a host national or a returnee. Cross-cultural communication, information for family members, and information on skills transfer are also included.[67]

If you cannot attend a formal training and orientation session or program, at the minimum you should take advantage of the written, audio, and visual material available on the country you will be visiting.

Summary

Culture, a society's "programming of the mind," has both a pervasive and changing influence on each national market environment. Global marketers must recognize the influence of culture on all aspects of life including work habits and consumption of products. Human behavior is a function both of a person's own unique personality and that person's interaction with the collective forces of the particular society and culture in which he or she has lived.

Culture is a complex construct, which is multileveled, multilayered, and multidimensional. It is learned as it passes from generation to generation and slowly changes in response to changing environmental factors. Cultures are converging and fragmenting in response to contemporary forces of globalization. Products and services play a special role in creating, maintaining, and transmitting meaning within a culture.

[66] "Sensitivity Kick: Korea's Biggest Firm Teaches Junior Execs Strange Foreign Ways," *The Wall Street Journal*, December 30, 1992, A1.
[67] Bonvillian and Nowlin, "Cultural Awareness."

When global marketers refer to culture, they include psychological factors such as values, beliefs, and social attitudes; sociological factors such as status, roles, and norms; and anthropological factors such as symbols, signs, and customs. These factors are the focus of cultural analysis. Cultural analysis helps global marketers choose appropriate marketing strategies and organizational structure and processes, helping improve profitability and reduce the risk of costly blunders.

Marketers employ two broad approaches to cultural analysis. They use standardized cultural classification to group countries where similar marketing strategies and appeals are likely to be effective. Cultural measurement scales and country scores are available from several sources. The theory-driven approaches of Schwartz and Leung and of Bond facilitate cultural analysis within and across countries. Hall's high- and low-context culture can be used to understand effective communication and negotiation styles across countries. Marketers also use approaches such as Maslow's hierarchy, Hofstede's typology, and the self-reference criterion to unlock clues about cultural differences and similarities. In addition, marketers use ethnographic and other nonsurvey approaches. These approaches provide rich insights that help explain cultures and their expressions, especially in marketplace behaviors within a particular culture.

Global marketing has played an important—even leading—role in influencing the rate of cultural change around the world. This is particularly true of food, but it includes virtually every industry, particularly entertainment, communications and consumer products. The Internet, digital communications, and global television and entertainment have changed how and what people learn about products. Soap and detergent manufacturers have changed washing habits, the electronics industry has changed entertainment patterns, clothing marketers have changed styles, and so on. Although culture can also affect characteristics of industrial products, it is more important as an influence on the marketing process, particularly in the way business is conducted.

Living and working across cultures can be challenging. Ethnocentrism arises as a universal and inevitable human attribute because most people know only their own culture and place themselves at the center of relations with all others beginning in their earliest years. Taking steps to understand the complexity of identity can help one recognize and avoid excessive self-referencing, which has been called the root cause of most international business problems. Acculturation can be smoothed by taking steps to improve one's social and cultural intelligence, which can help lower acculturative stress and affect the success of a well-planned and well-executed marketing strategy.

Discussion Questions

1. What is culture? Is there such a thing as a cultural universal or cultural universals? If your answer is affirmative, give an example of a cultural universal. If it is negative, explain why there is no such thing.
2. Can Hofstede's cultural typologies help marketers better understand cultures outside their home country? If your answer is yes, explain how, and if it is no, explain why not.
3. Explain the self-reference criterion. Go to the library and find examples of product failures that might have been avoided through the application of the SRC.
4. What is the difference between a low-context culture and a high-context culture? Give an example of a country that is an example of each type, and provide evidence for your answer. How does this apply to marketing?
5. Schwartz identifies embeddedness vs. autonomy, egalitarianism vs. hierarchy, and mastery vs. harmony as national cultural dimensions. In what way do national cultural dimensions affect marketing practices in your country?
6. What can global marketers do and what issues might they need to address in their marketing planning to launch a new product in a national market that traditionally resists change?
7. Take an element of the marketing mix and describe how cultural analysis and factors may impact its planning, execution, and design with respect to a new product launch.
8. With respect to global branding, are there elements of culture which need to be considered? If your answer is yes, what are they? If your answer is no, why not?

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Part III Analyzing and Targeting Global Market Opportunities

CHAPTER 5

Global Customers

The list of the world's ten largest economies may look quite different in 2050. The largest economies in the world (by GDP) may no longer be the richest (by income per capita), making strategic choices for firms more complex.

—DREAMING WITH BRICS: THE PATH TO 2050, GOLDMAN SACHS, 2003.

Learning Objectives

1. Summarize the characteristics of the world's major regional markets (138–158).
2. Discuss marketing challenges and opportunities in low-income countries (158–159).
3. Explain the significance of customer value in global marketing (159–161).
4. Describe the three key concepts of diffusion theory (161–163).

INTRODUCTION

In many ways, consumers around the world are becoming more alike. Almost everywhere in the world, one is never far from a fast-food restaurant, a cell phone, or an Internet connection. Several market segments, like the very wealthy, teenagers, and technocrats, even transcend national borders. Yet, despite the decreasing importance of geography as a basis for distinguishing consumers, the average consumers are different around the world. As marketers in the clothing industry know, "Even underwear has national characteristics." Therefore, marketers must analyze up-to-date economic, demographic, and cultural information before either introducing new products or developing existing markets.

For the first time in history, there is the prospect of market opportunity in every world region. Today, over two-thirds of world income, as measured by exchange-rate comparisons of national income, is concentrated in the triad (the European Union, Japan, and North America, excluding Mexico). The rest of the world is now growing at a much faster and sustained rate than the triad, shifting the location of world opportunity to new market frontiers. The vanguard of this growth is in the BRIC-IT group of Brazil, Russia, India, China, Indonesia, and Turkey. They are the fast-growing countries of Asia, Europe, and Latin America. These countries are already major world markets, and will soon be joined by many of the smaller countries of Asia, Latin America, Europe, the Middle East, and Africa.

TABLE 5-1 List of Top 50 Economies by Gross Domestic Product (GDP) at Purchasing Power Parity per Capita, Prepared by the International Monetary Fund 2011

Rank	Country / Region	GDP (PPP) $Billion
-—	*World*	78,969.782
1	United States	15,075.675
2	China	11,299.987
3	Japan	4,444.139
4	India	4,420.563
5	Germany	3,113.927
6	Russia	2,383.364
7	Brazil	2,294.178
8	United Kingdom	2,287.865
9	France	2,213.780
10	Italy	1,846.922
11	Mexico	1,666.531
12	South Korea	1,554.124
13	Spain	1,405.787
14	Canada	1,395.374
15	Indonesia	1,124.631
16	Turkey	1,075.467
17	Iran	990.771
18	Australia	915.098
19	Taiwan, China	875.941
20	Poland	771.015
21	Argentina	716.451
22	Netherlands	701.366
23	Saudi Arabia	687.655
24	Thailand	602.216

TABLE 5-1 Continued

Rank	Country / Region	GDP (PPP) $Billion
25	South Africa	554.988
26	Egypt	518.968
27	Pakistan	488.372
28	Colombia	471.890
29	Malaysia	463.689
30	Nigeria	414.033
31	Belgium	413.746
32	Philippines	411.903
33	Sweden	384.661
34	Venezuela	374.105
35	Switzerland	353.568
—	Hong Kong SAR	351.413
36	Austria	349.940
37	Ukraine	329.327
38	Singapore	314.906
39	Peru	301.963
40	Vietnam	299.980
41	Chile	299.451
42	Greece	293.937
43	Czech Republic	284.960
44	Bangladesh	283.469
45	Romania	267.147
46	Norway	265.541
47	Algeria	263.349
48	United Arab Emirates	256.519
49	Portugal	248.507
50	Israel	236.994

Source: International Monetary Fund 2011 at http://en.wikipedia.org/wiki/List_of_countries_by_GDP

A glance at Tables 5-1 and 5-2 reveals that the average GNI per capita in the world today is almost $10,000, the world life expectancy at birth is 69 years, and the world average educational primary completion rate is almost 90 percent. This is a remarkable time in the world history: income, life expectancy, and educational level have reached new highs. And, while it might appear that there are areas of conflict in the world, the post–World War II century has so far been characterized by historically low levels of global violence. Table 5-2 shows the rank of the top 50 economies of the world in purchasing power parity (PPP) a measure of national income that adjusts for local prices and consumption.

TABLE 5-2 World Data[1]

GDP (current US$): $63,044,067,870,273 (2010)
Population total: 7,000,000,000 (2011)
GNI per capita, Atlas method (current US$): $9,116 (2010)
Urban population (% of total): 51% 2010
Life expectancy at birth, (years): 69 (2009)
CO2 emissions (metric tons per capita): 4.6 (2007)
Educational—primary completion rate, total (% of relevant age group): 88% (2009)

This chapter presents a broad overview of the markets of the world on a regional basis. The first half describes the characteristics of the major regional markets and includes an extended analysis of the Chinese, Indian, Russian, and Brazilian markets. The second half focuses on the processes through which buyers learn, evaluate, and adopt products and the factors that affect their decisions.

THE GLOBAL MARKETING PLAN

Each country in the world is sovereign and unique, but there are similarities among countries in the same region or in the same stage of development that make both the regional and the market stage approaches sound bases for marketing planning. In this chapter, the organization of material is around geographic regions. It could just as well be organized around stages of economic development from low to medium to high income.

REGIONAL MARKET CHARACTERISTICS

Defining regional markets is an exercise in clustering countries in order to maximize the similarities within clusters and differences between clusters. One approach to clustering is to rely on individual or group judgment regarding important or relevant criteria. Another method is to objectively identify the cluster criteria, weight them, and use tools that cluster countries based on the defined, weighted criteria. In the section that follows, national markets are clustered on the basis of geographic proximity, language, race, and religion. A brief description of each developing region and the high-income countries of Europe, North America, Australia, and New Zealand is presented. Brazil, Russia, India, China, Indonesia, and Turkey, the six largest rapidly growing emerging markets, referred to as BRIC-IT (Brick It), are also profiled.

As discussed in Chapter 2 on the Global Economic Environment, the World Bank has developed a classification system for countries: low income, middle income (divided into lower- and upper-middle income) and high income. Economies are divided according to 2011 GNI per capita, calculated using the World Bank Atlas method. The groups are low income, $1,025 or less; lower-middle income, $1,026–$4,035; upper-middle income, $4,036–$12,475; and high income, $12,476 or more. Classifications and data reported for geographic regions are for low-income and

[1] Author estimates and The World Bank.

middle-income economies only. Low-income and middle-income economies are sometimes referred to as developing economies or less developed countries (LDCs). Taiwan, China, is included in high income. All GNI data in this chapter are from World Bank Data.[2]

European Union

The 27-country EU covers over 4 million km^2 and has 502 million inhabitants—the world's third largest population after China and India. By surface area, France is the biggest EU country and Malta the smallest. Economically it is now bigger than the United States, with a 2010 GNI of €16 trillion. Operating as a single market, the EU is a major world trading power. The EU is seeking to sustain economic growth by investing in transport, energy, and research while minimizing the impact of further economic development on the environment. Language skills are becoming increasingly important, as globalization leads to more and more contact with people from other countries. The EU actively encourages the acquisition of language skills from an early age.

The countries of the European Union are among the most prosperous in the world, although income is unevenly distributed in the region. For example, the average per capita GNI for the EU was $34,000 in 2010. Annual income in Poland of $12,410 was only slightly more than one-fourth of Germany's $43,290. Even though there are differences in income, language, and culture, the old Europe of nation-states has been replaced by the European Union, which has adopted a common currency (the euro) and eliminated barriers to the movement of people, goods, and money within the EU. This is one of the great acheivements of the twentieth century and a demonstration of how people can work together peacefully to achieve common goals.

The objective of the EU member countries is to harmonize national laws and regulations so that goods, services, people, and money can flow freely across national boundaries. The 1992 Treaty of Maastricht was the seminal document that established the base for cooperation among the original 12 and all future members of the EU in such critical areas as foreign and defense policy, judicial and internal affairs, and in the creation of an economic and monetary union (including the adoption of a common currency). In the years that followed, the EU continued to grow, both geographically and economically, and the euro, which became the official currency of the region in 1999, has become a major world currency, second only to the US dollar. Figure 5-1 provides facts and figures and an affirmative argument for the euro.

In 2011, the EU faced one of the greatest challenges in its short history. As a result of the global financial crisis of 2008 and the soverign debt crisis triggered by the inability of Greece to meet payments due on its debt (Greek government expenditures without any debt service were 115% of revenues), the euro was at risk. The major European banks held Greek government debt which they incorrectly believed was a safe credit risk. In fact, the Greek debt was clearly certain to default unless the terms were renegotiated to recognize the Greece inablility to repay the debt on the issue terms. The Greek financial crisis spread fear, threatening Spain, Italy, and the entire European banking system. The one institution needed to meet the challenges of this crisis was a European Central Bank with the power to borrow and tax. Such an institution could ensure that any challenge to the euro would be met by soverign unlimited credit capacity. (The United States has such an institution, the US

[2] http://data.worldbank.org/

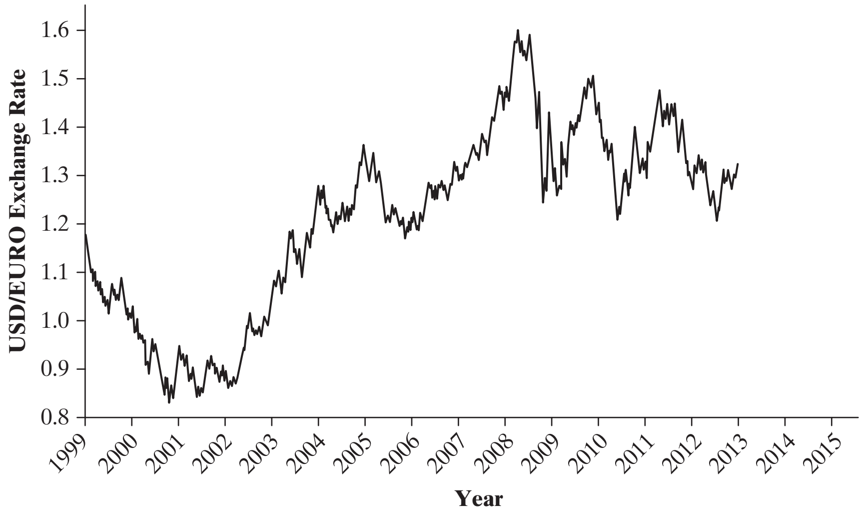

FIGURE 5-1 Euro–US Dollar Exchange Rate: 1999–2012

Treasury, which came to the rescue of the US financial system in the crisis of 1988.) However, the EU lacked this capacity. Any action required the agreement of each of the member countries. How this default is handled will determine the fate and future of the EU.

Only 60 percent of the EU population have adopted the euro. The United Kingdom, Denmark, and Sweden, for example, continue to keep their own currency. Norway, Iceland, and Switzerland have decided not to join at all, while othjer countries, including Turkey, have not been invited. Recent issues facing the EU include the roster of newer member countries, some of whom have to work much harder to reach and sustain standards required for admission, and the debate over issues ranging from the adoption of a Central Bank and a federal government with borrowing and taxing power to a federal EU Constitution and trade and immigration policies.

Table 5-3 summarizes the changes that are affecting marketers in this region. The marketing challenge is to develop strategies to take advantage of opportunities in one of the largest, most stable, and wealthiest markets in the world. Corporations must determine to what extent they can treat the region as one entity and how to change organizational structures to best take advantage of a unified Europe.

Russia

Back on its feet after years of economic struggles, Russia is beginning to fulfill its potential as one of the biggest, most promising markets in the world. Consumer confidence and consumer spending have been steadily rising and Russia's economy has been flourishing, buoyed by strong oil revenues and foreign direct investments. In the last few years, over 20 million Russians have been lifted out of poverty, thanks to the government's fiscally responsible policies and the continuous liberalization of the Russian market.[3]

A country of 142 million people and vast lands and natural resources, Russia represents a huge market that many companies are finally able and willing to pursue.

[3] Guy Chazan, "Lighting a Spark," *The Wall Street Journal*, March 13, 2007, A1.

TABLE 5-3 Marketing Strategies in the European Community

	Changes Affecting Strategies	Threats to Marketers' Planning	Management's Strategic Options
Product Strategies	Harmonization in product standards, testing, and certification process Common patenting and branding Harmonization in packaging, labeling, and processing requirements	Untimeliness of directives Rules of origin Local content rules Differences in marketing research	Consolidate production Obtain marketing economies Shift from brand to benefit segmentation Standardize packaging and labeling where possible
Pricing Strategies	More competitive environment Withdrawal of restrictions to foreign products Antimonopoly measures Widening of the public procurement market	Parallel importing Different taxation of goods Less freedom in setting transfer prices	Exploit different excise and value-added taxes Understand price elasticity of consumer demand High-margin products Introduce visible low-cost brand
Promotion Strategies	Common guidelines on TV broadcasting Deregulation of national broadcasting monopolies Uniform standards for TV commercials	Restrictions on alcohol and tobacco advertising Limits on foreign TV production Restrictions on alcohol and promotional techniques	Coordinate components of promotional mix Exploit advantage of pan-European media Position the product according to local markets
Distribution Strategies	Simplification of transit documents and procedures Elimination of customs formalities	Increase in distributors' margins Lack of direct-marketing infrastructure Restrictions in the use of computer databases	Consolidate manufacturing facilities Centralize distribution Develop nontraditional channels (direct marketing, telemarketing)

Source: G. Guido, "Implementing a Pan-European Marketing Strategy," *Long Range Planning* (October 1991): 32.

On the industrial front, companies have been entering into the Russian market ready to rebuild its large, but badly outdated manufacturing base. Companies such as Intel Corp., Ford Motor Co., Toyota, Renault, and IKEA are already manufacturing in the country. These companies are not only investing in their own new facilities, they are also reviving old factories with their need for local suppliers. On the consumer side, the rising middle class in Russia has been quick to demand goods and services that put it on par with their Western counterparts, and foreign brands have been only too happy to oblige. With an estimated per capita GDP of $12,100 in 2006, Russians across the country, not only in Moscow and a few of the other large cities, are now able to enjoy prosperity.

Not all developments in Russia are for the better, however. An economy that is still largely dependent on oil revenues, a continuous and entrenched corruption, and an increasingly autocratic political leadership that is quick to restrict free media and dissent still give many foreign investors pause. But the country's overall stability and largely untapped markets make it an enticing and profitable opportunity for large and small firms alike. Russia is well on its way to resuming its place as one of the leading economic and political powers in the world.

North America

The North American market, which includes the United States, Canada, and Mexico, is a distinctive world regional market. The United States' concentration of wealth and income in a single national economic and political environment presents unique marketing characteristics. With 312 million people,[4] a GDP of $14.6 trillion, and a per capita GNI of US$47,240 in 2010, the United States offers a combination of high per capita income, large population (4.5% of world population, the third largest country in the world), vast space, and plentiful natural resources. High product ownership levels are associated with a high income and relatively high receptivity to innovations and new ideas both in consumer and industrial products. The United States is the home country of more top global brands than any other country in the world (see Table 5-4). For example, US companies are the dominant producers in the computer, software, aerospace, entertainment, medical equipment, and jet engine industries. Foreign companies are attracted to this sizable market.

TABLE 5-4 Interbrand 2011 Ranking: Top 100 Brands

2011 Ranking of the Top 100 Brands

Rank	Previous Rank	Brand	Region/Country	Sector	Brand Value ($m)	Change In Brand Value
1	1	CocaCola	United States	Beverages	71,861	2%
2	2	IBM	United States	Business Services	69,905	8%
3	3	Microsoft	United States	Computer Software	59,087	–3%
4	4	Google	United States	Internet Services	55,317	27%
5	5	General Electricals	United States	Diversified	42,808	0%
6	6	Mc Donald	United States	Restaurants	35,593	6%
7	7	intel	United States	Electronics	35,217	10%
8	17	Apple	United Slates	Electronics	33,492	58%
9	9	Disney	United States	Media	29,018	1%
10	10	Hewlett-Packard	United States	Electronics	28,479	6%
11	11	Toyoto	Japan	Automotive	27,764	6%
12	12	Benz	Germany	Automotive	27,445	9%
13	14	Cisco	United States	Business Services	25,309	9%
14	8	Nokia	Finland	Electronics	25,071	–15%
15	15	BMW	Germany	Automotive	24,554	10%
16	13	Gillette	United States	FMCG	23,997	3%
17	19	Samsung	South Korea	Electronics	23,430	20%
18	16	Louis Vuitton	France	Luxury	23,172	6%
19	20	Honda	Japan	Automotive	19,431	5%
20	22	Oracle	United States	Business Services	17,262	16%
21	21	H & M	Sweden	Apparel	16,459	2%
22	23	Pepsico	United States	Beverages	14,590	4%

[4] U.S. Census Bureau Population Clock, accessed September 29, 2011, www.census.gov.

TABLE 5-4 Continued

2011 Ranking of the Top 100 Brands

Rank	Previous Rank	Brand	Region/Country	Sector	Brand Value ($m)	Change In Brand Value
23	24	American Express	United States	Financial Services	14,572	5%
24	26	SAP	Germany	Business Services	14,542	14%
25	25	NIKE	United States	Sporting Goods	14,528	6%
26	36	amazon.com	United States	Internet Services	12,758	32%
27	31	UPS	United States	Transportation	12,536	6%
28	29	J.P.Morgan	United States	Financial Services	12,437	1%
29	30	Budweiser	United States	Alcohol	12,252	0%
30	27	Nescafe	Switzerland	Beverages	12,115	–5%
31	28	IKEA	Sweden	Home Furnishings	11,863	–5%
32	32	HSBC	United Kingdom	Financial Services	11,792	2%
33	33	Canon	Japan	Electronics	11,715	2%
34	35	Kellogg's	United States	FMCG	11,372	3%
35	34	Sony	Japan	Electronics	9,880	–13%
36	43	ebay	United States	Internet Services	9,805	16%
37	39	Thomson Reuters	Canada	Media	9,515	6%
38	37	Goldman Sachs	United States	Financial Services	9.091	–3%
39	44	GUCCI	Italy	Luxury	8,763	5%
40	45	Loreal	France	FMCG	8.699	9%
41	42	Philips	Netherlands	Electronics	8,658	0%
42	40	Citi	United States	Financial Services	8,620	-3%
43	41	Dell	United States	Electronics	8,347	–6%
44	48	ZARA	Spain	Apparel	8.065	8%
45	47	accenture	United States	Business Services	8,005	7%
46	49	SIEMENS	Germany	Diversified	7,900	8%
47	53	Volkswagen	Germany	Automotive	7,857	14%
48	38	Nintendo	Japan	Electronics	7,731	–14%
49	46	Heinz	United States	FMCG	7,609	1%
50	50	Ford	United States	Automotive	7,483	4%
51	51	Colgate	United States	FMCG	7,127	3%
52	58	DANONE	France	FMCG	6,936	9%
53	56	AXA	France	Financial Services	6,694	0%
54	52	Morgan Stanely	United States	Financial Services	6,634	–4%
55	57	Nestle	Switzerland	FMCG	6,613	1%
56	54	BlackBerry	Canada	Electronics	6,424	–5%
57	59	xerox	United States	Electronics	6,414	5%

(continued)

TABLE 5-4 Continued

2011 Ranking of the Top 100 Brands

Rank	Previous Rank	Brand	Region/Country	Sector	Brand Value ($m)	Change In Brand Value
58	55	M Tv	United States	Media	6,383	–5%
59	63	Audi	Germany	Automotive	6,171	13%
60	62	adidas	Germany	Sporting Goods	6,154	12%
61	65	Hundai	South Korea	Automotive	6,005	19%
62	60	KFC	United States	Restaurants	5,902	1%
63	61	Sprite	United States	Beverages	5,604	–3%
64	70	CATERPILLAR	United States	Diversified	5,598	19%
65	64	AVON	United States	FMCG	5,376	6%
66	69	HERMES	France	Luxury	5,356	12%
67	67	Allianz	Germany	Financial Services	5,345	9%
68	68	Santander	Spain	Financial Services	5,088	5%
69	73	Panasonic	Japan	Electronics	5,047	16%
70	77	Cartier	France	Luxury	4,781	18%
71	71	Kleenex	United State	FMCG	4,672	3%
72	72	Porsche	Germany	Automotive	4,580	4%
73	76	Tiffany & Co.	United States	Luxury	4,498	9%
74	81	SHELL	Netherlands	Energy	4,483	12%
75	82	VISA	United States	Financial Services	4,478	12%
76	66	YAHOO	United States	Internet Services	4,413	–11%
77	79	MOET & CHANDON	France	Alcohol	4,383	9%
78	78	JACK DANIELS	United States	Alcohol	4,319	7%
79	74	BARCLAYS	United Kingdom	Financial Services	4,259	I%
80	88	Adobe	United States	Computer Software	4,170	15%
81	83	Pizza Hut	United States	Restaurants	4,092	3%
82	80	Credit Suisse	Switzerland	Financial Services	4,090	2%
83	75	Johnson & Johnson	United States	FMCG	4,072	–2%
84	84	GAP	United States	Apparel	4,040	2%
85	90	3M	United States	Diversified	3,945	10%
86	85	Corona Extra	Mexico	Alcohol	3,924	2%
87	87	Nivea	Germany	FMCG	3,883	4%
88	92	Johnney Walker	United Kingdom	Alcohol	3,842	8%
89	89	Smirnoff	United Kingdom	Alcohol	3,841	6%
90	NEW	Nissan	Japan	Automotive	3,819	N/A
91	93	Heineken	Netherlands	Alcohol	3,809	8%
92	86	UBS	Switzerland	Financial Services	3,799	0%

TABLE 5-4 Continued

2011 Ranking of the Top 100 Brands

Rank	Previous Rank	Brand	Region/Country	Sector	Brand Value ($m)	Change In Brand Value
93	95	ARMANI	Italy	Luxury	3,794	10%
94	94	Zurich	Switzerland	Financial Services	3,769	8%
95	100	Burberry	United Kingdom	Luxury	3,732	20%
96	97	Starbucks	United States	Restaurants	3,663	10%
97	NEW	John Derre	United States	Diversified	3,651	N/A
98	NEW	hTC	Taiwan,China	Electronics	3,605	N/A
99	91	Ferrari	Italy	Automotive	3,591	1%
100	98	Harley Davidson	United States	Motorcycles	3,512	7%

Source: http://www.interbrand.com/en/best-global-brands/previous-years/best-global-brands-2011.aspx.

In 2011, The North American market and the EU had the same total GDP ($16 trillion), which, at 32 trillion, was three times greater than the GDP of the Japanese and Chinese markets combined. Another distinctive feature is the relationship between business and government which provides relative freedom of entry and operations.[5] This results in greater opportunities for market access than is true in some other countries of the world. Elsewhere, closer partnerships between government and business often hamper the marketing efforts of foreign suppliers.

Canada, with a population of over 34 million, has a GDP of $1.6 trillion and a 2010 per capita GNI of $41,950. It is a market-oriented economy with a high-technology industry and highly skilled workforce. The country's economy has been more integrated with that of the United States and Mexico since the 1994 North American Free Trade Agreement (NAFTA). Today, exports represent almost half of Canada's GDP, most of them absorbed by the United States, to which it is the largest supplier of energy. The bulk of Canada's exports are unprocessed natural resources, which are vulnerable to low-cost Latin American rivals. An effort is under way to develop innovation-based competitive advantages and maintain stability in the national health-care system. Life expectancy at birth in Canada is 81 years, as compared to 78 in the United States in 2010. Some experts believe that the country's health-care system, which offers universal coverage, provides better care at a lower cost than that in the United States. In 2006, spending on heath care in Canada was 10 percent of GDP as compared to 15.3 percent for the United States.

Over $500 billion in goods and services flow between Canada and the United States—the biggest trading relationship between any two nations. Americans have more invested in Canada than any other foreign land. Many American companies, including General Electric and IBM, use their Canadian operations as major global suppliers for some product lines. The auto market enables US automakers to gain greater economies of scale in North America.

Mexico had a population of 113 million, a GDP of $1 trillion, and GNI per capita of $8,930 in 2010. Since the formation of NAFTA, Mexico has been modernizing its

[5] There are many industries in the United States where the government has been captured by industries that it should be regulating (e.g., financial services, Wall Street, and pharmaceutical industries). For a description of the financial services capture of the the US government, see Simon Johnson and James Kwak, *13 Bankers: The Wall Street Takeover and the Next Financial Meltdown* (Pantheon Books, 2010).

infrastructure and the economy has been growing. Trade with the United States and Canada has tripled. Results have been so encouraging that Mexico has now entered into another 12 free trade agreements with countries in Latin America, Europe, and Asia that cover over 90 percent of its trade volume. Over 80 percent of Mexico's trade is with the United States (73.5%) and Canada (7.5%). Nevertheless, some problems persist. The per capita income in Mexico is less than one fifth that of the United States, and the gap between rich and poor remains very wide. This, in turn, feeds the persistent pattern of legal and illegal immigration from Mexico to its wealthier neighbors to the north. While filling an important need for a low-cost, manual labor force, the millions of economic refugees and workers who cross the borders from Mexico also fuel the debate over their legal, political, economic, and societal standing in their adopted country. From a marketing perspective, they also represent a large, underserved market that has distinct characteristics and economic dynamics.

Companies that want to manufacture in Mexico can set up wholly owned subsidiaries or joint ventures which often involve the creation of maquiladoras. The maquiladora shops are manufacturing, assembly, or processing plants where companies can import materials, components, and equipment duty free; assemble them using inexpensive local labor; and export them to the United States paying duty only on the value added in Mexico.

Asia-Pacific

From the booming hybrid economy of China to the myriad of developing countries in Southeast Asia and the rising star of India, Asia-Pacific is a patchwork of cultural, economic, social, and political systems. Only a regional or a country-specific approach allows an adequate look at the region's economic climate. However, one thing is clear: Asia-Pacific, due to its enormous population size and fast-growing economies, is a region that no marketer can afford to ignore. In fact, 10 of the 27 countries ranked as "emerging markets" by *The Economist*, due to their economic liberalization and potential for trade, are in Asia-Pacific.[6]

The five economic "tigers" of East Asia—Japan, South Korea, Taiwan(China), Singapore, and China—have forged the fastest industrial revolutions the world has ever seen. The first four are high-income economies, and the fifth, China, has a high-income market and economic segment which is larger that that of any of the other economies except Japan. Behind them are three countries—Thailand, Malaysia, and Indonesia—which are poised to repeat the gains of the first set of "tigers."

CHINA With 1.3 million people, almost 20 percent of the world's population, China is the most populated country in the world. In addition to its size, China is a rapidly developing economy that has been growing at approximately 10 percent annually over the last two decades. Over 90 percent of the population are Han Chinese, with other nationalities accounting for 8.5 percent. These facts are overwhelmingly attracting for global marketers. "Imagine if we just sold one package of X to every individual," is the motivating factor for many global companies' entry into this market.

GDP in 2010 was US$5.8 trillion based on the official exchange rate, overtaking Japan as the second largest country in the world. The per capita average was US$4,500 and varies widely from the coastal regions, where the highly industrialized provinces of Guangzhou and Shanghai are located, to the agricultural interior of the country.

[6] Michigan State University (MSU-CIBER) Indexing Study, http://globaledge.msu.edu/ibrd/marketpot.asp.

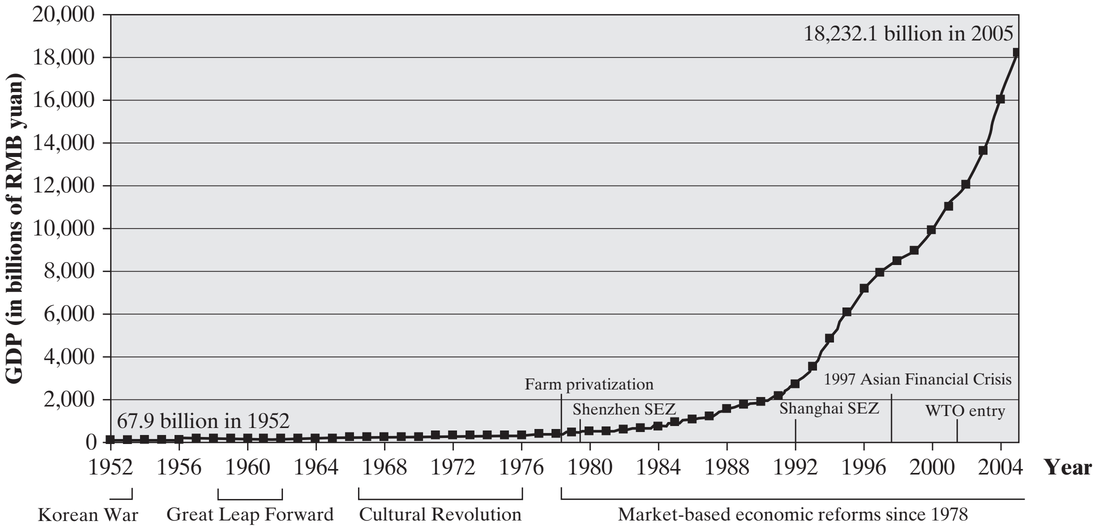

FIGURE 5-2 People's Republic of China's Nominal Gross Domestic Product (GDP) between 1952 and 2005
Source: http://en.wikipedia.org/wiki/File:Prc1952-2005gdp.gif.

The economic increases are the result of a gradual conversion from a communist controlled command allocation economic system to a free-market system. The changes occuring in terms of consumer purchases among the growing number of families with increasing income are noteworthy. For example, the number of color television sets per 100 households went from an average of 17 in 1985 to 96 in 2008.

China was transformed during the era of Deng Xiaoping, who confronted the damage done by Mao's Cultural Revolution (1965–1976), when he became China's preeminent leader from 1978–1989 and again in 1992. When he stepped aside in 1992, he had fulfilled the aim of leaders in China for 150 years: He stregthened the country and enriched the Chinese people. The transformation that took place in the Deng era was shaped by the long and developed Chinese tradition, the scale and diversity of the Chinese society, the openness of the global system to share technology and management skills, and the contributions of millions of creative and hard working people.[7] Figure 5-2 charts the history of the People's Republic of China to and including the Deng era.

China's largest trading partner is the United States, which absorbs over 20 percent of Chinese exports, followed by Hong Kong SAR, Japan, South Korea, and Germany. In fact, China has become the biggest global supplier of consumer goods, producing 70 percent of the world's toys, 60 percent of its bicycles, and half of its shoes and microwave ovens, among other things. Its promise as a market is also beginning to materialize after many years of wishful thinking and patience by foreign companies. For example, China is Boeing's largest customer for commercial aircraft and Volkswagen's biggest foreign market for cars. In its own neighborhood, mainland China is the biggest market for South Korea, as is Greater China for the goods and services produced by virtually any other Asian nation.[8]

Marketers should remember, however, that approaching China as one large, unified market is wrought with dangers. In fact, China is very similar to the European Union in terms of its subtle, but important, differences in culture, language, tastes, and

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[7] Ezra F. Vogel, *Deng Xiaoping and the Transformation of China* (Cambridge, MA: The Belknap Press of Harvard University Press, 2011), 693.
[8] Oded Shenkar, *The Chinese Century* (Upper Saddle River, NJ: Wharton School Publishing, 2005), 2–7.

economic development of its different regional markets. First, there are the differences between the urban, moneyed population in global cities such as Shanghai, Beijing, and Guagzhou and the interior of the country, which is much further behind in development. China's outdated transportation infrastructure and shaky commitment to scheduling also give Western marketers, used to "just-in-time" operations, quite a challenge when it comes to distribution and logistics. Then there are the gender differences. According to one experienced advertising agency executive, Chinese women in the field are more honest, flexible, and quicker learners than the men, but they may often be in short supply as bigger and better offers from competing agencies often sway even the most loyal professionals. Finally, there's the most important difference for marketers: Chinese consumers rely on advertising for different information, depending on their level of marketing sophistication. The Chinese middle class, which is quickly acquiring the needs and wants of its counterparts around the world, is more receptive to traditional product branding messages. The majority of the Chinese consumers, however, expect to learn more basic information about a product from its ads and labels. Thereore, localizing product packaging and marketing campaigns becomes as important as ever in China.[9]

Side Bar: The Chuppies Are Here

The young, urban, and affluent Chinese professionals, or Chuppies as they are called, are still just a blip on marketers' radar screens, but they provide a telling example of the potential of the Chinese consumer market for the near future. For one, there's their size—50 million and growing by over 10 percent a year. Second, since they comprise the ranks of China's successful entrepreneurs, business leaders, or employees of predominantly foreign companies, they are quickly acquiring the tastes and attitudes of their Western colleagues. They own iPods, mobile phones, and credit cards. They dine out frequently and follow fashion trends. Unlike their parents, they are buying their own houses while young, staying single longer, traveling alone, and often booking their trips online. They like Bill Gates, invest in the stock market, and manage their "image." It is not only their attitude that has changed, they look different than their parents too. The hardships of the Cultural Revolution that mark older generations are not evident in those Chinese born after 1960, the "Lucky Generation." In fact, Chuppies under 30 look no different from Chinese professionals from other parts of the world.

However, a few significant differences remain between China's young consumers and their counterparts in Western countries. For example, Chuppies are extraordinary savers. Nearly half of them save at least 50 percent of their income. About a fifth prefer to live with their parents while saving for a house of their own. And a majority of them have no qualms about buying designer fakes.

Given that more and more of the original yuppies in the West are going to retire in the coming decades, are Chuppies going to become the new "model" consumers? Marketers are sure to follow this trend closely to find out.

Source: Robert Hsu, "The Chuppie Strategy," Phillips Investmet Resources, LLC newsletter to subscribers. See, for example, http://maravi.blogspot.com/2008/11/mailing-list-robert-shus-china-strategy.html (November 16, 2008), accessed December 20, 2012.

[9] Anonymous, "Don't Think Local, Think Locals," *FDI: Foreign Direct Investment* (October–November 2006): 83.

JAPAN Population density and geographic isolation are the two crucial, immutable factors that cannot be overstated when discussing Japan as a world market. It is interesting that although Japan's territory occupies 0.28 percent of the world total, and its population of 126 million is about 2 percent of the world total, Japan's GDP of $5.4 trillion is 8.5 percent of the world's GNP. Japan's 2010 per capita GDP totaled almost US$40,000. Recently, Japan's economy has begun to emerge from a prolonged slump, and the country's GDP growth was an encouraging 4 percent in 2010. This declined to an estimated –0.5 percent in 2011.[10]

Seventy-two percent of Japan's land area is mountainous. The residential area represents only 3 percent of the country's total land, and the industrial area is only 1.4 percent. Not surprisingly, land prices are among the highest in the world. Japan is experiencing an acute shortage of workers due to the steady decline in the birthrate since 1974. As a result, more women are entering the workforce and creating unprecedented changes in the marketplace as their affluence and independence grows. Smart Japanese and foreign companies alike are beginning to design products—from financial services to cell phones and makeup—that appeal to the single, professional, and financially flush Japanese female, who is much more likely than her mother to spend money on herself.[11]

Mastering the Japanese market takes flexibility, ambition, and a long-term commitment. Japan has changed from being a closed market to one that is just tough. The major barriers to entry in Japan are the nontariff barriers of expense, custom and tradition, practice, and preference. For example, buying or renting space for retail operations or any kind of operation is very expensive in Japan. The high cost of real estate has been a major financial obstacle to foreign automobile companies who need to create a dealer organization in Japan as part of a marketing strategy.

Any organization wishing to compete in Japan must be committed to providing top-quality products and services. In all cases, marketing strategies and plans must be tailored to Japanese tastes and practices. Countless visits and socializing with distributors are necessary to build trust. All competitors in Japan must understand the keiretsu system of tight-knit corporate alliances.

What is striking about Japan is how different and at the same time how similar it is to Western countries. Table 5-5 illustrates some of the differences between Japan and the United States in culture, tradition, and behavior. All of the differences begin with the fundamental cultural orientation in Japan, which emphasizes the group or the nation, and in the United States, which celebrates the individual.

INDIA With a population of over one billion and a total GDP of US$1.6 trillion in 2010, India is the ninth largest economy in the world. India's per capita GDP of US$1,371 ranks the country 138th in the world. GDP has been growing at more that 8 percent per year for the past decade. Some population experts predict that India will overtake China, which had a one-child policy until recently, as the world's most populus country by the middle of the century. Income within the country is polarized. Almost 40 percent of the Indian population live close to or below the poverty line. But India also has a fast-growing population of middle- and upper-income consumers in cities such as Bangalore, the Indian Silicon Valley, where talented and computer-savvy young graduates are fueling the growth of the software industry in the country. Given this talent, the low salaries vis-à-vis high-income countries, and the availability of real-time communication links, many companies have sourced or opened offices in

[10] IMF Economic Outlook, September 2011
[11] David Turner, "Japan's Women Hit the Economic Radar," *Financial Times*, October 29, 2005, 19.

TABLE 5-5 Traditional Western and Asian Cultural and Marketing Values

Classic Western	Traditional Asian
Cultural Values	
• Nuclear family, self, or immediate family	• Extended family, blood/kinship/work groups
• Beliefs in competion, challenge, self-expression	• Beliefs in harmony, cooperation, avoiding confrontation
• Personal responsibility, independence	• Shared responsibility, interdependence
• Doing one's own thing	• Public self and "face"
• Resentment of authority	• Respect for authority
• Primacy given more to youth and change	• Age and seniority important, value tradition
• Control by "guilt" and conscience	• Control by "shame" and "loss of face"
Marketing Values	
• Brand segmentation; personal choice and self-expression through brand	• Popular famous brands; confidence in brand and corporate names
• Presenters/testimonials important but more to draw attention to brands	• Imitation, emulation, use of presenters as role models in ads
• Seeding and diffusion from leading edge	• Rapid adoption of successful brands
• Belief in "understatement" of wealth	• Display of wealth and status
• Environmentalism	• Confidence in technology

Source: George Fields, Hitaka Katahira, and Jerry Wind, *Leveraging Japan: Marketing to the New Asia.* (New York: Jossey-Bass, 2000).

India for software development and export. India's software industry has been growing rapidly, and the electronics and IT industry accounted for a growing percentage of the country's exports.

Many believe that India has joined China as the other emerging economic giant in Asia. The Indians now compare themselves to China and closely observe China as a model of sustained high growth. Interestingly, the Chinese do not have a great interest in India. The comparisons that they are interested in are with the high-income countries of Europe and the Americas. However, there are some indications that India might have a difficult time keeping pace with China. From signs of rising inflation to dismal infrastructure, lacking public services and corruption, India is at least a decade behind China in development. Nevertheless, given India's enormous market size and its current relatively small but growing middle class, marketers should consider its potential and the opportunities presented in this underserved market.

INDONESIA Indonesia has a real growth rate of 6.1 percent and a GDP of $707 billion with a per capita GDP of $2,874. Purchasing power parity (PPP) GDP per capita was $4,200 (2010), which ranked 155th in the world in per capita PPP and 16th in the world in total PPP income. In the view of many experts, Indonesia is now approaching the growth stage of China two decades ago.

Indonesia is the second "I" in the BRIC-IT group of emerging markets. It is the most populous Islamic country in the world, the third most populous democracy in the world after India and the United States, and the fourth most populous country in the world after China, India, and the United States. The language of Indonesia is Bahasa Indonesia (literally "the language of Indonesia"). The Indonesian democracy has now completed three free and democratic elections and, in the view of many, is firmly rooted and established. The country is 86 percent Muslim, making it the largest muslim country in the world. It is notable that two of the countries in the BRIC-IT