Chapter 1 International Marketing Overview

Concept preview

After reading this chapter, you should be able to

1. Appreciate: the concepts of market and marketing.
2. Understand: the significance of the globalization for multinationals.
3. Distinguish: the differences between domestic marketing and international marketing.
4. Comprehend: the characteristics of world-famous companies.
5. Describe: how the Chinese forces can influence international marketing.

By now, the integration of the global economies has become an irresistible trend and international companies are playing a more and more important role in the real world. All countries pay more attention to the export and import, foreign investment, labor cooperation, technology transfer and other international economic activities. And all of the countries including developed and developing countries, try their best to occupy the foreign resources to promote their economic growth. As one of the most important methods to take international activities, international marketing has become the major way for most companies to take up the global division and most of the countries have harvested huge benefits through taking international marketing. Especially, one of the most important reasons for China to make the great economic achievement is to take the Reform and Opening-up Policy.

However, it is a question for lots of the Chinese companies to use their advantages to develop foreign markets. As a matter of fact, most of the Chinese companies lack enough experience and marketing skills when they want to develop foreign markets. This is the reason why they have to study the relevant knowledge about international marketing. With the world's economic development, various global resources are integrated by multinationals and governments. "Going global" and finding new marketing opportunities in the global market have become a very important measure for lots of companies to expand their business. It is inevitable for the Chinese companies to utilize the international market to develop their business if they want to be famous enterprises of the world. So it is very necessary for us to study how to develop the international market and how to defeat our competitors in the global market.

In this book we will discuss some questions about the international marketing and try to tell the readers how to integrate various resources when they take international marketing.

1.1 Concept Analysis

As a new discipline, international marketing was formed in 1960s, improved in 1970s, and established its international position in 1980s. Since 1970s, business colleges in America began to take international marketing as their major course and the systematic study about the international marketing became one of the most important subjects for economists. With deep research, the theoretical system of international marketing was formulated gradually.

Before discussing the questions about international marketing, we should understand "what is market" first. The word "market" derives from the Latin *mercari* meaning "to buy or trade" and the infinitive finds its roots in *merx,* which means "goods."

The "market" lies in which goods or services may be sold or traded. Nowadays, it can range from a simple open-air exchange of farm products to a description of a huge economic entity, like the European Market, or a nebulous commercial functions like stock market or future market. The term also covers specific ethnic, cultural, religious, national, political, or social groups. People may purposefully group themselves together as a special market (e.g., NAFTA, adults 21 to 30 years old). And all markets can be subdivided or segmented into smaller and smaller groups.

However, as a new word, marketing is very different from market and lots of people define the concept based on different ideas. For example, some people think "marketing" is the process that the companies get profits using their resources; others think "marketing" is the process that the enterprises beat their competitors in the real world; and Philip Kotler said, "Marketing is the sum of all of the social relationships."

The authors think it is not very important to give an exact definition for "marketing", especially for businesspeople, an accurate concept is not significance for their business in the real world. But we should understand the characteristics of the concept and this is the foundation for us to understand international marketing.

1. Marketing is the activity of innovation.

This means marketing needs the marketers to use their ability and wisdom to make profits for the company and it is impossible for any companies to dominate or occupy the market for a long time if they don't take any innovation in the fields of production, promotion, price or distribution. All of the famous and outstanding companies in the world base their market position on innovation without exception.

For example, Dell has become the famous IT company because it has created the direct-sell model; Haier has become one of the most famous appliance brand in the world depending on its service system and Huawei has become the third brand in the mobile phone for a long time because of its technology innovation, and Toyota can beat GMC to become the first brand in world auto industry just because of its management innovation. So marketing is a creative activity, it is impossible for any companies to defeat their competitors if they don't take innovation. Moreover, the international market is more complex than domestic market. It requires the managements to take innovation in all of the aspects of marketing.

2. Marketing is the process to satisfy the demand of consumers

All managements must understand that the goal of every company is to make profits, and if you want to reach it, the first question you have to face is how to satisfy the demand of your consumers and it is the only way for you to make money in the real world.

With social and economic development, the consumer's demand change constantly, and the basic mission for the managements is to study your consumers and make your products or services satisfy their demands. Of course, it is not very easy, especially when you want to study the foreigner's consumption habits or other factors influencing their behaviors, you have to face different languages, different income level, different regulations etc. This is why international marketing is more complex than domestic marketing.

3. Marketing is the process of the management

Management plays the most important role in any marketing process, and all the realization of the target markets is dependent on various management ways including the resource integration, product manufacture, product sales, promotion, and the study of market environment. Excellent management is essential for any companies to win the market, especially for multinational companies. Any success in marketing is based on the outstanding management. For example, as one of the most famous multinationals, GE (General Electric) is one of the most successful companies in the world, and the most important reason is that it occupied the world market with the strong management resources.

4. Marketing is the bridge between the society and enterprises

The goal of marketing is to make money for the companies. Marketing is a process, any companies must sell their products or services to their consumers to achieve their value. However, it is not very easy, because manufacturers have to try their best to persuade consumers to buy, and all of the products should be supervised by the authorities and public. That means the managers not only have to contact the consumers and show the advantages of their products to them, but also have to understand the relevant policies and the public value. At the same time, they have to utilize various media to introduce their products or establish the brand name in consumer's mind. All of the above require the managers to take various marketing methods to contact to other people. This is why marketing is the bridge between the society and enterprises.

5. Marketing is the unique activity for human beings

Adam Smith said: "Nobody saw two dogs were exchanging their bones in the world." The sentence means only people can take marketing activities, and if you want to win the market you have to deal with different relationships and analyze different situations of society. Another important content for marketers to study is the "demand" of consumers. As a matter of fact, the consumer's demand is the greatest force to lead the market; the excellent companies always pay more attention to demand than supply and it is another reason for them to succeed in the marketplace.

1.2 The Basic Characteristics of Multinationals

Beyond all question, international companies are playing the major role in international marketing. However, how to define the international company is a theoretical question. International marketing, like other fields of study, has its own terminology. To assist you in learning the special terminology and understanding the important contents of the book more easily, we have listed the most important terms at the end of each chapter.

Multinational, global, international and transnational

For international companies, as with any new disciplines definitions of a number of words vary among users. For example, some people use the words "world" and "global" interchangeably with "multinational" to describe a business with widespread international operations; but others define a global firm as one that attempts to standardize operations in all functional areas but that responds to national market differences when necessary. According to this definition, a global firm's management has to meet the following requirements:

(1) Searches for market opportunities in the world, threats from competitors, sources of products, raw materials, and financing, personnel. In other words, it has global vision. For those International managers, the basic qualification is to possess the global vision. If you can not integrate your resources in the world, it is impossible for you to reduce your costs and take the advantageous position in the world market.

(2) Seeks to maintain a presence in key market. Market exists everywhere, one of the most important for the international managers is to find out the most efficient market for your company, because the market not only can make profits for the company, but it also create the great brand or image for the company.

(3) Looks for similarities, not differences, among markets. This is because all of the marketing operation requires the companies to invest the resources and familiar markets can reduce the expenditures for the company and make the operation easier.

Those who use global in this sense define a multinational company as a kind of holding company with a number of overseas operations, each of which is left to adapt its products and marketing strategy to what local managers perceive to be unique aspects of their individual markets. Some academic writers suggest using terms such as multidomestic and multilocal as synonyms for this definition of multinational. You will also find those who consider Multinational Corporation to be synonymous with multinational enterprise and transnational corporation.

United Nations and the governments of most developing nations have been using transnational instead of multinational to describe a firm doing business in more than one country. Some academic writers have employed the term for a company that combines the characteristics of global and multinational firms.

(1) Trying to achieve economies of scale through global integration of its functional areas.

(2) Being highly responsive to different local environments (a newer name is multicultural multinational).

Businesspeople usually define a transnational as a company formed by a merger (not a joint venture) of two firms of approximately the same size that are from different countries. Example, Unilever (Netherlands-United Kingdom), Shell (Netherlands-United Kingdom), Azko-Enka (Netherlands-Germany), and ABB, a merger of ASEA (Sweden) and Brown-Bovari (Switzerland).

Definitions used in this text

In this text, we will employ the definitions listed below, which are generally accepted by businesspeople. Although we primarily use the terms such as "global, multinational, and international firms or companies", at times we may use "multinational enterprise" interchangeably with international company inasmuch as both terms are employed in the literature and in practice.

Let's summarize briefly the knowledge about international marketing we have studied.

(1) International marketing is business whose activities involve crossing national borders. This definition includes not only international trade and foreign manufacturing but also the growing service industry in such areas as transportation, tourism, banking, advertising, construction, retailing, wholesaling, and mass communications. In a word, if you take your business from domestic market to a foreign one, you are taking international marketing.

(2) International marketing denotes the domestic operations within a foreign country. This term is sometimes used interchangeably with international business by some writers.

(3) Multinational company is an organization with multicountry affiliates, each of which formulates its own marketing strategy based on perceived market differences.

(4) Global company is an organization that attempts to standardize operations worldwide in all functional areas.

(5) International company refers to both global and multinational companies.

The brief history of international marketing and multinationals

While international marketing as a discipline is relatively new, international marketing as a business practice is not. As a matter of fact, human took international business in early century. For example, the famous "silk road" appeared in Han Dynasty. Of course, the past international business is very different from the present.

According to the foreign history, before the time of Christ, Phoenician and Greek merchants were sending representatives abroad to sell their goods. In 1600s, the British East India Company, a newly formed trading firm, established foreign branches throughout Asia. At the same time, a number of Dutch companies, which had organized in 1509 to open shipping routes to the East, the Dutch East India Company also opened branch offices in Asia. American colonial traders began operating in a similar fashion in 1700s.

Early examples of American foreign direct investment were the English plants set up by Colt Fire Arms and Ford, which were established before the Civil War. However, most academic writers don't think they are the birth of multinationals, because both operations failed after only a few years.

The first successful company that went into foreign market was built by Singer

Sewing Machine in 1868 and most scholars admit that it is the signal of the multinational company. By 1880, Singer had become a worldwide corporation with an outstanding foreign sales organization and several overseas manufacturing plants. Other firms soon followed, and by 1914, at least 37 American companies had production facilities in two or more overseas locations. Among those firms already established overseas were National Cash Register, with manufacturing plants in Europe; Parke-Davis, with a plant near London; and Ford motor company, which had assembly plants or distribution outlets in 14 countries. General motors and Chrysler soon followed afterward, so that by the 1920s, all three companies had sizable foreign operations. Another early overseas investor was General Electric, which, by 1919, had plants in Europe, Latin America, and Asia, other investors included American Tobacco, Armour, Coca-Cola, Eastman Kodak, Gillette, Quaker Oats, Western Electric, and Westinghouse.

Although American firms were by far the largest foreign investors, European companies were also moving overseas. Friedrich Bayer purchased an interest in a New York plant in 1865, two years after setting up its plant in Germany. Then, because of high import duties in its oversea markets, it proceeded to establish plants in Russia, France, and Belgium. Bayer, now one of the three largest chemical companies in the world, has operations in more than 100 countries. Its annual sales in 2021 are over ￡44 billion.

From 2005, lots of Chinese companies like PetroChina，Sinopec, Huawei and Haier began to invest foreign countries. And in 2021, China’s total foreign investment has been over $145 billion. And it is influencing the world investment structure greatly. With the fast economic development, the trend will be stronger and stronger.

By now, foreign direct investment (FDI) has become one of the most important means for multinationals to take international marketing. Although international firms existed before World War1, they have only become the subject of much discussion and investigation after 1970s, especially concerning the increasing globalization of their production and markets. In another word, globalization promoted the development of FDI vastly.

1.3 The Reasons for Globalization

With economic development, globalization has become one of the most important forms for the world economy. Particularly, after December 11th 2001, China became a member of WTO, relying on its tremendous production ability, it became the most important producer in the world and large sums of the products (made in China) not only changed the life of people around the world, but also changed the rules of the world trade and investment direction. More and more foreign money entered China and utilized cheap labor and other resources to provide the cheap merchandises for the world. And the situation influenced the world economic structure enormously and promoted the development of the globalization.

At the same time, more and more governments realized that they have to adapt to the globalization trend and take more international cooperation if they want to improve their people's life and get more benefits from international trade and international investment.

Four forces to promote globalization

Specifically, four interrelated forces are leading international firms to the globalization of their production and international marketing.

(1) The development of the modern science and technology, especially advances in computer and communication technology permit an increasing flow of ideas and information across borders, enabling customers to learn about foreign goods. Cable systems in Europe and Asia, for example, allow an advertiser to reach numerous countries simultaneously, thus creating a regional and sometimes global demand. Global communication networks enable manufacturing personnel to coordinate production and design functions worldwide so that plants in many parts of the world may be working on the same product. Not only does the situation make management get the cheaper raw materials, but it also, more important, makes the cost less.

(2) The progressive reduction of barriers to investment and trade by most governments is hastening the opening of new markets by international firms that are both exporting to them and building production facilities for local manufacture. Lots of governments realized they had to take the globalization because it is the only way for the country to develop its comparative advantages.

(3) There is a trend toward the unification and socialization of the global communities. Preferential trading arrangements, such as the North American free trade agreement and the European Union, which group several nations into a single market have presented firms with significant marketing opportunities. Many have moved swiftly to enter, either through exporting or producing in the area. At the same time, lots of countries signed bilateral or multilateral FTA (free trade agreement, for example, FTA between China and ASEAN began to carry out in January 1, 2010). Not only have these agreements promoted the development of world trade, but also accelerated the integration of the world resources. That is to say, more multinational companies can establish their plants in foreign countries.

(4) More and more governments realize the most important mission for them is to

promote the economic development and improve the domestic living standard and if they want to reach the goal they have to use foreign resources. Cooperation is the only way to achieve the target.

In general, lots of forces promoted the development of the globalization and all of the factors not only influence various national polices, but they also influence the marketing strategies of companies. Today, it is impossible for any companies to establish their brand name or become world-famous company if they ignore the effect of the globalization and it is the only way for them to take the global competition if they want to win the markets. In another word, the globalization influences and changes the rules of the world business and the regulations of the international companies.

1.4 Explosive Growth

Since China became a member of WTO in 2001, the world trade achieved an explosive growth. One variable commonly used to measure where and how fast internationalization is taking place is the increase of total foreign direct investment.

For example, although influenced by the financial crisis in 2008, Chinese FDI grew 27.3% compared with that in 2007, and the foreign investment in actual use reached $92.4 billion. In the first half of 2016, no-financial FDI is over $80 billion and the volume increased 58.7% than same period last year.

By now, America is the largest country to invest in foreign markets and the international firms in Japan and Europe have, since the beginning of the 1980s, increased their shares of the total foreign investment. At the same time, China, as an emerging market country, invested foreign countries over $145 billion in 2021, its total export-import volume exceeded $6 trillion in 2021. Additionally, since 2009, China has become the largest exporting country in the world.

Until today, America is the most important market for foreign investors and it can take in over $200 billion foreign money every year, and international firms coming from United Kingdom, Japan, Germany, China, and other countries seem to have focused more on U.S. domestic market, mainly because the expansion of Japanese, Chinese and European firms in the United States increased their international competition.

We also have estimated the importance of global and multinationals in the world economy. The division on transnational corporations and investment, a specialized agency of the United Nations, estimated that there are at least 80,000 international firms in the world. They control over 650,000 foreign affiliates and according to statistics published by *Fortune,* the total revenue of *Fortune 500* surpasses $33.3 trillion in 2020. Moreover, the 600 largest multinational or global firms account for one-fifth to one-fourth of the value added in the production of all the goods in the world's market economies. In Japan, just nine general trading companies account for 34.2 to 55.6 percent of all the exports and imports, respectively.

As a result of this expansion, foreign companies' subsidiaries have become more and more important for developed and developing countries. This situation is in sharp contrast to the one that existed when the dominant economic interests were in the hands of local citizens.

The expanding importance of foreign-owned firms in local economies came to be viewed by a number of governments as a threat to their autonomy. However, beginning in the 1980s, there has been a marked liberalization of government policies and attitudes toward foreign investment in both developed and developing nations. Leaders of these governments know that local firms must obtain more commercial technology in the form of direct investment, purchase of capital goods, and the right to use international companies' expertise if they are to be competitive in world markets.

Despite this change in attitude, there are still critics of large global firms who cite such statistics as the following to "prove" that host governments are powerless before them (Table 1-1, Table 1-2):

Table 1–1 The top 20 multinationals of the world in 2021

Rank	Company name	Operating revenue ($ million)	Profits ($ million)	Country of headquarters
1	WALMART	523,964	14,881	America
2	SINOPEC GROUP	407,008.80	6,793.20	China
3	STATE GRID	383,906	7,970	China
4	CHINA NATIONAL PETROLEUM	379,130.20	4,443.20	China
5	ROYAL DUTCH SHELL	352,106	15,842	Netherlands
6	SAUDI ARAMCO	329,784.40	88,210.90	Saudi Arabia
7	VOLKSWAGEN)	282,760.20	15,542	Germany
8	BP	282,616	4,026	Britain
9	AMAZON.COM	280,522	11,588	America
10	TOYOTA MOTOR	275,288.30	19,096.20	Japan
11	EXXON MOBIL	264,938	14,340	America
12	APPLE	260,174	55,256	America
13	CVS Health CVS HEALTH	256,776	6,634	America

continued

Rank	Company name	Operating revenue ($ million)	Profits ($ million)	Country of headquarters
14	BERKSHIRE HATHAWAY	254,616	81,417	America
15	UNITEDHEALTH GROUP	242,155	13,839	America
16	MCKESSON	231,051	900	America
17	GLENCORE	215,111	-404	Switzerland
18	CHINA STATE CONSTRUCTION ENGINEERING	205,839.40	3,333	China
19	SAMSUNG ELECTRONICS	197,704.60	18,453.30	Republic of Korea (ROK)
20	DAIMLER	193,346.10	2,660.50	Germany

Table 1–2 The top 20 GDP countries in 2021

Rank	Country	GDP ($ trillion)	Rank	Country	GDP($ trillion)
1	America	23.25	11	ROK	1.80821
2	China	17.73	12	Russia	1.72492
3	Japan	5.37413	13	Australia	1.70836
4	Germany	4.32934	14	Spanish	1.58032
5	India	3.5565.8	15	Mexico	1.47079
6	France	3.06777	16	Indonesia	1.43346
7	England	2.87978	17	Türkiye	1.07495
8	Brazil	2.51327	18	Netherlands	0.977292
9	Italy	2.20333	19	Argentina	0.816178
10	Canada	1.97903	20	Saudi Arabia	0.793333

The above two tables tell us:

(1) Only 27 nations (No. 27, the GDP of Thailand is $555.429 billion in 2021) have gross national products greater than the total annual sales of WalMart Corporation, the world's largest international company.

(2) WalMart's total sales surpass the sum of the gross national products of 70 nations.

These statements are certainly true. In fact, GDP of most nations is smaller than lots of world-famous multinationals sale. Also, regardless of the parent firm's scale, each subsidiary is a local company that must comply with the laws in the country where it is located. If not, it can be subject to legal action or even government seizure. From 1970 to 1975, there were 336 acts of seizure, but a decade later, this number had dropped to just 15. Now most differences are settled by arbitration. And it indicates the power of the multinationals becomes stronger and stronger; on the other hand, more and more governments realized the benefits of the internationalization and take more favorable polices to attract foreign investors. Of course, giant companies, just like WalMart and Sinopec, can make great achievement depending on the global market.

1.5 Recent Developments

Declining of American dominance

Until the 1960s, American multinationals clearly dominated world business, but then the situation began to change. European firms started challenging American multinationals, first in their home countries and then in third-countries markets dominated by U.S. companies. By the 1970s, large European and Japanese businesses were expanding their overseas production facilities faster than the American multinationals. Particularly, as the strongest economy of the emerging markets, China is changing the world investment layout and it is more and more important for world investment market. It is helpful to compare *Fortune*'s lists of the top 20 firms in the world ranked according to sales for 2021 (Table1-1 and Table1-2) to realize the change in the relative importance of American, European, Chinese and Japanese multinationals. As a matter of fact, there are over 150 Chinese companies appeared on the list of *Fortune 500* in 2021, and the quantity is more than American companies.

The lists show that although the United States is still the world's preeminent economic power; it has lost some of its superiority. As a matter of fact, firms from developing nations such as Mexico, Brazil, and India are among the world's top 100 industrial concerns; especially, Chinese companies have occupied very important positions in *Fortune 500*. We can also compare lists over time of the largest firms in a number of industries to see if there has been a change of leadership in sales volume and profits. Example, although Industrial and Commercial Bank of China is only 15^{th} biggest company in *Fortune* 500, its profit is over \$50 billion every year.

Characteristics of the famous international companies

By now, more and more companies are entering the world market, not just by exporting as many small firms do, but by opening factories, research facilities, and sale offices overseas. *Business Week* analyzed hundreds of internationally active firms and identified 50 that it considered to be the best. Each is a U.S. manufacturing company that has a minimum of $2 billion in sales. At least 20 percent of their sales are international, including both exports from United States and goods manufactured overseas. The average total annual sales for such firms are $6 billion, growing at an average of 22.9 percent annually. International sales amount to 44 percent of total sale. *Business Week* surveyed these companies and found that they had the following characteristics:

(1) Products are often unique because of their technology, design, or cost.

(2) Sharply focused. Their goal is to be first or second globally in technology niche.

(3) Lean operations to save money and speed decision making. Because of relatively open trading regions and newer technologies, they are able to serve the global market with a small number of manufacturing locations, resulting in a smaller bureaucracy.

(4) Open to ideas and technologies from around the world. Many establish research laboratories in other countries

(5) Using foreigners to head operations and also fill senior positions at headquarters

These younger, more agile large firms are remaking the global corporation for the new century and beyond. As Christopher Bartlett, an expert on multinational enterprises, says, "The newcomers have the huge advantage of starting fresh. They can develop much more flexible structures."

1.6 Domestic Marketing and International Marketing

International marketing differs from domestic marketing in that a firm operating across borders must deal with the forces of three kinds of environments—domestic, foreign, and international. In contrast, a firm whose business activities are carried out within the borders of one country needs to be concerned essentially with only the domestic environment. However, no domestic firm is entirely free from foreign or international environmental forces because of the possibility of having to face competition from foreign imports or from foreign competitors that set up operations in its own market. Let us first examine these forces and then see how they operate in these three environments.

Domestic marketing and international marketing both belong to the marketing and both take the consumers to be the center. As enterprises have to analyze market environment and find out market opportunities to select the target market and use marketing strategies to defeat their competitors and achieve the business goal of their companies.

Of course, they are different, it is more complex and difficult for companies to take international marketing than to take domestic marketing, because taking international marketing has to face different environments including different political rules, different consumers, different laws, different culture and different economic systems, etc. The following table is the brief analysis about the question (Table 1-3).

Table 1–3 Differences between domestic marketing and international marketing

Domestic marketing	International marketing
1. Research data is available in a single language and is easily accessed.	1. Research data generally in foreign languages may be extremely difficult to obtain and interpret.
2. Business is transacted in a single currency.	2. Many currencies involved, with wide exchange rate fluctuations.
3. Head office employees will normally possess detailed knowledge of the home market.	3. Head office employees might only possess and outline knowledge of the characteristics of foreign markets.
4. Promotional messages need to consider just a single national culture.	4. Numerous cultural differences must be taken into account.
5. Market segmentation occurs within a single country.	5. Market segments might be defined across the consumers of the same type in many different countries.
6. Communication and control are immediate and direct.	6. International communication and control may be difficult.
7. Business laws and regulations are clearly understood.	7. Foreign laws and regulations might not be clear.
8. Business is conducted in a single language.	8. Multinational communication is required.
9. Business risk can usually be identified and assessed.	9. Environments may be so unstable that it is extremely difficult to identify and assess risks.
10. Planning and organizational control systems can be simple and direct.	10. The complexity of international trade often necessitates the adoption of complex and sophisticated planning, organization and control systems.
11. Functional specialization within a marketing department is possible.	11. International marketing managers require a wide range of marketing skills.
12. Distribution and credit control are straightforward.	12. Distribution and credit control may be extremely complex.
13. Selling and delivery documentation is routine and easy to understand.	13. Documentation is often diverse and complicated due to meeting different border regulations.
14. Distribution channels are easy to monitor and controlled.	14. Distribution is often carried out by intermediaries, so is much harder to monitor.
15. Competitor's behavior is easily predicted.	15. Competitor's behavior is harder to observe, therefore less predictable.
16. New product development can be geared to the needs of the home market.	16. New product development must take account of all the markets in which the product will be sold.

Environments are different

As a matter of fact, the difference between domestic and international marketing is that the firms have to face different environments. As the manager of a multinational company, you have to study the environment first if you want to enter the foreign markets.

As used here, environment is the sum of all the forces surrounding and influencing the life and development of the firm. The forces themselves can be classified as external or internal. Furthermore, management has no direct control over them, though it can exert influences such as lobbying for a change in a law, heavily promoting a new product that requires a change in a cultural attitude, and so on. The external forces are commonly called uncontrollable forces and consist of the following.

(1) Competitive—kinds and numbers of competitors, their locations, and their activities.

(2) Distributive—national and international agencies available for distributing goods and services.

(3) Economic—variables (such as GNP, unit labor cost, and personal consumption expenditure) that influence a firm's ability to do business.

(4) Socioeconomic—characteristics and distribution of human population.

(5) Financial—variables such as interest rates, inflation rates, and taxation.

(6) Legal—many kinds of foreign and domestic laws by which international firms must face.

(7) Physical—elements of nature such as topography, climate, natural resources.

(8) Political—elements of nation's political climates such as nationalism, forms of government, and international organizations.

(9) Sociocultural—elements of culture (such as attitudes, beliefs, and opinions) important to international businesspeople.

(10) Labor—composition, skills, and attitudes.

(11) Technological—technical skill and equipment that affect how resources are converted to products.

The elements which management can control are the internal forces, such as the factors of production (capital, raw material, and people) and the activities of the organization (personnel, finance, production, and marketing). These are the controllable forces management must administer in order to adapt to changes in the uncontrollable environmental variables.

Look at how one change in the environment force—the passage of the north American free trade agreement— affected all of the controllable nations, the United States, Mexico and Canada. After signed the agreement, American companies must examine their business practices and change those affected by this new law. And lots of European and Asian companies set up their production bases in these countries which supply this giant free trade region. By doing this, they will avoid paying import duties on products coming from their home countries.

Domestic environment

The domestic environment is composed of all the uncontrollable forces originating in the home country that surround and influence the life and development of the firm. Obviously, these are the forces with which managers are most familiar. Being domestic forces does not preclude their affecting foreign operations, however. For example, if the home country is suffering from a shortage of foreign currency, the government may place restrictions on overseas investment to reduce its outflow. As a result, managements of multinationals find that they cannot expand overseas facilities as they would like to do. In another instance from real life, a labor union striking the home-based plants learned that management was supplying parts from its foreign subsidiaries. The strikers might contact to the foreign unions and persuade them not to work overtime to supply unless the strikers achieve their targets. The impact of this domestic environmental force was felt overseas as well as at home.

Foreign environment

The forces in the foreign environment are the same as those in the domestic environment except that they occur in foreign nations. However they operate differently for several reasons, including the following contents:

(1) Different values

Even though the kinds of forces in the two environments are identical, their values often differ widely, and at times they are completely opposed to each other. A good example is the case to make money or have a rest in China and Europe, lots of Europeans prefer getting more time to enjoy their vocation to working for making money, while most Chinese always make the opposite decision. This is why Americans like to overdraw their credit cards and Chinese like to save money.

(2) Changes difficult to evaluate

Another problem with the foreign forces is that they are frequently difficult to evaluate, especially the legal and political elements. A highly nationalistic law may be passed to appear a section of the population. To all outward appearance, a government may appear to be against foreign investment, yet pragmatic leaders may actually encourage it. A good example is Mexico, which until 1988 had a law prohibiting foreigners from owning a majority interest in a Mexican company. However, a clause permitted exceptions “if the investment contributes to the welfare of the nation.” IBM, Eaton, and others were successful in obtaining permissions to establish a wholly owned subsidiaries under this clause.

(3) Forces interrelated

In the chapters that follow, we'll see it will be evident that the forces are often interrelated. This is no novelty, because the market conditions in various countries are very different and multinational managements have to make their decisions according to the specific situations. For instance, the combination of high-cost capital and an abundance of unskilled labor in many developing countries may lead to the use of a lower level of technology that would be employed in more industrialized nations. In other words, given a choice between installing costly, specialized machinery needing fewer workers and less expensive general-purpose machinery requiring a larger labor force, management will frequently choose the latter when faced with high interest rates and a large pool of available workers. Another example is the interaction between physical and sociocultural forces. Barriers to the free movement of a nation's people, such as mountain ranges or deserts, help maintain pockets of distinct cultures within a country. Example, Chinese culture is very special in the world, one of the most important reasons is Himalaya mountains cut off the association between China and western countries.

International environment

The international environment is the interactions: (1) between the domestic environmental forces and the foreign environmental forces; (2) between the foreign environmental forces of two countries when an affiliate in one country does business with customers in another, which agrees with the definition of international business—business that involves the crossing of national borders.

For example, personnel at the headquarters of a multinational or global company work in the international environment if they are involved in any way with another nation, whereas those in a foreign subsidiary do not unless they are also engaged in international business through exporting or management of other foreign affiliates. In other words, the sales manager of Goodyear-Chile does not work in the international environment if he or she sells tires only in Chile. Should Goodyear-Chile export tires to Bolivia, then the sales manager would be affected by forces of both the domestic environment of Chile and the foreign environment of Bolivia and therefore is working in the international environment. International organizations whose actions affect the international environment are also properly part of it.

These organizations include (1) worldwide bodies (e.g. World Bank), (2) regional economic groupings of nations (e.g. North American Free Trade Agreement), and (3) organizations bound by industry agreements (e.g. Organization of Petroleum Exporting

Countries).

More complex decision making

Those who work in the international environment find that decision making is more complex than it is in a purely domestic environment. Consider managers in the home office who must make decision affecting subsidiaries in just 10 different countries (many multinationals or global are in 20 or more countries). They must not only take into account the domestic forces, but they must also evaluate the influence of 10 foreign national environments. Instead of having to consider the effects of a single set of 10 forces, as their domestic counterparts do, they have to contend with 10 sets of 10 forces, both individually and collectively, because there may be some interaction.

For example, if management agrees to labor's demands at one foreign subsidiary, chances are that it will have to offer a similar settlement at another subsidiary because of the tendency of unions to exchange information across borders. Furthermore, as we shall observe throughout the text, not only are there many sets of forces, but there are also extreme differences among them.

Another common cause of the added complexity of foreign environments is manager's unfamiliarity with other cultures. To make matters worse, they will impose on others their own preferences and reactions. Thus, the foreign production manager, facing a backlog of orders, offers the workers extra pay for overtime. When they do not show up, the manager is perplexed. "Back home, they always want to earn more money." This manager has failed to understand that the workers preferred time off to more money. This unconscious reference to the manager's own cultural values, called self-reference criterion, is probably the biggest cause of international business blunders. Successful administrators are careful to examine a problem in terms of the local cultural traits as well as their own.

A solid understanding of the business concepts and techniques employed in the modern industrial nations is a requisite for success in international marketing. However, because transactions take place across national borders, three environments—domestic, foreign, and international—may be involved other than just one; thus in international marketing, the international manager has three choices of what to do with a concept or a technique employed in domestic operations: (1) transfer it intact, (2) adapt it to local conditions, or (3) not use it overseas. International managers who have discovered that there are differences in the environmental forces are better prepared to decide which option to follow.

To be sure, no one can be an expert on all these forces for all nations, but just knowing that differences may exist will cause people to "work with their antennas extended." In other words, when they enter international market, they will know they must look out for important variations in many of the forces that they take for granted in the domestic environment. It is to the study of the three environments that this text is directed.

Summary

1. Appreciate the dramatic internationalization of markets. Global competition is mounting. The huge increase in import penetration, plus the massive amounts of overseas investment, means that firms of all sizes face competitors from everywhere in the world. This increasing internationalization of marketing is requiring managers to have a global marketing perspective gained through experience, education, or both.
2. Understand the various names given to firms that have substantial operations in more than one country. Although the definitions vary among users, a global company is an organization that attempts to standardize operations worldwide in all functional areas and the parent companies and subsidiaries can enjoy the various resources together. A multinational firm, on the other hand, is an organization with multicountry affiliates, each of which formulates its own business strategy based on perceived market difference. The term international company is often used to refer to both global and multinational firms.
3. What is market? The "market" is anywhere that goods or services may be sold or traded. Nowadays, it can range in scope from a simple open-air exchange of farm products to a description of an entire economy, like the European Market, or a nebulous commercial function like the stock market.
4. Comprehend why international marketing differs from domestic marketing. International marketing differs from its domestic counterpart in that it involves three environments—domestic, foreign, and international—instead of one. Although the kinds of forces are the same in the domestic and foreign environments, their values of foreign forces are at times more difficult to assess. The international environment is defined as the interactions (1) between the domestic environmental forces and the foreign environmental forces and (2) between the foreign environmental forces of two countries when an affiliate in one country does business with customers in another. An international marketing model helps to explain this relationship.
5. Describe the three environments—domestic, foreign, international—in which an international company operates. While international businesspeople must understand business concepts and techniques employed in industrialized nations, they must also know enough about the differences in the environmental forces of the markets in

which they operate to be able to decide if a concept or a technique (1) can be transferred to another country, (2) must be adapted to local conditions, or (3) cannot be used elsewhere.

Questions

1. What are the differences among international, global, and multinational companies?
2. Give examples to show how an international marketing manager might manipulate one of the controllable forces in answer to a change in the uncontrollable forces.
3. As a global firm, it has to change its operating means completely when it try to open a foreign market. True or false? Why?
4. Discuss the forces that are leading international firms to the globalization of their production and marketing.
5. How do you understand the characteristics of the world famous companies? Why?
6. What do you believe makes foreign business activities more complex than purely domestic ones?
7. Discuss some possible conflicts between host governments and foreign-owned companies.
8. Why, in your opinion, do the authors regard the use of the self-reference criterion as "probably the biggest cause of international marketing blunders?" Can you think of an example?
9. You have decided to take a job after graduation in your hometown. Why should you study international marketing?
10. Although forces in the foreign environment are the same as those in the domestic environment, they operate differently. Why?