



# Chapter 1

## The rationale for international marketing

### LEARNING OBJECTIVES

*After reading this chapter you should be able to:*

- 1** explain the position and interests of individual countries such as Australia and New Zealand in international trade and how one country's situation can differ from that of other countries
- 2** recognise the diversity of stakeholders in the international marketing scene
- 3** assess the driving and restraining forces that underlie the international marketing imperative
- 4** recognise the various approaches being adopted and evaluate the various classification systems that apply in international marketing
- 5** identify underlying concepts of international marketing
- 6** explain the beneficial role of international marketing in firms' overall marketing activity
- 7** assess, from the firm's perspective, the application of the 'wheel of international marketing', and
- 8** recognise the importance of global trade and the role that marketing plays.

## Made in . . .

Global value chains (GVCs) are a defining feature of the current wave of globalisation. These are internationally connected production arrangements through which organisations locate parts of their production processes across different countries. Businesses build networks which allow them to add value in production in locations where it makes most sense to do so; and this contributes strongly to competitive advantage. They may source components (intermediate products) from wherever in the world they can be manufactured most cost effectively and then assemble them in a location with lower labour costs. These intermediate products may include physical inputs as well as services to production such as design, marketing and distribution.

The drivers behind the growth of GVCs are the same as those driving increases in international marketing—significant advances in information, communication and transport technologies as well as increasing numbers of bilateral and regional trade agreements. Intensification of competition demands that organisations achieve the lowest possible costs of production to remain competitive, and this can be aided through involvement in GVCs.

An increasing amount of international trade is being undertaken through GVCs, with the World Trade Organization (WTO) estimating that income from trade flows within GVCs doubled between 1995 and 2009. For example, since 2000, intermediate goods have comprised over 50% of exports and over 60% of imports within Asia (Fung 2013). In Pakistan, the WTO estimated that the import content in the export of goods had already risen from 20% to 40% by 2010 and it is expected to reach as high as 60% within the next decade. For China, the income from GVCs has increased 600% and for India over 500% (WTO 2014).

Many governments, particularly in the developing world, are preoccupied with the question of how to acquire a share of the international value-added along GVCs. To this end they are developing policy and infrastructure to improve their skilled labour pool, trade facilitation processes and capital investments, providing further opportunities for international marketing. In East Asia, China, Malaysia, the Philippines and Singapore have generated enormous value by specialising in a particular segment of the production process and integrating efficiently with GVCs. This integration relies heavily on efficient services including information technology, logistics, procurement, customer services and marketing to narrow the distance between businesses and markets.

There is truth to the idea that ‘the GVC phenomenon is nothing more than turbo-charged international trade’ (Lamy 2013). It has been a fairly common occurrence within large multinational enterprises for decades, however it requires a shift in thinking for small and medium-sized enterprises (SMEs) wanting to gain from its advantages. A holistic approach to internationalisation explores possibilities in both inputs to and outputs from an organisation. For a SME from Australia or New Zealand, this means expanding our view of possible sources for our inputs of physical components and services to include all the options inherent in GVCs. It is possible to source all our inputs through local suppliers which will decrease the amount of coordination and skill required for the process. However, this will likely lead to increased costs and tighter competition.

A chocolate producer in New Zealand, for example, can access cocoa from Malaysia, milk sourced locally and refined sugar from Australia. The chocolate manufacturing plant is built with the help of investment from the USA, packaging is designed in the UK and the product is sold globally. Efficiencies gained through using this network approach will dramatically enhance the producer’s competitive advantage.

# INTRODUCTION

While many US texts in international marketing currently being used in the Asia–Pacific focus on the activities of the transnational firm and the merits of a global as opposed to a local approach to international marketing, such approaches are not always relevant to firms in the Asia–Pacific region, apart from alerting them to the nature of the international competitive environment in which they are likely to operate. This is because the region has spawned only a limited number of global firms and those that have emerged, such as Tata in India, CP in Thailand and Haier in China, operate in different ways from their counterparts in developed-country economies. Exporters in the region can be classified for the most part as:

- indigenous small and medium-sized enterprises (SMEs), or
- local subsidiaries of transnational firms.

A global or transnational approach to international marketing is not an operating strategy for the first category of firms above and is only partially appropriate to the second category. With regard to the first group, globalisation is only a reality as far as potential competitors in both the domestic and the international markets are concerned. With the second category, executives in these subsidiaries are preoccupied with balancing the demands of the transnational corporation with the requirements of the local market and the regulations that circumscribe activities in that market. For these reasons this book is written primarily from the perspective of firms in the above categories rather than from the perspective of the global or transnational firm. Although globalisation and its manifestations are covered in the book, such coverage is intended to sensitise Australasian firms to future trends and the underlying forces that may have an impact on their future international competitiveness. Table 1.1 shows how the world's top 500 firms are distributed between countries/blocs.

During the 14-year period there has been a shift away from the USA, Europe and Japan in favour of the large emerging markets such as China, India and Brazil.

**TABLE 1.1** The world's 500 largest multinational enterprises (MNEs) by country/bloc, 2000, 2006 and 2014

Country/bloc	Number of MNEs 2000	Number of MNEs 2006	Number of MNEs 2014	Country/bloc	Number of MNEs 2000	Number of MNEs 2006	Number of MNEs 2014
European Union	141	163	134	Mexico	2	5	3
USA	185	170	128	Singapore	1	1	2
Japan	104	70	54	Indonesia	–	–	2
China	12	20	98	Chile	–	–	1
South Korea	11	12	17	Norway	2	2	1
Switzerland	11	12	12	Malaysia	1	1	1
Canada	15	14	11	Saudi Arabia	–	1	1
Australia	7	8	8	Thailand	–	1	1
Taiwan	–	3	8	Turkey	–	1	1
India	1	6	7	Venezuela	1	1	1
Brazil	3	4	7	Colombia	–	–	1
Russia	2	5	5	South Africa	1	–	–

SOURCE: Adapted from Fortune 500, accessed 18 January 2016.

## The new international marketing environment

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Today we are faced with shrinking communications in a situation where information is power. At the click of a mouse we can access data about both threats and opportunities that arise from activities in foreign markets over which we have little control. Gone are the days where we can rely on our national government to protect us from the threats posed by international competitors. Technology is making size far less important than was formerly the case, and small firms from strange countries can bob up overnight as competitors in the domestic market. By contrast, we can now compete in foreign markets previously closed to us on account of economies of size and scale. Technology is also causing size-related communications infrastructure to be bypassed, as exemplified by developing countries abandoning plans to invest in land-based communications in favour of satellite technology. For example, more than 94% of China's population have a mobile phone (compared to 50.7% in 2009), resulting in China approaching the 1.3 billion mobile phone user mark in 2015 (Kemp 2015). For those on the move, the communications revolution means that commerce, entertainment, work and social interactions are increasingly based on the mobile phone, and the global system for mobile communications technology (GSM) facilitates locating customers wherever they might be in the world and sending them marketing communications. This indicates a shift in international marketing from transacting with customers to interacting with customers, and such interaction has facilitated new vehicles for interaction, such as mobile internet, apps and international call centres.

The international trading scene is also going through major changes that affect the ability to access overseas markets. In the 1990s a new world trade order, embodied in the creation of the World Trade Organization (WTO), which would address issues of agriculture, services, investment and intellectual property, caused a certain euphoria. In recent years disillusionment has set in as the WTO has been no more successful than its predecessor, the General Agreement on Tariffs and Trade (GATT), in solving problems of market access. The focus has now shifted towards bilateral trade agreements. Being outside major world trading blocs such as the European Union and the North American Free Trade Area, Australia and New Zealand have been embracing bilateral arrangements as evidenced in the case of Australia in free-trade agreements with Singapore, Thailand, Malaysia, the Republic of Korea (South Korea) and the USA.

Increasingly, firms are having to focus not just on the interests of their shareholders but also on the interests of a broad range of other stakeholders located anywhere in the world, any one of whom could adversely affect operations either directly or indirectly via withdrawal of support or by causing damage to the firm's image or reputation. Figure 1.1 shows a typical spread of stakeholders whose interests the firm needs to take into account when it operates across national borders.

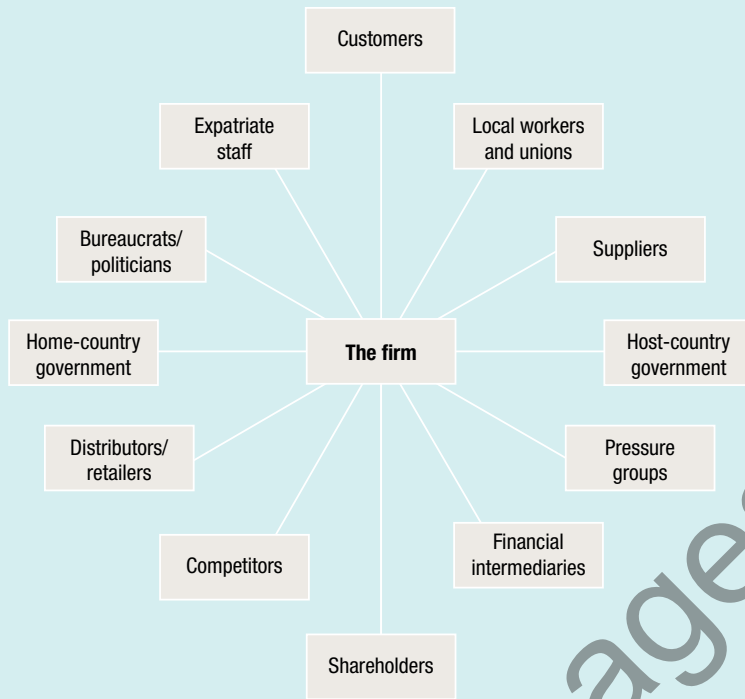
Chow et al. (2008) developed and successfully tested a model of stakeholder orientation whose generalisability extended beyond the developed-country markets of the USA and the UK. This model is shown in Figure 1.2.

This in turn leads to the concept of holistic marketing. Holistic marketing recognises that in marketing everything matters, whether it be consumers, employees, other companies, competition or government and society as a whole, and that a broad integrated perspective is necessary. Kotler et al. (2006, pp. 17–21) claim that holistic marketing involves:

- relationship marketing—building satisfying relationships with key parties
- integrated marketing—integrated programs that create, communicate and deliver value for customers
- internal marketing—ensuring that all in the company are driven by a recognition of the need to serve customers well, and
- social responsibility marketing—taking into account the broader concerns and the ethical, environmental, political, legal and social context of marketing programs.

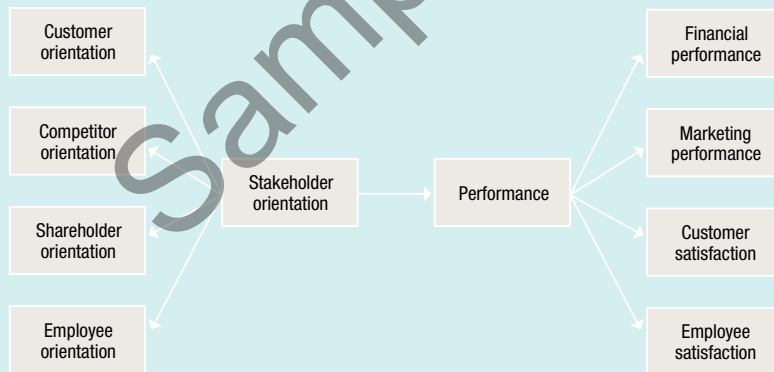
The above approach, which leads to a sense of corporate social responsibility, is very important in international marketing where increasing attention needs to be paid to its three elements of: first, *product use*—a focus on the contribution of products to assisting the wellbeing and quality of life of the society; second, *business practice*—a focus on good corporate governance and environmental sensitivity; and third, *distribution of profits*—which should be done both equitably and in a manner that represents a just return to the host community (Warhurst 2001).

**FIGURE 1.1** Stakeholders of the international firm



SOURCE: Doole, E. and Lowe, R. (2012) *International Marketing Strategy*, Cengage, UK, p. 24. Reproduced by permission of Cengage Learning EMEA Ltd.

**FIGURE 1.2** The universal stakeholder model



SOURCE: Chow, R.P.M., Yao, O.H.M., Sin, L.Y.M., Tse, A.C.B., Luk, C.Y. and Lee, J.S.Y. (2008) 'Developing a Scale for Stakeholder Orientation: A Cross National Validation', *European Journal of Marketing*, vol. 41, issue 11/12, pp. 1306–27. © Emerald Group Publishing Limited, all rights reserved.

## What is international marketing?

All of us live in an international marketplace. As you read this book you may be sitting in a chair purchased from IKEA and imported from Scandinavia, and on your desk you may have a tablet with a US brand, manufactured in China. The software may be designed in Bangalore, India, and your DVD player for screening the recommended international marketing film may be a Panasonic made in Malaysia. The book itself, while written in Australia, may have been printed in Singapore and may be available as an e-book from a retailer in London. What a contrast to 150 years ago

## INTERNATIONAL HIGHLIGHT 1.1

### Smart new markets

China's largest smartphone maker Xiaomi is bypassing developed country markets to expand into other big developing countries. The five-year-old company has expanded to become not only the biggest in its home market but also third in the world after Samsung and Apple.

Already available in India and Singapore, Xiaomi plans to break into other South-East Asian markets, including Indonesia, Malaysia and Thailand. The company's international push is also slated to include Brazil, Mexico, Turkey and Russia, in a bid to expand globally with its low-cost phones, which are noted for their cutting-edge technology. Xiaomi phones were briefly available in Australia in 2014, but the online outlet was shut down in July at the request of the manufacturer, without further explanation.

With roughly a 3.5% share market of the global phone market already, Xiaomi's product range will also include smart TVs, fitness watches and other appliances for the 'smart home' market. Their popularity is based on their stylish design and value for money.

SOURCES: Adapted from Ibrahim, T. (2014) 'Exclusive: Xiaomi Global Shuts Down Australian Online Stores', *PC World*, 15 August; Kan, M. (2014) 'China's Xiaomi Targets Ten Markets in International Expansion', *PC World*, 23 April; Murray, L. (2015) 'Is "China's Apple", Xiaomi Poised to Take on the World?', *Australian Financial Review*, 13 April.

when students sitting at their desks would be surrounded by items that all came from their own countries and, in most cases, from within a 120 km radius.

International marketing is the process of planning and undertaking transactions across national boundaries that involve exchange. Its differing forms range from exporting to licensing to joint ventures to wholly owned acquisitions to management contracts. Because the transaction takes place across national boundaries, the international marketer is subject to a different set of macro-environmental factors and constraints derived from different political systems, legal frameworks, cultural norms, societal expectations, infrastructure facilities and economic circumstances.

Given these difficulties and differences, why undertake international marketing? The answer lies in the forces that both drive and restrain involvement in international markets.

### **Driving forces**

The first of these forces is that of market needs. These needs transcend national boundaries and exist in many countries. International marketing is about catering to these needs. However, often in international marketing these needs are created by promotion. The advertising campaign may focus on a global appeal, but it is adapted to the specific requirements of each culture. The marketing of diamonds by De Beers is an example of this. It promotes diamonds to announce an engagement in Japan where giving an engagement ring is not a traditional custom. In so doing, it is capitalising on the fact that the emotions surrounding an engagement are universal and these can be harnessed to a new want—that of celebrating an engagement with a diamond ring.

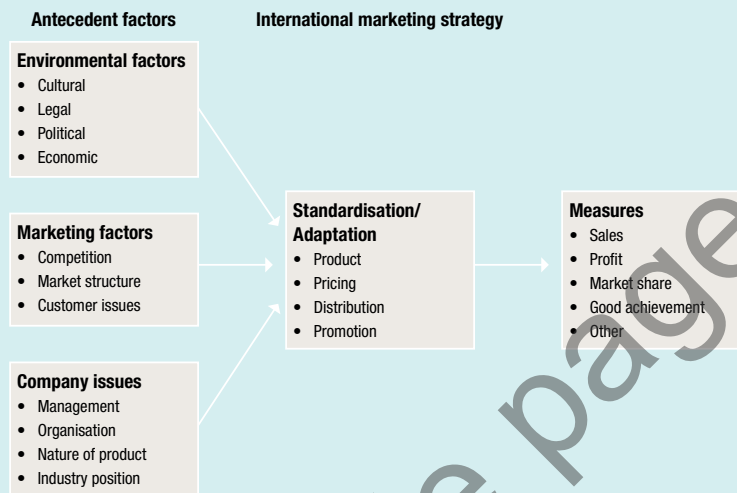
A second driving force is that of technology. It is a universal, uniform and consistent factor that crosses national boundaries because almost everyone aspires to the latest technology. Of itself, technology knows no cultural boundaries—only in its application does culture come into play. When this happens, the modification is not in the technology but rather in its application. If a company knows how to manage technology in one country it has experience that is relevant to the rest of the world. News Corporation was well placed to succeed with its takeover of Fox Broadcasting in the USA in that it could draw on its experience in creating and managing a network of radio and TV stations in Australia.

Cost is another driving force. Economies of scale deriving from supplying more markets than just Australia or New Zealand can drive down research, engineering, design, creative and production costs. The cost pressure is becoming more and more intense as new products increasingly involve major investment and extended periods for development. The pharmaceutical industry is an example. It typically costs between US\$1.4 billion and US\$2.6 billion to develop a new product from scratch in this industry and the average development period is about eight years (Peters 2014). Rarely can these development costs be recovered from one national market alone, which is why such products are usually launched on a worldwide basis.

Government can be another driving force via the creation of policies and assistance measures that facilitate international involvement and the creation of standards that are compatible with those in other countries.

Communication has been revolutionised by the changes in information technology. New innovations become known throughout the world more rapidly than was previously the case and, as a result, everyone wants the latest product. The information revolution has also spawned media that overlap national borders, and global media have emerged. Customers in one country are increasingly exposed to messages about products that do not originate in that country. Figure 1.3 illustrates the forces that influence standardisation versus adaptation in international marketing.

**FIGURE 1.3** Forces in international marketing



SOURCES: Reprinted from Theodosiou, M. and Leonidou, L.C. (2003) 'Standardisation vs Adaptation of International Marketing Strategy; An Integrated Assessment of the Empirical Research', *International Business Review*, vol. 12, p. 143. Copyright 2003 with permission from Elsevier.

### Restraining forces

The first of the restraining forces stems from differences between national markets. Usually the differences are sufficiently pronounced to require adaptation of at least some elements of the marketing mix to suit local conditions. They may be a function of economic development, the political system, legal requirements, societal expectations and cultural norms.

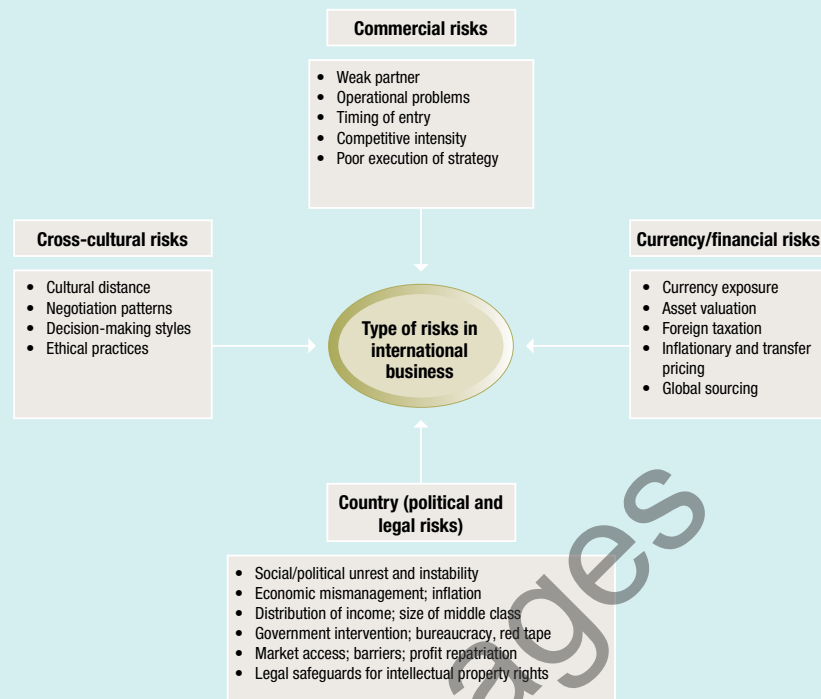
In addition, most countries implement some form of control over entry and access to their market. These controls are driven in part by a desire to maintain national sovereignty and in part to protect national values, local vested interests and domestic companies. This is achieved by both tariff and non-tariff barriers. With the progressive reduction of the former as a result of the activities of the WTO, non-tariff barriers are becoming increasingly important as a control mechanism. Controls also apply to investment, outsourcing, acquisition by foreign interests, franchising and licensing.

Another restraining force is that of actual or perceived risk. Cavusgil (2004) categorises these as commercial risks, cross-cultural risks, country risks (political and legal) and currency/financial risks, as shown in Figure 1.4. A final restraining force is that of myopia on the part of some managers, often due to ethnocentric attitudes.

### General rationale

In the immediate post-World War II period the ratio of world trade (i.e. cross-border trade) to total trade was much less than 10%. By the late 1980s this ratio had doubled, and at the end of the 20th century hovered around 35%. World trade in manufactured goods now represents more than 35% of total output, with more than 50% of this being intracompany transfers. Overall, the expansion of world trade over the last 70 years has been above 7% per annum, far outpacing

**FIGURE 1.4** Risks involved in international marketing



SOURCE: Cavusgil, S.T., Knight, G. and Riesenberger, J.R. (2017) *International Business: The New Realities*, 4th edn, Pearson, p. 11.

world economic growth during that period. As a result of the continued expansion of world trade, there is an inescapable network of global linkages that bind countries, institutions and individuals closer together. A currency crisis in Thailand affects its Asian neighbours and its trading partners in North Asia before adversely affecting countries in the developed world, such as Australia. Or a debt crisis in Greece has flow-on effects to Portugal, Spain, Italy and the rest of the European Union. In a similar way, acts of war such as the invasion of Lebanon by Israel, and acts of terrorism such as the destruction of the World Trade Center in New York, can have an impact on oil prices, stock markets, trade and travel throughout the world. Underlying the growth of the international economy since World War II are a number of factors. The most important of these are discussed below.

### Change in management orientation

Perlmutter (1995) developed a typology whereby firms could be classified according to the orientation of their management, as follows:

- An *ethnocentric orientation* is underpinned by the belief that the home country is superior and that the approach used in the home country should be applied to every other country. This leads to the view that the products of the home country can be sold anywhere without adaptation and that foreign operations are secondary or subordinate to domestic ones and, from a manufacturing perspective, foreign markets are mostly viewed as an opportunity to dispose of surplus domestic production.
- A *polycentric orientation* is the opposite of ethnocentrism and reflects the approach that each country is different and that no country is necessarily inferior to another. Therefore the home country approach is viewed as largely irrelevant and, to be successful, products must be specifically tailored to the differences in each overseas country. This leads to the view that each overseas subsidiary should develop its own unique business and marketing approaches.
- *Regiocentric orientation* views the region as the market and integrated strategies are developed for the region, taking into account both the similarities and differences between the home



market and the region. The world outside the region may be viewed from either an ethnocentric or polycentric standpoint.

- *Geocentric orientation* requires a global mindset and involves a world marketing strategy based on the recognition that countries have both similarities and differences. The entire world is viewed as a market and a strategy is developed accordingly. It represents a synthesis of the ethnocentric and polycentric approaches, and seeks to operate a global approach that is able to respond to local needs and wants.

An increasing number of companies that began with an ethnocentric orientation and then moved to a polycentric orientation have now adopted a regiocentric or geocentric orientation in response to changing circumstances in the international marketplace.

### **International monetary framework**

The rapid growth in trade and investment has created a need for greater liquidity to facilitate the trading of goods and services between nations. Until 1969 exchange rates were fixed, but since that time they have mostly been allowed to fluctuate. International liquidity has been augmented by the International Monetary Fund (IMF) enabling its members to use special drawing rights (SDRs) in settling transactions involving reserves. This has overcome the limits on expanding liquidity imposed by earlier reliance on gold and foreign exchange.

### **The world trading system**

Following World War II nations did not want to return to the discriminatory trading practices of the 1920s and 1930s. The General Agreement on Tariffs and Trade (GATT) was born and the operations of this body did result in a lowering of the tariff barriers for industrial products. In 1996, following the conclusion of the Uruguay Round of the GATT negotiations, the WTO replaced the GATT. The WTO is now in the process of addressing other issues that stand in the way of a more liberal world trade system, such as non-tariff barriers, barriers to trade in agricultural products, freeing up services trade and issues related to investment.

Recent decades have been characterised by the emergence of an increasing number of regional trade groupings, such as the ASEAN Free Trade Area and the North American Free Trade Area Agreement (NAFTA). These trade blocs are posing a threat to those outside the group and nations are rushing to join blocs lest they be commercially disadvantaged as a result. Regional trade groupings (RTGs) vary in terms of the degree of national sovereignty surrendered—from the European Union at one extreme to the looser arrangement of the Asia-Pacific Economic Cooperation (APEC) at the other. Although a number of these RTGs were formed because of the perceived shortcomings of GATT, the extent to which such RTGs can coexist with the WTO has yet to be determined.

Since 1945 the world has remained free of global conflicts and this has assisted the growth of the international economy. The passing of the Cold War has further accelerated this process, as conflicts now are more likely to be local rather than global. The economies of the Asia-Pacific region have experienced a period of strong economic growth and the resulting market opportunities have stimulated the movement of their firms offshore. This internationalisation has also improved the reception given to foreign firms operating in these markets with a consequent reduction in barriers to firms selling to or investing in Asia-Pacific countries. Despite the global financial crises of past decades, this internationalisation continues, albeit at a slower rate.

### **Communications and transport**

The time taken to transport goods and the cost of transporting those goods have fallen considerably over the past 50 years. This has been due to the use of containers and larger vessels, as well as improved waterside efficiency, electronic data interchange (EDI) and rationalisation of shipping services. Competitive air travel has made face-to-face meetings in international business easier and cheaper, while the ability to transmit data electronically has improved the ease and reduced the cost of staying in touch with overseas customers and representatives, and facilitated the management of diverse operations around the globe.

### **Technology**

Owing to technologies such as the internet, never before has it been so easy to gather, analyse and disseminate information. Products can be produced more quickly and obtained less expensively from sources around the world. Advances in technology allow firms to operate in 'marketspace' rather than the 'marketplace' by keeping the content while changing the context of the transaction. A magazine,

for example, can be distributed globally online, rather than mailed individually to subscribers, enabling unprecedented expansion in the ability to reach new customer groups. The burgeoning level of global investment means that an increasing number of people are working for companies owned by non-local interests. This global interdependence is not stable but continually changes as firms realign their international involvement. The pace of technology innovation grows faster each year, spurred on by the increasing speed of transmission of ideas across national boundaries.

### **Specific rationales**

The reasons for undertaking international marketing can be proactive or reactive and can come from either internal drivers or external opportunities.

#### **Proactive–internal**

- *Management desire.* This is usually dependent on how international involvement in general and also in specific markets is viewed by relevant decision makers in the firm. This is the group that governments target with export awareness campaigns.
- *Unique features of the offering.* These may make the offering attractive to foreign buyers and, from the perspective of the firm, provide the opportunity to amortise its investment in a product line over a larger volume of sales.
- *Utilise excess capacity.* Many firms only produce on a one- or two-shift basis whereas they have the capacity to produce on a three-shift, 24-hour basis. The costs of this additional shift are often substantially lower, enabling the firm to compete effectively in overseas markets. For a number of years, Australia's BHP (now BHP Billiton) would only export when it had excess capacity, only to withdraw from overseas markets when demand in the Australian market accounted for all of its finished product.
- *Small size of the domestic market.* Some products cannot survive on the domestic market alone and are often 'born global', i.e. with a world market in mind (see Chapter 8). This may be due to the nature of the technology required to make the product or the nature of the end market for the product or service.
- *Stagnant or declining domestic market.* When times are tough in the domestic market, overseas market involvement may provide some relief. This is especially relevant when there is a recession and export promotion agencies find that, in such times, firms are more responsive to their exhortations to become involved in overseas markets.

#### **Reactive–internal**

- *Diversifying risk.* As the business cycle often varies from country to country, involvement in countries other than one's domestic market reduces risk overall. Given the depressed state of US airlines in the 1990s, Boeing would have long since gone bankrupt but for the upsurge in demand for aircraft in other markets, especially in Asia.
- *Reduce the disadvantage of seasonality.* As seasons in the southern hemisphere are the reverse of those in the northern hemisphere, when firms in the southern hemisphere export to the northern hemisphere in that hemisphere's off season, they increase the volume of exports and obtain higher prices. While this seasonality factor is very important for agricultural products, it also applies to other items such as clothing, sports equipment and tourism services.

#### **Proactive–external**

- *Opportunities in foreign markets.* These can be an outcome of conscious search by firms following a decision to seek business internationally. The steps in market selection and decisions as to assessing the most appropriate forms of market entry are outlined in Chapter 8.
- *Other sources of stimulus.* Governments, port authorities, banks, chambers of commerce and other bodies in the domestic market can take actions that make international involvement a more attractive option to the firm. The provision of export incentives, structuring trade missions, supporting participation in international trade displays and other forms of assistance can stimulate international involvement by firms.

## INTERNATIONAL HIGHLIGHT 1.2

### Is the sun setting on America's century of world dominance?



SOURCE: © Robert A. Cumins/Corbis.

The advent of '9/11' was a major blow to America's self-confidence. Given the US military might and security apparatus, how could a motley band of terrorists stage a successful attack on America's symbols of capitalism (the World Trade Center), its military (the Pentagon) and an almost successful attack on its heart of governance (the White House)? Retribution has proved unsuccessful, as witnessed by the haemorrhaging of trillions of dollars and thousands of bodies in Afghanistan and Iraq in a manner that puts the US 'never again' fiasco in Vietnam in the shade. More recently, US capitalism itself began to self-destruct for all the world to see. A sub-prime crisis based on greed was followed by a US\$700 billion bail-out package for the financial sector, a loan of US\$85 billion to insurance giant IAG,

underwriting liabilities to the tune of US\$56.5 trillion to Freddie Mac and Fannie May lending institutions and writing a virtual 'blank cheque' to save the automotive sector. These events have caused many, both within and without the USA, to ask, 'Has America had its day?' Now the world's tallest building is in Dubai, the second richest man is Mexican, the three biggest listed corporations are Chinese, the world's biggest casino is in Macao, the 10 largest shopping malls are in Asia and the Middle East and the world's biggest movie industry is no longer Hollywood but Bollywood in India.

These events should shake international marketing theories to their foundations. These theories are largely based on the allegedly successful US model and on studies conducted among US firms and consumers—all advocates of the American dream. But the dream has now turned into a nightmare. By early 2015 the USA had over US\$18 trillion national debt, an increase of more than 50% under President Obama, which is a per taxpayer amount of US\$154 161.

Therefore, espoused theories of international marketing strategy need to be adjusted to reflect the nations of the new leadership mentioned above—the United Arab Emirates, the Mexicos, the Chinas and the Indias. There needs to be a focus on the way business is conducted and on the way consumers behave in these emerging nations, because the American model has already been found wanting and is likely to become increasingly so in the years ahead.

SOURCES: Adapted in part from Hartcher, P. (2008) 'End of the American Century', *Sydney Morning Herald*, 4–5 October, pp. 25–6; and Patton, M. (2015) 'National Debt Tops \$18 Trillion: Guess How Much You Owe?', *Forbes*, 24 April.

### Reactive–external

- *Unsolicited order.* Many firms initially become involved in international activities because they receive an order from overseas 'out of the blue', frequently via an email through their website. This often leads to the first visit by an executive of the firm to a foreign country in search of opportunities.

## Approaches to international marketing

There are a number of different approaches to international marketing. These are based on increasing forms of involvement or commitment. They reflect the fact that since World War II the international trading environment has become more complex and the interdependencies between firms in different countries are much greater. The first of these approaches classifies firms in terms of management approach to international involvement.

### From domestic to transnational

In this approach, firms are considered in terms of their orientation. The firm can operate as a domestic entity and in the past could be quite successful operating just within its home market.

Export marketing is the first stage in the firm exploring opportunities outside the home country. By leveraging its experience in the domestic market, the firm exports its products internationally. This may involve a separate strategy to produce specifically for a foreign market, or it may be the result of an attempt to dispose of surplus production or utilise excess production capacity. International marketing extends international involvement further and usually includes a greater commitment of resources to the foreign market. For example, instead of relying on an intermediary overseas, the firm may establish its own direct representation in that country. A further stage of involvement is operating on a multinational basis. This stage involves creating programs specifically for each foreign market that take into account the differences and unique circumstances of each country. Finally, global or transnational marketing focuses on leveraging the global assets of the firm by taking what is unique and different in each country in which it operates, and combining the unique features to create the most globally competitive offering. The transnational firm does not have a centre from which decisions are dictated to operations elsewhere, but rather the various operations operate relatively autonomously. They are connected to each other in the interests of dissemination of information and global rationalisation.

## From indirect exporting to foreign direct investment

In this approach, firms are classified according to the nature of their involvement in export-led or outward-driven international activities. This is based on the fact that initially firms may export not on a direct basis but rather through an export intermediary (either an export merchant who takes title to the goods or an export agent who receives a commission). From the perspective of an Australian or New Zealand firm, the sale is akin to a domestic one as little extra effort is involved because the goods are destined for overseas. The next stage is that the firm exports directly but appoints an agent to represent its interests in the international market. This is the most common form of international involvement for small and medium-sized exporters. In this case the agent receives a commission for arranging the distribution and sale of the products. Should the firm feel a loss of control over the marketing of its products in the foreign market because this is left to the agent, it can take the further step of establishing its own sales office in the market. This office is used to manage the distribution network necessary to get the goods to the final customer. It may be that tariff or non-tariff barriers either prohibit direct selling of the product from the home market or make it uneconomic. If this is the case, then it will be necessary to establish a manufacturing operation in the country, via a joint venture, licensing arrangement or a wholly owned operation.

## From an export focus to a holistic focus

The approaches previously discussed are based on the assumption that the domain of international marketing is restricted to outward-driven international activities. This view does not match the reality of international business because the international involvement of firms can also be driven by inward activities, such as importing. Importing can result in a lower price in the domestic market, an increase in variety from which to choose and lower-priced inputs for manufactured products. The stages of outward international involvement can be paralleled when international involvement is inward driven. In this situation, initially the firm imports through an agent based in its home country. Following this it imports direct from overseas. Then it may establish a buying office overseas, as major Australian retailers such as David Jones Ltd have done. The next stage of international involvement may require manufacturing the foreign product in the home country under licence or becoming the franchisee for an overseas operation. The final stage could be foreign direct investment in the supplying country to produce goods for sale in the home market so as to retain a competitive edge.

The reality of international business today is that outward and inward international activities do not operate in isolation from each other, but are frequently linked. This linkage is manifested in two ways. In the first, an outward activity can lead to an inward activity and vice versa. This happens when the Singaporean licensee of a US firm is given the rights to license manufacture of the product in Malaysia, or when the Australian franchisor gives the rights to its New Zealand franchisee to extend the franchise to the Cook Islands. The second type of linkage derives from more complicated forms of international involvement in which inward-driven international activities are directly dependent on outward-driven activities and vice versa. Strategic alliances, programs of cooperative manufacture, outsourcing and countertrade are examples of growing international business practices in which inward and outward international activities are linked to each other.

The international marketer needs to take this linkage into account and adopt a holistic rather than an outward-driven approach to international marketing.

## Concepts underlying international marketing

There are a number of concepts that provide a rationale for involvement in international activities. These may have an economic rationale, such as comparative advantage or internalisation of activities; a marketing rationale, such as extending the life of the product; or an information rationale, based on extending the networks of relationships in which the firm is involved.

### Comparative advantage

The theory of comparative advantage argues that a country can gain from international trade even if it has a disadvantage in production of all goods, or even if it is better than other countries at the production of all goods. The theory is based on the notion that a country should focus on what it does best rather than trying to produce everything. The following two-country/two-product model illustrates the concept. The two countries are the USA and Australia, both of which produce apples and oranges. There is no money involved and there is no difference in the Australian and the US product. Figure 1.5 illustrates that with any production mix between (A) and (E), total production is less at these production mixes than when there is concentration of production on the product in which each country has the greatest competitive advantage. For the USA it is oranges, whereas for Australia it is apples. To calculate this comparative advantage it is necessary to establish the production ratios for the two products. From a US perspective, this is 1.25 (100/80) for apples and 3.0 (60/20) for oranges. From an Australian perspective, this is 0.80 (80/100) for apples and 0.33 (20/60) for oranges. Comparing what each country can produce under conditions of total specialisation, Australia has a comparative advantage in apples whereas the USA has a comparative advantage in oranges. In other words, it is beneficial for two countries to trade as long as one is more efficient producing goods and services wanted by the other. What matters is not the absolute cost of production but the relative efficiency of each in producing the product or supplying the service.

**FIGURE 1.5** Comparative advantage—an example

#### 1. Production possibilities of United States and Australia (1000 production units)

Use of production units or production possibilities	Before specialisation and trade (000 bushells)			
	United States		Australia	
	Apples	Oranges	Apples	Oranges
A 1000 in apples, 0 in oranges	100	0	80	0
B 750 in apples, 250 in oranges	75	15	60	5
C 500 in apples, 500 in oranges	50	30	40*	10*
D 250 in apples, 750 in oranges	25*	45*	20	15
E 0 in apples, 1000 in oranges	0	60	0	20

\*Production in isolation.

#### 2. Production and consumption after total specialisation and trade

	United States			Australia		
	Trades: Imports (+)			Trades: Imports (+)		
	Produces	Exports (-)	Consumes	Produces	Exports (-)	Consumes
Apples (000 bushells)	0	+30	30	80	-30	50
Oranges (000 bushells)	60	-12	48	0	+12	12
Trading price $30/12 = 2.5$ apples = 1 orange						
$12/30 = 4$ oranges = 1 apple						

SOURCE: Adapted from Keegan, W.J. and Green, M.C. (1995) *Global Marketing Management*, p. 12. Reproduced with permission of Pearson Education, Inc., Upper Saddle River, NJ.

There are limits to the concept of comparative advantage. Even in the above example where the products offered are undifferentiated, seasonality should be taken into account. The production season for apples in Australia is the reverse of the production season in the USA, with the result that Australian apples are available when prices are at their highest in the USA.

## Product life cycle extension

A well-known paradigm in marketing is that of the product life cycle. This states that products proceed through stages in their life from their inception to their abandonment. These stages are usually labelled 'introduction', 'growth', 'maturity' and 'decline'. This paradigm is specific to a market. Given the differences between markets, especially as far as levels of economic development are concerned, it is often the case that a product that has reached maturity in Australia or Singapore may be at an introductory or growth stage in a specific overseas market. As a result, the life of a product in the Australian market can be extended, by exporting it to an overseas market where the 'decline' stage has not yet been reached.

A related concept is that of the product trade cycle, which incorporates the life cycle of markets. This concept proposes that the relationship between product and market proceeds through four stages. Initially the product is exported to an overseas market such as China; then production commences in that overseas market; China in turn exports to nearby markets in South-East Asia; finally, because of rising production costs, it is no longer worthwhile producing it in Australia and China begins supplying the Australian firm. From a macro perspective, high-income, mass-producing countries, such as the USA and to a lesser extent Australia, were initially exporters of many basic manufactures such as textiles and clothing but ultimately became importers. A second tier of developing countries initially imported the product before becoming exporters. Then a third tier of less-developed countries initially imported, then began manufacture and finally exhibited the same trend from importing to exporting. The shift to low-cost production sources is only inevitable if the product remains the same. Continual product innovation can halt this process because it results in a different product with a different life cycle.

Figure 1.6 (overleaf) illustrates how countries at different stages of development move from importing to manufacturing to exporting, then to importing. It also shows that product life cycle—whether the product is new, mature or has become a standardised product—has an impact on the product trade cycle.

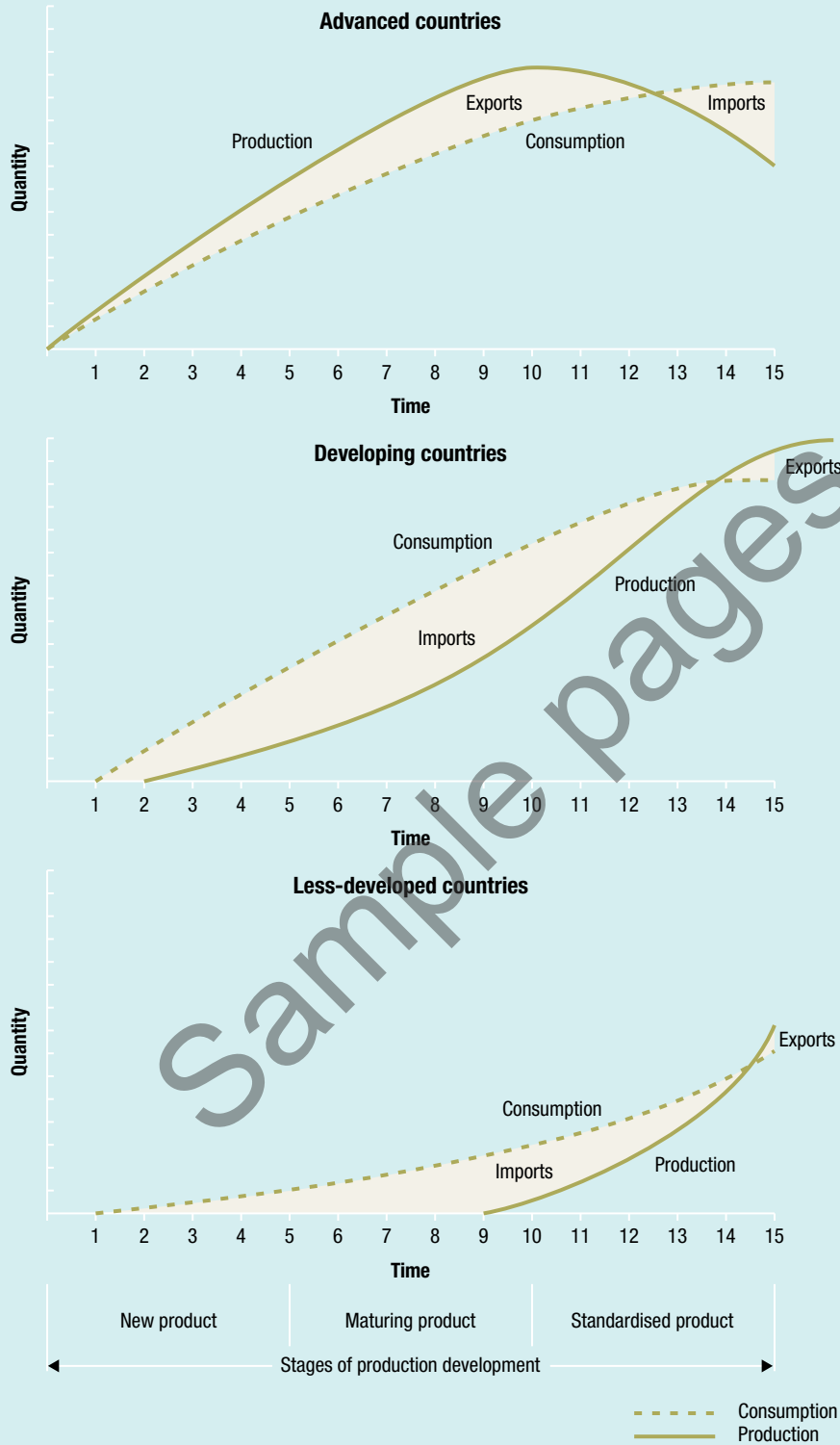
Underlying the above model is the assumption that the product originates in the advanced country, then trickles down to developing countries and then to less-developed countries (as illustrated in Figure 1.7). This concept, however, may not reflect the behaviour of all firms, especially those that wish to introduce the product into all markets simultaneously, as is the case with many 'born global' companies. This 'shower' approach recognises that we live in a global village where market opportunities may emerge simultaneously on a regional or global basis.

## Internalisation

As firms consider their involvement in international activities, they are faced with either committing large resources so as to exercise the same degree of control over what happens to their product overseas as they achieve in the domestic market, or committing fewer resources by relinquishing some control to others, such as agents. The exercise of control involves the firm in internalising activities in the overseas market. This usually requires it to replicate its domestic market operation in the overseas market in terms of activity, management and control. By internalising overseas activities within the firm, a number of problems frequently encountered in international marketing can be avoided. These include search and negotiating costs, protection of the firm's reputation, costs of contracts being broken, and buyer uncertainty as to quality and maintenance of quality. Other problems that may be reduced by internalisation are:

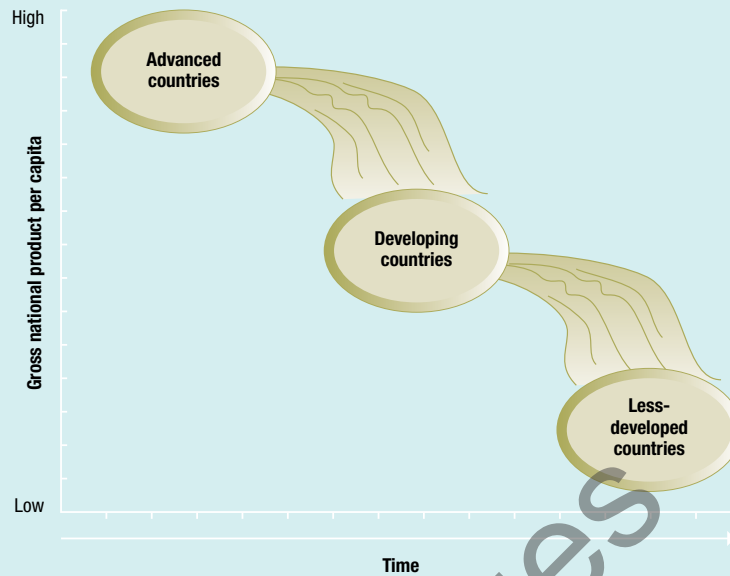
- the management of the relationship with the overseas government
- control over purchases and conditions of sale overseas
- consistency in the volume and content of promotional activities in the overseas market
- control over marketing outlets in the other country, and
- integration of activities in the overseas country with activities in third-country markets as well as in the home country.

**FIGURE 1.6** Comparison of exporting and importing between countries



SOURCE: Keegan, W.J. and Green, M.C. (2003) *Global Marketing*, 3rd edn, Prentice Hall, Englewood Cliffs, NJ, p. 433.

**FIGURE 1.7** International trade cycle—trickle down/waterfall pattern



SOURCE: Keegan, W.J. and Green, M.C. (2003) *Global Marketing*, 3rd edn, Prentice Hall, Englewood Cliffs, NJ, p. 434.

## INTERNATIONAL HIGHLIGHT 1.3

### China and the waterfall pattern

China's reputation as the top location for low-cost manufacturing is under threat, with India, Mexico and Indonesia as challengers. Even the USA has emerged as an unexpected option due to changes in economic conditions.

When assessing the viability of outsourcing manufacturing, managers calculate the costs of labour, raw materials, energy and transport as well as currency rates, legal/political issues and productivity. All of these elements change over time and they are placing pressure on China's former dominance of cheap manufacturing. Wages in China have quintupled over recent years, and while productivity has improved, this gain is offset by appreciation of the currency. In addition, tougher environmental regulation is being implemented in many provinces as the Chinese Government deals with the legacy of uncontrolled expansion of manufacturing.

As cost advantages decrease, the focus shifts to the depth of experience, skills and technology accrued in China over the past few decades. This can attract firms to take advantage of the clusters of skilled employees and support industries already well established. However, as relative cost advantages decrease, the importance of other hard-to-measure issues, such as corruption, gain importance.

One trend that could result from this shift in relative costs is that manufacturing could become increasingly regional. Low-cost manufacturing countries are available in every region in the world, and goods could be manufactured locally for regional consumption. Policy makers in many countries, including Australia, are already aware of the issues stemming from the rising costs of local manufacturing and the economic implications of maintaining a domestic manufacturing base.

Alternatively, we could see a real shift in the waterfall pattern, with manufacturing returning to developed nations such as the USA. Wage restraint and reduced energy costs with high productivity are now making the USA a viable alternative, particularly for goods destined for consumption in North America.

SOURCES: *Economist* (2014) 'When Cheap is not so Cheap', 2 September; and Sirkin, H.L., Zinser, M. and Rose, J. (2014) 'The Shifting Economics of Global Manufacturing', *BCG Perspectives*, Boston Consulting Group, 19 August.



## Relationships and networks

The growing involvement of Asian organisations in world trading has led to the realisation that the tangible elements and the financial attractiveness of an offering in overseas markets may not be the main determinants of the purchasing decision. International marketing is perceived as more risky than marketing within domestic markets. If the reasons for this are analysed, perceived risk is due to the parties to the transaction being unfamiliar with each other. The establishment of relationships becomes important in reducing this perceived risk. In the Australian environment, for example, firms operate as members of an established network of relationships and the competitive position of the firm is as dependent on the contributions of other partners in the network as it is on the firm's own activities.

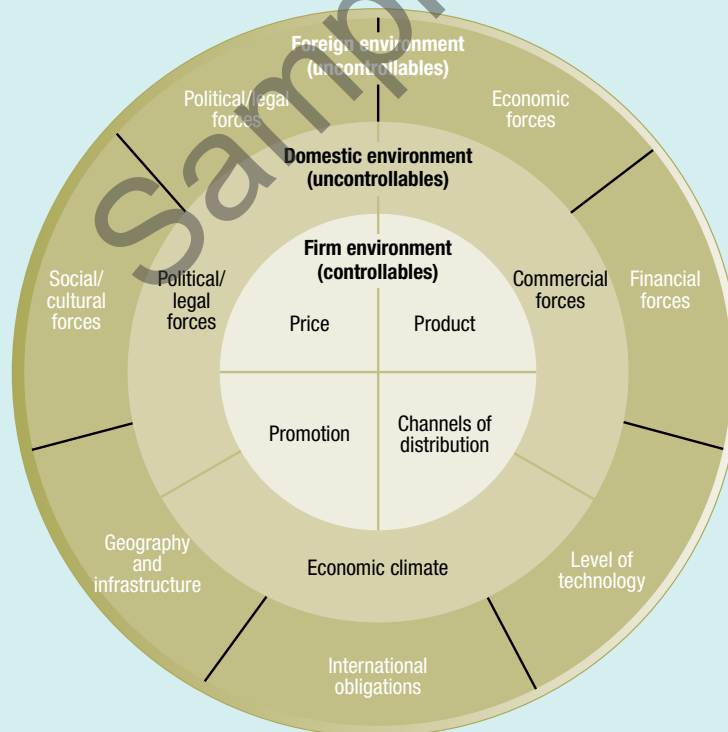
Effective international marketing is often a matter of linking the local network of which the firm is a part, to an overseas network in such a way that network members derive advantage from their relationship with members of the other network. When searching for agents to represent them or joint venture partners in a foreign market, the firm needs to study the network with which the other party is involved. The reasons for doing this include ensuring the compatibility of aspirations and effectiveness of reach, otherwise the new relationship is unlikely to deliver the anticipated benefits.

## The wheel of international marketing

### The hub

The hub of the wheel in this analogy consists of the marketing mix variables—product, price, promotion and distribution (see Figure 1.8). These variables, which lie at the core of any marketing operation whether it be domestic or international, can be controlled by the firm. Products vary in terms of usage patterns, stage in the life cycle and the extent to which they are capable of being standardised as opposed to the degree to which they are sensitive to customer demands.

FIGURE 1.8 International marketing task



SOURCE: Adapted from Cateora, P.R., Gilly, M.C. and Graham, J.L. (2011) *International Marketing*, 15th edn, p. 11. © McGraw-Hill Education.

Pricing varies according to whether it is determined by the marketplace or can be established on a cost-plus basis. This may be contingent on whether the strategy of the firm is short-term gain or long-term market share. Promotion can vary according to the relative importance of advertising, personal selling, trade promotion or public relations in the promotion mix for the product. Finally, distribution varies according to the willingness to accept risk as opposed to a desire to have control over the product from factory to final consumer. In international marketing, these variables will need modifying to take account of uncontrollable variables in both the local and overseas markets.

## The spokes

The spokes of the wheel connect the hub to the rim and affect the relationship between the hub and the rim. The spokes in this analogy are akin to regulations on exporting that are usually imposed by governments—for commercial, economic, technological, political and legal reasons. These regulations can be commercially motivated and driven by a desire to protect the interests of domestic industry. An example is the ban that existed for many years in Australia on the export of Merino sheep. Regulations may be driven by a desire to protect the country's image in the international marketplace. These are exemplified by export inspection requirements. Although usually on agricultural products, they can apply to manufactures. In the case of Australia, export regulations apply to primary products (excluding minerals), animal products, fruit and vegetables, grains, live animals, certain woodchips and sawlogs, and heritage items. A lack of such requirements can have major repercussions on international trade, as the UK experienced in its trade relations with the EU because of mad cow disease and foot-and-mouth disease in its livestock. In the Asian region, bird flu also caused disruption to trade and human movement. Regulations may be imposed for economic reasons, such as balance of payments problems. Developing countries often ban their firms from accepting countertrade for products that are readily saleable overseas for free foreign exchange. Regulations are also imposed for security reasons, particularly when a country does not want its defence technology to end up in the hands of nations it perceives as a threat to it. Allied to this are regulations imposed for political reasons, such as embargoes on trading with a specific country due to either United Nations' sanctions (as with North Korea) or national prohibitions such as the ban on US companies trading with Vietnam until 1996 (under the US *Trading with the Enemy Act*). Finally, restrictions may be due to legal agreements entered into between nations to control the degree to which each will compete with the other in each country's domestic market. The operation of the US Meat Import Law with respect to Australia is an example.

## The rim

The rim cushions the impact of the bicycle on the road and, in this analogy, is akin to cushioning the impact of domestic marketing approaches on the international marketplace. The rim can be summed up in one word—'sensitivity'. The main areas requiring sensitivity are the economic, financial, legal, political, social, cultural, infrastructure and technology areas and the country's international agreements and obligations. All the marketing mix variables at the hub of the wheel need to be substantially modified to take the above environmental factors into account if international business is to be successful. The extent of the modification will vary according to the nature of the product and the extent of the psychic distance between that market and the home market.

## The importance of world trade

The increasing importance of global linkages is reflected in the growing importance of international trade. As the 2008 global financial crisis illustrated, it is more and more difficult to isolate domestic economic activity from international market events. Decisions that were once considered to be in the domestic domain are now being modified by influences from abroad and tailored to take into account global market forces. A reflection of the above is the change over recent decades in the pattern of diplomacy between nations. Whereas historically the main thrust of diplomacy has been on political relationships between countries, now commercial relationships are given at least equal importance. This trend is likely to continue due to the absence of global conflicts. Achieving access for products, overcoming impediments to business and solving trade disputes is accounting for an increasing percentage of the efforts of international diplomatic missions.

The composition of international trade itself has been changing. In general, trade in primary commodities has declined while that of manufactures has risen. International trade in services has risen fastest of all.

## The dilemma of definition

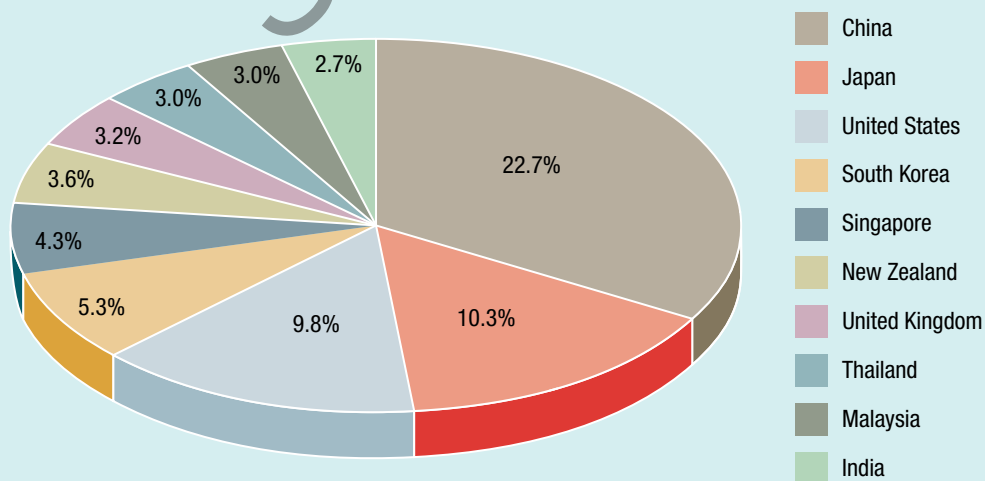
With the advent of globalisation there are a confusing number of terms used to describe firms that operate across national boundaries. Often three terms are used interchangeably. The three most common terms are:

- *Global companies.* They produce for the world market and production occurs where it can be produced most cheaply. Such firms aim for standardised high-volume production and seek experience-curve benefits and location economies. They seek to coordinate their activities across markets and integrate these activities into their overall planning by subsidising activities in some markets with resources generated in others.
- *Transnational companies (multinationals).* They produce goods and services or manage investments in more than one country and blend the market-specific approach with standardised production methods. They transfer this distinctive competence while responding to pressures for local responsiveness.
- *Multi-domestic companies.* Although they aim for maximum local responsiveness, they are willing to customise both their product offering and market strategy to different local conditions. They do well in situations requiring strong local responsiveness and weak pressure for cost reductions.

## The trading environment

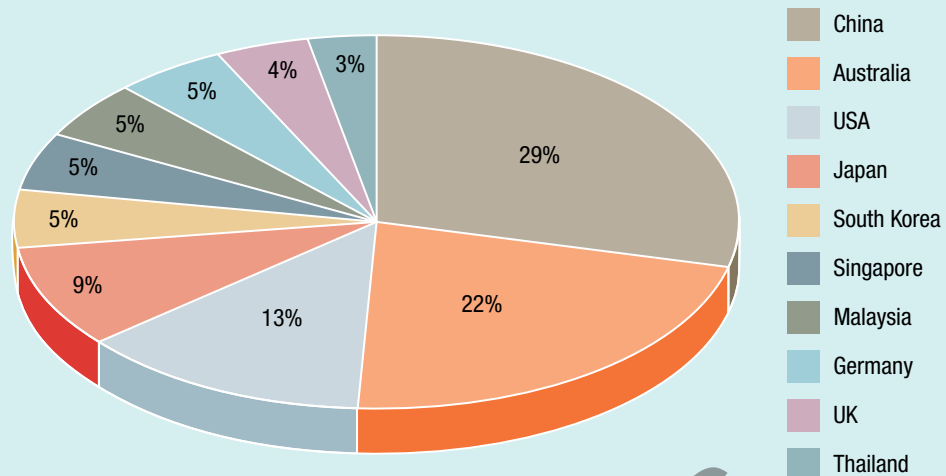
The trading environment is usually viewed from the perspective of the country in which one is located. As an example, a review of the trading environment from an Australian perspective would contain a review of Australia's patterns of imports, exports, services trade and major trading partners, highlighting Australia's position in the international trading environment. A comparison with New Zealand's position can be seen in Figures 1.9 and 1.10. Australia's position in global trade is that in 2014 it was the 22nd largest exporting nation and the 20th largest importing nation (World Trade Organization 2015), while New Zealand was the 58th largest exporter and 57th largest importer (World Trade Organization 2015).

FIGURE 1.9 Australia's top 10 two-way trading partners, 2014



SOURCE: Based on data from DFAT (2014) 'Australia's Trade at a Glance', Department of Foreign Affairs and Trade.

**FIGURE 1.10** New Zealand's top 10 two-way trading partners, 2014

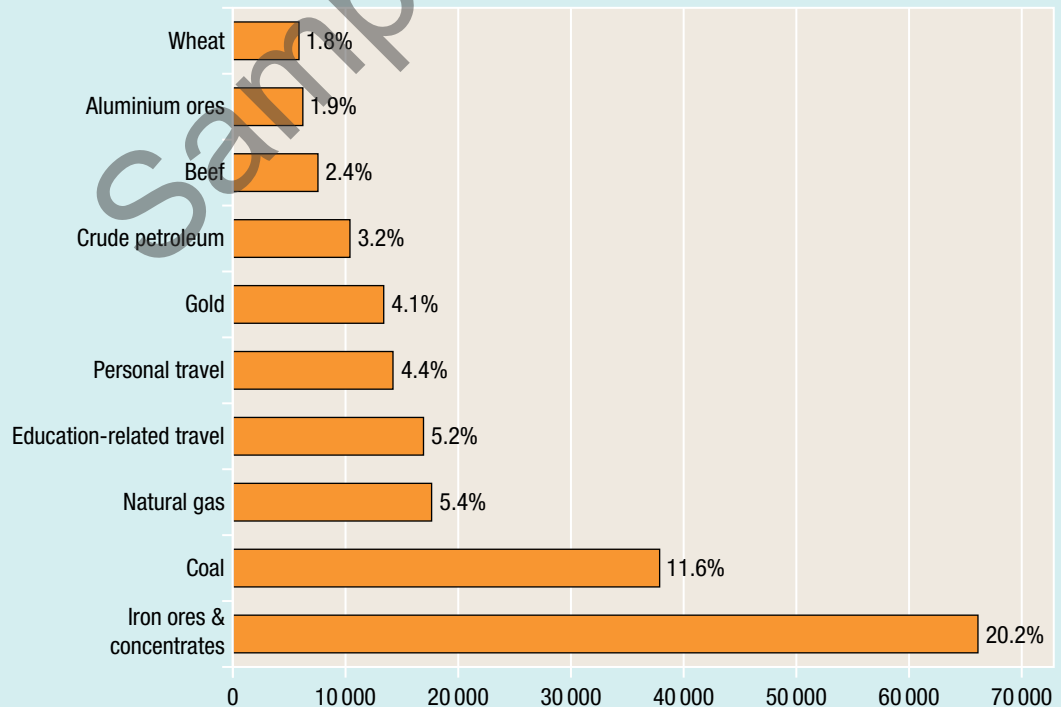


SOURCE: Adapted from Statistics New Zealand (2015) 'Imports and Exports', <[www.stats.govt.nz/browse\\_for\\_stats/industry\\_sectors/imports\\_and\\_exports.aspx](http://www.stats.govt.nz/browse_for_stats/industry_sectors/imports_and_exports.aspx)>, accessed 19 December 2015.

## Major export activity

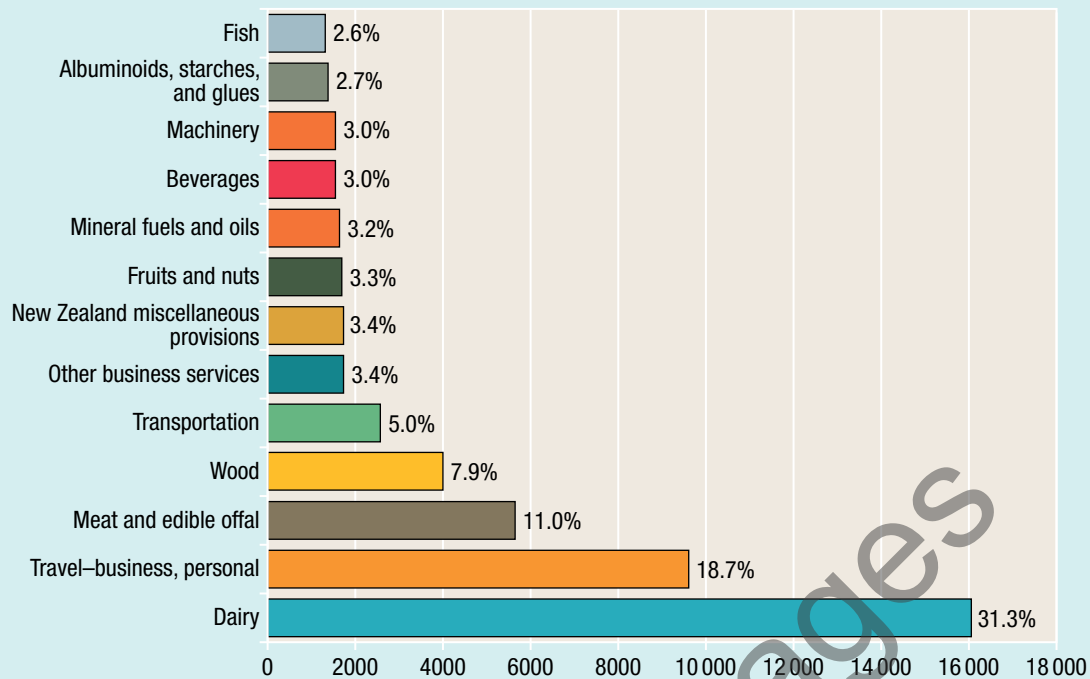
In 2014 Australia's trade in goods and services was valued at A\$664 billion. Of this figure, exports were worth A\$327 billion, with the largest customers shown in Figure 1.9. Since 2000, there has been a sharp increase in exports to both China and India, reflecting the economic growth of industrial activities in these countries. Figures 1.11 and 1.12 compare the leading exports for Australia and New Zealand in 2014.

**FIGURE 1.11** Australia's leading exports (goods and services), 2014, A\$ million



SOURCE: Based on data from DFAT (2014) 'Australia's Top 10 Goods & Services Exports, 2014', Department of Foreign Affairs and Trade, <<http://dfat.gov.au/trade/resources/trade-at-a-glance/Pages/top-goods-services.aspx>>.

**FIGURE 1.12** New Zealand's leading exports (goods and services), 2014, NZ\$ million



SOURCE: Adapted from Statistics New Zealand (2015) 'Imports and Exports', <[www.stats.govt.nz/browse\\_for\\_stats/industry\\_sectors/imports\\_and\\_exports.aspx](http://www.stats.govt.nz/browse_for_stats/industry_sectors/imports_and_exports.aspx)>, accessed 19 December 2015.

Traditionally, Australia's exports were agricultural products and, since World War II, minerals and energy products. Exports now account for nearly one-quarter of all economic growth. In the next decade it is anticipated that knowledge-intensive exports, such as biotechnology and software, will become increasingly important.

### Major import activity

In 2014 Australia's imports were worth A\$337 billion and the largest sources of supply were China, the USA, Japan and Singapore. A weakening Australian dollar has slowed growth of consumer goods imports slightly, but this was offset by strong demand for capital equipment and parts from business. Traditionally, a majority of Australian imports were more sophisticated manufactures. Although this pattern continues, in recent years imports have increasingly included less-sophisticated manufactures that can be produced more cheaply in countries other than Australia, particularly in Asia.

### Trade in services

In line with the global pattern, services are accounting for a growing percentage of international trade for both Australia and New Zealand. Australia's trade in services is based strongly on growth in tourism, international education, computer software and other advanced industries. In 2014 services exports were valued at A\$131 billion.

### Australian–Asian trade

The trading interrelationship between Australia and its Asian neighbours is a substantial one, as indicated by the percentage of Australia's overall imports and exports accounted for by Australia's trade with each country. Although Australians accept the need for an increasing trade involvement in Asia, as evidenced by support for moves for Australia to join the ASEAN Free Trade Area, there is still room for more of an emotional commitment to the region. This commitment should involve a greater democratisation of Australia's cultural and political institutions to reflect more

## INTERNATIONAL HIGHLIGHT 1.4

### Driving our exports

International marketing in the new millennium will increasingly involve sourcing from, as well as selling to, a multitude of organisations in a number of different countries. With the impending demise of car manufacturing in Australia, the industry is working with government to repurpose its R&D and manufacturing capabilities towards the component and aftermarket trades. Australian-made components have been included in the completion of many car models by makers such as BMW, Toyota, Ford and Chery when they are manufactured in China, Japan, the USA, Malaysia and Indonesia. Aftermarket products are for repairs and maintenance and allow upgrades by car enthusiasts.

Racing vehicles may install powerful turbocharger technology from TurboSmart in Sydney, to compete in the USA, Canada, the UK or the Middle East. Futuris, from Melbourne, designs, engineers and manufactures automotive seating and interior systems for emerging markets along with niche, high value-add products for developed markets. Nissan no longer makes cars in Australia but has developed an expanding multi-million dollar business in supplying cast aluminium components for Nissan vehicles assembled in Japan, the USA, Thailand, the UK, South Korea and Mexico.

Thus, a car assembled in Japan and sold in Australia may contain elements built in Japan, Thailand, Brazil, the USA, China and Australia.

adequately both our focus on Asia and the multicultural nature of Australia in decision making. Many business opportunities in the 1970s and 1980s were wasted because of a historical affinity for Europe and the USA. Although this affinity has diminished, more needs to be done to invest in a future that embraces Asia. It needs to be appreciated that the potential for increased business from Asian development has not gone unnoticed by other countries. If Australia is not to be 'beaten to the punch' in its own backyard, it needs to maintain its Asian focus and not be discouraged by current problems in the Asian region.

## The impact of the internet on international marketing

Adoption of the internet has been faster than the adoption of any other technology in history. The number of people with access to the internet grew from 360 million in 2000 to almost 3.4 billion in 2015 (InternetWorldStats 2015). This means that approximately 46% of the world's population are now online. Table 1.2 shows the internet access situation for countries in 2014.

The adoption has been fastest in countries with a high gross domestic product (GDP) and in countries where English is the first language or a widely spoken second language. However, the dominance of the USA in internet adoption is disappearing, with China, India and Europe each boasting more internet users than the entire population of the USA (InternetWorldStats 2015).

The web is an alternative to 'real world' environments, not a simulation of one. Success requires trust between vendor and customer, and security issues still hamper the operation of electronic business.

The explosion of electronic business does call into question a number of fundamental principles in international marketing. These include:

- *Barriers to internationalisation by small and medium-sized exporters (SMEs).* With the internet, size is no longer a barrier to the same extent as it has traditionally been
- *Incremental internationalisation.* With the internet, firms do not have to internationalise by moving from elementary modes of international behaviour to more advanced modes of international behaviour to the same extent



SOURCE: © Odua Images. Shutterstock.

**TABLE 1.2** Top 15 countries in terms of internet access, November 2015

	Country or region	Users (latest data)	% population (penetration)	% of world users
1	China	674 000 000	49.5%	20.0%
2	India	375 000 000	30.0%	11.1%
3	USA	280 742 532	87.4%	8.3%
4	Brazil	117 653 652	57.6%	3.5%
5	Japan	114 963 827	90.6%	3.4%
6	Russia	103 147 691	70.5%	2.8%
7	Nigeria	92 699 924	51.1%	2.8%
8	Indonesia	78 000 000	30.5%	2.3%
9	Germany	71 727 551	88.4%	2.1%
10	Mexico	60 000 000	49.3%	1.8%
11	UK	59 333 154	91.60%	1.8%
12	France	55 429 382	83.8%	1.6%
13	Bangladesh	53 941 000	31.9%	1.6%
14	Egypt	48 300 000	54.6%	1.4%
15	Vietnam	47 300 000	50.1%	1.4%
	Rest of the world	1 134 022 443	33.7%	26.2%
	<b>Total world users</b>	<b>3 366 261 156</b>	<b>46.4%</b>	<b>100.0%</b>

SOURCE: Adapted from 'Top 20 Countries with the Highest Number of Users', Internet World Stats. <[www.internetworldstats.com/top20.htm](http://www.internetworldstats.com/top20.htm)>, © Miniwatts Marketing Group.

- *Need for overseas intermediaries.* With the internet, it is easier to locate overseas customers and deal directly with them rather than deal through overseas agents and distributors, and
- *Country screening.* With the internet, firms do not have to approach international business by moving from countries with which they are familiar to more unfamiliar countries. This is because information is more readily available on the internet and the medium is more interactive.

The internet's low-cost communication ability allows firms with limited capital to become global marketers at an early stage of their development because the internet connection can significantly enhance communication with international customers, suppliers, agents and distributors. Jones and Spiegel (2003) argue that, as a marketing channel, the internet has the following strengths:

- is an inexhaustible research resource for buyers, sellers and learners
- offers elevation and extension for strong existing brands
- provides a cost-effective avenue for customer self-service
- allows unprecedented one-to-one communications and dynamic personalisation during an online session
- opens the market to new groups of customers
- leads to cost-effective operations for marketers due to unlimited real estate on the web
- allows for profitable strategic business alliances/affiliations, and
- offers unique ways to present information and increase sales and profits.

However, this can lead to information overload for business and consumers.

## Case introduction

### *How to analyse a case study*

### What is a case study?

A case study is an account of a specific situation and describes events, issues and consequences for students to discuss. These stories may be brief and cover only a few aspects of a problem or be quite extensive with detailed background on opportunities and challenges for an organisation in a particular set of market circumstances.

The case studies in this textbook and in many other business courses are primarily descriptive cases (Yin 2009) that outline particular features of an issue. This invites you to apply theory and knowledge to determine why events occurred, and develop alternatives for what you would have recommended in that situation or how the organisation should plan for the future. Such cases may be chronological, presenting the information in date order and gradually building the description. Other cases may present the situation from a number of different perspectives and require you to find objective information within the subjective statements.

In many cases, the identity of the people and the company have been disguised for confidentiality reasons. In other cases, you will be able to find additional information on the company and situation by reading press accounts.

### Purpose of case studies

The case study method of teaching has been used by business schools for decades. It is designed to give you, the student, a practical example of a business situation to which you can relate theory you have learned. The use of this method is based on the belief that discussion of theory applied to real-world situations will prepare the student for a professional career.

The aim of this process for the student is to read through the situation and identify the problem the organisation is faced with, examine the causes and consider alternative courses of action to come to a set of recommendations.

Case studies have a lesson to impart and serve as an instrument for teaching an issue in international marketing. They usually focus on a specific issue, such as breach of copyright, rather than on a

general issue, such as how to enter the Chinese market. Cases tend to concentrate on issues that, when explored in depth, are likely to be of value to practitioners of international marketing. Case studies are intended to enable you to develop cognitive skills via creative analysis rather than via repetition of knowledge.

### Analysis process

There are two main kinds of case study analyses set for assessment tasks. Firstly, you may be required to answer a set of specific questions included at the end of a case. Secondly, you may be asked to discuss more generally the issues highlighted in a case. The process for dealing with either of these forms of assessment is similar.

One thing to note is that you will usually not have all of the information you require to make considered recommendations. This mirrors the real-world situation where managers are often required to select strategies without access to complete information on the market and competitive conditions. It will then be necessary to make some assumptions on which to base your decisions, and these assumptions should be clearly stated in your analysis.

#### 1. Read the case

The first time you read through a case it is important to gain an overall impression of which organisations and industries/sectors it is describing. You will also look at whether the organisation is doing well or badly and how it has performed in the past. There may be key strategies mentioned that have succeeded or failed, and you will be building initial impressions of the main issues and choices confronting the organisation. Note what extra information is provided in the form of tables and appendices.

#### 2. Define the issue(s)

Read through the case a second time. This time highlight important information and make notes on what you find. Identify the main problems and issues, and build ideas about the causes and consequences of the behaviour, events or situation described in the case. It can be useful to write out a brief statement of the problem or issue.



If there are specific questions at the end, look for the answers as you read through the case. Take some time to look more closely at any exhibits, graphs, photos or tables that may be included and determine how their information adds to your knowledge of the situation.

### 3. Analyse the case data

Begin with the organisation and investigate the company's history, development and growth. In learning how a company's past strategy and structure affect it in the present, you might determine:

- how and why it was founded
- its initial products and/or services
- how it makes new-product market decisions, and
- how it developed and chose specific international markets to pursue.

There may be expansion into new businesses or new markets that gave the company particular knowledge and skills.

Based on this history and the information on the firm's current situation, begin to list the organisation's strengths and weaknesses. All organisations have limited resources and it is important to learn how they have allocated them in terms of human, financial and physical resources. Some questions to answer here are:

- Is the organisation experienced in entering international markets?
- Does it have strong cash backing?
- Is there excess capacity in its manufacturing plants?
- What are the current strategies of the firm? This should include its corporate mission, the strength and direction of growth, STP (segmentation, targeting and positioning), and its marketing mix strategies in relevant markets.

The next step is to identify environmental opportunities and threats. Here you will apply the ideas you have learned about industries and the macro-environment to analyse the environment the company is confronting. You may wish to use the PESTLE format to organise your information, looking at political, economic, social/cultural, technological, legal and environmental factors. Other models that may be useful for this stage include Porter's five forces model and the life cycle model. Look at each of the elements of a model in turn (e.g. technological in PESTLE) to see whether it is relevant for the company in this particular

situation. During this process, you should generate a list of opportunities and threats for the organisation that come from its macro-environment.

Place the key **Strengths** and **Weaknesses** from inside the organisation in a table, accompanied by the **Opportunities** and **Threats** from outside the firm, to form a SWOT analysis (see Figure 1). This should be a summary of the analysis so far, and no new information should be added at this point.

Now the task is to interpret these ideas and look for the implications of these elements for the organisation's future. Some questions to ask include:

- Is the company in an overall strong competitive position?
- What is the company's competitive advantage? Is it sustainable?
- How did the key problem/issue arise?
- What can the company do to turn weaknesses into strengths and threats into opportunities?
- Does it have the resources to accomplish this change?

### 4. Generate and analyse alternatives

Given the key issues you identified in Step 2 and based on the implications of your SWOT analysis, it is now important to build a list of options for dealing with the current situation of the organisation.

With the picture in your mind of this organisation and its current situation, it is useful to brainstorm to generate ideas. This can be done individually or together if you are working in a group. At this stage, don't be afraid to include unrealistic ideas—they may hold the germ of a workable idea.

Another way to generate ideas is research. Can you find other companies that were in a similar situation—how did they choose to resolve it? Was it successful? What can you learn from their mistakes?

Be innovative—don't lock yourself into following what has been done in the past. No two situations will be identical—companies differ, competitive and other environmental factors will be different (e.g. technological change, cultural change) and will lead to a variety of possible solutions.

After brainstorming, you need to look again at the ideas to see what fits the company and the situation best. This is where it is important to be realistic. Based on the Strengths and Weaknesses of the organisation, which of your alternative options will it be able to undertake successfully? This is often based on a cost–benefit analysis where you match the organisation's resources against

**FIGURE 1** SWOT analysis

<b>Strengths</b> <ul style="list-style-type: none"><li>•</li><li>•</li><li>•</li></ul>	<b>Weaknesses</b> <ul style="list-style-type: none"><li>•</li><li>•</li><li>•</li></ul>
<b>Opportunities</b> <ul style="list-style-type: none"><li>•</li><li>•</li><li>•</li></ul>	<b>Threats</b> <ul style="list-style-type: none"><li>•</li><li>•</li><li>•</li></ul>

the alternatives. Some questions to ask for each alternative include:

- Does the company have access to adequate financial resources?
- Does it have previous international experience from which it has learned?
- Is the alternative a good fit with the company's mission and vision?

It is also important to assess the challenges or constraints placed on alternatives by the environment. Questions might include:

- What is the current economic climate in the home market and host markets?
- Is there a possibility of political change that could affect business?
- Which competitors are already in the target market? What will their reaction be to your plans?

At the end of this stage you should have more than one alternative that is workable for the organisation in the current situation. Often you will have developed three options—business as usual, business as usual plus and innovation.

The first of these, business as usual, is to continue with current strategies with no major changes. The

second is to persist with current strategies but to include some changes to elements of STP and marketing mix strategies. The third option involves major changes in the organisation's strategies that may include company mission, market selection and market entry, as well as STP and marketing mix. When explaining these options, you should list some of the benefits and challenges for the organisation associated with each choice.

### 5. Select a preferred alternative

From the options developed in Step 4, you should have a preference as to which alternative will be of most value to the organisation. This section is a short statement of the preferred strategic alternative, justifying why it is better for the organisation than the other options.

### 6. Develop detailed recommendations

It is now appropriate to give details of your recommended actions for the organisation. This should include an action plan (see Figure 2, overleaf), contingency plans and an outline of the implications of the preferred course of action.

An action or implementation plan outlines who should take an action, when the action should be

**FIGURE 2** Action plan template

Strategy	Action	Who is responsible	When	Anticipated result

taken and how those actions will occur. For example, you might suggest that the marketing manager needs to develop a brief for a marketing research company by the end of month one.

Contingency plans are necessary to design responses for if/when things go wrong with the recommended alternative. These should be quite specific reactions to probable situations that may occur during implementation. For example, if the selected target market is politically unstable, how should the organisation respond if there is a change of government? What should be done if customer demand is significantly lower or higher than expected?

Finally, you need to outline the implications of your recommendation for the organisation. What results do you expect to gain in terms of customer acquisition, sales volume, market share and other measures? You might also include the opportunity cost; that is, what will selecting this alternative mean in terms of other opportunities forgone.

## Summary

Case study analysis is designed to help the student learn theory and grapple with international marketing issues through applying knowledge to real-world situations. Every case study will be different and the

analysis process begins with determining key issues, understanding the organisation's strengths and weaknesses, and using those to manage response to external opportunities and threats. You may be asked to answer specific questions about the situation depicted, or to provide detailed recommendations for future strategies. The validity strength of your recommendation and its likelihood for success will rest on your ability to analyse the situation and find alternatives that are a good fit for the organisation.

Your university or college may have additional resources available to assist you with analysis of case studies. Some examples are listed below, and it is a good idea to check with your professor or lecturer to determine their preferred style.

## Websites

University of Auckland—Guidelines on case study analysis: <[www.library.auckland.ac.nz/subjects/bus/topicguides/case\\_studies.htm](http://www.library.auckland.ac.nz/subjects/bus/topicguides/case_studies.htm)>.

University of New South Wales—Guidelines on case study analysis: <<https://student.unsw.edu.au/writing-case-study>>.

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# SUMMARY

This chapter introduces students to the reasons for undertaking international marketing and describes the dynamics of the international business environment in which the international marketer must operate. It examines various theories underlying the rationale for becoming involved in international business activities. As well, the chapter explores various approaches that can be undertaken from an international marketing perspective to capitalise on the opportunities that exist in the international marketplace. The involvement of Australia and New Zealand in the global marketing environment is reviewed so as to set the scene for the remainder of the book.

## WEBSITES

**Austrade** [www.austrade.gov.au](http://www.austrade.gov.au)

**CIA The World Factbook** [www.cia.gov/library/publications/resources/the-world-factbook/index.html](http://www.cia.gov/library/publications/resources/the-world-factbook/index.html)

**Department of Foreign Affairs and Trade, Trade at a Glance** <http://dfat.gov.au/trade/resources/trade-at-a-glance/Pages/default.aspx>

**The Economist** [www.economist.com](http://www.economist.com)

**Organisation for Economic Co-operation and Development (OECD)** [www.oecd.org](http://www.oecd.org)

**Statistics New Zealand** [www.stats.govt.nz](http://www.stats.govt.nz)

**United Nations Conference on Trade and Development (UNCTAD)** [www.unctad.org](http://www.unctad.org)

**World Bank** [www.worldbank.org](http://www.worldbank.org)

## DISCUSSION QUESTIONS

- 1 To what extent is a global approach to international marketing appropriate to firms in the Asia-Pacific?
- 2 Do the driving forces always outweigh the restraining forces in ensuring the attractiveness of international marketing to firms in emerging economies?
- 3 Why is it necessary to adopt a holistic approach to international marketing?
- 4 Discuss the theory of comparative advantage and its limitations as an explanation for international trade.
- 5 Compare the product life cycle with the product trade cycle as explanations for involvement in international marketing.
- 6 In what ways do uncontrollable factors in the local environment affect the application of marketing mix variables internationally?
- 7 Comment on recent trends in Australia's or New Zealand's international trade performance and prepare a prognosis for the direction of international marketing in the second decade of the new millennium.

## IMEdge

Created by Tendai Chikweche, Western Sydney University

### Scenario

#### **Australia's trade performance**

The Australian economy is generally regarded as an example of an economy that has weathered the global economic crisis, recording consistent growth compared to other Organisation for Economic Co-operation and Development (OECD) countries. A positive trade performance signified by growth in exports has contributed to Australia's economic performance. Australia is an example of a country

that has demonstrated economic resilience and provides a low-risk investment destination. As of 2015, the country was entering its 24th year of uninterrupted annual growth. Consistent strong export growth in East Asia is key to Australia's economic growth. China is the country's greatest trading partner and imports commodities such as coal and iron ore. Trade with the East Asian region in the energy sector is forecasted to triple in the next 25 years due to increased demand for coal; however, questions continue to be raised on the viability of overdependence on China and export of mineral resources by Australia.

SOURCE: <[www.dfat.gov.au](http://www.dfat.gov.au)>.

## Your task

Using information from websites such as the Australian Bureau of Statistics, Austrade, DFAT and any other sources that you discover, briefly identify some of the key trends of Australian trade performance between 2012 and 2014 highlighting growth sectors. Should Australian companies continue to focus on East Asia? Are there any other areas with growth potential that Australian international marketers should focus on? What are the potential pitfalls of overdependence on exporting commodities such as coal and iron ore?

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