

Chapter 1

Understanding Global Markets, Marketing and
International Business

Global markets today

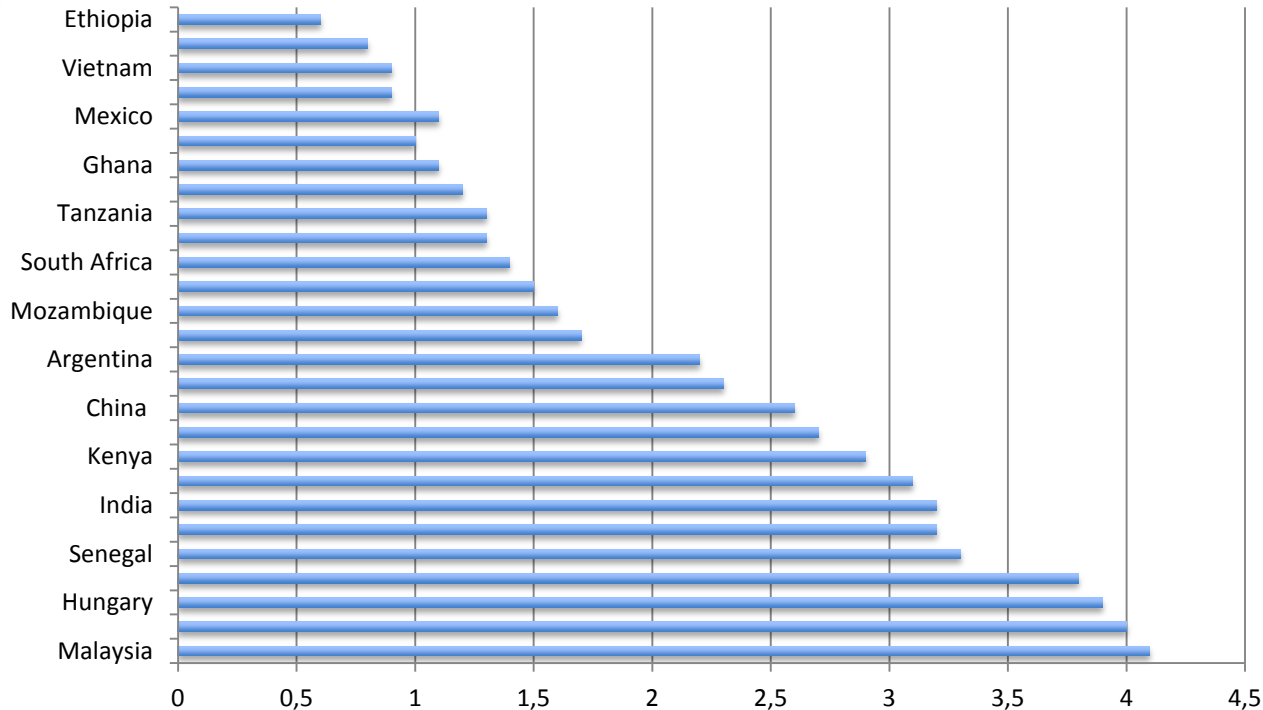
- **Products are selling everywhere**, with consumers becoming similar in preferences, life-style, and aspirations.
- **“Californization of Need”** means that whatever their nationality, global citizens get the same information and want the prestige that comes with certain kinds of consumer products - fashion, international cuisine, electronics, entertainment, and news.
- Outside the luxury segments, they often want the **products for the lowest prices** which emerging market multinationals are more likely to offer given their favorable labor conditions.
- **Global competition** is becoming tougher in a world without boundaries.

Global preferences in local markets

- Companies face **consumer needs** that are, despite all global harmonization, different across countries, religions, peer groups and cultures
- **Marketing channels** vary, preferred means of payment are not the same, and **language choice** is important for customer satisfaction
- The identification of **local preferences** can lead to true innovations
- **Emerging markets** as a driver of innovation
- **Global ethics and social responsibility**
- It is important to develop a **global marketing strategy**

Technology aids globalization

- Technology drives emerging market growth
- High-tech as the backbone for global competitiveness



Internet Contribution to Gross Domestic Product, by Country, 2012, % of GDP

Many **companies from emerging markets** or located at the periphery have been **catching up in product quality and technology development**. However, when it comes to **their global reputation and branding**, they often lag behind.

Source: adapted from McKinsey (2013) (in violet, adjusted for oil revenues)

(http://www.mckinsey.com/insights/mgi/research/technology_and_innovation [accessed 22 Dec. , 2013])

What is globalization

- **Globalization** is the trend toward a single integrated and interdependent world: it is driven by international trade and made possible largely by information technology.
- **International trade** has already existed in ancient times.
 - In Greece and the wider Aegean, local, regional, and **international trade exchange existed from the Bronze Age**.
 - The earliest written sources of Homer and Hesiod attest to the **existence of trade (emporio) and merchants (emporoi) from the 8th century B.C.**
 - **International trade grew from 750 B.C.**, driven by social and political factors such as population movements, colonization inter-state alliances, the spread of coinage, the gradual standardization of measurements, warfare, and safer seas following the determination to eradicate piracy.
- Globalization may be understood by **different perspectives**.
 - To the **economists**, globalization refers to the emergence of global markets.
 - **Sociologists** see globalization as the convergence of lifestyles and social values.
 - To the **political scientist**, globalization reduces national sovereignty.
- One of the first to recognize globalization was Marshall McLuhan. He coined the term **“global village”**, wherein **people who are physically separated by time and space are interconnected by electronic media**. This linkage, while having positive benefits, also carries responsibilities on a global level.

History of globalization

- Some authors suggest that globalization began as early as the **discovery of America**, while others claim that it did not actually begin until the Industrial Revolution in the **latter part of the 18th century**.
- **Thomas Frieman**, with his international bestselling book “The World Is Flat: A Brief History of the Twenty-First Century”, analyzes globalization in the **beginning of the 21st century**.
- Other authors date globalization back to the **first circumvention of the Earth in 1519-21**, the expansion of **European capitalism in the 16th century** or the heyday of international trade and investment before the convulsions of **World War I and the Great Depression**.
- Among the **main drivers that motivated globalization**:
 - firms’ strategic imperatives
 - environmental changes
 - political conditions, especially as trade barriers were reduced and investment was encouraged (General Agreement on Tariffs and Trade (GATT) in 1947 , the World Trade Organisation (WTO), emerging new political landscape after the collapse of European communism.
- **Globalization does not occur as a single phenomenon** but affects many facets of our life.

Cultural globalization

- Rolex and McDonald's advertisements in the Red Square in Moscow, the quest of language purists who wants to keep their language free from any Anglo-Saxon influence, are all **manifestations of cultural globalization**, showing that globalization is clearly more than just commerce.
- However, there have also been **ethnocentric concerns** that culture is becoming too global, in the sense of becoming too homogenized. These concerns typically go along with the **fear that cultural globalization implies Americanization** and the uniformity of mass culture leads to a demise of national cultural heritage.
- If we look at globalization as a Westernization process, we face a dilemma as **many countries aspire to be globalized yet not Westernized**, most notably the People's Republic of China. The Chinese government is attempting to reap the benefits of open markets without the unwanted side effects of Westernization.
- Cultural protectionism actually becomes difficult if we look at new content production that is becoming more easily shared through the **Internet** than it has been for years.
- Cultural manifestations of globalization are manifold, and whether they incur a loss of local values or enrich people's minds towards multi-faceted global perspectives and the interchange of knowledge and ideas **remains a question of balance**.

Financial globalization

- **24-hour availability of information and trading potential:** for instance, CMC Markets PLC, established in 1989, is a global leader in online financial trading. They make available over 3,000 instruments across 18 global markets as well as easy access to equities, indices, forex, commodities and treasuries, 24 hours a day from one single account.
- Increased transparency does not only benefit the professional trader but has also helped to establish **international financial centers** where loans can be negotiated at better costs than restricting oneself to local banks.
- **More efficient global allocation of resources, sustained trade balance,** and the **prevention of national shocks** may just be some of the presumed benefits.
- **Critics** have remarked that the **interconnectedness of world financial markets may also increase the exposure** to real shocks and to risks that sudden capital reversals may translate into large-scale economic disruptions.
- **Changes and interdependent upwards and downwards moves of major stock indices.**

Technological globalization

- **Communication and transportation systems** have facilitated access to information, but are also at the disposal of terrorists, money-launderers, and internationally operating criminals.
- Today we are used to **consuming international news**, wherever we are and whatever we do.
- Progress in technology and communication has **also benefited poorer countries**.
- **India is playing an increasing role in information technology** innovation and major U.S. multinationals rely on their Indian employees to design software platforms and next generation features.

Educational and sociological globalization

- Educational and sociological manifestations of globalization go hand in hand. There clearly is a **large issue of labor mobility**, induced by the downfall of boundaries, especially but not exclusively within Europe.
- **Increasing mobility of researchers and students** across different countries with the dominant attracting nations being the UK, France, and Germany.
- Companies and nations will have to look for their **future leaders on a global scale**.
- “Globalization has changed us into **a company that searches the world**, not just to sell or to source, but **to find intellectual capital - the world's best talents and greatest ideas**.”
- There is also a **downturn associated with increasing family dislocation** that results from permanent commuting, lack of identity and social boundaries due to multiple homes and “global” citizens.

Economic globalization

- Economic aspects of globalization are clearly the most often and most controversially discussed ones and **the major issue has always been the reduction of poverty**.
- The surest route to sustained poverty reduction is clearly **economic growth**.
- Economies of **countries that open their markets grow at a faster pace** than the economies of countries that open their markets less or not at all.
- **A growing economy increases the demand for goods and services**, and as demand increases, more businesses start and expand their operations. Such expansion leads to the **creation of more, better-paid jobs**.
- The **same is true when the market expands beyond borders**. Gaining free access to other markets opens up new business opportunities, encouraging investment and fostering job creation.

Globalization and global marketing

- A global approach requires the firm to **focus its efforts worldwide**, rather than developing marketing strategies on a country-by-country basis.
- **Definition of global marketing** by the American Marketing Association :
 - Marketing definition: a marketing strategy that consciously addresses global customers, markets, and competition in formulating a business strategy.
 - Consumer behavior definition: an approach to international strategy that argues for marketing a product in essentially the same way everywhere in the world.
- Global marketing requires the **coordination and integration of production, marketing, and other functional activities across countries**.
- For many firms, a global marketing strategy requires a **centralized operation to leverage scale advantages and optimize resources and reduce costs**. Specifically, the objective of global marketing is to attain **worldwide coordination, rationalization, and integration of all marketing activities** including target market selection, marketing-mix decisions, and organizational design and control mechanisms.
- The world-wide integration of marketing activities includes the **development of global products and brands and global communication and distribution strategies**. However, even a global marketing strategy will need to account for some **local adaptations and the existence of paradoxes**, such as the poor versus rich, power versus fragility,

Trend scenarios in globalization

- **Economic growth of Pacific Rim countries:** The Pacific Rim countries include those along the Pacific ocean and they are continually gaining strength in the world economy. Not only China, but other four Pacific Rim countries have been coined "economic tigers" because of their economic progress: Hong Kong, Singapore, Taiwan and South Korea.
- **Capitalism in socialist countries:** Today, the opening of communist countries is a reality that started with Perestroika in the late 1980s in Russia where communism collapsed: a wide number of countries has adopted capitalist ideas and has introduced a market economy.
- **Women becoming leaders:** This prediction has gained a lot in importance with female CEOs, researchers, politicians. The introduction of quota systems and quests for equal payment both illustrate that governments have tried to promote women leadership.
- **Growth of biotechnology:** Consumers and companies alike are searching for eco-friendly sources of energy and more effort is being made to identify ways to harness them in an eco-friendly manner.
- **Similarities in individual lifestyles:** As the middle classes have become more, people have been able to fulfill their aspirations and become voracious consumers of luxury items. This has led many people to adopt Western life-styles and products.

Paradoxes in globalization

- **Rich versus Poor**

- **Power versus Fragility:** Many MNCs are gaining in power, they exert influence on governments to deal with subsidiaries or set standards. However MNCs are becoming more fragile because many small competitors have entered the scene and occupy a global niche market (“hidden champions”)



Discrepancy between rich and poor

Source: www.pixabay.com (free pictures)

- **Media overload versus fragmentation of media and audiences:** The world turns into a “global village” as communication costs declined owing to improvements in information technology. On the other hand, several countries are still excluded from the Internet. In addition, different age groups prefer different media

Transnational Corporations and Countries: Top 8 World Companies

	Company Name	Country	Year	Turnover (thousand US\$)	N° employees
1	Wal-Mart Stores, Inc.	US	2013	476'294'000	2'200'000
2	Royal Dutch Shell PLC	GB	2013	451'317'000	92'000
3	China Petroleum & Chemical Corporation	CN	2013	440'751'001	368'953
4	Exxon Mobil Corp	US	2013	420'836'000	75'000
	<i>Austria GDP</i>			<i>394'458'000</i>	
5	BP PLC	GB	2013	379'631'000	83'900
6	Saudi Arabian Oil Company (Aramco)	SA	2013	320'000'017	56'066
	<i>Denmark GDP</i>			<i>314'889'000</i>	
7	Vitol Holding B.V.	NL	2012	302'748'187	2'111
8	Volkswagen AG	DE	2013	280'191'740	572'800
	<i>Croatia GDP</i>			<i>56'447'000</i>	
	<i>Luxembourg GDP</i>			<i>55'143'000</i>	
	<i>Syria GDP</i>			<i>46'540'000</i>	
	<i>Slovenia GDP</i>			<i>45'380'000</i>	
	<i>Tunisia GDP</i>			<i>45'132'000</i>	
	<i>Costa Rica GDP</i>			<i>45'107'000</i>	

Source: adapted from: ORBIS - Bureau VanDijk Database

The four Ps and the four As

- The operational strategy of global marketing also deserves attention, as there will be changes from the **traditional 4Ps to the 4As** when applied to emerging markets.
- Some of the traditional marketing mix instruments (the 4Ps: Product, place, price, promotion) do not fully comply with the characteristics of emerging markets, where :
 - Marketers need to reconsider their pricing to make sure that their products are **affordable**.
 - They need attract people's attention to the product (**awareness**).
 - They have to select or create distribution channels that fit the infrastructure of the country (**availability**)
 - They need to make sure that people accept products in a world where they use and re-use products over generations (**acceptability**).
- In most cases, the 4As will not substitute for but rather complement the 4Ps.

The EPRG framework

Orientation	Mindset and Challenge	Strategy
Ethnocentric	<ul style="list-style-type: none">• What is produced at home is best and can be marketed exactly in the same way• the world is not the same as home	<ul style="list-style-type: none">• Simply export whatever you are producing and doing at home
Polycentric	<ul style="list-style-type: none">• Every market follows its own rules and exhibits a different culture• There is no synergy between markets	<ul style="list-style-type: none">• Follow a decentralized market approach and design marketing strategy for each market individually
Regiocentric	<ul style="list-style-type: none">• Several markets can be bundled into regions because they exhibit similar criteria (cultures, customer preferences, languages, etc.)• Difficulty to define a region	<ul style="list-style-type: none">• Benefit from similarities between countries and use the same marketing strategy for several of them
Geocentric	<ul style="list-style-type: none">• Build on existing homogeneity of markets and offer global products• Even standardization requires a certain extent of localization	<ul style="list-style-type: none">• Identify common denominator between markets and standardize as much as possible

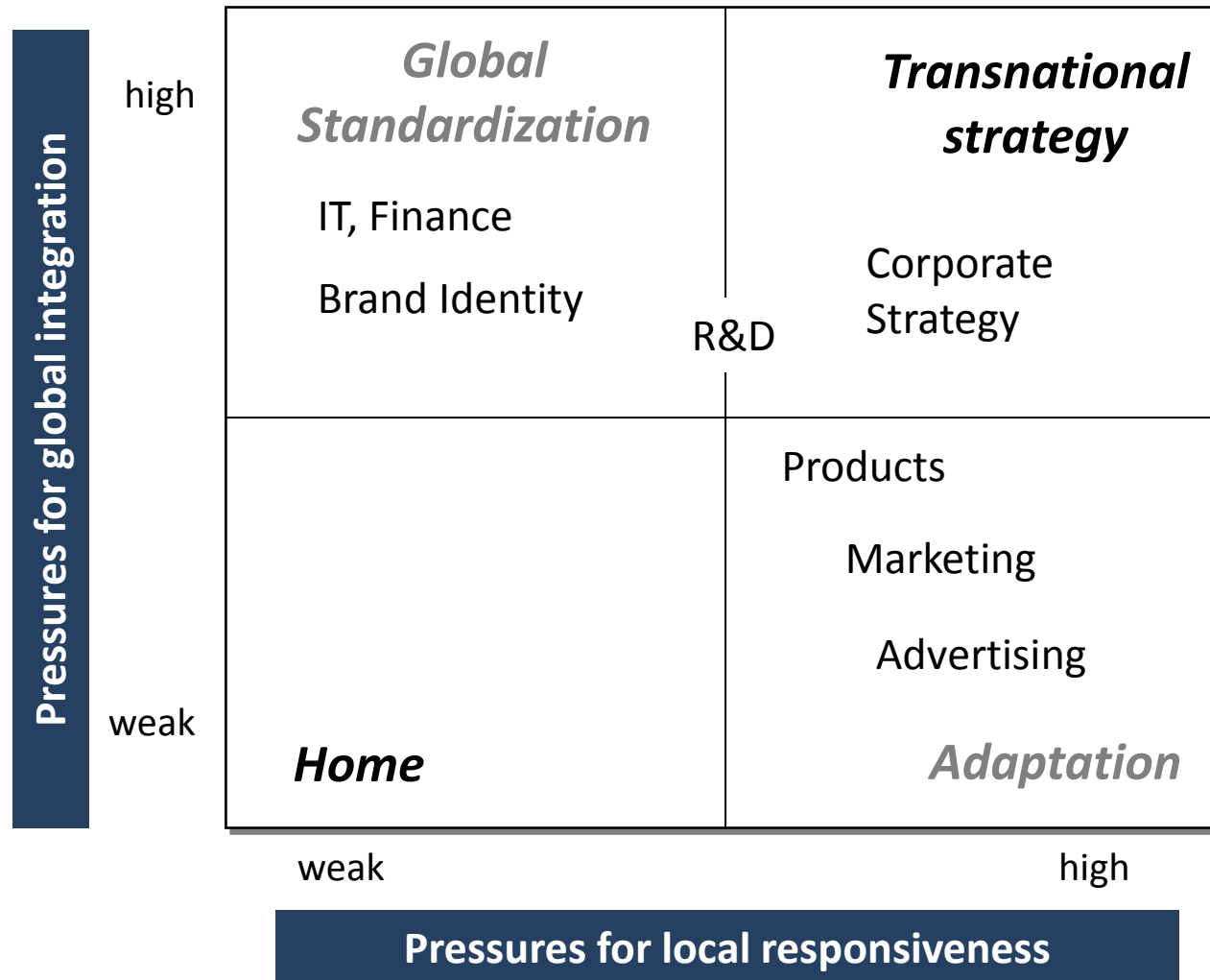
The standardization versus Localization – Adaptation School (1)

- One of the main topics of global marketing is **whether a standardized marketing approach to markets is preferable to a localized (differentiated) approach.**
- A truly globalized marketing strategy would aim to **standardize elements of the marketing mix in all markets served by the company.** Standardization allow gaining economies of scale in production and marketing, lowering costs—especially high R&D and development costs —and easing pressures exerted by global customers for the supply of uniform products.
- However there are **significant differences between national markets that require adaptation and customization in, if not all of marketing programs, then at least in some parts, such as product and promotional strategies.** For example, different tastes and customer preferences and performance requirements and standards across countries inhibit the ability to standardize.

The standardization versus Localization – Adaptation School (2)

- In reality, it is rare to find a completely standardized marketing mix
- **Service providers typically localize their offers** to a very high degree (e.g., educational service providers that need to tailor their services to local languages or customs, or lawyers that need to rely on local laws), **but attempt to standardize their advertising campaigns** as much as possible.
- Even when products are standardized, it may not be possible to standardize other elements of the marketing mix (example: Nescafé commercial aired in Chile). Even the successful global advertising campaign of McDonalds (“I’m loving it”) is facing localization needs, as for instance the requirement to use Cyrillic letters in Russia
- In the **transnational strategy**, companies integrate aspects of learning, innovation and knowledge development. Companies use a strategy of foreign countries that exploits location economies, leverages core competencies, and responds to key local conditions. Value is created by the relentless renewal, enhancement, and exchange of ideas, products, and processes across functions and borders.

Global Integration versus Local Responsiveness Grid



http://ghemawat.com/video1_frame.html

Source: Adpated from Prahalad, C.K. & Doz, Y.L. 1987.

McDonald's in Malaysia and Russia



McDonald in Malaysia

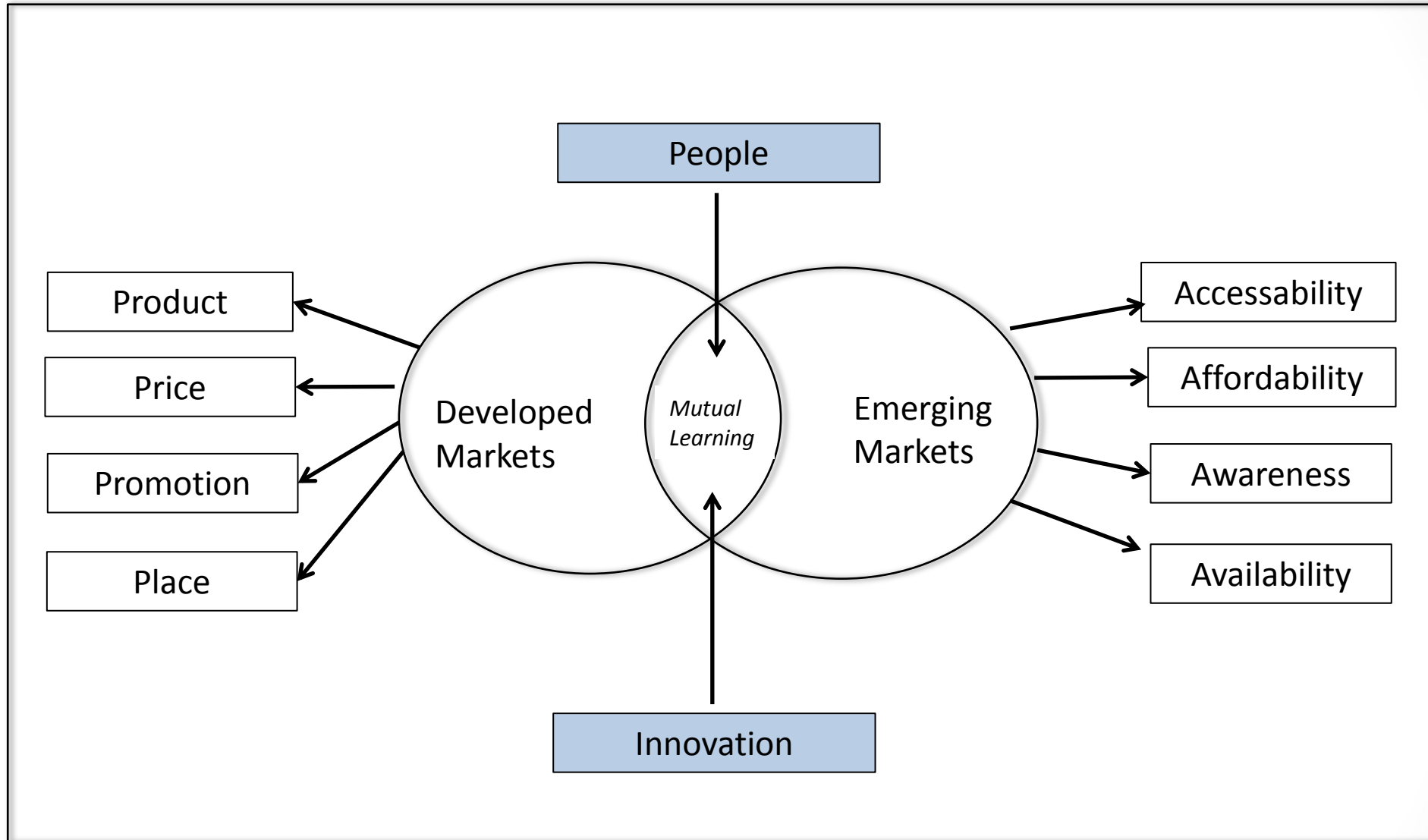
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McDonald in Russia

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Global marketing in the emerging market countries: from 4Ps to 4As



A global marketing management framework

