

Chapter 12

Global Marketing Management:

PLANNING AND ORGANIZATION



CHAPTER OUTLINE

Global Perspective: The British Sell Another Treasure

Global Marketing Management

- The Nestlé Way: Evolution Not Revolution
- Benefits of Global Marketing

Planning for Global Markets

- Company Objectives and Resources
- International Commitment
- The Planning Process

Alternative Market-Entry Strategies

- Exporting
- Contractual Agreements
- Strategic International Alliances
- Direct Foreign Investment

Organizing for Global Competition

- Locus of Decision
- Centralized versus Decentralized Organizations

CHAPTER LEARNING OBJECTIVES

What you should learn from Chapter 12:

- LO1** How global marketing management differs from international marketing management
- LO2** The need for planning to achieve company goals
- LO3** The important factors for each alternative market-entry strategy
- LO4** The increasing importance of international strategic alliances

Global Perspective

THE BRITISH SELL ANOTHER TREASURE

The mating dance has been unusually long, but then again, the deal was unusually large. Kraft first proposed to purchase the British institution Cadbury for a price of almost \$17 billion in early September. Then it had until November 9 to make a formal offer or give up the fight. The courtship unleashed a barrage of bad puns (e.g., “Cadbury gags on Kraft bid”). It also stirred up atavistic fears across Britain of a faceless American conglomerate wrecking a great British institution and forcing Britons to give up Dairy Milk chocolate and Creme Eggs in favor of Cheez Whiz and Jell-O.

A succession of studies has shown that three-quarters of mergers and acquisitions fail to produce any benefits for shareholders, and more than half actually destroy shareholder value (e.g., Quaker and Snapple, Daimler-Benz and Chrysler, Time Warner and AOL). The danger is particularly pronounced in hostile bids that cross borders and involve much loved brands.

A Kraft–Cadbury deal sounds designed for failure. Todd Stitzer, Cadbury’s boss, argues that his firm is an embodiment of a distinctive style of “principled capitalism” that was inspired by its Quaker founders nearly two centuries ago and has been woven into its fabric ever since. Destroy that tradition and “you risk destroying what makes Cadbury a great company.”

Chocolate companies as a breed also have a peculiarly intimate relationship with their customers, partly because chocolate is involved in so many childhood, romantic, and festive rituals, and partly because people acquire their chocolate preferences at their mothers’ knees. Most Britons would rather eat scorpions than Hershey bars. The giants of the chocolate business have all dominated their respective

regions for decades. Britons have been stuffing themselves with Dairy Milk since 1905, Creme Eggs since 1923, and Crunchies since 1929.

A Kraft–Cadbury combination also would create a rotten-toothed behemoth, with \$50 billion in annual sales, a significant presence in every market worthy of the name, and a real chance of making up lost ground in China. Kraft has a strong position in mainland Europe and operations in 150 countries. Cadbury is worshipped wherever the British empire once held sway (the company commands 70 percent of the chocolate market in India, for example), and a lot of other places besides (notably, Brazil and Mexico). It also has an unrivalled distribution system among small shops in India and parts of Africa. Skeptics are right to point out that grandiose mergers more often destroy brands than strengthen them, particularly when those brands are such delicate confections as chocolate bars and gooey eggs, but then again, few mergers offer the chance to establish a global empire of taste.

The mating dance was finally consummated in January 2010, for some \$19 billion in cash and stock. Of course, such a large acquisition will have to undergo scrutiny by antitrust officials on both sides of the Atlantic before final approval. Among those who do not appreciate this latest marital arrangement was Warren Buffett, whose Berkshire Hathaway group owns 9.4 percent of Kraft. Had he been able, he would have voted against the \$19 billion dowry that Kraft paid as too much.

Sources: “Food Fight,” *The Economist*, November 7, 2009, p. 63; Graeme Wearden, “Warren Buffett Blasts Kraft’s Takeover of Cadbury,” guardian.co.uk, January 20, 2010.

Confronted with increasing global competition for expanding markets,¹ multinational companies are changing their marketing strategies² and altering their organizational structures. Their goals are to enhance their competitiveness and to ensure proper positioning to capitalize on opportunities in the global marketplace. Comprehensive decisions must be made regarding key strategic choices, such as standardization versus adaptation, concentration versus dispersion, and integration versus independence.³ Particularly as national borders become less meaningful, we see the rise of greater international corporate collaboration networks yielding new thinking about traditional concepts of competition and organization.⁴

A recent study of North American and European corporations indicated that nearly 75 percent of the companies are revamping their business processes, that most have formalized strategic planning programs, and that the need to stay cost competitive was considered the most important external issue affecting their marketing strategies. Change is not limited to the giant multinationals but includes midsized and small firms as well.

In fact, the flexibility of a smaller company may enable it to reflect the demands of global markets and redefine its programs more quickly than larger multinationals. Acquiring a global perspective is easy, but the execution requires planning, organization, and a willingness to try new approaches—from engaging in collaborative relationships to redefining the scope of company operations.

This chapter discusses global marketing management, competition in the global marketplace, strategic planning, and alternative market-entry strategies. It also identifies the elements that contribute to an effective international or global organization.

Global Marketing Management

LO1

How global marketing management differs from international marketing management

In the 1970s, the market segmentation argument was framed as “standardization versus adaptation.” In the 1980s, it was “globalization versus localization,” and in the 1990s, it was “global integration versus local responsiveness.” The fundamental question was whether the global homogenization of consumer tastes allowed global standardization of the marketing mix. The Internet revolution of the 1990s, with its unprecedented global reach, added a new twist to the old debate.

Even today, some companies are calling “global” the way to go. For example, executives at Twix Cookie Bars tried out their first global campaign with a new global advertising agency, Grey Worldwide. With analysis, perhaps a global campaign does make sense for Twix. But look at the companies that are going in the other direction. Levi’s jeans have faded globally in recent years. Ford has chosen to keep only one acquired nameplate, Mazda, but also will sell the Fiesta worldwide.⁵ And perhaps the most global company of all, Coca-Cola, is peddling two brands in India—Coke and Thums Up. Coke’s CEO explained, “Coke has had to come to terms with a conflicting reality. In many parts of the

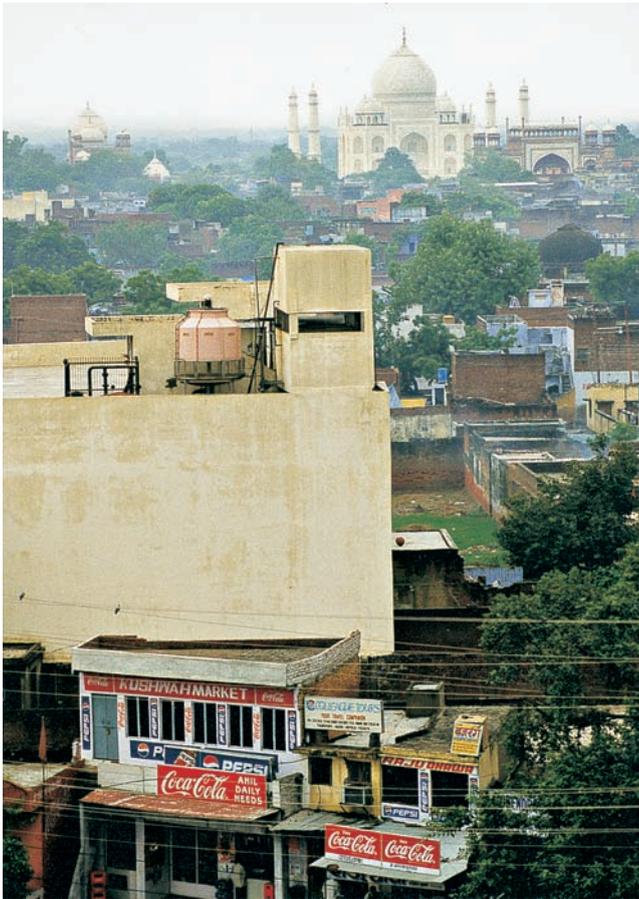
¹Yadong Luo and Rosalie Tung, “International Expansion of Emerging Market Enterprises: A Springboard Perspective,” *Journal of International Business Studies* 38 (2007), pp. 481–98; Peter J. Buckley, L. Jeremy Clegg, Adam R. Cross, Xiin Liu, Hinrich Voss, and Ping Zheng, “The Determinants of Chinese Outward Foreign Direct Investment,” *Journal of International Business Studies* 38 (2007), pp. 499–518; Daphne W. Yiu, ChingMing Lau, and Garry D. Bruton, “International Venturing by Emerging Economy Firms: The Effects of Firm Capabilities, Home Country Networks, and Corporate Entrepreneurship,” *Journal of International Business Studies* 38 (2007), pp. 519–40; Igor Filatotchev, Roger Strange, Jennifer Piesse, and Yung-Chih Lien, “FDI by Firms from Newly Industrialized Economies in Emerging Markets: Corporate Governance, Entry Mode, and Location,” *Journal of International Business Studies* 38 (2007), pp. 556–72.

²Thomas Hutzschenreuter and Florian Grone, “Product and Geographic Scope Changes of Multinational Enterprises in Response to International Competition,” *Journal of International Business Studies* 40, no. 7 (2009), pp. 1149–72; Yaron Timmor, Samuel Rabino, and Jehiel Zif, “Defending a Domestic Position against Global Entries,” *Journal of Global Marketing* 22, no. 4 (2009), pp. 251–66.

³Lewis K. S. Lim, Frank Acito, and Alexander Rusetski, “Development of Archetypes of International Marketing Strategy,” *Journal of International Business Studies* 37 (2006), pp. 499–524.

⁴B. Elango and Chinmay Pattnaik, “Building Capabilities for International Operations through Networks: A Study of Indian Firms,” *Journal of International Business Studies* 38 (2007), pp. 541–55; Victor K. Fung, William K. Fung, and Yoram (Jerry) Wind, *Competing in a Flat World* (Upper Saddle River, NJ: Wharton School Publishing, 2008).

⁵David Kiley, “One Ford for the Whole Wide World,” *BusinessWeek*, June 15, 2009, pp. 58–60.



The competition among soft drink bottlers in India is fierce. Here Coke and Pepsi combine to ruin the view of the Taj Mahal. Notice how the red of Coke stands out among its competitors in the picture. Of course, now Coca-Cola has purchased Thums Up, a prominent local brand—this is a strategy the company is applying around the world. But the red is a substantial competitive advantage both on store shelves and in outdoor advertising of the sort common in India and other developing countries. We're not sure who borrowed the "monsoon/thunder" slogans from whom.

world, consumers have become pickier, more penny-wise, or a little more nationalistic, and they are spending more of their money on local drinks whose flavors are not part of the Coca-Cola lineup."

Part of this trend back toward localization is caused by the efficiencies of customization made possible by the Internet and increasingly flexible manufacturing processes. Indeed, a good example of the "mass customization" is Dell Computer Corporation, which maintains no inventory and builds each computer to order. Also crucial has been the apparent rejection of the logic of globalism by trade unionists, environmentalists, and consumers so well demonstrated in Seattle during the World Trade Organization meetings in 2000. Although there is a growing body of empirical research illustrating the risks and difficulties of global standardization,⁶ contrary results also appear in the literature.⁷ Finally, prominent among firms' standardization strategies is Mattel's unsuccessful globalization of blonde Barbie.

⁶Carl Arthur Solberg, "The Perennial Issue of Adaptation or Standardization of International Marketing Communication: Organizational Contingencies and Performance," *Journal of International Marketing* 10, no. 3 (2002), pp. 1–21; Marios Theodosiou and Leonidas C. Leonidou, "Standardization versus Adaptation of International Marketing Strategy: An Integrative Assessment of the Empirical Research," *International Business Review* 12 (2003), pp. 141–71; Joan Enric Ricart, Michael J. Enright, Panjak Ghemawat, Stuart L. Hart, and Tarun Khanna, "New Frontiers in International Strategy," *Journal of International Business Studies* 35, no. 3 (2004), pp. 175–200.

⁷Oliver Schilke, Martin Reimann, and Jacquelyn S. Thomas, "When Does International Marketing Standardization Matter to Firm Performance?" *Journal of International Marketing* 17, no. 4 (2009), pp. 24–46.

Items in the Disney Princess collection are on display at the Licensing International show at New York's Javits Convention Center. It will be interesting to see Barbie's (Mattel's) competitive response to the ethnic breadth of the Disney line.



We correctly predicted in a previous edition of this book that a better approach was that of Disney, with its more culturally diverse line of “Disney Princesses” including Mulan (Chinese) and Jasmine (Arabic). Even though Bratz and Disney Princesses won this battle of the new “toy soldiers,” the question is still not completely settled. Relatedly, Mattel has recently won a lawsuit against MGA, the maker of Bratz, for stealing its design. But a federal court in California is allowing Bratz to be sold during the appeal process.⁸

Indeed, the debate about standardization versus adaptation is itself a wonderful example of the ethnocentrism of American managers and academics alike. That is, from the European or even the Japanese perspective, markets are by definition international, and the special requirements of the huge American market must be considered from the beginning. Only in America can international market requirements be an afterthought.

Moreover, as the information explosion allows marketers to segment markets ever more finely, it is only the manufacturing and/or finance managers in companies who argue for standardization for the sake of economies of scale. From the marketing perspective, customization is always best.⁹ The ideal market segment size, if customer satisfaction is the goal, is *one*. According to one expert, “Forward-looking, proactive firms have the ability and willingness . . . to accomplish both tasks [standardization and localization] simultaneously.”¹⁰

We believe things are actually simpler than that. As global markets continue to homogenize and diversify simultaneously, the best companies will avoid the trap of focusing on *country* as the primary segmentation variable. Other segmentation variables are often more important—for example, climate, language group, media habits, age,¹¹ or income, as exemplified in our discussion about the diversity within China in Chapter 11. The makers of Twix apparently think that media habits (that is, MTV viewership) supersede country, according to their latest segmentation approach. At least one industry CEO concurred

⁸Ann Zimmerman, “Maker of Bratz Dolls Wins a Legal Reprieve,” *The Wall Street Journal*, December 11, 2009, p. B10.

⁹Peggy A. Cloninger and Ziad Swaidan, “Standardization, Customization and Revenue from Foreign Markets,” *Journal of Global Marketing* 20 (2007), pp. 57–70.

¹⁰Masaaki Kotabe, “Contemporary Research Trends in International Marketing: The 1960s,” Chapter 17 in *Oxford Handbook of International Business*, 2nd edition, Alan Rugman (ed.) (Oxford: Oxford University Press, 2008). Also consistent are the findings of Shouming Zou and S. Tamer Cavusgil, “The GMS: A Broad Conceptualization of Global Marketing Strategy and Its Effect on Firm Performance,” *Journal of Marketing* 66, no. 4 (October 2002), pp. 40–57.

¹¹Dannie Kjeldgaard and Soren Askegaard, “The Glocalization of Youth Culture: The Global Youth Segment as Structures of Common Difference,” *Journal of Consumer Research* 33 (2006), pp. 21–27.

regarding media-based segmentation: “With media splintering into smaller and smaller communities of interest, it will become more and more important to reach those audiences wherever [whichever country] they may be. Today, media companies are increasingly delivering their content over a variety of platforms: broadcast—both TV and radio—and cable, online and print, big screen video, and the newest portable digital media including 3-D. And advertisers are using the same variety of platforms to reach their desired audience.” Finally, perhaps a few famous Italian brands are the best examples: Salvatore Ferragamo shoes, Gucci leather goods, and Ferrari cars sell to the highest-income segments globally. Indeed, for all three companies, their U.S. sales are greater than their Italian sales.

In the 21st century, standardization versus adaptation is simply not the right question to ask.¹² Rather, the crucial question facing international marketers is what are the most efficient ways to segment markets.¹³ Country has been the most obvious segmentation variable, particularly for Americans. But as better communication systems continue to dissolve national borders, other dimensions of global markets are growing in salience.

The Nestlé Way: Evolution Not Revolution

Nestlé certainly hasn’t been bothered by the debate on standardization versus adaptation. Nestlé has been international almost from its start in 1866 as a maker of infant formula. By 1920, the company was producing in Brazil, Australia, and the United States and exporting to Hong Kong. Today, it sells more than 8,500 products produced in 489 factories in 193 countries. Nestlé is the world’s biggest marketer of infant formula, powdered milk, instant coffee, chocolate, soups, and mineral water. It ranks second in ice cream, and in cereals, it ties Ralston Purina and trails only Kellogg Company. Its products are sold in the most upscale supermarkets in Beverly Hills, California, and in huts in Nigeria, where women sell Nestlé bouillon cubes alongside homegrown tomatoes and onions. Although the company has no sales agents in North Korea, its products somehow find their way into stores there, too.

The “Nestlé way” is to dominate its markets. Its overall strategy can be summarized in four points: (1) think and plan long term, (2) decentralize, (3) stick to what you know, and (4) adapt to local tastes. To see how Nestlé operates, take a look at its approach to Poland, one of the largest markets of the former Soviet bloc. Company executives decided at the outset that it would take too long to build plants and create brand awareness. Instead, the company pursued acquisitions and followed a strategy of “evolution not revolution.” It purchased Goplana, Poland’s second-best-selling chocolate maker (it bid for the No. 1 company but lost out) and carefully adjusted the end product via small changes every two months over a two-year period until it measured up to Nestlé’s standards and was a recognizable Nestlé brand. These efforts, along with all-out marketing, put the company within striking distance of the market leader, Wedel. Nestlé also purchased a milk operation and, as it did in Mexico, India, and elsewhere, sent technicians into the field to help Polish farmers improve the quality and quantity of the milk it buys through better feeds and improved sanitation.

Nestlé’s efforts in the Middle East are much longer term. The area currently represents only about 2 percent of the company’s worldwide sales, and the markets, individually, are relatively small. Furthermore, regional conflicts preclude most trade among the countries. Nevertheless, Nestlé anticipates that hostility will someday subside, and when that happens, the company will be ready to sell throughout the entire region. Nestlé has set up a network of factories in five countries that can someday supply the entire region with different products. The company makes ice cream in Dubai and soups and cereals in Saudi Arabia. The Egyptian factory makes yogurt and bouillon, while Turkey produces chocolate. And a factory in Syria makes ketchup, a malted-chocolate energy food, instant noodles, and other

¹²Aviv Shoham, Maja Makovec Brencic, Vesna Virant, and Ayalla Ruvio, “International Standardization of Channel Management and Its Behavioral and Performance Outcomes,” *Journal of International Marketing*, 16, no. 2 (2008), pp. 120–51.

¹³Amanda J. Broderick, Gordon E. Greenley, and Rene Dentiste Mueller, “The Behavioral Homogeneity Evaluation Framework: Multi-Level Evaluations of Consumer Involvement in International Segmentation,” *Journal of International Business Studies* 38 (2007), pp. 746–63.

products. If the obstacles between the countries come down, Nestlé will have a network of plants ready to provide a complete line to market in all the countries. In the meantime, factories produce and sell mostly in the countries in which they are located.

For many companies, such a long-term strategy would not be profitable, but it works for Nestlé because the company relies on local ingredients and markets products that consumers can afford. The tomatoes and wheat used in the Syrian factory, for example, are major local agricultural products. Even if Syrian restrictions on trade remain, there are 14 million people to buy ketchup, noodles, and other products the company produces there. In all five countries, the Nestlé name and the bird-in-a-nest trademark appear on every product.

Nestlé bills itself as “the only company that is truly dedicated to providing a complete range of food products to meet the needs and tastes of people from around the world, each hour of their day, throughout their entire lives.”

Benefits of Global Marketing

Few firms have truly global operations balanced across major regional markets. However, when large international market segments can be identified, economies of scale in production and marketing can be important competitive advantages for multinational companies.¹⁴ As a case in point, Black & Decker Manufacturing Company—makers of electrical hand tools, appliances, and other consumer products—realized significant production cost savings when it adopted a pan-European strategy. It was able to reduce not only the number of motor sizes for the European market from 260 to 8 but also 15 different models to 8. Similarly, Ford estimates that by unifying product development, purchasing, and supply activities across several countries, it saves more than \$3 billion a year. Finally, while Japanese firms initially dominated the mobile phone business in their home market, international competitors now pose growing challenges via better technologies developed through greater global penetration.

Transfer of experience and know-how across countries through improved coordination and integration of marketing activities is also cited as a benefit of global operations.¹⁵ Global diversity in marketing talent leads to new approaches across markets.¹⁶ Unilever successfully introduced two global brands originally developed by two subsidiaries. Its South African subsidiary developed Impulse body spray, and a European branch developed a detergent that cleaned effectively in European hard water. Aluminum Company of America’s (Alcoa) joint venture partner in Japan produced aluminum sheets so perfect that U.S. workers, when shown samples, accused the company of hand-selecting the samples. Line workers were sent to the Japanese plant to learn the techniques, which were then transferred to the U.S. operations. Because of the benefits of such transfers of knowledge, Alcoa has changed its practice of sending managers overseas to “keep an eye on things” to sending line workers and managers to foreign locations to seek out new techniques and processes.

Marketing globally also ensures that marketers have access to the toughest customers. For example, in many product and service categories, the Japanese consumer has been the hardest to please; the demanding customers are the reason that the highest-quality products and services often emanate from that country. Competing for Japanese customers provides firms with the best testing ground for high-quality products and services.

¹⁴Natalia Vila and Ines Kuster, “Success and Internationalization: Analysis of the Textile Sector,” *Journal of Global Marketing* 21, no. 2 (2008), pp. 109–26; Amar Gande, Christopher Schenzler, and Lemma W. Senbet, “Valuation Effects of Global Diversification,” *Journal of International Business Studies* 40, no. 9 (2009), pp. 1515–32.

¹⁵Nigel Driffield, James H. Love, and Stefan Menghinello, “The Multinational Enterprise as a Source of International Knowledge Flows: Direct Evidence from Italy,” *Journal of International Business Studies* 41, no. 2 (2010), pp. 350–59.

¹⁶Janet Y. Murray and Mike C. H. Chao, “A Cross-Team Framework on International Knowledge Acquisition on New Product Development Capabilities and New Product Market Performance,” *Journal of International Marketing* 13 (2005), pp. 54–78; John Cantwell, “Location and the Multinational Enterprise,” *Journal of International Business Studies* 40, no. 1 (2009), pp. 35–41; Peter J. Buckley and Niron Hashai, “Formalizing Internationalization in the Eclectic Paradigm,” *Journal of International Business Studies* 40, no. 1 (2009), pp. 58–70.

CROSSING BORDERS 12.1

Swedish Takeout

Fifty years ago in the woods of southern Sweden, a minor revolution took place that has since changed the concept of retailing and created a mass market in a category where none previously existed. The catalyst of the change was and is IKEA, the Swedish furniture retailer and distributor that virtually invented the idea of self-service, takeout furniture. IKEA sells reasonably priced and innovatively designed furniture and home furnishings for a global marketplace.

The name was registered in Agunnaryd, Sweden, in 1943 by Ingvar Kamprad—the IK in the company's name. He entered the furniture market in 1950, and the first catalog was published in 1951. The first store didn't open until 1958 in Almhult. It became so incredibly popular that a year later the store had to add a restaurant for people who were traveling long distances to get there.

IKEA entered the United States in 1985. Although IKEA is global, most of the action takes place in Europe, with about 85 percent of the firm's \$7 billion in sales. Nearly one-fourth of that comes from stores in Germany. This level compares with only about \$1 billion in NAFTA countries.

One reason for the relatively slow growth in the United States is that its stores are franchised by Netherlands-based Inter IKEA Systems, which carefully scrutinizes potential franchisees—individuals or companies—for strong financial backing and a proven record in retailing. The IKEA Group, based in Denmark, is a group of private companies owned by a charitable foundation in the Netherlands; it operates more than 100 stores. The Group also develops, purchases,

distributes, and sells IKEA products, which are available only in company stores. The items are purchased from more than 2,400 suppliers in 65 countries and shipped through 14 distribution centers. The goal of sourcing 30 percent of timber in both China and Russia has not yet been reached, but the efforts continue.

Low price is built into the company's lines. Even catalog prices are guaranteed not to increase for one year. The drive to produce affordable products inadvertently put IKEA at the forefront of the environmental movement several decades ago. In addition to lowering costs, minimization of materials and packing addressed natural resource issues. Environmentalism remains an integral operational issue at IKEA. Even the company's catalog is completely recyclable and produced digitally rather than on film.

On the day that Russia's first IKEA store opened in 2000, the wait to get in was an hour. Highway traffic backed up for miles. More than 40,000 people crammed into the place, picking clean sections of the warehouse. The store still pulls in more than 100,000 customers per week. IKEA has big plans for Russia. Company officials are placing IKEA's simple shelves, kitchens, bathrooms, and bedrooms in millions of Russian apartments that haven't been remodeled since the Soviet days. And now IKEA has opened five new stores in China's biggest cities.

Sources: Colin McMahon, "Russians Flock to IKEA as Store Battles Moscow," *Chicago Tribune*, May 17, 2000; "IKEA to March into China's Second-tier Cities [Next]," *SinoCast China Business Daily News*, August 6, 2007, p. 1; "IKEA Struggles to Source Sustainable Timber," *Environmental Data Services*, July 2009, p. 22.

Diversity of markets served carries with it additional financial benefits.¹⁷ Spreading the portfolio of markets served brings important stability of revenues and operations to many global companies.¹⁸ Companies with global marketing operations suffered less during the Asian market downturn of the late 1990s than did firms specializing in the area. Firms that market globally are able to take advantage of changing financial circumstances in other ways as well. For example, as tax and tariff rates ebb and flow around the world, the most global companies are able to leverage the associated complexity to their advantage.

¹⁷N. Capar and M. Kotabe have noted that for services firms, the relationship between international diversification and firm performance can be curvilinear (that is, both not enough and too much are bad); see "The Relationship between International Diversification and Performance in Service Firms," *Journal of International Business Studies* 34, no. 4 (2003), pp. 345–55; Protiti Dastidar, "International Corporate Diversification and Performance: Does Firm Self-Selection Matter?" *Journal of International Business Studies* 40, no. 1 (2009), pp. 71–85.

¹⁸Lee Li, Gongming Qian, and Zhengming Qian, "Product Diversification, Multinationality, and Country Involvement: What Is the Optimal Combination?" *Journal of Global Marketing* 20 (2007), pp. 5–25; Tess Stynes and Paul Ziobro, "McDonald's Sales Rise Despite U.S. Weakness," *The Wall Street Journal*, February 9, 2010, online.

CROSSING BORDERS 12.2

Apple Shops for Partners around the World

Apple has moved fast since its introduction of the iPhone, making distribution deals with U.S. and European operators. Now Steve Jobs is turning east, making plans to enter Japan, one of the biggest and most sophisticated mobile phone markets in the world.

People familiar with the situation say Jobs recently met with NTT DoCoMo Inc.'s president, Masao Nakamura, to discuss a deal to offer the iPhone in Japan through the nation's dominant mobile operator. These informants said Apple also has been talking to the No. 3 operator, Softbank Corp., and that executives from both companies have made multiple trips to Apple's Cupertino, California, headquarters. For Apple, finding a wireless partner soon in Japan is an important step in the company's oft-stated goal of gaining a 1 percent share of the global cell phone business by shipping about 10 million iPhones between the product's launch in late June 2007 and the end of 2008.

The world's second-largest economy, after the United States, is an attractive market because it not only has a strong base of iPod fans, but its nearly 100 million mobile phone users buy new phones every two years on average. Japanese consumers also are accustomed to shelling out hundreds of dollars for expensive phones with advanced capabilities, such as digital television, cameras, and music.

Yet Japan could be a difficult market to crack for Apple. More than 10 domestic mobile phone makers work closely with the three major operators to develop phones tailored to Japanese consumers' tastes. In the past, foreign mobile phone makers have not been willing to go to such lengths and generally have met with little success in selling their phones, especially when those phones do not contain essential Japanese features, such as the operators' proprietary mobile Internet technology or e-mail software that Japanese consumers are used to having.

The iPhone has been successful thus far in countries where it has been launched. Apple sold a total of 1.4 million iPhones by late September 2007. And though sales of the product did not quite meet some of the most bullish Wall Street forecasts, the iPhone has been one of the top-selling smart phones in the United States, where it is sold only through AT&T Inc., the nation's largest carrier by subscribers.

In the end, Apple has partnered with Softbank in Japan and China Unicom and is expecting the momentum to continue well into the future.

Sources: John Markoff, "A Personal Computer to Carry in a Pocket," *The New York Times*, January 8, 2007, pp. C1, C3; Yukari Iwatani and Nick Wingfield, "Apple Meets with DoCoMo, Softbank on Launching iPhone in Japan," *The Wall Street Journal* (online), December 18, 2007; Philip Michaels, "Apple: What Recession?" *Macworld*, January 2010, p. 16.

Planning for Global Markets Planning is a systematized way of relating to the future. It is an attempt to manage the effects of external, uncontrollable factors on the firm's strengths, weaknesses, objectives, and goals to attain a desired end. Furthermore, it is a commitment of resources to a country market to achieve specific goals. In other words, planning is the job of making things happen that might not otherwise occur.

Planning allows for rapid growth of the international function, changing markets, increasing competition, and the turbulent challenges of different national markets. The plan must blend the changing parameters of external country environments with corporate objectives and capabilities to develop a sound, workable marketing program.¹⁹ A strategic plan commits corporate resources to products and markets to increase competitiveness and profits.

Planning relates to the formulation of goals and methods of accomplishing them, so it is both a process and a philosophy. Structurally, planning may be viewed as corporate, strategic, or tactical. International **corporate planning** is essentially long term, incorporating generalized goals for the enterprise as a whole. **Strategic planning** is conducted at the highest levels of management and deals with products, capital, research, and the long- and short-term goals of the company. **Tactical planning**, or market planning, pertains to specific actions and to the allocation of resources used to implement strategic planning goals

¹⁹Wade M. Danis, Dan S. Chiaburu, and Majorie A. Lyles, "The Impact of Managerial Networking Intensity and Market-Based Strategies on Firm Growth during Institutional Upheaval: A Study of Small and Medium-Sized Enterprises in a Transition Economy," *Journal of International Business Studies* 41, no. 2 (2010), pp. 287–307.

in specific markets. Tactical plans are made at the local level and address marketing and advertising questions.

A major advantage for a multinational corporation (MNC) involved in planning is the discipline imposed by the process. An international marketer who has gone through the planning process has a framework for analyzing marketing problems and opportunities and a basis for coordinating information from different country markets. The process of planning may be as important as the plan itself, because it forces decision makers to examine all factors that affect the success of a marketing program and involves those who will be responsible for its implementation. Another key to successful planning is evaluating company objectives, including management's commitment and philosophical orientation to international business. Finally, the planning process is a primary medium of organizational learning.

Company Objectives and Resources

Defining objectives clarifies the orientation of the domestic and international divisions, permitting consistent policies. The lack of well-defined objectives has found companies rushing into promising foreign markets only to find activities that conflict with or detract from the companies' primary objectives.

Foreign market opportunities do not always parallel corporate objectives; it may be necessary to change the objectives, alter the scale of international plans, or abandon them. One market may offer immediate profit but have a poor long-run outlook, while another may offer the reverse. Only when corporate objectives are clear can such differences be reconciled effectively.

International Commitment

The planning approach taken by an international firm affects the degree of internationalization to which management is philosophically committed. Such commitment affects the specific international strategies and decisions of the firm. After company objectives have been identified, management needs to determine whether it is prepared to make the level of commitment required for successful international operations—commitment in terms of dollars to be invested, personnel for managing the international organization, and determination to stay in the market long enough to realize a return on these investments.²⁰

A company uncertain of its prospects is likely to enter a market timidly, using inefficient marketing methods, channels, or organizational forms, thus setting the stage for the failure of a venture that might have succeeded with full commitment and support by the parent company. Any long-term marketing plan should be fully supported by senior management and have realistic time goals set for sales growth. Occasionally, casual market entry is successful, but more often than not, market success requires long-term commitment.²¹

Finally, a new series of studies is demonstrating a strong regional preference for multinational companies as they expand their operations.²² Part of this preference is due to the challenges associated with cultural distance²³ and part with physical distance,²⁴ particularly

²⁰Orly Levy, Schon Beechler, Sully Taylor, and Nakiey A. Boyacigiller, "What We Talk about When We Talk about 'Global Mindset': Managerial Cognition in Multinational Corporations," *Journal of International Business Studies* 38 (2007), pp. 231–58.

²¹Thomas Hutzschenreuter, Torben Pedersen, and Henk W. Voldberda, "The Role of Path Dependency and Managerial Intentionality: A Perspective on International Business Research," *Journal of International Business Studies* 38 (2007), pp. 1055–68.

²²Luis Felipe Lages, Sandy D. Jap, and David A. Griffith, "The Role of Past Performance in Export Ventures: A Short-Term Reactive Approach," *Journal of International Business Studies* 39 (2008), pp. 304–25.

²³John H. Dunning, Masataka Fujita, and Nevena Yakova, "Some Macro-Data on the Regionalization/Globalization Debate: A Comment on the Rugman/Verbeke Analysis," *Journal of International Business Studies* 38 (2007), pp. 177–99; Ricardo G. Flores and Ruth V. Aguilera, "Globalization and Location Choice: An Analysis of U.S. Multinational Firms in 1980 and 2000," *Journal of International Business Studies* 38 (2007), pp. 1187–210; Simon Collinson and Alan M. Rugman, "The Regional Nature of Japanese Multinational Business," *Journal of International Business Studies* 39 (2008), pp. 215–30.

²⁴Jody Evans, Felix T. Mavondo, and Kerrie Bridson, "Psychic Distance: Antecedents, Retail Strategy Implications, and Performance Outcomes," *Journal of International Marketing* 16, no. 2 (2008), pp. 32–63.

that related to the difficulties of doing business across time zones.²⁵ As we mentioned previously, most countries and companies trade most with their neighbors. Others report that firms also gain competitive advantages from clustering operations in specific regions.²⁶ Yet to some disagree,²⁷ researchers question the existence of global strategies, maintaining that only nine American *Fortune* 500 companies deserve the term “global” with respect to their operational coverage of the planet.²⁸ We can agree that strategic choices currently favor regional foci, but the trend is toward steadily increasing globalization of trade agreements, trade, and company strategies, as we mentioned in the previous chapter. Competition and the new ease of global communications is forcing managers around the world to make greater commitments to global marketing.

The Planning Process

LO2

The need for planning to achieve company goals

Whether a company is marketing in several countries or is entering a foreign market for the first time, planning is essential to success. The first-time foreign marketer must decide what products to develop, in which markets, and with what level of resource commitment. For the company that is already committed, the key decisions involve allocating effort and resources among countries and product(s), deciding on new market segments to develop or old ones to withdraw from, and determining which products to develop or drop. Guidelines and systematic procedures are necessary for evaluating international opportunities and risks and for developing strategic plans to take advantage of such opportunities.²⁹ The process illustrated in Exhibit 12.1 offers a systematic guide to planning for the multinational firm operating in several countries.

Phase 1: Preliminary Analysis and Screening—Matching Company and Country Needs.

Whether a company is new to international marketing or heavily involved, an evaluation of potential markets is the first step in the planning process. A critical first step in the international planning process is deciding in which existing country market to make a market investment. A company’s strengths and weaknesses, products, philosophies, modes of operation,³⁰ and objectives must be matched with a country’s constraining factors and market potential.³¹ In the first part of the planning process, countries are analyzed and screened to eliminate those that do not offer sufficient potential for further consideration. Emerging markets pose a special problem because many have inadequate marketing infrastructures, distribution channels are underdeveloped, and income levels and distribution vary among countries.

²⁵Lazlo Tihanyi, David A. Griffith, and Craig J. Russell, “The Effect of Cultural Distance on Entry Mode Choice, International Diversification, and MNE Performance: A Meta-Analysis,” *Journal of International Business Studies* 36 (2005), pp. 270–83; Thomas Hutzschenreuter and Johannes C. Voll, “Performance Effects of ‘Added Cultural Distance’ in the Path of International Expansion: pp. 53–70. The Case of German Multinational Enterprises,” *Journal of International Business Studies* 39 (2008), pp. 53–70.

²⁶Joseph Johnson and Gerard J. Tellis, “Drivers of Success for Market Entry into China and India,” *Journal of Marketing* 72, no. 3 (2008), pp. 1–13; Jennifer D. Chandler and John L. Graham, “Relationship-Oriented Cultures, Corruption, and International Marketing Success,” *Journal of Business Ethics* 92, no. 2 (2010), pp. 251–67.

²⁷Elizabeth Maitland, Elizabeth L. Rose, and Stephen Nicholas, “How Firms Grow: Clustering as a Dynamic Model of Internationalization,” *Journal of International Business Studies* 36 (2005), pp. 435–51; Gongming Qian, Lee Li, Ji Li, and Zhengming Qian, “Regional Diversification and Firm Performance,” *Journal of International Business Studies* 39 (2008), pp. 197–214; Stephanie A. Fernhaber, Brett Anitra Gilbert, and Patricia P. McDougall, “International Entrepreneurship and Geographic Location: An Empirical Examination of New Venture Internationalization,” *Journal of International Business Studies* 39 (2008), pp. 267–90.

²⁸Thomas Osegowitsch and Andre Sammartino, “Reassessing (Home-) Regionalization,” *Journal of International Business Studies* 39 (2008), pp. 184–96.

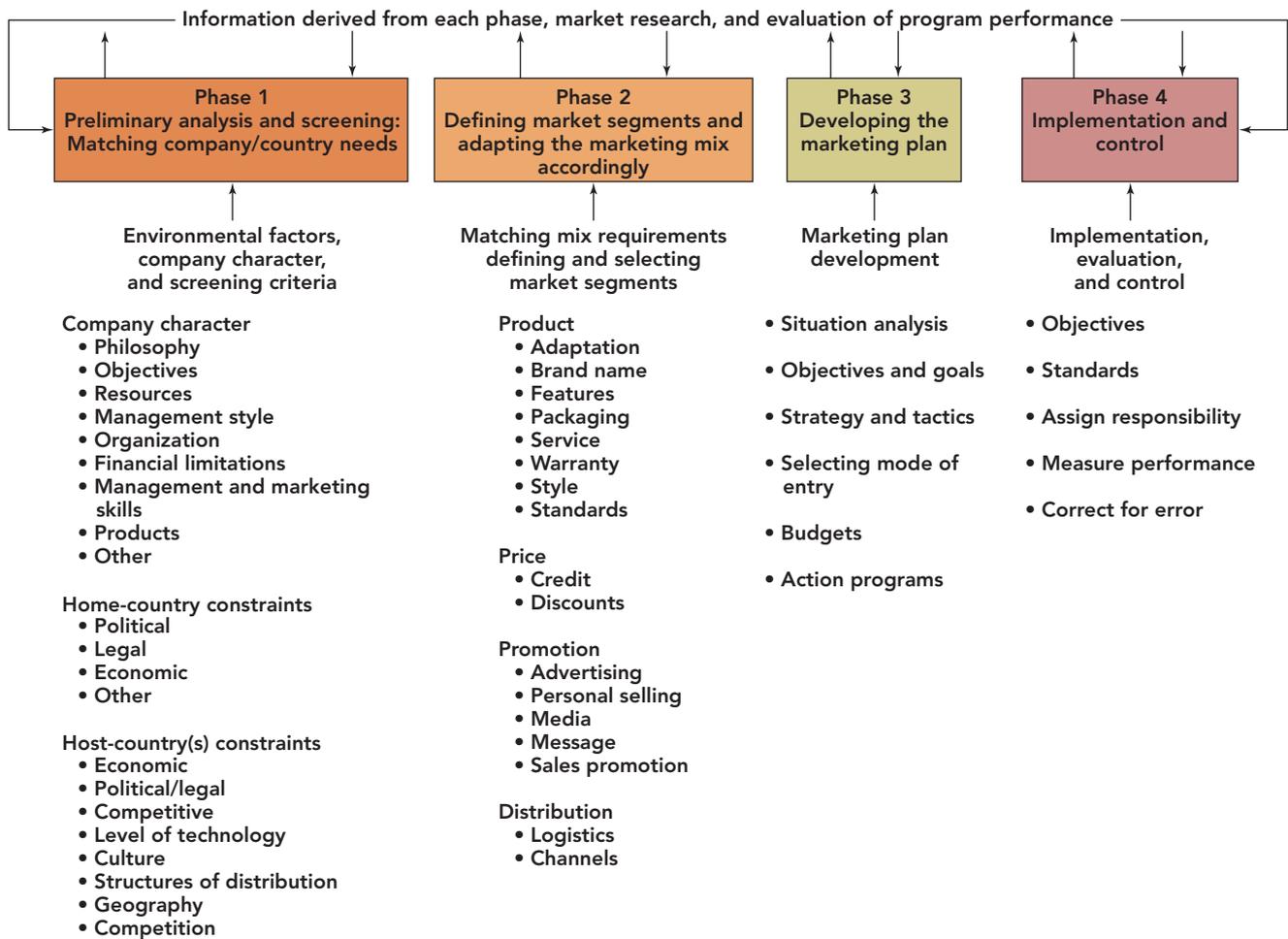
²⁹Alan M. Rugman and Alain Verbeke, “The Theory and Practice of Regional Strategy: A Response to Osegowitsch and Sammartino,” *Journal of International Business Studies* 39 (2008), pp. 326–32.

³⁰Gabriel R.G. Benito, Bent Petersen, and Lawrence S. Welch, “Towards More Realistic Conceptualizations of Foreign Operation Modes,” *Journal of International Business Studies* 40, no. 9 (2009), pp. 1455–70.

³¹Namrata Malhotra and C. R. (Bob) Corredoira, “An Organizational Model for Understanding Internationalization Processes,” *Journal of International Business Studies* 41, no. 2 (2010), pp. 330–49.

Exhibit 12.1

International Planning Process



The next step is to establish screening criteria against which prospective countries can be evaluated. These criteria are ascertained by an analysis of company objectives, resources, and other corporate capabilities and limitations. It is important to determine the reasons for entering a foreign market and the returns expected from such an investment. A company's commitment to international business and its objectives for going international are important in establishing evaluation criteria. Minimum market potential, minimum profit, return on investment, acceptable competitive levels, standards of political stability, acceptable legal requirements, and other measures appropriate for the company's products are examples of the evaluation criteria to be established.³²

Once evaluation criteria are set, a complete analysis of the environment within which a company plans to operate is made. The environment consists of the uncontrollable elements discussed previously and includes both home-country and host-country constraints, marketing objectives, and any other company limitations or strengths that exist at the beginning of each planning period. Although an understanding of uncontrollable environments is important in domestic market planning, the task is more complex in foreign marketing, because each country under consideration presents the foreign marketer with a different set of unfamiliar environmental constraints. This stage in the planning process, more than anything else, distinguishes international from domestic marketing planning.

³²Kevin Zheng Zhou, James R. Brown, Chekitan S. Dev, and Sanjeev Agarwal, "The Effects of Customer and Competitor Orientations on Performance in Global Markets: A Contingency Analysis," *Journal of International Business Studies* 38 (2007), pp. 303–19.

The results of Phase 1 provide the marketer with the basic information necessary to evaluate the potential of a proposed country market, identify problems that would eliminate the country from further consideration, identify environmental elements that need further analysis, determine which part of the marketing mix can be standardized and which part of and how the marketing mix must be adapted to meet local market needs, and develop and implement a marketing action plan.

Information generated in Phase 1 helps companies avoid the kinds of mistakes that plagued Radio Shack Corporation, a leading merchandiser of consumer electronic equipment in the United States, when it first went international. Radio Shack's early attempts at international marketing in western Europe resulted in a series of costly mistakes that could have been avoided had it properly analyzed the uncontrollable elements of the countries targeted. The company staged its first Christmas promotion in anticipation of December 25 in Holland, unaware that the Dutch celebrate St. Nicholas Day and give gifts on December 6. Furthermore, legal problems in various countries interfered with some plans. German courts promptly stopped a free flashlight promotion in German stores because giveaways violated German sales laws. In Belgium, the company overlooked a law requiring a government tax stamp on all window signs, and poorly selected store sites resulted in many of the new stores closing shortly after opening.

With the analysis in Phase 1 completed, the decision maker faces the more specific task of selecting country target markets and segments, identifying problems and opportunities in these markets, and beginning the process of creating marketing programs.

Phase 2: Defining Target Markets and Adapting the Marketing Mix Accordingly.

A more detailed examination of the components of the marketing mix is the purpose of Phase 2. Once target markets are selected, the marketing mix must be evaluated in light of the data generated in Phase 1. Incorrect decisions at this point lead to products inappropriate for the intended market or costly mistakes in pricing, advertising, and promotion. The primary goal of Phase 2 is to decide on a marketing mix adjusted to the cultural constraints imposed by the uncontrollable elements of the environment that effectively achieves corporate objectives and goals.³³

The process used by the Nestlé Company is an example of the type of analysis done in Phase 2. Each product manager has a country fact book that includes much of the information suggested in Phase 1. The country fact book analyzes in detail a variety of culturally related questions. In Germany, the product manager for coffee must furnish answers to a number of questions. How does a German rank coffee in the hierarchy of consumer products? Is Germany a high or a low per capita consumption market? (These facts alone can be of enormous consequence. In Sweden the annual per capita consumption of coffee is 12.6 kilograms, in the United States 4.4, and in Japan it's only 3.6.)³⁴ How is coffee used—in bean form, ground, or powdered? If it is ground, how is it brewed? Which coffee is preferred—Brazilian Santos blended with Colombian coffee, or robusta from the Ivory Coast? Is it roasted? Do the people prefer dark roasted or blonde coffee? (The color of Nestlé's instant coffee must resemble as closely as possible the color of the coffee consumed in the country.)

As a result of the answers to these and other questions, Nestlé produces 200 types of instant coffee, from the dark robust espresso preferred in Latin countries to the lighter blends popular in the United States. Almost \$50 million a year is spent in four research laboratories around the world experimenting with new shadings in color, aroma, and flavor. Do the Germans drink coffee after lunch or with their breakfast? Do they take it black or with cream or milk? Do they drink coffee in the evening? Do they sweeten it? (In France, the answers are clear: In the morning, coffee with milk; at noon, black coffee—that is, two totally different coffees.) At what age do people begin drinking coffee? Is it a traditional beverage, as in France; is it a form of rebellion among the young, as in England, where coffee drinking has been taken up in defiance of tea-drinking parents; or is it a gift, as in

³³Thomas L. Powers and Jeffrey J. Loyka, "Adaptation of Marketing Mix Elements in International Markets," *Journal of Global Marketing* 23, no. 1 (2010), pp. 65–79.

³⁴International Coffee Organization, <http://www.ico.org>, 2008.



As they say, as one door closes, another opens up—indeed, sometimes two! Given all the tea in China, it's particularly amazing that for almost eight years you could buy a mocha frappuccino in the Forbidden City in Beijing. The yellow roof symbolizes Imperial grounds, but we don't think the Emperor had grounds of the coffee sort in mind when he built the place in the 1400s. China joining the WTO some six centuries later opened up the market in new ways to franchisers from around the world. However, unlike the other 240 Starbucks stores in China, this one stirred strong protests by the local media and was eventually closed in the summer of 2007. Meanwhile, about one month after the Forbidden City store was forbidden in China, the company's first Russian store opened in Moscow. On a cold afternoon in Moscow, Russians and foreign tourists can choose between grabbing a cappuccino at either Starbucks or McDonald's McCafe. The two are just a couple of blocks from each other on Moscow's most famous traditional shopping street, the Arbat. The American companies were smart enough this time around not to try locating in Red Square.

Japan? There is a coffee boom in tea-drinking Japan, where Nescafé is considered a luxury gift item; instead of chocolates and flowers, Nescafé is toted in fancy containers to dinners and birthday parties. With such depth of information, the product manager can evaluate the marketing mix in terms of the information in the country fact book.

Phase 2 also permits the marketer to determine possibilities for applying marketing tactics across national markets. The search for similar segments across countries can often lead to opportunities for economies of scale in marketing programs. This opportunity was the case for Nestlé when research revealed that young coffee drinkers in England and Japan had identical motivations. As a result, Nestlé now uses principally the same message in both markets.

Frequently, the results of the analysis in Phase 2 indicate that the marketing mix will require such drastic adaptation that a decision not to enter a particular market is made. For example, a product may have to be reduced in physical size to fit the needs of the market, but the additional manufacturing cost of a smaller size may be too high to justify market entry. Also, the price required to be profitable might be too high for a majority of the market to afford. If there is no way to reduce the price, sales potential at the higher price may be too low to justify entry.

The answers to three major questions are generated in Phase 2:

1. Are there identifiable market segments that allow for common marketing mix tactics across countries?
2. Which cultural/environmental adaptations are necessary for successful acceptance of the marketing mix?
3. Will adaptation costs allow profitable market entry?

Based on the results in Phase 2, a second screening of countries may take place, with some countries dropped from further consideration. The next phase in the planning process is the development of a marketing plan.

Phase 3: Developing the Marketing Plan. At this stage of the planning process, a marketing plan is developed for the target market—whether it is a single country or a global market set. The marketing plan begins with a situation analysis and culminates in the selection of an entry mode and a specific action program for the market. The specific plan establishes what is to be done, by whom, how it is to be done, and when. Included are budgets and sales and profit expectations. Just as in Phase 2, a decision not to enter a specific market may be made if it is determined that company marketing objectives and goals cannot be met.

Phase 4: Implementation and Control. Although we present the model as a series of sequential phases, the planning process is a dynamic, continuous set of interacting variables with information continuously building among phases. The phases outline a crucial path to be followed for effective, systematic planning.

A “go” decision in Phase 3 triggers implementation of specific plans and anticipation of successful marketing. However, the planning process does not end at this point. All marketing plans require coordination and control during the period of implementation.³⁵ Many businesses do not control marketing plans as thoroughly as they could, even though continuous monitoring³⁶ and control could increase their success. An evaluation and control system requires performance-objective action, that is, bringing the plan back on track should standards of performance fall short. Such a system also assumes reasonable metrics of performance are accessible. A global orientation facilitates the difficult but extremely important management tasks of coordinating and controlling the complexities of international marketing.

Utilizing a planning process and system encourages the decision maker to consider all variables that affect the success of a company’s plan. Furthermore, it provides the basis for viewing all country markets and their interrelationships as an integrated global unit. By following the guidelines presented in Part Six of this text, “The Country Notebook—A Guide for Developing a Marketing Plan,” the international marketer can put the strategic planning process into operation.

With the information developed in the planning process and a country market selected, the decision regarding the entry mode can be made. The choice of mode of entry is one of the more critical decisions for the firm because the choice will define the firm’s operations and affect all future decisions in that market.

Alternative Market-Entry Strategies A company has four different modes of foreign market entry from which to select: exporting, contractual agreements, strategic alliances, and direct foreign investment. The different modes of entry can be further classified on the basis of the equity or nonequity requirements of each mode. The amount of equity required by the company to use different modes affects the risk, return, and control that it will have in each mode. For example, indirect exporting requires no equity investment and thus has a low risk, low rate of return, and little control, whereas direct foreign investment requires the most equity of the four modes and creates the greatest risk while offering the most control and the potential highest return.

Companies most often begin with modest export involvement. As sales revenues grow, the firms often proceed down through the series of steps listed in Exhibit 12.2.³⁷ Successful smaller firms are often particularly adept at exploiting networks of personal and commercial relationships to mitigate the financial risks of initial entry. Also, experience³⁸

³⁵Luis Filipe Lages, Carmen Lages, and Cristiana Raquel Lages, “Bringing Export Performance Metrics into Annual Reports: The APEV Scale and the PERFEX Scorecard,” *Journal of International Marketing* 13 (2005), pp. 79–104; David Smith, “A Cross-Cultural Classification of Service Export Performance Using Artificial Neural Networks: Japan, Germany, United States,” *Journal of Global Marketing* 20 (2006), pp. 5–20; Rosane K. Gertner, David Gertner, and Dennis Guthery, “The Implications of Export Performance Measurement for the Significance of the Determinants of Export Performance: An Empirical Investigation of Brazilian Firms,” *Journal of Global Marketing* 20 (2006), pp. 21–38; Adamantios Diamantopoulos and Nikolaos Kakkos, “Managerial Assessments of Export Performance: Conceptual Framework and Empirical Illustration,” *Journal of International Marketing* 15 (2007), pp. 1–31.

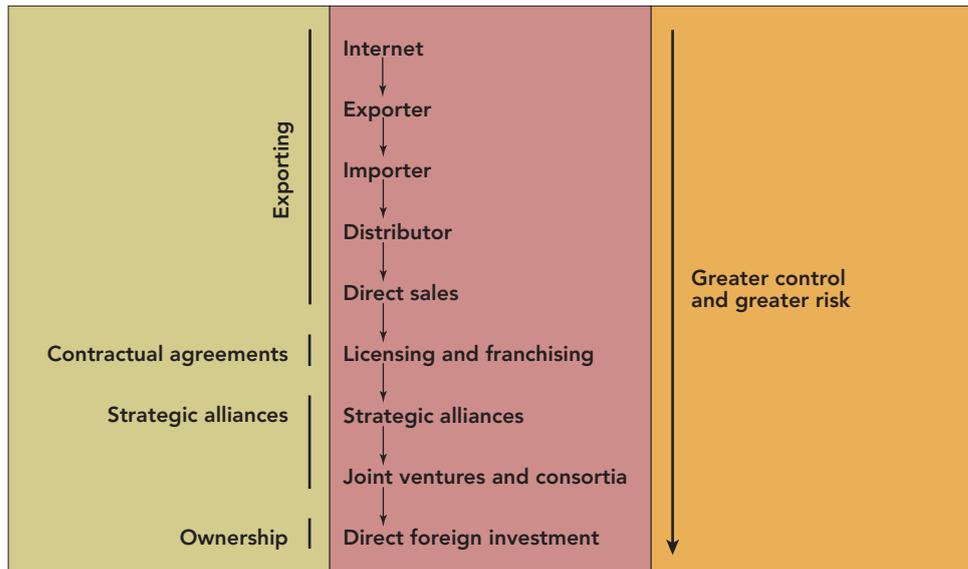
³⁶Christian Homburg, Joseph P. Cannon, Harley Krohmer, and Ingo Kiedaisch, “Governance of International Business Relationships: A Cross-Cultural Study on Alternative Governance Methods,” *Journal of International Marketing* 17, no. 3 (2009), pp. 1–20.

³⁷Harry G. Barkema and Rian Drogendijk, “Internationalizing in Small, Incremental or Large Steps?” *Journal of International Business Studies* 39 (2008), pp. 1132–48.

³⁸Susan Freeman, Ron Edwards, and Bill Schroder, “How Smaller Born-Global Firms Use Networks and Alliances to Overcome Constraints to Rapid Internationalization,” *Journal of International Marketing* 14 (2006), pp. 33–63; Nicole E. Coveillo, “The Network Dynamics of International New Ventures,” *Journal of International Business Studies* 37 (2006), pp. 713–31.

Exhibit 12.2

Alternative Market-Entry Strategies



in larger numbers of foreign markets can increase the number of entry strategies used. In fact, a company in several country markets may employ a variety of entry modes because each country market poses a different set of conditions.³⁹ For example, JLG Industries in Pennsylvania makes self-propelled aerial work platforms (cherry pickers) and sells them all over the world. The firm actually manufactured in Scotland and Australia beginning in the 1970s, but it was forced to close the plants in the 1990s. However, the company's international sales have burgeoned again. The growth in European business is allowing for a simplification of distribution channels through the elimination of middlemen; dealerships have been purchased in Germany, Norway, Sweden, and the United Kingdom. JLG set up dealership joint ventures in Thailand and Brazil, and sales have been brisk despite volatility problems in those countries. The company also has established sales and service businesses from scratch in Scotland, Italy, and South Africa.

Exporting**LO3**

The important factors for each alternative market-entry strategy

Exporting accounts for some 10 percent of global economic activity.⁴⁰ Exporting can be either direct or indirect. With **direct exporting**, the company sells to a customer in another country. This method is the most common approach employed by companies taking their first international step because the risks of financial loss can be minimized. In contrast, **indirect exporting** usually means that the company sells to a buyer (importer or distributor) in the home country, which in turn exports the product. Customers include large retailers such as Walmart or Sears, wholesale supply houses, trading companies, and others that buy to supply customers abroad.

Early motives for exporting often are to skim the cream from the market or gain business to absorb overhead. Research recommends that a more focused⁴¹ and learning-based approach⁴² to a few international markets will work best for new exporters. Early involvement may also be opportunistic and come in the form of an inquiry from a foreign customer

³⁹Taewon Suh, Mueun Bae, and Sumit K. Kundu, "Smaller Firms' Perceived Cost and Attractiveness in International Markets," *Journal of Global Marketing* 21 (2007), pp. 5–18; Anna Nadolska and Harry G. Barkema, "Learning to Internationalise: The Pace and Success of Foreign Acquisitions," *Journal of International Business Studies* 38 (2007), pp. 1170–86.

⁴⁰Nicholas C. Williamson, Nir Kshetri, Tim Heijwegen, and Andreea Fortuna Schiopu, "An Exploratory Study of the Functional Forms of Export Market Identification Variables," *Journal of International Marketing* 14 (2006), pp. 71–97.

⁴¹Lance Eliot Brouthers, George Nakos, John Hadarcou, and Keith D. Brouthers, "Key Factors for Successful Export Performance for Small Firms," *Journal of International Marketing* 17, no. 3 (2009), pp. 21–38.

⁴²Joseph Johnson, Eden Yin, and Hueiting Tsai, "Persistence and Learning: Success Factors of Taiwanese Firms in International Markets," *Journal of International Marketing* 17, no. 3 (2009), pp. 39–54.

or initiatives from an importer in the foreign market. This motive is the case with Pilsner Urquell, the revered Czech beer, which for many years has sold in the United States through Guinness Bass Import Corporation (GBIC). However, the Czech firm severed its relationship with the importer because it wasn't getting the attention of the other imported beers in GBIC's portfolio. The firm established its own sales force of two dozen to handle five key metropolitan areas in the United States. Prices were reduced and a global media plan developed with a British ad agency. The firm may import other brands from the Czech parent as well.

Exporting is also a common approach for mature international companies with strong marketing and relational capabilities.⁴³ Some of America's largest companies engage in exporting as their major market-entry method. Indeed, Boeing is the best example, as America's largest exporter. The mechanics of exporting and the different middlemen available to facilitate the exporting process are discussed in detail in Chapter 15.

The Internet. The Internet is becoming increasingly important as a foreign market entry method. Initially, Internet marketing focused on domestic sales. However, a surprisingly large number of companies started receiving orders from customers in other countries, resulting in the concept of international Internet marketing (IIM). PicturePhone Direct, a mail-order reseller of desktop videoconferencing equipment, posted its catalog on the Internet expecting to concentrate on the northeastern United States. To the company's surprise, PicturePhone's sales staff received orders from Israel, Portugal, and Germany.

Other companies have had similar experiences and are actively designing Internet catalogs targeting specific countries with multilingual Web sites. Dell Computer Corporation has expanded its strategy of selling computers over the Internet to foreign sites as well. Dell began selling computers via the Internet to Malaysia, Australia, Hong Kong, New Zealand, Singapore, Taiwan, and other Asian countries through a "virtual store" on the Internet. The same selling mode has been launched in Europe.

Amazon.com jumped into the IIM game with both feet. It hired a top Apple Computer executive to manage its fast growing international business. Just 15 months after setting up book and CD e-tailing sites in Germany and the United Kingdom, the new overseas Amazon Web sites surged to become the most heavily trafficked commercial venues in both markets. Among the companies with the most profitable e-tailing businesses are former catalog companies such as Lands' End and L.L. Bean. Interestingly, Lands' End's success in foreign markets was tainted by unexpected problems in Germany. German law bans "advertising gimmicks"—and that's what regulators there called Lands' End's "unconditional lifetime guarantee." Indeed, the firm took the dispute all the way to the German supreme court and lost. Moreover, the uncertainty swirling around the European Union's approach to taxing Internet sales is continuing cause for great concern.

As discussed in Chapter 2, the full impact of the Internet on international marketing is yet to be determined. However, IIM should not be overlooked as an alternative market-entry strategy by the small or large company. Coupled with the international scope of credit card companies such as MasterCard and Visa and international delivery services such as UPS and Federal Express, deliveries to foreign countries can be relatively effortless.

Direct Sales. Particularly for high-technology and big ticket industrial products, a direct sales force may be required in a foreign country. This requirement may mean establishing an office with local and/or expatriate managers and staff, depending of course on the size of the market and potential sales revenues. International sales management is one of the topics covered in detail in Chapter 17.

Contractual Agreements

Contractual agreements are long-term, nonequity associations between a company and another in a foreign market. Contractual agreements generally involve the transfer of technology, processes, trademarks, and/or human skills. In short, they serve as a means of transfer of knowledge rather than equity.

⁴³Chris Styles, Paul G. Patterson, and Farid Ahmed, "A Relational Model of Export Performance," *Journal of International Business Studies* 39, no. 5 (2008), pp. 880–900.

Licensing. A means of establishing a foothold in foreign markets without large capital outlays is **licensing**. Patent rights, trademark rights, and the rights to use technological processes are granted in foreign licensing. It is a favorite strategy for small and medium-sized companies, though by no means limited to such companies. Common examples of industries that use licensing arrangements in foreign markets are television programming and pharmaceuticals. Not many confine their foreign operations to licensing alone; it is generally viewed as a supplement to exporting or manufacturing, rather than the only means of entry into foreign markets. The advantages of licensing are most apparent when capital is scarce, import restrictions forbid other means of entry, a country is sensitive to foreign ownership, or patents and trademarks must be protected against cancellation for nonuse. The risks of licensing are choosing the wrong partner, quality and other production problems, payment problems, contract enforcement, and loss of marketing control.

Although licensing may be the least profitable way of entering a market, the risks and headaches are less than those for direct investments. It is a legitimate means of capitalizing on intellectual property in a foreign market, and such agreements can also benefit the economies of target countries. Licensing takes several forms. Licenses may be granted for production processes, for the use of a trade name, or for the distribution of imported products. Licenses may be closely controlled or be autonomous, and they permit expansion without great capital or personnel commitment if licensees have the requisite capabilities. Not all experiences with licensing are successful because of the burden of finding, supervising, and inspiring licensees. The duration of licensing agreements depends to a large degree on technology and market uncertainties—more uncertainty favors shorter contracts.⁴⁴

Franchising. **Franchising** is a rapidly growing form of licensing in which the franchiser provides a standard package of products, systems, and management services, and the franchisee provides market knowledge, capital, and personal involvement in management. The combination of skills permits flexibility in dealing with local market conditions and yet provides the parent firm with a reasonable degree of control. The franchiser can follow through on marketing of the products to the point of final sale. It is an important form of vertical market integration. Potentially, the franchise system provides an effective blending of skill centralization and operational decentralization; it has become an increasingly important form of international marketing. In some cases, franchising is having a profound effect on traditional businesses. In England, for example, annual franchised sales of fast foods are estimated at nearly \$2 billion, which accounts for 30 percent of all foods eaten outside the home. The key factors that influence success of franchising approaches are monitoring costs (based on physical and cultural distances), the principal's international experience, and the brand equity in the new market.

⁴⁴Marshall S. Jiang, Preet S. Aulakh, and Yigang Pan, "Licensing Duration in Foreign Markets: A Real Options Perspective," *Journal of International Business Studies* 40, no. 4 (2009), pp. 559–77.



Maybe they can help you find a home with a view of the Black Sea here at the Century 21 office in Istanbul, Turkey. We know they'll be happy to sell you a piece of chicken from the Colonel's place in Eilat, Israel, just across the Red Sea from Aqaba, Jordan.

CROSSING BORDERS 12.3

The Men Who Would Be Pizza Kings

In more senses than one, pizza outlets are mushrooming all over India. The wait for pizza lovers in places like Surat, Kochi, and Bhubaneswar is finally over. Domino's, the home delivery specialist, now has 180 stores across the nation, and Pizza Hut, a part of Yum! Brands, has increased its number of restaurants to 163. Chennai-based Pizza Corner, having established itself in the south, has now boldly ventured into the north—it has already opened three outlets in Delhi and is planning to increase the number to eight.

While Domino's is trying to dish out a pizza for every ethnic group, Pizza Hut is trying to expose Indians to the pizza's Chinese cousin. It has come up with the "Oriental," which has hot Chinese sauce, spring onions, and sesame seeds as its toppings. It was developed based on the Indian fondness for Chinese food. This

is not to say that Pizza Hut does not pay heed to the spice-soaked Indian version. Apart from the Oriental, it is also dishing out a spicy paneer tikka pizza. Milk shakes are on the menu, too. Most recently an Indian dairy company has been earning market share in both pizzas and ice cream. Things are getting interesting there fast. And, in spite of Kipling's prophecy that the two streams shall never meet, the Indianization of the pizza is truly here.

Sources: Smita Tripathi, "Butter Chicken Pizza in Ludhiana," *Business Standard*, June 17, 2000, p. 2; Rahul Chandawarkar, "Collegians Mix Money with Study Material," *Times of India*, June 22, 2000; Thomas L. Friedman, *The World Is Flat* (New York: Farrar, Straus, and Giroux, 2005); "Dominos Pizza India Plans 500 Stores in Country," *Indian Business Insight*, February 14, 2008, p. 20; Julie Jargon and Arlene Chang, "Yum Brands Bets on India's Young for Growth," *The Wall Street Journal*, December 12, 2009, p. B1.

Prior to 1970, international franchising was not a major activity. A survey by the International Franchising Association revealed that only 14 percent of its member firms had franchises outside of the United States, and the majority of those were in Canada. Now hundreds of thousands of franchises of U.S. firms are located in countries throughout the world. Franchises include soft drinks, motels (including membership "organizations" like Best Western International), retailing, fast foods, car rentals, automotive services, recreational services, and a variety of business services from print shops to sign shops. Canada is the dominant market for U.S. franchisers, with Japan and the United Kingdom second and third in importance. The Asia Pacific Rim has seen rapid growth as companies look to Asia for future expansion.

Despite temporary setbacks during the global economic downturn right after the turn of the millennium, franchising is still expected to be the fastest growing market-entry strategy. Franchises were often among the first types of foreign retail business to open in the emerging market economies of eastern Europe, the former republics of Russia, and China. McDonald's is in Moscow (its first store seated 700 inside and had 27 cash registers), and KFC is in China (the Beijing KFC store has the highest sales volume of any KFC store in the world). The same factors that spurred the growth of franchising in the U.S. domestic economy have led to its growth in foreign markets. Franchising is an attractive form of corporate organization for companies wishing to expand quickly with low capital investment. The franchising system combines the knowledge of the franchiser with the local knowledge and entrepreneurial spirit of the franchisee. Foreign laws and regulations are friendly toward franchising because it tends to foster local ownership, operations, and employment.

Lil'Orbits,⁴⁵ a Minneapolis-based company that sells donut-making equipment and ingredients to entrepreneurs, is an example of how a small company can use licensing and franchising to enter foreign markets. Lil'Orbits sells a donut maker that turns out 1.5-inch donuts while the customer waits. The typical buyer in the United States buys equipment and mix directly from the company without royalties or franchise fees. The buyer has a small shop or kiosk and sells donuts by the dozen for takeout or individually along with a beverage.

Successful in the United States, Lil'Orbits ran an advertisement in *Commercial News USA*, a magazine showcasing products and services in foreign countries, that attracted

⁴⁵Ikechi Ekeledo and K. Sivakumar, "The Impact of E-Commerce on Entry-Mode Strategies of Services Firms: A Conceptual Framework and Research Propositions," *Journal of International Marketing* 12, no. 4 (2004), pp. 46–70.

400 inquiries. Pleased with the response, the company set up an international franchise operation based on royalties and franchise fees. Now a network of international franchised distributors markets the machines and ingredients to potential vendors. The distributors pay Lil'Orbits a franchise fee and buy machines and ingredients directly from Lil'Orbits or from one of the licensed vendors worldwide, from which Lil'Orbits receives a royalty. This entry strategy has enabled the company to enter foreign markets with minimum capital investment outside the home country. The company has over 20,000 franchised dealers in 85 countries. About 60 percent of the company's business is international.

Although franchising enables a company to expand quickly with minimum capital, there are costs associated with servicing franchisees. For example, to accommodate different tastes around the world, Lil'Orbits had to develop a more pastrylike, less sweet mix than that used in the United States. Other cultural differences have had to be met as well. For example, customers in France and Belgium could not pronounce the trade name Lil'Orbits, so Orbie is used instead. Toppings also had to be adjusted to accommodate different tastes. Cinnamon sugar is the most widely accepted topping, but in China, cinnamon is considered a medicine, so only sugar is used. In the Mediterranean region, the Greeks like honey, and chocolate sauce is popular in Spain. Powdered sugar is more popular than granulated sugar in France, where the donuts are eaten in cornucopia cups instead of on plates.

Strategic International Alliances

LO4

The increasing importance of international strategic alliances

A **strategic international alliance (SIA)** is a business relationship established by two or more companies to cooperate out of mutual need and to share risk in achieving a common objective. Strategic alliances have grown in importance over the last few decades as a competitive strategy in global marketing management. Strategic international alliances are sought as a way to shore up weaknesses and increase competitive strengths—that is, complementarity is key.⁴⁶ Firms enter into SIAs for several reasons: opportunities for rapid expansion into new markets, access to new technology,⁴⁷ more efficient production and innovation, reduced marketing costs, strategic competitive moves, and access to additional sources of products⁴⁸ and capital. Finally, evidence suggests that SIAs often contribute nicely to profits.⁴⁹

Perhaps the most visible SIAs are now in the airline industry. American Airlines, Cathay Pacific, British Airways, Japan Airlines, Finnair, Mexicana, Malev, Iberia, LAN, Royal Jordanian, and Qantas are partners in the Oneworld Alliance, which integrates schedules and mileage programs. Competing with Oneworld are the Star Alliance (led by United, Continental, and Lufthansa) and SkyTeam (led by Air France, Delta, and KLM). These kinds of strategic international alliances imply that there is a common objective; that one partner's weakness is offset by the other's strength; that reaching the objective alone would be too costly, take too much time, or be too risky; and that together their respective strengths make possible what otherwise would be unattainable. For example, during the recent turmoil in the global airline industry, Star Alliance began moving in the direction of buying aircraft, a new strategic innovation. Relationships appear particularly strong in times of troubles—Japan Airlines leans heavily in the direction of American Airlines (both Oneworld members) rather than “outsider” Delta in its current merger/acquisition/investment talks.⁵⁰

⁴⁶Eric Fang and Shaoming Zou, “Antecedents and Consequences of Marketing Dynamic Capabilities in International Joint Ventures,” *Journal of International Business Studies* 39, no. 1 (2008), pp. 1–27.

⁴⁷<http://www.lilorbits.com>, 2005.

⁴⁸John Hagedoorn, Danielle Cloudt, and Hans van Kraneburg, “Intellectual Property Rights and the Governance of International R&D Partnerships,” *Journal of International Business Studies* 36 (2005), pp. 175–86; Marjorie A. Lyles and Jane E. Salk, “Knowledge Acquisition from Foreign Parents in International Joint Ventures: An Empirical Examination of the Hungarian Context,” *Journal of International Business Studies* 38 (2007), pp. 3–18; Masaaki Kotabe, Denise Dunlap-Hinkler, Ronaldo Parente, and Harsh A. Mishra, “Determination of Cross-National Knowledge Transfer and Its Effect on Innovation,” *Journal of International Business Studies* 38 (2007), pp. 259–82.

⁴⁹Janet Y. Murray, Masaaki Kotabe, and Joe Nan Zhou, “Strategic Alliance–Based Sourcing and Market Performance: Evidence from Foreign Firms Operating in China,” *Journal of International Business Studies* 36, no. 2 (2005), pp. 187–208.

⁵⁰Mariko Sanchanta and Mike Esterl, “JAL Stays in AMR Alliance, Delta Out,” *The Wall Street Journal*, February 7, 2010, online.



In the SkyTeam strategic alliance, U.S.-based Northwest Airlines and Dutch KLM shared several aspects of their operations, including ticketing and reservations, catering, cargo, and airport slots. As the global airline industry continues to consolidate, more strategic partnerships are being formed and disappearing. Indeed, Delta Airlines has now acquired Northwest, and soon, Delta jets will be sharing the tarmac with KLM at Schiphol Airport in Amsterdam.

An SIA with multiple objectives involves C-Itoh (Japan), Tyson Foods (United States), and Provemex (Mexico). It is an alliance that processes Japanese-style yakitori (bits of marinated and grilled chicken on a bamboo stick) for export to Japan and other Asian countries. Each company had a goal and made a contribution to the alliance. C-Itoh's goal was to find a lower-cost supply of yakitori; because it is so labor intensive, it was becoming increasingly costly and noncompetitive to produce in Japan. C-Itoh's contribution was access to its distribution system and markets throughout Japan and Asia. Tyson's goal was new markets for its dark chicken meat, a byproduct of demand for mostly white meat in the U.S. market. Tyson exported some of its excess dark meat to Asia and knew that C-Itoh wanted to expand its supplier

base. But Tyson faced the same high labor costs as C-Itoh. Provemex, the link that made it all work, had as its goal expansion beyond raising and slaughtering chickens into higher value-added products for international markets. Provemex's contribution was to provide highly cost-competitive labor.

Through the alliance, they all benefited. Provemex acquired the know-how to bone the dark meat used in yakitori and was able to vertically integrate its operations and secure a foothold in a lucrative export market. Tyson earned more from the sale of surplus chicken legs than was previously possible and gained an increased share of the Asian market. C-Itoh had a steady supply of competitively priced yakitori for its vast distribution and marketing network. Thus, three companies with individual strengths created a successful alliance in which each contributes and each benefits.

Many companies also are entering SIAs to be in a strategic position to be competitive and to benefit from the expected growth in the single European market. As a case in point, when General Mills wanted a share of the rapidly growing breakfast-cereal market in Europe, it joined with Nestlé to create Cereal Partners Worldwide. The European cereal market was projected to be worth hundreds of millions of dollars as health-conscious Europeans changed their breakfast diet from eggs and bacon to dry cereal. General Mills's main U.S. competitor, Kellogg, had been in Europe since 1920 and controlled about half of the market.

For General Mills to enter the market from scratch would have been extremely costly. Although the cereal business uses cheap commodities as its raw materials, it is both capital and marketing intensive; sales volume must be high before profits begin to develop. Only recently has Kellogg earned significant profits in Europe. For General Mills to reach its goal alone would have required a manufacturing base and a massive sales force. Furthermore, Kellogg's stranglehold on supermarkets would have been difficult for an unknown to breach easily. The solution was a joint venture with Nestlé. Nestlé had everything General Mills lacked—a well-known brand name, a network of plants, and a powerful distribution system—except for the one thing that General Mills could provide: strong cereal brands.

The deal was mutually beneficial. General Mills provided the knowledge in cereal technology, including some of its proprietary manufacturing equipment, its stable of proven brands, and its knack for pitching these products to consumers. Nestlé provided its name on the box, access to retailers, and production capacity that could be converted to making General Mills's cereals. In time, Cereal Partners Worldwide intends to extend its marketing effort beyond Europe. In Asia, Africa, and Latin America, Cereal Partners Worldwide will have an important advantage over the competition because Nestlé is a dominant food producer.

As international strategic alliances have grown in importance, more emphasis has been placed on a systematic approach to forming them. Most experts in the field agree that the steps outlined in Exhibit 12.3 will lead to successful and high-performance strategic alliances. In particular, we note the wide agreement regarding the importance of building trust in the interpersonal and institutional relationships as a prerequisite of success.⁵¹ Of course,

⁵¹Robert E. Spekman, Lynn A. Isabella, with Thomas C. MacAvoy, *Alliance Competence* (New York: Wiley, 2000).

Exhibit 12.3

Building Strategic Alliances

Primary Relationship Activity	Typical Actions, Interactions, Activities	Key Relationship Skill
Dating	Senior executives leveraging personal networks Wondering how to respond to inquiries Wondering how to seek out possibilities	Good radar; good relationship self-awareness
Imaging	Seeing the reality in possibilities Creating a shared vision from being together	Creating intimacy
Initiating	Involving trusted senior managers Bringing key executives into action	Trust building
Interfacing	Creating trust through face-to-face time Facilitating the creating of personal relationships at many levels Traveling to partner facilities and engaging in technical conversations	Partnering
Committing	Blending social and business time Demonstrating that managers are fully committed to the alliance and each other Managing the conflict inherent in making hard choices	Commitment
Fine-tuning	Accepting the reality of the alliance and its relationships Relying on mature and established relationships Facilitating interaction and relationships with future successors	Growing <i>with</i> another

Source: Adapted from Robert E. Spekman, Lynn A. Isabella, with Thomas C. MacAvoy, *Alliance Competence* (New York: Wiley, 2000), p. 81. Reproduced with permission of John Wiley & Sons, Inc.

in international business there are no guarantees; the interface between differing ethical and legal systems often makes matters more difficult.⁵² And a key activity in all the steps outlined in the exhibit is international negotiation, the subject of Chapter 19.⁵³

International Joint Ventures. International joint ventures (IJVs) as a means of foreign market entry have accelerated sharply during the last 30 years. Besides serving as a means of lessening political and economic risks by the amount of the partner's contribution to the venture, IJVs provide a way to enter markets that pose legal and cultural barriers that is less risky than acquisition of an existing company.

A **joint venture** is different from other types of strategic alliances or collaborative relationships in that a joint venture is a partnership of two or more participating companies that have joined forces to create a separate legal entity. Joint ventures are different from minority holdings by an MNC in a local firm.

Four characteristics define joint ventures: (1) JVs are established, separate, legal entities; (2) they acknowledge intent by the partners to share in the management of the JV;

⁵²Alaka N. Rao, Jone L. Pearce, and Katherine Xin, "Governments, Reciprocal Exchange and Trust among Business Associates," *Journal of International Business Studies* 36 (2005), pp. 104–18; David A. Griffith, Matthew B. Myers, and Michael G. Harvey, "An Investigation of National Culture's Influence on Relationship and Knowledge Resources in Interorganizational Relationships between Japan and the United States," *Journal of International Marketing* 14 (2006), pp. 1–36; Srilata Zaheer and Akbar Zaheer, "Trust across Borders," *Journal of International Business Studies* 37 (2006), pp. 21–29.

⁵³Kam-hon Lee, Gong-ming Qian, Julie H. Yu, and Ying Ho, "Trading Favors for Marketing Advantage: Evidence from Hong Kong, China, and the United States," *Journal of International Marketing* 13 (2005), pp. 1–35.

(3) they are partnerships between legally incorporated entities, such as companies, chartered organizations, or governments, and not between individuals; and (4) equity positions are held by each of the partners.

However, IJVs can be hard to manage. The choice of partners and the qualities of the relationships between the executives are important factors leading to success. Several other factors contribute to their success or failure as well: how control is shared,⁵⁴ relations with parents,⁵⁵ institutional (legal) environments,⁵⁶ marketing capabilities,⁵⁷ experience,⁵⁸ and the extent to which knowledge is shared across partners.⁵⁹ Despite this complexity, nearly all companies active in world trade participate in at least one international joint venture somewhere; many companies have dozens of joint ventures. A recent Conference Board study indicated that 40 percent of *Fortune* 500 companies were engaged in one or more IJVs. Particularly in telecommunications and Internet markets, joint ventures are increasingly favored.

Around the Asia Pacific Rim, where U.S. companies face unfamiliar legal and cultural barriers, joint ventures are preferred to buying existing businesses. Local partners can often lead the way through legal mazes and provide the outsider with help in understanding cultural nuances. A JV can be attractive to an international marketer when it enables a company to utilize the specialized skills of a local partner, when it allows the marketer to gain access to a partner's local distribution system, when a company seeks to enter a market where wholly owned activities are prohibited, when it provides access to markets protected by tariffs or quotas, and when the firm lacks the capital or personnel capabilities to expand its international activities.

In China, a country considered to be among the most challenging in Asia,⁶⁰ more than 50,000 joint ventures have been established in the 30 years since the government began allowing IJVs there. Among the many reasons IJVs are so popular is that they offer a way of getting around high Chinese tariffs, allowing a company to gain a competitive price advantage over imports. Manufacturing locally with a Chinese partner rather than importing achieves additional savings as a result of low-cost Chinese labor. Many Western brands are manufactured and marketed in China at prices that would not be possible if the products were imported.

Consortia. Consortia are similar to joint ventures and could be classified as such except for two unique characteristics: (1) They typically involve a large number of participants and (2) they frequently operate in a country or market in which none of the participants is

⁵⁴Chris Styles and Lis Hersch, "Relationship Formation in International Joint Ventures: Insights from Australian-Malaysian International Joint Ventures," *Journal of International Marketing* 13 (2005), pp. 105–34.

⁵⁵Jeffrey Q. Bardon, H. Kevin Steensma, and Marjorie A. Lyles, "The Influence of Parent Control Structure on Parent Conflict in Vietnamese IJVs: An Organizational Justice–Based Contingency Approach," *Journal of International Business Studies* 36, no. 2 (2005), pp. 156–74.

⁵⁶Barden, Steensma, and Lyles, "The Influence of Parent Control Structure on Parent Conflict"; Yaping Gong, Oded Shenkar, Yadong Luo, and Mee-Kau Nyaw, "Human Resources and International Joint Venture Performance: A System Perspective," *Journal of International Business Studies* 36 (2005), pp. 505–18; Rene Belderbos and Jianglei Zou, "On the Growth of Foreign Affiliates: Multinational Plant Networks, Joint Ventures, and Flexibility," *Journal of International Business Studies* 38 (2007), pp. 1095–112.

⁵⁷Eric (Er) Fang and Shaoming Zou, "Antecedents and Consequences of Marketing Dynamic Capabilities in International Joint Ventures," *Journal of International Business Studies* 40, no. 5 (2009), pp. 742–61.

⁵⁸Sengun Yenyurt, Janell D. Townsend, S. Tamer Cavusgil, and Pervez Ghauri, "Mimetic and Experiential Effects in International Marketing Alliance Formations of U.S. Pharmaceuticals Firms: An Event History Analysis," *Journal of International Business Studies* 40, no. 2 (2009), pp. 301–20.

⁵⁹Yadong Luo, "Transactional Characteristics, Institutional Environment, and Joint Venture Contracts," *Journal of International Business Studies* 36, no. 2 (2005), pp. 209–30; Changhui Zhou and Jing Li, "Product Innovation in Emerging Market-Based International Joint Ventures: An Organizational Ecology Perspective," *Journal of International Business Studies* 39, no. 7 (2008), pp. 1114–32; Jean-Paul Roy and Christine Oliver, "International Joint Venture Partner Selection: The Role of the Host-Country Legal Environment," *Journal of International Business Studies* 40, no. 5 (2009), pp. 779–802.

⁶⁰Timothy J. Wilkinson, Andrew R. Thomas, and Jon M. Hawes, "Managing Relationships with Chinese Joint Venture Partners," *Journal of Global Marketing* 22, no. 2 (2009), pp. 109–20.

currently active. Consortia are developed to pool financial and managerial resources and to lessen risks. Often, huge construction projects are built under a consortium arrangement in which major contractors with different specialties form a separate company specifically to negotiate for and produce one job. One firm usually acts as the lead firm, or the newly formed corporation may exist independently of its originators.

Without a doubt, the most prominent international consortium has been Airbus, Boeing's European competitor in the global commercial aircraft market. Airbus Industrie was originally formed when four major European aerospace firms agreed to work together to build commercial airliners. In 2000, the four agreed to transform the consortium into a global company to achieve operations efficiencies that would allow it to compete better against Boeing. Meanwhile, Boeing is joining together with its own consortium to develop new 787 Dreamliner aircraft.⁶¹

Sematech, the other candidate for most prominent consortium, was originally an exclusively American operation. Sematech is an R&D consortium formed in Austin, Texas, during the 1980s to regain America's lead in semiconductor development and sales from Japan. Members included firms such as IBM, Intel, Texas Instruments, Motorola, and Hewlett-Packard. However, at the turn of the millennium even Sematech went international. Several of the founding American companies left and were replaced by firms from Taiwan, Korea, Germany, and the Netherlands (still none from Japan). The firm is also broadening its own investment portfolio to include a greater variety of international companies.

All strategic international alliances are susceptible to problems of coordination. For example, some analysts blamed the international breadth of Boeing's 787 Dreamliner consortium for the costly delays in manufacturing the new jet. Further, circumstances and/or partners can change in ways that render agreements untenable, and often such corporate relationships are short lived. Ford and Nissan launched a joint venture minivan in 1992 called the Mercury Villager/Nissan Quest. The car was mildly successful in the U.S. market, but in 2002 the joint venture stopped producing the cars—that's two years earlier than the original contract called for. Now that Nissan is controlled by French automaker Renault, it began producing its own minivan in 2003 for sale in the United States. When General Motors formed a joint venture with Daewoo, its purpose was to achieve a significant position in the Asian car market. Instead, Daewoo used the alliance to enhance its own automobile technology, and by the time the partnership was terminated, GM had created a new global competitor for itself.

Nestlé has been involved in a particularly ugly dissolution dispute with Dabur India. The Swiss firm owned 60 percent and the Indian firm 40 percent of a joint venture biscuit company, Excelcia Foods. Following months of acrimony, Dabur filed a petition with the Indian government accusing Nestlé of indulging in oppression of the minority shareholder and of mismanaging the JV company. In particular, Dabur alleged that Nestlé was purposefully running Excelcia into bankruptcy so that Nestlé could wriggle out of its "non-compete obligations and go after the India-biscuit market using another brand." Nestlé countered that the problem had more to do with the partners' inability to agree on a mutually acceptable business plan. The dispute was eventually settled out of court by Nestlé buying Dabur's 40 percent interest, shortly after which Excelcia was closed in lieu of restructuring.

Direct Foreign Investment

A fourth means of foreign market development and entry is *direct foreign investment*, that is, investment within a foreign country. Companies may invest locally to capitalize on low-cost labor, to avoid high import taxes, to reduce the high costs of transportation to market, to gain access to raw materials and technology, or as a means of gaining market entry.⁶²

⁶¹Yan Zhang, Haiyang Li, Michael A. Hitt, and Geng Cui, "R&D Intensity and International Joint Venture Performance in an Emerging Market: Moderating Effects of Market Focus and Ownership Structure," *Journal of International Business Studies* 38 (2007), pp. 944–60.

⁶²Sunil Venaik, David F. Midgley, and Timothy M. Devinney, "Dual Paths to Performance: The Impact of Global Pressures on MNC Subsidiary Conduct and Performance," *Journal of International Business Studies* 36 (2005), pp. 655–75; Tony S. Frost and Changhui Zhou, "R&D Co-Practice and 'Reverse' Knowledge Integration in Multinational Firms," *Journal of International Business Studies* 36 (2005), pp. 676–87.

Firms may either invest in or buy local companies or establish new operations facilities. The local firms enjoy important benefits aside from the investments themselves, such as substantial technology transfers⁶³ and the capability to export to a more diversified customer base.⁶⁴ As with the other modes of market entry, several factors have been found to influence the structure and performance of direct investments: (1) timing—first movers have advantages but are more risky; (2) the growing complexity and contingencies of contracts; (3) transaction cost structures; (4) technology and knowledge transfer;⁶⁵ (5) degree of product differentiation; (6) the previous experiences and cultural diversity of acquired firms;⁶⁶ and (7) advertising and reputation barriers. This mix of considerations and risks makes for increasingly difficult decisions about such foreign investments. But as off-putting legal restrictions⁶⁷ continue to ease with WTO and other international agreements, more and more large firms are choosing to enter markets via direct investment.

The growth of free trade areas that are tariff-free among members but have a common tariff for nonmembers creates an opportunity that can be capitalized on by direct investment. Similar to its Japanese competitors, Korea's Samsung has invested some \$500 million to build television tube plants in Tijuana, Mexico, to feed the already huge NAFTA television industry centered there. Kyocera Corporation, a Japanese high-tech company, bought Qualcomm's wireless consumer phone business as a means of fast entry into the American market. Yahoo! paid \$1 billion for a 40 percent stake in Chinese competitor Alibaba. Finally, Nestlé is building a new milk factory in Thailand to serve the ASEAN Free Trade Area.

A hallmark of global companies today is the establishment of manufacturing operations throughout the world.⁶⁸ This trend will increase as barriers to free trade are eliminated and companies can locate manufacturing wherever it is most cost effective. The selection of an entry mode and partners are critical decisions, because the nature of the firm's operations in the country market is affected by and depends on the choices made. The entry mode affects the future decisions because each mode entails an accompanying level of resource commitment, and changing from one entry mode to another without considerable loss of time and money is difficult.

⁶³Donna L. Paul and Rossitza B. Wooster, "Strategic Investments by US Firms in Transition Economies," *Journal of International Business Studies* 39 (2008), pp. 249–66.

⁶⁴Jasjit Singh, "Asymmetry of Knowledge Spillovers between MNCs and Host Country Firms," *Journal of International Business Studies* 38 (2007), pp. 764–86.

⁶⁵Hongxin Zhao, Yadong Luo, and Taewon Suh, "Transaction Cost Determinants and Ownership-Based Entry Mode Choice: A Meta-Analytic Review," *Journal of International Business Studies* 35, no. 6 (2004), pp. 524–44; Henrik Bresman, Julian Birkinshaw, and Robert Nobel, "Knowledge Transfer in International Acquisitions," *Journal of International Business Studies* 41, no. 1 (2010), pp. 5–20; Julian Birkinshaw, Henrik Bressman, and Robert Nobel, "Knowledge Transfer in International Acquisitions: A Retrospective," *Journal of International Business Studies* 41, no. 1 (2010), pp. 21–26.

⁶⁶Lilach Nachum and Cliff Wymbs, "Product Differentiation, External Economies, and MNE Location Choices: M&A Global Cities," *Journal of International Business Studies* 36 (2005), pp. 415–34; Rajesh Chakrabarti, Swasti Gupta-Mukherjee, and Narayanan Jayaraman, "Mars-Venus Marriages: Culture and Cross-Border M&A," *Journal of International Business Studies* 40, no. 2 (2009), pp. 216–36; Jonas F. Puck, Dirk Holtbrugge, and Alexander T. Mohr, "Beyond Entry Mode Choice: Explaining the Conversion of Joint Ventures into Wholly Owned Subsidiaries in the People's Republic of China," *Journal of International Business Studies* 40, no. 3 (2009), pp. 388–404; Mary Yoko Brannen and Mark F. Peterson, "Merging without Alienating: Interventions Promoting Cross-Cultural Organizational Integration and Their Limitations," *Journal of International Business Studies* 40, no. 3 (2009), pp. 468–89; Taco H. Reus and Bruce T. Lamont, "The Double-Edged Sword of Cultural Distance in International Acquisitions," *Journal of International Business Studies* 40, no. 8 (2009), pp. 128–36; Bulent Aybar and Aysun Ficici, "Cross-Border Acquisitions and Firm Value: An Analysis of Emerging-Market Multinationals," *Journal of International Business Studies* 40, no. 8 (2009), pp. 1317–38; Udo Zander and Lena Zander, "Opening the Grey Box: Social Communities, Knowledge, and Culture in Acquisitions," *Journal of International Business Studies* 41, no. 1 (2010), pp. 27–37.

⁶⁷Desislava Dikova, Padma Roa Sahib, and Arjen van Witteloostuijn, "Cross-Border Acquisition Abandonment and Completion: The Effect of Institutional Differences and Organizational Learning in the International Business Service Industry, 1981-2001," *Journal of International Business Studies* 41, no. 2 (2010), pp. 223–45.

⁶⁸Jason Dean and Jonathan Cheng, "Meet Jack Ma, Who Will Guide Yahoo in China," *The Wall Street Journal*, August 12, 2005, p. B1, B3.

Organizing for Global Competition An international marketing plan should optimize the resources committed to company objectives. The organizational plan includes the type of organizational arrangements and management process to be used and the scope and location of responsibility. Because organizations need to reflect a wide range of company-specific characteristics—such as size, level of policy decisions, length of chain of command, staff support, source of natural, personnel, and vendor resources,⁶⁹ degree of control, cultural differences in decision-making styles,⁷⁰ centralization, and type or level of marketing involvement—devising a standard organizational structure is difficult.⁷¹ Many ambitious multinational plans meet with less than full success because of confused lines of authority, poor communications, and lack of cooperation between headquarters and subsidiary organizations.⁷²

A single organizational structure that effectively integrates domestic and international marketing activities has yet to be devised.⁷³ Companies face the need to maximize the international potential of their products and services without diluting their domestic marketing efforts. Companies are usually structured around one of three alternatives: (1) global product divisions responsible for product sales throughout the world; (2) geographical divisions responsible for all products and functions within a given geographical area; or (3) a matrix organization consisting of either of these arrangements with centralized sales and marketing run by a centralized functional staff, or a combination of area operations and global product management.

Companies that adopt the global product division structure are generally experiencing rapid growth and have broad, diverse product lines. General Electric is a good example, having reorganized its global operations into six product divisions—infrastructure, industrial, commercial financial services, NBC Universal, healthcare, and consumer finance.⁷⁴ Geographic structures work best when a close relationship with national and local governments is important.

The matrix form—the most extensive of the three organizational structures—is popular with companies as they reorganize for global competition. A matrix structure permits management to respond to the conflicts that arise among functional activity, product, and geography. It is designed to encourage sharing of experience, resources, expertise, technology, and information among global business units. At its core is better decision making, in which multiple points of view affecting functional activity, product, and geography are examined and shared. A matrix organization can also better accommodate customers who themselves have global operations and global requirements.

A company may be organized by product lines but have geographical subdivisions under the product categories. Both may be supplemented by functional staff support. Exhibit 12.4 shows such a combination. Modifications of this basic arrangement are used by a majority of large companies doing business internationally.

The turbulence of global markets requires flexible organizational structures though. Forty-three large U.S. companies studied indicated that they planned a total of 137

⁶⁹Zuohao Chun Zhang and Flora F. Gu, “Intra- and Interfirm Coordination of Export Manufacturers: A Cluster Analysis of Indigenous Chinese Exporters,” *Journal of International Marketing* 16, no. 3 (2008), pp. 108–35.

⁷⁰Shichun Xu, S. Tamer Cavusgil, and J. Chris White, “The Impact of Strategic Fit among Strategy, Structure, and Processes on Multinational Corporation Performance: A Multi-Method Assessment,” *Journal of International Marketing* 14 (2006), pp. 1–31.

⁷¹Gerald Albaum, Joel Herche, Julie Yu, Felicitas Evangelista, Brian Murphy, and Patrick Poon, “Differences in Marketing Managers’ Decision Making Styles within the Asia-Pacific Region: Implications for Strategic Alliances,” *Journal of Global Marketing* 21 (2007), pp. 63–72; Alain Verbke and Thomas P. Kenworthy, “Multidivisional vs. Metanational Governance of the Multinational Enterprise,” *Journal of International Business Studies* 39, no. 6 (2008), pp. 940–56; Beibei Dong, Shaoming Zou, and Charles R. Taylor, “Factors that Influence Multinational Corporations’ Control of Their Operations in Foreign Markets: An Empirical Investigation,” *Journal of International Marketing* 16, no. 1 (2008), pp. 98–119.

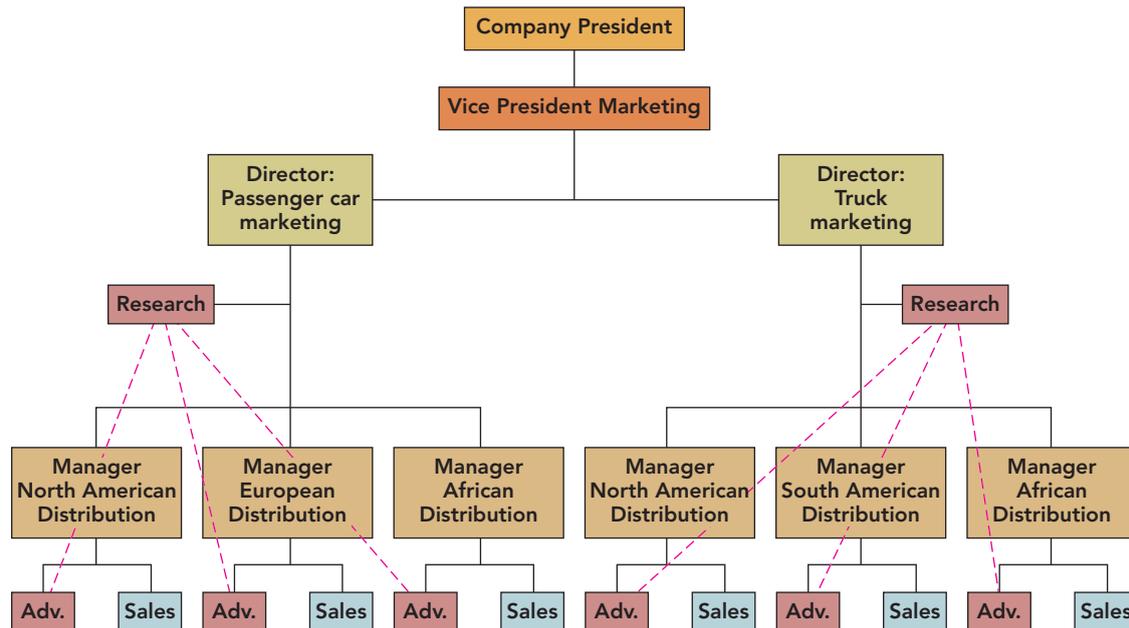
⁷²Ingmar Bjorkman, Carl F. Fey, and Hyeon Jeong Park, “Institutional Theory and MNC Subsidiary HRM Practices: Evidence from a Three-Country Study,” *Journal of International Business Studies* 38 (2007), pp. 430–46.

⁷³Claude Obadia and Irena Vida, “Endogenous Opportunism in Small and Medium-Sized Enterprises’ Foreign Subsidiaries: Classification and Research Propositions,” *Journal of International Marketing* 14 (2006), pp. 57–86.

⁷⁴Kelly Hewett and William O. Bearden, “Dependence, Trust, and Relational Behavior on the Part of Foreign Subsidiary Marketing Operations: Implications for Managing Global Marketing Operations,” *Journal of Marketing* 65, no. 4 (October 2001), pp. 51–66.

Exhibit 12.4

Schematic Marketing Organization Plan Combining Product, Geographic, and Functional Approaches



organizational changes for their international operations over a five-year period. Included were such changes as centralizing international decision making, creating global divisions, forming centers of excellence, and establishing international business units. Bausch & Lomb, one of the companies in the study, revamped its international organizational structure by collapsing its international division into a worldwide system of three regions and setting up business management committees to oversee global marketing and manufacturing strategies for four major product lines. Bausch & Lomb's goal was to better coordinate central activities without losing touch at the local level.

To the extent that there is a trend, two factors seem to be sought, regardless of the organizational structure: a single locus for direction and control and the creation of a simple line organization that is based on a more decentralized network of local companies.

Locus of Decision

Considerations of where decisions will be made, by whom, and by which method constitute a major element of organizational strategy. Management policy must be explicit about which decisions are to be made at corporate headquarters, which at international headquarters, which at regional levels, and which at national or even local levels. Most companies also limit the amount of money to be spent at each level. Decision levels for determination of policy, strategy, and tactical decisions must be established. Tactical decisions normally should be made at the lowest possible level, without country-by-country duplication. This guideline requires American headquarters' managers to trust the expertise of their local managers.

Centralized versus Decentralized Organizations

An infinite number of organizational patterns for the headquarters' activities of multinational firms exist, but most fit into one of three categories: centralized,⁷⁵ regionalized,⁷⁶ or decentralized organizations. The fact that all of the systems are used indicates that each has certain advantages and disadvantages. The chief advantages of centralization are the availability of

⁷⁵Rajdeep Grewal, Murali Chandrashekar, and Robert F. Dwyer, "Navigating Local Environments with Global Strategies: A Contingency Model of Multinational Subsidiary Performance," *Marketing Science* 27, no. 5 (2008), pp. 886–902.

⁷⁶Jean-Luc Arregle, Paul W. Beamish, and Louis Hebert, "The Regional Dimension of MNE's Foreign Subsidiary Localization," *Journal of International Business Studies* 40, no. 1 (2009), pp. 86–107.

experts at one location, the ability to exercise a high degree of control on both the planning and implementation phases, and the centralization of all records and information.

Some companies effect extreme decentralization by selecting competent local managers and giving them full responsibility for national or regional operations. These executives are in direct day-to-day contact with the market but lack a broad company view, which can mean partial loss of control for the parent company.

In many cases, whether a company's formal organizational structure is centralized or decentralized, the informal organization reflects some aspect of all organizational systems. This reflection is especially true relative to the locus of decision making. Studies show that even though product decisions may be highly centralized, subsidiaries may have a substantial amount of local influence in pricing, advertising, and distribution decisions. If a product is culturally sensitive, the decisions are more likely to be decentralized.

Summary

Expanding markets around the world have increased competition for all levels of international marketing. To keep abreast of the competition and maintain a viable position for increasingly competitive markets, a global perspective is necessary. Global competition also requires quality products designed to meet ever-changing customer needs and rapidly advancing technology. Cost containment, customer satisfaction, and a greater number of players mean

that every opportunity to refine international business practices must be examined in light of company goals. Collaborative relationships, strategic international alliances, strategic planning, and alternative market-entry strategies are important avenues to global marketing that must be implemented in the planning and organization of global marketing management.

Key Terms

Corporate planning
Strategic planning
Tactical planning

Direct exporting
Indirect exporting
Licensing

Franchising
Strategic international
alliance (SIA)

Joint venture

Questions

1. Define the key terms listed above.
2. Define strategic planning. How does strategic planning for international marketing differ from that for domestic marketing?
3. Discuss the benefits to an MNC of accepting the global market concept. Explain the three points that define a global approach to international marketing.
4. Discuss the effect of shorter product life cycles on a company's planning process.
5. What is the importance of collaborative relationships to competition?
6. In Phases 1 and 2 of the international planning process, countries may be dropped from further consideration as potential markets. Discuss some of the conditions that may exist in a country that would lead a marketer to exclude a country in each phase.
7. Assume that you are the director of international marketing for a company producing refrigerators. Select one country in Latin America and one in Europe and develop screening criteria to use in evaluating the two countries. Make any additional assumptions that are necessary about your company.
8. "The dichotomy typically drawn between export marketing and overseas marketing is partly fictional; from a marketing standpoint, they are but alternative methods of capitalizing on foreign market opportunities." Discuss.
9. How will entry into a developed foreign market differ from entry into a relatively untapped market?
10. Why do companies change their organizations when they go from being an international to a global company?
11. Formulate a general rule for deciding where international business decisions should be made.
12. Explain the popularity of joint ventures.
13. Compare the organizational implications of joint ventures versus licensing.
14. Visit the Web sites of General Motors and Ford, both car manufacturers in the United States. Search their sites and compare their international involvement. How would you classify each—as exporter, international, or global?
15. Using the sources in Question 14, list the different entry modes each company uses.
16. Visit the Nestlé Corporation Web site (www.nestle.com/) and the Unilever Web site (www.unilever.com/). Compare their strategies toward international markets. In what ways (other than product categories) do they differ in their international marketing?