# *Global Marketing Management 8th edition Kotabe Solutions Manual*

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# CHAPTER 1

# GLOBALIZATION IMPERATIVE

## BRIEF OUTLINE

1. Why Global Marketing is Imperative
2. The Fluid Nature of Global Competition
3. Globalization of Markets: Convergence and Divergence
4. Evolution of Global Marketing
5. Appendix: Theories of International Trade and the Multinational Enterprise

## CHAPTER OVERVIEW

In today's business world, marketing products and services around the world, transcending national and political boundaries, is a fascinating phenomenon. Growth in international financial flows (which include foreign direct investment, portfolio investment, and trading in currencies) has achieved a life of its own. World merchandise exports in 2008 reached $16.3 trillion, up from $6 trillion in 2000. Despite the sharp drop of world merchandise exports down to $12.5 trillion in 2009, total merchandise trade volume bounced back to US$17.7 trillion in 2017. Nevertheless, the global economic growth rate reached a stronger than expected 3 percent in 2017 -- a notable recovery from a post-crisis low of 2.4 percent in 2016. These numbers are expected to increase as barriers to international trade and financial flows get lower and lower.

Though the tremendous amount of money spent on international trade may be new, the trade itself is as old as man. Early recorded history is full of stories of travel and trade adventures. The Silk Road is one of the best examples which once connected East with West from Xian (China) to Rome (Italy).

The landscape for international trade is continually evolving. World trade has grown from $200 billion to $19 trillion in the last 40 years. Particularly, the growth of world trade has been driven increasingly by developing countries and not by traditionally developed countries. While the U.S., Japan and Europe have fueled previous explosions in growth, the tide is shifting to emerging markets such as Brazil, Russia, India, and China (so-called BRIC countries.) Interestingly, companies from Western Europe, the United States, and Japan collectively produce more than three times as much in foreign markets as they export. About a third of their exports and imports are transacted on an intra-firm basis between their parent companies and their affiliated companies abroad or between the affiliated companies themselves.

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The chapter points out that it is almost impossible for domestic company executives to consider their domestic markets and domestic competition alone. The drive for globalization is promoted through various means such as free trade, Internet commerce, and advancement in technologies. International markets today are so much more than mere importing and exporting (see Exhibit 1-2). The markets are so intertwined and interdependent that separating international from domestic business may even be a futile mental exercise.

Historically, international expansion has always been a strategy consideration after domestic marketing, and has therefore been reactionary to such things as a decline in domestic sales and increased domestic competition. Global marketing is a proactive response to the intertwined nature of business opportunities and competition that know no political boundaries. It is a company's willingness to adopt a global perspective instead of a country-by-country or region-by-region perspective in developing a marketing strategy for growth and profit that will sustain growth efforts in the 21st century.

## CHAPTER OUTLINE

### WHY GLOBAL MARKETING IS IMPERATIVE

- We frequently hear terms such as global markets, global competition, global technology, and global competitiveness.

### Saturation of Domestic Markets

- Saturation of domestic markets in the industrialized parts of the world forced many companies to look for marketing opportunities beyond their national boundaries.
- The economic and population growth in developing countries also gave those companies an additional incentive to venture abroad,

### Emerging Markets

- In the next 10–20 years, the greatest commercial opportunities are expected to be found increasingly in 10 Big Emerging Markets—the Chinese Economic Area, India, the Commonwealth of Independent States (Russia, Central Asia, and Caucasus states), South Korea, Mexico, Brazil, Argentina, South Africa, Central European countries, Turkey, and the Association of Southeast Asian Nations (Indonesia, Brunei, Malaysia, Singapore, Thailand, the Philippines, and Vietnam).
- In the past 20 years, China's real annual GDP growth rate has averaged 9.5 percent a year; while India's has been 5.7 percent, compared to the average 3 percent GDP growth in the United States.
- It does not necessarily mean that BEMs and other developing countries will continue to grow without a hitch.

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**Global Competition**

- There is more need for global cooperation.
- Many firms in emerging economies have gained their competitive advantage based on "frugal innovations" that emphasize value for the money.
- Firms in traditionally developed countries also have to learn to develop similar products.

**Global Cooperation**

- Global competition also brings about global cooperation.
- Under increasing pressure to invest in new technology and from slower growth in the industry, such alliances are becoming increasingly important.

**Internet Revolution**

- The number of internet users in the world reached over 4 billion in 2018 and 3.3 billion active social media users.
- Global e-commerce reached $1.67 trillion in 2015.
- Increases in the freedom of movement of goods, services, capital, technology, and people coupled with rapid technological development have resulted in an explosion of global B2B e-commerce.
- The internet builds a platform for a two-way dialogue between manufacturers and consumers.

**GLOBAL PERSPECTIVE 1-1**
**THE INTERNET WORLD AND CULTURAL AND HUMAN ASPECTS OF GLOBAL MARKETING**

- By examining the top 100 companies in the world, profound changes can be observed.
- The number of Japanese companies on the list fell from 22 in 2000 to 9 in 2018.
- The number of U.S. and European firms in the largest 100 has also declined somewhat since 1990.
- One of the biggest changes since 1990 has been the emergence of China.
- The changes observed in the past 50 years simply reflect that companies from other parts of the world have grown in size relative to those of the United States.
- In the past 30 years, many political and economic events have affected the nature of global competition.
- The demise of the Soviet Union (1991), the establishment of the European Union (EU) (1993), and the North American Free Trade Agreement (NAFTA) (1994), South America's Southern Common Market (MERCOSUR) (1994), and the Trans-Pacific Partnership (TPP) Agreement (2015).

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- Russia is expanding its influence, Britain is leaving the EU, NAFTA was replaced by the U.S.-Mexico-Canada Agreement in 2018, and TPP lost is momentum and was reborn as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) led by Japan and without the U.S. participation.
- The fluid nature of global markets and competition makes the study of global marketing interesting, challenging, and rewarding.

## GLOBALIZATION OF MARKETS: CONVERGENCE AND DIVERGENCE

- It takes an annual income of about $20,000 to have a disposable income sufficient enough to have any real purchasing power.
- Below $10,000, much of the income is spent on food and other necessary items.
- A billion people, constituting some 16 percent of the population, around the world with per capita income of $20,000 and above, have considerable purchasing power.
- International wants and desires (for example, the want or desire for Nike tennis shoes) tends to transcend cultural and international boundaries.
- Globalization does not suffocate local cultures but rather liberates them from the ideological conformity of nationalism.
- The *divergence* of consumer needs and cultural preferences exists at the same time.

## GLOBAL PERSPECTIVE 1-2
## MARKET CONVERGENCE AND DIVERGENCE AT WORK AND BRITAIN'S EXIT (BREXIT) FROM THE EUROPEAN UNION

- Integration of European Union offers the advantage of eliminating multiple fragmented markets.
- One major purpose of the EU is to create extensive homogeneous markets in which large European firms are able to take advantage of economies of scale and therefore are better able to compete with their U.S. counterparts.
- Historically, market fragmentation shielded Europe from U.S. competition.
- The chief economic beneficiaries of European integration are American and Japanese multinational corporations.
- On June 23, 2016, Britain people voted for exiting from the EU for policy differences and unclear benefits of being an EU member.
- Smaller European firms are likely to consider pursuing a universal niche market strategy.
- There remain EU customers who continue to prefer the more expensive, high-quality European products.

## INTERNATIONAL TRADE VERSUS INTERNATIONAL BUSINESS

- International trade consists of exports and imports between nations.
- If imports exceed exports, a trade deficit would occur. If exports exceed imports, a trade surplus would occur.

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- International business is a broader concept that includes international trade and foreign production.
- Marketing can occur in three ways: 1) export products, 2) invest in foreign production and manufacture domestically, and 3) Contract out manufacturing through licensing or joint ventures.
- Foreign production constitutes a much larger portion of international business than international trade.
- The extensive international penetration of U.S. and other companies has been referred to as global reach.
- U.S.-owned subsidiaries located around the world have produced and sold three times the value of all U.S. exports.
- European-owned subsidiaries operating in the United States sold five times as much as U.S. imports from Europe.
- Japanese foreign direct investment has taken place since 1985.

**GLOBAL PERSPECTIVE 1-3**
**U.S. TRADE POLICY UNDER THE TRUMP ADMINISTRATION**

- The Trump Administration imposed a series of tariffs on foreign imports as part of its economic policy.
- The imposition of tariffs between the United States and China resulted in an escalated trade war.
- The IMF has warned that Trump's trade war could cost the global economy $430 billion.
- The Trump administration labelled the EU as one of his greatest foes over trade.

**WHO MANAGES INTERNATIONAL TRADE?**

- Multinational companies are increasingly managing the international flow within themselves. This is called intra-firm trade.
- Most of the large industrialized countries have about 34% intra-firm trading.
- Service industries are going through the same evolution as manufacturing industries on a global basis.
- World exports of commercial services reached US$5.3 trillion in 2017.
- The United States is ranked the largest exporter, providing US$762 billion of services to the rest of the world.
- The United States was also the top importer of services, receiving US$516 billion worth of services in 2017.

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## EVOLUTION OF GLOBAL MARKETING

### What is Marketing?

- Marketing is essentially the activity, set of instructions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.
- Marketing is much broader than selling.
- Marketing must focus on customers and competition to be successful.
- One must be careful not to gain customers at the expense of losing markets.
- Increasingly, firms are drawn into marketing activities outside their domestic environment.
- Firms generally develop different marketing strategies depending on the degree of experience and the nature of operations in international markets.
- Many researchers believe that firms evolve over time into international companies and organizations.
- The pace of internationalization has also accelerated.
- "Born Global" firms possess a global vision from their start engage in export sales immediately and even FDI as well as international alliances at an early stage of development.
- Many companies are constantly under competitive pressure to move forward both reactively (responding to the changes in the market and competitive environments) and proactively (anticipating the change).
- Knowing the dynamics of evolutionary change is important for two reasons: 1) it helps in the understanding of how companies learn and acquire international experience and how they use it for gaining competitive advantage over time and 2) with this knowledge, a company may be able to compete more effectively by predicting its competitors' likely marketing strategy in advance.

### Domestic Marketing

- Before entry into international markets, many companies focus solely on their domestic market.
- Marketers are ethnocentric and pay little attention to what is going on in the international market place (such as changing customer demand).
- As a result, these companies are vulnerable to sudden changes forced on them from foreign competition.

### Export Marketing

- The second stage is export marketing.
- Usually, this stage begins from unsolicited orders from markets or distributors located abroad.
- Companies learn to benefit from this business.
- Strategy is reactive rather than proactive.

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- At this early export marketing stage, exporters tend to engage in indirect exporting by relying on export management companies or trading companies to handle their export business.
- Companies advance once they satisfy the following conditions: 1) management obtains favorable expectations of the attractiveness of exporting based on experience, 2) the company has access to key resources necessary for undertaking additional export-related tasks, and 3) Management is willing to commit adequate resources to export activities.
- Difficulties experienced include: import/export restrictions, cost and availability of shipping, exchange rate fluctuations, collection of money, and development of distribution channels.
- Export marketers still tend to take an ethnocentric approach to foreign markets as being an extension of their domestic market.

**International Marketing**

- Once export marketing becomes an integral part of the company's marketing activity, it will begin to seek new directions for growth and expansion.
- A unique feature of the international marketing phase is its polycentric orientation with emphasis on product and promotional adaptation in foreign markets.
- The company must begin to defend its position in foreign markets against local competition.
- International marketers will need to adapt their products to overcome the inherent advantage of the domestic marketer.
- The company can begin to allocate a certain portion of its manufacturing capacity to its export business.
- Due to transportation costs, tariffs and other regulations, and availability of human and capital resources in the foreign markets, the company may even begin manufacturing in the foreign environment.
- The extreme of this phase is to establish an independent foreign subsidiary in each and every foreign market and have each of the subsidiaries operate independently of each other without any measurable headquarters control.
- Few economies of scale result.
- Useful when there are wide differences between markets.

**Multinational Marketing**

- In this phase the company markets its products in many countries around the world.
- Due to efficiencies and economies of scale, the company consolidates on a regional basis.
- This regiocentric approach suggests that product planning may be standardized within a region but not across regions.
- Regional advertising might be accomplished.
- Regional brands might be developed.

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## Global Marketing

- The international (country-by-country) or multinational (region-by-region) orientation, while enabling the consolidation of operations within countries or regions, will tend to result in market fragmentation worldwide.
- Operational fragmentation costs are often high.
- Global marketing refers to marketing activities by companies that emphasize: 1) standardization efforts, 2) coordination across markets, and 3) global integration.
- Most researchers do agree that some standardization is all right, however, what is really called for is a company's proactive willingness to adopt a global perspective when developing a marketing strategy.
- While many companies are a long way from this concept, they are making progress with their subsidiaries.

### GLOBAL PERSPECTIVE 1-4
### THINK REGIONALLY, ACT LOCALLY

- Companies need to pay close attention to the specificity of regional consumers.
- Global companies face multiple challenges, ranging from intense competition from low-cost local players to modest income customers with minimal brand loyalties and diverse preferences, to fragmented distribution channels.
- In the Asian markets, four general principles must be followed.
- First, global companies must leverage innovation and talent through regional teams.
- Second, global companies must think of the markets in terms of cities.
- Third, local customization should receive priority attention.
- And fourth, global companies must learn how to market and sell across a variety of channels in the Asian markets.

## The Impact of Economic Geography and Climate on Global Marketing

- The economic geography, climate, and culture, among other things, affect how companies develop certain products and how consumers want them.
- The availability of both natural and human resources is important in determining industry locations.
- Marketing executives need to have an acute understanding of not only the availability of various resources but also emerging consumer and societal needs on a global basis.

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## REVIEW QUESTIONS

*INSTRUCTOR'S NOTE: The following chapter review questions are meant to challenge the student to think about material presented in the chapter and formulate a creative answer to the review question. Many of the answers require judgments rather than specific line-by-line quotation of facts. The answers provided are meant to provide stimulation of creative answers.*

**1. Discuss the reasons why international business is much more complex today than it was 20 years ago.**

In today's changing business world, the commonly cited reasons for increasingly complex international business environments are:

a. Saturation of domestic markets and more sophisticated consumers.
b. Emerging markets.
c. Global consumer convergence.
d. More consumers and markets to analyze.
e. Increasing global competition that impacts the international as well as the domestic environment.
f. Need for global cooperation and expanding international opportunities.
g. More divergent 'choice sets' found in consumers.
h. Political and governmental barriers.
i. Ethical and moral concerns.
j. Cultural barriers.
k. Shifting multinational environments.
l. Role of the Internet and electronic commerce, especially in B2B, B2C, and C2C commerce.

**2. What is the nature of global competition?**

The new view toward global competition is that it includes domestic as well as foreign competitors. Multinationals from developed countries and emerging markets have expanded to the extent that they can begin to think globally rather than on a country-by-country or region-by-region basis. In order to do this, new formats for strategies and subsidiaries are being developed. Products and services are being adapted or standardized (as the market dictates) at the global and regional levels. Proactive strategies are replacing reactive strategies.

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**3. Does international trade accurately reflect the nature of global competition?**

If the marketer only thinks in terms of exports and imports, the answer is no. If the marketer does not consider the amount of business that is being done between the subsidiaries of the same multinational or global firm, then the answer is no. If the global competitor truly is designing strategy and policy to fit the current international trade environment, the competitor uses international trade as a component of the firm's strategy formulation process.

**4. Why are consumption patterns similar across industrialized countries despite cultural differences?**

As a country or a market's disposable income increases, research has shown that more of the discretionary income is spent on non-subsistence goods and services. Once the average person passes about $20,000 per capita income per year, that person begins to become a viable prospect for non-subsistence goods. The need for goods in general is similar. The need for specific goods may be affected by cultural differences.

**5. How is global marketing different from international marketing?**

Global marketing is a more advanced phase of international marketing. Once export marketing becomes an integral part of a company's marketing activity, it begins to seek growth and expansion through international marketing. The emphasis is polycentric (emphasis on product and promotional adaptation in foreign markets--wherever necessary). In global marketing, fragmentation caused by international marketing is overcome.

Global marketing refers to marketing activities by companies that emphasize:

a. 1). Standardization efforts---standardizing marketing programs across different countries and regions.
b. 2). Coordination across markets---reducing cost inefficiencies and duplication of efforts at the national and regional levels.
c. 3). Global integration---participating in many major world markets to gain competitive advantage.

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**6. Why do you think a company should or should not market the same product in the same way around the world?**

Students should be encouraged to think about the standardization versus the adaptation alternative. Standardization has the advantages of efficiencies in production and communication as well as economies of scale. Adaptation has the advantages of customization, matching the true unique desires and wants of the customer, and the ability to compete against local competition more effectively.

Students should be encouraged to think of product examples for standardization and then adaptation. Try to make a case for each form being effective.

**7. What is proactive standardization?**

In global marketing, the trend may be to see the world as one giant market. The trick to being successful in more than one market (while still retaining the advantages of production economies of scale) may be in finding products that everyone needs (with little adaptive change). This response to true global competitors may be a very good defense against market erosion.

**8. How is the Internet reshaping the nature of global marketing?**

The Internet was one of the most useful inventions of the 20th Century. In the global marketplace, the Internet and its Web-related activities have brought a multitude of benefits to companies, consumers, and producers. The Internet's future prospects and fundamentals seem very strong especially in the area of B2B e-commerce. As mentioned in the text, there is still a "digital divide" between developed and developing countries regarding the availability of Internet marketing and its Web-related activities. In the coming years, many companies will be using this medium to reach far-flung places on the earth. In short, the Internet will help connect buyers and suppliers in most efficient and effective ways.

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## DISCUSSION QUESTIONS

*INSTRUCTOR'S NOTE: Discussion Questions are found at the end of each chapter in the text. These questions (in many cases) are too lengthy to repeat in this manual. Suggestions for answering and discussing the questions are presented in this section. Many of the questions require student opinion and judgment.*

1. The United States and Japan, the two largest developed economies in the world, and their imports and exports put together comprise only 20 to 30 percent of their GDPs. However, this percentage has not changed much over the last three decades for both of these countries. Does this imply that the corporations and the media may be overemphasizing globalization? Discuss why you agree or do not agree with the last statement.

    - Students should discuss the trends, not just current percentages.
    - Students should also mention how firms are outsourcing production to lower cost countries.
    - Their opinions may depend, in part, on their country of origin.

2. Merchandise trade today accounts for less than 2 percent of all the foreign exchange transactions around the world. Can one deduce that merchandise plays an insignificant role in today's economies? Why or why not?

    - It was conventional wisdom that world merchandise trade would on average grow by twice the annual growth rate of global GDP.
    - Developing countries accounted for 43 percent of world merchandise in 2013. These markets are likely to grow rapidly in the future.

3. A major cereal manufacturer produces and markets standardized breakfast cereals to countries around the world. Minor modifications in attributes such as sweetness of the product are made to cater to local needs. However, the core products and brands are standardized. The company entered the Chinese market a few years back and was extremely satisfied with the results. The company's sales continue to grow at a rate of around 50 percent a year in China. Encouraged by its marketing success in China and other Asian countries, and based on the market reforms taking place, the company started operations in India by manufacturing and marketing its products. Initial response to the product was extremely encouraging, and within one year the company was thinking in terms of rapidly expanding its production capacity. However, after a year, sales tapered off and started to fall. Detailed consumer research seemed to suggest that while the upper-middle social class, especially families where both spouses were working, to whom this product was targeted, adopted the cereals as an alternative meal (i.e., breakfast) for a short time, they eventually returned to the traditional Indian breakfast. The CEOs of some other firms in the food industry in India are quoted as saying that non-Indian snack products and restaurant business are the areas where multinational companies (MNCs) can hope for success. Trying to replace a full meal with a non-Indian product has less of a chance of succeeding. You



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are a senior executive in the international division of this food MNC with experience of operating in various countries in a product management function. The CEO plans to send you to India on a fact-finding mission to determine answers to these specific questions. What, in your opinion, would be the answers to these questions:

a. Was entering the market with a standardized product a mistake?
b. Was it a problem of the product or the way it was positioned?
c. Given the advantages to be gained through leveraging of brand equity and product knowledge on a global basis, and the disadvantages of differing local tastes, what would be your strategy for entering new markets?

a. This was likely not a mistake. Having a foothold in India and brand recognition in India is a major advantage.
b. Given the comments in the case, this is more likely a problem of positioning. In the US, cereal is often the main component of breakfast. With Indians preferring Indian food for meals, it makes sense to reposition the cereal as a snack, for example, for after school or late at night.
c. There are several approaches a student might suggest. For example, 1) test marketing, 2) partnering with a local firm, or 3) the strategy used here of entering the market and retrenching when an approach does not work or does not work as well as expected.

4. Globalization involves the organization-wide development of a global perspective. This global perspective requires globally thinking managers. Although the benefits of globalization have received widespread attention, the difficulties in developing managers who think globally has received scant attention. Some senior managers consider this to be a significant stumbling block in the globalization efforts of companies. Do you agree with the concerns of these managers? Would the lack of truly globally thinking managers cause problems for implementing a global strategy? And how does the proliferation of e-commerce affect the way these managers conduct business?

- Students will likely hold a variety of positions on this question. One way to discuss this is to ask students if they have ever visited a foreign country. For those who have, ask them what surprised them the most. This discussion will be most effective with students who have visited countries outside of Canada and Europe.
- Ask the students what they know about introducing a product in a country like Cameroon or Nigeria. This discussion should help them realize how diverse the world is and how difficult it can be for managers to effectively plan around this diversity.
- Regarding e-commerce, and social media for that matter, ask the students how their online experiences have prepared them to conduct business worldwide.



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## STUDENT PROJECTS AND INTERNET FOCUS

1. Identify 3-4 companies that you believe have a global marketing focus. Provide supporting evidence or arguments that justify selection of these firms.

2. Use Exhibit 1-2 and the material in the chapter as your guide, identify three companies that fit each of the five categories (domestic marketing, export marketing, international marketing, multinational marketing, and global marketing) mentioned. Provide supporting evidence or arguments that justify selection of these firms.

*INSTRUCTOR'S NOTE: The following projects require the students to both use and understand the Internet. The Web sites provided were current at the time of this writing. However, since Web addresses change frequently, the instructor should re-affirm the site address and the content of the site before making an assignment.*

3. Go to the Web sites of General Electric (http://www.ge.com) and Asea-Brown Boveri-ABB (http://www.abb.com/) and investigate and compare their web pages and construct evidence that would support your contention that GE and ABB (1) standardize or (2) adapt their worldwide products.

4. Go to the Web sites of Nestle (http://www.nestle.com) and Unilever (http://www.unilever.com) and compare their Web pages and construct evidence that would support your contention that Nestle and Unilever (1) standardize or (2) adapts their worldwide products.

5. 5. Go to the U.S. Department of Commerce's International Trade Administration Web site (http://trade.gov/index.asp) and discuss three recent trade news that you think might be interesting to bring to class. Download the material, abstract it if necessary, and discuss the material in class. Also look at the "four spotlights" and other international business and trade information from this site.

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