

Chapter 1: An Introduction to international marketing

CONTENTS

- Teaching Notes
- Case Study Notes and Answers to Questions
- Answers to Discussion Questions
- Notes on Illustrations
- Notes on Management Challenges
- Notes on PowerPoint Slides

INTRODUCTION

In Chapter 1 we examine how international marketing differs from domestic marketing and why it is such an important area of study for any manager in marketing today. Various aspects of the international marketing environment are explored. The international marketing process is examined and the major themes to be pursued in later chapters reviewed. In this chapter the reader is introduced to the concepts of international marketing strategy and the management processes involved, thus enabling the student to acquire an appreciation of the complexities of marketing on an international basis.

LEARNING OBJECTIVES

On completion of Chapter 1 the student should be able to:

- x Explain and use the SLEPTS factors to assess international markets
- x Discuss the differences between export marketing, international and global marketing
- x Understand the criteria required to evaluate a company's international marketing strategy
- x Appreciate the key steps in the international marketing planning process

CORE ISSUES

In this chapter we discuss the growing strategic importance of international marketing and examine the reasons why companies become involved in international markets. The environments that international

companies face are typically characterised by uncertainty and change, factors which, taken together, increase the element of risk. The global context of international marketing is evaluated by examining the dimensions of the social/cultural, economic, political, technical and legal environs which impact on firms marketing goods and services internationally.

Given the complexities examined, there is a need for management to have a properly planned approach to any overseas activity since without this, the costs and likelihood of failure increase.

The student is introduced to many of the concepts that are important to the international marketing management process and should gain an understanding of the issues to be addressed in the subsequent chapters.

INTEGRATION ISSUES

The global contextual framework in which international marketing operates is established. Issues that are developed in some depth in later chapters are introduced here to help the student develop a general perspective on international marketing practices.

Many of the students using the text to follow a course in international marketing will have developed their skills from a background of domestic marketing. For such students it is useful to show how international marketing builds on their previous knowledge and skills and how they can use this chapter as a foundation for building the skills, knowledge and aptitudes needed to operate effectively as an international marketing manager.

MANAGERIAL ISSUES

In the sequence of decisions that an international marketing manager has to make, there are three broad issues that need to be addressed:

- x the identification, analysis and evaluation of opportunities;
- x the establishment of a strategic perspective and development of an international marketing strategy;
and
- x the approach that is to be used in the implementation and operation of the

It is these three issues which form the base of the international marketing management process and which need to be taken into account in developing an international strategy. In following a course of study in international marketing the student should endeavour to develop the ability to think, analyse and plan on an international scale. An international marketing manager to operate effectively needs:

- x proactive marketing skills
- x a global outlook and positive attitude to the international arena
- x a broad based knowledge of the global market place

Thus the student should use the textbook to increase their knowledge of the international environment, develop the outlook and perspective necessary to think strategically in the international market place, and finally develop the skills necessary to manipulate the interface between the marketing mix and the complex environmental factors.

Case study notes and answers to questions

TESCO IN CHINA

This case highlights the importance of cultural perspectives in market entry and development and also that

the fundamentals of marketing, grounded in understanding your customers. It helps illustrate that designing your marketing mix around that understanding rather than to simply attempt to reproduce models used elsewhere in the world constitutes sound practice and that within the wider 'global village', culture is still a critical element.

QUESTIONS:

1 Evaluate the reasons behind the success of Tesco in China.

There are a number of factors that can be drawn out of the case, including:

- x A recognition of the need for empathy with culture and consumer behaviour
- x Having the flexibility to recognise and respond to consumer needs
- x Focused investment; e.g. property, staff, quality standards
- x Taking a long term view
- x Understanding market drivers (price is specifically raised)
- x The importance of supply chain elements
- x Matching consumer expectations in terms of shopping experiences
- x The value of becoming a 'good citizen' and integrating with the local environment

2 What are the lessons TESCO offers to managers trying to develop strategies for international markets?

This question allows a fairly wide scope for response but it might help students to ground their answers in a perspective and encourage them to draw comparisons with other companies operating in the same market. At the foundation of this response, however, is the need for good market and socio cultural data to help form strategic planning activities. The inference is that sufficient investment needs to be allocated to research activities, both in terms of gathering and interpreting the data.

One important area for discussion is the movement from a western economy by a western organisation into an eastern environment. A preparedness to challenge existing values and to embrace alternate or differing points of view is also a key aspect for discussion.

Answers to discussion questions

1 What are the major environmental influences which impact on international marketing? Show how they can affect international marketing strategies.

Firms marketing purely in domestic economies operate in a marketing environment which in general is a known and stable quantity. In international marketing firms face not only a number of differing marketing environments but each international market may have nuances and difficulties which need to be dealt with if a marketing strategy is to succeed. Students would be advised to structure discussion around the major components of the SLEPT environmental model and discuss examples of challenges in each of the environs and the implications these challenges have to firms competing in these markets.

2 Using examples examine the reasons why marketing strategies fail in international markets.

Pelmutter (1995) examining the reasons why firms did not manage their international markets effectively identified nine cross-cultural management incompetences which led to failure across a spread of country markets. He defined these core incompetences as 'the bundle of activities and managerial skills that are mis-matched in a great variety of countries where firms do business'.

The first three are interrelated and relate to the failure to be market driven.

1. Inability to find the right market niches.
2. Unwillingness adaptively to update products to local needs.
3. Not having unique products that are viewed as sufficiently higher added value by customers in local markets.
4. A vacillating commitment. It takes time to learn how to function in countries such as Japan.
5. Assigning the wrong people. Picking the wrong people or the wrong top team in an affiliate.
6. Picking the wrong partners. There is a list of difficulties in building alliances. A main limitation is picking partners who do not have the right bundle of capabilities to help reach the local market.
7. Inability to manage local stakeholders. This includes an incompetence in developing a satisfactory partnership relationship with unions and governments.
8. Developing mutual distrust and lack of respect between HQ and the affiliates at different levels of management.
9. Inability to leverage ideas developed in one country to other countries worldwide.

3 Identify three major global pressure groups. Examine how they have influences the international marketing strategies of particular firms.

The student may draw from a wide number of pressure groups concerned, for example, with environmental, globalisation and fair trade and would be expected to draw observations, perhaps using a combination of SLEPT and the 4 P's, around aspects of:

- Ethical working practices
- Impact upon materials / manufacturing sourcing
- Cost impact on manufacture, distribution and margins
- Origin of goods
- Organisational identity and the impact of country association
- Legislative changes
- Product development

4 What skills and abilities are necessary requirements for an effective international marketing manager? Justify your choices.

To operate effectively, an international marketing manager needs:

- proactive marketing skills
- a global outlook and positive attitude to the global environment
- a broad-based knowledge of the global market-place

Managers need to be comfortable in a range of cultural environments and have a knowledge of the international environment, the outlook and perspective necessary to think strategically in the international market-place and, finally, the skills necessary to manipulate the interface between the marketing strategies they develop and the complex environmental factors in international markets.

5. How can marketing managers accommodate the multiplicity of international markets into a cohesive international marketing strategy and plan?

The foundation of this question is grounded in adopting a structured planning process and supporting that with focused market research, effective knowledge management and a commitment to develop internationally.

Students need to identify the key essentials of a marketing plan (see Figure 1.5) and then discuss this with regard to the differences between international and domestic marketing. They need to be clear about the underlying level of internationalisation desired, be it exporting, international marketing or global

marketing focused, and then discuss the nature of the international marketing environment. Ideally using the SLEPT model from the text.

Notes on illustrations

Illustration 1.1: Standard Bank Forecasts Exciting Future for African markets

This illustration provides an opportunity for students to begin to consider the wider issues around market entry and development and will allow them to explore elements such as market stability, market access, infrastructure, differing business practices, disposable income, access to market data and the need for long term investment.

Illustration 1.2: When is Parma ham not a Parma ham?

The opening up of the European Union market to allow free trade across borders has, arguably, created a snowball effect of legislation to cope with the diversities that exist between member countries. Challenged with opening up trade and protecting citizens there are aspects of legislation that walk a narrow line and what we have here is, perhaps one such case. New definitions need to be drawn in order for the legislation to be put in place and thus consideration has to be given not just to the origin of the product but also to what actually constitutes the product. The fear is that regional businesses might fold if not managed correctly but the inevitable impact of legislation is that people will find ways of exploiting loopholes, requiring tighter and more defined/limiting restrictions. That is what we have here. It is likely that the slicing of the ham represents a valuable aspect of margin in the manufacturing process and without this, the industry becomes less viable.

Illustration 1.3: Cadbury's in political faux -pas

With the benefit of hindsight it is difficult to imagine how such an error could have been made but this illustration demonstrates just how sensitive to local market conditions an organisation needs to be when promoting its goods and services. There is always a wide range of stakeholders to consider and in global markets this can be extremely complex. For Cadbury, get the students to think whether or not the potential damage from this campaign would be localised to India. In particular, get them to think about the Indian and Pakistani people, be it nationals, expatriates or even second / third generation expatriates born in other countries working in positions of power and influence around the world.

Illustration 1.4: From Krating Daeng to Red Bull

Of interest here is the approach adopted and the drive to create a distinct market segment against a strong distribution chain – designed to get their goods to market. Clear and dedicated distribution chains were at the foundation of a push strategy, which was supported with retailer packages, designed to encourage promotion and reward involvement.

Illustration 1.5: Divine Chocolate Ltd

A topical product that should allow students to overlay their own consumer experience to its consideration, the starting point needs to be a discussion around the focus of Divine on tailoring its product to UK market tastes and the implications that might have for other markets. This can then be overlaid with a consideration of knowledge, experience, resources and the relative costs of entering new markets. Discussions can also be developed around the additional demands upon management and then the options available for internationalisation. Drawing lessons from their first internationalisation experience.

Illustration 1.6: Fisherman's Friend

If a firm is to succeed it must develop the ability to think, analyse and develop strategic and innovative responses on an international, if not, global scale. Illustration 1.6 tells the story of how Fisherman's Friend was developed as a lozenge for a specific market before being transformed into a truly international company whose exports account for 80% of the sales. Thinking internationally led to the realisation of Fisherman's Friends' overseas potential in dramatically different countries reflected in the marketing

strategies.

Notes on Management Challenges

Management Challenge 1.1: How do you sell to subsistence farmers in Africa?

For lesser developed countries, small-scale commercial farming can be both a beneficial and very profitable business, but it would be impossible to ensure sustained growth conditions without a suitable water supply, and in Africa this essentially means there is a need for irrigation systems. KickStart has been a major operator in irrigation focused micro-irrigation technologies since the mid 1990's and has developed a manually operated irrigation pump branded "MoneyMaker", which has sold widely in Africa.

As a non-profit organisation, however, it is reliant upon donations to fund the operation, with the expectation that its trading activities will break-even. In reality, non-profit organisations are still seeking to show a return, sufficient enough to ensure their long-term viability as this acts as a symbol of their effectiveness and, in itself, can encourage further donations. For KickStart, prudent business practice achieved a status as one of the top 15 charities for investment in 2007 and a social capitalist award 2007 for the highest possible social return for the gift; achieved against a record of providing jobs and wealth to people in Africa, with around 800 new businesses starting each month as a result of their intervention.

Indeed, as reported on their website, www.kickstart.org, they have started around 50,000 new businesses in all, generating \$52 million each year - a not insignificant figure.

Clearly this success has not been achieved without challenges and as we can see from the dilemma, despite the success to date, it can reasonably be assumed that this has probably been achieved in areas where there are better levels of accessibility, support and literacy.

To develop their programme further though there will be opportunities to leverage earlier successes. The impressive economic figures can be used to gain governmental and administrative support. There is a growing worldwide consciousness of the need to support the economic development of African nations and there might also be opportunities to enlist the support of high profile figures that are not American, such as Richard Branson who, when writing in the Entrepreneur's Journal in 2007 cited KickStart as 'an effective solution to poverty'.

Getting farmers they have already successfully assisted to speak with potential new ventures might also move the focus from the American parentage of the organisation and bring the focus on the benefits and return.

Equipment needs to be designed as simple to use, maintain and understand. The company is already involved in product development programmes to continually explore this aspect, but training and 'picture' based instruction material is important. Perhaps utilising the help of established farmers who use the system already?

Access will continue to be a problem though. However, expanding in steps, encouraging people at each step to provide initial support to those on the next step along might be one way of increasing success rates?

Management Challenge 1.2: The fast food challenge

The current world-wide trends for fast food are under pressure from a range of environmental sources and we do not have to search far for examples of the nature of these. For example, if we consider the wider stakeholders and take pressure groups such as animal rights activists, then there is concern expressed over the link between the required efficiency of meat supply (for example to chicken based chains such as KFC) and the alleged cruelty that this generates in terms of animal management.

Linked to this, differing cultural groups take differing views of animal treatment and so, for a chain, the acceptance of practices in one market might be totally at odds with the acceptances of practices in another – and there will be the inevitable cost and competition implications that this creates.

On another level, there is social pressure on fast food companies, specifically in the west, to act responsibly in terms of addressing high levels of obesity. Such as those reported in the USA and UK. The calorific content, fat, sugar and salt levels in food have all come under scrutiny and the challenges this places on fast food outlets can be looked at in a number of ways. For example, customers may desire the high calorie, high fat/salt foodstuffs, but operational restrictions in some markets might dictate that the menu does not match this. The inevitable consequences might be a loss of custom elsewhere?

This same issue also impacts upon the ability to standardise across markets with the impact upon costs that this implies. In a low sale item business such as this, and one that is highly competitive, margins are important and anything that can impact upon margins can affect viability.

Another consideration is that fast food chains also like to be close to the competition, look at locations and areas that they congregate. The basic market remains similar for all competitors and thus the target markets can be seen in similar places for all of them. In some markets, and China is an example of this, a degree of imitation does occur and a walk down the main shopping areas of Shanghai, for example, will identify not only KFC, but a range of similarly branded and imaged outlets that are in direct competition.

2010/11 also saw an economic downturn and this has had a significant impact upon disposable income and associated spending power, the implications of which are not just around demand levels, but the nature of demand and probable pressures on price driven deals in this sector.

This remains a competitive sector and clearly direct competition based upon price will not be sustainable and thus the effective development of fast food portfolios will depend as much on the image and identity of the brand as it will the products being sold. Linking brand values to the market and retaining the flexibility to adapt to the changing social trends might well, therefore, be a key determinant of long term success.

Notes on PowerPoint slides

Ch1_1: Title Slide

Ch1_2: What is marketing?

Ch1_3: What is international marketing?

Students should be able to differentiate between three levels of marketing: domestic; international and global marketing management.

Ch1_4: Environmental influences on international marketing

Using the SLEPT (Social, Legal, Economic, Political and Technological) approach the various aspects and trends in the international marketing environment are examined through the social/cultural, legal, economic, political and technological dimensions. These are elaborated upon in the following PowerPoint slides.

Ch1_5: Social/cultural influences

Examples of companies which, in failing to take social/cultural influences into account, have made critical errors in new markets.

Ch1_6: Social influences

Future evolution of markets and growth of emerging economies.

Ch1_7: World's Mega Cities

Impact on the market environment from the trend towards large cities over the next 7 years. Consider the implications for trading in international markets - will these represent much smaller, better defined and better accessible, city based units distributed geographically and what industries might represent growth sectors, e.g. sewerage management.

Ch1_8: Environmental Influence on International Marketing

Title slide to place legal and economic factors into context

Ch1_9: The Legal Environment

The legal environment in international marketing is more complicated than the domestic and can be viewed as having 3 dimensions. The slide shows these - local domestic, international, and domestic laws in the firm's home base - and how they may impact the firm.

Ch1_10: Economic Environment

Three levels of economic development are identified: developed triad economies, emerging economies and lesser developed economies. The slide describes some of the characteristics of each. Students may be able to categorise countries into the three levels.

Ch1_11: Working time required to buy a Big Mac

In the 'economic' environment, companies face divergent levels of economic development across international markets. This may cause problems for developing strategies, particularly pricing. The Economist 'Big Mac' Index can be used as an indicator of comparative purchasing power across countries by examining how long the average person must work for to be able to afford a 'Big Mac'.

Ch1_12: Environmental Influences on International Marketing

Title slide to place Political and Technological factors into context

Ch1.13: Political Environment

Political risk is frequently recognised as the major factor in international business decisions especially in terms of whether to invest and how to develop markets. Here, political risk is defined, and the three main areas in which government action may cause potential political risk are identified.

Ch1_14: Technological Environment

Introducing the rate of change within the current environment and, in particular, the growing use of English as a global language of information.

Ch1_15: Global Communications

Providing an opportunity to place the impact of the Internet on world markets into context and provide a level of potential still to be tapped.

Ch1_16: Challenges of the international marketing environment #1

Ch1_17: Challenges of the international marketing environment #2

Ch1_18: Challenges of the international marketing environment #3

Summary of the factors which substantially increase the challenge of international marketing.

Ch1_19: Aspects of International Marketing Planning

A structured view of the considerations and stages underpinning the international planning process. This slide provides a summary of how International Marketing Strategy is organised, and identifies the process used to develop strategy.

Ch1_20: Diversity of stakeholder interest

Identifying the typical stakeholders of an MNE and demonstrating the complexity of stakeholder

management for a firm operating in international markets.

Ch1_21: International marketing strategies: success and failure

Pelmutter identified nine core cross-cultural management incompetences which ultimately led to the failure of companies' international marketing strategies around the world. The first three relate to the failure to be market driven.

Chapter 1 Case Study- Notes

Mo'men Fast Food Chain

Responses to Discussion Questions

- x One of the main challenges that Mo'men faced to expand is the financial resources. Mo'men managed to overcome it through joint ventures and acquisitions. Maintaining the quality is another challenge that Mo'men overcame by developing operation and processes standards to be followed by Mo'men branches. Mo'men products are made of Egyptian ingredients, so in order to expand Mo'men had to secure the supply of the ingredients. The brand name of Mo'men is a problem to market in non Arabic speaking countries.
- x Mo'men succeeded locally by offering a innovative large variety of sandwiches. Mo'men managed to maintain the quality of its product by developing production and process standards. You are served exactly the same sandwiches in all branches. It also created a research and development department responsible for the ongoing development of new successful products. Once Mo'men succeeded locally and by building a good reputation, Mo'men managed to go to the international market through acquisitions and joint ventures.
- x Mo'men founders studied each market they decided to enter independently. They considered the country's social, cultural and economical environments. The finance was another factor Mo'men considered. They secured the financial resources like the deal they had with Actis and acquired already existing players in the market. They stressed the brand's Islamic identity when marketing in the Middle East and the Muslim world. The three brothers are also offering 40% stake in IPO in 2012, to gain trust of investors and maintain transparency with them through corporate governance.
- x Mo'men can focus in its international marketing strategy on the high quality and wide variety of sandwiches. It can also stress its compliance with the international criteria of quality, cleanliness and healthiness of its products. Focusing on what they offer instead on the brand may help to reduce the impact of the name on customers. In addition, the company may highlight its nature being a "Sandwich Company".

References

<http://www.momen-chain.com/profile/>

<http://www.momen-group.com/>

Authored by Lina El Houssamy, and edited by Israa El Sharkawy (adapted from case material previously written for El-Khazindar Business Research and Case Center, KCC, who have granted permission).