within the same corporate system, transcending national boundaries. Although statistical information is scarce, one United Nations official report shows that in 1999, 34 percent of world trade was intra-firm trade between MNCs and their foreign affiliates and among those affiliates, and that additional 33.3 percent of world trade constituted exports by those MNCs and their affiliates. In other words, two-thirds of world trade is managed one way or another by MNCs.[34] These trade ratios have been fairly stable over time.[35]

Although few statistics are available, service industries are going through the same evolution as manufacturing industries on a global basis. Indeed, some similarities exist in intra-firm trade of services. In 2007 alone, world commercial services exports rose by 18 percent to $3.3 trillion. Among the top global service exporters and importers, the United States was still ranked the largest exporter, providing $454 billion of services to the rest of the world. The United States was also the top importer of services, receiving $440 billion worth of services.[36] As stated earlier in the chapter, however, the severe global recession is expected to reduce the global trade for the first time in over 25 years.[37] Today, approximately 16 percent of the total value of U.S. exports and imports of services were conducted across national boundaries on an intra-firm basis.[38] Government deregulation and technological advancement have facilitated the tradability of some services globally and economically.

EVOLUTION OF GLOBAL MARKETING

What Is Marketing?

Marketing is essentially the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large.[39] Marketing is not only much broader than selling, it also encompasses the entire company's *market orientation* toward customer satisfaction in a competitive environment. In other words, marketing strategy requires close attention to both customers and competitors.[40] Quite often marketers have focused excessively on satisfying customer needs while ignoring competitors. In the process, competitors have outmaneuvered them in the marketplace with better, less-expensive products. It is widely believed that in many cases, U.S. companies have won the battle of discovering and filling customer needs initially, only to be defeated in the competitive war by losing the markets they pioneered to European and Japanese competitors.[41]

[34]Khalil Hamdani, "The Role of Foreign Direct Investment in Export Strategy," presented at 1999 Executive Forum on National Export Strategies, International Trade Centre, the United Nations, September 26–28, 1999.

[35]United Nations Center on Transnational Corporations, *Transnational Corporations in World Development: Trends and Perspectives*, New York: United Nations, 1988; Organization for Economic Cooperation and Development, *Intra-Firm Trade*, Paris, OECD, 1993; William J. Zeile, "U.S. Affiliates of Foreign Companies," *Survey of Current Business*, August 2005, pp. 198–214.

[36]*World Trade Report 2008*, Geneva, World Trade Organization, www.wto.org, 2008.

[37]World Bank, *Global Economic Prospect 2009*, www.worldbank.org/gep2009.

[38]Janet Y. Murray and Masaaki Kotabe, "Sourcing Strategies of U.S. Service Companies: A Modified Transaction-Cost Analysis," *Strategic Management Journal*, 20, September 1999, 791-809; Masaaki Kotabe and Janet Y. Murray, "Global Procurement of Service Activities by Service Firms," *International Marketing Review*, 21 (6), 2004, 615–633; for detailed statistics, see Michael A. Mann, Laura L. Brokenbaugh, Sylvia E. Bargas, "U.S. International Services," *Survey of Current Business*, 80, October 2000, pp. 119–61.

[39]This is the definition of marketing adopted by the American Marketing Association in October 2007, and is strongly influenced by Drucker's conception of two entrepreneurial functions—marketing and innovation—that constitute business. Recent thinking about marketing also suggests the task of the marketer is not only to satisfy the current needs and wants of customers, but also to innovate on products and services, anticipating and even creating their future needs and wants. See Peter F. Drucker, *The Practice of Management* (New York: Harper & Brothers, 1954), pp. 37–39; and also Frederick E. Webster, Jr., "The Changing Role of Marketing in the Corporation," *Journal of Marketing*, 56 (October 1992), pp. 1–16.

[40]Aysegül Özsomer and Bernard Simonin, "Antecedents and Consequences of Market Orientation in a Subsidiary Context," *Enhancing Knowledge Development in Marketing*, 1999 American Marketing Association Educators' Proceedings, Summer 1999, p. 68.

[41]Robert M. Peterson, Clay Dibrell, and Timothy L. Pett, "Whose Market Orientation is Longest: A Study of Japan, Europe, and the United States," *Enhancing Knowledge Development in Marketing*, 1999 American Marketing Association Educators' Proceedings, Summer 1999, p. 69.

It is increasingly difficult for companies to avoid the impact of competition from around the world and the convergence of the world's markets. As a result, an increasing number of companies are drawn into marketing activities outside their home country. However, as previously indicated, different companies approach marketing around the world very differently. For example, Michael Dell established Dell Computer because he saw a burgeoning market potential for IBM-compatible personal computers in the United States. After his immediate success at home, he realized a future growth potential would exist in foreign markets. Then his company began exporting Dell PCs to Europe and Japan. In a way this was a predictable pattern of foreign expansion. On the other hand, not all companies go through this predictable pattern. Think about a notebook-sized Macintosh computer called the PowerBook 100 that Apple Computer introduced in 1991. In 1989, Apple enlisted Sony, the Japanese consumer electronics giant, to design and manufacture this notebook computer for both the U.S. and Japanese markets.[42] Sony has world-class expertise in miniaturization and has been a supplier of disk drives, monitors, and power supplies to Apple for various Macintosh models. In an industry such as personal computers, where technology changes quickly and the existing product becomes obsolete in a short period of time, a window of business opportunity is naturally limited. Therefore, Apple's motivation was to introduce the notebook computer on the markets around the world as soon as it could before competition picked up.

Companies generally develop different marketing strategies depending on the degree of experience and the nature of operations in international markets. Companies tend to evolve over time, accumulating international business experience and learning the advantages and disadvantages associated with complexities of manufacturing and marketing around the world.[43] As a result, many researchers have adopted an evolutionary perspective of internationalization of the company just like the evolution of the species over time. In the following pages we will formally define and explain five stages that characterize the evolution of global marketing. Of course, not all companies go through the complete evolution from a purely domestic marketing stage to a purely global marketing stage. An actual evolution depends also on the economic, cultural, political, and legal environments of various country markets in which the company operates, as well as on the nature of the company's offerings. A key point here is that 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). Remember, "if you stand still, you will get run over."

Therefore, knowing the dynamics of the evolutionary development of international marketing involvement is important for two reasons. First, it helps in the understanding of how companies learn and acquire international experience and how they use it for gaining competitive advantage over time. This may help an executive better prepare for the likely change needed in the company's marketing strategy. Second, with this knowledge, a company may be able to compete more effectively by predicting its competitors' likely marketing strategy in advance.

As shown in **Exhibit 1.2**, there are five identifiable stages in the evolution of marketing across national boundaries.[44] These evolutionary stages are explained below.

Domestic Marketing

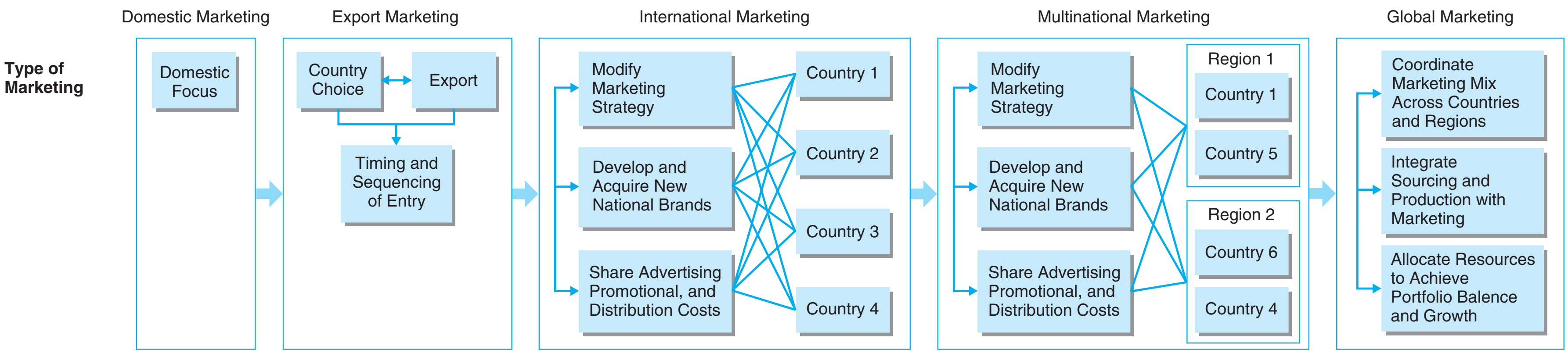
The first stage is **domestic marketing**. Before entry into international markets, many companies focus solely on their domestic market. Their marketing strategy is developed based on information about domestic customer needs and wants, industry trends,

[42]"Apple's Japanese Ally," *Fortune* (November 4, 1991), pp. 151–52.

[43]Anna Shaojie Cui, David A. Griffith, S. Tamer Cavusgil, "The Influence of Competitive Intensity and Market Dynamism on Knowledge Management Capabilities of Multinational Corporation Subsidiaries," *Journal of International Marketing*, 13 (3), 2005, pp. 32–53).

[44]This section draws from Balaj S. Chakravarthy and Howard V. Perlmutter, "Strategic Planning for A Global Business," *Columbia Journal of World Business* (Summer 1985), pp. 3–10; Susan P. Douglas and C. Samuel Craig, "Evolution of Global Marketing Strategy: Scale, Scope and Synergy," *Columbia Journal of World Business* 24 (Fall 1989), pp. 47–59.

EXHIBIT 1-2
EVOLUTION OF GLOBAL MARKETING



	Domestic Marketing	Export Marketing	International Marketing	Multinational Marketing	Global Marketing
Orientation	Ethnocentric	Ethnocentric	Polycentric	Regiocentric	Geocentric
Product Planning	Product development for home country customers	Product development determined primarily by the needs of home country customers	Local product development based on local needs	Standarize within region, but not across	Global product, with local variations
Marketing Mix Decisions	Made at headquarters	Made at headquarters	Made in each country	Made regionally	Made jointly with mutual consulation

Sources: Constructed from Susan P. Douglas and C. Samuel Craig, "Evolution of Global Marketing Strategy: Scale, Scope and Synergy," Columbia Journal of World Business, 24 (Fall 1985), p. 50; and Balai S. Chakravarthy and Howard V. Perlmutter, "Strategic Planning for a Global Business," Columbia Journal of World Business, 20 (Summer 1985), p. 6.

economic, technological, and political environments at home. When those companies consider competition, they essentially look at domestic competition. Today, it is highly conceivable that competition in a company's home market is made up of both domestic competitors and foreign competitors marketing their products in the home market. Domestic marketers tend to be *ethnocentric* and pay little attention to changes taking place in the global marketplace, such as changing lifestyles and market segments, emerging competition, and better products that have yet to arrive in their domestic market. *Ethnocentrism* is defined here as a predisposition of a firm to be predominantly concerned with its viability worldwide and legitimacy only in its home country[45]—that is, where all strategic actions of a company are tailored to domestic responses under similar situations. As a result, they may be vulnerable to the sudden changes forced on them by foreign competition. For example, U.S. automakers suffered from this ethnocentrism in the 1960s and 1970s as a result of their neglect of imminent competition from Japanese automakers with more fuel-efficient cars that would eventually seize a market opportunity in the United States as a result of the two major oil crises in the 1970s.

Export Marketing

The second stage is **export marketing**. Usually, export marketing begins with unsolicited orders from foreign customers. When a company receives an order from abroad, initially it may fill it reluctantly, but it gradually learns the benefit of marketing overseas. In general, in the early stage of export marketing involvement, the internationalization process is a consequence of incremental adjustments to the changing conditions of the company and its environment, rather than a result of its deliberate strategy. Such a pattern is due to the consequence of greater uncertainty in international business, higher costs of information, and the lack of technical knowledge about international marketing activities. 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.

Some companies progress to a more involved stage of internationalization by *direct exporting*, once three internal conditions are satisfied. First, the management of the company obtains favorable expectations of the attractiveness of exporting based on experience. Second, the company has access to key resources necessary for undertaking additional export-related tasks. Such availability of physical, financial, and managerial resources is closely associated with firm size. Particularly small companies may have few trained managers and little time for long-term planning, as they are preoccupied with day-to-day operational problems; consequently, they find it difficult to become involved in exporting. Third, management is willing to commit adequate resources to export activities.[46] The company's long-term commitment to export marketing depends on how successful management is in overcoming various barriers encountered in international marketing activities. An experienced export marketer has to deal with difficulties in maintaining and expanding export involvement. These difficulties include import/export restrictions, cost and availability of shipping, exchange rate fluctuations, collection of money, and development of distribution channels, among others. Overall, favorable experience appears to be a key component in getting companies involved in managing exports directly without relying on specialized outside export handlers. To a large degree an appropriate measure of favorableness for many companies consists of profits. An increase in profits due to a certain activity is likely to increase the company's interest in such activity.[47]

External pressures also prod companies into export marketing activities. Saturated domestic markets may make it difficult for a company to maintain sales volume in an

[45]Chakravarthy and Perlmutter, pp. 3–10.

[46]S. Tamer Cavusgil, "On the Internationalization Process of Firms," *European Research*, 8 (November 1980), pp. 273–79.

[47]Masaaki Kotabe and Michael R. Czinkota, "State Government Promotion of Manufacturing Exports: A Gap Analysis," *Journal of International Business Studies*, 23 (Fourth Quarter 1992), pp. 637–58.

increasingly competitive domestic market; it will become much more serious when foreign competitors begin marketing products in the domestic market. Export marketers begin paying attention to technological and other changes in the global marketplace that domestic marketers tend to ignore. However, export marketers still tend to take an ethnocentric approach to foreign markets as being an extension of their domestic market and export products developed primarily for home country customers with limited adaptation to foreign customers' needs.

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. We call this stage **international marketing**. A unique feature of international marketing is its *polycentric* orientation with emphasis on product and promotional adaptation in foreign markets, whenever necessary.[48] Polycentric orientation refers to a predisposition of a firm to the existence of significant local cultural differences across markets, necessitating the operation in each country being viewed independently (i.e., all strategic decisions are thus tailored to suit the cultures of the concerned country). As the company's market share in a number of countries reaches a certain point, it becomes important for the company to defend its position through local competition. Because of local competitors' proximity to, and familiarity with, local customers, they tend to have an inherent "insider" advantage over foreign competition. To strengthen its competitive position, the international marketer could adapt its strategy, if necessary, to meet the needs and wants of local customers in two alternative ways. First, the company may allocate a certain portion of its manufacturing capacity to its export business. Second, because of transportation costs, tariffs, and other regulations, and availability of human and capital resources in the foreign markets, the company may even begin manufacturing locally. BMW has been exporting its cars to the United States for many years. In 1992, the German company invested in a manufacturing plant in South Carolina in order to be more adaptive to changing customer needs in this important market, and to take advantage of rather inexpensive resources as a result of the dollar depreciation against the euro. Accordingly, BMW South Carolina has become part of BMW Group's global manufacturing network and is the exclusive manufacturing plant for all Z4 roadster and X5 Sports Activity Vehicles.[49]

If international marketing is taken to the extreme, a company may 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. This special case of international marketing is known as **multidomestic marketing**. Product development, manufacturing, and marketing are all executed by each subsidiary for its own local market. As a result, different product lines, product positioning, and pricing may be observed across those subsidiaries. Few economies of scale benefits can be obtained. However, multidomestic marketing is useful when customer needs are so different across different national markets that no common product or promotional strategy can be developed. Even Coca-Cola, which used to practice globally standardized marketing strategy, changed its strategy when it found that its structure had become too cumbersome and that it was insensitive to local markets. In 2000, the company decided to return to a more multidomestic marketing approach and to give more freedom to local subsidiaries. Local marketing teams are now permitted to develop advertising to local consumers and even launch new local brands.[50]

Multinational Marketing

At this stage, the company markets its products in many countries around the world. We call this stage **multinational marketing**. Management of the company comes to realize the benefit of economies of scale in product development, manufacturing, and marketing by consolidating some of its activities on a regional basis. This *regiocentric* approach suggests

[48]Warren J. Keegan, "Multinational Product Planning: Strategic Alternatives," *Journal of Marketing*, 33 (January 1969), pp. 58–62.

[49]http://www.bmwusa.com/about/, accessed January 27, 2006.

[50]Isabelle Schuiling and Jean-Noël Kapferer, "Real Differences between Local and International Brands: Strategic Implications for International Marketers," *Journal of International Marketing*, 12 (4), 2004, pp. 97–112.

that product planning may be standardized within a region (e.g., a group of contiguous and similar countries), such as Western Europe, but not across regions. Products may be manufactured regionally as well. Similarly, advertising, promotion, and distribution costs may also be shared by subsidiaries in the region. In order for the company to develop its regional image in the marketplace, it may develop and acquire new regional brands to beef up its regional operations. Caterpillar now has a regional headquarters in Europe that has united and integrated its geographically diverse organizations, and a unique joint venture with Mitsubishi Heavy Industries to meet the exacting Japanese quality standards for the Japanese market and beyond.

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, nonetheless. Operational fragmentation leads to higher costs. When many Japanese companies entered the world markets as low-cost manufacturers of reliable products in the 1970s, well-established U.S. and European multinational companies were made acutely aware of their vulnerability as high-cost manufacturers. Levitt,[51] an arduous globalization proponent, argues:

> Gone are accustomed differences in national or regional preference. Gone are the days when a company could sell last year's models—or lesser versions of advanced products—in the less developed world. . . . The multinational and the global corporation are not the same thing. The multinational corporation operates in a number of countries, and adjusts its products and practices in each—at high relative costs. The global corporation operates with resolute constancy—at low relative cost—as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere.

Global marketing refers to marketing activities by companies that emphasize the following:

1. *Standardization efforts*—standardizing marketing programs across different countries particularly with respect to product offering, promotional mix, price, and channel structure. Such efforts increase opportunities for the transfer of products, brands, and other ideas across subsidiaries and help address the emergence of global customers
2. *Coordination across markets*—reducing cost inefficiencies and duplication of efforts among their national and regional subsidiaries
3. *Global Integration*—participating in many major world markets to gain competitive leverage and effective integration of the firm's competitive campaigns across these markets by being able to subsidize operations in some markets with resources generated in others and responding to competitive attacks in one market by counterattacking in others.[52]

Although Levitt's view is somewhat extreme, many researchers agree that global marketing does not necessarily mean standardization of products, promotion, pricing, and distribution worldwide, but rather it is a company's proactive willingness to adopt a global perspective instead of country-by-country or region-by-region perspective in developing a marketing strategy. Clearly, not all companies adopt global marketing. Yet an increasing number of companies are proactively trying to find commonalities in their marketing strategy among national subsidiaries (see **Global Perspective 1-3**). For example, Black & Decker, a U.S. manufacturer of hand tools, adopted a global perspective by standardizing and streamlining components such as motors and rotors while maintaining a wide range of product lines, and created a universal image for its products. In this case, it was not standardization of products per se but rather the company's effort at standardizing key components and product design for manufacturability in the manufacturing industry and core, supplementary services in the service

[51] Theodore Levitt, "The Globalization of Markets," *Harvard Business Review*, 61 (May–June) 1983, pp. 92–102.

[52] Shaoming Zou and S. Tamer Cavusgil, "The GMS: A Broad Conceptualization of Global Marketing Strategy and Its Effect on Firm Performance," *Journal of Marketing*, 66, October 2002, pp. 40–56.