University of Southern California
Marshall School of Business

BUAD 307 Marketing Fundamentals
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SUMMARY OF CLASSROOM MATERIAL

INTERNATIONAL MARKETING

Cultural lessons. We considered several cultural lessons in class; the important thing here is the big picture. For example, within the Muslim tradition, the dog is considered a "dirty" animal, so portraying it as "man's best friend" in an advertisement is counter-productive. Packaging, seen as a reflection of the quality of the "real" product, is considerably more important in Asia than in the U.S., where there is a tendency to focus on the contents which "really count." Many cultures observe significantly greater levels of formality than that typical in the U.S., and Japanese negotiator tend to observe long silent pauses as a speaker's point is considered.

Product Need Satisfaction. We often take for granted the "obvious" need that products seem to fill in our own culture; however, functions served may be very different in others—for example, while cars have a large transportation role in the U.S., they are impractical to drive in Japan, and thus cars there serve more of a role of being a status symbol or providing for individual indulgence. In the U.S., fast food and instant drinks such as Tang are intended for convenience; elsewhere, they may represent more of a treat. Thus, it is important to examine through marketing research consumers' true motives, desires, and expectations in buying a product.

Exchange rates come in two forms:

- *"Floating"*—here, currencies are set on the open market based on the supply of and demand for each currency. For example, all other things being equal, if the U.S. imports more from Japan than it exports there, there will be less demand for U.S. dollars (they are not desired for purchasing goods) and more demand for Japanese yen—thus, the price of the yen, in dollars, will increase, so you will get fewer yen for a dollar.
- *"Fixed"*—currencies may be "pegged" to another currency (e.g., the Argentine currency is guaranteed in terms of a dollar value), to a composite of currencies (i.e., to avoid making the currency dependent entirely on the U.S. dollar, the value might be 0.25*U.S. dollar+4*Mexican peso+50*Japanese yen+0.2*German mark+0.1*British pound), or to some other valuable such as gold. Note that it is very difficult to maintain these fixed exchange rates—governments must buy or sell currency on the open market when currencies go outside the accepted ranges. Fixed exchange rates, although they produce stability and predictability, tend to get in the way of market forces—if a currency is kept artificially low, a country will tend to export too much and import too little.

Trade balances and exchange rates. When exchange rates are allowed to fluctuate, the currency of a country that tends to run a trade deficit will tend to decline over time, since

there will be less demand for that currency. This reduced exchange rate will then tend to make exports more attractive in other countries, and imports less attractive at home.

Measuring country wealth. There are two ways to measure the wealth of a country. The *nominal per capita gross domestic product (GDP)* refers to the value of goods and services produced per person in a country if this value in local currency were to be exchanged into dollars. Suppose, for example, that the per capita GDP of Japan is 3,500,000 yen and the dollar exchanges for 100 yen, so that the per capita GDP is (3,500,000/100)=$35,000. However, that $35,000 will not buy as much in Japan—food and housing are much more expensive there. Therefore, we introduce the idea of *purchase parity adjusted* per capita GDP, which reflects what this money can buy in the country. This is typically based on the relative costs of a weighted "basket" of goods in a country (e.g., 35% of the cost of housing, 40% the cost of food, 10% the cost of clothing, and 15% cost of other items). If it turns out that this measure of cost of living is 30% higher in Japan, the purchase parity adjusted GPD in Japan would then be ($35,000/(130%) = $26,923. (The Gross Domestic Product (GPD) and Gross National Product (GNP) are almost identical figures. The GNP, for example, includes income made by citizens working abroad, and does not include the income of foreigners working in the country. Traditionally, the GNP was more prevalent; today the GPD is more commonly used—in practice, the two measures fall within a few percent of each other.)

In general, the nominal per capita GPD is more useful for determining local consumers' ability to buy imported goods, the cost of which are determined in large measure by the costs in the home market, while the purchase parity adjusted measure is more useful when products are produced, at local costs, in the country of purchase. For example, the ability of Argentinians to purchase micro computer chips, which are produced mostly in the U.S. and Japan, is better predicted by nominal income, while the ability to purchase toothpaste made by a U.S. firm in a factory in Argentina is better predicted by purchase parity adjusted income.

It should be noted that, in some countries, income is quite unevenly distributed so that these average measures may not be very meaningful. In Brazil, for example, there is a very large underclass making significantly less than the national average, and thus, the national figure is not a good indicator of the purchase power of the mass market. Similarly, great regional differences exist within some countries—income is much higher in northern Germany than it is in the former East Germany, and income in southern Italy is much lower than in northern Italy.

Approaches to Product Introduction. Firms face a choice of alternatives in marketing their products across markets. An extreme strategy involves *customization*, whereby the firm introduces a unique product in each country, usually with the belief tastes differ so much between countries that it is necessary more or less to start from "scratch" in creating a product for each market. On the other extreme, *standardization* involves making one global product in the belief the same product can be sold across markets without significant modification—e.g., Intel microprocessors are the same regardless of the country in which they are sold. Finally, in most cases firms will resort to some kind of *adaptation*, whereby a common product is modified to some extent when moved between some markets—e.g., in the United States, where fuel is relatively less expensive, many cars have larger engines than their comparable models in Europe and Asia; however, much of the design is similar or identical, so some economies are achieved. Similarly, while Kentucky Fried Chicken serves much the same chicken with the eleven herbs and spices in Japan, a lesser amount of sugar is used in the potato salad, and fries are substituted for mashed potatoes.

There are certain benefits to standardization. Firms that produce a global product can obtain *economies of scale in manufacturing*, and higher quantities produced also lead to *a faster advancement along the experience curve*. Further, it is *more feasible to establish a global brand* as less confusion will occur when consumers travel across countries and see the same product. On the down side, there may be significant differences in desires between cultures and physical environments—e.g., software sold in the U.S. and Europe will often utter a "beep" to alert the user when a mistake has been made; however, in Asia, where office workers are often seated closely together, this could cause embarrassment.

Adaptations come in several forms. *Mandatory* adaptations involve changes that have to be made before the product can be used—e.g., appliances made for the U.S. and Europe must run on different voltages, and a major problem was experienced in the European Union when hoses for restaurant frying machines could not simultaneously meet the legal requirements of different countries. *"Discretionary"* changes are changes that do not have to be made before a product can be introduced (e.g., there is nothing to prevent an American firm from introducing an overly sweet soft drink into the Japanese market), although products may face poor sales if such changes are not made. Discretionary changes may also involve cultural adaptations—e.g., in *Sesame Street*, the Big Bird became the Big Camel in Saudi Arabia.

Another distinction involves *physical product* vs. *communication* adaptations. In order for gasoline to be effective in high altitude regions, its octane must be higher, but it can be promoted much the same way. On the other hand, while the same bicycle might be sold in China and the U.S., it might be positioned as a serious means of transportation in the former and as a recreational tool in the latter. In some cases, products may not need to be adapted in either way (e.g., industrial equipment), while in other cases, it might have to be adapted in both (e.g., greeting cards, where the both occasions, language, and motivations for sending differ). Finally, a market may exist abroad for a product which has no analogue at home—e.g., hand-powered washing machines.

Country of origin effects. Traditionally, a product's country of origin has had a considerable impact on how the product is perceived by consumers. Some countries were thought to be good at making certain things (e.g., the French being famous for wine and cheese with the Germans and Japanese being known for manufacturing excellence). One country could have a good reputation for one type of product but not for another. For example, the British might be perceived as a high quality maker of sports automobiles but a poor quality maker of food. A beer brewer in France and a wine maker in Germany—both being near the border to the other country—deliberately obscured the origin of the products to avoid being judged negatively. Some firms may engage in the dubiously ethical practice of giving a product an appearance of being associated with—if not being outright manufactured in—a country with a favorable origin impact on the product. For example, a manufacturer of perfume might print the instructions on the container in French even if there is no intention of exporting the product to—let alone making the product in—France.

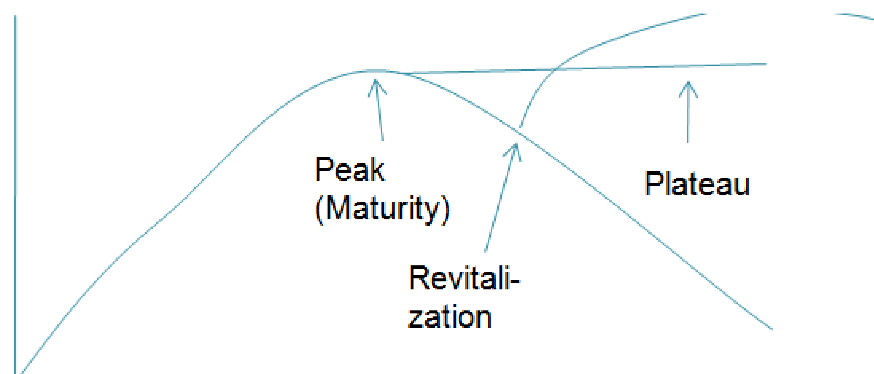
Today, the world of manufacturing is more complicated. Consumers are increasingly aware that products are often not made in the country associated with the brand. Many Sony products, for example, are produced in countries other than Japan. Many "Japanese" cars made for the U.S. market are now manufactured in North America.

It is now also recognized that high quality products can be designed and made in countries such as South Korea and even China. Few people know in which country a particular model of the Apple iPod® has been made. The country-of-origin effect today, then, is considerably less than it has been in the past.

The International Product Life Cycle (IPLC). Most products that have not been available since antiquity have gone through—or are going through—a Product Life Cycle (PLC) . When products are first introduced, they are typically adopted by only a modest proportion of consumers. Sometimes, it takes considerable time for many consumers *even to become aware that these products exist*. Even when consumers are aware that a new product exists, many consumers fail to immediately adopt the product. Some of the reasons include:

- The technology may not be well developed. This means that a product may be bulky, unreliable, and difficult to use.
- Early in the product life cycle, the price of a product is often relatively high. Only when prices come down with increased competition and lower costs of production that result from the "experience curve" does the product become cost effective.

Although later phases of the PLC may take on different shapes as illustrated below, early sales are often limited:



The International Product Life Cycle (IPLC) adds an international angle, suggesting that certain products will spread earlier in some countries than they will in others. For consumer products, the question is often one of *how many* people adopt a particular product rather than when the first consumers in that country will do so. There are, for example, almost certainly people in every country who have adopted MP3 players although the penetration of this product is very low in some countries.

There are two ways in which the IPLC shows itself.

1. *Adoption of consumer goods*. Consumers in certain countries will be ready for a new product more quickly, on the average, than will consumers in another. Many electronic products tend to be first adopted in Japan and in the U.S., after which they spread to other countries gradually. The ability of consumers to afford the product will, of course, have some influence here, but there is also an issue as to how much "progress" is valued in each country. Consumers in some countries are more receptive to new products—with the risks and disruptions that they may cause—than are others.
2. *Resale of Capital Goods*. "Capital goods" are machines, equipment, and other products used to produce end goods or services for consumers. This category includes manufacturing equipment and transportation equipment such as busses and commercial aircraft. Frequently, such equipment has a long useful lifespan—longer than it can be used in the country where it was first bought. For example, commercial passenger aircraft are manufactured to be able, in principle, to last one hundred years with proper maintenance. For safety reasons, commercial aircraft are only actually

intended to be used for some fifty years, leaving a large safety margin. Even that time span, however, is too long for the aircraft to be attractive in the original country. Older aircraft tend to be noisy and fuel inefficient. Passengers in developed countries generally do not like to fly in the older aircraft which are less pleasant and less confidence inspiring. Therefore, airlines in developed countries will usually sell off their older aircraft after only twenty years or less. Some are bought by cargo air firms, but most are sold to airlines in developing countries. Although fuel costs are higher with these dated aircraft, it may be possible for the airlines in developing countries to finance the old aircraft. It may be difficult for airlines in these countries to get loans to buy newer aircraft, and leasing firms may be reluctant to lease an aircraft to an airline in a developing country since repossessing such aircraft in the even to default on lease payments may be difficult. A variation involves manufacturing equipment that is not considered safe or efficient in the developed world. For example, canning equipment—machines that seal food into cans—is often used only during the season for a particular product and will therefore tend to last relatively long. In earlier times, canning machines used three part cans—the cylinder, a round bottom, and a round top. Today, two part canning machines—where only the top cover needs to be inserted after the food has been entered—are preferred in developed countries.

Promotional objectives. We will consider this issue in more detail toward the end of the semester when we cover the topic of promotion. For now, suffice it to say that a particular product category—or brand—may face different promotional needs in different countries. The "Hierarchy of Effects" suggests that certain objectives must be accomplished before others can be successfully attempted. Consumers must actually be *aware that a product exists* before they can become interested in using the product. In many developing countries, then, there may be a need to focus on "early" objectives such as awareness and product trial. In more mature economies, the emphasis will tend to be on consumer attitudes (often in the form of product differentiation) or the spurring of temporary sales. For example, in the U.S., there is little that McDonald's or Coca Cola can do in terms of advertising to significantly increase long term sales. Most people here are aware of these brands and have their opinions and perceptions fairly well settled. Therefore, unless these firms decide to fundamentally change the product these firms produce, their campaigns will usually focus on creating increases in short term sales. This might be accomplished by price promotions or by offering some premium (e.g., a "Happy Meal" or a popular toy).

Constraints on global communication. We will address this topic in more detail during our coverage of promotion. For now, it should be noted that there are issues in advertising similar to those faced in deciding on the extent to which products should be adapted across countries. Cultural differences often lead to differences in expectations between countries, suggesting that advertising messages suitable for one country will be ineffective in others. Different languages may not lend themselves well to expressing an idea highlighted in an advertisement for a country with a different language.

Symbolism. Over time, a culture will tend to develop an association of symbolic meaning with certain objects and concepts. In the United States, for example, the number thirteen is often considered unlucky. In China, the number four is considered unlucky since, in Mandarin, the word for "four" sounds like the word for "death." Many Chinese Americans initially settled in the San Gabriel Valley, perhaps in part because of the "lucky" area code—818—that used to cover this area. The word for eight sounded much like the word for rich, and the number one like the word for "easy," so "818" became "rich easy rich." Unfortunately, the growth in cell phones, fax machines, and pagers necessitated an area code split, and the San Gabriel Valley ended up with the very unlucky area code of 626. The problem here is that the digits add up to 6+2+6=14, and the number "fourteen" sounds much like the word for "instant death." In the U.S., the color green—aside from its environmental connotations—is associated with freshness and cleanliness. In parts of Latin America,

however, the color is associated with the jungle and the dangers that this environment entails. In the U.S., the Marlboro man riding on his horse in the open country tends to be associated with a feeling of freedom and openness. In Hong Kong, however, the idea of riding in the dust on a sweaty horse was rather unattractive, so the Marlboro man was made into a sophisticated city dweller.

Humor. Although humor appears to be a universal phenomenon across cultures, humor often does not translate very well. For one thing, humor—at least in the Western World—often comes about through irony. When people in different cultures have different expectations, the incongruities seen as funny in one country are not evident in another. Aside from irony, the setting of a scene—and the understanding of what is supposed to go on—may be lacking. Sometimes, there may also be some issues on plays on words that simply do not translate well. Some sounds may also be funnier than others. In English, for example, the sound of the letter *k* is often perceived as funny. A joke that is set in Cumberland, Kentucky may be seen as funny while the identical joke, if set in Cincinnati, Ohio, may not be.

U.S. laws of particular interest to firms doing business abroad.

- *Anti-trust*. U.S. antitrust laws are generally enforced in U.S. courts even if the alleged transgression occurred outside U.S. jurisdiction. For example, if two Japanese firms collude to limit the World supply of VCRs, they may be sued by the U.S. government (or injured third parties) in U.S. courts, and may have their U.S. assets seized.
- *The Foreign Corrupt Influences Act* came about as Congress was upset with U.S. firms' bribery of foreign officials. Although most if not all countries ban the payment of bribes, such laws are widely flaunted in many countries, and it is often useful to pay a bribe to get foreign government officials to act favorably. Firms engaging in this behavior, even if it takes place entirely outside the U.S., can be prosecuted in U.S. courts, and many executives have served long prison sentences for giving in to temptation. In contrast, in the past some European firms could actually deduct the cost of foreign bribes from their taxes! There are some gray areas here—it may be legal to pay certain "tips" –known as "facilitating payments"—to low level government workers in some countries who rely on such payments as part of their salary so long as these payments are intended only to speed up actions that would be taken anyway. For example, it may be acceptable to give a reasonable (not large) facilitating payment to get customs workers to process a shipment faster, but it would <u>not</u> be legal to pay these individuals to change the classification of a product into one that carries a lower tariff.
- *Anti-boycott laws*. Many Arab countries maintain a boycott of Israel, and foreigners that want to do business with them may be asked to join in this boycott by stopping any deals they do with Israel and certifying that they do not trade with that country. It is illegal for U.S. firms to make this certification even if they have not dropped any actual deals with Israel to get a deal with boycotters. Technically, it is illegal to participate in boycotts of other countries not sanctioned by the U.S. Government, but the emphasis is on Israel.
- *Trading With the Enemy*. With a few very limited exceptions, it is illegal for U.S. firms to trade with certain countries that are viewed to be hostile to the U.S.—e.g., Cuba, North Korea, Libya and Iran. The idea is that trade will strengthen these enemies, thus giving them greater strength to harm the U.S. or its allies. There are also certain product categories—e.g., high

speed computers—that are subject to certain export limitations so that these products will not end up in the hands of U.S. enemies. Sometimes, advances in certain types of technology will make very simple computers—and occasionally even high end video games—off limits for exportation since it is believed that these devices could be modified to be used in military applications.

- *Extra*-terretoriality. In some instances, U.S. law will be applied by U.S. courts to behavior that took place entirely abroad