INTERNATIONAL
MARKETING
(Text and Cases)

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Preface to the Fourteenth Revised Edition

This book is patterned after the Model Curriculum recommended by the UGC and it covers the syllabi of the following papers of different courses.

**MBA**
- MM 3204 International Marketing
- IB 4105 International Marketing

**MIB/MBA (International Marketing)**
- MIB 2.5 International Marketing

**MEC (Master of E-Commerce)**
- MEC 2.5 International Marketing

**M.Com.**
- MC 2.73 International Marketing

**M.M. (Master of Marketing)**
- MM 2.5 International Marketing

**BIB (Bachelor of International Business)**
- IB 3.3 International Marketing

**B.M. (Bachelor of Marketing)**
- BM 3.3 International Marketing

This edition is characterised by updating of information throughout the text.

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_Cochin, Dr. Francis Cherunilam_  
_June 21, 2015_
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The discipline of International Marketing is gaining more and more importance with the advancing universal liberalisation and the concomitant globalisation. This book, acclaimed for its succinct treatment of the subject and lucid style, provides a comprehensive picture of the various aspects and dimensions of and trends in International Marketing with an Indian perspective.

The book is patterned after the Model Curriculum recommended by the UGC and it covers the syllabi of the International Marketing paper of different courses such as MBA, MIB/MBA (International Marketing), MEC (Master of E-Commerce), M.Com., M.M. (Master of Marketing), BIB (Bachelor of International Business), B.M. (Bachelor of Marketing) etc.

The text is supplemented with several cases.

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INTERNATIONAL MARKETING: AN INTRODUCTION

The marketing environment across the world has been becoming more and more global. It is true not only in the competitive and technological dimensions but also in the socio-cultural dimensions. In other words, the marketing environment is global for firms from national to local, including many tiny enterprises. Considering this fact, this author would define International Marketing as marketing in an internationally competitive environment, whether the market is home or foreign.

As Thomas L. Friedman points out in the well-known book “The World is Flat”, the technological revolution that was levelling the global economic playing field and enabling so many more people around the world to compete, connect, and collaborate has been ushering in a new phase of globalisation that would have a huge impact on economics, politics, and military and social affairs.

Globalisation, in fact, has implications not only for business but also for other organisations and individuals. The following two anecdotes expose this. Peter Drucker observes in the Management Challenges for the 21st Century: “No institution, whether a business, a university or hospital, can hope to survive, let alone to succeed, unless it measures up to the standards set by the leaders in its field any place in the world.” The ramifications of globalisation, thus, is all pervasive.

As a result of the liberalisation and globalisation, the marketing environment across the world has been becoming more and more global.

As a result of the globalisation of even the domestic business environment, the major competition which many Indian firms encounter in the home market now, for instance, is from foreign firms – they now face a substantially growing competition from goods produced in India by MNCs and imports. In short, national markets are being internationalised/globalised by imports and foreign investment. Look at, for example, the competition which Nirma, whose market is almost entirely confined to India, is encountering. Its major competitors are multinational giants like Unilever, Procter and Gamble (P&G) and Henkel. Apart from goods manufactured in India by the multinational outfits, Nirma also faces competition from imported products. Further, there is competition from large and small Indian firms.

It is obvious that in the domestic market, Nirma is competing against the technological, financial, marketing, managerial and prowess of multinationals and domestic firms.
Even tiny local enterprises face severe foreign competition. For example, a wayside shop selling local products like fresh lime soda or *nimbu pani* and fresh juice encounter competition from natural and synthetic beverages marketed by multinationals.

The tiny enterprises, however, often take advantage of the emerging environment by selling competing products, including that of the MNCs, along with their own. In fact, they benefit by dealing in fast moving items in other categories too. Indeed, the tiny entrepreneur does an excellent optimisation of his highly limited shop space, capital and human resource by the prudent choice of the product mix. Many such shops also sell a number of foreign goods. It is often said that distribution is one of the most important factors in international marketing. But one who takes a look at the foreign goods – both durable and non-durable, sold on the footpaths and other unorganised bazars, would marvel at the channels of distribution of foreign goods.

In short, marketing environment ubiquitously has become global, tempting one to think that marketing invariably is international/global.

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**Box 1.1**

**Indicators of Globalisation**

There are several indicators that illustrate how goods, capital, and people have become more globalised. (In this sub-sections, the pre-global economic crisis (which started in 2008) statistics are given)

- The value of trade (goods and services) as a percentage of world GDP increased from 42 in 1980 to 62 in 2007 and was 60 in 2013.
- Foreign direct investment stock increased from 11 per cent of world GDP in 1995 to 30 per cent in 2010.
- The stock of international claims (primarily bank loans), as a percentage of world GDP, increased from roughly 10 per cent in 1980 to 48 per cent in 2006.
- The number of minutes spent on cross-border telephone calls, on a per capita basis, increased from 7.3 in 1991 to 28.8 in 2006.
- The number of foreign workers has increased from 78 million people (2.4 per cent of the world population) in 1965 to 191 million people (3.0 per cent of the world population) in 2005 and the rising trend has continued.

The growth in global markets has helped to promote efficiency through competition and the division of labour — the specialisation that allows people and economies to focus on what they do best. Global markets also offer greater opportunity for people to tap into more diversified and larger markets around the world. It means that they can have access to more capital, technology, cheaper imports, and larger export markets. But markets do not necessarily ensure that the benefits of increased efficiency are shared by all. Countries must be prepared to embrace the policies needed, and, in the case of the poorest countries, may need the support of the international community as they do so.

The world’s financial markets have experienced a dramatic increase in globalisation in recent years. Global capital flows fluctuated between 2 and 6 per cent of world GDP during the period 1980-95, but since then they have risen to 14.8 per cent of GDP, and in 2006 they totalled $ 7.2 trillion, more than tripling since 1995. The most rapid increase has been experienced by advanced economies, but emerging markets and developing countries have also become more financially integrated. As countries have strengthened their capital markets they have attracted more investment capital, which can enable a broader entrepreneurial class to develop, facilitate a more efficient allocation of capital, encourage international risk sharing, and foster economic growth.

*Courtesy: IMF Staff, “Globalisation: A Brief Overview”, *IMF Survey*, 08/02 May 2008 (Statistics updated).*
EXPANSION OF INTERNATIONAL MARKET

Statistics clearly show that the international market is much more dynamic and is growing much faster than the domestic market. One of the most important facts of this is the difference between the growth rate of the GDP and the global trade. For a long time now international trade has been growing at almost twice the rate of the global GDP. In other words, the proportion of the domestic output sold in the foreign markets has been growing faster than the growth of the domestic income or market. As a result of this, the export-GDP ratio (i.e., the value of exports expressed as a percentage of the GDP) has been increasing in all categories of economies. The growth was faster for the developing economies. In 2013, the export-GDP ratio was 31 per cent for developing economies and 22 per cent for the developed economies. For the world as a whole, it increased from 14 per cent in 1990 to 26 per cent in 2007 and was 25 per cent in 2013.

The increase in the export-GDP ratio has been very fast in respect of a number of emerging economies whose economic growth has been driven by exports, like several South-East Asian economies (particularly the Asian tigers – South Korea, Taiwan, Singapore and Hong Kong) and China. In other words, their growth has been dependent to a very large extent on the international market. The export dependence of China’s enviable economic growth in the last three decades is particularly noteworthy.

Indeed, China’s international market dependent economic growth has been spectacular. A new epoch in the economic growth of China started with the economic reforms ushered in 1978, particularly with the second phase of the reform which characterised a major thrust on foreign investment and exports. The results of the transformation from mark to the market has been marvelous. China’s merchandise export-GDP ratio has risen from 5.6 per cent in 1979 to 17 per cent in 1990, 23 per cent in 2000 and further to 37 per cent in 2007. Including services, in 2013 more than 25 per cent of China’s GDP was sold in the foreign market. The value of goods and services imported to China in 2013 was equivalent to about 24 per cent of GDP value. Thus, China’s foreign trade (exports and imports) GDP ratio was 50 per cent in 2013. In other words, the economy of communist China is nearly 50 per cent foreign. If one makes an assumption for a moment that foreigners stop buying Chinese goods, it will have the effect Chinese GDP falling by about 25 per cent.

The export (goods and services)-GDP ratio of the world in 2013 was about 30 per cent. This implies that, on an average, every nation sells more than 30 per cent of its domestic production of goods and services in foreign markets and imports goods and services of almost an equal amount.

The average, however, conceals some important factors. For example, the foreign market is highly important for many countries than others. Secondly, a number of countries sell abroad much more than they buy from other countries (examples, China, Germany, Japan) and many countries buy from abroad much more than they sell there (examples, USA, UK, India). Thirdly, many countries which have merchandise trade surplus have services trade deficit (like Germany, Japan and China) and vice versa (examples, USA, UK, India).

That the international market is expanding much faster than the domestic market is clear from wide difference between the growth rates of the world GDP and trade that has been observed for a very long period. Estimates of growth rates of world GDP and trade since 1850 (estimates for the war disturbed period of 1914-1950 are not available) show that global trade has grown much rapidly than the GDP. Since 1950, the world trade growth was much faster than the GDP.

That the international market is expanding much faster than the domestic market is clear from wide difference between the growth rates of the world GDP and merchandise exports depicted in Figure 1.1.
For many companies, particularly for large ones headquartered in small countries, international market is the mainstay. For example, the home market (Switzerland) contributes only about two per cent of the total revenue of Nestle, the largest food business MNC of the world. Philips derives only about 8 per cent of its total revenue from the home market (Holland). There have been cases of more than hundred per cent of the profit of the company being made in the foreign markets (in which case domestic operation, obviously, is making losses).

**Box 1.2**

**India’s Trade Performance**

Because of the strong inward looking policy followed until 1991, the internationalisation of the Indian economy was very limited. As an economy develops the trade-GDP ratio normally increases. But for India, it remained without significant improvement for four decades since the commencement of the development planning in 1951 – the trade-GDP ratio hovering around 15 per cent. However, the liberalisation has brought about a significant turnaround. The merchandise export-GDP ratio increased from about 6 per cent in 1991 to 15 per cent in 2010-11. During this period, the merchandise import-GDP ratio increased from about 9 per cent to 23 per cent, adding up to merchandise trade-GDP ratio of 38 per cent. If the trade in services is included, the trade ratio was 45 per cent of GDP for 2010-11.

In the recent period, India did much better than the world as a whole in export growth. See table 1.1. During 2002-2008, India’s exports grew at almost thrice as fast as the world average exports, and nearly three times higher than the country’s GDP growth rate.

Table 1.1 shows that along with the increase in the share of global exports, the ranking of India has also been increasing. The rank in the merchandise exports increased significantly from 31 in 2000 to 19 in 2013. The improvement from 2008 to 2011 in particularly noteworthy. In recent years, export growth rate of India was substantially higher than that of the world exports.
Table 1.1
INIndia's Share and Rank in Global Trade

<table>
<thead>
<tr>
<th>Year</th>
<th>Goods Exports Share (%)</th>
<th>Rank</th>
<th>Goods Imports Share (%)</th>
<th>Rank</th>
<th>Services Exports Share (%)</th>
<th>Rank</th>
<th>Services Imports Share (%)</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>0.7</td>
<td>31</td>
<td>0.8</td>
<td>26</td>
<td>1.2</td>
<td>22</td>
<td>1.4</td>
<td>19</td>
</tr>
<tr>
<td>2005</td>
<td>0.9</td>
<td>29</td>
<td>1.3</td>
<td>17</td>
<td>2.3</td>
<td>11</td>
<td>2.2</td>
<td>13</td>
</tr>
<tr>
<td>2007</td>
<td>1.0</td>
<td>26</td>
<td>1.5</td>
<td>18</td>
<td>2.7</td>
<td>9</td>
<td>2.5</td>
<td>13</td>
</tr>
<tr>
<td>2008</td>
<td>1.1</td>
<td>26</td>
<td>1.8</td>
<td>17</td>
<td>2.8</td>
<td>9</td>
<td>2.6</td>
<td>12</td>
</tr>
<tr>
<td>2009</td>
<td>1.2</td>
<td>22</td>
<td>1.9</td>
<td>15</td>
<td>2.6</td>
<td>12</td>
<td>2.4</td>
<td>12</td>
</tr>
<tr>
<td>2010</td>
<td>1.4</td>
<td>20</td>
<td>2.1</td>
<td>13</td>
<td>3.0</td>
<td>10</td>
<td>3.3</td>
<td>7</td>
</tr>
<tr>
<td>2011</td>
<td>1.6</td>
<td>19</td>
<td>2.5</td>
<td>13</td>
<td>3.6</td>
<td>6</td>
<td>3.4</td>
<td>7</td>
</tr>
<tr>
<td>2013</td>
<td>1.7</td>
<td>19</td>
<td>2.5</td>
<td>12</td>
<td>3.2</td>
<td>6</td>
<td>2.8</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: WTO, World Trade Report of different years.

Foreign markets are important not only for MNCs or other large companies but also for many small firms. About half of the total US exports is the creation of small firms. The same is true of Germany. More than one-third of the total exports of India is contributed by the small scale sector, including village and cottage industries. Many of India’s hundred per cent export-oriented units (EOUs) are small firms.

The importance of the international market is further elaborated in the section Reasons for/Motives of International Marketing.

Growth of World Merchandise Exports

For a long time now, global trade, both merchandise and services, has been growing much faster than global output. That trade has been growing faster than world output means that a growing proportion of the national output is traded internationally.

Table 1.2
Growth of World Merchandise Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of merchandise exports (Billion dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td>55</td>
</tr>
<tr>
<td>1960</td>
<td>113</td>
</tr>
<tr>
<td>1970</td>
<td>280</td>
</tr>
<tr>
<td>1980</td>
<td>1,846</td>
</tr>
<tr>
<td>1990</td>
<td>3,311</td>
</tr>
<tr>
<td>2000</td>
<td>6,350</td>
</tr>
<tr>
<td>2008</td>
<td>16,070</td>
</tr>
<tr>
<td>2010</td>
<td>15,238</td>
</tr>
<tr>
<td>2013</td>
<td>18,816</td>
</tr>
</tbody>
</table>

Source: Compiled from various sources.
In 2013, the combined value of trade in goods and commercial services amounted to more than $23 trillion. The ratio of merchandise and services in the global trade remained more or less stable at 80: 20 since 1990.

Much of the trade takes place between the developed countries, particularly the triad (USA, Western Europe and Japan). Bulk of the exports of the developing countries is also absorbed by the developed countries.

As is indicated by Table 1.3, just three countries – China, USA and Germany — account for about 28 per cent of the global trade in goods. More than half of the world exports originate in just 10 countries. 30 countries contribute more than 80 per cent of the global trade in merchandise trade.

For many years, the first rank in terms of the value of exports was occupied by the US, with Germany and Japan in second and third positions respectively. However, in 2003, Germany relegated USA to the second position from the long held top position in export of goods. In 2013, China ranked 1st, USA 2nd and Germany 3rd.

The United States has been the largest importer followed by Germany. China quickly emerged as one of the top importers, stepping up to third rank in 2003, from 12th in 1997 and 6th in 2002, whereas China’s rank in exports improved from 10th in 1997 and 5th in 2002 to 4th in 2003, 2nd in 2008 and 1st in 2009.

Table 1.3 also reveals that there are several developing countries in the list of the top exporters. A small number of countries account for the bulk of the total exports of the developing countries.

India’s share in the global merchandise exports declined from about 2 per cent in 1950 to about 0.4 per cent in 1980. Since around the mid-1980s, there has been a slight improvement and it was about 1.7 per cent in 2013 with a rank of 19. In 2013, India’s share in global imports was 2.5 per cent, ranking 12.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Exporters</th>
<th>Value (Billion US Dollars)</th>
<th>Share (%)</th>
<th>Rank</th>
<th>Importers</th>
<th>Value (Billion US Dollars)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>2,209</td>
<td>11.7</td>
<td>1</td>
<td>United States</td>
<td>2,329</td>
<td>12.3</td>
</tr>
<tr>
<td>2</td>
<td>United States</td>
<td>1,580</td>
<td>8.4</td>
<td>2</td>
<td>China</td>
<td>1,950</td>
<td>10.3</td>
</tr>
<tr>
<td>3</td>
<td>Germany</td>
<td>1,453</td>
<td>7.7</td>
<td>3</td>
<td>Germany</td>
<td>1,189</td>
<td>6.3</td>
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<tr>
<td>4</td>
<td>Japan</td>
<td>715</td>
<td>3.8</td>
<td>4</td>
<td>Japan</td>
<td>833</td>
<td>4.4</td>
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<td>5</td>
<td>Netherlands</td>
<td>672</td>
<td>3.6</td>
<td>5</td>
<td>France</td>
<td>681</td>
<td>3.6</td>
</tr>
<tr>
<td>6</td>
<td>France</td>
<td>580</td>
<td>3.1</td>
<td>6</td>
<td>United Kingdom</td>
<td>655</td>
<td>3.5</td>
</tr>
<tr>
<td>7</td>
<td>Korea, Republic of China</td>
<td>560</td>
<td>3.0</td>
<td>7</td>
<td>Hong Kong, China</td>
<td>622</td>
<td>3.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>- retained imports</td>
<td>141</td>
<td>0.7</td>
</tr>
<tr>
<td>8</td>
<td>United Kingdom</td>
<td>542</td>
<td>2.9</td>
<td>8</td>
<td>Netherlands</td>
<td>590</td>
<td>3.1</td>
</tr>
<tr>
<td>9</td>
<td>Hong Kong, China</td>
<td>536</td>
<td>2.8</td>
<td>9</td>
<td>Korea, Republic of China</td>
<td>516</td>
<td>2.7</td>
</tr>
<tr>
<td></td>
<td>- domestic exports</td>
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<td>81.7</td>
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An important trend has been the growth of the intra-regional trade. In fact, some people view world trade as consisting broadly of intra-regional trade and inter-regional. There is also talk of regionalisation versus globalisation of world trade. Regional integration schemes tend to increase intra-regional trade. The European Union is a highly integrated marketplace, with two-thirds of its trade transactions taking place within the region. In 2007, intra-trade accounted for slightly more than half (51 per cent) of the exports of the North American Free Trade Agreement (NAFTA). In 2000, this share was 56 per cent. However, as trade with countries outside NAFTA’s area has been growing at a somewhat faster pace than intra-NAFTA trade, this share has been declining. Other trade blocs, such as MERCOSUR, the Andean Community or ASEAN, show a less pronounced integration. MERCOSUR countries carry out only around 14 per cent of their trade with other countries in the agreement, the Andean Community only 8 per cent, and ASEAN a quarter.

There has been a considerable change in the composition of the global trade. The share manufactures in the total exports increased substantially, while that of the primary commodities declined correspondingly. The change has been more pronounced in respect of the developing countries. The share of primary commodities, excluding fuels, in their exports dropped from 63 per cent in 1960 to 13 per cent by 2001; in 2013 also the share was about 13 per cent.

Agricultural exports accounted for almost 47 per cent of total merchandise exports in 1950, but their share was less than 10 per cent in 2013. Fuels and mining products accounted for nearly 22 per cent of the exports (18 for fuels alone) in 2013.
Manufacturers, by contrast, increased their share from 38 per cent in 1950 to over three-fourths by the late 1990s. In 2013, their share was about 65 per cent. The share of manufactured goods in developing-country exports increased very steeply.

**GLOBAL SOURCING AND PRODUCTION SHARING**

The trend of global sourcing and production sharing has been growing. Encouraged by the success of the Japanese industry, outsourcing became so prominent in the United States, that an increasing dependence on outside suppliers during the decade of 1980s helped reverse a trend toward increased vertical integration that had been occurring for almost a century. In other words, the 1980s witnessed a trend toward deintegration or the emergence of hollow manufacturing companies.

Box 1.3

**Spreading Web of Global Production Network**

The compositional shifts in trade have created a new pattern in the international exchange of goods, services, and ideas. Trade in components is one part of that new pattern. “Sourcing” such components from abroad is an increasingly common practice, and use of the internet is sure to expand the process, encouraging entry by new producers throughout the developing world. While precise numbers are difficult to come by, in the early 1990s one-third of all manufactures’ trade involved parts and components. This type of trade has generated an ever-spreading web of global production networks that connect subsidiaries within transnational firms to unrelated designers, producers, and distributors of components. These networks offer their constituent firms access to new markets and commercial relationships and facilitate technology transfer. Advances in information technology help firms from developing countries into global production networks. General Electric, for instance, posts information on its component requirements on the internet, and firms from all over the world bid to supply them.


Outsourcing has been much more conspicuous with the Japanese industries than others. For instance, typically figures of about 60 to 70 per cent outsourcing for Toyota versus 30 to 40 per cent for General Motors were reported. The successful use of higher percentage of subcontracting by Toyota, Nissan and other Japanese automotive companies has been cited increasing in recent years as a model for US managers who have increased their own outsourcing. As a result of the massive outsourcing programme, GM’s share of parts and components produced in-house was predicted to drop from 60 per cent to 45 per cent by the end of 1980s.

Much of the increased sourcing over the past decade or so has been global in nature. Many companies have adopted global sourcing as a major competitive strategy.

Some of the offshore sourcing was in fact accompanied by plant or product line closings in the United States as US manufacturers sought the advantage of cheaper labour abroad, either in their own plants or from others.

According to the *Purchasing* survey, the reasons for offshore purchases are the following: listed in the order of importance: (i) Lower price, (ii) Better quality, (iii) Only source available, (iv) More advanced technology, (v) More consistent attitude, (vi) More cooperative delivery, and (vii) Countertrade requirements.

It may be noted that, besides the above, outsourcing has certain other advantages. It reduces the capital and manpower requirements. It may also impart more flexibility to adjust to certain conditions like a recession.

International sourcing accounts for an estimated one-third of the world trade. Many developing countries have taken a lot of advantage of this trend. India, however, has not benefited to any
significant extent. However, with the changes in the business environment, there are positive signs of change. The Indian auto components industry has become, for instance, suppliers to foreign heavy weights like General Motors, Renault, Fiat, etc. The export performance of the Indian auto components is expected to improve very significantly with the further improvement in quality and productivity which the industry is now striving to achieve.

Production sharing is a natural corollary of the growing international sourcing. Production sharing, a term introduced by Drucker, refers to the practice of carrying out different stages of manufacturing of a product in several countries.

Such production sharing has become quite common in many industries including high technology and sophisticated products. The technical development and designing may be done in one country, the various components may be manufactured in different countries, the assembling may be done in some other country/countries and the product may be marketed globally. For example, the parts and components of a motor car finally assembled in US or a European country are obtained from a large number of suppliers in different countries. In short, what is marketed as an American car or German car is not purely American or German, but really transnational. Most of the parts and components of the IBM personal computer sold in the US, under the label ‘made in USA’ are manufactured abroad. According to the data given in one report in 1985, nearly three-fourths of the total manufacturing costs of the IBM PC was accounted for by parts and components manufactured overseas. The US owned plants overseas supplied more than one-third of these foreign parts and components. Drucker points out that the only thing really made in Japan in respect of an handheld electronic calculator with the label “made in Japan” is the label.

Drucker argues that the practice of production sharing will be “the most important form of economic integration, needed by developed and developing countries alike. In production sharing, the resources of the developing countries — their abundant labour for traditional jobs — are brought together with the resources of the developed countries — their management, their technology, their educated people, their markets and purchasing power.”

Drucker further argues that “production sharing is the best hope — perhaps the only hope — for most of the developing countries to survive without catastrophe the explosive expansion of working-age people in search of a job.” Developing countries can, of course, benefit immensely by production sharing. But, to argue that it is the only hope is to grossly underestimate the potentials of the developing countries. Further, Drucker does not appear to have paid sufficient attention to the fact that substantial production sharing takes place between advanced economies.

An interesting fallout of the production sharing is that a ban on the import of a product could mean harm to some industrial units in that country which are parties to the production sharing. Thus, “When shoe workers’ union in the United States or shoe manufacturers in North Carolina agitate for a ban on importation of ‘cheap foreign imports’, no cattle grower in the Great Plains realises that they are actually agitating to ban the export of American hides (out of which the shoes are manufactured) on which his livelihood depends.”

**THE GROWING ATTRACTIVENESS OF DEVELOPING COUNTRY MARKETS**

The developing countries (China, India, Brazil and Russia are among the 10 largest economies of the world, in general, have been growing faster than the developed ones. They are inhabited by about 85 per cent of the world population but has a share of only 25 per cent of the global GDP. In purchasing power parity terms, however, they account for more than 40 per cent of the global.

The share of the developing countries in the global trade has also been growing at almost twice the rate for the developed countries.
Their global economic share will further increase and they will play an increasingly important role in international business.

In fact, developing country's firms are making inroads into developed country markets and a number of developing economies have trade surplus with developed countries. Several developing countries are now among the major exporters of the world.

This does not mean that all the developing countries will grow at high rates. The impressive picture of overall performance of the developing countries is the result of the very good performance of a small number of them – like China, India, South-East Asian economies, Russia, and some Latin American countries. Many developing economies present a very poor picture of performance – even very pathetic in a large number of cases.

Encouraged by the liberalisation, foreign investment flow to the developing countries has been surging.

The increasing attractiveness of the developing country's capital markets is reflected in their faster market capitalisation.

While population in several developed countries are either saturating or declining, it is still rising fast in the developing countries. According to the United Nations Population Division, the world population will likely increase by 2.5 billion over the next 43 years, passing from the current 6.7 billion to 9.2 billion in 2050. This increase is equivalent to the total size of the world population in 1950, and it will be absorbed mostly by the less developed regions, whose population is projected to rise from 5.4 billion in 2007 to 7.9 billion in 2050. In contrast, the population of the more developed regions is expected to remain largely unchanged at 1.2 billion, and would have declined, were it not for the projected net migration from developing to developed countries, which is expected to average 2.3 million persons annually.

The share of developing countries in global merchandise exports increased from about 34 per cent in 1980 to 43 in 2013. The share of developing economies in world service exports was 34 per cent in 2013.

The fast rising income and population indicate the growing importance of the developing countries in the globalising world economy. No wonder, they are receiving increasing attention by MNCs and investment inflows to them have been surging.

According to the BRIC Report by the global consulting firm Goldman Sachs, at the end of the present century, China will be the largest and India the second largest economies in the world. A major part of the additional income and demand in future will come from the BRIC (Brazil, Russia, India and China). There are also several other developing countries with high growth potential. For example, Goldman Sachs refers to the Next Eleven (N-11) – a very diverse grouping that includes Bangladesh, Egypt, Indonesia, Iran, Korea, Mexico, Nigeria, Pakistan, Philippines, Turkey and Vietnam.

INTERNATIONAL MARKETING

International marketing is not the same thing as international trade. Only a part of the international trade flows represents international marketing. Further, there is a category of international marketing which is not captured by the international trade statistics.

Walsh, who states international marketing is perhaps best regarded as a short-hand expression for the special international aspects of marketing, defines international marketing as:

(a) “the marketing of goods and services across national frontiers, and

(b) the marketing operations of an organisation that sells and/or produces within a given country when:
(i) that organisation is part of, or associated with, an enterprise which also operates in other countries; and

(ii) there is some degree of influence on or control of the organisation’s marketing activities from outside the country in which it sells and/or produces.\textsuperscript{10}

“Another view is that international marketing is simply an attitude of mind, the approach of a company with a truly global outlook, seeking its profit impartially around the world, “home” market included, on a planned and systematic basis.”\textsuperscript{11}

“Another definition of international marketing is that it is the marketing function of multinational companies.”\textsuperscript{12}

This author would define International Marketing as \textit{marketing in an internationally competitive environment, no matter whether the market is home or foreign}. For example, although its market is confined almost entirely to India, the competition which Nirma encounters is indeed international. Its major competitors include MNCs like Unilever, P&G, Colgate Palmolive, etc. Besides, there is also competition from imported products. Thus, many firms in their own home market face the technological, financial, organisational, marketing and other managerial prowess of the multinationals, as is reflected in Box 1.1.

As stated earlier, international marketing is not the same thing as international trade. The sale abroad of a good produced in India is international trade but from a truly managerial point of view it can be regarded as international marketing if it is sold to the ultimate buyer under the brand name of the exporter. Many of India’s exports are repacked or further processed and sold to the ultimate buyer under foreign brand names. For example, the spices imported in bulk from India are packed in consumer pack, after processing or in the same condition as it was imported, and sold under foreign brands. Even products exported in consumer packs from India are repacked abroad, without any further processing, and sold under foreign brand names. In such cases, the Indian exports represent international trade but not international marketing.

It may also be noted that a considerable share of several products sold abroad under the Indian brand names, like pickles and curry powders, are bought by the ethnic population (i.e., the Indian population abroad).

\textbf{Special Problems in International Marketing}

Some people talk of “the differences between domestic marketing and international marketing”. But, the fact is that, there is no basic difference between these two; the principles of marketing are universal. What are referred to by some people as differences are not really differences but special problems or features of international marketing.

What makes international marketing strategy different from the domestic one is the differences in the marketing environment. The important special problems in international marketing are given below:

\textbf{1. Political and Legal Differences:} The political and legal environment of foreign markets are different from that of the domestic. The complexity generally increases as the number of countries in which a company does business increases. It should also be noted that the political and legal environment is not the same in all provinces of many home markets. For instance, the political and legal environment is not exactly the same in all the States of India.

\textbf{2. Cultural Differences:} The cultural differences is one of the most difficult problems in international marketing, as explained in the next chapter. Many domestic markets, however, are also not free from cultural diversity.
3. Economic Differences: As described in a following chapter, the economic environment may vary from country to country.

4. Differences in the Currency Unit: The currency unit varies from nation to nation. This may sometimes cause problems of currency convertibility, besides the problems of exchange rate fluctuations. The monetary system and regulations may also vary.

5. Differences in the Language: An international marketer often encounters problems arising out of the differences in the language. Even when the same language is used in different countries, the same words or terms may have different meanings or connotations. The language problem, however, is not something peculiar to the international marketing. The multiplicity of languages in India is an example.

6. Differences in the Marketing Infrastructure: The availability and nature of the marketing facilities available in different countries may vary widely. For example, an advertising medium very effective in one market may not be available or may be underdeveloped in another market.

7. Trade Restrictions: Trade restrictions, particularly import controls, is a very important problem which an international marketer faces.

8. High Costs of Distance: When the markets are far removed by distance, the transport cost becomes high and the time required for effecting the delivery tends to become longer. Distance tends to increase certain other costs also.

9. Differences in Trade Practices: Trade practices and customs may differ between countries.

**REASONS FOR/MOTIVES OF INTERNATIONAL MARKETING**

There are several answers to the question ‘why firms go international?’ The factors which motivate or provoke firms to go international may be broadly divided into two groups, viz., the pull factors and the push factors.

The pull factors, most of which are proactive reasons, are those forces of attraction which pull the business to the foreign markets. In other words, companies are motivated to internationalise because of the attractiveness of the foreign market. Such attractiveness include, broadly, the relative profitability and growth prospects.

The push factors refer to the compulsions of the domestic market, like saturation of the market, which prompt companies to internationalise. Most of the push factors are reactive reasons.

Important reasons for going international are described below.

**Profit Motive**

One of the most important objectives of internationalisation of business is the profit advantage. International business could be more profitable than the domestic. As pointed out earlier, there are cases where more than 100 per cent of the total profit of the company is made in the foreign markets (in which case the domestic operation, obviously, is incurring loss).

Even when international business is less profitable than the domestic, it could increase the total profit.

Further, in certain cases, international business can help increase the profitability of the domestic business. This is illustrated with the help of Figure 1.2.
One of the important motivations for foreign investment is to reduce the cost of production (by taking advantage of the cheap labour, for example). While in some cases, the whole manufacturing of a product may be carried out in foreign locations, in some cases only certain stages of it are done abroad. A significant share of the merchandise imported into the United States is manufactured by foreign branches of American companies. Several American companies ship parts and components to overseas locations where the labour-intensive assembly operations are carried out and then the product is brought back home. The North American Free Trade Agreement comprising the US, Canada and Mexico is expected to encourage large relocation of production to Mexico where the labour is substantially cheap.

**Growth Opportunities**

The enormous growth potential of many foreign markets is a very strong attraction for foreign companies. In a number of developing countries, both the population and income are growing fast. It may be noted that several developing countries, the newly industrialising countries (NICs) and the Peoples’ Republic of China in particular, have been growing much faster than the developed countries. Growth rate of India has also been good and the liberalisation seems to have accelerated the growth.

Even if the market for several goods in these countries is not very substantial at present, many companies are eager to establish a foothold there, considering their future potential. Similarly, when the East European economies have been opened up, there have been a rush of MNCs to establish a base in these markets.

**Domestic Market Constraints**

Domestic demand constraints drive many companies to expanding the market beyond the national border.

The market for a number of products tend to saturate or decline in the advanced countries. This often happens when the market potential has been almost fully tapped. In the United States, for example, the stock of several consumer durables like cars, TV sets etc. exceed the total number of households. Estimates are that in the first quarter of the 21st century, while the population in some of the advanced economies would saturate or would grow very negligibly, in some others there would be a decline. Such demographic trends have very adverse effects on certain lines of business. For example, the fall in the birth rate implies contraction of market for several baby products.

Another type of domestic market constraint arises from the scale economies. The technological advances have increased the size of the optimum scale of operation substantially in many industries making it necessary to have foreign market, in addition to the domestic market, to take advantage
of the scale economies. It is the thrust given to exports that enabled certain countries like South Korea to set up economic size plants. In the absence of foreign markets, domestic market constraint comes in the way of benefiting from the economies of scale in some industries.

Domestic recession often provokes companies to explore foreign markets. One of the factors which prompted the Hindustan Machine Tools Ltd. (HMT) to take up exports very seriously was the recession in the home market in the late 1960s. The recession in the automobile industry in the early 1990s, similarly, encouraged several Indian auto component manufacturers to explore or give a thrust to foreign markets.

**Competition**

Competition may become a driving force behind internationalisation. A protected market does not normally motivate companies to seek business outside the home market. Until the liberalisations which started in July 1991, the Indian economy was a highly protected market. Not only that the domestic producers were protected from foreign competition but also domestic competition was restricted by several policy induced entry barriers, operated by such measures as industrial licensing and the MRTP regulations. Being in a seller’s market, the Indian companies, in general, did not take the foreign market seriously. The economic liberalisation, ushered in India since 1991, which has increased competition from foreign firms as well as from those within the country, have, however, significantly changed the scene. Many Indian companies are now systematically planning to go international in a big way.

Many companies also take an offensive international competitive strategy by way of counter-competition.

The strategy of *counter-competition* is to penetrate the home market of the potential foreign competitor so as to diminish its competitive strength and to protect the domestic market share from foreign penetration. “**Effective counter-competition has a destabilising impact on the foreign company’s cash flows, product related competitiveness and decision making about integration. Direct market penetration can drain vital cash flows from the foreign company’s domestic operations. This drain can result in lost opportunities, reduced income, and limited production, impairing the competitor’s ability to make overseas thrusts.**”13 Thus, IBM moved early to establish a position of strength in the Japanese main frame computer industry before two key competitors, Fujitsu and Hitachi, could gain dominance. Holding almost 25 per cent of the market, IBM denied its Japanese competitors vital cash flow and production experience needed to invade the US market. They lacked sufficient resources to develop the distribution and software capabilities essential to success in America. So the Japanese have finally entered into joint ventures with US companies having distribution and software skills (Fujitsu with TRW, Hitachi with National Semi-conductor). In fact, in Fujitsu’s case, it was an ironic reversal of the counter-competitive strategy by expanding abroad to increase its economies of scale for the fight with IBM back home.14 The Texas Instruments established semi-conductor production facilities in Japan “to prevent Japanese manufacturers from their own markets”. Even after much development work, the Japanese producers could muster neither the R&D resources nor the manufacturing capability to compete at home or overseas with acceptable product in sufficiently large quantities.15

**Government Policies and Regulations**

Government policies and regulations may also motivate internationalisation. There are both positive and negative factors which could cause internationalisation.

Many governments give a number of incentives and other positive support to domestic companies to export and to invest in foreign countries. Similarly, several countries give a lot of importance to import development and foreign investment.
Sometimes, as was the case in India, companies may be obliged to earn foreign exchange to finance their imports and to meet certain other foreign exchange requirements like payment of royalty, dividend, etc. Further, in India, permission to enter certain industries by the large companies and foreign companies was subject to specific export obligation.

Some companies also move to foreign countries because of certain regulations, like the environmental laws in advanced countries.

Government policies which limit the scope of business in the home country may also provoke companies to move to other countries. Here is an interesting case: In the early seventies, having failed to make any headway within India, the only alternative left for the Birla Group was to set up industries in other countries and it put up several successful companies in all the ASEAN countries. “This was surely a paradox. The same government which refused us permission to set up manufacturing capacities within the country allowed us to set up industries outside the country for the same products for which it has said ‘no’ in India. Thus, we set up a viscose staple fiber plant in Thailand, and started exporting fiber back to India.” According to one study, “the evidence suggests that one of the most important motivations behind foreign direct investment by Indian firms has been the desire to escape the constraining effects of Government of India’s policy. It appears that a number of Indian locally domiciled foreign collaboration industries, those involved in manufacturing at least, go overseas to avoid a policy environment that restricts their domestic growth and undermines their competitiveness. To the extent that foreign direct investment from India takes place for such negative reasons, the phenomenon may be regarded as disguised form of capital flight from India.”

With the recent changes in the government of India’s economic policy, the situation, however, has changed. Many Indian companies are entering international market or are expanding their international operations because of positive reasons.

Monopoly Power

In some cases, international business is a corollary of the monopoly power which a firm enjoys internationally. Monopoly power may arise from such factors as monopolisation of certain resources, patent rights, technological advantage, product differentiation etc. Such monopoly power need not necessarily be an absolute one but even a dominant position may facilitate internationalisation.

As Czinkota and Ronkainen observe, exclusive market information is another proactive stimulus. This includes knowledge about foreign customers, marketplaces, or market situations not widely shared by other firms. Such special knowledge may result from particular insights by a firm based on international research, special contacts a firm may have or simply being in the right place at the right time (for example, recognising a good business situation during a vacation). Although such monopoly element may give an initial advantage, competitors could be expected to catch up soon.

Spin-off Benefits

International business has certain spin-off benefits too.

International business may help the company to improve its domestic business; international business helps improve the image of the company. International marketing may have pay-offs for the internal market too by giving the domestic market better products.

Further, the foreign exchange earnings may enable a company to import capital goods, technology etc. which may not otherwise be possible in countries like India.

Another attraction of exports is the economic incentives offered by the government.

Strategic Vision

The systematic and growing internationalisation of many companies is essentially a part of their business policy or strategic management. The stimulus for internationalisation comes from the
urge to grow, the need to become more competitive, the need to diversify and to gain strategic advantages of internationalisation. Many companies in India, like several pharmaceutical firms, have realised that a major part of their future growth will be in the foreign markets.

There are a number of corporations which are truly global. Planning of manufacturing facilities, logistical systems, financial flows and marketing policies in such corporations are done considering the entire world as its, and a single, market — a borderless world.

**INTERNATIONAL ORIENTATIONS**

The degree and nature of involvement in international business or the international orientations of companies vary very widely.

The analysis provided by Wind, Douglas and Perlmutter within the framework of the modified EPRG scheme is helpful in understanding the levels of involvement of firms in international business. The EPRG framework identifies four types of attitudes or orientations toward internationalisation that are associated with successive stages in the evolution of international operations. These four orientations are:

1. Ethnocentrism (home country orientation);
2. Polycentrism (host country orientation),
3. Regiocentrism (regional orientation); and
4. Geocentrism (world orientation).

These stages are assumed to reflect the goals and philosophies of the company insofar as international operations are concerned and lead to different management strategies and planning procedure for international operations.

**Ethnocentric Orientation**

In the ethnocentric company, overseas operations are viewed as secondary to domestic operations and primarily as a means of disposing of “surplus” domestic production. The top management views domestic techniques and personnel as superior to foreign and as the most effective in overseas markets. Plans for overseas markets are developed in the home office, utilising policies and procedures identical to those employed in the domestic market. Overseas marketing is most commonly administered by an export department or international division, and the marketing personnel is composed primarily of home country nationals. Overseas operations are conducted from a home country base, and there is likely to be a strong reliance on export agents. There is a tendency to employ the domestic product mix without major modifications for the overseas market. In short, under ethnocentrism the international marketing is normally characterised by the *extension* strategy described in Chapter 9.

The ethnocentric position appears to be appropriate for a small company just entering international operations, or for companies with minimal international commitments because this approach entails a minimal risk and commitment to overseas markets — no international investment is required, and no additional selling costs incurred, with the possible exception of higher distribution costs. This position may be inappropriate for a company which wants to expand its international business significantly.

**Polycentric Orientation**

As the company begins to recognise the importance of inherent differences in overseas markets, a polycentric attitude emerges. The prevalent philosophy at this stage is that local personnel and techniques are best suited to deal with local market conditions. Subsidiaries are established in overseas markets, and each subsidiary operates independently of the others and establishes its own marketing objectives and plans.
The environment of each market is considered while formulating the marketing strategy. There is market segmentation, at least on a country basis. “Emphasis is put on local laws, custom and culture and great care is taken to understand the local way of doing business. This usually results in the maximum degree of geographic decentralisation as local managers are recognised as being psychologically close to markets, environments and customers.” Under polycentrism, marketing is normally characterised by the adaptation strategy described in Chapter 9. The important merit of polycentrism is the adaptation of the marketing strategies to the local conditions.

**Regiocentric and Geocentric Orientations**

A regiocentric company views different regions as different markets. A particular region with certain important common marketing characteristics is regarded as a single market, ignoring national boundaries. “Strategy integration, organisational approach and product policy tend to be implemented at regional level. Objectives are set by negotiation between headquarters and regional HQ on the one hand and between regional HQ and individual subsidiaries on the other.”

A geocentric company views the entire world as a single market and develops standardised marketing mix, projecting a uniform image of the company and its products, for the global market. “The business of the geocentric multinational is usually characterised by sufficiently distinctive national markets that the ethnocentric approach is unworkable, and where the importance of learning curve effects in marketing, production technology and management makes the polycentric philosophy substantially sub-optimal.”

Wind, Douglas and Perlmutter have pointed out the advantages and problems of these orientations as follows.

Since the regiocentric and geocentric orientations imply the identification of regional or global market segments crossing national boundaries as well as the development of standard policies throughout a given segment, they may provide improved coordination and control. Geocentrism is viewed as entailing high costs in collecting information and administering policies on a worldwide scale. In this respect, the regiocentric appeal is generally viewed as more economical and manageable. In both cases, however, national environmental constraints may restrict multinational operations and make the approach unfeasible. For example, national differences in laws and currencies may severely hinder any practical implementation of this “world market” perspective. The impact of these national environmental differences is considered in most cases to be more critical for marketing activities than for production and finance activities. The geocentric position may, therefore, be more advantageous for production and research and development than for marketing.

In general, the desirability of a particular international orientation — E, P, R, or G — tends to depend on several factors, such as the size of the firm, the experience gained in a given market, the size of the potential market, and the type of the product and its cultural dependency.

**INTERNATIONALISATION STAGES**

Most companies pass through different stages of internationalisation.

There are, of course, many companies which have international business since their very beginning, including 100 per cent export-oriented companies. Even in the case of many of the hundred per cent export-oriented companies, the development of their international business would pass through different stages of evolution.

A firm which is entirely domestic in its activities normally passes through different stages of internationalisation before it becomes a truly global one.

There are many companies which enthusiastically and systematically go international as part of their corporate plan. However, in the case of many firms the initial attitude towards international
business is passive and they get into the international business in response to some external stimuli. For example, a sample survey of US firms exporting industrial products revealed that most of them first began exporting through the action of an outside party — about 48 per cent responded to unsolicited orders and 44 per cent were approached by foreign distributors. In the earlier surveys, the percentage of the total number of firms which began exporting responding to unsolicited orders was much higher.

A firm may start exports on an experimental basis and if the results are satisfying it would enlarge the international business and in due course it would establish offices, branches or subsidiaries or joint ventures abroad. The expansionary process may also be characterised by increasing the product mix and the number of market segments, markets and countries of operation. In the process, the company could be expected to become multinational and finally global.

In short, in many firms overseas business initially starts with a low degree of commitment or involvement; but they gradually develop a global outlook and embark upon overseas business in a big way.

The important stages in the evolutionary process are the following:

**Domestic Company**

Most international companies have their origin as domestic companies. The orientation of a domestic company essentially is ethnocentric. A purely domestic company “operates domestically because it never considers the alternative of going international. The growing stage-one company, when it reaches growth limits in its primary market, diversifies into new markets, products and technologies instead of focusing on penetrating international markets.” However, if factors like domestic market constraints, foreign market prospects, increasing competition etc. make the company reorient its strategies to tap foreign market potential, it would be moving to the next stage in the evolution.

A domestic company may extend its products to foreign markets by exporting, licensing and franchising. The company, however, is primarily domestic and the orientation essentially is ethnocentric.

In many instances, at the beginning exporting is indirect (see Chapter 6).

The company may develop a more serious attitude towards foreign business and move to the next stage of development, i.e., international company.

**International Company**

International company is normally the second stage in the development of a company towards the transnational corporation. The orientation of the company is basically ethnocentric and the marketing strategy is extension, i.e., the marketing mix ‘developed’ for the home market is extended into the foreign markets. International companies normally rely on the international division structure (see Chapter 8) for carrying out the international business.

**Multinational Company**

When the orientation shifts from ethnocentric to polycentric, the international company becomes multinational. In other words, “When a company decides to respond to market differences, it evolves into a stage three multinational that pursues a multidomestic strategy. The focus of the stage-three company is multinational or, in strategic terms, multidomestic (That is, the company formulates a unique strategy for each country in which it conducts business)”.

In multinational companies, “each foreign subsidiary is managed as if it were an independent city state. The subsidiaries are part of an area structure in which each country is part of a regional organisation that reports to world headquarters.”
Global/Transnational Company

According to Keegan, global company represents stage four and transnational company stage five in the evolution of companies. However, several people use these terms as synonyms and by global corporation they refer to the final stage in the development of the corporation. According to Keegan, “the global company will have either a global marketing strategy or a global sourcing strategy but not both. It will either focus on global markets and source from the home or a single country to supply these markets, or it will focus on the domestic market and source from the world to supply its domestic channel.” However, according to the interpretation of some others, all strategies — product development, production (including sourcing) marketing etc. — will be global in respect of the global corporation.

The “transnational corporation is much more than a company with sales, investments, and operations in many countries. This company, which is increasingly dominating markets and industries around the world, is an integrated world enterprise that links global resources with global markets at a profit.”

Bartlett and Ghoshal point out that in transnational companies, “the activities and resources are neither centralised in the parent company, nor decentralised so that each subsidiary can carry out its own tasks on a local-for-local basis. Instead the resources and activities are dispersed but specialised, so as to achieve efficiency and flexibility at the same time. Furthermore, these dispersed resources are integrated into an interdependent network of worldwide operations.” They further elaborate that, “in contrast to the global model, the transnational mentality recognises the importance of flexibility and responsive country-level operations — hence, the return of national into the terminology. And compared to multinational approach, it provides for linking and coordinating those operations to retain competitive effectiveness and economic efficiency — as indicated by the prefix trans.”

The orientation is geocentric and marketing strategy is, by and large, standardised. As Keegan observes, “it recognises similarities and differences and adopts a world view. This is the company that thinks globally and acts locally. It adopts a global strategy allowing it to minimise adaptation in countries to that which will actually add value to the country customer. This company does not adapt for the sake of adaptation. It only adapts to add value to its offer.”
The different stages of development from a purely domestic to a transnational company is summarised in Figure 1.3.

Bartlett and Ghoshal explain the differences between the different types of companies as follows: “The global company tends to concentrate all its resources — often locating them in its home country — so as to exploit the scale economies available in each activity. The multinational company typically disperses its resources among its different national operations so as to be able to respond to local needs. And the international company tends to centralise those resources that are key to developing innovations to be adapted worldwide.

The transnational, however, must develop a more sophisticated and differentiated configuration of assets and capabilities. It first decides which key resources and capabilities are best centralised within the home-country operation, not only to realise scale economies but also to protect certain core competencies and to provide the necessary supervision of corporate management. Certain other resources may be concentrated but not necessarily at home — a configuration that might be termed excentralisation rather than centralisation. Some other resources may be decentralised on a regional or local basis, either because potential economies of scale are smaller than the benefits to be gained from greater differentiation or market responsiveness, or because of the need to create flexibility and reduce risks by avoiding exclusive dependence on a single facility. The result is a complex configuration of assets, resources and capabilities that centralises some resources at home, excentralises some abroad, and distributes yet others among its many national operations. Furthermore, the company integrates these dispersed yet specialised resources through strong interdependencies.”

INTERNATIONAL MARKETING DECISIONS

A firm which plans to go international has to make a series of strategic decisions. They are broadly the following:

(i) International Business Decision: The first decision a company has to make, of course, is whether to take up international business or not. This decision is based on a serious consideration of a number of important factors, such as the present and future overseas opportunities, present and future domestic market opportunities, the resources of the company (particularly skill, experience, production and marketing capabilities and finance), company objectives, etc.

(ii) Market Selection Decision: Once it has been decided to go international, the next important step is the selection of the most appropriate market. For this purpose, a thorough analysis of the potentials of the various overseas markets and their respective marketing environments is essential. Company resources and objectives may not permit a company to do business in all the overseas markets. Further, some markets are not potentially good, and it may be suicidal to waste company resources in such markets. A proper selection of the overseas market(s), therefore, is very important.

(iii) Entry and Operating Decisions: Once the market selection decision has been made, the next important task is to determine the appropriate mode of entering the foreign market. The important modes of entering the foreign market are discussed in a subsequent chapter.
(iv) **Marketing Mix Decision**: The foreign market is characterised by a number of uncontrollable variables. The marketing mix consists of internal factors which are controllable. The success of international marketing, therefore, depends to a large extent on the appropriateness of the marketing mix. The elements of the marketing mix — product, promotion, price and physical distribution — should be suitably designed so that they may be adapted to the characteristics of the overseas market. More details are given in some of the following chapters.

(v) **International Organisation Decision**: A company which wants to do direct exporting has also to decide about its organisational structure, so that the exporting function may be properly performed. This decision should necessarily be based on a careful consideration of such factors as the expected volume of export business, the nature of the overseas market, the nature of the product, the size and resources of the company, and the length of its export experience. The nature of the organisation structure of the company will depend on a number of factors like its international orientation, nature of business, size of business, future plans etc. The common types of organisational set-ups are dealt with in detail in Chapter 8.
SCOPE OF MARKETING INDIAN PRODUCTS ABROAD

The potential for international marketing is enormous for Indian firms. The fast expansion of the international business, as indicated by the statistics provided at the beginning of this chapter, is an indication of this. The scope of international business for developing countries is amply demonstrated by the rapid strides made by several developing countries like South Korea, Taiwan, Hong Kong, Singapore and People’s Republic of China. India’s performance, in comparison with these countries has been very poor. Table 1.1 clearly shows that India’s record has been unimpressive, whether one compares it with China, a much larger economy than India, or the other nations mentioned above, which are very smaller than those of several states of India, albeit, India has performed better than many other developing countries. Developing countries like South Korea with very good economic performance has such well-known multinationals like Hyundai, Daewoo, Samsung, LG, which are making inroads into India, whereas India with its massive size and diverse resource base and which has a longer history of industrialisation can hardly boast anything of that sort.

The rapid strides made by several other developing countries in the international market, and trends of the growing economic power of the developing countries described earlier are indications of the enormous global business opportunities which Indian firms could exploit.

A look at some of the successful Indian example, covering products ranging from bullock cart technology to high-tech would indicate the strategies Indian firms may employ to seize the various opportunities.

Product modification to suit the requirements of the foreign markets will enable international marketing of many products by Indian firms. Examples include TI cycles, Hero cycles, TTK pressure cookers etc. (see the section Product Adaptation in Chapter 9).

Another international marketing opportunity which a number of Indian firms may avail of is the one provided by the vocation of certain industrial segments of the market in the developed countries by the large players as they become unattractive for them. For example, several dominant firms have vacated the ply tyre segment in the developed markets as this segment has shrunk due to the popularity of radial tyres. Similarly, developed country firms have given up production of several chemical products due to various reasons.

There are enormous international marketing opportunities for developing products that suit the specific markets. The Balsara, for example, developed an herbal toothpaste, brand named Auromere to take advantage of the growing preference for nature based products in the USA Balsara’s R&D scored a unique advantage when Auromere was developed as saccharine free toothpaste. The company expanded its market by introducing other variants of mint and menthol. As these were taboo for users of homeopathic medicine, it introduced a toothpaste free of such mints. Other variations include Auromere Fresh Mint for the young and Auromere Cina Mint, containing a combination of cinnamon and peppermint.

Indian firms with products of acceptable quality may explore the foreign markets. The Pricol, supplier of dashboard instruments to Maruti, thus entered the US market in a small way and today it is an international player. The Sundaram Fastners, which was adjudged as one of the 20 best Asian companies, is a highly reputed global supplier of automobile parts like radiator caps to dominant players like General Motors. There is enormous opportunity to take advantage of the growing global sourcing. The growing foreign investment in India and development of quality consciousness in Indian firms will encourage the growth of an ancillary sector of quality products and thus enlarge the Indian base for global sourcing.

Firms which are suppliers to foreign firms or whose products are sold under foreign brand names may explore the possibility of selling their own products under their own brand names.
There are a number of products in which the developing countries have advantage like textiles, leather, gems and jewellery, seafood etc. Although these are among India’s important export items, the nation has not been very successful, when compared with several other developing countries, in exploiting these opportunities.

Many products, which become off patent provide international marketing opportunities for firms of developing countries like India because of the low cost advantage. A number of them pose technical challenges. The Technocrat Industries, an Indian firm set up in 1972 by two fresh graduates from IIT, succeeded in mastering the technology of drum closures, precision products used to seal drums in which oil and chemicals are stored, competed with the MNC in the Indian market and entered foreign markets. Several Indian pharmaceutical firms are globalising using generics and bulk drugs as their mainstay.

India is an important exporter of many products like spices and seafood. They are, however, mostly commodity exports. A lot of potential exists for developing their value added exports. There is also considerable scope for quality improvement, product development and value addition in respect of several other categories like leather, textiles etc.

There are a number of Indian companies/conglomerates with strategic strength like Reliance, Arvind Mills, Bajaj, Ranbaxy, Sundaram Fastners, Essel Packaging, Tata, Birla etc., who have the potential to become global players. The new competitive environment is compelling Indian firms to be more cost and quality conscious and market oriented and to pay more attention to R&D, indeed a number of companies have developed a global orientation. Even when a company is selling only in the domestic market it may indeed be facing a global competition. The global competition in the domestic market should provoke Indian companies to meet global competition globally.

**DRIVING AND RESTRAINING FORCES**

There are a number of forces which induce and propel globalisation and thereby expand the scope and importance of international marketing. On the other hand, there are also forces which restrain globalisation.

**DRIVING FORCES**

The important forces driving globalisation are the following:

**Liberalisation**

One of the most important factors, which have given a great impetus to globalisation since the 1980s is the almost universal economic policy liberalisations which are fostering a borderless business world. While a lot of the liberalisations owe it to the GATT/WTO, substantial liberalisations have been occurring outside the GATT/WTO like, for example, the revolutionary economic policy changes in China and other socialist/communist nations. It may be noted that it has become quite common to describe the global trend as LPG (liberalisation, privatisation and globalisation) indicating the mutually interdependent and reinforcing nature of these forces. One of the impacts of liberalisation and privatisation is the surge in cross-border M&As and other FDI resulting in greater global economic integration.

**MNCs**

Multinational enterprises which link their resources and objectives with world market opportunities, have been a powerful force driving globalisation. Taking advantage of the liberalisation trend, there has been a fast growth of the number of MNCs and their global network of affiliates. The MNCs leverage their strengths to link global resources and opportunities and thereby strengthen the globalisation trend, as explained in the next chapter.
Technology

Technology is a powerful driving force of globalisation. Technological advances have tremendously fostered globalisation. Several technological developments become a compelling reason for internationalisation. Technological break-throughs are substantially increasing the scale economies and the market scale required to break-even. (See Chapter 17)

Transportation and Communication Revolutions

Technological revolution in several spheres, like transport and communication, has given a great impetus to globalisation by their tremendous contribution to the reduction of the disadvantages of natural barriers like distance and cost. The developments in the field of air cargo transportation has fostered globalisation by enabling quick and safe transportation of sensitive goods (like perishables and goods subject to quick changes in fashion/taste). Developments in containerisation and refrigeration have also been of high significance. The steep fall in the cost of transportation and communication have considerably accelerated pace of globalisation. All these have contributed to the drastic transformation of the logistical and global distribution of the value chain system. The world wide web has a stupendous impact on globalisation. Global sourcing was encouraged not only by trade liberalisation but also by technological developments, which reduced transport costs. Advent of containerisation and supertonnage cargo ships drastically reduced transport costs.

The IT revolution has made an enormous contribution to the emergence of the global village. (More information in Chapter 17)

Product Development Costs and Efforts

The cost of new product development is very huge in several industries such as pharmaceuticals. To recoup such high costs a global market is required. A corollary is that the fast technological changes, which hasten product obsolescence, necessitate a short pay back period, which can be realised only with a very large market.

Further, because of the huge investment and diverse skill requirements associated with new product development, cross-border alliances in research and development are becoming more and more popular. Again, in a number of cases different phases of the product development are carried out in different countries either by a company’s own affiliates or by outsourcing.

Quality and Cost

The two most important determinants of demand are the quality and price of the offering. These can be better achieved when a firm is global in its operations.

Rising Aspirations and Wants

Because of the increasing levels of education and exposure to the media, particularly the electronic media, the aspirations of people all around the world are rising. They aspire for everything that can make life more comfortable or satisfying. If domestic firms are not able to meet their wants, they would naturally turn to the foreign firms. The customer today is, by and large, global. He wants a world-class product or a product of desired attributes at international price. He may desire a product available anywhere in the world. His aspirations cannot be tied down to the domestic availability.

Competition

Another important force driving the globalisation is increasing competition. Heightened competition compels firms to explore new ways of increasing their efficiency, including by extending their international reach to new markets at an early stage and by shifting certain production activities to reduce costs. It also results in international production taking new forms, with new ownership and contractual arrangements, and new activities being located in new sites abroad.
World Economic Trends

There are some world economic trends, which add momentum to the globalisation trend. One of the important trends is the difference in the growth rates of the economies/markets. The comparatively slow growth of the developed economies or the stagnation of some of their markets and the fast growth of a number of developing countries prompt developed country firms to turn to the expanding markets elsewhere. The differences in the growth characteristics exist even within the categories of developed and developing countries.

Secondly, the domestic economic growth and the opportunities outside reduce the opposition to globalisation. A classic example is China. China has benefited tremendously out of foreign investment; the fast growing Chinese economy provides scope for a large number of players in the expanding market. At the same time, China is enormously exploiting the business opportunities outside the country. Globalisation should be a two-way process, which can be mutually beneficial.

Another driving force of globalisation is the economic liberalisation, as pointed out earlier, characterised by deregulation and privatisation.

Regional Integration

The proliferation of regional integration schemes, like the European Union (EU), North American Free Trade Agreement (NAFTA) etc., by creating a borderless world between the members of such trade blocs, foster the globalisation trend. A major part of the global trade now is intra-regional trade (i.e., trade between the members of the trade blocs). Some of these regional blocs also give a fillip to the cross-border investments and financial flows.

Leverages

A very important factor that supports globalisation is the unique opportunity global company possesses to develop leverage. A global company can leverage its experience to expand its global operations. The more the number of countries it operates in a business sector, the more could be the scope for leverage.

According to Keegan, “leverage is simply some type of advantage that a company enjoys by virtue of the fact that it conducts business in more than one country” and a global company possess the following four important types of leverage.34

1. Experience Transfers: A great strength of a global corporation is the experience it can leverage for expanding or strengthening its global operations. “It can draw on management practices, strategies, products, advertising appeals, or sales or promotional ideas that have been tested in actual markets and apply them in other comparable markets.”35

2. Scale Economics: As pointed out earlier, the cost is one of the important determinants of success. Cost advantage, in many cases, derives out of scale economies. The scale economies have been expanding in a number of industries. To realise scale economies, it is often essential to go after the global market. Technological break-throughs are substantially increasing the scale economies and the market scale required to break-even. Although scale economies are often most conspicuous in manufacturing, a global company may achieve economies on a global scale by centralising other functional activities too.

3. Resource Utilisation: Another strength of a global company is its competence in sourcing the resources globally.

4. Global Strategy: Keegan observes that “the global company’s greatest single advantage can be its global strategy. A global strategy is built on an information system that scans the world’s business environment to identify opportunities, trends, threats, and resources. When opportunities
are identified, the global company adheres to the three principles identified earlier: It leverages its skills and focuses its resources to create superior perceived value for customers and achieve competitive advantage. The global strategy is a design to create a winning offer on a global scale. This takes great discipline, much creativity, and constant effort. The reward is not just success — it is survival.36

**RESTRAINING FORCES**

There are also several forces, which restrain the globalisation trend. There are two types of factors, which hamper globalisation, viz., external factors and internal factors.

**External Factors**

External factors include government policies and controls, which restrain cross-border business, social and political opposition against foreign business etc.

**Internal Factors**

Internal factors refer to factors within the organisation, which discourage globalisation. One such factor is the management myopia or “near-sightedness” which comes in the way of a global orientation. Further, the organisational culture may hamper or pamper globalisation.

A more elaborate version of this section is available in the author's book *International Business* (Prentice-Hall of India).

**PARTICIPANTS IN INTERNATIONAL MARKETING**

There are different categories of participants in International Marketing. Important categories are the following:

**Private Firms**

The bulk of the international transactions are carried out by private firms – MNCs; other large firms, and SMEs.

**MNCs:** MNCs account for a large part of the international marketing. About one-third of the international trade is estimated to be intra-company transfers, i.e., trade between affiliates or divisions of the MNCs located in different countries. Besides, they market large quantities of products to international customers. See the section MNCs and International Trade in Chapter 3 for some details.

**Other Large Firms:** Besides MNCs, there are a large number of large firms active in international marketing. Although, they do not qualify to be regarded as MNCs, many of them have manufacturing and other operational facilities in foreign countries.

**SMEs:** Small and medium enterprises also play a very significant role in international business. A very large number of them do considerable business abroad. There are many in this category which are hundred per cent or primarily export oriented. In the case of USA and Germany, the largest exporting nations, more than half of the exports are contributed by small firms. About 35 per cent of India's exports come from village and small industries.

**Public Sector Undertakings**

In several countries, public sector also play a very important role in foreign trade. State trading was the rule in the communist countries. State trading was prominent in socialist countries. Even in some of the mixed economies like India, state trading had an important place. There was substantial canalisation of foreign trade of India (a canalised item can be exported/imported only by a public sector undertaking). The liberalisation has very significantly reduced the role of state trading. The share of canalised items in the total business of state trading agencies like STC and MMTC has substantially come down. They now have to do business mostly on their own, like private trading
corporations. Besides, the state trading agencies, a number of public sector undertakings do significant international trade, like marketing their products and buying their requirements.

**Trading Companies**

There are many trading companies, including public sector (like STC and MMTC), which are specialised in foreign trade. They are merchant exporters, i.e., those which export products manufactured by other firms. Trading companies in countries like Japan do very huge volumes of trade.

**Individuals**

A large number of individuals also do international marketing. One of the very significant contributions of the world wide web and the internet is the empowerment of individuals and small firms to start business and to expand their business horizon. They are now able to easily access information from throughout the world and get into direct contact with buyers/sellers globally.

(Supplement this section with the sub-sections *Indirect Exporting* and *Types of Foreign Intermediaries* in chapter 11).

**FUTURE OF INTERNATIONAL MARKETING**

It may be predicted that in future the word *international* will disappear from international business or *international marketing* because there will not be any substantial difference between domestic business/marketing and international business/marketing, so that there is no need for the adjective *international*. As pointed out earlier, international competition in the ‘domestic’ market is so pervasive that international marketing may be defined as marketing in an internationally competitive environment, whether the market is foreign or domestic.

There are several trends that would make globalisation and international marketing more pronounced in future. Important among them are the following. In fact, most of them were indicated in the section *Driving and Restraining Forces*.

1. **Globalisation of supply chain and operations management.** The growing trend towards globalisation of supply chain and operations management will increase the importance of international marketing. For details, see the chapter *Internationalisation of Operations Management* in the author’s *International Business* (Prentice-Hall of India).

2. **International investments.** The continuing high levels of international investments and increasing international production tend to increase the importance of international marketing.

3. **Information surge and consumer choice.** Because of the information surge, consumers are fairly well aware of the galaxy different categories of products available across the world. The consumer affluence make consumers more demanding, generating cross border demand.

Keegan, who observes that the world economy has undergone revolutionary changes during the past 50 years, points out that the following six major changes will continue well into this century.37

4. **World growth.** World economy would grow fairly fast. The developing countries have been growing much faster than the developed ones and this trend would continue.

5. **Domination of the world economy.** One of the major changes is the emergence of the world economy as the dominant economic unit and the resultant decline of the power of nations like the United States to pressurise policies and behaviours of other nations.

6. **Trade cycle decision rule.** The old trade cycle model (see chapter 9), which implied that as a product matures the location of production must shift to low-wage countries, has been clarified. Keegan points out that the location of production is not dictated exclusively by wage levels. For any product in which labour is less than, say, 15 per cent to 20 per cent of total costs, the location of production of mature products may be anywhere in the world. Factors such as transportation costs,
availability of skilled labour, market responsiveness, and market access and high levels of innovation in product design and manufacturability may all indicate that the best location for production is a high-income, high-wage country.

It may be pointed out that, as against the above observations, that shift of production location happens in case of many products even now. Although Keegan has taken automobile as an example to support his point, it should be noted that the production of low end models has been shifting to developing countries like India. This trend increases the scope of international marketing.

7. **Pervasiveness of free markets.** The fall of communism and socialism and the resultant ubiquitous market economy and globalisation are stupendously expanding the scope of international marketing.

8. **Accelerating growth of global markets.** Global markets would grow at rates that were once thought impossible, driven by the high rate of growth in both the high- and low-income countries.

9. **The rise of the Internet and information technology.** International marketing is boosted by such factors as the advances in information technology and the rise of the internet. See Chapter 17 for details.

There are also some factors which tend to hamper international marketing, like the restraining forces mentioned earlier. Policies of domestic protection could restrain the growth of international marketing. For example, countries like the US, which were champions of free trade, are increasing domestic protection when they see that their interests are adversely affected by free trade.

### REFERENCES


Keegan, *op. cit.*, p. 47.
