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MKTG 376 | International Marketing Strategy
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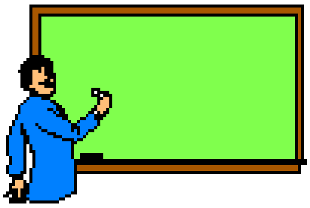


Culture (Continued)

Language issues. Language is an important element of culture. It should be realized that regional differences may be subtle. For example, one word may mean one thing in one Latin American country, but something off-color in another. It should also be kept in mind that much information is carried in non-verbal communication. In some cultures, we nod to signify "yes" and shake our heads to signify "no;" in other cultures, the practice is reversed. Within the context of language:

- There are often large variations in regional dialects of a given language. The differences between U.S., Australian, and British English are actually modest compared to differences between dialects of Spanish and German.
- *Idioms* involve "figures of speech" that may not be used, literally translated, in other languages. For example, baseball is a predominantly North and South American sport, so the notion of "in the ball park" makes sense here, but the term does not carry the same meaning in cultures where the sport is less popular.
- *Neologisms* involve terms that have come into language relatively recently as technology or society involved. With the proliferation of computer technology, for example, the idea of an "add-on" became widely known. It may take longer for such terms to "diffuse" into other regions of the world. In parts of the World where English is heavily studied in schools, the emphasis is often on grammar and traditional language rather than on current terminology, so neologisms have a wide potential not to be understood.
- *Slang* exists within most languages. Again, regional variations are common and not all people in a region where slang is used will necessarily understand this. There are often significant generation gaps in the use of slang.

Writing patterns, or the socially accepted ways of writing, will differs significantly between cultures. In English and Northern European languages, there is an emphasis on organization and conciseness. Here, a point is made by building up to it through background. An introduction will often foreshadow what is to be said. In Romance languages such as Spanish, French, and Portuguese, this style is often considered "boring" and "inelegant." Detours are expected and are considered a sign of class, not of poor organization. In Asian languages, there is often a great deal of circularity. Because of concerns about potential loss of face, opinions may not be expressed directly. Instead, speakers may hint at ideas or indicate what others have said, waiting for feedback from the other speaker before committing to a point of view.

Because of differences in values, assumptions, and language structure, it is not possible to meaningfully translate "word-for-word" from one language to another. A translator must keep "unspoken understandings" and assumptions in mind in translating. The intended meaning of a word may also differ from its literal translation. For example, the Japanese word *hai* is literally translated as "yes." To Americans, that would imply "Yes, I agree." To the Japanese speaker, however, the word may mean "Yes, I hear what you are saying" (without any agreement expressed) or even "Yes, I hear you are saying something even though I am not sure exactly *what* you are saying."

Differences in cultural values result in different preferred methods of speech. In American English, where the individual is assumed to be more in control of his or her destiny than is the case in many other cultures, there is a preference for the "active" tense (e.g., "I wrote the marketing plan") as opposed to the passive (e.g., "The marketing plan was written by me.")

Because of the potential for misunderstandings in translations, it is dangerous to rely on a translation from one language to another made by one person. In the "decentering" method, multiple translators are used. The text is first translated by one translator—say, from German to Mandarin Chinese. A second translator, who does not know what the original German text said, will then translate back to German from Mandarin Chinese translation. The text is then compared. If the meaning is not similar, a third translator, keeping in mind this feedback, will then translate from German to Mandarin. The process is continued until the translated meaning appears to be satisfactory.

Different perspectives exist in different cultures on several issues; e.g.:

- *Monochronic* cultures tend to value precise scheduling and doing one thing at a time; in *polychronic* cultures, in contrast, promptness is valued less, and multiple tasks may be performed simultaneously. (See text for more detail).
- *Space* is perceived differently. Americans will feel crowded where people from more densely populated countries will be comfortable.
- *Symbols* differ in meaning. For example, while white symbols purity in the U.S., it is a symbol of death in China. Colors that are considered masculine and feminine also differ by culture.
- Americans have a lot of quite shallow friends toward whom little obligation is felt; people in European and some Asian cultures have fewer, but more significant friends. For example, one Ph.D. student from India, with limited income, felt obligated to try buy an airline ticket for a friend to go back to India when a relative had died.
- In the U.S. and much of Europe, agreements are typically rather precise and contractual in nature; in Asia, there is a greater tendency to settle issues as they come up. As a result, building a relationship of trust is more important in Asia, since you must be able to count on your partner being reasonable.
- In terms of etiquette, some cultures have more rigid procedures than others. In some countries, for example, there are explicit standards as to how a gift should be presented. In some cultures, gifts should be presented in private to avoid embarrassing the recipient; in others, the gift should be made publicly to ensure that no perception of secret bribery could be made.

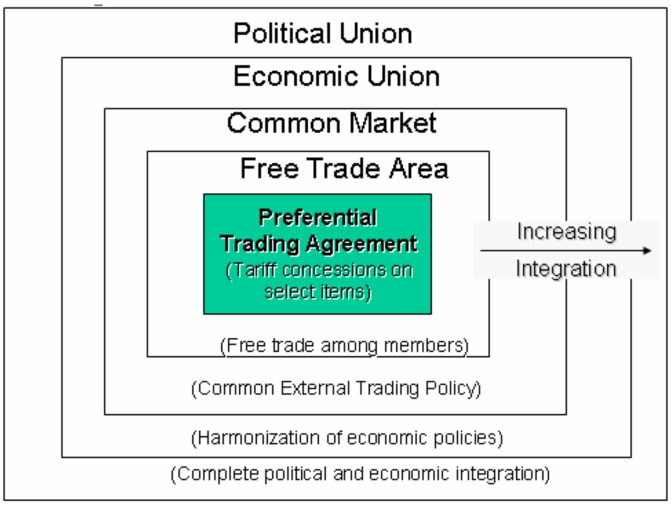
Ethnocentrism and the self-reference criterion. The *self-reference criterion* refers to the tendency of individuals, often unconsciously, to use the standards of one's own culture to evaluate others. For example, Americans may perceive more traditional societies to be "backward" and "unmotivated" because they fail to adopt new technologies or social customs, seeking instead to preserve traditional values. In the 1960s, a supposedly well read American psychology professor referred to India's culture of "sick" because, despite severe food shortages, the Hindu religion did not allow the eating of cows. The psychologist expressed disgust that the cows were allowed to roam free in villages, although it turns out that they provided valuable functions by offering milk and fertilizing fields. *Ethnocentrism* is the tendency to view one's culture to be superior to others. The important thing here is to consider how these biases may come in the way in dealing with members of other cultures.

A book entitled *The Geography of Thought* discusses differences in Eastern and Western cultures. These range from customs and values to the actual perception of the World. Some conclusions:

- Western thinkers tend to focus on individual objects while Eastern thinkers tend to focus on the whole, the context, and its relationships to other things.
- Western society seems to value formal logic, the rule of law, consistency of rules, universal principles, and categorization more.
- Western thinkers tend to perceive the world as more controllable and emphasize individual differences more.
- Western parents tend to emphasize choices for children and self-esteem building. Eastern societies are more likely to teach self-criticism and attention to the feelings of others.

Environmental Scanning and Marketing Research

Levels of Economic and Political Integration Among Countries. The text (p. 158) presents a chart depicting various levels of integration that may occur among countries over time:



In general, integration tends to start mostly at the economic level. At first, there may be some limited preferential trade agreements wherein a selected partner country's exporters will receive limited discounts on tariffs. This, then, may evolve into a free trade area—such as NAFTA—where the free trade agreement, in principle, is extended to all types of items. (In practice, there tend to be many exceptions in actual agreements in existence today. At the level of a common market, the member countries, in addition to maintaining free trade within the group, will also coordinate external trade policy. The European Union started out more as a common market and was, in fact, known by that name back in the 1970s. At the level of an economic union, internal economic policies are "harmonized"—i.e., excise taxes and fiscal policy are set at similar levels. Again, in practice, there tend to be exceptions. Some members of the European Union have been allowed to maintain their high "sin" taxes on products that (1) have to be imported [e.g., oil], (2) are considered dangerous [e.g., alcohol and tobacco], or (3) are considered luxury products [e.g., cosmetics]. At the level of political union, political policies are integrated as well. Currently, there are few clear examples of this. The United Arab Emirates, a union of several oil rich Arab countries, may come closest. The European Union is mostly an economic union but has gradually taken on some political objectives as well. To the extent that one would still consider U.S. states generally sovereign, one could consider the U.S. a political union, but this may not be a meaningful idea today.

Primary vs. secondary research. There are two kinds of market research: *Primary* research refers to the research that a firm conducts for its own needs (e.g., focus groups, surveys, interviews, or observation) while *secondary* research involves finding information compiled by someone else. In general, secondary research is less expensive and is faster to conduct, but it may not answer the specific questions the firm seeks to have answered (e.g., how do consumers perceive our product?), and its reliability may be in question.

Secondary sources. A number of secondary sources of country information are available. One of the most convenient sources is an almanac, containing a great deal of country information. Almanacs can typically be bought for $10.00 or less. The U.S. government also publishes a guide to each country, and the handbook *International Business Information: How to Find It, How to Use It* (HF 54.5.P33 [1998] in the Reference Department of the Gelman Library), provides leads on numerous sources by topic. Stat-USA, a database compiled by the U.S. Department of Commerce and available through the Gelman Library (you can access it through the "Links" section of my web-site), contains a great deal of statistical information online. Excellent full text searchable indices to periodicals include Lexis-Nexis and RDS Business and Industry, also available through Gelman.

Several experts may be available. Anthropologists and economists in universities may have built up a great deal of knowledge and may be available for consulting. Consultants specializing in various regions or industries are typically considerably more expensive. One should be careful about relying on the opinions of *expatriates* (whose views may be biased or outdated) or one's own experience (which may relate to only part of a country or a certain subsegment) and may also suffer from the limitation of being a sample of size 1.

Hard vs. soft data. "Hard" data refers to relatively quantifiable measures such as a country's GDP, number of telephones per thousand residents, and birth rates (although even these supposedly "objective" factors may be subject to some controversy due to differing definitions and measurement approaches across countries). In contrast, "soft" data refers to more subjective issues such as country history or culture. It should be noted that while the "hard" data is often more convenient and seemingly objective, the "soft" data is frequently as important, if not more so, in understanding a market.

Data reliability. The accuracy and objectivity of data depend on several factors. One significant one is the motivation of the entity that releases it. For example, some countries may want to exaggerate their citizens' literacy rates owing to national pride, and an organization promoting economic development may paint an overly rosy picture in order to attract investment. Some data may be dated (e.g., a census may be conducted rarely in some regions), and some countries may lack the ability to collect data (it is difficult to reach people in the interior regions of Latin America, for example). Differences in how constructs are defined in different countries (e.g., is military personnel counted in people who are employed?) may make figures of different jurisdictions non-comparable.

Cost of data. Much government data, or data released by organizations such as the World Bank or the United Nations, is free or inexpensive, while consultants may charge very high rates.

Issues in primary research. Cultural factors often influence how people respond to research. While Americans are used to market research and tend to find this relatively un-threatening, consumers in other countries may fear that the data will be reported to the government, and may thus not give accurate responses. In some cultures, criticism or confrontation are considered rude, so consumers may not respond honestly when they dislike a product. Technology such as scanner data is not as widely available outside the United States. Local customs and geography may make it difficult to interview desired respondents; for example, in some countries, women may not be allowed to talk to strangers.

Decision Making for Country Entry

Segmentation, Targeting, and Positioning. Segmentation, in marketing, is usually done at the customer level. However, in international marketing, it may sometimes be useful to see countries as segments. This allows the decision maker to focus on common aspects of countries and avoid information overload. It should be noted that variations within some countries (e.g., Brazil) are very large and therefore, averages may not be meaningful. Country level segmentation may be done on levels such as geography—based on the belief that neighboring countries and countries with a particular type of climate or terrain tend to share similarities, demographics (e.g., population growth, educational attainment, population age distribution), or income. Segmenting on income is tricky since the relative prices between countries may differ significantly (based, in part, on purchasing power parity measures that greatly affect the relative cost of imported and domestically produced products)

The importance of STP. Segmentation is the cornerstone of marketing—almost all marketing efforts in some way relate to decisions on who to serve or how to implement positioning through the different parts of the marketing mix. For example, one's distribution strategy should consider where one's target market is most likely to buy the product, and a promotional strategy should consider the target's media habits and which kinds of messages will be most persuasive. Although it is often tempting, when observing large markets, to try to be "all things to all people," this is a dangerous strategy because the firm may lose its distinctive appeal to its chosen segments.

In terms of the "big picture," members of a segment should generally be as similar as possible to each other on a relevant dimension (e.g., preference for quality vs. low price) and as different as possible from members of other segments. That is, members should respond in similar ways to various treatments (such as discounts or high service) so that common campaigns can be aimed at segment members, but in order to justify a different treatment of other segments, their members should have their own unique response behavior.

Approaches to global segmentation. There are two main approaches to global segmentation. At the macro level, countries are seen as segments, given that country aggregate characteristics and statistics tend to differ significantly. For example, there will only be a large market for expensive pharmaceuticals in countries with certain income levels, and entry opportunities into infant clothing will be significantly greater in countries with large and growing birthrates (in countries with smaller birthrates or stable to declining birthrates, entrenched competitors will fight hard to keep the market share).

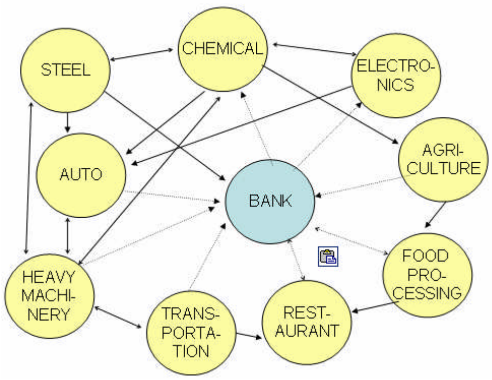
There are, however, significant differences within countries. For example, although it was thought that the Italian market would demand "no frills" inexpensive washing machines while German consumers would insist on high quality, very reliable ones, it was found that more units of the inexpensive kind were sold in Germany than in Italy—although many German consumers fit the predicted profile, there were large segment differences within that country. At the micro level, where one looks at segments within countries. Two approaches exist, and their use often parallels the firm's stage of international involvement. In<u>tra</u>market segmentation involves segmenting each country's markets from scratch—i.e., an American firm going into the Brazilian market would do research to segment Brazilian consumers without incorporating knowledge of U.S. buyers. In contrast, in<u>ter</u>market segmentation involves the detection of segments that exist across borders. Note that not all segments that exist in one country will exist in another and that the sizes of the segments may differ significantly. For example, there is a huge small car segment in Europe, while it is considerably smaller in the U.S.

Intermarket segmentation entails several benefits. The fact that products and promotional campaigns may be used across markets introduces economies of scale, and learning that has been acquired in one market may be used in another—e.g., a firm that has been serving a segment of premium quality cellular phone buyers in one country can put its experience to use in another country that features that same segment. (Even though segments may be similar across the cultures, it should be noted that it is still necessary to learn about the local market. For example, although a segment common across two countries may seek the same benefits, the cultures of each country may cause people to respond differently to the "hard sell" advertising that has been successful in one).

The international product life cycle suggests that product adoption and spread in some markets may lag significantly behind those of others. Often, then, a segment that has existed for some time in an "early adopter" country such as the U.S. or Japan will emerge after several years (or even decades) in a "late adopter" country such as Britain or most developing countries. (We will discuss this issue in more detail when we cover the product mix in the second half of the term).

Positioning across markets. Firms often have to make a tradeoff between adapting their products to the unique demands of a country market or gaining benefits of standardization such as cost savings and the maintenance of a consistent global brand image. There are no easy answers here. On the one hand, McDonald’s has spent a great deal of resources to promote its global image; on the other hand, significant accommodations are made to local tastes and preferences—for example, while serving alcohol in U.S. restaurants would go against the family image of the restaurant carefully nurtured over several decades, McDonald’s has accommodated this demand of European patrons.

The Japanese *Keiretsu* Structure. In Japan, many firms are part of a *keiretsu,* or a conglomerate that ties together businesses that can aid each other. For example, a *keiretsu* might contain an auto division that buys from a steel division. Both of these might then buy from a iron mining division, which in turns buys from a chemical division that also sells to an agricultural division. The agricultural division then sells to the restaurant division, and an electronics division sells to all others, including the auto division. Since the steel division may not have opportunities for reinvestment, it puts its profits in a bank in the center, which in turns lends it out to the electronics division that is experiencing rapid growth.



This practice insulates the businesses to some extent against the business cycle, guaranteeing an outlet for at least some product in bad times, but this structure has caused problems in Japan as it has failed to "root out" inefficient *keiretsu* members which have not had to "shape up" to the rigors of the market.

Methods of entry. With rare exceptions, products just don't emerge in foreign markets overnight—a firm has to build up a market over time. Several strategies, which differ in aggressiveness, risk, and the amount of control that the firm is able to maintain, are available:

- Exporting is a relatively low risk strategy in which few investments are made in the new country. A drawback is that, because the firm makes few if any marketing investments in the new country, market share may be below potential. Further, the firm, by not operating in the country, learns less about the market (What do consumers really want? Which kinds of advertising campaigns are most successful? What are the most effective methods of distribution?) If an importer is willing to do a good job of marketing, this arrangement may represent a "win-win" situation, but it may be more difficult for the firm to enter on its own later if it decides that larger profits can be made within the country.
- Licensing and franchising are also low exposure methods of entry—you allow someone else to use your trademarks and accumulated expertise. Your partner puts up the money and assumes the risk. Problems here involve the fact that you are training a potential competitor and that you have little control over how the business is operated. For example, American fast food restaurants have found that foreign franchisers often fail to maintain American standards of cleanliness. Similarly, a foreign manufacturer may use lower quality ingredients in manufacturing a brand based on premium contents in the home country.
- Contract manufacturing involves having someone else manufacture products while you take on some of the marketing efforts yourself. This saves investment, but again you may be training a competitor.
- Direct entry strategies, where the firm either acquires a firm or builds operations "from scratch" involve the highest exposure, but also the greatest opportunities for profits. The firm gains more knowledge about the local market and maintains greater control, but now has a huge investment. In some countries, the government may expropriate assets without compensation, so direct investment entails an additional risk. A variation involves a joint venture, where a local firm puts up some of the money and knowledge about the local market.

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- Turnkey Projects. A firm uses knowledge and expertise it has gained in one or more markets to provide a working project—e.g., a factory, building, bridge, or other structure—to a buyer in a new country. The firm can take advantage of investments already made in technology and/or development and may be able to receive greater profits since these investments do not have to be started from scratch again. However, getting the technology to work in a new country may be challenging for a firm that does not have experience with the infrastructure, culture, and legal environment.
- Management Contracts. A firm agrees to manage a facility—e.g., a factory, port, or airport—in a foreign country, using knowledge gained in other markets. Again, one thing is to be able to transfer technology—another is to be able to work in a new country with a different infrastructure, culture, and political/legal environment.
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Product

Products and Services. Some marketing scholars and professionals tend to draw a strong distinction between conventional products and services, emphasizing service characteristics such as heterogeneity (variation in standards among providers, frequently even among different locations of the same firm), inseperability from consumption, intangibility, and, in some cases, perishability—the idea that a service cannot generally be created during times of slack and be “stored” for use later. However, almost all products have at least some service component—e.g., a warranty, documentation, and distribution—and this service component is an integral part of the product and its positioning. Thus, it may be more useful to look at the product-service continuum as one between very low and very high levels of tangibility of the service. Income tax preparation, for example, is almost entirely intangible—the client may receive a few printouts, but most of the value is in the service. On the other hand, a customer who picks up rocks for construction from a landowner gets a tangible product with very little value added for service. Firms that offer highly tangible products often seek to add an intangible component to improve perception. Conversely, adding a tangible element to a service—e.g., a binder with information—may address many consumers' psychological need to get something to show for their money.

On the topic of services, cultural issues may be even more prominent than they are for tangible goods. There are large variations in willingness to pay for quality, and often very large differences in expectations. In some countries, it may be more difficult to entice employees to embrace a firm's customer service philosophy. Labor regulations in some countries make it difficult to terminate employees whose treatment of customers is substandard. Speed of service is typically important in the U.S. and western countries but personal interaction may seem more important in other countries.

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

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

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

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

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

Branding. While Americans seem to be comfortable with category specific brands, this is not the case for Asian consumers. American firms observed that their products would be closely examined by Japanese consumers who could not find a major brand name on the packages, which was required as a sign of quality. Note that Japanese *keiretsus* span and use their brand name across multiple industries—e.g., Mitsubishi, among other things, sells food, automobiles, electronics, and heavy construction equipment.

The International Product Life Cycle (PLC). Consumers in different countries differ in the speed with which they adopt new products, in part for economic reasons (fewer Malaysian than American consumers can afford to buy VCRs) and in part because of attitudes toward new products (pharmaceuticals upset the power afforded to traditional faith healers, for example). Thus, it may be possible, when one market has been saturated, to continue growth in another market—e.g., while somewhere between one third and one half of American homes now contain a computer, the corresponding figures for even Europe and Japan are much lower and thus, many computer manufacturers see greater growth potential there. Note that expensive capital equipment may also cycle between countries—e.g., airlines in economically developed countries will often buy the newest and most desired aircraft and sell off older ones to their counterparts in developing countries. While in developed countries, "three part" canning machines that solder on the bottom with lead are unacceptable for health reasons, they have found a market in developing countries.

Diffusion of innovation. Good new innovations often do not spread as quickly as one might expect—e.g., although the technology for microwave ovens has existed since the 1950s, they really did not take off in the United States until the late seventies or early eighties, and their penetration is much lower in most other countries. The typewriter, telephone answering machines, and cellular phones also existed for a long time before they were widely adopted.

Certain characteristics of products make them more or less likely to spread. One factor is *relative advantage*. While a computer offers a huge advantage over a typewriter, for example, the added gain from having an electric typewriter over a manual one was much smaller. Another issue is *compatibility*, both in the social and physical sense. A major problem with the personal computer was that it could not read the manual files that firms had maintained, and birth control programs are resisted in many countries due to conflicts with religious values. *Complexity* refers to how difficult a new product is to use—e.g., some people have resisted getting computers because learning to use them takes time. *Trialability* refers to the extent to which one can examine the merits of a new product without having to commit a huge financial or personal investment—e.g., it is relatively easy to try a restaurant with a new ethnic cuisine, but investing in a global positioning navigation system is riskier since this has to be bought and installed in one's car before the consumer can determine whether it is worthwhile in practice. Finally, *observability* refers to the extent to which consumers can readily see others using the product—e.g., people who do not have ATM cards or cellular phones can easily see the convenience that other people experience using them; on the other hand, VCRs are mostly used in people's homes, and thus only an owner's close friends would be likely to see it.

At the societal level, several factors influence the spread of an innovation. Not surprisingly, *cosmopolitanism*, the extent to which a country is connected to other cultures, is useful. Innovations are more likely to spread where there is a higher percentage of women in the work force; these women both have more economic power and are able to see other people use the products and/or discuss them. *Modernity* refers to the extent to which a culture values "progress." In the U.S., "new and improved" is considered highly attractive; in more traditional countries, their potential for disruption cause new products to be seen with more skepticism. Although U.S. consumers appear to adopt new products more quickly than those of other countries, we actually score lower on *homiphily*, the extent to which consumers are relatively similar to each other, and *physical distance*, where consumers who are more spread out are less likely to interact with other users of the product. Japan, which ranks second only to the U.S., on the other hand, scores very well on these latter two factors.