

The globalization of markets persuasive



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The globalization of markets Theodore Levitt The worldwide success of a growing list of products that have become household names is evidence that consumers the world over, despite deep-rooted cultural differences, are becoming more and more alike – or, as the author puts it, “ homogenized. ” In consequence, he contends, the traditional MNC’s strategy of tailoring its products to the needs of multiple markets may put it at a severe disadvantage vis-a-vis competitors who apply marketing imagination to the task of developing advanced, functional, reliable standardized products, at the right price, on a global scale.

A powerful force drives the world toward a converging commonality, and that force is technology.

It has proletarianized communication, transport and travel. It has made isolated places and impoverished peoples eager for modernity’s allurements. Almost everyone everywhere wants all the things they have heard about, seen, or experienced via the new technologies. The result is a new commercial reality – the emergence of global markets for standardized consumer products on a previously unimagined scale.

Corporations geared to this new reality benefit from enormous economies of scale in production, distribution, marketing and management. By translating these benefits into reduced world prices, they can decimate competitors that still live in the disabling grip of old assumptions about how the world works.

Gone are accustomed differences in national or regional preference. Gone are the days when a company could sell last year’s models – or lesser versions of advanced products — in the less developed world. And gone are

the days when prices, margins and profits abroad were generally higher than at home.

The globalization of markets is at hand.

With that, the multinational commercial world nears its end, and so does the multinational corporation. THE MCKINSEY QUARTERLY The multinational and the global corporation are not the same thing. The multinational corporation operates in a number of countries, and adjusts its products and practices in each – at high relative costs. The global corporation operates with resolute constancy – at low relative cost – as if the entire world (or major regions of it) were a single entity; it sells the same things in the same way everywhere.

Global vs.

multinational Which strategy is better is not a matter of opinion but of necessity. Worldwide communications carry everywhere the constant drumbeat of modern possibilities to lighten and enhance work, raise living standards, divert and entertain. The same countries that ask the world to recognize and respect the individuality of their cultures insist on the wholesale transfer to them of modern goods, services and technologies. Modernity is not just a wish but also a widespread practice among those who cling, with unyielding passion or religious fervor, to ancient attitudes and heritages.

H Who can forget the televised scenes during the 1979 Iranian uprisings of young men in fashionable French-cut trousers and silky hody shirts thirsting with raised modern weapons for blood in the name of Islamic fundamentalism? II In Brazil, thousands swarm daily from preindustrial

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Bahian darkness into exploding coastal cities, there quickly to install television sets in crowded corrugated huts and, next to battered Volkswagens, make sacrificial offerings of fruit and fresh-killed chickens to Macumban spirits by candlelight. During Biafra's fratricidal war against the Ibos, daily televised reports showed soldiers carrying bloodstained swords and listening to transistor radios while drinking Coca-Cola.

^ In the isolated Siberian city of Krasnoyarsk, with no paved streets and censored news, occasional western travelers are stealthily propositioned for cigarettes, digital watches, and even the clothes off their backs. The organized smuggling of electronic equipment, used automobiles, western clothing, cosmetics and pirated movies into primitive places exceeds even the thriving underground trade in modern weapons and their military mercenaries.

A thousand suggestive ways attest to the ubiquity of the desire for the most advanced things that the world makes and sells – goods of the best quality and SUMMER 1984 reliability at the lowest price. The world's needs and desires have been irrevocably homogenized.

This makes the multinational corporation obsolete and the global corporation absolute. The Republic of Technology Daniel J. Boorstin, author of the monumental trilogy *The Americans*, characterized our age as driven by "the Republic of Technology [whose] supreme law . . . is convergence, the tendency for everything to become more like everything else.

" In business, this trend has pushed markets toward global commonality. Corporations sell standardized products in the same way everywhere autos,

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steel, chemicals, petroleum, cement, agricultural commodities and equipment, industrial and commercial construction, banking and insurance services, computers, semiconductors, transport, electronic instruments, pharmaceuticals and telecommunications, to mention some of the obvious.

Nor is the sweeping gale of globalization confined to these raw materials or high-tech products, where the universal language of customers and users facilitates standardization. The transforming winds whipped up by the proletarianization of communication and travel enter every crevice of life.

Commercially, nothing confirms this as much as the success of McDonald's from the Champs Elysees to the Ginza, of Coca-Cola in Bahrain and Pepsi-Cola in Moscow, and of rock music, Greek salad, Hollywood movies, Revlon cosmetics, Sony televisions and Levi jeans everywhere. High-touch" products are as ubiquitous as high-tech. Starting from opposing sides, the high-tech and the high-touch ends of the commercial spectrum gradually consume the undistributed middle in their cosmopolitan orbit. No one is exempt and nothing can stop the process. Everywhere everything gets more and more like everything else as the world's preference structure is relentlessly homogenized.

Consider the cases of Coca-Cola and PepsiCola, which are globally standardized products sold everywhere and welcomed by everyone.

Both successfully cross multitudes of national, regional and ethnic taste buds trained to a variety of deeply ingrained local preferences of taste, flavor, consistency, effervescence and aftertaste. Everywhere both sell well.

Cigarettes, too, especially American-made, yearly make global inroads on

territories previously held in the firm grip of other, mostly local, blends.

These are not exceptional examples.

(Indeed, their global reach would be even greater were it not for artificial trade barriers.) They THE MCKINSEY QUARTERLY exemplify a general drift toward the homogenization of the world and how companies distribute, finance and price products. ^ Nothing is exempt. The products and methods of the industrialized world play a single tune for all the world, and all the world eagerly dances to it. Ancient differences in national tastes or modes of doing business disappear. The commonality of preference leads inescapably to the standardization of products, manufacturing, and the institutions of trade and commerce.

Small nation-based markets transmogrify and expand.

Success in world competition turns on efficiency in production, distribution, marketing and management, and inevitably becomes focused on price. The most effective world competitors incorporate superior quality and reliability into their cost structures. They sell in all national markets the same kind of products sold at home or in their largest export market. They compete on the basis of appropriate value — the best combinations of price, quality, reliability and delivery for products that are globally identical with respect to design, function and even fashion.

That, and little else, explains the surging success of Japanese companies dealing worldwide in a vast variety of products – both tangible products like steel, cars, motorcycles, hi-fi equipment, farm machinery, robots, microprocessors, carbon fibers, and now even textiles, and intangibles like

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banking, shipping, general contracting, and soon computer software. Nor are high-quality and low-cost operations incompatible, as a host of consulting organizations and data engineers argue with vigorous vacuity. The reported data are incomplete, wrongly analyzed and contradictory.

The truth is that low-cost operations are the hallmark of corporate cultures that require and produce quality in all that they do. High quality and low costs are not opposing postures. They are compatible, twin identities of superior practice.

^ To say that Japan's companies are not global because they export cars with left-hand drive to the United States and the European continent, while those in Japan have right-hand drive, or because they sell office machines through distributors in the United States but directly at home, or speak Portuguese in Brazil is to mistake a ' In a landmark article, Robert D.