

International marketing persuasive essay



Typically, regulations prohibited foreign firms from entering a country's telecommunications market and competing head-to-head with the domestic carrier. Most of the traffic carried by telecommunications firms was voice traffic, almost all of it was carried over copper wires, and most telecommunications firms charged their customers a hefty premium to make long-distance and international calls. A generation later, the landscape is radically different. Telecommunications markets around the world have been deregulated. This has allowed new competitors to emerge and compete with the dominant provider.

State-owned monopolies have been privatized, including British Telecoms and Deutsche Telecoms. Several dominant electrification firms, state-owned or otherwise, have been broken up into smaller companies. For example, in 1998 Brazil's state-owned telecommunications monopoly, Telebrasil, was privatized and broken up into 12 smaller companies that will be allowed to compete with each other. New wireless technologies have facilitated the emergence of new competitors, such as Orange and Vodafone in Britain, which now compete head-to-head with the former state monopoly, British Telecoms.

Thanks to the Internet, the volume of data traffic (e. G. , Web graphics) is now growing much more rapidly than that of voice traffic. By 2005, the volume of data traffic may triple that of voice. Much of this data traffic is being transmitted over new digital networks that utilize fiber optics, Internet protocols, digital switches, and photons to send data around the world at the speed of light. Telecommunications firms are investing billions in digital networks to handle this traffic.

To cap it all, under a 1997 agreement brokered by the World Trade Organization, 68 countries accounting for more than 90 percent of the world's telecommunications revenues have agreed to open their telecommunications markets to foreign competition and to abide by mono rules for fair competition in telecommunications. Most of the world's biggest markets, including the United States, European union, and Japan, were fully liberalized and open to foreign competition on January 1, 1998. The consequences of these changes are becoming apparent.

A global market for telecommunications penetrate each other's markets. Prices are falling, both in the international market, where prices have long been kept artificially high by a lack of competition, and in the wireless market, which is rapidly becoming price competitive with traditional wire-line telecommunications services. Estimates from the World Trade Organization suggest that, following the deal that went into effect in 1998, the price for international telephone calls should fall 80 percent by 2001 as competition increases, saving consumers \$1, 000 billion.

Soon it will cost no more to place a call halfway around the world than next door. As competition intensifies, national telecommunications companies are entering into marketing alliances and joint ventures with each other to offer multinational companies a single global telecommunications provider for all their international voice and data needs. For example, in July 1998, AT; T and British Telecoms announced they would merge most of their international operations into a jointly owned company that will have \$10 billion in revenues.

The venture will focus on serving the global telecommunications needs of multinational corporations, enabling workers in Manhattan to communicate as easily with computer systems in New Delhi, say, as with colleagues in New Jersey. AT&T and British Telecoms estimate the market for providing international communications services to large and medium-sized business customers will expand from \$36 billion in 1998 to \$180 billion in 2007.

Other companies that are working together on a global basis include MIMIC-Workroom, the number two long-distance carrier in the United States, and Telephonic of Spain, which is also Latin America's biggest telecommunications carrier. The Sprint Corporation, the number three long-distance carrier in the United States, is partly owned by Deutsche Telecoms and France Telecoms. This trio is positioning itself to compete with the Workroom/ Telephonic and AT&T/BIT ventures to gain the business of multinational customers in the brave new world of global telecommunications. [Http://www. ATT. Com](http://www.att.com) Source: A.

Suffer, " The Big Switch," *Fortune*, October 13, 1997, p. 105 – 16; S. Chisel, " AT&T and British Telecoms Merge Overseas Operations," *New York Times*, July 27, 1998, p. AAA; and F. Crisscross, *The Death of Distance* (Boston: Harvard Business School Press, 1997). Introduction A fundamental shift is occurring in the world economy. We are moving progressively further away from a world in which national economies were relatively isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems.

And we are moving toward a world in which national economies are merging into an interdependent global economic system, commonly referred to as globalization. The trend toward a more integrated global economic system has been in place for many years. However, the rate at which this shift is occurring has been accelerating recently, and it looks set to continue to do so during the early years of the new millennium. The global telecommunications industry, which was profiled in the opening case, is one industry at the forefront of this development.

A decade ago most national telecommunications markets were dominated by state-owned monopolies and isolated from each other by substantial barriers to cross-border trade and investment. This is rapidly becoming a thing of the past. A global bargain has been struck as telecommunications providers compete with each other around the world for residential and business customers. The big winners are the customers, who should see the price of telecommunications services plummet, saving them billions of dollars. The rapidly emerging global economy raises a multitude of issues for businesses both large and small.

It creates opportunities for businesses to expand their revenues, drive down their costs, and boost their profits. For example, companies can take advantage of the falling cost and enhanced functionality of global telecommunications services to more easily establish global markets for their products. Ten years ago no one would have thought that a small British company based in Stafford would have been able to build a global market for its products by utilizing the Internet, but that is exactly what Bridgewater Pottery has done. Bridgewater has traditionally sold premium pottery

through exclusive distribution channels, but the company found it difficult and laborious to identify new retail outlets. Since establishing an Internet presence in 1997, Bridgewater is now conducting a significant amount of business with consumers in other countries who could not be reached through existing channels of distribution or could not be reached cost effectively. Nor is Bridgewater alone; thousands of companies around the world are now taking advantage of the new global communications infrastructure to build new global markets for their products.

As I sit in Seattle writing this book, I do so using an ergonomic computer mouse that was designed by a former farmer in Norway who found that repeated computer use gave him carpal tunnel syndrome. The farmer designed a mouse that alleviates his problem, started a company to manufacture it, and has now sold the mouse to consumers worldwide, using the Internet as his distribution channel. ² While the emerging global economy creates opportunities such as this for new entrepreneurs and established businesses around the world, it also gives rise to challenges and threats that yesterday's business managers did not have to deal with.

For example, managers now routinely have to decide how best to expand into a foreign market. Should they export to that market from their home base; should they invest in productive facilities in that market, reducing locally to sell locally; or should they produce in some third country where the cost of production is favorable and export from that base to other foreign markets and, perhaps, to their home market?

Managers have to decide whether and how to customize their product offerings, marketing policies, human resource practices, and business strategies to deal with national differences in culture, language, business practices, and government regulations. And managers have to decide how best to deal with the threat posed by efficient foreign competitors entering their home marketplace. Again, the opening case offers an example of how reverse providers in the telecommunications industry are positioning themselves to cope with this new global reality.

Companies such as AT; T and British Telecoms, which for years had monopolies within their protected national markets, are now competing head-to-head with other telecommunications service providers. As the case tells us, to improve their chances of capturing the business of multinational corporations that prefer a single telecommunications provider for their worldwide operations (and most do), AT; T and British Telecoms have formed a joint venture and entered into more loosely structured marketing alliances in an attempt to achieve the same basic goal.

These companies are experimenting with different strategies to better compete and prosper in the emerging global marketplace. Only time will tell which strategy makes the most sense. Such strategic experimentation, however, is occurring in a broad range of industries as firms struggle to come to grips with the new realities of global markets and global competition. Against the background of rapid globalization, the goal of this book is to explain how and why globalization is occurring and to explore globalization impact on the business firm and its management.

In this introductory chapter, we discuss what we mean by globalization, review the main drivers of globalization, look at the changing profile of firms that do business outside their national borders, highlight concerns raised by critics of globalization, and explore the challenges that globalization holds for managers within an international business. What is Globalization As used in this book, globalization refers to the shift toward a more integrated and interdependent world economy. Globalization has two main components: the globalization of markets and the globalization of production.

The Globalization of Markets The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market. 3 The global acceptance of consumer products such as Citron credit cards, Coca-Cola, Levis Jeans, Sony Walkways, Nintendo game players, and McDonald's hamburgers are all frequently held up as prototypical examples of this trend.

Firms such as Citron, Coca-Cola, McDonald's, and Levi Strauss are more than just benefactors of this trend; they are also instrumental in facilitating it. By offering a standardized product worldwide, they are helping to create a global market. A company does not have to be the size of these multinational giants to facilitate, and benefit from, the globalization of markets. For example, the accompanying Management Focus describes how a small British enterprise with annual sales in 1997 of just ? 6. 8 million (\$10 million) is trying to build a global market for the traditional British fare of fish ' n' chips.

Despite the global prevalence of Citron credit cards, Coca-Cola, Levi blue Jeans, McDonald's hamburgers, and (perhaps one day) Harry Armament's fish ' n' chips, it is important not to push too far the view that national markets are giving way to the global market. As we shall see in later chapters, very significant differences still exist between national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, and the like.

In the case of many products, these differences frequently require that marketing strategies, product treasures, and operating practices be customized to best match conditions in a country. Thus, for example, automobile companies will promote different car models depending on a whole range of factors such as local fuel costs, income levels, traffic congestion, and cultural values. The most global markets currently are not markets for consumer products—where national differences in tastes and preferences are still goods and materials that serve a universal need the world over.

These include the markets for commodities such as aluminum, oil, and wheat, the markets for industrial reduces such as microprocessors, DRAMS (computer memory chips), and commercial jet aircraft; and the markets for financial assets from US Treasury Bills to rebounds and futures on the Nikkei index or the Mexican peso. In many global markets, the same firms frequently confront each other as competitors in nation after nation.

Coca-Cola's rivalry with Pepsi is a global one, as are the rivalries between Ford and Toyota, Boeing and Airbus, Caterpillar and Comates, and Nintendo and Saga. If one firm moves into a nation that is currently unseeded by its rivals, those rivals are sure to follow lest their competitor gain an advantage. These firms bring with them many of the assets that have served them well in other national markets—including their products, operating strategies, marketing strategies, and brand names—creating a certain degree of homogeneity across markets.

Thus, diversity is replaced by greater uniformity. As rivals follow rivals around the world, these multinational enterprises emerge as an important driver of the convergence of different national markets into a single, and increasingly homogeneous, global marketplace. Due to such developments, in an increasing number of industries it is no longer meaningful to talk about “ the German market,” “ the American market,” “ the Brazilian market,” or “ the Japanese market”; for many firms there is only the global market.

The Globalization of Production The globalization of production refers to the tendency among firms to source goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). By doing so, companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively.

Consider the Boeing Company's latest commercial jet airliner, the 777. The 777 contains 132, 500 major component parts that are produced around the

world by 545 suppliers. Eight Japanese suppliers make parts for the fuselage, doors, and wings; a supplier in Singapore makes the doors for the nose landing gear; three suppliers in Italy manufacture wing flaps; and so on. 5 Part of Boeing's rationale for outsourcing so much production to foreign suppliers is that these suppliers are the best in the world at performing their particular activity.

The result of having a global web of suppliers is a better final product, which enhances the chances of Boeing winning a greater share of total orders for aircraft than its global rival, Airbus. Boeing also outsources some production to foreign countries to increase the chance that it will win significant orders from airlines based in that country. The global dispersal of productive activities is not limited to giants such as Boeing. Many much smaller firms are also getting into the act. Consider Swan Optical, a US-based manufacturer and distributor of aware.

With sales revenues of \$20 to \$30 million, Swan is hardly a giant, yet Swan manufactures its aware in low-cost stores in Hong Kong and China that it jointly owns with a Hong Kong-based partner. Swan also has a minority stake in aware design houses in Japan, France, and Italy. Swan has dispersed its manufacturing and design processes to different locations around the world to take advantage of the favorable skill base and cost China have helped Swan lower its cost structure, while investments in Japan, France, and Italy have helped it produce designer aware for which it can charge a premium price.

By dispersing its manufacturing and design activities, Swan has established a competitive advantage for itself in the global marketplace for aware, just as Boeing has tried to do by dispersing some of its activities to other countries. Robert Reich, the former secretary of labor in the Clinton administration, has argued that as a consequence of the trend exemplified by Boeing and Swan Optical, in many industries it is becoming irrelevant to talk about American products, Japanese products, German products, or Korean products.

Increasingly, according to Reich, the outsourcing of productive activities to different suppliers results in the creation of products that are global in nature; that is, “ global products. ” But as with the lubrication of markets, one must be careful not to push the globalization of production too far. As we will see in later chapters, substantial impediments still make it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe.

These impediments include formal and informal barriers to trade between countries, barriers to foreign direct investment, transportation costs, and issues associated with economic and political risk. Nevertheless, we are traveling down the road toward a future characterized by the increased globalization of markets and production. Modern firms are important actors in this drama, fostering by their very actions increased globalization. These firms, however, are merely responding in an efficient manner to changing conditions in their operating environment—as well they should.

In the next section, we look at the main drivers of globalization. Drivers of Globalization Two macro factors seem to underlie the trend toward greater globalization. The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II. The second factor is technological change, articulating the dramatic developments in recent years in communications, information processing, and transportation technologies.

Declining Trade and Investment Barriers During the assessment, many of the nation-states of the world erected formidable barriers to international trade and foreign direct investment. International trade occurs when a firm exports goods or services to consumers in another country. Foreign direct investment occurs when a firm invests resources in business activities outside its home country. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods. The typical aim of such tariffs was to protect domestic industries from “foreign competition. One consequence, however, was “beggar thy neighbor” retaliatory trade policies with countries progressively raising trade barriers against each other. Ultimately, this depressed world demand and contributed to the Great Depression of the assessment. Having learned from this experience, after World War II, the advanced industrial nations of the West—under US leadership—committed themselves to removing barriers to the free flow of goods, services, and capital between nations. 8 This goal was enshrined in the treaty known as the General Agreement on Tariffs and Trade (GATE).

Under the umbrella of GATE, there have been eight rounds of negotiations among member states—which now The most recent round of negotiations,

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known as the Uruguay Round, was completed in December 1993. The Uruguay Round further reduced trade barriers; extended GATE to cover services as well as manufactured goods; provided enhanced protection for patents, trademarks, and copyrights; and established the World Trade Organization (WTO) to police the international trading system. Table 1.1 summarizes the impact of GATE agreements on average tariff rates for manufactured goods.

As can be seen, average tariff rates have fallen significantly since 1950 and under the Uruguay agreement should hit 3.9 percent in 2000. In addition to reducing trade barriers, many countries have also been progressively removing restrictions to foreign direct investment (FDI). According to the United Nations, between 1991 and 1996, more than 100 countries made 599 changes in legislation governing FDI. Some 95 percent of these changes involved liberalizing a country's foreign investment regulations to make it easier for foreign companies to enter their markets.

The desire to facilitate FDI has also been reflected in a dramatic increase in the number of bilateral investment treaties designed to protect and promote investment between two countries. As of January 1, 1997, there were 1,330 such treaties in the world involving 162 countries, a threefold increase in five years. Table 1.1 Average Tariff Rates on Manufactured Products as Percent of Value | 1913 | 1950 | 1990 | 2000* | France 121 | 118 | 15.9 | 3.9 | Germany 120 | 126 | 15.9 | 3.9 | Italy 118 | 125 | 15.9 | 3.9 | Japan 130 | 1 | 5.3 | 3. | Holland | 5 | 11 | 5.9 | 13.9 | 1 sweetened 19 | 14.4 | 1 | 3.9 | Britain I- 123 | 15.9 | 13.9 | 1 | united states 144 | 114 | 14.1 | 3.9 | *Rates for 2000 based on full implementation of Uruguay agreement. Source: "Who Wants to Be a Giant?" <https://assignbuster.com/international-marketing-persuasive-essay/>

” The Economist: A Survey of the Multinationals, June 24, 1995, up. 3-4.

Figure 1. 1 The Growth of World Trade and World Output source: WORLD TRADE ORGANIZATION. World Development Report 1998: Trends and Determinants Such trends facilitate both the globalization of markets and the globalization of production.

The lowering of barriers to international trade enables firms to view the world, rather than a single country, as their market. The lowering of trade and investment barriers also allows firms to base production at the optimal location for that activity, serving the world market from that location. Thus, a firm might design a product in one country, produce component parts in two other countries, assemble the product in yet another country, and then export the finished product around the world. There is plenty of evidence that the lowering of trade barriers has facilitated the globalization of production.

According to data from the World Trade Organization, the volume of world trade has grown consistently faster Over this period, world trade has expanded sixteen fold, far outstripping world output, which has grown six fold. As suggested by Figure 1 . 1, the growth in world trade seems to have accelerated in recent years. The data summarized in Figure 1. 1 imply two things. First, more firms are doing what Boeing does with the 777, dispersing parts of their overall production process to different locations around the globe to drive down production costs and increase product quality.

Second, the economies of the world’s nation-states are becoming more intertwined. As trade expands, nations are becoming increasingly dependent

on each other for important goods and services. The evidence also suggests that foreign direct investment is laying an increasing role in the global economy as firms ranging in size from Boeing to Swan Optical and Harry Armament's increase their cross-border investments. Between 1984 and 1997, the total annual flow of FDA from all countries increased tenfold from \$42 billion to \$430 billion, more than twice as fast as the growth rate in world trade. ² The major investors have been US, Japanese, and Western European companies investing in Europe, Asia (particularly China), and the United States. For example, Japanese auto companies have been investing rapidly in Asian, European, and US-based auto assembly operations. Finally, the globalization of markets and production and the resulting growth of world trade, foreign direct investment, and imports all imply that firms are finding their home markets under attack from foreign competitors. This is true in Japan, where US companies such as Kodak, Procter ; Gamble, and Merrill Lynch are expanding their presence.

It is true in the United States, where Japanese automobile firms have taken market share away from General Motors and Ford. And it is true in Europe, where the once-dominant Dutch company Philips has seen its market share in the consumer electronics industry taken by Japan's C. V., Matthias, and Sony. The bottom line is that the growing integration of the world economy into a single, huge marketplace is increasing the intensity of competition in a range of manufacturing and service industries. Having said all this, declining trade barriers can't be taken for granted.

As we shall see in the following chapters, demands for " protection" from foreign competitors are still often heard in countries around the world,

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including the United States. Although a return to the restrictive trade policies of the asses and sis is unlikely, it is not clear whether the lattice majority in the industrialized world favors further reductions in trade barriers. If trade barriers decline no further, at least for the time being, a temporary limit may have been reached in the globalization of both markets and production.

The Role of Technological Change The lowering of trade barriers made globalization of markets and production a theoretical possibility, and technological change has made it a tangible reality. Since the end of World War II, the world has seen major advances in communications, information processing, and transportation technology including, most recently, the explosive emergence of the Internet and World Wide Web. In the words of Ornate Ruggeri, director general of the World Trade Organization, Telecommunications is creating a global audience.

Transport is creating a global village. From Buenos Aries to Boston to Beijing, ordinary people are watching MET, they're wearing Levies Jeans, and they're listening to Sony Walkways as they commute to work. 13 Perhaps the single most important innovation has been development of the microprocessor, which enabled the explosive growth of high-power, low-cost computing, vastly increasing the amount of information that can be processed by individuals and firms. The microprocessor also underlies many recent advances in telecommunications technology.

Over the past 30 years, global communications have been revolutionized by developments in satellite, optical fiber, and wireless technologies, and now the Internet and the World Wide Web. These technologies rely on the

microprocessor to encode, transmit, and decode the vast amount of information that flows along these electronic highways. The cost of microprocessors continues to fall, while their power increases (a phenomenon known as Moore's Law, which predicts that the power of microprocessor technology doubles and its cost of reduction falls in half every 18 months).⁴ As this happens, the costs of global communications are plummeting, which lowers the costs of coordinating and controlling a global organization. The Internet and World Wide Web The phenomenal recent growth of the Internet and the associated World Wide Web (which utilizes the Internet to communicate between World Wide Web sites) is the latest expression of this development. In 1990, fewer than 1 million users were connected to the Internet. By mid-1998 the Internet had about 147 million users, of which some 70 million were in the United States.

By the year 2000, the Internet may have over 330 million users.¹⁵ In July 1993, some 1.8 million host computers were connected to the Internet (host computers host the Web pages of local users). By July 1998, the number of host computers had increased to 36.8 million, and the number is still growing rapidly.¹⁶ The Internet and World Wide Web (WWW) promise to develop into the information backbone of tomorrow's global economy. From virtually nothing in 1994, the value of Web-based transactions hit \$7. Billion in 1997. According to a recent report issued by the United States Department of Commerce, this figure could reach \$300 billion in the United States alone by 2003.¹⁷ Companies such as Dell Computer are booking over \$4 million a day in Web-based sales, while Internet equipment giant Cisco Systems books more than \$20 million per day in Web-based sales

transactions. Viewed globally, the Web is emerging as the great equalizer. It rolls back some of the constraints of location, scale, and time zones.

The Web allows businesses, both small and large, to expand their global presence at a lower cost than ever before. One example is a small California-based start-up, Cardiac Science, which makes defibrillators and heart monitors. In 1996, Cardiac Science was itching to break into international markets but had little idea of how to establish an international presence. By 1998, the company was selling to customers in 46 countries and foreign sales accounted for 85 percent of its \$1.2 million revenues.

Although some of this business was developed through conventional export channels, a growing percentage of it came from “hits” to the company’s Web site, which according to the company’s CEO, “attracts international business people like bees to honey.”¹⁸ The Web makes it much easier for buyers and sellers to find each other, wherever they may be located, and whatever their size. In addition to developments in communications technology, several major innovations in transportation technology have occurred since World War II.

In economic terms, the most important are probably the development of commercial jet aircraft and superchargers and the introduction of centralization, which simplifies transshipment from one mode of transport to another. The advent of commercial jet travel, by reducing the time needed to get from one location to another, has effectively shrunk the globe (see Figure 1.2). In terms of travel time, New York is now closer to Tokyo than it was to Philadelphia in the Colonial days. Centralization has revolutionized the

transportation business, significantly lowering the costs of shipping goods over long distances.

Before the advent of centralization, moving goods from one mode of transport to another was very labor intensive, lengthy, and costly. It could take days and several hundred longshoremen to unload a ship and reload goods onto trucks and trains. With the advent of widespread centralization in the asses and asses, the whole process can be executed by a handful of longshoremen in a couple of days. Since 1980, the world's containers fleet has more than quadrupled, reflecting in part the growing volume of international trade and in part the switch to this mode of transportation.

As a result of the efficiency gains associated with centralization, transportation costs have plummeted, making it much more economical to ship goods around the globe, thereby helping to drive the globalization of markets and production. In the United States, for example, the cost of shipping freight per ton mile on railroads has fallen from 3 cents in 1985 to 2.4 cents in 1997, largely as a result of efficiency gains from the widespread use of notations. 19 Implications for the Globalization of Production Due to centralization, the transportation costs associated with the globalization of production have declined.

Plus, as a result of the technological innovations discussed above, the real costs of information processing and communication have fallen dramatically in the past two decades. This makes it possible for a firm to manage a globally dispersed production system, further facilitating the globalization of production. A worldwide communications network has become essential for

many international businesses. For example, Texas Instruments (T'), the US electronics firm, has approximately 50 plants in 19 countries.