

PRINCIPLES OF MARKETING / 05A

IBMS /
University of Applied Sciences

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Based on *Ph. Kotler's Principles of marketing / international edition, and miscellaneous designer's lecturing materials*



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THE GLOBAL MARKETPLACE

Global marketing in the 21st century

Dynamics of world trade

- The US\$ value of world trade has more than doubled in the past decade, now already exceeding **US\$ 18,5 trillion** (= 18.500 billion US\$ = $18,5 \times 10^{12}$ US\$, 2014).
- Manufactured goods and commodities (FMCG's, etc.) account for approx. 75% of world trade. Service industries, including telecommunications, transportation, insurance, education, banking and tourism, represent the remaining other 25% of world trade.



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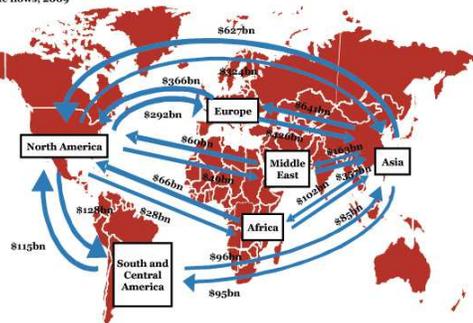
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Rise of SAAAME

A bloc of countries, comprising South America, Africa, Asia and the Middle East (SAAAME) is emerging as a dominant bloc for trade and investment

World trade flows, 2009



Source: WTO, PwC analysis
Note: Map includes trade flows from the CIS

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Dynamics of world trade

- Not all trade involves the exchange of money for goods and services.
- Approx. 70% of all countries lack convertible currencies, sufficient cash or credit for imports.
- An estimated 20% of world trade involves **countertrade**: the practice of using *barter* rather than money for making global sales.

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Dynamics of world trade

- **Countertrade** is popular with many Eastern European nations, Russia, and Asian countries.
- For example, in recent years Malaysia exchanged 20,000 tons of rice for an equivalent amount of Philippine corn; Volvo (US) delivered automobiles to the Siberian police force in exchange for a payment in oil; China trades with Congo by exchanging infrastructure for supplies of metals, etc.

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Dynamics of world trade

- Studies show that a country's imports affect its exports and exports affect its imports. As the exports of one country increase, its national output and income rise, which, in turn, leads to an increase in the demand for imports. This nation's greater demand for imports triggers the exports of other countries, etc.
- In short, imports affect exports and v.v. This occurrence is called **trade feedback effect**, and is one argument for *free trade* among nations.

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Dynamics of world trade

- The US is the world's long-acting leader in terms of **gross domestic product (GDP)**, which is the monetary value of all goods and services produced in a country during one year.
- Another indication of a country's economic status is **GDP per capita** (inhabitant).
Some GDP's per capita (IMF, 2018):
US: \$ 62.600; China: \$ 16.600; Japan: \$ 44.200;
Denmark: \$ 52.100; Indonesia: \$ 12.400;
France: \$ 45.800; Netherlands: \$ 56.400;
UK: \$ 45.700; S.-Africa: \$ 13.400.

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Dynamics of world trade

- The difference between the monetary value of a nation's exports and imports is called the **balance of trade**.
- When a country's exports exceed (>) its imports, it incurs a **surplus** in its balance of trade; when imports exceed exports, a **deficit** occurs.
The US is Asia's largest export market, buying about 1/3 of the exports of Japan, South Korea, China, Taiwan and the Philippines. The US also bears the world's largest deficit: \$ 483 billion.

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Competitive advantage of nations

- In 1990 **prof. Michael Porter** finished a large scale research, aimed at understanding what factors had led to the successful industrial development of 10 prominent countries during the period 1971-1985 (US, GB, Denmark, Sweden, Germany, Switzerland, Italy, Singapore, S.-Korea and Japan).

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Competitive advantage of nations

- This research lead to the following conclusions:
 - companies are the entities that compete in the international arena, not the nations;
 - the home market is critical to a company's ability to renew technologies and methods, and to do so in the right direction;
 - the home market is an important and determining factor regarding a company's strengths and weaknesses, relative to foreign competitors.

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Competitive advantage of nations

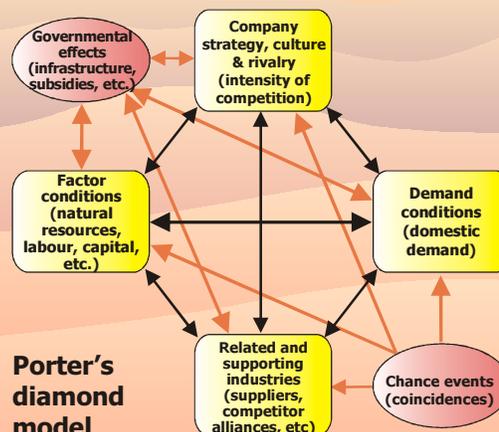
- Porter has suggested that there are four main factors which determine national competitive advantage:
 - **factor conditions;**
 - **demand conditions;**
 - **related and supporting industries;**
 - **firm strategy, structure and rivalry.**
- 2 other factors that should also be considered, involve:
 - **the role of government,** and
 - **chance events.**

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Competitive advantage of nation:

- **Factor conditions:** these can involve **basic factors** (natural resources, capital and labour) and **advanced factors** (advanced skills, research capabilities, highly developed infrastructure).

Example: Silicon Valley, San Fransisco Bay Area, where numerous IT and IT-related companies closely co-operate with local universities and institutes, and develop countless decisive innovations in this sector.

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Competitive advantage of nation:

- **Related and supporting industries:** many firms take advantage of existing domestic clusters of suppliers and related sectors. **Firms** (competitors or other companies) can, for instance, co-operate in various fields, such as technology or marketing, in order to obtain more economies of scale. Furthermore, **supporting industries**, such as telecom, utilities and consultancies, play an important role here, enabling firms to better distinguish themselves in the home market.

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Competitive advantage of nation:

- **Company strategy, structure and rivalry:** involves the ways firms are organized and how they are run, their objectives and **the degree of competition in the home market**. Domestic competition can have a strong, positive effect on competing in the international arena.

Example: the intense competition between VW, BMW and Mercedes in Germany, forcing these companies to operate more efficiently, develop cost-effective technologies, and shorten product development time.

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Competitive advantage of nation:

- **Demand conditions (domestic demand):** economies of scale, costs of transport and the size of the home market are closely interconnected.
 - **economies of scale** and the **costs of transport** determine the extent to which the home market can be served by 1 or more locations;
 - when there is a **large home market**, many firms will obtain economies of scale and be able to reduce their costs through increasing experience. Once markets **saturate**, efficient firms will focus more on foreign markets.

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Competitive advantage of nation:

- **Governmental effects:** governments can effect each of the 4 main factors. They can play a powerful role in the development of domestic sectors that are about to internationalize.

Governments **support and finance** various infrastructural projects, they stimulate education, healthcare, the generation of green energy, and much more. All these measures could influence each factor in a positive manner.

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Competitive advantage of nation:

- **Chance events:** also, coincidental events can have important effects on the national or regional competitive powers.

These events can vary from a competitor or other firm being the first to launch a major idea in the market, to technological events (Y2K problem), or to economical circumstances (recent bank crisis, the worldwide collapse of the real estate market, etc.).



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Global companies

- In general a **global firm (global company)** is a company that, by operating in more than one country, gains R&D, production, marketing and financial advantages that are not available to purely domestic competitors.
- In particular, 3 types of companies populate and compete in the global marketplace:
 - international firms
 - multinational firms
 - transnational firms

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Global companies

(cont'd)

- **International firms:** engage in trade and marketing in different countries *as an extension of their marketing strategy in the home country.*
- Generally speaking, these firms conduct import and/or export activities, and market their existing products and services in other countries the same way they do in their home country, for example Avon cosmetics. Sometimes these firms will operate abroad through licensing and franchising, managed by nationals of the home country.

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Global marketing in the 21st century

Global companies

(cont'd)

- **Multinational firms**: view the world as a variety of unique parts, and market to each part in different manners.
- Multinationals use **multidomestic marketing strategies**, meaning that they often have as many different product variations, brand names, and advertising programs as countries in which they do business. For example: Unilever, using several brand names for the same product in different countries or regions (Snuggle, Robijn, Coccolino, Mimosin, Fofu).

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Global companies

(cont'd)

- **Transnational firms**: view the world as one market and emphasize cultural similarities across countries or universal customer needs and wants more than differences.
- Transnationals use **global marketing strategies**, the practice of standardizing marketing activities when there are cultural similarities, and adapting these activities when cultures differ, for instance: Caterpillar, Komatsu, Intel, Seiko, Gillette, McDonald's, Citizen, Coca-Cola, Pepsi).

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Global marketing in the 21st century

The rise of a borderless economic world

- 3 trends in the late 20th century have significantly affected world trade:
 - **decline of economic protectionism**
 - **rise of economic integration**
 - **global competition** among global companies and global consumers.

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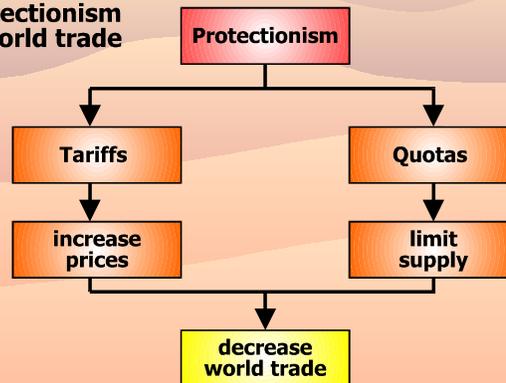
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The rise of a borderless economic world

How protectionism affects world trade



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The rise of a borderless economic world

■ Decline of economic protectionism:

- **protectionism** is the practice of shielding one or more sectors of a country's economy from foreign competition through the use of **tariffs** or **quotas**.
- the principle economic argument for protectionism is that it preserves jobs, protects a nation's political security, discourages economic dependency on other countries, and encourages domestic industry development

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Decline of economic protectionism:

- **tariffs** and **quotas** discourage world trade as illustrated earlier in the figure;
- **tariffs**, which are a government tax on goods or services entering a country, primarily serve to **raise prices on imports**;
- a quota is a **restriction placed on the amount** of a product allowed to enter or leave a nation;
- quotes can be **mandatory or voluntary**, and are legislated or negotiated by governments.

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The rise of a borderless economic world (cont'd)

■ Decline of economic protectionism:

- *import quotes* are usually set to guarantee access by domestic industries to a certain percentage of their domestic market, such as many countries do on behalf of their automobile industries;
- every country engages in some form of protectionism, although protectionism has declined over the past 50 years, this largely thanks to the GATT-agreements.

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The rise of a borderless economic world (cont'd)

■ Decline of economic protectionism:

- Gatt: the *General Agreement on Tariffs and Trade*, the international treaty that was intended to limit trade barriers and to promote world trade through the reduction of tariffs;
- as GATT did not explicitly address nontariff trade barriers, such as quotas and world trade in services, the major industrialized nations formed the World Trade Organization (WTO) in 1995.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Decline of economic protectionism:

- WTO: the WTO is a permanent institution that sets rules to govern trade between its 161 member countries (2015) through panels of trade experts who:
 - decide on trade disputes between members, and
 - issue binding decisions.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Decline of economic protectionism:

- Developing countries consider the GATT (and later on, the WTO) and the International Monetary Fund (IMF) as trade instruments intended for, and in the hands of, the developed, industrialized countries.
- For this reason the developing countries formed their own platform in 1964: the **UNCTAD** (the *United Nations Conference on Trade and Development*)

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The rise of a borderless economic world (cont'd)

■ Decline of economic protectionism:

- The **UNCTAD** is a permanent UN institution that concentrates on the problems concerning the economic development of developing countries, where living standards are (usually: very) low and economic improvement is (very) slow.

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The rise of a borderless economic world (cont'd)

■ Rise of economic integration:

- In recent years many countries with similar economic goals have formed *transnational trade groups / trading blocs*, or have signed agreements in order to promote free trade among member nations and to enlarge their individual economies.
- **Typical trading blocs** involve: preferential trade area's, free trade area's (**NAFTA**, **ASEAN**), customs unions, common markets, economic unions (**EU**), and economic / monetary unions (**Euro zone**).

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The rise of a borderless economic world (cont'd)

- **Rise of economic integration: trading blocs**
 - **Preferential trade area:** countries within a geographical region agree to reduce or eliminate tariff barriers on selected goods imported from other members of the area (such as has been practiced by the British Commonwealth and the Commonwealth of Independent States).

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

- **Rise of economic integration: trading blocs**
 - **Free trade area:** two or more countries in a region agree to reduce or eliminate barriers to trade on all goods coming from other members (such as within NAFTA or ASEAN).
 - **Customs union:** involves the removal of tariff barriers between members, plus the acceptance of a common (unified) external tariff against non-members. A customs union has been established between the EU and Turkey.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

- **Rise of economic integration: trading blocs**
 - **Common market:** member countries trade freely in all economic resources – not just tangible goods. This means that all barriers to trade in goods, services, capital, and labour are removed. In addition, as well as removing tariffs, non-tariff barriers are also reduced and eliminated.
Examples: CARICOM (Caribbean), MERCOSUR (southern S.-American countries), and the former European Economic Community.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

- **Rise of economic integration: trading blocs**
 - **Economic union:** a common market in which a significant level of harmonisation has been achieved regarding fiscal, social and monetary policies, and common rules regarding monopoly power and other anti-competitive practices. Usually, there are also common policies affecting key industries, such as agriculture and fisheries.
Example: the European Union.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

- **Rise of economic integration: trading blocs**
 - **Economic and Monetary Union:** an economic union in which -through several stages- a common currency has been introduced.
Example: the Euro Zone.



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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

- **Rise of economic integration:**
 - The **European Union (EU)** is a form of economic unification, where tariffs and quotas between the member states are lifted, rules of competition are equalized, and compliance takes place in the areas of economics and monetary, fiscal and social politics.
 - The EU consists of 28 member states (2014, see EU-chart >>)

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The rise of a borderless economic world (cont'd)

■ Rise of economic integration:

- The **North American Free Trade Association (NAFTA)** is a form of free trade area, where tariffs and quotas between the member states are lifted, but allowing each member state to place its own tariffs and quotas on imports from non-member states.
- At present NAFTA consists of the US, Canada and Mexico; negotiations are under way to expand NAFTA to create a 34-country Free Trade Area of the America's in the future...

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Rise of economic integration:

- The **ASEAN (Association of South East Asian Nations) Free Trade Areas** is also a form of free trade area, in response to the competitive positions of Japan and the 4 'Asian Dragons' (Hong Kong, Singapore, South Korea and Taiwan).
- At present ASEAN consists of Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Further developments:

- The **Trans-Atlantic Trade and Investment Partnership (TTIP)** is a proposed **free trade agreement** between the European Union and the United States.
The US and the EU together represent 60% of global GDP, 33% of world trade in goods and 42% of world trade in services.
A free trade area between the two powers would represent potentially the largest regional free trade agreement in history, covering 46% of world GDP.

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The rise of a borderless economic world (cont'd)

■ Further developments:

- The **TTIP** aims for a formal agreement that should "liberalize one-third of global trade", and which would eventually create millions of new paid jobs.

The potential economic gains from the TTIP agreement depend largely on reducing the conflicts of duplication between EU and US rules on, for example, food safety.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Further developments:

- Many opponents fear that this agreement will privilege investors and large corporations, granting them too much protection, while neither governments nor individuals will be granted any comparable rights to hold these investors and corporations accountable.
- Other obstacles include the EU's bans on the imports of genetically modified organisms and hormone treated beef, and the US's demands regarding American agricultural exports and tariff-free motor vehicle exports.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Further developments:

- The US is also involved in another proposed trade agreement: the **Trans-Pacific Partnership (TPP)**, which is broadly similar to the TTIP. At present, 12 countries have joined the TPP: Brunei, Chile, New Zealand, Singapore, Australia, Canada, Japan, Malaysia, Mexico, Peru, Vietnam, and the US. Colombia, the Philippines, Thailand, Taiwan, Indonesia and S.-Korea have also joined negotiations, and will probably become member states in due time.

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The rise of a borderless economic world (cont'd)

■ Further developments:

- the **TPP's** goal is to enhance trade and investment among the TPP partner countries, to promote innovation, economic growth and development, and to support the creation and retention of jobs.
- Similar to TTIP, there are a lot of concerns among various groups regarding this agreement, such as the secrecy of negotiations, intellectual property provisions (undermining certain copyrights), and cost of medicine (as a result of possible patent extensions).

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ Global competition among global companies:

- Global competition exists when firms create, produce, and market their products and services worldwide (automobiles, pharmaceuticals, aerospace, telecommunications, etc.).
- Global competition broadens the competitive horizon for marketers.
- Examples: P&G's Pampers from US to Europe; Airbus and Boeing competing worldwide, etc.

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Global marketing in the 21st century

The rise of a borderless economic world (cont'd)

■ **Global competition among global companies:**

- Global competition among global companies often focuses on the identification and pursuit of **global consumers**.
- Global consumers consist of customer groups living in various countries or regions of the world who have **similar needs or seek similar features and benefits from products and services**. Companies that focus on global consumers are: IKEA, Sony, Nike, Gucci, Chanel, etc.

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THE GLOBAL MARKETPLACE

Global marketing in the 21st century

The global economic environment

■ **Industrial structure and income distribution:**

- A country's industrial structure shapes its product and service needs, income levels and employment levels
- 4 types of industrial structure:
 - **subsistence economies**
 - **raw-material exporting economies**
 - **industrializing economies**
 - **industrial economies**.

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THE GLOBAL MARKETPLACE

Global marketing in the 21st century

The global economic environment

■ **Industrial structure and income distribution:**

- **Subsistence economy:** an economy where the vast majority of people engage in **simple agriculture**; they consume most of their output and barter the rest for simple goods and services.
- This type of economy commonly offers few market opportunities.

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THE GLOBAL MARKETPLACE

Global marketing in the 21st century

The global economic environment

■ **Industrial structure and income distribution:**

- **Raw-material exporting economy:** an economy which is *rich in one or more natural resources*, but *poor in other ways*; much of their revenues comes from exporting their resources.
- Examples: Republic of Congo (copper, cobalt, coffee); Chile (copper, tin); Saudi Arabia (oil)
- Imports may vary from simple goods and services to heavy equipment and luxury goods.

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THE GLOBAL MARKETPLACE

Global marketing in the 21st century

The global economic environment

■ **Industrial structure and income distribution:**

- **Industrializing economy:** an economy in which *manufacturing* accounts for *10-20% of its economy*.
- As manufacturing increases, these economies need more imports of, for instance, raw textile materials, steel and heavy machinery, and less imports of finished textiles, paper products and motor vehicles.
- Examples: Brazil, India, Philippines.

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Global marketing in the 21st century

The global economic environment

■ **Industrial structure and income distribution:**

- **Industrial economy:** an economy that is a *large exporter of manufactured goods and investment funds*.
- Industrial economies trade goods among each other and also export them to other types of economy to obtain raw materials and semi-finished goods.
- Examples: Taiwan, Singapore, Malaysia.

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THE GLOBAL MARKETPLACE

Global marketing in the 21st century

The global economic environment

■ **Industrial structure and income distribution:**

- **Income distribution:** countries with subsistence economies usually consist of households with very low family incomes.
- Industrialized economies, on the other hand, usually consist of low- medium- and high-income households.
- However, poorer countries often have small but wealthy segments of upper-income consumers.

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The global political-legal environment

■ **Political-legal factors:**

- **Attitudes towards international buying:** some countries are very friendly to foreign firms (Singapore, Thailand, China), and others are less receptive, considering import quotas, tariffs, currency restrictions and non-national staff.

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THE GLOBAL MARKETPLACE

Global marketing in the 21st century

The global political-legal environment

■ **Political-legal factors:**

- **Government bureaucracy:** concerning the extent to which the host government runs an efficient system for helping foreign firms: customs handling, market information, rules and regulations regarding competition, and other factors that aid in doing business.

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Global marketing in the 21st century

The global political-legal environment

■ **Political-legal factors:**

- **Political stability:** governments may change, and sometimes governments may decide to take actions that are not in the global company's interest, such as: seizing the company's property, blocking its currency holdings, or setting import quotas or new duties.

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The global political-legal environment

■ **Political-legal factors:**

- **Monetary regulations:** most international trade involves cash transactions. However, as mentioned before, many nations have too little hard currency to pay for their purchases from other countries, so countertrading will often occur in such cases.

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Global marketing in the 21st century

The global cultural environment

■ **Culture:**

- As the phenomenon 'culture' can be studied from several scientific angles -sociology, anthropology, etc.-, various definitions have been developed in due time. In general:
- **culture:** the complex equation of knowledge, beliefs, arts, norms and values, customs, laws and all other skills and habits, that is shared by the members of a certain community.

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Global marketing in the 21st century

The global cultural environment

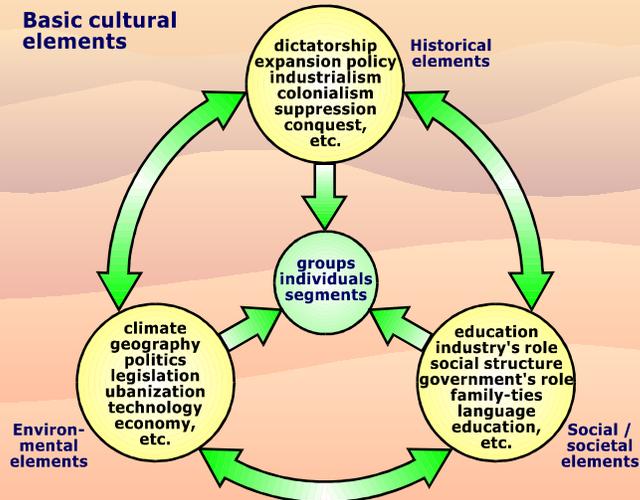
■ Characteristics concerning culture:

- Generally speaking, **3 characteristics** can be attributed to 'culture':
 - 1: culture is something that is taught, and 'transmitted' through generations;
 - 2: a strong interdependence exists among various cultural elements, such as religion, art, language, traditions, norms, etc.;
 - 3: culture is something that belongs to a certain group and is shared by its members, distinguishing that group from others.

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