



THE IMPORTANCE OF GLOBAL MARKETING

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Abstract

Consider the following proposition: We live in a global marketplace. McDonald's restaurants, Sony digital TVs, Lego toys, Swatch watches, Burberry trench coats, and Caterpillar earthmoving equipment are found practically everywhere on the planet. Global companies are fierce rivals in key markets.

Now consider a second proposition: We live in a world in which markets are local. In China, for example, Yum Brands' new East Dawning fast-food chain competes with local restaurants such as New Asia Snack. What to choose?

Keywords: environment, change, entrepreneurship, consumer, success, manager, global marketing

1 INTRODUCTION

The largest single market in the world in terms of national income, the United States, represents roughly 25 percent of the total world market for all products and services. U.S. companies that wish to achieve maximum growth potential must "go global" because 75 percent of the world market potential is outside their home country. Management at Coca-Cola clearly understood this and about 75 percent of the company's operation income and two-thirds of its operating revenue are generated outside North America. Non U.S. companies have an even greater motivation to seek market opportunities beyond their own borders; their opportunities include the 300 million people in the United States. For example, even though the dollar value of the

home market for Japanese companies is the second largest in the world (after the United States), the market outside Japan is 85 percent of the world potential for Japanese companies. For European countries, the picture is even more dramatic. Even though Germany is the largest single country market in Europe, 94 percent of the world market potential for German companies is outside Germany.

2 THE IMPORTANCE OF GLOBAL MARKETING

Many companies have recognized the importance of conducting business activities outside their home country. Industries that were essentially national in scope only a few years ago are dominated today by a handful of global companies. In most industries, the companies that will survive and prosper in the twenty-first century will be global enterprise. Some companies that fail to formulate adequate

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responses to the challenges and opportunities of globalization will be absorbed by more dynamic, visionary enterprises. Others will undergo wrenching transformations and, if the effort succeeds, will emerge from the process greatly transformed. Some companies will simply disappear. Table 1.1 list of the top 25 of *Fortune* magazine's 2008 ranking of the 500 largest service and manufacturing companies by revenues.

Two of the companies in the top 10 are giants in the global auto industry; GM and Toyota. Measured by market capitalization, Toyota

(ranked fifth in revenue) is the world's most valuable car company. Today, Toyota sells more cars worldwide than GM; its market capitalization (roughly \$200 billion) is nearly equal to the combined valuations of the eight leading Western automakers! Clearly, Toyota is doing something right. Oil companies occupy half of the spots in the top 10 rankings by revenues; ExxonMobil also ranked first in profitability in the Fortune Global 500. This showing is not surprising given the recent surge in oil prices. Wal-Mart, the world's made the biggest strategy over the next few years.

Table 1.1 *The Fortune Global 500: Largest Corporations by Revenues*

Company	Revenues (US\$ millions)
1 Wal-Mart Stores (USA)	378.799
2 Exxon Mobil (USA)	372.824
3 Royal Dutch/Shell Group (UK/Netherlands)	355.782
4 BP (Britain)	291.438
5 Toyota Motor (Japan)	230.201
6 Chevron (USA)	210.783
7 ING Group (Netherlands)	201.516
8 Total (France)	187.280
9 General Motors (USA)	182.347
...	...
24 State Grid (China)	132.885
25 China National Petroleum (China)	129.798

Source: Adopted from "The Fortune Global 500" (Fortune, 2008, p. 113) Time rights reserved. Reprinted with permission

Table 1.2 *How big is the market I? Consumer Products*

Products or Service	Size of Market	Key Players and Brands
Cigarettes	\$ 295 billion	Philip Morris International (USA); British American Tobacco (UK); Japan Tobacco (Japan)
Luxury goods	\$ 230 billion	LUMH Group (France); Richmond (Switzerland); PPR (France)
Cosmetics	\$ 200 billion	L'Oreal SA (France); Estee Lauder (USA); Shiseido (Japan); Procter & Gamble (USA)
Personal Computers	\$ 175 billion	Hewlett-Packard (USA); Dell (USA); Acer (Taiwan); Lenovo (China)
Flat-screen TVs	\$ 100 billion	Samsung (South Korea); Sony (Japan); LG (South Korea)
Bottled water	\$ 100 billion	Nestle (Switzerland); Groupe Danone (France); Coca-Cola (USA), PepsiCo (USA)
White goods	\$ 85 billion	Whirlpool (USA); Electrolux (Sweden); Bosch-Siemens (Germany) (major appliances)
Cell phones	\$ 60 billion	Nokia (Finland); Motorola (USA); Eriksson (Sweden); Samsung (South Korea)
Video games	\$ 43 billion	Nintendo (Japan); Sony (Japan); Microsoft (USA)
Recorded music	\$ 32 billion	Sony BMG (Japan); Warner Music (USA); EMI (UK); Universal Group (France)

Source: Compiled by the author

Examining the size of individual product markets, measured in terms of annual sales, provides another perspective on global marketing's importance. Many of the companies identified in the Table 1.3 are key players in the global marketplace. Annual sales in select global

industry sectors markets are shown in Tables 1.2 and 1.3. Table 1.4 shows annual sales in individual countries for select categories. Table 1.5 lists annual unit sales for select product categories in various countries and world regions.

Table 1.3 How big is the market II? Industrial Products and services

Product or Service	Size of Market	Key Players and Brands
Container shipping	\$ 150 billion	Maersk (Denmark); Evergreen Marine (Taiwan)
Construction equipment	\$ 90 billion	Caterpillar (USA); Komatsu (Japan); Volvo (Sweden)
LCD display screens	\$ 70 billion	Sharp (Japan); Samsung & LG Display (South Korea)
Service outsourcing	\$ 47 billion	Tata Consultancy Services (India), Infosys Technologies (India); Wipro (India); Tech Mahindra (India)
Crop seeds	\$ 30 billion	Monsanto (USA); DuPont (USA)
DRAM chips	\$ 26 billion	Samsung (South Korea); Infineon Technologies AG (Germany); Hynix semiconductors (South Korea)
CRM services	\$ 6 billion	Oracle (USA); SAP (Germany)
Regional jet aircraft	\$ 5.9 billion	Bombardier (Canada); Embraer (Brazil)

Source: Compiled by the author

Table 1.4 How big is the market III? Individual Country/Regional Markets

Country	Category	Annual Sales
United States	Online retail	\$ 172 billion
	White goods	\$ 22,4 billion
	Wood furniture	\$ 23 billion
	Video game controllers and games	\$ 10 billion
	Toothpaste	\$ 1.5 billion
	Ringtones	\$ 600 million
Japan	Pharmaceutical	\$ 50 billion
	Luxury goods	\$ 10.5 billion
India	Total retail	\$ 370 billion
	Soft drinks	\$ 2.3 billion
	Chocolate	\$ 157 billion
Europe	Online retail	\$ 47 billion
	Cigarettes	\$ 18 billion
	Home appliance (wholesales)	\$ 25 billion
China	Consumer electronics	\$ 85 billion
	Home appliances	\$ 38 billion
	Cosmetics and toiletries	\$ 10.3 billion
	Auto parts	\$ 19 billion
	Pharmaceuticals	\$ 11.7 billion

Source: Compiled by the author

Table 1.5 How big is the market IV? Country/Regional/World Markets by Product Category and Total Annual Units Sold

Country/Region	Category	Annual Sales
Japan	Cell phone handsets	50 million
United States	Cars and light trucks	13 million vehicles
India	Cells phone subscribers	270 million
Latin America	Automobiles	4 million vehicles
European Union	Shoes	2.5 billion pairs
Worldwide	Fiat-panel TV sets	50 million units
Worldwide	Cigarettes	5.2 trillion cigarettes
Worldwide	Cell phone handsets	1.2 billion handsets
Worldwide	HDTV sets	200 million units
Worldwide	Cars and light trucks	70 million vehicles

Source: Compiled by the author

3 MANAGEMENT ORIENTATIONS

The form and substance of a company's response to global market opportunities depend greatly on management's assumptions or beliefs—both conscious and unconscious—about the nature of the world. The world view of a company's personnel can be described as ethnocentric, polycentric, and geocentric. (Adopted from (Perlmutter, 2001)) Management at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism. The orientations are collectively known as the EPRG framework.

3.1 Ethnocentric orientation

A person who assumes that his or her home country is superior to the rest of the world is said to have an ethnocentric orientation. Ethnocentrism is sometimes associated with attitudes of national arrogance or assumptions of national superiority; it can also manifest itself as indifference to marketing opportunities outside the home country. Company personnel with an ethnocentric orientation see only similarities in markets, and assume that products and practices that succeed in the home country will be successful anywhere. At some companies, the ethnocentric orientation means that opportunities outside the home country are largely ignored. Such companies are sometimes called *domestic companies*. Ethnocentric companies that conduct

business outside the home country can be described as *international companies*; they adhere to the notion that the products that succeed in the home country are superior. This point of view leads to standardized or extension approach to marketing based on the premise that products can be sold everywhere without adaptation.

As the following examples illustrate, an ethnocentric orientation can take a variety of forms:

- Nissan's earliest exports were cars and trucks that had been designed for mild Japanese winters; the vehicles were difficult to start in many parts of the United States during the cold winter months. In northern Japan, many car owners would put blankets over the hoods of their cars. Nissan's assumption was that Americans would do the same thing. As a Nissan spokesman said: "We tried for a long time to design cars in Japan and shove them down the American consumer's throat. That didn't very well. (Shirouzu, 2001)
- Until the 1980s, Eli Lilly and Company operated as an ethnocentric company: Activity outside the United States was tightly controlled by headquarters and the focus was on selling products originally developed for U.S. market. (Malnight, 1995)
- For many years, executives at California's Robert Mondavi Corporation operated the

company as an ethnocentric international entity. As Former CEO Michael Mondavi explained, “Robert Mondavi was a local winery that thought locally, grew locally, produced locally and sold globally.....To be a truly global company, I believe it’s imperative to grow and produce great wines in the world in the best wine-growing regions of the world, regardless of the country or the borders.” (Mondavi & Chutkow, 1998)

- The cell phone divisions of Toshiba, Sharp, and other Japanese companies prospered by focusing on the domestic market. When handset sales in Japan slowed few years ago, the Japanese companies realized that Nokia, Motorola, and Samsung already dominated key world markets. Atsutosi Nishida, president of Toshiba, noted, “We were thinking only about Japan. We really missed chance.” (Fackler, 2005)

In the ethnocentric international company, foreign operations or markets are typically viewed as being secondary or subordinate to domestic ones. (We are using the term *domestic* to mean the country in which a company is headquartered). An ethnocentric company operates under the assumption that “tried and true” headquarters knowledge and organizational capabilities can be applied in other parts of the world. Although this can sometimes work to a company’s advantage, valuable managerial knowledge and experience in local markets may go unnoticed. Even if customer needs or wants differ from those in the home country, those differences are ignored at headquarters.

Six years ago, most business enterprises – and especially those located in a large country like the United States – could operate quite successfully with an ethnocentric orientation. Today, however, ethnocentrism is one of the major internal weaknesses that must be overcome if a company is to transform itself into an effective global competitor.

3.2 Polycentric Orientation

The polycentric orientation is the opposite of ethnocentrism. The term *polycentric* describes management’s belief or assumption that each country in which a company does business is unique. His assumption lays the groundwork for

each subsidiary to develop its own unique business and marketing strategies in order to succeed; the term *multinational company* is often used to describe such a structure. This point of view leads to a localized or adaptation approach that assumes products must be adapted in response to different market conditions. Examples of companies with a polycentric orientation include the following:

- Until the mid-1990s, Citicorp operated on a polycentric basis. James Bailey, a former Citicorp executive, explains: “We were like a medieval state. There was the king and his court and they were in charge, right? No. There were the land barons who were in charge. The king and his court might declare this or that, but the land barons went and did their thing.” (Hansell, 1994) Realizing that the financial services industry was globalizing, then-CEO John Reed attempted to achieve a higher degree of integration between Citicorp’s operating units.
- Unilever, the Anglo-Dutch consumer-products company, once exhibited a polycentric orientation. For example, its Rexona deodorant brand had 30 different package designs and 48 different formulations. Advertising was also executed on a local basis. Top management has spent the last decade changing Unilever’s strategic orientation by implementing a reorganization plan that centralizes authority and reduces the power of local country managers. (Ball, 2005)

3.3 Regiocentric Orientation

In a company with a regiocentric orientation, a region becomes the relevant geographic unit; management’s goal is to develop an integrated regional strategy. What does “regional” mean in this context? A U.S. company that focuses on the countries included in the North American Free Trade Agreement (NAFTA) – namely, the United States, Canada, and Mexico – has a regiocentric orientation. Similarly, a European company that focuses its attention on Europe is regiocentric. “What unites us through our brands, markets, and business is the group’s identity, which we refer to as ‘a worldwide business with local presence’. Everywhere we operate, our priority is

to create or develop a strong brand that reflects consumer needs in that market as closely as possible.” (Riboud, 2003) Some companies serve markets throughout the world, but do so on a regional basis. Such a company could be viewed as a variant of the multinational model discussed previously. For decades, a regiocentric orientation prevailed at General Motors: Executives in different parts of the world – Asia – Pacific and Europe, for example – were given considerable autonomy when designing vehicles for their respective regions. Company engineers in Australia, for example, developed models for sale in the local market. One result of this approach: A total of 270 different types of radios were being installed in GM vehicles around the world. As GM Vice Chairman Robert Lutz told an interviewer in 2004, “GM’s global product plan used to be four regional plans stapled together.” (Hawkins, 2004)

3.4 Geocentric Orientation

A company with a geocentric orientation views the entire world as a potential market and strives to develop integrated strategies. A company whose management has adopted a geocentric orientation is sometimes known as a *global transnational company*.¹ During the past several years, longstanding regiocentric policies at GM such as those previously discussed have been

replaced by a geocentric approach. Among other changes, the new policy calls for engineering jobs to be assigned on a worldwide basis: a global council based in Detroit determines the allocation of the company’s \$ 7 billion annual product development budget. One goal of the geocentric approach: Save 40 percent in radio costs using a total of 50 different radios.

It is a positive sign that, at many companies, management realizes the need to adopt a geocentric orientation. However, the transition to new structures and organizational forms can take to bear fruit. As new global competitors emerge on the scene, management at long-established industry giants, such as GM, must face up to the challenge of organizational transformation. A decade ago, Louis R. Hughes, a GM executive, said, “We are on our way to becoming a transnational corporation.” Basil Drossos, former president of GM de Argentina, echoed his colleague’s words, noting, “We are talking about becoming global corporations as opposed to a multinational company; that implies that the centers of expertise may reside anywhere they best reside.” (Blumenstein, 1997) For the moment, GM is still the world’s number one automaker in terms of revenue. Table 1.6 compares the two companies just prior to the onset of the global economic crisis; even then, Toyota surpassed GM in terms of profitability and market value. In 2008, Toyota sold more vehicles worldwide than GM. As GM teetered on the brink of bankruptcy in 2009, it was clear that it would have to be remade as a smaller, leaner company.

A global company can be further described as one that pursues either a strategy of serving world markets from a single country, or one that sources globally for the purposes of focusing on select country markets. In addition, global companies tend to retain their association with a particular headquarters country. Harley-Davidson and Waterford serve world markets from the United States and Ireland, respectively. By contrast, Gap sources its apparel from low-wage countries in all parts of the world; a sophisticated supply chain ensures timely delivery to its network of stores. Although Gap is a global brand, it focuses on the key U.S. market. Harley-Davidson, Waterford, and Gap all may be thought of as global companies.

¹ Although the definitions provided here are important, to avoid confusion we will use the term *global marketing* when describing the general activities of global companies. Another note of caution is in order: Usage of the terms *international*, *multinational*, and *global* varies widely. Alert readers of the business press are likely to recognize inconsistencies; usage does not always reflect the definitions provided here. In particular, companies that are (in the view of the authors as well as numerous other academics) global are often described as multinational enterprises (abbreviated MNE) or multinational corporations (abbreviated MNC). The United Nations prefers the term *transnational company* rather than *global company*. When we refer to an “international company” or a “multinational”, we will do so in a way that maintains the distinctions described in the text.

Transnational companies both serve global markets and utilize global supply chains; in addition, there is often a blurring of national identity. A true transnational would be characterized as “stateless”. Toyota and Honda are two examples of companies that exhibit key characteristics of transnationality (see exhibit 1.4). At global and transnational companies, management uses a combination of standardized (extension) and localized (adaption) elements in the marketing program. A key factor that distinguishes global and transnational companies from international or multinational companies is *mind-set*. At global and transnational companies, decisions regarding extension and adaption are not based on assumptions. Rather, such decisions are made on the basis of ongoing research into market needs and wants.

“These days everyone in the Midwest is begging Honda to come into their hometown. It is no longer viewed as a “Japanese” company, but a “pro-American-worker corporation” flushes with jobs, jobs.” (Brinkley, 2006)

One way to access a company’s “degree of transnationality” is to compute an average of three figures: sales outside the home country to

total sales; assets outside the home country to total assets; and employees outside the home country to total employees. Viewed in terms of these metrics, Nestle, Unilever, Royal Philips Electronics, GlaxoSmithKline, and the News Corporation are all transnational companies. Each is headquartered in a relatively small home country market, a fact of life that has compelled management to adopt regiocentric or geocentric orientations to achieve revenue and profit growth.

The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a “world view” that sees similarities and differences in markets and countries and seeks to create a global strategy that is fully responsive to local needs and wants. A regiocentric manager might be said to have a world view on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two. However, recent research suggests that many companies are seeking to strengthen their regional competitiveness rather than moving directly to develop global responses to changes in the competitive environment. (Morison, Ricks, & Roth, 1991)

Table 1.6 GM and Toyota Compared

	General Motors	Toyota
Revenue	\$ 205 billion	\$ 185 billion
Profit or – Loss	- \$ 11.3 billion	\$ 12.6 billion
Market value	+\$ 17.5 billion	\$ 197 billion
Worldwide car production	9.2 million	8.3 million
Percentage of the worldwide workforce in the US	45	11
Percentage of the US light-vehicle sales	24.8	15

The ethnocentric company is centralized in its marketing management, the polycentric company is decentralized, and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively. A crucial difference between the orientations is the underlying assumption for each. The ethnocentric orientation is based on a belief in home-country superiority. The underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that is futile to attempt to

transfer experience across national boundaries. A key challenge facing organizational leaders today is managing a company’s evolution beyond an ethnocentric, polycentric, or regiocentric orientation to a geocentric one. As noted in one highly regarded book on global business, “the multinational solution encounters problems by ignoring a number of organizational impediments to the implementation of a global strategy and underestimating the impact of global competition”. (Yoshino & Rangan, 1995)

4 CONCLUSIONS

Marketing is an organizational function and a set of processes for creating, communicating, and delivering value and for managing consumer relationships in ways that benefit the organization and its stakeholders. A company that engages in global marketing focuses its resources on global market opportunities and threats. Successful global marketers such as Nestle, Coca-Cola, and Honda use familiar marketing mix elements – the four Ps – to create global marketing programs. Marketing, R&D, manufacturing, and other activities comprise a firm's value chain; firms configure these activities to create superior value on a global basis. The value equation (V-B/P) expresses the relationship between value and the marketing mix.

Global companies also maintain strategic focus while relentlessly pursuing competitive advantage. The marketing mix, value chain,

competitive advantage, and focus are universal in their applicability, irrespective of whether a company does business only in the home country or has a presence in many markets around the world. However, in a global industry, companies that fail to pursue global opportunities risk being pushed aside by stronger global competitors.

A firm's global marketing strategy (GMS) can enhance its worldwide performance. The GMS addresses several issues. First is the nature of the marketing program in terms of the balance between a standardized (extension) approach to the marketing mix and a localized (adaptation) approach that is responsive to country or regional differences. Second is the concentration of marketing activities in a few countries or the dispersal of such activities across many countries. Companies that engage in global marketing can also engage in coordination of marketing activities. Finally, a firm's GMS addresses the issue of global market participation.

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