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# GLOBAL MARKETING

5<sup>th</sup> Edition

## Chapter 2 Initiation of internationalization

# Ch. 2: Learning objectives

- Discuss the reason (motives) why firms go international
- Explain the difference between proactive and reactive motives
- Analyse the triggers of export initiation

## Ch. 2: Learning objectives (2)

- Explain the difference between internal and external triggers of export initiation
- Describe different factors hindering export initiation
- Discuss the critical barriers in the process of exporting

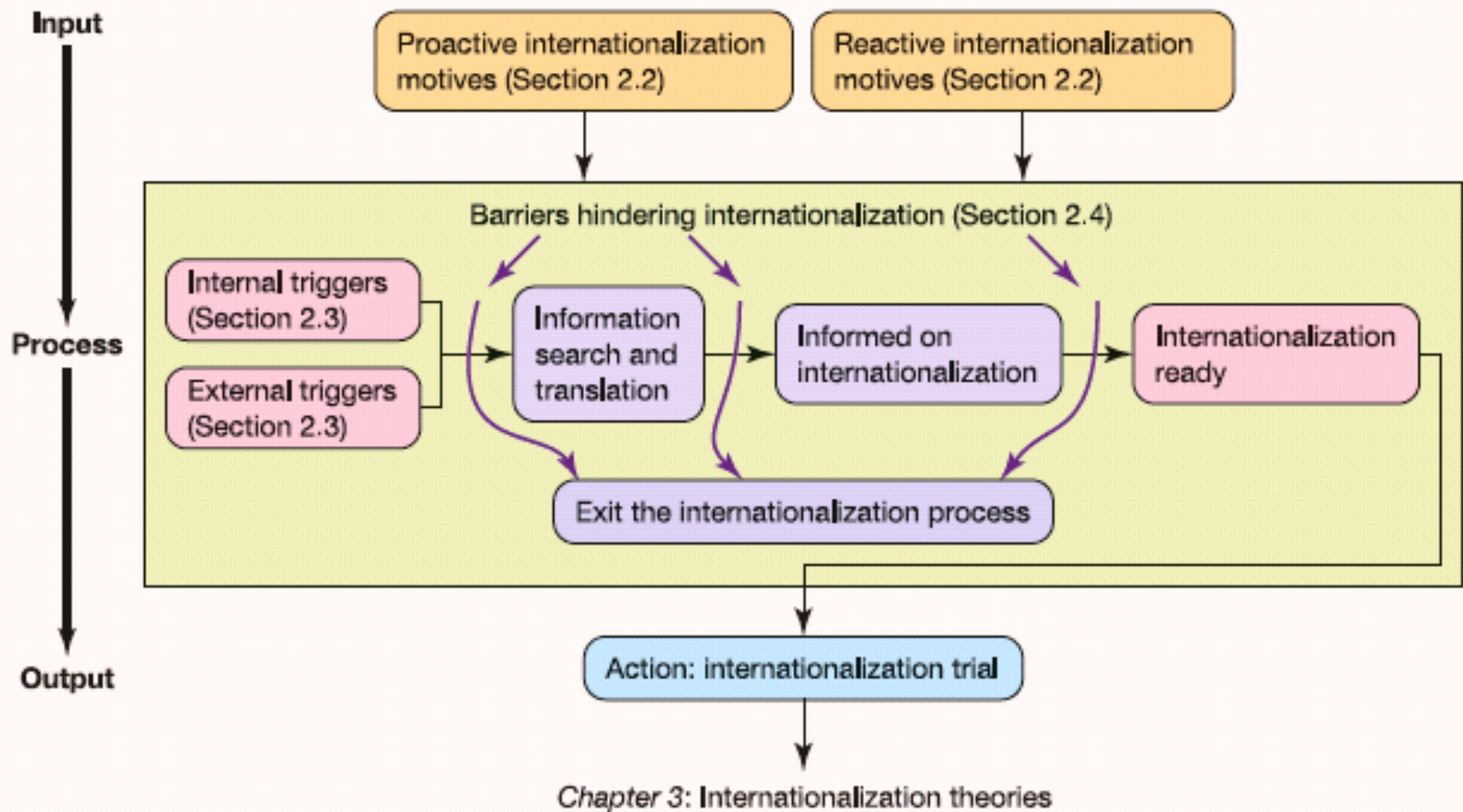


Figure 2.1 Pre-internationalization: initiation of SME internationalization

# Major motives for starting export

## Internationalization motives

### Proactive

- Profit and growth goals
- Managerial urge
- Technology competence/unique product
- Foreign market opportunities/market information
- Economies of scale
- Tax benefits

### Reactive

- Competitive pressures
- Domestic market: small and saturated
- Overproduction/excess capacity
- Unsolicited foreign orders
- Extend sales of seasonal products
- Proximity to international customers/psychological distance

Table 2.1 Major motives for starting export

Source: adapted from Albaum *et al.* (1994, p. 31)

## EXHIBIT 2.1 Global marketing and economics of scale in Japanese firms



Japanese firms exploit foreign market opportunities by using a penetration pricing strategy – a low-entry price to build up market share and establish a long-term dominant market position. They do accept losses in the early years, as they view it as an investment in long-term market development. This can be achieved because much of Japanese industry (especially the *keiretsu* type of organization) is supported or owned by banks or other financial institutions with a much lower cost of capital.

Furthermore, because of the lifetime employment system, labour cost is regarded as a fixed expense, not a variable as it is in the West. Since all marginal labour cost will be at the entry salary level, raising volume is the only way to increase productivity rapidly. As a result market share, not profitability, is the primary concept in Japanese firms, where scale of operation and experience allow economies of scale, which also help to reduce distribution costs. The international trading companies typically take care of international sales and marketing, allowing the Japanese firm to concentrate on economies of scale, resulting in lower cost per unit.

*Source: Genestre et al (1995).*

## EXHIBIT 2.2 Internationalization of Haier – proactive and reactive motives



Kevin Lee/Bloomberg/Getty Images.

# What is this?

Internal or external events taking place to initiate internationalization are known as \_\_\_\_\_.

**Internationalization triggers**



# Triggers of export initiation

## Internal triggers

- Perceptive management/personal networks
- Specific internal event
- Importing as inward internationalization

## External triggers

- Market demand
- Competing firms
- Network partners
- Outside experts

Table 2.2 Triggers of export initiation

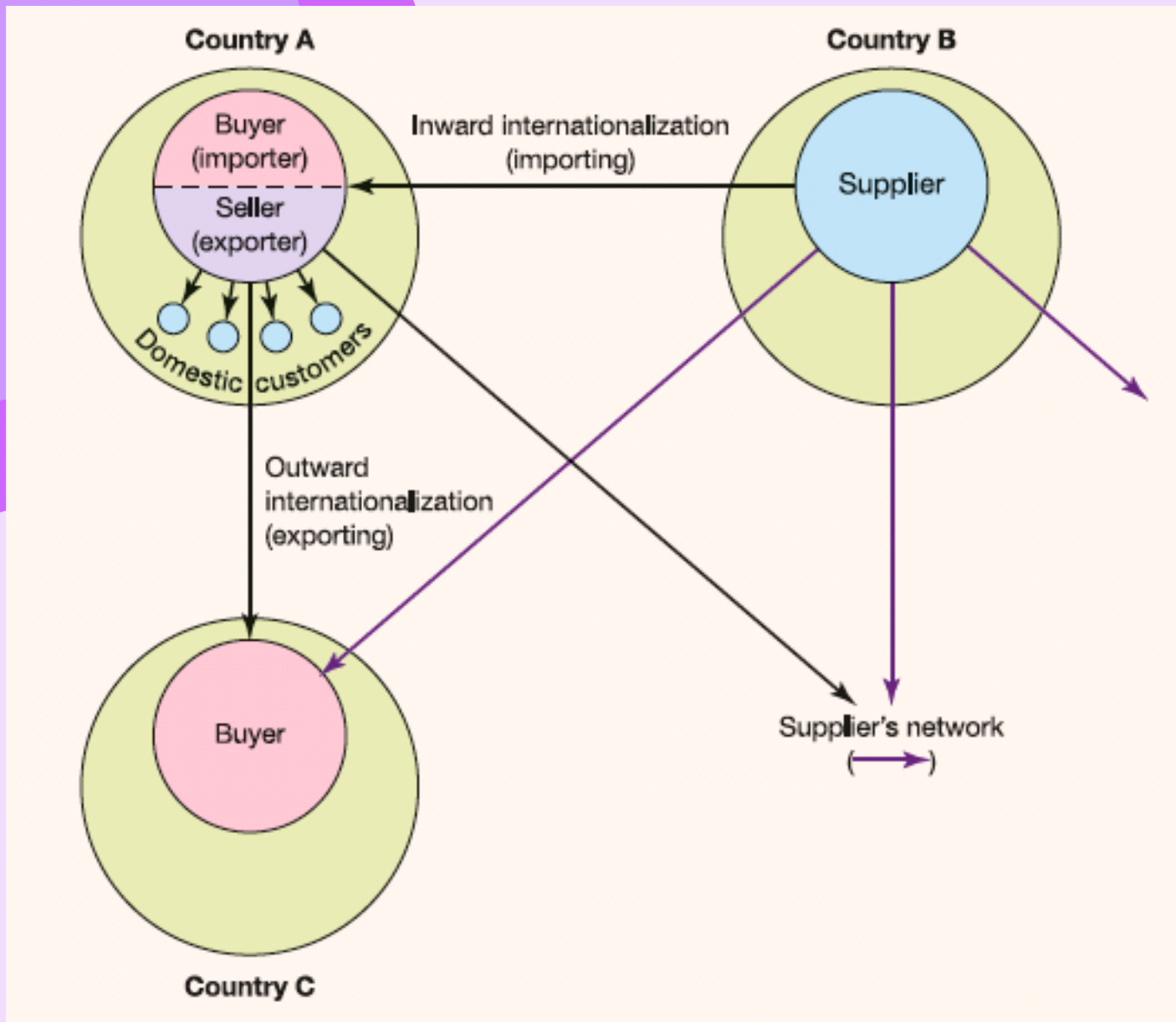


Figure 2.2 Inward/outward internationalization: a network example

# Outside experts

Export  
agents

Banks

Governments

Chambers  
of commerce

# Barriers hindering internationalization initiation

- Insufficient finances
- Insufficient knowledge
- Lack of foreign market connections
- Lack of export commitment
- Lack of capital to finance expansion into foreign markets
- Lack of productive capacity to dedicate to foreign markets
- Lack of foreign channels of distribution
- Management emphasis on developing domestic markets
- Cost escalation due to high export manufacturing, distribution and financing expenditures

## EXHIBIT 2.3 De-internationalization at British Telecommunications (BT)

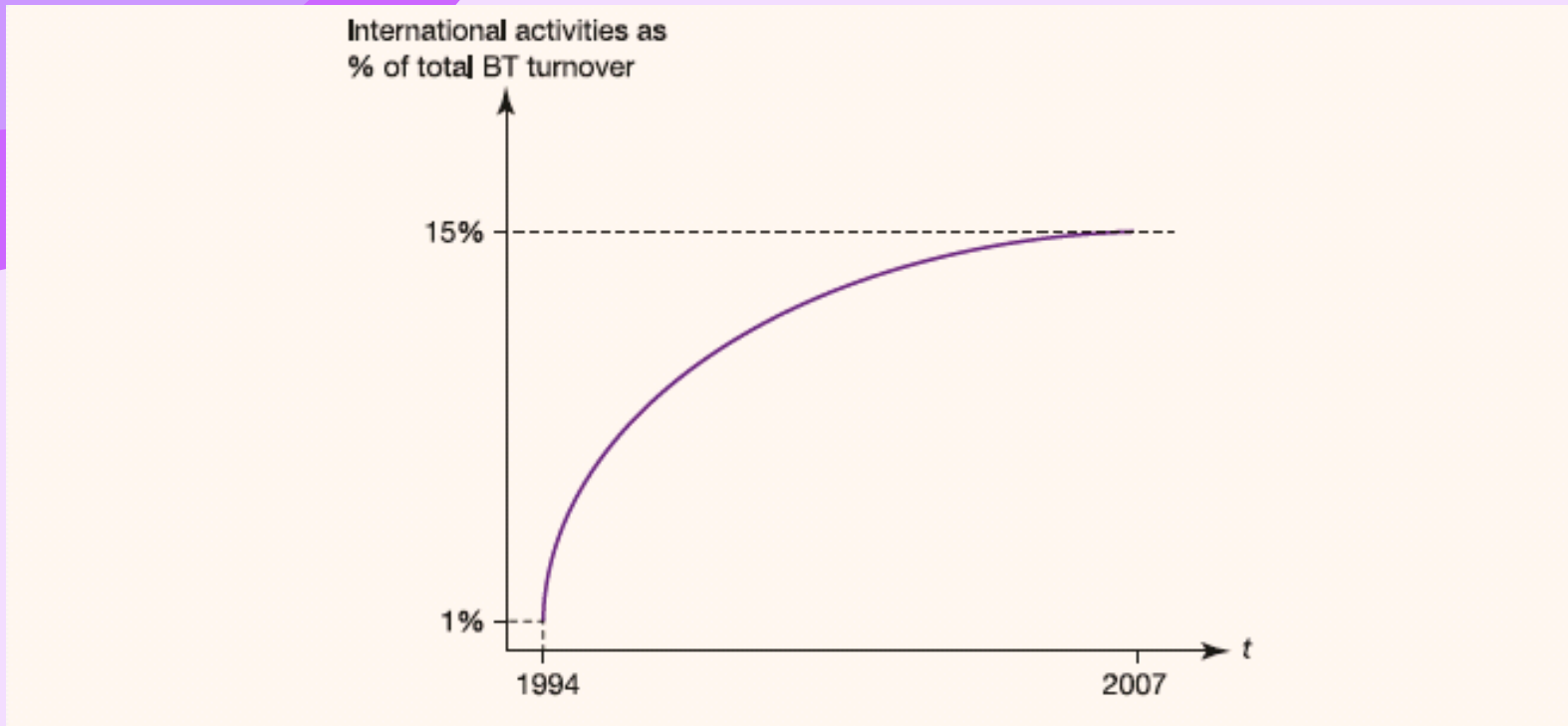


Figure 2.3 Illustration of BT's internationalization 1994–2007

Source: Hollensen, S. (2008) *Essentials of Global Marketing*, FT/Prentice Hall, p. 47

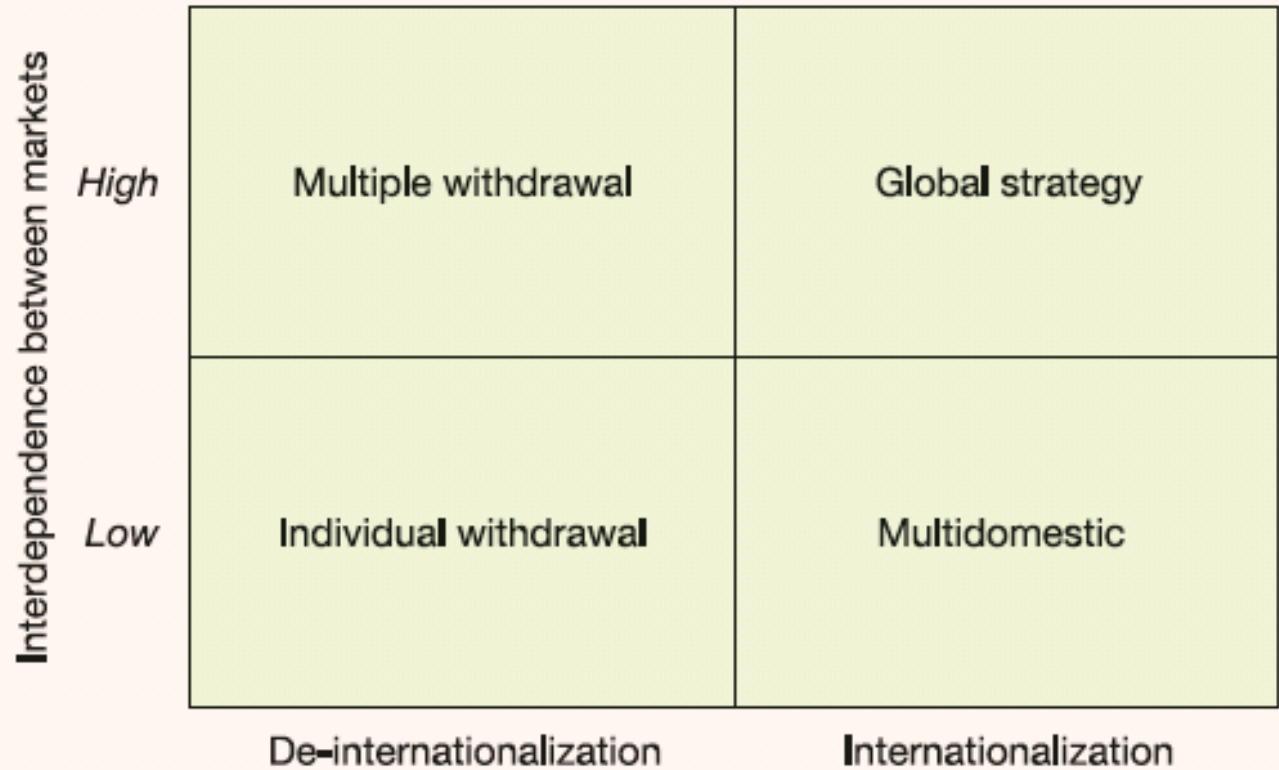


Figure 2.4 Global strategy options

Source: Hollensen, S. (2008) *Essentials of Global Marketing*, FT/Prentice Hall, p. 48

# Barriers hindering the further process of internationalization

General market risks

Commercial risks

Political risks

# General market risks

- Comparative market distance
- Competition from other firms
- Differences in product usage
- Language and cultural differences
- Difficulties in finding the right distributor
- Differences in product specifications
- Complexity of shipping services



# Commercial risks

- Exchange rate fluctuations
- Failure of export customers to pay due to contract disputes, bankruptcy, refusal to accept product or fraud
- Delays and/or damage in the export shipment and distribution process
- Difficulties in obtaining export financing

# Political risks (1)

- Foreign government restrictions
- National export policy
- Foreign exchange controls imposed by host governments
- Lack of governmental assistance in overcoming export barriers
- Lack of tax incentives

## Political risks (2)

- High value of domestic currency relative to export markets
- High foreign tariffs on imported products
- Confusing foreign import regulations and procedures
- Complexity of trade documentation
- Enforcement of national legal codes regulating exports
- Civil strife, revolution and wars disrupting foreign markets

# Risk-management strategies

Avoid exporting to high-risk markets

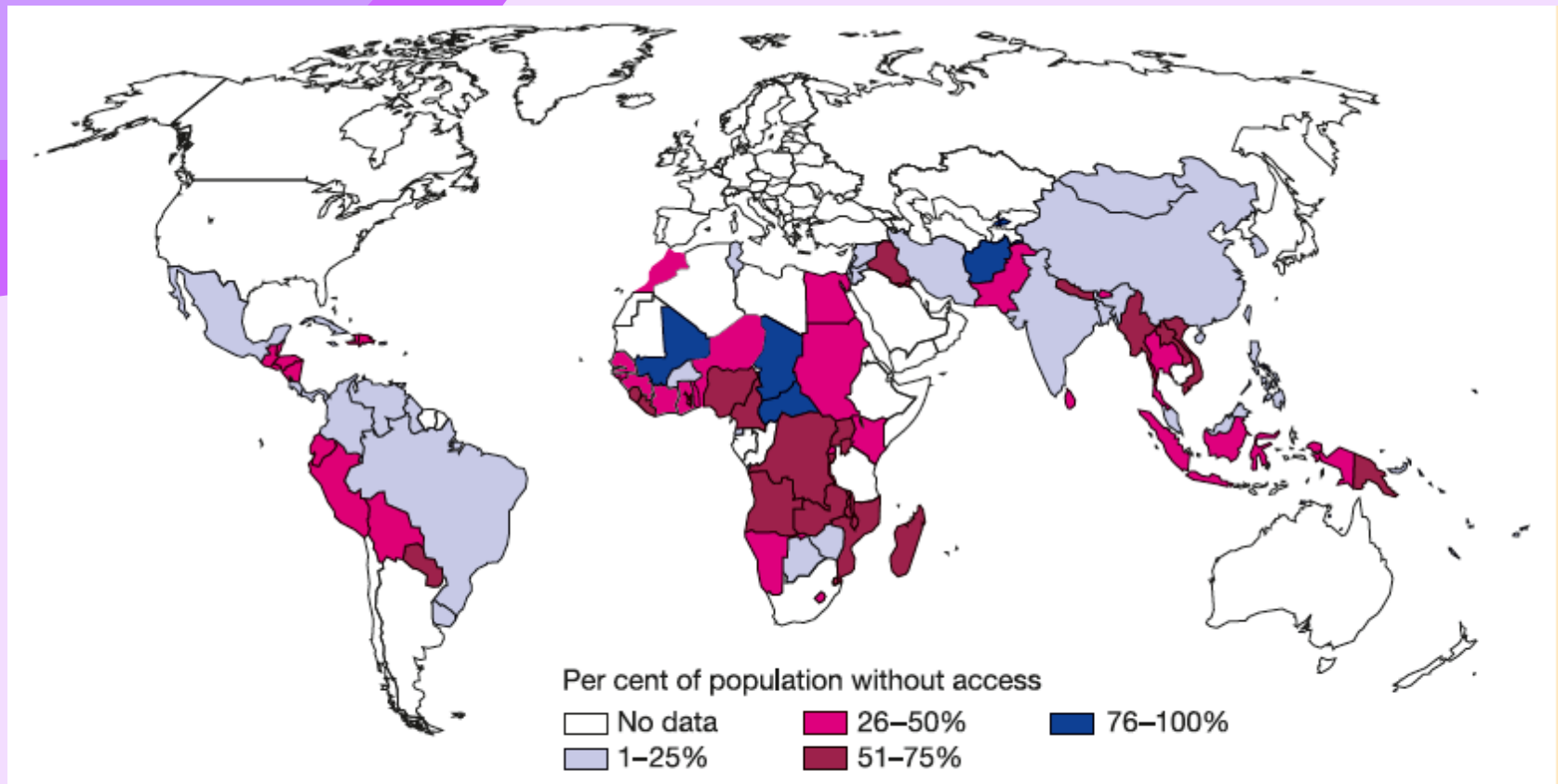
Diversify overseas markets

Insure risks when possible

Structure export business so that buyer bears most risk

## CASE STUDY 2.1

**LifeStraw:** Vestergaard-Frandsen transforms dirty water into clean drinking water



Countries without access to safe drinking water

Source: from *World's Water 1998-1999* by Peter H. Gleick. Copyright © 1998 Island Press. Reproduced by permission of Island Press, Washington, DC.



Children drinking water from the LifeStraw in India  
Vestergaard-Frandsen.

## QUESTIONS

1. In McNeil (2009) Kevin Starace states: '*Vestergaard is just different from other companies we work with. They think of end users as a consumer rather as a patient or a victim.*' What can be the meaning behind this statement?
2. Which factors are most critical in the further internationalization process of Vestergaard Frandsen?

## CASE STUDY 2.2

Elvis Presley Enterprises Inc. (EPE): internationalization of a cult icon

Elvis Presley

Graceland  
ELVIS PRESLEY ENTERPRISES, INC.  
Cox

BUY THE COLLECTION

chris spotlight

The 30th Anniversary Tour to Presidio  
EPE and COX, along with their collaborators, licensees and vendor partners, are preparing for a full and exciting year of activity for 2007, the 30th Anniversary of Elvis' passing, which is expected to help carry the

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- FOLLOW THAT LEG
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Welcome to the Official Elvis Presley Web Site, home of the undisputed King of Rock 'n' Roll and

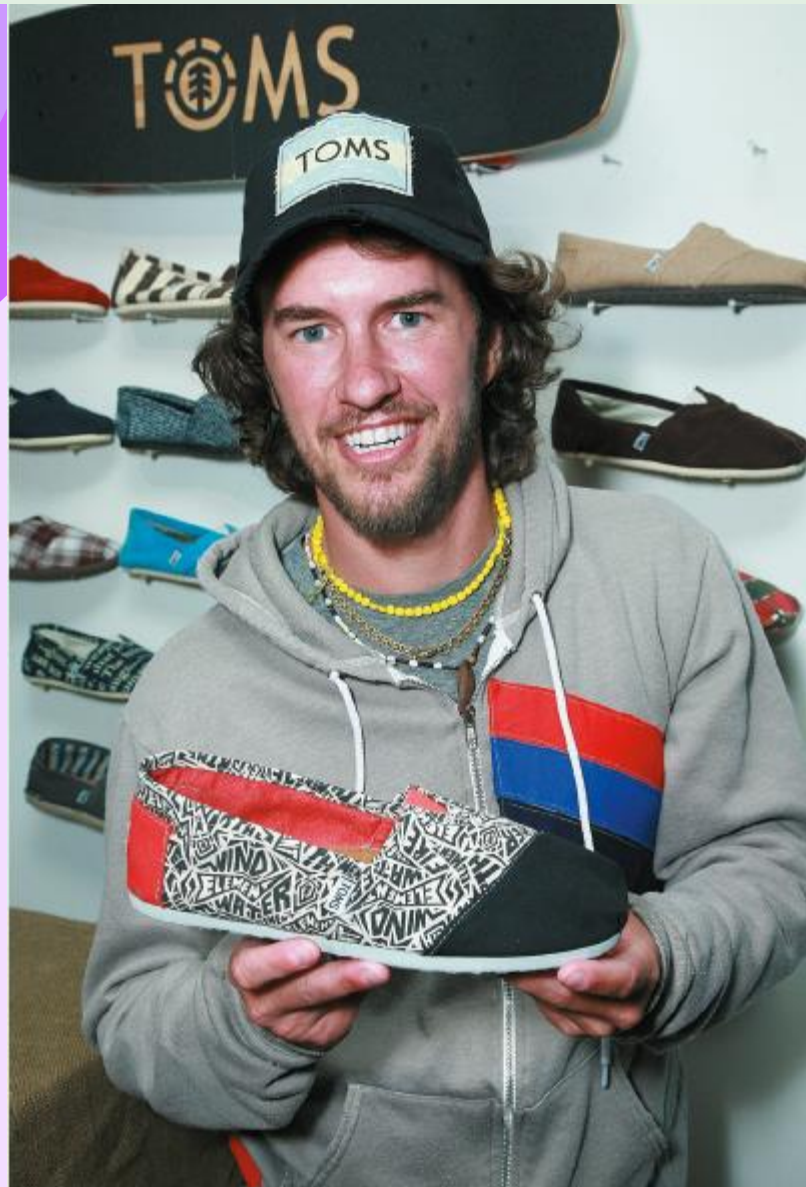
© Elvis Presley Enterprises, Inc. Used by permission.



## QUESTIONS

1. What are the main motives for the internationalization of EPE?
2. What can EPE do to maintain a steady income stream from abroad?
3. What are the most obvious assets for further internationalization of EPE?

# VIDEO CASE STUDY 2.3 TOMS Shoes



Tiffany Rose/WireImage/Getty.

## Questions

1. What would be the key barriers in the early days of internationalization if TOMS Shoes decided to expand to Europe?
2. What have been the driving forces (motives) for the early internationalization of TOMS Shoes?

# Questions for discussion (1)

- Export motives can be classified as reactive or proactive. Give examples of each group of export motives. How would you prioritize these motives? Can you think of motives other than those mentioned in the chapter? What are they?
- What is meant by 'change agents' in global marketing? Give examples of different types of change agent.

## Questions for discussion (2)

- Discuss the most critical barriers to the process of exporting.
- What were the most important change agents in the internationalization of Haier (Exhibit 2.2)?
- What were the most important export motives in Japanese firms (Exhibit 2.1)?