Problems In The Formulation Of A General Global Marketing Plan.

Homer LeRoy Crumley Jr.
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PROBLEMS IN THE FORMULATION
OF A GENERAL GLOBAL MARKETING PLAN

By
Homer L. Crumley, Jr.

A Thesis
Submitted in Partial Fulfillment of the
Requirements for the Degree of
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CHAPTER I

INTRODUCTION

Global marketing is becoming a way of life for many United States business firms. Current estimates indicate that approximately sixty per cent of all United States firms with more than one hundred employees are now marketing their products on a global basis.\(^1\) A recent survey by McKinsey and Company indicated that 100 of the leading U. S. companies, accounting for more than half of total U. S. corporate investment abroad, are increasing their overseas investments almost five times as fast as their domestic assets. A significant number of U. S. companies plan on deriving a significant share of their sales, profit, and future growth from overseas marketing activities. Today more than twenty important U. S. corporations are earning more than half of their profits abroad.\(^2\) It is predicted that by 1970, approximately fifty per cent of U. S. business profits will come from foreign marketing operations.\(^3\)

The U. S. businessman must market his products on a global basis if his company is to remain profitable and dynamic. His domestic


as well as his foreign competitors are taking advantage of the numerous
global marketing opportunities. There is an abundance of profit
opportunities in almost every foreign market, offering better profit
returns than most U. S. domestic markets.4

The entire Free World is rapidly becoming a single, highly-
competitive market place. The successful marketer of the future will
have to think not of a U. S. Customer, nor even of a Western European,
Japanese, or Atlantic Customer, but of a World Customer.5 Consequently,
almost every significant U. S. industrial organization has moved into
international markets. The internationalization of U. S. companies is
becoming one of the most important trends in business today and is
influencing the economic development of the World. This trend is affecting
firms of all sizes. If only the large firms seize the chance to become
global in their operations, the extra advantages they gain may make them
an overwhelming threat to competitors who do not go global in their
operation. What is today a business opportunity, may tomorrow be a
condition of company survival.6 Therefore, sooner or later the U. S.
business firm will be confronted with the problem of formulating a global
market plan for its products. The U. S. businessman has several
alternatives open to him when he considers going international. He may


export his product into foreign markets, establish manufacturing facilities in foreign lands, or effect licensing agreements with a foreign company for production and marketing of his products.

Statement of the Problem

When the U. S. businessman makes the decision to go international in his operation, he will be confronted with marketing problems he has not previously encountered. His domestic marketing plan will require considerable adjustment. In addition he must consider the implications of numerous new marketing variables.

Many U. S. businessmen are of the opinion that since their domestic marketing plan has been successful, it should likewise be successful when applied on a global basis. This philosophy has caused many U. S. business firms to withdraw from global marketing.

When entering the global market, the business firm can formulate a global marketing plan by making appropriate adjustments to the domestic marketing plan, as well as make provisions for new marketing variables. The domestic plan and the product must be adjusted to reflect changes in consumer preferences caused by cultural, traditional, custom, racial, economic, and religious differences. Differences in channels of distribution, advertising philosophy, competition, and pricing must also be reflected in the adjusted plan. Provisions for new variables such as foreign monetary systems, foreign exchange rates, availability of U. S. dollars, taxation, tariffs, import quotas, licenses, patents, trade marks, and attitude toward foreign business and capital must be included in the global marketing plan.
The determination by the U. S. businessman to either export his product into the foreign market, or establish manufacturing facilities in foreign lands and market the production locally, will influence the formulation of the global marketing plan.

Objective

The objective of this paper is to determine what adjustments and/or modifications to the domestic marketing plan are necessary to develop a successful global marketing plan.

Hypothesis

The formulation of a global marketing plan requires not only adjustment of the domestic marketing variables, but consideration and inclusion of new marketing variables.

Approach

The approach used in this paper will be that of a theoretical analysis based on literature research on domestic and international marketing, including case studies, to identify basic domestic and global marketing variables. The operational framework of a general domestic marketing plan will be established. The marketing plan will then be adjusted reflecting the different evaluation of variables for global operations. Also new variables inherent and necessary to the global marketing plan will be identified and discussed.
Scope and Limitation of Study

The formulation of a general global marketing plan shall be from the viewpoint of the U. S. business firm planning to market its product on a global basis. The study will cover two of the three alternatives for entering the global market. The three alternatives are: (1) Exporting the product into the foreign market for distribution, (2) Establishing manufacturing facilities in foreign lands and marketing the product locally, and (3) Licensing agreements. Licensing agreements will not be covered in this study, because the marketing function and responsibility is usually assumed by the licensee, and therefore the U. S. licensor is not too directly concerned. This study will be concerned with the other two alternatives.

The general global marketing plan will not be constructed for any particular product, industry, or market, but is intended to be adaptable in principle to almost any global marketing situation with minor modification. For purposes of this paper we shall not be concerned with the manufacturing or financing activities of the business firm.

This paper will not probe in depth any one of the marketing plan variables, but is mainly concerned with the identification of all variables that should be considered when formulating a global marketing plan and their influence upon the success of the plan.

Importance of Study

The internationalization of U. S. business is increasing at a rapid pace. This trend is affecting business firms of all sizes. The global marketing of a firm's product may very well be in the very near
future a condition of survival for the company. Therefore, an understanding of the basic principles of developing a global marketing plan would make entry into the international market considerably less hazardous and more successful.
CHAPTER II

THE MARKETING FUNCTION

Marketing can be regarded as the performance of business activities directed toward, and incident to, the flow of goods and services from the producer to the consumer. Marketing also may be thought of as matching supply with demand, and is concerned with that area of business which competes for sales, identities and defines market opportunities, as well as designs appropriate strategies for tapping those opportunities profitably. 7 The marketing function is oriented to place the product into the hands of the consumer by creating maximum impact on the intended consumer at the point of sale, thereby precipitating purchase action by the consumer with optimum profit to the enterprise. 8

The Marketing Plan

The marketing plan is the framework for implementing the firm's marketing function in a systematic way. The plan encompasses the firm's objectives and resources, which are considered as boundary conditions, the marketing mix—which is the firm's activity for moving its product into the hands of the intended consumer, and the ecological variables—which are the environmental conditions faced by the firm in marketing its product.


The boundary variables reflect the firm's objectives for total sales, margin of profit, return on investment, and the firm's allocations of resources, buildings, equipment, capital and personnel.

The marketing mix variables include product planning, distribution, pricing, and communications.\(^9\)

The ecological variables are the environmental conditions under which the firm must market its product. These variables usually act as constraints over the firm and its marketing activity, and are uncontrollable. The ecological variables include such factors as the political, legal, and economic systems, the characteristics and the cultural and social background of the consumer, competitive forces in the market, business climate, and the market potential.\(^10\)

In the final analysis, the business firm is faced with the task of combining all of the marketing variables effectively into a marketing program or plan. The firm only has some control over the boundary conditions and full control over the marketing mix variables, and practically no control over the ecological variables. Therefore in establishing an effective marketing program, the firm arranges and adjusts the controllable variables to the environment established by the uncontrollable variables. How successful the firm is in marketing its products will depend upon how effectively the firm can combine and adjust the controllable variables for the changing environment.

\(^9\)Otteson, Panschar, and Patterson, op. cit., pp. 81-87.

CHAPTER III

OPERATIONAL FRAMEWORK OF THE DOMESTIC MARKETING PLAN

In this chapter a general domestic marketing plan for the United States Market shall be developed. Most U. S. businessmen will be familiar with all or portions of the plan.

Boundary Conditions

Boundary conditions are usually set by the goals, objectives, and policies of the company, and the resources the company contributes toward the fulfillment of the goals and objectives.

Corporate Objectives and Policies

Corporate management determines the objectives and policies of the company. These give purpose and direction to the company, as well as indicate the broad limits within which company activity is to be taken.

In addition, corporate management establishes the organization to carry out the objectives, as well as develops and procures the needed resources.

Companies of all sizes formulate the objectives and policies to be followed in their operation. For example, the manager of a small neighborhood drug store might determine:

1. If he will sell prescriptions as well as prepared drugs, cosmetics and candy, newspapers and cameras, banana splits and hot soup.

2. If he will provide free delivery.
3. If he will price his products below his competitors, or attempt to build his business on the basis of quality and service.

4. If he will sell for cash only, or will sell for credit.

The management of a large steel company may have to determine:

1. If they will fabricate their steel into consumer products such as nails, fences, and cooking utensils, or will they sell their steel in semi-finished form to the fabricators of nails, fences, etc.

2. If they will fabricate specialty items such as seamless tubing used in the airframe industry, or fabricate primarily "run-of-the-mill" items.

3. If they will price below or above the industry leaders, or price F. O. B. shipping point or destination.

4. If they will finance their distributor's warehouse stock or maintain company-owned warehouses in various locations.11

The company's objectives, policies, organization, and resources establish the boundaries within which the company's marketing plan must operate. Corporate marketing objectives are usually established for the following:

A. Total sales
B. Profit margins
C. Rate of Return on Investment
D. Growth rate
E. Markets to be served12


Corporate Contribution to the Marketing Plan

Influenced by its marketing objectives, the firm will allocate sufficient resources, buildings, equipment, capital, and personnel to accomplish these objectives through the success of the total marketing plan. These resources will provide sufficient production capacity and technology as well as knowledgeable, skilled, and experienced personnel to produce the product. The resources will also include sufficient capital to finance the operation including the marketing program (advertising, inventory, etc.).

The corporate contribution to the marketing plan is bound up by the interdependence of the objectives, policies, organization, and resources of the company. Each of these is dependent upon the other, as the marketing plan itself is dependent upon all of them. For example, a company planning to sell its products in foreign markets by means of traveling representatives may need to establish a different form of organization than that used in a domestic market. If it uses specialty salesmen who handle only one line of products in several countries, its sales may be curtailed in those countries where the salesmen do not speak the local language fluently. Therefore, one can easily see that the marketing plan is very much restricted by, as well as dependent upon, the corporate contribution.

---


Marketing Mix Variables

Product Planning and Development

The product should reflect the market's requirements for value, quality, and utility. The product specifications and performance must fulfill the needs and preferences of, as well as appeal to, the intended consumer.

The product should be designed to compete effectively with the competitor's product in performance, quality, value, and consumer appeal. The product should be comparable or superior in some respects to the competitor's product in the eyes of the consumer.\textsuperscript{15}

If applicable, the product must meet minimum government standards for safety and quality.

Packaging for the product should adequately protect the product as well as be appealing to the consumer. Packaging should promote purchase at point of sale as well as be distinctive. Packaging design can advertise, be informative about, as well as identify the product.\textsuperscript{16}

A brand name may be used in marketing the product. A "brand" is a name, term, symbol, design, or combination of these, intended to identify the products of a seller or marketer, and to differentiate them from those of the competitor. A brand name is used to create an image of a product for quality, value, and performance. If a brand


\textsuperscript{16}Ibid., pp. 429-431.
name is used, the product should fulfill the image and reflect the standard created by the brand name. Every brand image is partially derived from the product image. The brand image relates to the configuration of ideas, feelings, and meanings which consumers attach to specific versions of the product image. A brand name can secure a certain amount of ready acceptance for the product, as well as assure initially a certain portion of the market for the product. This is due to brand name loyalty practiced by a certain percentage of the consumers. Brand names advertise as well as identify the product to the intended market. The brand name not only reflects the character of the product, but also the reputation of the firm.\(^\text{17}\) Therefore, to preserve the integrity of the product as well as the brand name, the two should be specifically matched.

**Distribution**

This marketing variable is the moving of the product from points of production to the points of consumption or use. It involves the integration of transportation, warehousing, and merchandising in an optimum way to move the product quickly and efficiently from the manufacturer to the consumer. The criteria for selections of channels of distribution are:

1. Market coverage required
2. Degree of market control desired
3. Cost of alternative channels\(^\text{18}\)


Channels of distribution are a combination of institutions through which the seller markets his products to the ultimate user or consumer. Some channels of distribution are as follows:

Manufacturer→---------------------------→ Consumer (most direct)
Manufacturer→----------------→ Retailer→----------------→ Consumer
Manufacturer→→ Wholesaler→→ Retailer→→→→ Consumer
Manufacturer→→ Agent→→ Wholesaler→→ Retailer→→ Consumer

The selection of channels of distribution are influenced by such product characteristics as:

1. Financial requirements
2. Special handling needs
3. Storage and inventory
4. Special requirements to make sale

The selection of channels of distribution is also influenced by market characteristics such as:

1. Users of product
2. Size of market
3. Geographic concentration or dispersion
4. Frequency of purchase
5. Impulse buying versus deliberate purchase

Transportation is almost always involved in the channel of distribution. When several methods of transportation are available, usually the most economical method is used, keeping with safe and timely delivery of the product.

Warehousing or storage is usually required in the distribution of the product. The manufacturer may be required to maintain warehouse stocks of the product in close vicinity to the point of actual consumption.

19Otteson, Panschar, and Patterson, op. cit., pp. 302-304.


Sometimes one of the institutions involved in distributing the product is required to maintain an inventory or warehouse stock in order to provide a variety to the consumer for selection.  

The manufacturer may in addition to financing his own warehousing or storage activities, be required to assist in the financing of wholesaler's or retailers inventory or warehouse stocks.

**Pricing of the Product**

In establishing a price schedule for its product, the firm must take into consideration the following:

1. **Competition pricing**—Pricing must be competitive, and not out of line for comparable products.

2. Sales price must fall within the price range for the intended market. The firm can price itself out of the market by going above or below the price range for the particular market.

3. The sales price established and the resulting sales volume should provide the desired profit margin.

4. The price schedule should reflect industry pricing practice and be adequate to gain and maintain the support of the distribution channel.

**Communications**

This marketing variable includes advertising, personal selling, sales promotion, servicing of product after sale and public relations. It involves the transmitting of information from the firm to the consumer to cultivate demand and create a favorable attitude toward the product

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22Cundiff and Still, *op. cit.*., pp. 451-463.


which results hopefully in purchasing activity by the consumer in favor of the product.\textsuperscript{25}

Advertising is the dissemination through paid media of visual and oral messages for the purpose of making the consumer aware of and favorably inclined toward a product, brand, service, institution, idea or point of view.\textsuperscript{26}

The firm’s advertising program is influenced by the following criteria:

1. How broad a coverage is required, or how many potential consumers are to be reached?

2. How often (frequency) is the consumer to be contacted?

3. How active and what is the scope of the competitor’s advertising program?

4. What is the advertising budget for the product?

The media plan for an advertising program could include the following:

(1) Radio, television
   A. Prime spots
   B. Daytime, evening
   C. Fringe spots

(2) Newspapers
   A. Daily, Sunday
      a. Supplements

(3) Magazines
   A. Trade, profession
   B. Women's
   C. Men's

The media strategy should match the product audience to the media audience. For example, if your product is mainly for teen-agers,

\textsuperscript{25}Staudt and Taylor, \textit{op. cit.}, pp. 21.

\textsuperscript{26}Otteson, Panschar, and Patterson, \textit{op. cit.}, p. 540.
then use the medium that has teen-agers for an audience.\textsuperscript{27}

Sales promotion attempts to facilitate sales of the product by means other than advertising. Sales promotion is concerned with the creation, application, and dissemination of materials and techniques that supplement advertising and personal selling. Sales promotion makes use of direct mail, catalogs, house organs, trade shows, sales contests, window displays, and other dealer aids. Its purpose is to increase the desire of salesmen and distribution channel institutions to sell a certain product or brand, and to make consumers more eager to buy that product or brand.\textsuperscript{28}

Personal selling is used to varying degrees depending upon the product. The more strange a product is to the consumer, the more technically complex and the more expensive the product, the more personal selling is used. Some products may only be sold through demonstration and orientation. Therefore, personal selling can be very important to the marketing of the product and is used in whatever form to induce the consumer to purchase.\textsuperscript{29}

The firm must also consider the need for service facilities if the product requires servicing after purchase by the consumer. An adequate service program assures consumer satisfaction and brand loyalty. Some products can only be sold on the basis that adequate servicing is available after purchasing.\textsuperscript{30}


\textsuperscript{28}Otteison, Panschar, and Patterson, \textit{op. cit.}, p. 540.

\textsuperscript{29}Otteison, Panschar, and Patterson, \textit{op. cit.}, pp. 594-598.

\textsuperscript{30}Cundiff and Still, \textit{op. cit.}, pp. 428, 429.
Public opinion about a firm can either help or hinder sales. Consumers prefer to purchase products from companies they know and highly regard. There is strong correlation between the company's reputation and sales success. Therefore, it is important that the firm include in its communication activity, a public relation program that will create good will for the company, as well as keep the public (consumer) adequately informed about the company and its activities.\textsuperscript{31}

Ecological Variables

Political System

The United States is a political democracy with a stable democratic form of government. A political democracy is based on the will of the majority, and is distinguished by free institutions, representative government, free elections, guarantees of individual liberty, freedom of speech and religion, and freedom from political oppression.\textsuperscript{32}

The U. S. has two major political parties, and either party in office has little apparent influence on business activity. The U. S. business firm has little to fear from the Federal Government as long as it complys with the laws regulating business.\textsuperscript{33}

The U. S. has a relatively stable political system. There has been little or no political turmoil in the last 50 years. The two major

\textsuperscript{31}Ewing and Meissner, \textit{op. cit.}, p. 316.


\textsuperscript{33}L. G. Winter, Class lecture in "Executive Action in a World Society," B. A. 516, Fall Semester, 1964, University of New Mexico.
political parties, regardless of which has been predominant in either the Presidency or Congress, has provided continuity of stable governmental activity.34

Legal System

The legal system is a major uncontrollable variable limiting the marketer's power of decision. The legal system operates mainly to limit decision, setting forth the curbs and restraints which must be complied with. Legal restraints form a significant portion of the environment of uncertainty within which the marketer must make his decisions.35

Federal, state, and local laws govern marketing activity. Sunday operation and house-to-house salesmen are regulated in some states and local areas. Trademarks and trade names are subject to Federal Government regulations, as are food, drugs, cosmetics, patents, and fair trading.

The marketer must be acquainted with those laws and regulations that bear directly upon his own business. He must be able to recognize the significance of the legal environment.36

The U. S. marketer domestically operates in a free enterprise competitive economy. The free enterprise system requires a legal framework to ensure that the competitive process remains healthy and effective. The legal framework moves against restraint of trade and monopolistic practices through the Anti-Monopoly and Anti-Trust Laws


35Cundiff and Still, op. cit., pp. 213-236.

36Otteson, Panschar and Patterson, op. cit., pp. 644-658.
of the Federal Government. Federal regulations protect the consumer from being "duped" by the marketer through the elimination of market practices which could deceive him in his buying.\(^{37}\)

The Federal laws which regulate business are:

1. The Sherman Antitrust Act and its Miller-Tydings Amendment is essentially an anti-monopoly law. The fundamental purpose of the Act is to prevent restraints of trade to free competition which tend to limit production, raise prices, or otherwise control the market.

2. The Clayton Act and its Robinson-Patman Price Discrimination Amendment and The Celler Anti-Merger Amendment prohibit price discrimination, exclusive dealing arrangements, and tying contracts, mergers, interlocking directorates, and intercorporate stock holding having an adverse effect on competition.

3. The Federal Trade Commission Act and its Wheeler-Lea Amendment and McGuire Resale Price Maintenance Amendment prohibits unfair methods of competition and unfair and deceptive acts and practices which occur in commerce.\(^ {38}\)

The marketer must comply with the laws and regulations as they are interpreted and administered by the enforcement agencies and the judicial system.

**Economic System**

The U.S. mainly has a "mixed" free private enterprise economy with a relative moderate amount of government involvement. The U.S. is a developed industrial nation with the highest standard of living in the world.\(^ {39}\)

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\(^{39}\)Winter, *op. cit.*
The U. S. Economic System is a mixture of free market and central planning elements. The System rests on the free choice of individuals within certain limits set by law, custom, or situation. No one person usually has the authority to say what shall be consumed or who shall work. Using the medium of money, consumers exercise their sovereignty by casting their votes (purchasing power) in the various markets to determine what gets produced and by whom.40

Under peace time conditions the U. S. Economic System elevates consumer want satisfaction to the position of a primary goal, and the System relies mainly on the free market concept to achieve this objective. During wartime emergencies, consumer want satisfaction becomes secondary to the central objective of building military prowess. Central planning and execution by the government places consumer want satisfaction in a secondary position.41

Our free enterprise economy during normal times determines alternative use of productive resources through the free market mechanism or the price-profit system (determination of the mix of goods and services to be produced, the allocation of resources, and the distribution of output).

The essence of our economic system are the decisions concerning the allocation of land and resources based upon changes in relative prices; specifically, the prices of the various possible products as


41Gitlow, op. cit., p. 720.
compared with the prices of the land and other productive agents necessary to their creation. Thus if the price of beef goes up relative to the price of wheat, some farmers who have a choice will shift to beef. Increased mechanization, which substitutes capital for labor, will be attempted when the wages of hired labor rise significantly.42

The U. S. has some economically depressed areas. Also some geographic areas of the Country seem to "fare" better than others under our economic system. The U. S. marketer should be concerned with these particular areas if he intends to market within them. But, more generally, the U. S. marketer is usually more concerned with consumer acceptance, product competition, and total market delineation than he is with the economic system of the Country. Currently the U. S. is experiencing its lowest unemployment (3.6 million in June, 1965) in almost 10 years, and the gross national product exceeded 650 billion dollars in 1965, and income per capita was approximately $2700. This economic well-being, comparatively speaking, is the product of a free enterprise economic system.43

The Consumer

The consumer exhibits certain preferences and attitudes toward the firm's product. These attitudes and preferences are influenced by the social structure of the consumer which include:

42Gitlow, op. cit., p. 224.

A. Age, education, sex, family size  
B. Urban or rural  
C. Socio-economic level  
D. Occupation  
E. Race

and the cultural environment of the consumer which include:

A. Traditions and customs  
B. Religion  
C. Value systems  
D. Ethnic origins\textsuperscript{44}

Awareness of the consumer's social and cultural background is important to the firm, since the firm's complete marketing plan, particularly in the area of advertising, promotion, and product design, should appeal to the cultural and social characteristics of the consumer.\textsuperscript{45}

In our market-oriented economy, the marketer must understand consumer preference for products. Consumers are strongly influenced in their buying preferences by their cultural backgrounds and social environment. The marketer of today cannot afford to ignore the cultural and social influences on consumer buying preferences.

**Competitive Forces**

The marketer is confronted with the competitive forces in the marketing environment of his product. He is concerned with the nature and strength of his competition, and the number and variety of competing products. He must know who his competitors are, their current share of the market, as well as the extent of their product line.\textsuperscript{46}

\textsuperscript{44}Cundiff and Still, *op. cit.*, pp. 195-211.

\textsuperscript{45}Dichter, *op. cit.*, pp. 113-122.

\textsuperscript{46}Richards and Mendelsohn, *op. cit.*
The marketer should appraise the marketing strengths of the competitor's product, evaluating the marketing effects of a competitor's product improvement, measuring the impact of a competitor's price change, and appraising the effects of the competitor's change in advertising policy. If the marketer is going to understand how the competitor's actions affect his company's marketing situation, he must be familiar with the competitor's marketing practices and policies. In our ever increasing competitive environment, almost every marketing decision is influenced to some extent by the need to consider the actions and reactions of competitors.47

**Business Climate**

There is seldom a simple relationship between the general business climate and the fortunes of individual firms or industries. Assumptions about the business climate are basic to all corporate planning and particularly to the formulation of the marketing strategy. Forecasts for a particular business or industry must start with an appraisal of the general level of business activity. However successful the particular business firm may be or reliable its forecast, it must still hire labor, buy equipment, and sell products under conditions that are heavily influenced by the general pattern of business activity.48

The business climate for a particular business is usually determined by:

1. The general pattern of business activity or the economic outlook.

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47Cundiff and Still, op. cit., pp. 316, 317.
48Otteson, Panschar, and Patterson, op. cit., p. 191.
2. The business outlook for a particular industry.

3. The position of the particular company within its industry.49

The determination and analysis of the business climate along these lines will provide the businessman with a firm basis on which to plan his business activity.

The general pattern of business activity is usually reflected by the level of gross national product. Therefore certain assumptions about the gross national product level become an integral part of forecasting the level of business activity. Gross national product measures the Nation's output of goods and services in terms of its market value, or a sum of the market prices times quantities sold of all goods and services produced in the country in one year. Consequently, the components of gross national product are also important to the businessman in determining the trend of business activity for a particular industry or product.50

The business climate for the U. S. has generally been conducive to business expansion because the volume of business activity has been expanding as reflected by the gross national product and income levels over the past five years. Both of these have been on a steady incline over the past five years. For example, gross national product has gone from a level of 589.2 billion in 1962 to a level of 665.9 billion for the second quarter of 1965. Gross national income has increased from a level of 481.1 billion in 1963 to a level of 550.3 billion in the


50W. H. Newman and J. P. Logan, op. cit., p. 32.
second quarter of 1965. As further evidence of the conducive business climate in the U. S., corporate profits before taxes has gone from a level of 58.1 billion in 1963 to a level of 72.0 billion in the second quarter of 1965.51

The outlook for profitable business activity in a particular industry and the position of a particular company within an industry depends not only upon the demand for the commodities and services which that industry and company produce, but also upon such factors as:

1. Industry capacity
   a. Under capacity
   b. Excess capacity
2. Labor costs
3. Material costs
4. Taxes, interest rates
5. Government regulation52

When capacity of an industry is scarcely adequate to meet demand, most companies will enjoy profitable operations. Products will find a ready market, prices will be firm, and a high level of operation will spread overhead cost over many units. This situation greatly improves the business climate for a particular industry or business.

Excess capacity will have a depressing influence upon the business climate and outlook for a particular industry or company, because excess capacity usually leads to lower prices, low rates of production, and high proportion of sales expense.

Labor costs loom large in the business outlook for many U. S. industries, and it is necessary to predict the trend in labor costs and the extent to which they can be passed on in the sales price of the product. Some industries requiring relatively cheap labor will be affected by the U. S. Government action on minimum wages. High labor costs sometimes dampen the business climate for some industries and companies.

Stable material costs are important to most industries and companies. Changes in material costs have varying effects on different industries. Industries producing a product which has a comparatively stable selling price suffer when material costs go up, and enjoy a profit when material costs go down. Material costs can have a telling effect on the business climate for certain industries and companies.

Taxes are a heavy drain on all profitable industries, and the burden falls more heavily on some than on others. Some industries are subjected to unusually heavy taxes, such as the excise tax on alcoholic beverages or a processing tax on agricultural commodities. Some taxes can be passed on to the consumer on certain products, without affecting sales volume; but on others, the tax must be absorbed by the businessman under penalty of reducing sales volume. As can be seen, taxes can have an adverse effect on the business climate for a particular industry or business.

Interest rates influence the prospects for an industry or business. Heavy or rising interest rates can have a contracting effect on business activity. Declining or low interest rates encourage business expansion.
Government regulation of industry in recent years has been extended on many fronts and it appears that this tendency will continue in the U. S. Federal and State Governments regulate in varying degrees the activities of many types of business. Government regulations exercise influence over general trade practices. For example, the Federal Trade Commission Act is empowered to regulate unfair methods of competition, and the advertising of foods, drugs, health devices, and cosmetics.

Government regulations can also be profitable to business. Many industries are protected from foreign competition by tariffs, and some industries are granted sizable subsidies by the government.\(^{53}\)

As can be seen from the foregoing, the business climate for any particular industry or business can be influenced either favorably or adversely, depending upon industry capacity, material and labor costs, level of taxes and interest rates, and the nature and extent of government regulation.

**Market Potential**

Determining the market potential for a product is a problem which varies greatly in its complexity from industry to industry. At one extreme, such industries as steel and lumber, where a few large producers/marketers dominate the industry, market share relationships are fairly stable from year to year. Market potential is readily easy to determine by projecting past trends.

At the other extreme there are industries in which it is difficult to predict market potential from one year to the next. Market potential for a product can be influenced by style or fashion, prices, advertising and sales promotion, dealers' enthusiasm in selling the product, and the competitors' marketing strategy for a competitive product.

Market potentials are also influenced by the nation's economic level of activity, such as gross national product and disposable personal income. Market forecast by territory or marketing segments is based upon population and disposable personal income as distributed geographically.

Determining market potential for a new product poses a different set of problems than those which arise in determining market potential for established products. Forecasting market potential of a new product is characterized by a much higher degree of uncertainty, and many more assumptions are necessary in calculating potential. Potential purchasers of the new product may consider it a new version of or a substitute for an established product. Also, a certain portion of potential buyers who actually purchase the product may only be "triers," and may not purchase the product more than the first or second time.54

Markets, in terms of customers comprising them, are both the focal point and the reason for all marketing activity. The firm's entire marketing program is based upon certain basic assumptions about

its market, both actual and potential, such as the number of consumers involved, their economic, demographic, and social characteristics.

Whether a new or an established product is to be marketed, the firm must assess the size and strength of the total market for its product, and then estimate their potential share of that market on a one-to-five-year basis. The firm should establish a complete market profile for its product showing potential sales by the year, by the geographic region, and by the type of consumer.\textsuperscript{55}

\textsuperscript{55}Otteson, Panschar, and Patterson, \textit{op. cit.}, pp. 88-92; and Richards, and Mendelssohn, \textit{op. cit.}
CHAPTER IV

OPERATIONAL FRAMEWORK OF THE GLOBAL MARKETING PLAN

The global marketing plan is comprised of all the general variables of the domestic marketing plan adjusted to reflect the new environment of the foreign market, plus new variables not included in the domestic plan, but which must be considered in a global marketing operation. These new variables bring about a variation in the global plan, depending upon whether the U. S. business firm will export its product into the foreign market or establish manufacturing facilities and market the output locally. Should the U. S. firm determine to export its product into the foreign market, it will require consideration of variables not applicable to the other alternative of marketing the output from locally established manufacturing facilities. Therefore, the theoretical global marketing plan will have variations depending upon the manner in which the foreign market is entered, by exporting or by local production.

Boundary Limitations

Corporate Global Marketing Objectives

The firm establishes by foreign market total sales objectives, profit margins, rate of return, growth rate to be achieved, and markets to be served. The marketing objectives for foreign markets are usually determined by the firm's foreign operation policies as established by its management regarding such matters.56

Corporate Contribution to Global Marketing Plan

Influenced by its global marketing objectives, and depending upon whether it will enter the foreign market by either exporting its product into the foreign market or by establishing manufacturing facilities to market the output locally, the firm will allocate sufficient resources in the various forms required to accomplish these objectives.57

Marketing Mix Variables

Product Planning and Development

Some U. S. products require large industrial markets; others mass consumer markets, and still others need a professional, technical, or literate market, or a market in which the standard of living is high. Since many of the characteristics are not found in markets outside of North America, the sales potential for certain products is limited. Geographical and climatic conditions are also important variables in determining the marketability of a product. It is possible to market some U. S. products in the European, Canadian, and Australian-New Zealand markets without too much adjustment or modification to the product, buy elsewhere in global markets, the U. S. domestic product is simply not appropriate. For example, asphalt roofing is not appropriate in the equatorial zone because of the excessive heat.

Quality of American products can make some products inappropriate for some global markets. Superiority in quality of American products make some too expensive to be within the circle of demand of many global markets. Quality of the product should be commensurate with what the market is able to pay.

57Ibid., pp. 135-138.
In designing, modifying, and promoting products for the global market, the economic and social benefits to be derived from these products will not necessarily be the same as when they are used within the American economy. Outside the U.S. and Western Europe, labor-saving features of a product will not provide any significant economic advantage because unskilled labor is usually relatively plentiful and very cheap.

The nature of a product may change substantially from one global market to another, depending upon the societies which make up the various global markets. Cultural, social, and technical conditions usually have heavy impacts upon the product.

Even though a product is appropriately designed for a global market and in the interest of the host society, the product may be politically vulnerable and susceptible to public concern and governmental control. Government interest in products is usually determined by the product's effect upon the economy, national defense, industry, agriculture, and society.\footnote{Richard D. Robinson, The Challenge of the Underdeveloped National Market, (New York, John Wiley and Sons, 1964), pp. 327-332; and John Foyerweather, International Marketing, (Englewood Cliff, New Jersey, Prentice-Hall, Inc., 1965) pp. 51-54.}

The product planned and developed for the U.S. domestic market usually requires some adjustment to meet the requirements of a specific foreign market. The adjusted product should entail specifications and performance that fulfill the needs and preferences of, as well as appeal to, the foreign consumer.\footnote{Roland L. Kramer, International Marketing, (Cincinnati, South-Western Publishing Co. 1964) p. 125; and Arthur C. Nielsen Jr., "Mistakes not to Make in Marketing Abroad," Successful Marketing, At Home and Abroad, ed. W. David Robbins, (Chicago, American Marketing, 1958) pp. 114, 117.}
The product must be adjusted to compete effectively with other products made nationally or made in foreign countries on the basis of quality, performance, value, utility, and consumer appeal.\textsuperscript{60}

If applicable, the product must meet minimum foreign government standards for safety and quality.

Packaging of the product must adequately protect the product as well as appeal to the foreign market consumer. The packaging concept for the product should be adjusted to reflect accepted and progressive packaging practices for the particular foreign market.\textsuperscript{61}

Sometimes the U. S. brand name or trademark commands considerable prestige and preference in some foreign markets. This influence will have to be determined. Some U. S. brand names and trademarks are based upon American heritage concepts, tradition, and culture. Therefore, in a foreign setting these brand names or trademarks may be offensive, requiring some adjustment to gain foreign consumer acceptance.\textsuperscript{62}

When the U. S. firm determines to use its brand name and trademark in foreign marketing activities, it should investigate fully the foreign country and/or international laws covering the use and protection of brand names and trademarks.


\textsuperscript{62}\textit{Kramer, op. cit.,} pp. 225-231.
Distribution

In foreign markets, products are distributed by a variety of organizations. The U. S. firm may select one or more distributing methods in a foreign market. A manufacturer may use a manufacturing branch in one market or a retail store in another, and an exclusive agent in still another. In the final analysis the U. S. marketer should use the type of organization best suited to his product and the market he wishes to enter.⁶³

In establishing his channels of distribution in the foreign market, the U. S. marketer should attempt to utilize the principles and concepts prevalent in establishing channels of distribution in the U. S. domestic market, adjusted to reflect the local conditions and distributing practices of the foreign market.

So, when the U. S. marketer enters the foreign market, he must (1) determine normal channels of distribution for his product and which are used by his competitors, (2) determine what types of wholesalers and retailers normally stock his type of product, (3) determine the approximate number of wholesale and retail outlets in principle markets, (4) determine what selling, promotion, service, and stocking functions are performed by wholesalers and retailers, and (5) determine what transportation and warehousing facilities are available.⁶⁴

Transportation is of vital importance to the U. S. marketer planning to market his products abroad. Transportation costs and services


⁶⁴ Buell, op. cit., pp. 52-53.
from American ports to the more distant overseas markets may affect
delivery arrangements and influence the volume of sales in any particular
foreign market. The U. S. marketer is primarily interested in frequent
and reliable transportation services to move his product to the foreign
market. Practically every form of transportation is utilized in
transporting products to various foreign markets. The only available
means of transportation to many markets are rivers, unimproved high-
ways, and mountain or desert trails. The use of primitive river craft,
road carts, or pack animals may not only limit sales, but may also
influence the sales price of the exported product.65

The U. S. marketer in exporting his product must adequately
pack it for overseas shipment. Packing for overseas shipment is an
important marketing function. Breakage is one of the principal causes
of loss in overseas shipments. Since export packing requires special
skill and care, many export marketers employ trained packers. Each
shipment requires special attention in order to meet all of the hazards
of overseas shipment. Some export shipments must withstand exposure
to tropical rains or desert heat; others may be transshipped many times,
possibly by crude river boats or by llama or coolie pack trains.
Shipments containing goods subject to moisture damage must be thoroughly
waterproofed or hermetically sealed in metal containers. Shipments to
be transported via pack trains en route to final destinations must not
be too large.66

65Kramar, op. cit., pp. 54, 55.

66P. V. Horn, Henry Gomez, International Trade Principles and
p. 517.)
Overseas packing should economize shipping space, employ economical packing materials, prevent pilferage, result in lowest assessable custom duties, and above all assure safe arrival of shipment at destination.

Damaged products do not impress or please the foreign customer; consequently, the U. S. marketer when exporting should realize the connection between damaged goods and the good will of the foreign customer.67

Since international shipping is more complex than domestic shipping, many exporters employ the services of the export freight forwarder. He can render an important and helpful service to the U. S. marketer/exporter. Every seaport and airport now has a number of firms engaged in the business. Some of the largest maintain offices in the larger inland shipping centers.

Export freight forwarders have two principal classes of functions. One group is concerned with the forwarding of an export shipment from the point of origin in the U. S. to the ultimate destination in some foreign market; the other is concerned with the engaging of ocean freight space.

The freight forwarder secures and advises exporters of current freight rates, available vessels, and conditions of shipment to almost any desired destination. He seeks out and reserves cargo space in accordance with the exporter's instructions. He can frequently secure lower freight rates than the exporter, simply because of his greater

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67Dowd, op. cit., pp. 385, 386.
knowledge of transportation services. The forwarder directs the movement of shipments from the U. S. marketer's plant to the foreign market destination by the most practical, rapid, and economical route. He secures marine insurance, and contracts for special handling equipment where required, as well as taking care of all the paperwork connected with the overseas shipment. He will dispatch small packages or carload lots to any destination in the world. The services of the forwarder can be practically indispensable to the inland shipper--particularly in the consolidation of small shipments and in the necessary attention to consular invoices, wherever they are required.

The international air freight forwarder is a slight variation of the traditional export freight forwarder. He books and arranges cargo space for export shipments by air, clears export shipments in accordance with custom regulations, collects and delivers cargo to the air carrier, and processes all the necessary paperwork.68

When exporting, the U. S. marketer should cover his shipments with insurance either directly or through his freight forwarder. Marine insurance is commonly placed on all shipments moving in international seaborne trade. The insured may choose from a variety of risks and protections. The most complete coverage commonly written is all-risk insurance, but even this will not cover losses caused by delay. Losses paid under marine insurance policies may cover damage to specific goods or to damage common to the entire venture. Insurance policies and/or certificates are an essential part of the supporting documents for financing international marketing transactions.69

The U. S. marketer, depending upon the particular foreign market, may have to undertake more of the warehousing, inventory, storage, and financing functions than he normally undertakes in the U. S. domestic market. Financing can be an important factor in establishing a distribution channel in the foreign market. As an example, in the distribution of razor blades in Greece, a relatively small value item, it is necessary to finance the wholesaler's inventory, as well as sell on consignment. The normal distribution channels are usually undercapitalized, and most local producers of razor blades have set up marketing of their product on this basis.\(^7^0\)

Channels of distribution vary from country to country. The distribution plan for each market should reflect the most successful and effective method of moving the product to the consumer for the particular market.

**Pricing of the Product**

The establishment of prices and pricing policy in global marketing is somewhat more complex than setting prices and policies in the U. S. domestic market. The philosophy of establishing selling prices in foreign markets is fundamentally very similar to establishing selling prices in the U. S. domestic market. The consumer must feel that he has received full value for the price paid, and at the same time the marketer must make a profit.

The marketer in his global pricing strategy may undertake the following pricing policies:

1. **Skimming-the-Market-Pricing**—Obtains the highest possible price in the short-run without worry about the long-run.

2. **Demand-Curve Pricing**—Pricing on the basis of what the market will bear for various levels of sales.

3. **Penetration Pricing**—Pricing low enough to create rapidly a mass market, resulting in volume sales and low manufacturing cost, thereby yielding a profit.

4. **Expansionistic Pricing**—Pricing lower than penetration pricing to get a larger percentage of consumers who are potential buyers at the lower cost.

5. **Pre-emptive Pricing**—Setting prices so low as to discourage competition. The price will be close to total unit cost.

6. **Extinction Pricing**—Pricing to eliminate existing competitors from global markets. Such pricing drives the weaker marginal producers out of the industry.71

Pricing strategies can be classified as either high-price or low-price. The high-price strategy has merit when:

1. The product is unique in character and is well protected legally both domestically and in foreign countries, and no direct or indirect competition may be expected.

2. The marketer has limited financial resources and cannot expand rapidly in international markets.

3. The ultimate size of the global market is expected to be small and insufficient in size to attract competition.

4. Product output cannot be rapidly expanded to satisfy probable global demand due to technical problems or limitations.

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The above conditions are far less prevalent in global marketing than those suggesting a low-price strategy. The conditions that suggest a low-price strategy are just the opposite from those indicating a high-price strategy. Since income levels and standards of living in most global markets average far less than in the U. S., high prices will limit sales to only a small segment of the potential market. Low prices can serve to open previously untapped markets, build sufficient volume to result in a good margin of profit, and offer effective resistance to national and other foreign-made competing products.\textsuperscript{72}

The U. S. marketer should also be aware of the foreign consumer's attitude on the relationship between price and quality. Some consumers will resist sub-standard quality, but will still be unable to pay for the extra-fancy quality. Consumers may be fussy about some aspects of food handling, but yet be unwilling to pay for superior or more sanitary packaging.\textsuperscript{73}

Whatever the pricing strategy selected by the marketer, it should be one that will attract the intended consumer, offer effective resistance to the national and foreign-made product, as well as accrue a good margin of profit.

Apart from his particular pricing strategy, the marketer, if he intends to export his product into the foreign market, will have to quote his price for export to his foreign customer. The marketer's export price should reflect the following:

\textsuperscript{72}Dowd, \textit{op. cit.}, pp. 347, 378.

\textsuperscript{73}Nielsen, \textit{op. cit.}, p. 117.
1. Place of delivery.

2. Transportation and related charges.

3. Respective duties of seller and buyer.

4. The respective liabilities of seller and buyer in case of loss or damage.

Export price quotations include value of the product plus any or all of the following:

1. Special export packing, if required.

2. Transportation charges to port of overseas shipment.

3. Ocean steamship freight or international air freight charges.

4. Marine insurance or other types of liability insurance to cover loss or damage in transit.

5. Freight forwarder costs, including fees.


Place and time of delivery are important factors since the seller bears all costs and risk of goods until such time as the buyer is obliged to take delivery thereof; and to render the buyer, at the buyer's request and expense, assistance in obtaining the documents issued in the country of origin which the buyer may require either for purposes of exportation or of importation at destination. The buyer in turn must take delivery of the goods as soon as they have been placed at his disposal at the agreed place on the date or within the agreed-upon time period; pay all export taxes or other fees or charges, if any are levied because of exportation; bear all costs and risks of the goods from the time when he is obliged to take delivery thereof; and
pay all costs and charges incurred in obtaining the documents issued in the country of origin or of shipment, or of both, which may be required either for purposes of exportation or of importation at destination.

Following are some examples of export price quotations:

1. **Ex Price**—This price is also referred to as ex factory, ex mill, explanation, ex warehouse or named point of origin. Under this price quotation the seller's (exporter/marketer) liability for loss or damage and other shipping costs are at a minimum. His responsibility and costs end at point of origin. The buyer assumes all liability and costs beyond point of origin.

2. **F.O.B. Prices (Free on Board)**—This quotation is similar to F.O.R. (Free on Rail) and F.O.T. (Free on Truck), at named departure point. Under this price quotation the seller (exporter/marketer) is required to load the shipment on a designated conveyance at a designated departure point. The seller is responsible for any loss or damage incurred prior to loading of shipment. The buyer under this price quotation is responsible for all costs and movement of the shipment after seller has loaded it onto the designated conveyance at a designated point.

3. **F.A.S. (Free Alongside) Price**—Under this quotation the seller (exporter/marketer) places goods (shipment) alongside vessel or on dock designated and provided for, or by, the buyer. Other responsibilities of the buyer and seller are much the same as those enumerated previously under F.O.B. prices.

4. **C.I.F. (Cost, Insurance, and Freight) Price**—Under this price quotation, the seller (exporter/marketer) provides and pays for transportation to the port of discharge, including inland transportation to the port of export, port handling charges at the port, and ocean freight to the foreign port of destination. The seller also provides and pays for marine insurance and export taxes or other fees or charges levied because of exportation.
The buyer under the C.I.F. quotation accepts shipment at port of destination and is responsible for all subsequent costs and movement of the shipment. The buyer’s liability for loss and damage begins where that of the seller ends, namely on board vessel or in custody of ocean carrier at port of exportation. Under C.I.F. price quotation, the seller does not assure or promise delivery. When he loads the shipment on board or delivers it to the dock, he has completed his obligations.

The export price quotations cited in the foregoing are only a few of approximately ten that are used with varying frequency.

The exporter/marketer must also determine in what currency he is making his export price quotation. Price quotations in terms of the currency of the exporting country are advantageous to the exporter, because they reduce his foreign exchange risks, facilitate prompt determination of his profits, and reduce the necessity of frequent price changes. Price quotations in the currency of the importing country shift the risk of exchange fluctuations to the exporter/marketer. In some cases as established by custom, prices are quoted in the currency of a third country. Price quotations in the currency of a third country are sometimes made because the banking facilities of the third country are depended upon for the financial settlement between the exporter/marketer and the foreign customer.

74 Kramer, op. cit., pp. 388-400.
75 Dowd, op. cit., p. 351.
76 Kramer, op. cit., pp. 386-388.
Communications

This marketing variable includes advertising, personal selling, sales promotion, public relations, and servicing of product after the sale.

Advertising—There are certain common denominators on which global advertising strategy is usually based. Effective advertising is an appeal to these denominators, an appeal to human fundamental needs, desires, motivations, and to basic human nature. People the world over have the same basic need for food, clothing, and shelter, the same ambitions, egotisms, and temptations. The setting, the climate and culture may change, but basic human nature is the same everywhere. Therefore, the traditional advertising appeals of economy, comfort, advancement, and social approval are equally applicable to all global consumers.77

The global advertising program should be adjusted to reflect the differences between the various global markets. Advertising copy for one market may not be exactly suitable for another market. The form of the advertising appeal depends upon the temperament and psychology of the intended consumer. Tradition, religion, culture, economic conditions and language connotations of the various global consumers dictate the necessity of adjusting the advertising strategy for each global market. For example, the Frenchman prefers to be appealed to by slogans. He will not be bothered with discursive texts, as in more

77 Dunn, op. cit., pp. 181-183.
disciplined countries like Germany. The Frenchman wants to be captivated and amused at the same time. With respect to Germany, advertising takes the dead-serious approach. Advertising is straightforward and carries a simple, brief, "to the point" message. It usually refers directly to the product itself, and little recognition is given to the consumer's needs or desires. Advertising in Japan is generally couched in very polite terms and never comes right out and says, "Buy Brand X today." Such an approach would be offensive to the delicate sensitivity of the Japanese. The message will attempt an interesting explanation of the product and suggest mildly that the consumer try the product once.\textsuperscript{78}

The fundamentals of global advertising stress the development of the proper climate and concept of the market and an awareness of the consumer attitudes. The development of global advertising copy requires very close attention. In consumer advertising color and pattern likes and dislikes must be considered. Translation of advertising appeals into the various languages of the global market requires something more than a mere literal translation. Each translation must convey the basic message or thought intended and not merely the transfer of words from one language to another.\textsuperscript{79} In addition there are government restrictions on advertising in almost every global market.

The global advertising program must also be adjusted to compensate for the problem of perception. Consumers in the various global

\textsuperscript{78}Kramer, \textit{op. cit.}, pp. 226, 227.

\textsuperscript{79}Kramer, \textit{op. cit.}, pp. 251.
markets perceive advertising, advertising format, and the value, quality and usefulness of products in many very different ways. For example, the class-consciousness of Europeans has generated fierce prejudices against advertising, because it usually speaks for business, especially big business, and because of the aristocratic disdain for businessmen engaged in advertising.\textsuperscript{80} To further illustrate the problem of perception in advertising, let us turn to advertising in Germany. Germans in the Ruhr rejected an advertisement announcing "friendship" as inherently offered by a product; first, because friendship is not perceived to be as simple as all that to most Germans, and secondly, because in the East Zone of Germany every second word is "friendship" and the word strikes unpleasantly. The use of color in advertisements in Germany had to surmount the fear that a pleasant color offering would overwhelm the consumer's good judgment. Color advertisements are perceived to be unsuitable for the informed and educated man, because he regards them as emotional, crass, an assault upon his common sense, and mainly intended for women. The German consumer believes profoundly and almost religiously that nature is good, nurturing, and protecting, and that in contrast, man's products are dangerous, potentially poisonous and destructive. Consequently, for advertisements in Germany, stress the theme "pure, natural," or "from nature itself."\textsuperscript{81} As one further illustration of the perception problem in advertising, the Marlboro


\textsuperscript{81}Dunn, \textit{op. cit.}, pp. 397-399.
cigarette campaign in Germany was based upon a completely different advertising concept than that used domestically. The Marlboro campaign in Germany eliminated the photographs of virile men, and instead associated cigarettes with home ownership, the ideal of every German family. The advertisements presented attractive, successful people in their modern homes.82

We have used advertising in Germany as an example of the problem of perception in advertising. Similar problems exist in almost every global market.

Local advertising talent in each market should be utilized. This is supported by the problem of perception in advertising as outlined in the foregoing. The local talent should be more capable of successfully solving such problems than someone who is not intimately familiar with the local consumer. There are foreign branches or offices of several large American advertising agencies (J. Walter Thompson, McCann-Erickson) in almost every foreign market. These local advertising agencies are knowledgeable of local markets, consumers, environment, etc., and can be most helpful in formulating advertising strategy for the various foreign markets.83


Sales Promotion—These techniques and methods should follow those that have been developed and used successfully in the U. S. domestic market. The closer the methods in foreign markets parallel those at home, the greater are the chances for success. Of course the U. S. methods should be adapted to the conditions of the foreign market, making adjustments for the consumer and the changed market conditions, but basically the concept and method of sales promotion will follow that of the U. S. domestic market. The utilization of nationals thoroughly schooled in American sales promotion methods assure even greater chances of success.84

Personal Selling—This is sometimes referred to as the direct selling technique. Personal or direct selling can take the following forms:

1. Door-to-door canvassers, whereby salesmen go from door-to-door contacting consumers.

2. Traveling demonstrators and traveling exhibits, whereby the salesman travels a sales area or territory exhibiting or demonstrating a product. This is particularly appropriate for new products.

3. Personal contact with consumer at point of sale.

Door-to-door canvassing is particularly applicable in the global marketing of small appliances, housewares, cosmetics, toiletries, floor waxes and brushes, and clothing. One U. S. company producing household supplies now has door-to-door canvassers in most Latin American countries and in many European Common Market Countries. Another U. S.

84 Dowd, op. cit., pp. 299, 302, 313.
marketer/exporter of cosmetics and toiletries reports 10,000 door-to-door salesmen selling products ranging in price from 50 cents to $20 in Latin America, Great Britain, and Germany.

Traveling demonstrators and exhibits are becoming more commonplace in Western Europe. There are numerous trade fairs throughout Europe where the marketer has an opportunity to introduce his product to the consumer. The demonstrators and exhibits move from area to area acquainting the consumer with the product. The product demonstration is also becoming popular in department stores and supermarkets where new electrical appliances are demonstrated and sold, and new foods or other products are given away in samples to the consumer.\(^35\)

Personal contact with the consumer at point of sale is required in clothing stores, where personal attention is required to sell the product, or at other sales outlets where product explanation or demonstration is required in order to consummate the sale with the consumer.

Another sales gimmick that is spreading like a rash among Germany's retail shops and mail-order houses is the "on-approval" sales technique. You can now get a mattress on a "non-committal test plan." Men's shirts are being sent to customers on a free trial basis, and getting a half dozen or so carpets sent on approval, makes interior decorating a dream chore for the German housewife.\(^36\)


Whatever particular personal selling technique is required, it should be used in the foreign market wherever dictated by the product or the market. Wherever possible, personal selling should be performed by nationals who are thoroughly knowledgeable with the product, the company, and the U. S. methods and concepts of personal selling.  

Product Services--The U. S. firm must assure availability of service and service facilities after purchase, should the product require it. This can be a very definite point in selling the product, especially if the U. S. firm is exporting the product into the market. Competitors with local manufacturing facilities can capitalize on this point of service, especially for those products that usually require service after purchase. Therefore, the U. S. firm must assure availability of service for the product should service be required.

Public Relations--This is the Achille's Heel of U. S. business in global markets. To be successful in foreign markets, U. S. business must create a favorable opinion in the minds of the consumers. It should establish a public image that evokes respect and creates prestige in the market and says, "We are your friend," to the consumer. There is a strong correlation between company recognition and reputation,

87Powi, op. cit., pp. 315-318.


89Charles E. Allen, From a speech given before the American University Training Program for International Business Executives, June, 1960. Published by Hill and Knowlton (150 East 42nd Street, New York 17, New York).
and sales success in a foreign market. The U. S. business firm should become a part of the community and become domesticated into the particular foreign market.  

Ecological Variables

Political System

It is rather evident that a marketing operation in Brazil or Indonesia is subject to greater risk of failure than in Sweden. This is due mostly to differences in the stages of development of the political systems of the respective countries. The following political factors should be evaluated when considering a global market.

Stability and Past History of Present Form of Government—
The national government can directly influence the profitability of a foreign market operation. Government regulations today and attitude toward foreign business may be conducive to foreign market operations, but a different government in power could make foreign marketing operations unattractive. Stability and form of government can also be a barometer of economic conditions and progress in the country. In many areas of the world, the effect of various political changes on marketing operations can be dramatic. Therefore, the soundness of global marketing plans is influenced to a great extent on the local

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(foreign) political climate. A foreign market country should meet the same tests of political stability that are normally applied to any foreign country in which global marketing operations are contemplated. The country should have a good past record as regards revolutionary or civil strife, orderly political and economic change, respect for private enterprise and property rights, absence of arbitrary confiscation or expropriation actions, a central government that is reasonably representative and popularly supported, administrative officials that are honest and efficient, and courts that can be depended upon to interpret and enforce the laws fairly and effectively.92

Nationalistic Tendencies and Attitudes Toward Foreign Business—

These two factors are considered together, because all too often, the attitude toward foreign business may be nationalistic; and the nationalistic tendency of a foreign government may be primarily toward foreign business.

Nationalistic tendency should be treated with varying degrees of importance depending upon the global market under consideration. In some countries the nationalistic tendency would be of primary importance because of the possibility of nationalization within a very short time after starting operations. In other countries nationalization would perhaps be a rather distant threat and of little immediate importance. Nationalistic tendency for some foreign markets would be

a primary variable to be considered, but in this paper it is considered a sub-ordinate variable to the overall political system.

No country will usually permit its economic institutions to be dominated and controlled by foreigners very long. This is clearly expressed in the industrialized countries of Western Europe where national capital is increasingly preferred to foreign capital, or where a government will nationalize an industry it considers essential. Sears and Woolworth in Mexico, and General Motors in Australia have been threatened with nationalization of their operations. Global operations are threatened more with nationalization as the countries develop into industrialized economies.

The national government's attitude toward foreign business can influence the enactment and enforcement of either favorable or unfavorable legislation and laws governing foreign marketing operations. Legislation and laws are usually concerned with nationalization, taxes, profit repatriation, etc. Some countries have made a particular effort to attract foreign business by adapting their tax and corporate laws to that end. Others have been more passive or neutral in their attitudes, and still others have sought to restrict foreign business activity, particularly that of U. S. firms. In considering a particular foreign market, the U. S. business firm should determine the following:

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1. Is the U. S. business firm welcome?

2. What form and what degree of local participation and ownership are required?

3. Is favorable tax treatment based on clear statutory provision, or does it depend upon judicial or administrative interpretation or ruling?

4. What are the provisions and regulations for repatriation of profits?\(^95\)

Mexico is one example of a government's attitude and nationalization tendency toward foreign business activity. President Gustavo Diaz Ordoñez states that, "Direct foreign investment can play an important role in accelerating Mexico's economic progress." But at the lower levels of government in Mexico, foreign companies are banned from certain fields of Mexican business and are running into harassment in certain other fields. Many foreign companies are being warned to "Mexicanize" or share ownership involuntarily with Mexicans. For example—the Ritter Sulphur Co., Rochester, New York, has been directed to sell 35% of the stock of its Mexican subsidiary to Mexicans and to make at least 60% of its equipment in Mexico.

The Mexican subsidiaries of General Motors and Ford were warned in June, 1965, to commence making 60% of their component parts for assembly in Mexico.

Certain business activities, such as transportation and oil, and some basic manufacturing, such as earth-moving equipment, must be 51% owned by Mexicans.\(^96\)

\(^{95}\)Lovell, op. cit., p. 43.

Nationalism and attitude toward foreign business, U. S. business in particular, in Europe is a very real threat to the continued success of U. S. firms on the European continent.

The French Chamber of Deputies are re-writing the 1966-70 plan for the French economy to better grapple with the nation's number one problem, the colonization of France by American business, by strengthening nationalization laws and restricting American business activities. France is attempting to persuade all Common Market countries to restrict American business activity in their respective countries.

West Germany has stated officially that American business activity would always be welcome where it brings technical know-how and where there is insufficient German firm activity and availability of capital. It is anticipated that latent German Nationalism over U. S. business activity will not be aroused in the very near future; and elsewhere in the Common Market, governments seem equally as reluctant as Germany to restrict U. S. business activity.97

Political Parties—Their importance in vote and representation at national and local levels can indicate the degree of stability and permanence of the present form of government.98


Influence of Non-Political Groups—The influence of such groups as the armed forces or the church indicate in some instances the stability of the government in power. Revolutions and insurrections are usually fermented by military groups seeking power. Such a change in government can make an attractive market no longer attractive.99

Political Affiliations with Other Countries—Political affiliations usually tie the political fortunes of one country to another. Such affiliations can have a dramatic influence on the foreign marketer. For example, in 1958, Olin Mathieson of the U.S. joined French, Swiss, and British interests in a $135 million project to exploit bauxite deposits in French Guinea. A few months later, President Charles de Gaulle of France offered independence to Guinea. Guinea became independent and severed its political links with France. As a result the Chemical Combine was faced with completely new political conditions, and success of the project depended upon the Combine’s ability to deal with the new political influence.100

Political affiliations will probably develop among those various nations participating in the numerous trade agreement affiliations such as the Common Market, the European Free Trade Area, etc. Already there is an increase in freedom of movement of citizens between some of the various countries.

99 Ibid.
100 Ibid., p. 309.
Legal System

The U.S. businessman conducting business in a foreign country is taking unusual risks, because the laws and the attitudes of the lawmakers in foreign countries vary widely on significant issues. Foreign business may be subject to certain special formulas for the remission of profits and repatriation of capital, to a requirement that citizens of the foreign country be allowed to participate, sometimes heavily, in the ownership of the business, to all sorts of binding or inflationary government controls and policies.

Consequently, the U.S. marketer must work within, and adapt to, laws of the foreign market country. It is of vital importance that the marketer be conversant with the legal environment and processes in the foreign country under consideration.

Local laws and regulations governing the organization and functioning of the global market operation will determine such matters as the following:

1. Forms of business organization.
2. Ease and speed with which incorporation can be effected.
3. The cost of forming and maintaining the corporate entity.
4. Application and approval requirements and other incorporation procedures.
5. The kinds of stock that can be issued.
6. Restrictions or mandatory requirements with respect to residence and nationality of shareholders, directors, and officers.
7. Minimum capitalization of the corporation.
8. The conditions under which liquidation or change of domicile can be effected.

9. The conditions under which a company will be deemed to be resident or doing business in the area. 101

Laws and Regulations—The countries of the Free World on a juridical basis fall essentially into two groups—Common Law and Code Law.

Common Law applies in the United Kingdom and other countries that now or formerly have been associated with British legal thought by reason of colonial or empire relationships.

Code Law consists of compiled laws assembled into groups of identical or similar subject matter, thus constituting a code. The remainder of the countries of the World not under the British influence adopt the principles of the Code Law. 102

Commercial names are generally protected throughout the World by the laws of the various countries.

With regards to trademarks and designs, ownership in common-law countries is predicated upon use, while in code-law countries ownership is acquired by registration. But from the standpoint of global marketing, trademark registration in a common-law country should be effected. 103 In fact registration of trademarks in all global markets should be established as soon as possible. There are people who will

102 Kramer, op. cit., pp. 454, 455.
register your trademark before you do in certain countries, particularly those of Latin America, where the prior registration system carries such weight.\textsuperscript{104}

Both common-law and code-law countries offer protection to trademark piracy. This protection should be fully investigated when considering a foreign market operation.

Patent laws of the various countries differ widely. There are wide variations between countries insofar as the issuance of patents are concerned. Some countries refuse to grant patents on certain products. Others issue patents soon after application is made, but affording protection for various periods of time. The International Patent Agreement for the registration and protection of patents is participated in by almost every country in the world.\textsuperscript{105} When entering a global market, the U. S. marketer should take definite measures to protect his product through patent application as evidenced by the recent Dusseldorf Court decision to award damages to the Gillette Co. against six German firms making blades covered by a Gillette patent application made over five years ago, but not yet granted. The six firms were restrained from making any further blades and were directed to pay damages based on the number of blades sold.\textsuperscript{106}


\textsuperscript{105}Kramer, \textit{op. cit.}, p. 459; and Dowd, \textit{op. cit.}, pp. 491, 492.

Repatriation of profit regulations should be considered when reviewing the legal aspects of a global market. Some countries, particularly those that have a shortage of dollars or that have taken extreme measures to conserve their financial resources, have passed laws restricting the repatriation of profits and capital. The laws and regulations governing the repatriation of profits and capital have become a major problem facing the U. S. marketer. The alternative to repatriation of profits is usually the investing of these profits in the foreign country in which they were earned, thereby depriving the U. S. company the benefits of its earnings.\textsuperscript{107}

The U. S. marketer must consider another legal authority, not present in U. S. domestic marketing, when contemplating marketing in a foreign country. This legal authority is trade associations in the leading industrial nations of Europe that have legal authority to regulate various aspects of commerce and industry. In Germany for example, membership in these trade associations is compulsory.\textsuperscript{103}

There are several types of business organizations that are recognized under foreign laws, and in many respects they are counterparts of U. S. business organizations. The two most popular are:

(1) General partnerships, which are authorized by the laws of all countries of the Free World. The liability of the partnership members is the same as under English Common Law.\textsuperscript{109} (2) Business corporations,

\textsuperscript{107} Dowd, \textit{op. cit.}, p. 196.


\textsuperscript{109} Kramer, \textit{op. cit.}, p. 462.
which are authorized by the laws of almost all countries in the World. General corporation laws have been enacted in practically all countries. In most respects the general features of corporation law in foreign countries are similar to those of American Corporation Law.\footnote{Kramer, \textit{op. cit.}, p. 463.}

\textbf{Taxation}—A foreign company whose business interests are handled by a local agent or dealer in his own name is not considered as doing business in the foreign country and therefore, is not taxable. But when business is transacted in the name of the foreign business firm, then the taxes of the foreign government are directly felt. Usually taxes are imposed irrespective of nationality, but in recent years many foreign governments have imposed taxation designed to either force foreign business organization to become fully nationalized or to withdraw from the market altogether.\footnote{Kramer, \textit{op. cit.}, pp. 467, 468.}

Almost all foreign governments tax foreign business activities to varying degrees. Taxation will depend to a large extent upon the stage of economic development of the country. For example, the San Francisco Mines of Mexico, Ltd. total Mexican tax bill for 1958 amounted to 115\% of earnings before taxes; in 1959, it was 93\%, in 1960, 85\%, and in 1961 over 99\%.\footnote{San Francisco Mines of Mexico, Ltd., \textit{(Lausanne, Switzerland, L'Etude des Méthodes de Direction de L'Entreprise, 1C8-7G171, IB-19, 1962)}, pp. 1, 2.} Mexico is pretty far along in its economic
development. On the other hand, Peru, which is a far less developed country economically, has taxation on corporate income ranging from 5% to 35%.113

The Common Market Countries levy taxes on distributed profits ranging from a low of 39% for Italy to 63% for West Germany, and on undistributed profits from a low of 25% for Belgium to 63% for West Germany. In addition, all of the Countries levy a turn-over tax which taxes each transaction at every juncture. This taxation ranges from a low of 2% for Luxembourg to 5% for Holland and Belgium, and 19.5% for France, which is based upon value added.114

Applicable tax rates should be determined for each global market, on earnings from operations, interest, dividends, etc. Remittance taxes on dividends and profits should be noted as well as ordinary income tax. Prospect of new tax legislation or regulatory action on taxes should also be considered.

Economic System and Development

Various economic systems are in effect throughout the World. The more popular economic systems are private enterprise (capitalism), socialism, fascism, and communism.

The U. S. and Switzerland and a few other countries remain as the only islands of capitalism.


Socialism is gaining in popularity the World over. England, Sweden, Norway, Denmark, Germany, France, Australia, Italy, and New Zealand, to name a few, now embrace some variation of the socialist form of economic system. Generally this form of economic system is characterized by the following:

1. Government ownership of productive resources. The role of private enterprise is lessened as key industries such as railroads, coal, and usually steel are gradually nationalized.

2. Economic planning is directed by a central authority. The free play of profit motives is practically eliminated, and economic production is planned for use rather than profit.

3. Incomes are somewhat redistributed through the taxing powers of the government. Social security benefits and cradle-to-grave welfare services are provided by the collective purse, and the well-being of the less privileged classes is improved.

4. The gradual extension of government ownership by peaceful and democratic methods.

Most of the socialist systems have retained all of the familiar civil liberties and individual freedoms guaranteed by the American Constitution. But the socialist systems do tend to regulate and influence business activity considerably more than the capitalistic system does in the U. S. 115

Fascism appears to be having some limited success. Fascism is usually characterized by a one-man dictatorship, by one political party, by the disappearance of civil liberties, and is usually highly

nationalistic. The central government exercises great regulatory power over every sphere of economic activity.116

Franco's Spain and Salazar's Portugal are modern-day examples of the fascist system. On the whole, Spain is making great economic strides. The fascist regime has courted foreign investment over the past five or six years, and it is beginning to pay off economically for Spain.117

Portugal is also beginning to move ahead with a series of "five-year plans" for economic progress; but of all European countries, Portugal is still in last place in per capita consumption expenditures with Switzerland, Belgium, Sweden, and United Kingdom in the first four places respectively.118

The communist economic system is far removed from any profit system. The communist system determines what goods to produce and how to produce them. It is concerned with the location of industry, with the relation of industry to agriculture, and the relation of consumer goods to producer goods. Factories, land, and capital equipment are owned by the state enterprise. Private property is limited to dwelling houses, furniture, and personal effects. Wage rates are set by the state enterprise, as are the prices for consumer goods, which are maintained by state stores and cooperatives.119 Soviet Russia and Communist China and

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116 Samuelson, Ibid., p. 776.
117 "Spain," TIME, Jan. 21, 1966, pp. 34A-34C.
119 Samuelson, op. cit., p. 778.
their Satellite Countries are the major communist economic systems in the World today.

The global marketer should become familiar with the economic system in effect in the foreign markets of his interests. Most of the economic systems welcome foreign marketing activity in varying degrees, but some attempt to discourage it.

The foreign market country should have economic stability. The U. S. marketer when considering a particular global market should develop a general picture of the country’s economy, emphasizing its major strengths and weaknesses. Economic conditions in foreign countries can change quite rapidly, depending upon the stage of economic development of the country and the stability of the government. In determining and evaluating the economy of a foreign market country, the U. S. marketer should ascertain the following:

1. Is the country primarily an industrial or agricultural community?
3. Sensitivity of the economy to depressions.
5. Income per capita and per family.
6. Average wage.
7. Retail sales and gross national product.
8. Industrial concentration and value of manufacturing and its relative importance to the economy.
9. Foreign trade and payments position.
10. Principal imports, exports, and their value. 120

120Beauvois, op. cit., pp. 307, 308.
Population and per-capita or per-family income are particularly important to the marketer in estimating market potential. The standard of living and the purchasing power possessed by the consumer influences the price and quality of the product to be marketed. A moderately priced item in the U. S. market may become a luxury item when marketed in the same price range in some foreign countries, depending upon the standard of living for those countries.121

The global marketer may have difficulty in finding valid economic indicators. He is not dealing with a homogeneous market but with many markets differing widely in their size, per-capita income, monetary system, form of government, and stage of economic development. The following are considered as universal economic indicators for global marketing by the U. S. marketer:


2. Total U. S. commercial exports as a measure of the share of available U. S. dollars that may be spent for U. S. goods.

3. Aggregate national incomes as an indication of World and regional purchasing power in all currencies.

4. Industrial production as an indication of manufacturing growth and new manufacturing investment.122


In global markets which are less developed than the U. S. domestic market, the U. S. marketer should probe deeply into the underlying economic structures and combine his marketing know-how with a broad knowledge of known economic facts and theory to achieve a successful marketing operation.\(^{123}\)

The Global Consumer

The understanding of Cultural Anthropology is important in competitive marketing. Knowledge of the basic differences and similarities among consumers in different parts of the world is essential. The successful marketer thinks not only of the U. S. consumer or the Western European or Atlantic consumer, but of the World Consumer. For example, the World marketer should be acquainted with the fact that only one Frenchman out of three brushes his teeth; four out of five Germans change their shirts but once a week; Amazon Indians use outboards in their deep green waterways; and that an automobile is a must for the self-esteem of the lowliest postal clerk in Naples or the Banter Street cleaner in Durban.

A close observation of consumers all over the World reveals that there are some striking similarities, yet there is also a considerable degree of permanent difference. These basic cultural similarities and differences must be given full consideration by the marketer.\(^{124}\)


\(^{124}\) Dichter, op. cit., p. 113.
The global marketer should understand and recognize the factors which influence the global consumer's attitudes and preferences toward the product, packaging, pricing, and brand loyalty. The global consumer also possesses certain preferences toward foreign products in relation to national products.

The U. S. marketer going into the European market should study the culture and psychology of the consumer. The marketer should understand the basic motivations that operate within each European country. In addition, the marketer should realize from the psychological and cultural aspects of the consumer that there are regional markets within each country. For example, advertising men consider Northern Germany, Southern Denmark, and the Netherlands as a homogenous market, as well as Northern France and Belgium. Consumers within these regional markets are appealed to by the same general advertising approach.\textsuperscript{125}

The American businessman must understand certain paradoxes, stereotypes, and the hidden competitors within the foreign market.

The Italian housewife considers her American counterpart a poor cook and a lady of leisure, but secretly dreams of owning an American housewife's kitchen. The West German businessman scoffs at American products and know-how, pointing to the technical superiority of his own national products, but proudly puts his uniformed chauffeur in a Ford.\textsuperscript{126}

\textsuperscript{125}Seligman, op. cit., p. 123.

\textsuperscript{126}Dichter, op. cit., p. 114.
The French woman is stereotyped as fashion conscious, yet the purchase of a dress or coat is more of a major investment for the French woman than for the American woman. The French woman in reality is more interested in how durable the garment is and how long it will last. The French woman is usually more price conscious than fashion conscious.127

A hidden competitor in Germany is the Sears, Roebuck Catalog. It is a strong competitor to toilet tissue. The West German consumer feels that toilet tissue, particularly the American luxury type, is wasteful and unnecessary.128

The U. S. businessman must also contend with the feeling of national pride in the global consumer. Admiration of foreign products is often clouded with hidden inferiority feelings regarding their own national product, and results in tearing down of the foreign product. The Venezuelan smoker refuses to buy American brand name cigarettes made in Venezuela, in favor of buying inferior Venezuelan brand cigarettes. The problem is being overcome by proving that the American smoker has a certain preference for Venezuelan tobacco.129 In Western Germany the consumer would only buy the German-made Ford Taurus automobile after he was convinced that the German Ford was an example of cooperation between American production ingenuity and know-how and German thoroughness and efficiency.130

127Dichter, op. cit., p. 114.
128Dichter, op. cit., p. 115.
129Dichter, op. cit., p. 115.
In Catholic and Latin countries it is considered immoral to give too much attention to the care of one's body. Hence, the Catholic Frenchman only brushes his teeth occasionally, and only 20% of French women have discovered the perfumed "French" type toilet soap.\footnote{131}

The global consumer can be categorized into six groups. The world is undergoing a consumer revolution, and the degree of development of the large middle class makes the difference between a backward and a modern country both economically and psychologically. The most important symbol of middle-class development in the World today is the automobile. Using middle-class development as a measure of achievement, the global consumer is categorized as follows:

**Group 1, The Almost Classless Society**—This group includes primarily the Scandinavian countries. The middle class makes up most of the population. There are few very poor or very rich people in the population. Products are viewed in a rather sober fashion, mostly for their utilitarian value.

**Group 2, The Affluent Countries**—This group is made up of the U. S., West Germany, Switzerland, Holland, and Canada. Few people starve in these countries, but there is a lower class as well as an upper class, but the middle class is the majority. Consumers in this group want individuality in their products, high-quality, repair-proof, almost custom-made products. The German and the Dutchman uses the car for prestige purposes, while the American considers it more as a tool of utility and convenience.

\footnotetext{131}{Dichter, \textit{op. cit.}, p. 116.}
Group 3, Countries in Transition—This group is made up of England, France, Italy, Australia, New Zealand, South Africa, and Japan. The majority of consumers suffer from low wages. Living standards are behind those of the U. S. and West Germany. The white-collar worker usually makes less than the factory worker. Cars are pampered in these countries, because they represent a major investment. Cars are usually an outward symbol of success. Markets are still fluid; they have not stabilized. There is resistance against planned obsolescence. Most people hold onto their cars for six to ten years or more.

Group 4, Revolutionary Countries—This group is made up of Venezuela, Mexico, Argentina, Brazil, Spain, India, China, and the Phillipines. In these countries large groups of people are just emerging from near-starvation and are discovering industrialization. The majority of the population of these countries is made up of depressed economic groups. Large sections of the population of each country have not even reached the level of being consumers. Automobiles are available to only a very small portion of the population and are considered truly a luxury.

Group 5, Primitive Countries—These are the newly formed and liberated countries of Africa. The only consumers in these countries are foreign businessmen, new political leaders, and foreign advisers. The vast majority of the population exists in a preconsumer stage.

Group 6, The New Class Society—This group is made up of Russia and its Satellite Countries. Extremely low income groups have disappeared. The automobile, mass-produced food, supermarket distribution, and the
modern home with its mechanized kitchen, are symbols of the new industrial society.\textsuperscript{132}

The U. S. marketer must plan his whole marketing strategy to appeal to the preferences and attitudes of the particular global consumer of his choice. The marketing plan will have to be adjusted to fit the unique conditions and situations of the selected consumer group.

**Competitive Forces**

The U. S. marketer should determine how local marketers compete before entering a foreign market. Determination of competing rationale will reveal on what basis the U. S. marketer should compete. The U. S. marketer should determine the nature and strength of his competition, and the number of competing products, both foreign and national in origin. The pricing trend established by the competition will determine whether or not entrance into the market can be made profitably. The U. S. marketer must determine the industry leaders in the market and his position relative to theirs.\textsuperscript{133}

The degree of industry concentration in foreign markets reveals competitive strength. The competitive advantages of foreign products can be dissipated if total product volume is divided between too many manufacturers, thereby diminishing cost-advantages of high volume production.

\textsuperscript{132}Dichter, \textit{op. cit.}, pp. 118-121.

Foreign competitors are often alert, tough, and aggressive. In one country the market for a product may be dominated by a single marketer, but in a neighboring country many marketers may be competing for their share of the product market.

The U. S. marketer should be sensitive to his competitive position in the foreign market. The competitive structure of an industry varies widely from one economy to another and so does the industry position of a company that competes in several markets around the World. The U. S. company that enjoys 30% of the American market may have to really fight for 3% of a foreign market. 134

It is important for the U. S. marketer to understand the competitive climate of the foreign market. He should be conversant with the following:

1. Competitors manufacturing or importing, their number, names, relative strengths, and breadth of product line.

2. Brands offered and approximate share of market accounted for by each; trends in competitor's share of market.

3. Types offered by each brand and their price ranges.

4. Consumer preferences by brand.

5. Trend in share of market by principal product types and price range.

6. Quality, performance, and design of competitive products.

7. Substitute products available, performance, price ranges, and apparent share of market.

8. Prevailing trade discounts at wholesale and retail levels.\textsuperscript{135}

To compete successfully in a foreign market, the U. S. marketer should market a product that will fulfill the consumer's real needs. For example, the marketing of the large American washing machine, the pride and joy of the American housewife with its built-in plumbing and high-voltage requirements, meets with little sales success in many global markets. Instead the foreign consumer requires a basic, compact, inexpensive machine that requires no plumbing and will operate on poor electrical current.

The U. S. marketer should be aware of his competitors' selling methods such as:

1. Type of sales force used by his major competitors,
2. Size and caliber of major competitor's sales forces.
3. Functions performed by competitor's sales forces at wholesale and/or retail level, and frequency of contact.\textsuperscript{136}

This kind of knowledge about the competitor's sales force will reveal the competing rationale prevalent in the foreign market.

The U. S. marketer should also consider other competing forces such as:

1. Trend in cost and availability of domestic help. Domestic help can be in direct competition with certain consumer durable goods.

\textsuperscript{135}Buell, op. cit., pp. 51, 52.

\textsuperscript{136}Buell, op. cit., p. 53.
2. Availability and cost of auxiliary services such as electricity, gas, water, plumbing, etc. These can directly influence the demand for consumer durable goods.

3. The effect of decorating and maintenance customs on product demand; for example, the extent of rug use as it affects the demand for vacuum cleaners.

4. Availability and cost of substitute products; for example, the German housewife's preference for coffee beans in place of ground or blended coffee.137

While the U. S. Government has generally pursued a policy of free competition, foreign governments have permitted the elimination of competition to varying degrees through the development of business combinations such as cartels and national combinations.

Cartels are business combinations which function to restrict competition in industry and trade. Their aim is to control the market, and to create a monopoly. Cartels are more generally associated with German and Swiss industrial organizations. Cartels usually limit output, maintain prices at a given level, allocate sales territories, establish uniform business activities and practices, and undertake centralized selling.138 Consequently, the presence of cartels in a particular market upsets the normal marketing functions usually found in a free competitive system in the area of price levels, demand, and supply, and determination of sales area and strategy.

137Buell, op. cit., p. 54.

National combinations are very similar to cartels and are usually found in the United Kingdom and Japan.

There are international cartels and business combinations operating in steel, aluminum, electrical goods, rayon, dyestuffs, and diamonds. Any marketer planning to enter one of these industrial markets would have the established cartels and combinations to consider.

It is possible to compete in those product areas that have been considered exclusive and almost unapproachable. For example, an American exporter has firm plans to market California Wines in France. Bercut-Vandervoort and Co. of San Francisco, California, began marketing California Wines in France in March, 1965. Italian Swiss Colony, Paul Masson and Beaulieu Vineyard will export their California wines to France through the Bercut-Vandervoort and Co.139

The marketer must always contend with competition, whether domestic or global. Shorn of nationalistic, tariff, and currency restriction obstacles, the global marketer may find that he is still losing out in competition to either domestic or other global marketers. This may be due to the fact that the competitor's prices are lower, his quality better, or his marketing strategy is more superior.140

In summary, the U. S. marketer has a great number of competitive forces to contend with when he considers going global in his marketing operations.


140 Kramer, op. cit., pp. 299.
Business Climate

The business climate of a particular global market should be conducive to marketing operations. Following are some of the factors that should be taken into consideration when evaluating the business climate.

1. **Existing and Prospective Tax Law and Regulations.** Favorable tax laws are important to the U. S. marketer. Applicable tax rates should be ascertained for various types of income. The prospect of new legislation or regulatory action on taxes should be considered as well as the existing tax structure.

2. **Competition.** The global marketer should determine if possible, the business outlook for his particular industry or product in the foreign market. If a particular market is already saturated with a product, further sales activity by an additional product may not be advisable; but should there be demand in excess of available product or industry capacity, additional products will find a ready market and profitable prices.

3. **Gross National Product (GNP).** Gross national product reflects the economic well-being of a nation. If a nation has an expanding GNP, it probably also has a rising standard of living. A rising standard of living usually means new and lucrative markets.

4. **Government Regulations.** Government regulation can directly influence the business climate in a foreign market. Some countries have
such close government regulation, foreign marketing activity is
discouraged. Other countries have very little government regulation,
or whatever regulation there is, is an attempt to encourage entrance
of foreign business.

5. Consumer Prosperity. Consumer prosperity is closely related
to a nation's gross national product level. The level of prosperity of
the foreign consumer may be indicative of the purchasing power of the
market. Usually the U. S. marketer will look for a global market with
increasing consumer prosperity.

Consumer prosperity is growing outside of the U. S. People
whose living standards have hardly changed since Biblical times now
have buying power for more than the bare necessities. Passenger cars
on the road increased from 10 million in 1949 to 24 million in 1957,
while car production tripled. Productivity has risen at an annual
rate of 6% in Germany, 5% in Greece, over 4% in Italy, and 3.5% in
France. Against the U. S.'s 2.5%, Europe's gross product per capita
has climbed a whopping 40%. This tremendous increase in prosperity has
made profits quite lucrative in many global markets. As an example,
three companies, one in the U. S., one in France, and one in Germany,
operating under almost identical conditions and in the same growth
industry, were earning 13% in the U. S., 23% in France, and 35% in
Germany on their equity investment. In France, and particularly Germany,
rapid depreciation provisions provide growth industries with sizable

141Tutching, op. cit., pp. 367, 368.
tax-free funds for reinvestment. In Germany product shortages enable the marketer to operate with almost no finished-goods inventories, thus reducing the working-capital requirements.142

The lack of consumer prosperity or purchasing power caused the Gillette Industries Limited some concern in marketing their blades to the Greek male shaver. Blades were almost a luxury to most Greek male shavers. Average per capita annual income for Greece was $280, with 25% of the Greek population earning less than $50 per year as compared to $700 for Holland, $1260 for Sweden, and $1400 for Switzerland.143 Consequently an ordinary common item for one market may be a luxury item for another market, depending upon the prosperity of the consumer.

But consumer prosperity the World over is increasing by leaps and bounds. The Wall Street Journal reports that the rising affluence of many foreign countries is whetting the consumers' appetites for American goods, and rising standards of living and purchasing power is making it easier for them to pay for U. S. goods.144

6. Labor Market. If the global marketer plans to manufacture his product within the global market area, he should be concerned about the availability of skilled labor. This factor can have a very profound influence on the business climate, especially if there is a marked labor shortage.

142Raphael W. Hodgson and Hugo E. R. Uyterhoeven, op. cit., p. 70.
The availability of labor can usually be determined by the amount of unemployment in any particular area. Most Latin American Countries have an ample labor market because unemployment is high, but there is a lack of skilled labor.\textsuperscript{145}

Western Europe generally has a pretty tight labor market. Unemployment was 4.2% in 1955, and is projected to be down to 2.6% by 1970. By 1970 unemployment is projected as follows for some of the countries of Europe:

<table>
<thead>
<tr>
<th>Country</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>2.0%</td>
</tr>
<tr>
<td>Belgium</td>
<td>2.0%</td>
</tr>
<tr>
<td>Denmark</td>
<td>2.0%</td>
</tr>
<tr>
<td>France</td>
<td>1.0%</td>
</tr>
<tr>
<td>Germany</td>
<td>2.0%</td>
</tr>
<tr>
<td>Greece</td>
<td>7.0%</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1.0%</td>
</tr>
<tr>
<td>Italy</td>
<td>4.0%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>1.0%</td>
</tr>
<tr>
<td>Norway</td>
<td>1.0%</td>
</tr>
<tr>
<td>Portugal</td>
<td>7.0%</td>
</tr>
<tr>
<td>Spain</td>
<td>7.0%</td>
</tr>
<tr>
<td>Sweden</td>
<td>1.0%</td>
</tr>
<tr>
<td>England</td>
<td>1.0%</td>
</tr>
</tbody>
</table>

As can be seen from the projection, only four countries—Greece, Spain, Portugal, and Italy—will have any available labor to speak of, and this may be unskilled labor. The global marketer planning to locate his manufacturing facilities in Europe should ascertain the availability of the required type of labor.

\textsuperscript{145}Economic Integration in Latin America and the Prospects for Foreign Investments, (Lausanne Switzerland, L'Institut pour l'Etude des Methodes de Direction de l'Entreprise, 10CH968, 1B-23, 1965), p. 4; and Thayer, \textit{op. cit.}, p. 14.

\textsuperscript{146}J. Frederick Dewhurst, John O. Coppock, and P. Lamartine Yates, \textit{op. cit.}, p. 85.
Japan and Southeast Asia are reported to have an ample supply of labor, although some of it may be unskilled.

The foregoing items influence the business climate to varying degrees, depending upon the product to be marketed and the particular market under consideration.

Market Potential

Before making the decision to enter a certain global market, the marketer is usually deeply concerned about the sales potential for his product. The market potential should be sufficient to justify the additional costs that are connected in entering a new market. The marketer should also be aware that if the market has a really good potential, it will invite competition from both foreign and domestic sources.

Generally there are three or four popular methods for forecasting sales potential. These methods are based on the grass-roots approach, continuation of trend, company sales records, sales of other products, and bench-mark data.

In the grass-roots approach the salesmen's estimates for the next year are the keystone for the sales forecast.

The continuation-of-trend method is based on the amount of change or percentage of change in sales during the past six months, the past year, or an average of the past three years. The sales forecast is therefore based upon the sales trend for some past period.
The company-sales-record method of forecasting sales uses the historical sales record to project future sales by territory or by product. This method is closely akin to the continuation-of-trend method. A considerable amount of judgment, educated or otherwise, is required to project future sales based upon past sales performance. Using this forecasting method, below-potential sales areas may never come to the attention of more aggressive sales strategy because the real sales potential goes undiscovered.

The sales-of-other-products method of sales forecasting uses the sales of automobiles, liquor, tobacco, real estate transfers, building permits, and construction. These data become available as a by-product of licensing, inspection or tax systems. If a product is thought to follow sales volume of any of these items on some given basis, market potential for the particular product can therefore be projected. The crux of this method is to find a valid correlation between the sales of two or more products.147

Bench-mark data such as the following can be quite useful in developing sales forecasts:

1. Population Statistics—Total population, geographical concentration, and distribution by age group, sex, and level of literacy will indicate the quality concentration and current responsiveness of the market and its future growth.

2. Extent of Industrialization—The trend toward greater industrialization almost always stimulates mass purchasing power by raising wage levels and thereby creating consumer product demand.

3. Utilities Expansion—Development of power facilities, expansion in road, rail and air traffic, and improvement in communication (especially radio and television) all point up increased economic activity, and therefore an expansion in market activity and growth. 148

4. Index of Sales Production—This index highlights those areas which account for disproportionately high or low sales volumes owing to the willingness or unwillingness of the consumer to spend its income. This index can be used to forecast sales volume and market potential.

5. Consumers-Expenditures Index—This is usually syndicated data available from private research organizations, but the U. S. Government has made some studies in this area. The Index sets forth consumer expenditure patterns for general classifications of various products on a regional basis. The Index can be used to forecast sales volume generally for those products falling within the general classification. 149

The global marketer will find it difficult to forecast the market potential for his product in foreign countries because of a lack of information required on which to base his forecast. The volume and variety of data and information available in this country far overshadows that which is available in most foreign countries. Consequently, the global marketer will be hard pressed to use some of the more reliable and valid methods for forecasting market potential.

The data available about foreign markets is conflicting and many times suspect as to validity. Statistical and research disciplines; as these relate to many overseas markets, are still in a state of flux and require more conformance to standardization and more correction in procedures before they can be used as firm indicators of market potential and growth.


149 Wolfe, op. cit., pp. 197-199.
In view of the foregoing, the U. S. marketer may find it difficult to determine the market potential for his product in many global markets. The marketer will have virtually no access to international trade associations in the U. S. There are virtually no industry associations in the various global markets. Among the hundreds of foreign entities that constitute the global market, there are very few "U. S. Departments of Commerce," and hardly any "Facts for Industry Series." In many global markets the marketer will find that a strong expression of opinion is still regarded as less fallible in determining marketing facts, such as market potential, than an approach developed through statistical analysis. In many global markets the U. S. marketer will be pioneering, and determining the market potential for a product will likewise be a pioneering effort.\(^{150}\)

When estimating market potential for a product, useful comparisons may at times be made with similar past development stages and income levels in other foreign markets. This comparison must be made with certain adjustment of data in order to reflect a variety of other influencing patterns such as climate, traditional consumption patterns, and income levels.\(^{151}\) Also, in a few countries, there are particular types of sales taxes upon certain products. In those countries, it is usually possible to learn the amount of tax paid by one of your competitors. With some interpolation this figure may give some idea of a competitor's over-all sales volume.

\(^{150}\) Deming, op. cit., pp. 98, 99.

\(^{151}\) Copulsky, op. cit., p. 107.
Probably one of the most popular methods to estimate market potential in a foreign market is the ratios already existing between older products in the U. S. and in the market in question. These ratios can be used to estimate market potential for new products, since by the time the product is ready for introduction into the foreign market, domestic sales trends of the product in the U. S. have already been established.152

The European consumer durables industry is now enjoying and should continue to enjoy large volume increases. The European consumer's income has been rising, and he has increased the proportion of his incremental income spent on durable goods from 10% to 25% in the last seven years (1953-1960). In fact the European is now spending as much of his total income on durables as the American—10%. The increased spending on domestic appliances and automobiles has caused the sales growth in these two industries to be 2½ times the average rate of the rest of European Industry. More refrigerators are now made in Europe than in the U. S.153

The U. S. marketer should keep in mind that the high rate of growth (market potential) does not necessarily make profitable market opportunities. Instead, dramatic growth rates in foreign markets have often obscured the dangers of low profitability and the difficulty of entering a particular seemingly profitable market. When determining the profitability and the potential of a particular foreign market,

152Rivinus, op. cit., p. 70.

the marketer should determine if the industry enjoys a wide or narrow operating margin. An industry with a tight operating margin usually has very little market potential to offer to the new market entrant, because the industry leader already has most of the market potential cornered. But an industry with a wide operating margin does offer a considerable market potential to the new market entrant. In Europe there are still many industries with wide operating margins which offer considerable market potential, and these industries are not only relatively easy to enter but are usually very profitable.154

In determining the market potential for a product, the unique characteristics of the consumer must be taken into consideration. For example, the market potential for beef products in India would be very small, since the cow is a sacred animal to most Indians.

In determining the market potential for their blades in the Greek market, Gillette Industries had to take into consideration that of the 2.5 million male shavers in Greece, 35% are shaved by barbers and the majority of the shavers shaved only once a week. On the average 19 blades per year were used per Greek male shaver. The characteristics of this market are quite different from the U. S. domestic market for blades.155

The Benelux consumer should be studied if marketing is contemplated in this particular area. He may be either Dutch or Belgian. Both


155 Gillette Industries Limited, Introductory Marketing Program—Greece, op. cit., p. 3.
consumers pay tremendous attention to what "other people" think, and this affects their purchasing of products. The average Belgian has been characterized as a "show-off" and "social climber" who uses his purchasing to show other people how important he is. The Belgian always attempts to buy the best, even though he can't afford to every time, and consequently has a strong tendency to purchase on extended credit.

The Dutchman is a conformist and takes every step to avoid being conspicuous. Unlike the Belgian, the Dutchman will accept the second-best, regardless of quality offered for the price, because it is not the "best" and thus cannot be criticized. Psychologically, the Belgian seeks conspicuous success and the Dutchman seeks conspicuous respectability.

Certain types of products are traditional specialities in Belgium and the Netherlands and are produced by firms regarded by the consumer as "national institutions." To the Belgian consumer, homemade soup and coffee are good examples; to the Dutch consumer, coffee, electrical appliances, and gasoline are regarded similarly. Similar products of foreign origin would probably meet with rather limited success with the Belgian and Dutch consumer.156

The Swiss consumer may either be German, French, or Italian. The Swiss people, particularly those from the German-speaking areas, tend to be rather conservative and their attitude toward new products borders on skepticism; but once their confidence in a product is established,

156 Dunn, op. cit., pp. 415-429.
they remain faithful customers. Those from the French- and Italian-speaking areas, on the other hand, tend to be more open-minded about new products but have a deep-rooted conservatism so far as everyday buying habits are concerned.\textsuperscript{157}

The Austrian consumer has a strong desire to live as economically as possible and is more impressed with the durability or economy of the product than with its fashion and style. The Austrian is highly quality conscious, even to the point of disliking poor-quality merchandise, although it may be inexpensive. A product for the Austrian market must have a real purpose and be of the highest quality in order to have any potential at all.\textsuperscript{158}

We have touched upon only a few global consumers to illustrate some of their different characteristics. These characteristics unique to each consumer must be identified and understood in order to properly evaluate the market potential for any particular product. The global marketer should be aware that almost any market will be comprised of consumers with unique characteristics.

Many countries are still on economic recovery plans. For example, France is just completing her fourth economic and social development plan. Such plans establish a time table for economic development and activity, and they also give the marketer some idea of the market potential for his product. In her fourth economic development plan, France anticipated gross national product to increase by 24.3% over the four-year period from 1962

\textsuperscript{157}Dunn, \textit{op. cit.}, pp. 442-444.

\textsuperscript{158}Dunn, \textit{op. cit.}, p. 472.
through 1964, and private consumption to increase by 23% and public consumption by 22%. Real income per capita was estimated to progress at an annual rate of 4.5% during this period. Armed with this kind of information, the marketer should be able to predict the market potential for his product.159

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CHAPTER V

ADDITIONAL VARIABLES IN THE GLOBAL MARKETING PLAN (UNCONTROLLABLE)

Foreign Exchange and the Monetary System

The foreign exchange and the national monetary systems of any country are important variables to any global marketing operation. The release of dollar exchange for local earnings may be strictly controlled in some areas and loosely controlled in others.

Provisions relating to the repatriation of capital, as well as those relating to remittance of dividends, interest, and other types of income, should be examined by the U. S. marketer. A fluctuating foreign exchange and an unstable monetary system can result in loss of dollar profits and investment value to the U. S. marketer due to currency depreciation or inflation and the weakening of exchange rates.160

Foreign Exchange

In global marketing the U. S. marketer will expect to eventually receive dollars for his products. He may export his products into the foreign market or manufacture them locally, but he expects the net result to be in the form of U. S. dollar profits. To receive U. S. dollars,

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the marketer will be required to buy the dollars with the foreign currency he has earned through his marketing efforts. Foreign exchange rates between any two countries are the prices at which the currency of one of these countries will sell in the currency of the other. The U. S. marketer will be interested primarily in the actual rates of exchange between his country and specific foreign countries in which he is marketing his products. 161

Foreign Exchange Restrictions

An exchange restriction implies that the government of a country undertakes to restrict the uses to which the available supply of exchange (currency) shall be put. Foreign exchange is allocated by the government for payment of import bills, interest, and other specific purposes. The U. S. marketer should investigate the foreign exchange restrictions of a global market because the restrictions can have a direct bearing on availability of dollars for remittances to the parent country. Restrictions determine the purposes for which exchange may be used and the rate at which such uses may be satisfied. Usually, favorable rates are quoted for essential products, and in some countries high rates or no exchange at all are quoted for luxury items. 162

Some of the more popular business jurisdictions—Switzerland and Panama—maintain no exchange restrictions and have currencies that are very stable in relation to the U. S. Dollar. In Liberia the dollar is

the official currency. Bermuda and the Bahamas maintain exchange controls over sterling accounts but do not impede dollar and other hard currency transactions.163

Blocked accounts are an exchange restriction which usually represent national funds for which no official exchange rate is allocated or for which none is available. Blocked accounts may comprise import or other commercial payments, interest, and other payments that were owing prior to the restrictions, or represent import transactions in excess of allotted official exchange for which no free exchange market is available.164

The Monetary System and Currency Control

Stability of the monetary system and the value of national currency should receive prime consideration from the global marketer. Currency devaluation remains one of the most serious risks for the global businessman. Recently currency devaluations have occurred in Canada, Argentina, Brazil, Venezuela, the Philippines, Ecuador, Chile, Costa Rica, and Egypt. Devaluations are likely to occur again in these and other global markets. Impending currency devaluation can be determined sometimes by watching the degree of government intervention to protect the exchange rate and by watching the stability of the government itself. Usually when the stability of a government is threatened, the first inroad is on the value of the currency.165

163Lovell, op. cit., p. 43.

164Kramer, op. cit., p. 620.

Currency control as exercised by the foreign government requires the attention of the U. S. marketer. Loss of investment value or profits due to currency inflation or depreciation represents a significant risk in many global markets. Countries such as France and Britain have suffered currency devaluation and foreign exchange adjustments. When such adjustments are made, profits earned in local currency are usually reduced when they are converted for transfer. For example, the American Drug Corporation was faced with the problem of collecting $300,000 in overdue bills from Colombian importers. The devaluation of the Colombian Peso had made foreign exchange unavailable from the Colombian Government for payment of amounts due American Drug Corporation. The devaluation of the Colombian Peso was causing the Colombian importer to pay more in Colombian currency for American drug products. In order for the importer to make a profit, he was being forced to raise his domestic sales prices on American drug products, thereby forcing them out of competitive pricing and making it even more difficult to pay the $300,000 in overdue bills to American Drug. 166

Andrew Bacon and Company was faced with the problem of supplying working capital to its Colombian subsidiary, Bacon Colombia Limitada. Andrew Bacon and Company was reluctant to provide the capital since such funds are often blocked when they are to be returned by the subsidiary. On previous loans from the Andrew Bacon Co., Bacon Colombia had incurred considerable loss resulting from devaluation of the Colombian Peso.

166 American Drug Corporation, Foreign Exchange Dealings with Colombia, op. cit., pp. 6, 7.
On a 650,000 pesos ($90,000) loan, Bacon Colombia was required to repay 731,000 pesos due to the devaluation of the peso. Upon repayment, the original 650,000 peso loan was worth only $80,000 based upon the value of depreciated peso.\footnote{Baccolli (Colombia), \textit{op. cit.}, pp. 1-4.}

In some currency adjustments transfer of profits (funds) may be restricted or controlled by local government intervention. This is demonstrated by the American Drug Company and Andrew Bacon and Company cases cited in the foregoing.

A recent example of currency depreciation is the case of the possible devaluation of the British Pound. To hedge against possible dollar losses, U. S. firms operating in the United Kingdom were reducing their pound balances to a minimum by purchasing excessive inventory or by plunging into the foreign exchange market buying a specified amount of dollars for future delivery.\footnote{"Hedging the Pound, U. S. Firms take Steps to Hold Down Losses if the British Devalue," \textit{Wall Street Journal}, (Friday, July 9, 1965), p. 1, Column 2.}

\textbf{Balance of Payments}

The balance of payment statement of any country is a systematic record of all economic transactions completed between its residents and residents of the rest of the World during a given period of time. The balance of payments statement provides a summary of numerous and varied economic dealings—the country's total payments for merchandise and services purchased abroad, the total receipts from foreign sales of
merchandise and services, and the total amounts loaned and borrowed.\textsuperscript{169} By studying the balance of payment statement the U. S. marketer can acquire a better understanding of a country's overall economic position.

A careful analysis of a nation's balance of payment statement can reveal the current business trend for that particular nation. The international flow of gold and other items in the balance of payment statement affects price levels, and the amount of debit and credit items indicate in a general way the ability of the foreign customer to purchase goods and to pay their outstanding obligations. A balance of payment analysis for any particular country will show whether or not a country is paying its way internationally—whether it is borrowing or lending money, whether its currency is becoming weak or stronger, and how effective are its monetary and exchange control policies.

There are certain limitations to the balance of payment statement. First, the balance of payment statement is not always current because it is an inventory of historical transactions, and there is considerable delay between actual event and statement publication. Second, a nation's creditor-debtor status is shown jointly with respect to all other countries rather than in terms of pairs of countries. Thus a nation may show a healthy credit trade balance; but if a major share of its exports go to a soft-currency country like Argentina, for example, and its imports are sought from the U. S., it may actually be undergoing considerable economic strain. Third, the balance of payments statement provides only the most

general summary figures. The reasons underlying changes in the data must be sought elsewhere. Fourth, it takes a skilled analyst to interpret effectively a balance of payment statement. 170

Since the balance of payment statement can reveal important facts regarding a nation's economy, such as an existence of adequate foreign exchange for the transfer of funds (profits), which can be influential to the success or failure of a foreign marketing program, the global marketer should avail himself of an accurate analysis of a nation's balance of payment situation.

Government Regulations

Whether the marketer plans to export his product into the foreign market or locate production facilities and market the output locally, the marketer must consider the regulations and restrictions imposed by the foreign government.

In many countries an outside businessman is not permitted to engage in business at all until he has obtained permission from several government agencies.

Foreign governments impose restrictive tariffs and arbitrary import quotas, establish anti-dumping duties and many other regulations in an attempt to regulate foreign business activity. An illustration of close government regulation is Japan. When the U. S. marketer goes to Japan to establish marketing activities, he is ever aware of the invisible presence of a third party—the Japanese MITI, the Ministry of

170 Horn and Gomez, op. cit., pp. 280, 281.
International Trade and Industry. In recent years MITI has progressively increased its restrictions to a point where "validation" of capital investments and royalty or license agreements, under which profits and capital would be returned to the parent country, have been either impossible to achieve in some cases or if granted, have been obtained only after many months or years of extensive negotiation in Tokyo.  

Tariffs and Import Quotas

Tariffs are a form of tax paid for the privilege of exporting into a foreign market. Import quotas are usually established to restrict quantitatively the importation of goods. These two restrictions are adverse to importation; their purpose is to discourage or shut out imports.

Quotas are simply specific provisions limiting the quantity of foreign products that can be imported into a specific country. Absolute quotas limit absolutely the amount of product that can be imported. Tariff quotas permit importation of limited quantities of certain products at low rates of duty, with any amount in excess subject to a substantially higher rate.

The influence of tariffs and quotas on global marketing can be amply demonstrated by the Common Market policy on tariffs and quotas. Import tariffs between member states are expected to be eliminated by 1970 or 1972. Against non-member states a common external tariff will

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be introduced which will probably amount to 3% of the import value for raw materials, 10% for semi-manufactured goods, and 10% to 30% for manufactured goods (automobiles—29%, packaged foodstuffs—25%, tobacco—30%, electrical appliances—10% to 19%, and clothing—22%). Marketers producing within the Common Market will enjoy an advantage against competitors exporting into the Common Market. Marketers outside the Common Market area will suffer a price disadvantage if the import tariff difference is not absorbed by them in pricing their product. If prices are reduced to compete with products produced within the Common Market area and the tariff is absorbed as an expense, the margin of profit is narrowed considerably for the export marketer. Producers in the Common Market suffer no reduction in profit margins; and if they use tariff reductions for lowering prices, they will probably increase their sales as against the marketers outside the Common Market area. The import tariff can only mean a deterioration in the competitive position of the marketer who wishes to export into the Common Market area. Quantitative quotas between the member states will also be eliminated and established externally on the basis of the ability of producers within the Common Market to satisfy market demand. If there is ample production to satisfy demand, quotas for imports may be very small or completely blocked. Even though the U. S. marketer has a product that can effectively compete within the Common Market area, it may not be given the chance to compete.

As a further example of the importance of tariffs on global marketing, the Common Market external anticipated tariff of 12% on sewing machines will close the Common Market area to Keiller Machine Company’s Manchester, England plant, even though its production costs are 10% lower than those of its Common Market plants. This will force Keiller Machine to increase production in their Common Market plants in order to retain their share of the sewing machine market in that area.\textsuperscript{174}

The Gillette Industries Limited suffered a decline of approximately 65% in their blade sales in Greece when the Greek Government placed a heavy tariff duty on imported razor blades. Gillette passed this tariff duty on to the consumer by raising the price of their blades approximately 45%. This tariff duty was imposed to protect the local blade producers, such as the Astory Company, whose share of the Greek blade market increased from 35% to 75%.\textsuperscript{175}

\textbf{U. S. Government}

U. S. Government regulations are established to control and regulate exportation of goods from the U. S. The Federal Trade Commission Act prohibits unfair methods of competition in export trade. Unfair methods include use of misleading labels, misrepresentation, full-line forcing, and unfair discounts.\textsuperscript{176}


\textsuperscript{175}\textit{Gillette Industries Limited}, \textit{Introductory Marketing Program--Greece}, \textit{op. cit.}, pp. 1, 2.

\textsuperscript{176}\textit{Kramer, op. cit.}, p. 327.
Anti-Dumping Duties

Almost all countries have anti-dumping duties to discourage the dumping of unwanted or unsaleable products from the various domestic markets of the World. These duties especially apply to products which would be competitive to nationally produced products. The anti-dumping duties are to protect national production from unfair price competition and to prohibit the entrance of unwanted products into the market.

Limitation on Foreign Investments and Ownership Requirements

Most under-developed or unindustrialized countries of the World welcome foreign investments in any form and place little or no restrictions on ownership requirements. But as the country becomes more developed and more industrialized, this attitude changes, placing more and more restrictions upon foreign investment and ownership requirements. Nationalistic tendencies start to set in and influence the attitude toward foreign participation in the country.

The Common Market countries have varying attitudes toward foreign investment. France for example, does not welcome foreign investment, especially investment from U. S. firms. Italy, on the other hand, welcomes foreign investment and especially that from U. S. firms. West Germany takes the position that foreign investment is welcome as long as national funds are not available for investment or a technological advancement is being made or that it reinforces, but does not necessarily compete with, a national industry.\textsuperscript{177}

\textsuperscript{177}Smith, \textit{op. cit.}, pp. 228, 230.
In some LAFTA Countries there are severe restrictions on foreign investments in certain activities; in others the restrictions are so moderate that they have almost no effect upon foreign investment. The oil industry is probably subject to the most stringent controls. In Brazil, Chile, Mexico, and Uruguay oil prospecting and production are completely in the control of the national government.\textsuperscript{178}

In Mexico there are several industries and activities which are legally required to have 51\% national control. This is the case, for example, in the bottling of fruit juices, manufacturing of car tires, and the distribution of mineral waters and other non-alcoholic beverages. Mexico also has the so-called "doctrine of industrial saturation" wherein new investments are forbidden in those industries in which, in the government's opinion, there is already sufficient productive activity. Some of these industries so considered are rayon, phosphorous, flour, cigarettes, and rubber.\textsuperscript{179}

Most LAFTA countries are in favor of foreign investments as long as they aid in the economic development process of the country and reinforce, but not compete directly with, national industry.\textsuperscript{180}

International Commodity Agreements

These agreements are made to establish prices and import and export quotas on various items of international trade. International

\textsuperscript{178}Economic Integration in Latin America and the Prospects for Foreign Investments, op. cit., p. 19.

\textsuperscript{179}Ibid., pp. 19, 20.

\textsuperscript{180}Economic Integration in Latin America, and the Prospects for Foreign Investment, op. cit., p. 14.
commodity agreements are usually established on raw materials or primary products. The agreements are usually between the industrialized and the primary-products-producing countries of the World. There are formal agreements in effect on wheat, coffee, sugar, tin, and petroleum. There are proposals for agreements on cocoa, cotton, lead, and zinc.\textsuperscript{131}

The U. S. marketer planning to enter global marketing of his product should determine whether or not his product is regulated by international commodity agreements. Most likely this will not be the case as the agreements are in effect on just a few products.\textsuperscript{132}

**Trade Agreement Areas**

There are several trade agreement areas in the World today. Each should be investigated by the marketer to see how the trade agreements may effect his products. In many cases the trade agreement areas will offer certain restrictions to importation of products through the use of high tariff rates or import quotas. The U. S. marketer must consider the effect that these trade agreement areas may have upon his marketing activity, especially if he intends to export into them. Import tariffs may very well drive the price of the product upward, and the product itself may be unpopular because of loyalties developed or established for products produced within the particular agreement area. The better known trade agreement areas are:

\textsuperscript{131}International Commodity Agreements, (Lausanne, Switzerland, L'Institut pour l'Etude des Methodes de Direction de l'Enterprise, ICH 76144, IB-13, 1962).

\textsuperscript{132}Kramer, *op. cit.*, pp. 346-348.
1. **Common Market Countries or European Economic Community**—Made up of Belgium, the Netherlands, Luxembourg, West Germany, France, and Italy. (Inner six countries)

2. **European Free Trade Area**—Made up of Austria, Switzerland, Portugal, Denmark, Norway, Sweden, and Finland. (Outer seven countries)

3. **Latin American Free Trade Area**—Made up of Brazil, Colombia, Argentina, Chile, Mexico, Paraguay, Peru, Uruguay, and Ecuador.

4. **Central American Free Trade Area**—Made up of Guatemala, Honduras, El Salvador, Costa Rica, and Nicaragua.

**Common Market**

The Common Market is the most powerful and influential of the trade agreement areas. As it removes internal tariffs and other trade barriers and erects a single uniform tariff structure upon imports entering any member countries from outside the Common Market area, the U. S. marketer should be prepared to accept some deterioration in his European market position. The market decline may be substantial for chemicals, textiles, glass products, optical and photographic equipment, electronic equipment, electrical machinery, and general-purpose machine tools. With high tariff rates on imports, foreign-made products may not be very marketable. The U. S. marketer should then consider establishing production facilities within the Common Market area. The Common Market already has a protectionist agricultural tariff which greatly reduces the importation of wheat, fruits, vegetables, poultry, and certain dairy products. In the future the only duty-free imports will probably be those products which are in short supply—for example, cotton, coal, aluminum,
copper alloys, and iron and steel scrap.\textsuperscript{183}

Consequently, the Common Market presents a formidable marketing obstacle for the U. S. marketer planning to export into the Common Market area. His marketing strategy, particularly in the area of pricing and profit expectation, should compensate for the protectionist philosophy of the Common Market. For this reason, if the U. S. marketer is seriously considering the Common Market for his product, he should also consider the advantages of producing the product within the Common Market area.\textsuperscript{184}

\textit{The European Free Trade Association (EFTA)}

EFTA is probably second in importance and influence to the European Economic Community, or the Common Market. The EFTA member countries propose to remove trade barriers (tariffs, quotas, etc.) on industrial products from among themselves, but to retain their individual tariff regimes as they apply to outside countries.

Tariff reductions on industrial products among the member countries will follow the same schedule as in the Common Market, with the hope that there may be an association between the two groups.

Tariffs on industrial goods should be eliminated over a ten-year period. The EFTA treaty also includes various proposals for the exchange of


\textsuperscript{184} Georg Fischer Company, \textit{op. cit.}, pp. 4-9.
agricultural and fishery products among the member countries.\textsuperscript{185}

In the near future the European Free Trade Association will probably present as formidable a marketing obstacle to the global marketer as does the Common Market.

**The Latin American Free Trade Association (LAFTA)**

The Latin American Common Market is grounded on the expectation that an enlarged regional market will hasten economic development by stimulating the establishment of new industries and by more effective use of natural resources. The Common Market is expected to bring about a relative decline in imports from outside Latin America. The integration of the Latin American economies will bring about additional interchange of goods between the member countries and increased industrialization within LAFTA itself.

The terms of LAFTA are applicable to most of the trade within the area or among the member countries and provides for gradual elimination of all tariffs, charges, and restrictions as may be applied to imports of goods originating in the territory of any member country. This is to be accomplished within a twelve-year period starting June, 1961.

Although internal tariffs between member nations will be reduced, there is no plan to erect a uniform tariff structure on imports; but instead member nations individually can place any restrictions they wish upon imports from outside the trade agreement area.\textsuperscript{186}

\textsuperscript{185}DeWhurst, Copcock, and Yates, \textit{op. cit.}, pp. 319, 320.

\textsuperscript{186}Economic Integration in Latin America and the Prospects for Foreign Investments, \textit{op. cit.}, pp. 4-9.
LAFTA will grow in importance in the future and therefore will require investigation by the global marketer who plans to market in the area.

The Central American Free Trade Association (CAFTA)

CAFTA has been established for many of the same principles and advantages for which LAFTA was established. CAFTA is not as developed and has not attained as much importance as LAFTA. CAFTA is still attempting to enlarge its membership by bringing Costa Rica and Panama into the Association. CAFTA has been working on customs nomenclature and other tariff machinery which differs quite widely from that contemplated by LAFTA.137

The U. S. marketer planning to market his product in the CAFTA area in the future should investigate the changing conditions in this area.

137 Economic Integration in Latin America and the Prospects for Foreign Investment, op. cit., p. 26.
CHAPTER VI

SUMMARY AND CONCLUSIONS

Summary

We will not go into any detail regarding the domestic marketing plan, as most all aspects of the plan are well known to the U.S. marketer.

The global marketing plan contains all of the marketing variables of the domestic plan, plus some additional variables that are not applicable to the domestic plan.

The global marketing plan boundary-limitation variables (corporate marketing objectives and corporate contributions) are comparable to the domestic plan variables, adjusted to reflect the changed variables of the global marketing plan.

The marketing-mix variables are adjusted to reflect the new environment of the global market. The product is modified to fulfill the requirements of the new market. The pricing of the product attracts the intended consumer and offers effective resistance to the national and other foreign-made products. Distribution channel practices vary from country to country, and the distribution plan for each global market should reflect the most successful and effective method for moving the product to the consumer. The communication variable is adjusted to reflect the changed environment and the established techniques for advertising, personal selling, and sales promotion for the particular
global market. A public relations program is established to acquaint people with the product and the manufacturer, and product servicing is established at a sufficient level to promote sales and acceptance of the product.

The ecological variables of the global plan influence the complexion of global marketing-mix variables and the extent of adjustment required from the U. S. domestic plan. In addition the ecological variables also determine and identify those additional variables—or regulator variables as we shall call them, as they usually result or are based upon government regulations—that will have an impact upon the marketing function. The impact of the regulator variables upon the marketing function is also influenced by whether or not the U. S. marketer exports into or produces his product locally for the foreign market.

Conclusions

In pondering the global marketing plan, the U. S. marketer will soon discover that the most influential factor to consider when changing from a domestic-oriented marketing plan to a global plan is environment. Environment is the common denominator affecting all of the variables in the formulation of any global marketing plan.

The global marketing plan is significantly influenced by the nature and extent of its total environment. The effectiveness and success of any global marketing plan will depend upon how well the plan is formulated to compensate for the changing environment of the various global markets. A market plan formulated for the Japanese market will require certain adjustment for the Western European market.
Therefore, the U. S. marketer cannot simply take his domestic plan for the U. S. market and use it to market his product in any other global market. The marketing-mix variables must be adjusted to reflect the conditions of the new environment. In addition, the new environment requires consideration of additional or regulator variables (tariffs, foreign exchange rates, repatriation of profits, import quotas, currency control, trade agreement areas, trade barriers, etc.) usually not applicable to the domestic marketing plan. The impact and importance of the regulator variables depends upon the particular global market.

The various environments in which the global marketing plan must function vary greatly among different countries, especially between underdeveloped and advanced nations, and between nations of the Orient and those of Western Europe. Therefore, the global plan has to be specifically tailored for each global market. The U. S. marketer need only take an inventory of the ecological (environment) variables of any global market to realize what adjustments are necessary to his domestic plan, and depending upon whether or not he exports his product or produces it locally, what regulator variables should also be considered for their impact upon his marketing function. The ecological variables reflect the total environmental parameters within which the marketing plan must function. In effect the ecological variables act as restraints which establish curbs or limitations within which the marketing plan must function.
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