

Strategic Marketing Management

Lecture 11 – Managing Global Operations

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Lecture Learning Objectives:

At the end of the lecture, you will be able to:

1. Discuss the theory of comparative advantage which has infused motivation for internationalization.
2. Draw risks and opportunities plan that organization may opt to use as guide prior to their entry in the foreign market; and
3. Understand the essential elements in marketing products or services in a global scale.
4. Explain what motivates a person to engage in internationalization or foreign market
5. Discuss the risks in entering a foreign market

Growth in business operation is one of the most profound aspirations of every organization. **Profit organizations**, being the principal agent towards the promotion of quality living and the government's cohort in carrying out development plans and programs for its citizens, are obligated to fulfil their primary corporate social responsibility- that is to remain profitable and economically stable since their presence directly or even indirectly impacts various lives, especially their employees. This obligation will be fulfilled if they are in the continuous quest for growth not only in the local market but also seeking larger opportunities in the global arena. This lecture holds discussion about the rationale and the primary purpose of an organization to go global as well as possible risks in managing growth of global brands.

Theory of Comparative Advantage

The theory of comparative advantage can be connected on the premise of some experts in global marketing which states that no single nation produces everything that its people need; and since no nation inhabits an economic vacuum, all economic activities within them are in one or another are linked and could be influenced by the economic state of other nations. **Comparative advantage** is a condition when a country is experiencing superiority in their production of goods or services than other countries. Their superiority may be brought by too many **factors such as** economies of scale, technology, innovation and the like leading to a much lower opportunity cost. This is when trade off becomes the smartest and strategic decision by other countries. Let us take **for instance** the ballooning percentage of BPO (Business Process Outsourcing) industry in the Philippines. Other countries had put up their physical office in the Philippines because aside from the quality and promising competence of Filipino workforce, the labor cost in our country is quite cheaper compared to putting a BPO in their own country. On the other hand, our country may have the best working group in the world, yet we are meager when it comes to oil production compared to the abundance of it in the Middle East.

The scenarios cited above indeed could stimulate the trade-off. In the real sense, countries that enjoy the state of being comparatively advantageous over other countries in one particular economic aspect may not experience superiority in all aspects of their economic being. They too may have sets of limitations and even inferiority in terms of other craftsmanship which their other trading country-partners may be good at. And since the general welfare of the citizens is the prime duty of every state government, their political leaders should create ways on how their citizens continue living the quality lives they deserve, by encouraging the business sector to engage into

global trading off. In so doing, the citizens could enjoy products and services, which are not available in their own home country but are being enjoyed by other races in other parts of the world.

Motivations for Internationalization

Diversifying in a much bigger geographical area for a company is a very challenging attempt. But since the advent of globalization, freer trade, commercial agreements in various forms involving different countries, zero to less tariff rates, better labor agreements and many more have encouraged several businesses to test the water and widen their horizons. Aside from government support and movement towards the development of more Exporters from the Philippines, businesses themselves have several motivating factors for internationalization.

First, they are motivated because of the lucrative market that the foreign land offers. As the Philippine market becomes saturated by competing industry players and the new entrants, the firm's strategic decision in order to sustain their competitive advantage, would be to go global. Developing a market outside their usual territory may increase the possibility of maximizing their sales revenue. This could be a win- win proposition for the company since there may be none or lesser competitions abroad and the market growth and opportunities may be bigger. **For instance**, Sony, a Japanese multinational conglomerate founded in 1946 was not designed to be marketed in the very limited areas of Japan alone; well, its founders had dreamt and thought of building an international brand by making all Sony products available in every continent and all parts of the world.

Second, when companies expand geographically outside their homeland, they have the advantage of economies of scale allowing the firm to economize various administrative costs such as labor, other resources, logistics, distribution networks and the like. Apple, an American multinational technology company and one of the biggest in the field, have taken advantage of the economics of scale when they decided to manufacture iPhones in China. China, being a great source of competent but cheaper manpower costs, had become a lucrative place to do business with nowadays.

Third motivation to internationalize the firm's operation is the firm's chance of gaining access to technological innovations that are being developed in other countries. Your home country may lack innovative mechanisms in making products that are modern and sleek, then entering in a foreign territory will give the company the license and the avenue to replicate contemporary business practices being observed in that particular country. Rather than acquiring the technology and bringing them to your place which will require the company to succumb to stringent laws on taxes and other requirements, it would be cost-efficient to operate using the technology in the country of origin.

Lastly, entering into global operations allows the company to diversify, not only their products or services, but also to diversify possible market risks which may include market saturation in the home market, rapid changes in consumer buying behavior which disturbs market trends, economic and environmental condition, legal challenges and a lot more. Hence, instead of placing their "eggs" in one basket, company may opt to strategically place them in areas where they could remain strong, competitive and improve their market position.

Risks in Entering Foreign Market

Crossing different geographical borders may cause organization to face various uncertainties and higher degree of risks-considering the political, economic, social, technology, environmental and legal aspects. This method is referred to as **PESTEL analysis** which was discussed at the earlier part of this lecture. **Managers** are then tasked to take a clear understanding about these factors in order to make the situation rather manageable than cumbersome. In the book of Paul Peter and Donnelly, they pointed out some problems that could be expected when entering foreign markets:

1. **Cultural Differences.** This concern may appear simpler yet may pose serious problem as cultural values and priorities are strong determinants in the purchasing behavior and decision of consumer. Due recognition of these factors should be done in order to match all product campaigns and promotions to the specific demands of the foreign market. **For instance, Philips**, another multinational conglomerate company and considered among the biggest in the electronics industries, started doing well in profit in Japan market when they have redesigned their products, by reducing the sizes of their coffeemakers and shavers, as Japanese people have fondness and preference for tiny stuff as deeply rooted in their religious beliefs.
2. **Political Uncertainties.** Public order and equitable trade legislation are to be reckoned by the management before getting into a new market. The market may offer lucrative opportunities for higher sales revenue, yet social unrest and armed conflicts are relentless, then there should not have even a tinge of venture initiatives in the place.
3. **Trade Restrictions.** Tariff, being levied on commodities that enter and leave their home market; and quantitative restrictions in the form of quota which is imposed by a country on the volume and kind of goods that are allowed to enter and leave their country are trade regulations agreed upon by different state leaders yet may hamper the efficient system of global business. Though, these remain the consistent agenda in various bilateral and multilateral commercial agreement aiming to moderate roadblocks to doing business in the global market.
4. **Economic Conditions.** An in-depth analysis about the economic development of a particular state should be the primary agenda of managers since the economic condition of a certain country has direct impact on the production volume, the purchasing power of its populace, employment rate and the strength of their currency. These are attractive situations which may spell a profitable business endeavor.

Elements of Marketing in the Global Operations

Every multinational venture should be grounded in the careful study and analysis of various factors as mentioned earlier to subdue possible business risks and place company's resources in maximum utility. This part presents essential elements in the marketing mix which could be enhanced further to conform to the demand of a more complex market segment.

1. **Marketing research.** Marketing intelligence is an important asset of a firm. It is composed of various data sets which a firm could use in analyzing the market before starting with any investment endeavor. It is related to studying about the population characteristics including the spending habits of consumers, their likelihood to patronizing your product or

services, market and government regulations, available technology and infrastructure facilities, quality of the labor pool, etc. Marketing intelligence led to strategic decisions and defined the quality of organizational performance.

2. **Product Strategy.** The characteristics of the foreign market are not as predictable as it is like that of a domestic market. Companies most likely have to attend to the complexities of their demands center around cultural diversities. Hence, managers must do their assignment by conducting extensive product planning before entering to the foreign market. Product-related features should be examined whether the company should adapt local features of domestic product in the international market. Another important consideration is the product labelling, branding and packaging requirements of the foreign consumers, especially the issue on language barriers.
3. **Distribution Strategy.** In the domestic market, companies rely heavily in the services of independent intermediaries where some of them take ownership and title of the goods they carry while others merely assist in the **physical storage** and **distribution of products** to other major distributive arteries without taking ownership and title thereof. These two types of intermediaries assure steady to increasing sales revenue. Manufacturers may opt to take full control over the global distribution networks by becoming the foreign agent or simply speaking they become less dependent to marketing intermediaries; instead opt to give focus on being hands- on in market analysis and development. And as their foreign branch expands in operation, they may take an incremental approach in developing their distribution networks.
4. **Pricing Strategy.** This is another determinant not only for consumer acceptance but also the amount of resiliency that companies are willing to yield without hurting much their profit projections. Pricing in the global market is far more complex than it is in the domestic market. Companies are bombarded with an increase in their administrative costs brought by tariffs, taxes, inflation, currency, etc. and these places them in a dilemma of whether transferring the cost of import duties to foreign consumers or be shouldered all by the firm. Another scenario is the price structure of commodities in the foreign market since most foreign companies are not sale volume driven hence price reduction schemes are not a priority in their product promotions.

Generally speaking, companies aiming to operate in the global market may consider the common pricing approaches such as:

- a. **cost-based** approach or gross margin pricing that focus entirely in the company's perspective such as producing desirable profit
 - b. **demand-oriented** is a pricing approach fitted to an extremely competitive environment and that the company may use this method as their strategic advantage.
 - c. **value-based** approach which is entirely focused on the perspective of consumers.
5. **Advertising and Sales Promotion Strategy.** According to the report of Forbes Business Development Council, the most innovative marketing strategies that companies may pursue during this recent time are guerrilla marketing, holistic marketing agencies and

social media marketing and influencers. **Guerilla marketing** is the audacious approach to low-cost or zero advertising or promotion expense through the use of unconventional consumer interactions.

Further, marketing agencies can work closely with a company's project, since they have the system and the expertise to do so, their services are quite indispensable in market development. Finally, social media with its group of online influencers can help the company in terms of content marketing by focusing on the brand story that will infiltrate in the lives of every target consumer.

Summary

No single nation produces everything that its people need nor inhabit in an economic vacuum. To improve a country's economic state, its leaders should learn to accept its limitation and start to open its borders for the bountiful opportunities that the global industry offers for everyone. Thinking through about the welfare and common good of every citizen, globalization and freer trade were intensified. Another reason that has heightened global trade is the concept on comparative advantage. It is a condition when a country is experiencing superiority in their production of goods or services than other countries. Their superiority may be brought by too many factors such as economies of scale, technology, innovation and the like leading to a much lower opportunity cost. This is when trade off becomes the smartest and strategic decision by other countries.

Globalization and the agreement of world leaders for a freer trade amongst had resulted to a more stiffened competitive environment. This had prompted many businesses to diversify not only in their product offerings but also in their geographical reach. Entering in the global marketing offer companies' lucrative opportunities to improve their revenue and market position though the venture is quite risky and challenging triggered by factors like political, economic, legal, social, technology and environmental aspects that may hamper the efficient flow of global business operation. Yet the marketing mix, applied in the domestic market by experts and business specialists is also the same strategic mix that can be adapted in the international arena though more enhanced or modified because of a more complex market segment. The essential marketing **mix elements for any global venture include:** 1) marketing research; 2) product strategy; 3) distribution strategy; 4) pricing strategy; and 5) advertising and sales promotion strategy.

Textbooks:

Strategic Marketing Management, Naval, Girly H. Mind shapers Co, Inc.
2021

Strategic Marketing Management: The Framework, Chernev, Alexander
Cerebellum Press 2019