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Global Marketing, 11e **(Green/Keegan)**
Chapter 1 Introduction to Global Marketing

1) What is the goal of a firm that pursues a global market development strategy?
A) Creating new product offerings in a new country
B) Seeking new customers in a geographical market
C) Creating new niche markets in each country they serve
D) Creating new products for a new country
Answer: B
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

2) In which way does Starbucks exemplify the implementation of growth strategies in its global markets when the company offers drinks to non-coffee drinkers and introduces new flavors?
A) Market development
B) Diversification
C) Market penetration
D) Product development
Answer: D
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

3) Why did Starbucks drop the word "coffee" from its logo after acquiring Evolution Fresh and Teavana Holdings?
A) To indicate standardization
B) To indicate adaptation
C) To indicate diversification
D) To indicate automation
Answer: C
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

4) How could McDonald's use product development to expand into India?
A) Offer meals and drinks in multiple sizes.
B) Offer a loyalty program for frequent diners.
C) Increase the number of outlets.
D) Offer a vegetarian burger.
Answer: D
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

5) Which of the following is a fundamental difference between regular marketing and global marketing?
A) The lack of marketing mix
B) The scope of activities
C) The lack of strategic planning
D) The focus on resources
Answer: B
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

6) When a company wants to expand into new markets with existing products, which growth strategy should they use?
A) Market development
B) Product development
C) Diversification
D) Market penetration
Answer: A
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

7) Companies doing business in global markets must take extra care to protect knockoffs.
Answer: TRUE
Diff: 1
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

8) Four decades ago, the phrase *global marketing* did not exist.
Answer: TRUE
Diff: 1
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

9) A critical reason why companies need to take global marketing seriously is survival.
Answer: TRUE
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

10) A fundamental difference between regular marketing and global marketing is the scope of activities.
Answer: TRUE
Diff: 1
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

11) Starbucks offers a loyalty card and rewards program in the United States with an app that displays a bar code that can be scanned by the customer. This is an example of market development.
Answer: FALSE
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Analytical thinking

12) If Nestlé decides not to market biscuits (cookies) in the United States due to competitive reasons, it is considered to have a lack of strategic focus and missed opportunity.
Answer: FALSE
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Analytical thinking

13) What is "global marketing" and how does it differ from "regular marketing"? Give examples of at least one major corporation that explains these differences.
Answer: Marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers. An organization that engages in global marketing focuses its resources and competencies on global market opportunities and threats. A fundamental difference between "regular marketing" and "global marketing" is the scope of activities. A company that engages in global marketing conducts important business activities outside the home-country market. For example, as Walmart expands into Guatemala and other Central America countries, it is implementing a market development strategy.
Diff: 2
Chapter LO: 1.1: Use the product/market growth matrix to explain the various ways a company can expand globally.
AACSB: Application of knowledge

14) The essence of marketing worldwide is to surpass the competition in creating perceived value, which can be represented by which formula?
A) Value = Price/Benefits
B) Value = Benefits/Price
C) Value = Benefits × Price
D) Value = Benefits - Price
Answer: B
Diff: 3
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Analytical thinking

15) How are the sets of activities and processes, along with product design, manufacturing, and transportation, described?
A) As the firm's competitive advantage
B) As the firm's value chain
C) As the firm's marketing strategy
D) As the firm's value equation
Answer: B
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

16) How do firms create competitive advantage in an industry?
A) By keeping costs low while improving the product itself
B) By targeting people who are willing and able to buy
C) By creating more value for customers than competitors do
D) By transforming national industries into global ones
Answer: C
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

17) Why is the marketing mix integral to the value equation?
A) Benefits include the product, promotion, and distribution.
B) Benefits establish the ability to surpass competition.
C) Benefits have to be significant if the firm is to go global.
D) Benefits determine the marketing strategy for a brand.
Answer: A
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

18) Which of the following would allow a company to use price as a competitive weapon and offer lower prices than competitors?
A) A niche market is rapidly expanding.
B) There are very few competitors in the market.
C) People in the market are willing and able to buy.
D) Economies of scale are achieved.
Answer: D
Diff: 3
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

19) What is required of managers to achieve competitive advantage in a global industry?
A) A well-defined strategic focus
B) Alliances between suppliers and manufacturers
C) Producing the best value at the lowest price possible
D) The establishment of a value chain
Answer: A
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

20) Starbucks entered India via an alliance with the Tata Group. This is an example of "market penetration."
Answer: FALSE
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Analytical thinking

21) An industry is global to the extent that a company's industry position in one country is interdependent with its industry position in other countries.
Answer: TRUE
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Analytical thinking

22) The essence of marketing is to surpass the competition at the task of creating perceived value.
Answer: TRUE
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

23) The value equation is represented as Value = Price/Benefits.
Answer: FALSE
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

24) One way to determine the value of globalization is to calculate the ratio of the annual value of global trade in the sector to the annual value of industry sales.
Answer: FALSE
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Analytical thinking

25) Nonmonetary costs do not factor into the equation of value, which is represented by the equation Value = Benefits/Price.
Answer: FALSE
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

26) Global marketing requires attention to value, competitive advantage, and focus on a worldwide basis and utilization of a business intelligence system capable of monitoring the globe for opportunities and threats.
Answer: TRUE
Diff: 1
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

27) When a company succeeds in creating more value for customers than its competitors do, that company is said to enjoy competitive advantage.
Answer: TRUE
Diff: 3
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

28) The transformation of formerly local or national industries into global ones is part of a broader economic process of globalization.
Answer: TRUE
Diff: 3
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

29) Studies show that the gains ascribed to globalization have been evenly distributed among developing nations.
Answer: FALSE
Diff: 3
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

30) Why do some of the world's biggest, most successful companies stumble while pursuing global opportunities? Give examples in support of your answer.
Answer: Store locations, pricing, customer preferences, convenience, and unfamiliarity can cause successful companies to fail or not perform well in global markets. Walmart's exit from the German market was due to the fact that German shoppers could find lower prices at "hard discounters" such as Aldi's and Lidl. UK-based Tesco's attempts to enter the U.S. market with its Fresh & Easy stores failed, in part, because U.S. consumers were unfamiliar with the private-label goods that made up much of the merchandise stock. American "cheap chic" retailer Target terminated in Canada due to missteps in store location and pricing.
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

31) Explain, with examples, the benefits of competitive advantage and show how globalization presents companies with unprecedented opportunities.
Answer: When a company succeeds in creating more value for customers than its competitors, that company is said to enjoy "competitive advantage." It is measured relative to rivals in a given industry. For example, Coca-Cola and Pepsi are trying to maintain a competitive advantage in global markets. Globalization presents companies with unprecedented opportunities as well as challenges. Achieving competitive advantage in a global industry requires executives and managers to maintain a well-defined strategic focus. Globalization provides companies with opportunities to develop new products, get new ideas, develop markets, expand brand recognition, and eventually profits.
Diff: 2
Chapter LO: 1.2: Describe how companies in global industries pursue competitive advantage.
AACSB: Application of knowledge

32) Which dimension of global marketing strategy is the extent to which activities related to the marketing mix are performed in one or a few country locations?
A) Concentration of marketing activities
B) Development of cultural activities
C) C of marketing activities
D) Integration of competitive moves
Answer: A
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

33) In a global marketing strategy, what is the extent to which each marketing mix element is executed the same way or differently in various country markets?
A) Concentration or coordination
B) Products versus plan
C) Standardization versus adaptation
D) Price versus promotion
Answer: C
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

34) Which dimension of the global marketing strategy is the extent to which marketing activities related to the marketing mix are planned and executed interdependently around the globe?
A) Standardization of marketing mix elements
B) Integration of competitive moves
C) Coordination of marketing activities
D) Concentration of marketing activities
Answer: C
Diff: 3
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

35) Burberry's global marketing strategy of offering "affordable luxury" to customers in the United States, with a value proposition of being more expensive than Coach and less expensive than Prada, represents a focus on which element of the marketing mix strategy?
A) Product
B) Price
C) Promotion
D) Position
Answer: B
Diff: 3
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

36) Why would a marketing manager use an integration of competitive moves when developing the company's global marketing strategy?
A) To determine the degree of place standardization needed in each country
B) To create interdependence in competitive marketing tactics
C) To ensure marketing mix activities are performed in only a few country locations
D) To properly adapt the product to the target market
Answer: B
Diff: 3
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

37) Before deciding to enter markets outside the home country, what should the organization consider?
A) The nature of threats and opportunities
B) Actions of competitors
C) Potential market share
D) Degree of emerging market opportunities
Answer: A
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

38) Launching Burberry Acoustic to enhance advocacy and sharing via social media and online channels is an example of which marketing mix element?
A) Product
B) Price
C) Promotion
D) Place
Answer: C
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Information technology

39) When companies pursue global localization, how do they structure their marketing strategy?
A) They pursue only the largest local markets in global markets.
B) They think globally while acting locally.
C) They create standardized products with universal appeal for all markets.
D) They determine which global markets to pursue at the local level.
Answer: B
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

40) How can a company improve their chances of success in global marketing?
A) Pursue a "one size fits all" strategy by creating identical products for homogeneous markets.
B) Customize special products for each country or region.
C) Create both standardized and localized elements.
D) Nurture an ethnocentric management orientation.
Answer: C
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

41) An important managerial task in global marketing is learning to recognize the extent to which it is possible to extend marketing plans as well as the extent to which adaptation is desired. The way a company addresses this task is a reflection of which activity by the company?
A) Market penetration
B) Market diversification
C) Global marketing strategy
D) Product development
Answer: C
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

42) How can an organization benefit from a philosophy of thinking locally while acting globally?
A) The actual product has to dictate the distribution process in each country.
B) A combination of standard and nonstandard approaches must be used.
C) Innovations that occur far from headquarters can be leveraged in the home location.
D) More homogeneous, one-size-fits-all products should be developed in the home location.
Answer: C
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

43) Ultimately, what is the central issue in global marketing?
A) Identifying markets that have the most potential for the most growth
B) Deciding whether standardization or localization is the right approach for a specific market
C) Tailoring the concept to fit particular products, businesses, and markets
D) Using the concept to reconfigure each product to capitalize on local market sales
Answer: C
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

44) McDonald's Switzerland operates themed dining cars on the Swiss national rail system. This is globalization of which marketing mix element?
A) Place
B) Promotion
C) Price
D) Process
Answer: A
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

45) Why does a franchise such as McDonald's include standardized marketing mix elements in their global marketing strategy?
A) Their system can be set up anywhere in the world.
B) Each country has a different pricing strategy.
C) Food products are localized in each country.
D) Marketing and advertising are universal.
Answer: A
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Analytical thinking

46) The approach to global marketing that a company adopts will depend on industry conditions, shifting economic realities, and its source or sources of competitive advantage.
Answer: TRUE
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

47) A central issue in global marketing is how to tailor the global marketing concept to fit particular products, businesses, and markets.
Answer: TRUE
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

48) A disproportionate amount of wealth has flowed to the "have nots" and "have yachts," with much going to the "have nots."
Answer: FALSE
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

49) An industry is considered to be global to the extent that its industry position in one country is dependent upon the industry position in other countries.
Answer: FALSE
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

50) Most reverse flows of innovation occur just between high-income regions such as Western Europe and North America.
Answer: FALSE
Diff: 3
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

51) Companies must decide whether they want to think locally and act globally, or act locally and think globally. They cannot do both.
Answer: FALSE
Diff: 3
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

52) A global product may be the same product everywhere and yet different.
Answer: TRUE
Diff: 3
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

53) McDonald's McAloo Tikka potato burger offered in India is an example of standardization.
Answer: FALSE
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

54) What are the dimensions of global marketing strategy (GMS) that pertain to marketing management?
Answer: GMS has three dimensions that pertain to marketing management. First, "concentration of marketing activities" such as promotional campaigns or pricing decisions is performed in one or a few country locations. The second, "coordination of marketing activities," refers to the extent to which marketing activities related to the marketing mix are planned and executed interdependently around the globe. Finally, "integration of competitive moves" is the extent to which a firm's competitive marketing tactics in different parts of the world are interdependent. In essence, GMS should enhance the firm's performance on a worldwide basis.
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

55) Why is it important for a firm to have a global marketing strategy?
Answer: A firm's global marketing strategy (GMS) can enhance its worldwide performance. GMS addresses several issues. First is the nature of the marketing program in terms of the balance between a standardized (extension) approach to the marketing mix elements and a localized (adaptation) approach that is responsive to country or regional differences. Second is the concentration of marketing activities in a few countries or the dispersal of such activities across many countries. Companies that engage in global marketing can also engage in coordination of marketing activities. Finally, a firm's GMS addresses the issue of global market participation.
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

56) The Coca-Cola Company has convincingly demonstrated that the ability to think globally and act locally can be a source of competitive advantage. Justify this statement using examples.
Answer: Coke achieved success in Japan by spending a great deal of time and money to become an insider. The company built a complete local infrastructure with its sales force and vending machine operations. Coke's success in Japan is a function of its ability to achieve "global localization," being as much of an insider as a local company but still reaping the benefits of worldwide operations. The company is adept at adapting sales promotion, distribution, and customer service efforts to local needs. Coke has become one of the brands that has spent time and money getting this experience in unknown territories.
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

57) Using McDonald's as an example, show how effective global marketing can be successfully achieved.
Answer: The particular approach to global marketing that a company adopts will depend on industry conditions and its source or sources of competitive advantage. McDonald's standardized product is the Big Mac, which is localized in various countries, such as McAloo Tikka Burger in India. Similar products with local slang names were used, adapting to tastes in different countries. For promotion, the standardized slogan "I'm lovin' it" is used, whereas individual promotion is used in different countries. Freestanding restaurants are a standardized version, which is localized in several countries by having kiosks or home delivery. Similarly, the average price of Big Mac is used as a standard which is localized based on currency fluctuation and affordability.
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

58) When a global company establishes a benchmark in quality, competitors must quickly make their own improvements and come up to par. Justify the statement giving examples.
Answer: Starting in the 1960s, U.S. auto manufacturers saw their market erode as Japanese carmakers built strong reputations based on their products' quality and durability. In turn, the U.S. companies are making great strides in quality. A new threat is being faced due to the introduction of Tesla's all-electric cars, which have frequently been at or near the top of the quality and safety rankings for several years. Thus, the global companies can establish a benchmark when other companies try to compete.
Diff: 2
Chapter LO: 1.3: Compare and contrast single-country marketing strategy with a global marketing strategy (GMS).
AACSB: Application of knowledge

59) Which of the following statements *cannot* be ascribed to globalization?
A) Hundreds of millions of people have been lifted from poverty.
B) Millions of people have joined the middle class.
C) Wages and living standards of people have improved.
D) Gains from globalization have been evenly distributed.
Answer: D
Diff: 3
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Application of knowledge

60) In terms of national income, where is the largest single market in the world?
A) Japan
B) The European Union
C) China
D) The United States
Answer: D
Diff: 2
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Analytical thinking

61) Why must firms that want to achieve their maximum growth potential "go global"?
A) Because standards of living are declining in large, established economies.
B) Because 75 percent of the world market potential is outside their home country.
C) Because trade barriers make it difficult to enter large markets profitably.
D) Because the home market is saturated with highly competitive goods.
Answer: B
Diff: 2
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Analytical thinking

62) When is a company most likely to be absorbed by more dynamic, visionary enterprises in the global market?
A) When they pursue markets that allow the business to be national in scope
B) When they fail to adequately respond to challenges and opportunities of globalization
C) When their products are difficult to modify for a global consumer
D) When faced with scandal in the global community
Answer: B
Diff: 2
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Application of knowledge

63) In most industries, the companies that will survive and prosper in the twenty-first century will be global enterprises.
Answer: TRUE
Diff: 2
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Application of knowledge

64) Currently, the United States represents roughly 25 percent of the total world market for all products and services.
Answer: TRUE
Diff: 2
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Application of knowledge

65) As much as 94 percent of the world's market potential is in the United States.
Answer: FALSE
Diff: 2
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Application of knowledge

66) Explain why non-U.S. countries are highly motivated to seek market opportunities beyond their own borders.
Answer: The largest single market in the world in terms of national income is the United States, representing roughly 25 percent of the total world market for all products and services. Non-U.S. companies have an even greater motivation to seek market opportunities beyond their own borders; their opportunities include the 330-plus million people in the United States. For example, even though the dollar value of the home market for Japanese companies is the third largest in the world (after the United States and China), the market outside Japan is 90 percent of the world potential. For European countries, the picture is even more dramatic. Even though Germany is the largest single-country market in Europe, 94 percent of the world market potential for German companies is outside Germany.
Diff: 3
Chapter LO: 1.4: Identify the companies at the top of the Global 500 rankings.
AACSB: Application of knowledge

67) What will the form and substance of a company's response to global market opportunities typically depend on?
A) Management's ability to standardize its global approach
B) Management's assumptions about national superiority
C) Management's assumptions about the nature of the world
D) Management's ability to maintain control over the culture of the workforce
Answer: C
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

68) Which of the following is an ethnocentric orientation associated with?
A) The ability to find unique global niche markets
B) Assumption of national superiority
C) Indifference to marketing opportunities
D) Selecting unique approaches for each environment
Answer: A
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

69) Which type of company will largely ignore opportunities outside the home country?
A) Polycentric
B) Ethnocentric
C) Geocentric
D) Technocentric
Answer: B
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

70) How do company personnel with an ethnocentric orientation view the global market?
A) They assume what is done in their home country will succeed anywhere.
B) They assume each market is unique and requires new approaches to marketing.
C) They assume products will have to be localized before they can be sold in other markets.
D) They assume consumers want products produced in their home country, but with new approaches to marketing them.
Answer: A
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

71) You have found that several of the divisions in your company are not collaborating and, instead, were focusing on independent activities because they felt they were unique in what they do. Which type of orientation will this lead to in your company?
A) Geocentric
B) Regiocentric
C) Polycentric
D) Ethnocentric
Answer: C
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

72) Unilever, the Anglo-Dutch consumer products company, at one time had 30 different package designs and 48 different formulations for its Rexona deodorant brand. This is an example of which type of orientation?
A) Ethnocentric
B) Polycentric
C) Regiocentric
D) Geocentric
Answer: B
Diff: 3
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

73) When a company views the entire world as a potential market and develops integrated global strategies, which type of company do they become?
A) Transnational
B) Multinational
C) Localized
D) Foreign operator
Answer: A
Diff: 3
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

74) A key factor that distinguishes transnational companies from international or multinational counterparts is based on what?
A) Use of localized elements
B) Mindset
C) Needs assessment
D) Domestic research
Answer: B
Diff: 3
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

75) When a country like China is experiencing rapid economic growth, policymakers are likely to ________ outsiders.
A) look more favorably on
B) look less favorably on
C) experience more resistance toward
D) feel threatened by
Answer: A
Diff: 3
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

76) How would a company with a polycentric orientation approach a market they want to sell products in?
A) They would use a globally integrated approach.
B) They would use a product extension approach.
C) They would use a standardized approach.
D) They would use a localized approach.
Answer: D
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

77) How would a firm using a polycentric orientation develop each subsidiary in each country where the company does business?
A) With unique business and marketing strategies
B) With separate strategies based on the larger region of the subsidiary
C) With a strategy of servicing world markets from a single country
D) With a combination of standardized and localized marketing programs
Answer: A
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

78) When a firm uses one strategy in the European Union, and other strategies in Asia and North America, which type of orientation do they use?
A) Ethnocentric
B) Polycentric
C) Regiocentric
D) Geocentric
Answer: C
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

79) How do global and transnational companies make decisions regarding extension and adaptations?
A) Based on long-standing assumptions about each market
B) Based on ongoing research into market needs and wants
C) Based on sales outside the home country office
D) Based on input from employees in subsidiaries
Answer: B
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

80) According to research, how are companies developing their global responses to changes in the competitive environment?
A) They are seeking to strengthen regional competitiveness.
B) They are taking on more ethnocentric views of the market.
C) They are focusing on markets that have the most potential for growth.
D) They consider the world as one large market they can effectively respond to.
Answer: A
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

81) A company with a geocentric orientation views the world as a potential market and strives to develop integrated global strategies.
Answer: TRUE
Diff: 3
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

82) The term "polycentric" describes management's belief or assumption that each country in which a company does business is the same as the home country business.
Answer: FALSE
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Analytical thinking

83) Transnational companies serve global markets and use global supply chains, which often results in a blurring of national identity. A true transnational company would be characterized as "stateless."
Answer: TRUE
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Analytical thinking

84) Toyota and Honda are two examples of companies that exhibit key characteristics of transnationality.
Answer: TRUE
Diff: 2
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Analytical thinking

85) The geocentric orientation represents a synthesis of ethnocentrism and regiocentrism.
Answer: FALSE
Diff: 3
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Analytical thinking

86) Give examples to show the differences between ethnocentric and polycentric orientations.
Answer: A manager who assumes that their home country is superior to the rest of the world is said to have an ethnocentric orientation. Polycentric orientation is the opposite of ethnocentric orientation, where a manager assumes that each country in which a company does business is unique. In ethnocentric orientation, foreign operations or markets are typically viewed as being secondary or subordinate to domestic ones. For example, Nissan's ethnocentric orientation caused managers to believe that consumers all over the world should and would behave as do the Japanese. In Northern Japan, people would put blankets over the hoods of their cars during cold winters and managers assumed that people in the United States should be able to do the same. Citicorp's financial company executives have polycentric orientation, where the assumption was that each country is different, and there is a need for a localized or adaptation approach.
Diff: 3
Chapter LO: 1.5: Explain the stages a company goes through as its management orientation evolves from domestic and ethnocentric to global and geocentric.
AACSB: Application of knowledge

87) In the United States, some people believe that globalization has depressed the wages of American workers, resulting in the loss of both blue-collar and white-collar jobs. This is an example of ________.
A) discrimination
B) domination
C) globophobia
D) management myopia
Answer: C
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

88) A type of advantage that a global company possesses by virtue of the fact that it has experience in more than one country is referred to as ________.
A) leverage
B) transferability
C) flexibility
D) capability
Answer: A
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Application of knowledge

89) Why do some industries, such as the pharmaceutical industry, have little choice but to engage in global marketing?
A) The home country market has become saturated.
B) Their research centers are located overseas.
C) No single market is large enough to recover costs incurred in research.
D) There is more demand overseas for their products.
Answer: C
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Application of knowledge

90) What has led to the steady growth in the importance of global marketing?
A) Increases in national controls and management myopia
B) A reluctance of large firms to become transnational rather than multinational
C) The predominance of driving forces over restraining forces
D) Increased use of technology that reduces cost and time needed for global efforts
Answer: C
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

91) Which of the following is an example of a driving force that impacts global integration and marketing?
A) National controls
B) Organizational culture
C) Innovation and entrepreneurship
D) Management myopia
Answer: C
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

92) To improve the effectiveness of global business, which essential characteristic must be included?
A) Common business languages
B) Face-to-face communication
C) Use of social media
D) Innovation and adaptation
Answer: B
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

93) How do global marketing strategies lead to the support of design and improved manufacturing quality?
A) Global marketing increases revenues used to establish a benchmark.
B) Global marketing is highly impacted by consumers who leave online reviews.
C) Global marketing allows consumers to compare products from around the world.
D) Global marketing encourages different standards of quality in different markets.
Answer: A
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

94) Which of the following has created market opportunities that provide a major incentive for companies to expand globally?
A) Rapid reductions in barriers that prevent companies from operating globally
B) Increased access to technology allows consumers to compare trends globally
C) Rapid reductions in the cost of international transportation
D) Economic growth in key lower- and upper-income countries
Answer: D
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

95) When a company draws on its management practices, strategies, products and other ideas that have been market tested in one country and applied in comparable markets, which type of leverage is the company using?
A) Global leverage
B) Experience transfers
C) Scale economies
D) Resource utilization
Answer: B
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

96) How does a company's global strategy become its greatest single advantage?
A) By eliminating the reliance on a strong "home" currency to determine value
B) By creating scale economies on a global scale
C) By using information systems to identify opportunities, trends, threats, and resources
D) By eliminating the impact of natural downturns in the business cycle
Answer: C
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

97) How do effective leaders of global companies prevent management myopia at the global level?
A) By integrating global vision with local market initiatives and input
B) By providing guidance on when subsidiaries should listen to local team members
C) By assuming most developed markets have the same goals and restrictions
D) By assuming the global market is a level playing field because of governmental restrictions
Answer: A
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

98) Multinational companies pursuing strategies of product adaptation run the risk of failing to be successful against global competitors that have recognized opportunities to serve global customers.
Answer: TRUE
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

99) A global company possesses the unique opportunity to develop leverage.
Answer: TRUE
Diff: 1
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Application of knowledge

100) Leverage from scale economies is limited to manufacturing industries.
Answer: FALSE
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Application of knowledge

101) The European Union prohibits the use of generic terms such as "Parmesan" for dairy imports to protect cheese producers in Italy. This is an example of a nontariff barrier (NTB).
Answer: TRUE
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

102) Globophobia is a term used to describe a hostile attitude toward global brands or company policies that appear to result in hardship for some individuals or countries while benefiting others.
Answer: TRUE
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

103) The pressure for globalization is so intense that even leading pharmaceutical companies such as Eli Lilly, Novo Nordisk, and others have little choice but to engage in global marketing.
Answer: TRUE
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Analytical thinking

104) Global marketing does not necessarily mean operating everywhere since there are forces affecting global integration and global marketing. Justify this statement using examples based on the world economic trends.
Answer: Economic growth in key developing countries creates market opportunities that provide a major incentive for companies to expand globally. Due to the rising per capita incomes in India, China, and elsewhere, the growing ranks of middle-class consumers have more money to spend than in the past. At the same time, slow growth in industrialized countries has compelled management to look ahead for opportunities in nations or regions with high rates of growth. Also, the economic growth has reduced resistance that might otherwise have developed in response to the entry of foreign firms into domestic economies. The worldwide movement toward free markets, deregulation, and privatization is also a driving force. The trend toward privatization is opening up formerly closed markets, creating tremendous opportunities.
Diff: 3
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Application of knowledge

105) Discuss the impact of management myopia and organizational culture on the globalization of a corporation?
Answer: There are several examples where management simply ignores opportunities to pursue global marketing. A company that is "nearsighted" and ethnocentric will not expand geographically. For example, Anheuser-Busch, the brewer of Budweiser beer, lost its independence after years of focusing primarily on the domestic U.S. market. Myopia is also a recipe for market disaster if headquarters attempts to dictate when it should listen. Global marketing does not work without a strong local team that can provide information about local market conditions.
Diff: 2
Chapter LO: 1.6: Discuss the driving and restraining forces affecting global integration today.
AACSB: Application of knowledge

CHAPTER 8

IMPORTING, EXPORTING, AND SOURCING

SUMMARY

A. A company's first business dealings outside the home country often take the form of exporting or importing. Companies should recognize the difference between **export marketing** and **export selling**. By attending **trade shows** and participating in **trade missions**, company personnel can learn a great deal about new markets.

B. Governments use a variety of programs to support exports, including tax incentives, subsidies, and export assistance. Governments also discourage imports with a combination of **tariffs** and **nontariff barriers**.

C. A **quota** is one example of a nontariff barrier. Export-related policy issues include the status of **foreign sales corporations** (FSCs) in the United States, Europe's **Common Agricultural Policy** (CAP), and **subsidies**. Governments establish **free trade zones** and **special economic zones** to encourage investment.

D. The **Harmonized Tariff System** (HTS) has been adopted by most countries that are actively involved in export-import trade. **Single-column tariffs** are the simplest type of tariffs; **two-column tariffs** include special rates such as those available to countries with **normal trade relations** (NTR) status. Governments can also impose special types of duties, including **antidumping duties,** which are imposed on products whose prices government officials deem too low, and **countervailing duties,** which are designed to offset government subsidies.

E. Key participants in the export-import process include **foreign purchasing agents**, **export brokers**, **export merchants**, **export management companies**, **manufacturers' export agents**, **export distributors**, **export commission representatives**, **cooperative exporters**, and **freight forwarders**.

F. A number of export-import payment methods are available. A transaction begins with the issue of a **pro forma invoice** or some other formal document. A basic payment instrument is the **letter of credit** (**L/C**) that assures payment from the buyer's bank. **Documentary collection** is an option that involves either using a **sight draft** or a **time draft**. Sales may also be made using cash with order (CWO) and sales on open account or a consignment agreement.

G. Exporting and importing are directly related to management's **sourcing decisions**. Concern is mounting in developed countries about job losses linked to **outsourcing** jobs, both skilled and unskilled, to low-wage countries. A number of factors determine whether

a company makes or buys the products it markets as well as *where* it makes or buys those products.

LEARNING OBJECTIVES

8-1 Compare and contrast export selling and export marketing.

8-2 Identify the stages a company goes through and the problems it is likely to encounter as it gains experience as an exporter.

8-3 Describe the various national policies that pertain to exports and imports.

8-4 Explain the structure of the Harmonized Tariff System.

8-5 Describe the various organizations that participate in the export process.

8-6 Identify home-country export organization considerations.

8-7 Identify market-country export organization considerations.

8-8 Discuss the various payment methods that are typically used in trade financing.

8-9 Identify the factors that global marketers consider when making sourcing decisions.

DISCUSSION QUESTIONS

8-1. What is the difference between export marketing and export selling?

Export selling basically presents an extension strategy whereby products are offered for sale outside the home country without adaptation. The mindset of export selling is, "Here's the product, take it or leave it." One symptom of export selling would be providing sales literature in the home country's language only. Export marketing, by contrast, represents a willingness to adapt one or more of the marketing mix elements as required by the characteristics of the target market.

8-2. Describe the stages a company typically goes through as it learns about exporting.

The chapter outlines seven stages:

1. The firm is unwilling to export.
2. The firm fills unsolicited export orders but does not pursue unsolicited orders.
3. The firm explores the feasibility of exporting.
4. The firm exports to one or more markets on a trial basis.
5. The firm is an experienced exporter to one or more markets.
6. The firm pursues country- or region-focused marketing based on certain criteria (e.g., all countries where English).

7. The firm evaluates global market potential before screening for the “best” target markets to include in its marketing strategy and plan.

8-3. Governments often pursue policies that promote exports while limiting imports. What are some of those policies?

First and foremost, governments can impose duties on imports. In addition, most governments utilize nontariff trade barriers that serve as deterrents or obstacles to imports from other countries. NTBs include quotas, discriminatory procurement policies, restrictive customs procedures, arbitrary monetary policies, and restrictive regulations.

8-4. What are the various types of duties that export marketers should be aware of?

Ad valorem duties are expressed as a percentage of the customs value of particular goods. For example, China has imposed a 60 percent duty pm 35mm imports; the U.S. imposes a 25 percent duty on light trucks imported from Japan.

Specific duties are expressed as a specific amount (in the importing country’s currency) per some unit of measurement. For example, prior to NAFTA, the specific duty on Mexican tomato imports into the United States was 1.4 cents per pound; after NAFTA passed, the duty was lowered to 1 cent per pound.

Antidumping duties are imposed on products from producers that have set export prices at unfairly low prices. Pasta makers in Italy and Turkey were assessed antidumping duties after the International Trade Administration ruled the companies were selling pasta below fair value and injuring American producers.

Countervailing duties are designed to offset government subsidies in the exporting country.

8-5. How did the recent economic crisis affect financing for global trade?

The global financial crisis undermined the ability of firms of all sizes to get the financing they depend on for trade. Compounding the problem was the fact that trade finance is drying up in key emerging markets.

8-6. What is the difference between an L/C and other forms of export-import financing? Why do sellers often require letters of credit in international transactions?

A letter of credit constitutes an agreement whereby an importer’s bank assumes the obligation of payment on behalf of the importer. The seller is assured of payment because the bank guarantees payment as long as the seller complies with the terms in the L/C. A documentary collection is a negotiable bill of exchange that can be transferred from one party to another. When a bill of exchange is used, banks are involved but do not bear financial risk. Other forms of payment include cash in advance (usually via wire transfer), sales on open account, and sales on a consignment basis.

OVERVIEW

This chapter provides an overview of import–export basics. We begin by explaining the difference between export selling and export marketing. Next up is a survey of organizational export activities. An examination of national policies that support exports and/or discourage imports follows. After a discussion of tariff systems, we introduce key export participants. The next section provides an overview of organizational design issues as they pertain to exporting.

The chapter ends with a discussion of outsourcing, a topic that is becoming increasingly important as companies in many parts of the world cut costs by shifting both blue-collar and white-collar work to nations with low-wage workforces.

ANNOTATED LECTURE/OUTLINE

EXPORT SELLING AND EXPORT MARKETING: A COMPARISON

- ✓ **(Learning Objective #1)**

To better understand importing and exporting, it is important to distinguish between **export selling** and **export marketing**.

Export selling does not involve tailoring the product, the price, or the promotional material to suit the requirements of global markets. The only marketing mix element that differs is the "place"; that is, the country where the product is sold.

Export marketing targets the customer in the context of the total market environment. The export marketer does not simply take the domestic product "as is" and sell it to international customers. To the export marketer, the product offered in the home market represents a starting point. It is modified as needed to meet the preferences of international target markets.

Export marketing is the integrated marketing of goods and services that are destined for customers in international markets. Export marketing requires:

1. An understanding of the target market environment
2. The use of marketing research and identification of market potential
3. Decisions concerning product design, pricing, distribution and channels, advertising, and communications — the marketing mix.

After the research effort has zeroed in on potential markets, there is no substitute for a personal visit to size up the market firsthand and begin the development of an actual export-marketing program.

A market visit should accomplish several things. First, it should confirm (or contradict) assumptions and research regarding market potential. Second, the company representative should gather the additional data necessary to reach the final go or no-go decision regarding an export-marketing program.

For example, an export manager or international marketing manager may have a list of potential distributors provided by the U.S. Department of Commerce. The manager may have corresponded with distributors on the list and formed some tentative idea of whether they meet the company's international criteria. It is difficult to negotiate a suitable arrangement with international distributors without actually meeting face-to-face to allow each side to appraise the capabilities and character of the other party. Third, a visit to the export market should enable the company representative to develop a marketing plan in cooperation with the local agent or distributor. This plan should cover the necessary product modifications, pricing, advertising and promotion expenditures, and a distribution plan. If the plan calls for investment, agreement on the allocation of costs must also be reached.

One way to visit a potential market is through a **trade show** or a state- or federally sponsored **trade mission**. Each year hundreds of trade fairs, usually organized around a product category or industry, are held in major markets. (Exhibit 8-2)

Perhaps most important, attending a trade show enables company representatives to learn a great deal about competitors' technology, pricing, and depth of market penetration.

ORGANIZATIONAL EXPORT ACTIVITIES

✓ **(Learning Objective #2)**

Exporting is becoming increasingly important as companies in all parts of the world step up their efforts to supply and service markets outside their national boundaries. Research has shown that exporting is essentially a developmental process that can be divided into the following distinct stages:

1. The firm is unwilling to export; it will not even fill an unsolicited export order. This may be due to a perceived lack of time ("too busy to fill the order") or to apathy or ignorance.
2. The firm fills unsolicited export orders but does not pursue unsolicited orders. Such a firm is an export seller.
3. The firm explores the feasibility of exporting (this stage may bypass Stage 2).
4. The firm exports to one or more markets on a trial basis.
5. The firm is an experienced exporter to one or more markets.
6. After this success, the firm pursues country- or region-focused marketing based on certain criteria (e.g., all countries where English is spoken or all countries where it is not necessary to transport by water).
7. The firm evaluates global market potential before screening for the "best" target markets to include in its marketing strategy and plan. *All* markets—domestic and international—are regarded as equally worthy of consideration.

However, *commitment* is the most important aspect of a company's international orientation. Before a firm can reach Stage 4, it must receive and respond to unsolicited export orders. The quality and dynamism of management are important factors that can lead to such orders.

One study noted that export procedural expertise and sufficient corporate resources are required for successful exporting. An interesting finding was that even the most experienced exporters express a lack of confidence in their knowledge about shipping arrangements, payment procedures, and regulations. The same study also showed that, although profitability is an important expected benefit of exporting, other advantages include increased flexibility and resiliency and improved ability to deal with sales fluctuations in the home market.

Although research generally supports the proposition that the probability of being an exporter increases with firm size, it is less clear that export intensity—that is, the ratio of export sales to total sales—is positively correlated with firm size. Table 8-1 lists some of the export-related problems that a company typically faces.

NATIONAL POLICIES GOVERNING EXPORTS AND IMPORTS

- ✓ **(Learning Objective #3)**

It is hard to overstate the impact of exporting and importing on the world's national economies.

In 1997, for example, total imports of goods and services by the United States passed the $1 trillion mark for the first time; in 2023, the combined total was $3.8 trillion. European Union imports, counting both intra-EU trade and trade with non-EU partners, totaled more than $3 trillion.

Trends in both exports and imports reflect China's pace-setting economic growth in the Asia-Pacific region. Exports from China have grown significantly; they are growing even faster now that China has joined the WTO. As shown in Figure 8.1, Chinese apparel exports surpass those of other countries by a wide margin.

One word can summarize national policies toward exports and imports: contradictory.

For centuries, nations have combined two opposing policy attitudes toward the movement of goods across national boundaries. On the one hand, nations directly encourage exports; on the other hand, they generally restrict the flow of imports.

Government Programs that Support Exports

To see the economic boost that can come from a government-encouraged export strategy, consider Japan, Singapore, South Korea, and the so-called Greater China or "China triangle" market, which includes Taiwan, Hong Kong, and the People's Republic of China. After recovering from the destruction of its economy during World War II, Japan became an economic superpower as a direct result of export strategies devised by the Ministry for International Trade and Industry (MITI).

The four tigers—Singapore, South Korea, Taiwan, and Hong Kong—learned from the Japanese experience and built strong export-based economies of their own.

Although Asia's "economic bubble" burst in 1997 as a result of uncontrolled growth, Japan and the tigers are moving forward in the twenty-first century at a more moderate rate.

Any government concerned with trade deficits or economic development should focus on educating firms about the potential gains from exporting.

Governments commonly use four activities to support and encourage firms that engage in exporting: tax incentives, subsidies, export assistance, and free trade zones.

Tax incentives treat earnings from export activities preferentially either by applying a lower tax rate to earnings from these activities or by refunding taxes already paid on income associated with exporting.

From 1985 until 2000, the major tax incentive for exporters under U.S. law was the **foreign sales corporation** (FSC), through which American exporters could obtain a 15 percent exclusion on earnings from international sales.

However, in 2000, the World Trade Organization ruled that any tax break that was contingent on exports amounted to an illegal subsidy.

Accordingly, the U.S. Congress has set about the task of overhauling the FSC system; failure to do so would entitle the EU to impose up to $4 billion in retaliatory tariffs.

Governments also support export performance by providing outright **subsidies**, which are direct or indirect financial contributions or incentives that benefit producers. Subsidies can severely distort trade patterns when less competitive but subsidized producers displace competitive producers in world markets.

Agricultural subsidies are particularly controversial because, although they protect the interests of farmers in developed countries, they work to the detriment of farmers in developing areas such as Africa and India. The EU has undertaken an overhaul of its **Common Agricultural Policy** (CAP).

Another means of supporting exporters is by extending *governmental assistance* to exporters. Companies can avail themselves of a great deal of government information concerning the location of markets and credit risks. Assistance may also be oriented toward export promotion. Government agencies at various levels often take the lead in setting up trade fairs and trade missions designed to promote sales to foreign customers.

The export/import process often entails red tape and bureaucratic delay, especially in emerging markets such as China and India. In an effort to facilitate exports, countries are designating certain areas as **free trade zones** (FTZ) or **special economic zones** (SEZ). In geographic entities, manufacturers benefit from simplified customs procedures, operational flexibility, and a general environment of relaxed regulations.

Governmental Actions to Discourage Imports and Block Market Access

Measures such as tariffs, import controls, and nontariff barriers are designed to limit the inward flow of goods.

Tariffs can be thought of as the "three Rs" of global business: rules, rate schedules (duties), and regulations of individual countries.

Duties on individual products or services are listed in the schedule of rates (Table 8-3).

One global trade expert defines duties as "taxes that punish individuals for making choices of which their governments disapprove."

Developed under the auspices of the Customs Cooperation Council (now the World Customs Organization), the **Harmonized Tariff System** (HTS) went into effect in January 1989 and has since been adopted by the majority of trading nations. Under this system, importers and exporters have to determine the correct classification number for a given product or service that will cross borders.

INNOVATION, ENTREPRENEURSHIP, CREATIVE THINKING, AND THE GLOBAL STARTUP
Oscar Farinetti, Eataly

Oscar Farinetti is an entrepreneur. He developed an innovative retail concept, Eataly, and started a company to market it. By applying the basic tools and principles of modern global marketing, Farinetti has achieved remarkable success.

Starting in 2007 with a single location in Turin, Italy, Farinetti now presides over a far-flung global empire of Eataly megastores that celebrate all things Italian. Farinetti has opened more than 25 stores in major cities such as Chicago, Dubai, and New York City.

Eataly gourmet supermarkets, and the restaurants tucked inside them, are helping Italian food producers during Italy's ongoing recession.

Many observers note that the "Made in Italy" movement got an additional boost from the 2015 World Expo in Milan. The theme of the expo was "Feeding the Planet. Energy for Life." Eataly Milan Smeraldo opened months before the Expo itself. Farinetti is optimistic about Italy's future. "We need to double tourism in Italy; we can double our export of food and agriculture products; we need to open up other industries of fashion, design, and industrial manufacturing. And if we manage this, we will bring the country to another renaissance," he says.

In spite of the progress made in simplifying tariff procedures, administering a tariff is an enormous burden. People who work with imports and exports must familiarize themselves with the different classifications and use them accurately. Even a tariff schedule of several thousand items cannot clearly describe every product traded globally.

The introduction of new products and new materials used in manufacturing processes creates new problems. Often, determining the duty rate on a particular article requires assessing how the item is used or determining its main component material. Two or more alternative classifications may have to be considered. A product's classification can make a substantial difference in the duty applied.

One of the most controversial aspects of U.S. Donald Trump's "America First" policy was his decision to impose tariffs on imports of steel and aluminum (See Exhibit 8-4). Opponents of this policy—including trade partners and some U.S. industry leaders—argue that the tariffs will negatively affect the U.S. economy and invite retaliation from abroad.

A **nontariff barrier** (NTB) is any measure other than a tariff that is a deterrent or obstacle to the sale of products in a foreign market. Also known as **hidden trade barriers**, NTBs include quotas, discriminatory procurement policies, restrictive customs procedures, arbitrary monetary policies, and restrictive regulations.

A **quota** is a government-imposed limit or restriction on the number of units or the total value of a particular product or product category that can be imported. Generally, the quotas are designed to protect domestic producers.

Discriminatory procurement policies can take the form of government rules, laws or administrative regulations requiring that goods or services be purchased from domestic

Cultural Context
International Education for Chinese Students = Service Exports for Host Countries

Newly affluent Chinese parents invest heavily in their children's educations, due in large part to the fact that many of the parents themselves did not go to college.
Anxious for their children to earn respect, many parents enroll them in private international schools in China, starting as early as kindergarten. Alternatively, many students take international classes at public schools. In either case, wealthy Chinese parents are under enormous social pressure to ensure that their children get an international education, starting at the K–12 level.

One reason that Chinese and other international students are welcome at colleges and universities around the world is that they generally pay higher tuition charges, and they frequently pay those fees in cash. In fact, in any given calendar year, international students contribute more than $35 billion to the U.S. economy.

TARIFF SYSTEMS

- ✓ **(Learning Objective #4)**

Tariff systems provide either a single rate of duty for each item, applicable to all countries, or two or more rates, applicable to different countries or groups of countries. Tariffs are usually grouped into two classifications.

The **single-column tariff** is the simplest type of tariff. It is a schedule of duties in which the rate applies to imports from all countries on the same basis.

Under the **two-column tariff** (Table 8-3), column 1 includes “general” duties plus “special” duties, indicating reduced rates determined by tariff negotiations with other countries.

Rates agreed upon by “convention” are extended to all countries that qualify for permanent **normal trade relations** (NTR; formerly most-favored nation or MFN) status within the framework of the WTO. Column 2 shows rates for countries that do not enjoy NTR status.

A **preferential tariff** is a reduced tariff rate applied to imports from certain countries.

The United States is now a signatory to the GATT customs valuation code. GATT prohibits the use of preferential tariffs, with three major exceptions:

1. Historical preference arrangements such as the British Commonwealth
2. Preference schemes that are part of a formal economic integration treaty, such as free trade areas or common markets.
3. Industrial countries are permitted to grant preferential market access to companies based in less-developed countries.

Under the code, the primary basis of customs valuation is "transaction value." **Transaction value** is defined as the actual individual transaction price paid by the buyer to the seller of the goods being valued.

Customs Duties

Customs duties are divided into categories based on how they are calculated: either as a percentage of the value of the goods (ad valorem duty), as a specific amount per unit (specific duty), or as a combination of both of these methods.

As noted, an *ad valorem duty* is expressed as a percentage of the value of the goods. In countries adhering to GATT conventions on customs valuation, the customs value is the value of cost, insurance, and freight (CIF) at the port of importation.

A *specific duty* is expressed as a specific amount of currency per unit of weight, volume, length, or other unit of measurement. Specific duties are usually expressed in the currency of the importing country.

Other Duties and Import Charges

Dumping is the sale of merchandise in export markets at unfair prices. To offset the impact of dumping and to penalize guilty companies, most countries have introduced legislation providing for the imposition of **antidumping duties.**

Countervailing duties (CVDs) are additional duties levied to offset subsidies granted in the exporting country.

Several countries apply a system of **variable import levies** to certain categories of imported agricultural products. If prices of imported products were to undercut the prices of domestic products, these levies would raise the price of imported products to the domestic price level.

Temporary surcharges have also been introduced from time to time by certain countries to provide additional protection for local industries and, in particular, in response to balance of payments deficits.

KEY EXPORT PARTICIPANTS

- ✓ **(Learning Objective #5)**

Export participants include foreign purchasing agents, export brokers, and export merchants, who have no assignment of responsibility from the client. Others, including export management companies, manufacturers' export representatives, export distributors, and freight forwarders, are assigned responsibilities by the exporter.

Foreign purchasing agents are variously referred to as the *buyer for export*, *export commission house*, or *export confirming house*. These agents operate on behalf of, and are compensated by, an overseas customer known as a "principal."

The **export broker** receives a fee for bringing together the seller and the overseas buyer. Although this fee is usually paid by the seller, sometimes the buyer pays it. The broker takes no title to the goods and assumes no financial responsibility.

Export merchants are sometimes referred to as *jobbers*. These marketing intermediaries identify market opportunities in one country or region and make purchases in other countries to fill these needs.

Export management company (EMC) is an independent marketing intermediary that acts as the export department for two or more manufacturers ("principals") whose product lines do not compete with each other.

Manufacturer's export agents (MEA) can act as an export distributor or as an export commission representative. However, the MEA does <u>not</u> perform the functions of an export department, and the scope of its market activities is usually limited to a few countries.

An **export distributor** does assume financial risk as part of the export process. The export distributor usually represents several manufacturers and is therefore sometimes known as a *combination export manager.*

The **export commission representative** assumes no financial risk. The commission representative is assigned all or some foreign markets by the manufacturer.

The **cooperative exporter**, sometimes called a *mother hen*, *piggyback exporter*, or *export vendor*, is an export organization of a manufacturing company retained by other independent manufacturers to sell their products in foreign markets.

Freight forwarders are licensed specialists in traffic operations, customs clearance, and shipping tariffs and schedules; simply put, they can be thought of as travel agents for freight.

ORGANIZING FOR EXPORTING IN THE MANUFACTURER'S COUNTRY

- ✓ **(Learning Objective #6)**

Home-country issues include deciding whether to assign export responsibility inside the company or to work with external organizations specializing in a product or geographic area. Most companies handle export operations within their own in-house export organization.

The possible arrangements for handling exports include the following:

- A part-time activity performed by domestic employees
- Through an export partner that takes possession of the goods before they leave the country
- Through an export department that is independent of the domestic marketing structure
- Through an export department within an international division
- For multidivisional companies, each of the preceding options is available.

A company that assigns a sufficiently high priority to its export business will establish an in-house organization.

The company that chooses not to perform its own marketing and promotion in-house has numerous external export service providers from which to choose. These options include export management companies (EMCs), export merchants, export brokers, combination export managers, manufacturers' export representatives or commission agents, and export distributors. (All discussed earlier.)

ORGANIZING FOR EXPORTING IN THE MARKET COUNTRY

- ✓ **(Learning Objective #7)**

In addition to deciding whether to rely on in-house or external export specialists in the home country, a company must make arrangements to distribute its products in the target market country.

Every exporting organization faces one basic decision: To what extent do we rely on direct market representation as opposed to representation by independent intermediaries?

Two major advantages to direct representation in a market are control and communications.