**The Globalization of Markets**

From the writings of Theodore Levitt
Through Product/Pricing theory

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**Globalization of Markets Start with Levitt**

- “A powerful force drives the world toward converging commonality, and that force is technology.”
- Communications technology
- Transportation technology, and
- Travel technology.

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**Success from Concentration**

Global companies will achieve long-term success by
- concentrating on what everyone wants rather than
- worrying about the details of what everyone thinks they might like.

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**Global Economies to Scale**

- There are emerging Global markets for standardized consumer products
- companies can achieve enormous global economies to scale in:
  - Production
  - Distribution
  - Marketing
  - Management

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**The World**

- Has an ubiquitous desire for the most advanced things
  - best quality
  - best reliability
  - at the lowest cost

- This leads to opportunity for companies to
  - develop standardized products
  - for world market segments
  - at relatively low prices

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**The Theory Levitt Uses:**

- Global market segments can be identified which are:
  - Relatively homogeneous in certain wants and
  - the ability to pay for the desired satisfactions
Global Market Segments

- Does not mean: One, mass market, worldwide
- Rather, it means:
  - Identifying similar segments in various national markets, which can be
    - Addressed by the same product
    - In the same way
    - At a lower cost.

The Theory of Consumer Behavior They Use

- Consumers desire to maximize their standard of living in terms of utility or satisfactions derived from the goods and services they consume – Both Authors
- This can be accomplished through global products because they represent: (Levitt)
  - Superior Technology
  - Low Prices
  - High Quality
  - High Reliability

Strive for Low Cost and Quality

- High quality and low cost are Not opposing postures.
- They are compatible, twin identities of Superior Practice.

Commonality of Preference

Leads inescapably to the standardization of:
- products
- manufacturing, and
- the institutions of trade and commerce

The Homogenization of Demand dictates a Globalization of output.

Global Competition

- Firms compete on appropriate value
  - best combination of price
  - quality
  - reliability
- Delivery of identical products – global
- Terms and standards may vary, but
- High Quality/Low Cost operations are the hallmark of successful organizations.
- Examples: Toyota, Nokia, Coca Cola, etc.

Marketing Defined

- Is the process of planning and executing the conception, pricing, promotion and distribution of products and services to create exchanges that satisfy individual and organizational objectives.
- Two major tasks:
  - Determining specific Target Markets, and
  - Managing the marketing mix elements
In Marketing it is critical to understand what is meant by the concept of Demand

- The term has many meanings.
- at its most basic, economic level it is: a want backed by purchasing power.

Some Dimensions of Demand

- **A Market**: is the set of all actual and potential buyers of a product/service in a specified region.
- **The Potential Market**: includes only those people in the market with interest in the product/service.
- **The Available Market**: includes only those potential customers with enough income and access to the product/service.

More Dimensions of Demand

- **The Qualified Available Market**: includes only those members of a market with interest, income, access, and meeting social norms necessary for purchase of the product.
- **The Target Market**: may be a subset of the above.
- **The Penetrated Market**: is the set of consumers who buy the company’s product.

Estimating Demand in Markets

- **Total Demand, or the Market Forecast** is the volume of product that would be purchased from all producers under a set of defined conditions
  - Geographic location
  - Time period
  - Macroeconomic conditions
  - Marketing Environment
  - Own and Competitors’ Marketing Efforts
  - (This is also called Primary Demand, and the market demand function)

In Forecasts of Market Demand

- Dependence of the demand function on the underlying assumptions is seen in its characteristic “S” shape.

A Market Segment

- Is a relatively homogeneous group of customers who will respond to a marketing mix in a similar way.
Introduction

Domestic and international marketing principles are similar
• Environmental differences often cause managers to apply these principles differently abroad

Market Size Analysis
Total market potential—estimate of the possible sales of a product for all companies, and the estimate of your own company’s market-share potential
Present income and population are the major indicators for potential sales of most products
• As incomes change, product demand may change
• Other factors affect demand
  – managers cannot project potential demand perfectly

Gap Analysis
Method for estimating a company’s potential sales by identifying market segments it is not serving adequately
• Sales potential exists when sales are lower than the estimated market potential
• Usage gap—less product sold by all competitors than potential
  – growth potential for all competitors
• Distribution gap—sales lost to competitors who distribute where the company does not
  – company misses geographic or intensity coverage
• Product line gap—sales lost to competitors who have product variations
  the company does not
• Competitive gap—remaining unexplained sales lost to competitors who may have a better image or lower prices

Determining Target Markets

Choosing the best markets in which to compete is a difficult task.

It is based on an analysis of the relative Strengths and Weaknesses of the firm, in relation to

Opportunities and Threats in the various Markets, including such things as market size, market growth, and competitive conditions in markets.

What is Market Segmentation?

Consumers purchase products and services for the perceived satisfactions they can derive from their possession/use.
• Many consumers desire the same or similar products at a given point in time.
• We define Markets in terms of products rather than satisfactions: The set of all actual and potential buyers of a product or service.

How Firms Perceive Markets

This deals with the basic way in which the firm views the market it serves.
• They can be internally focused – on the Firm, or
• Outwardly focused on the Market.
### Inward Looking Firms Perceive
- The Products the firm chooses to make.
- Objective is selling what the firm desires to make
- **Production orientation**: The means to success is through long production runs of standardized products –
- A variant is the **Product Orientation**: If we build a better product we will be successful.
- **Sales Orientation**: Emphasis on Selling – what it makes

### Sales Orientation
Sales orientation—company tries to sell same product in domestic and international markets
- Assumes that customers are similar globally
- Takes active marketing approach
- Effective when consumers are similar and product information spillover exists

### Focusing on the Market
- Leads firms seek solutions to customer problems.
- What solutions can we offer to customers in various countries is a **Customer Orientation**, or **Strategic Marketing Orientation**: (Market Orientation): Finding out what customers desire and then matching their wants with product/service features. Looking for similarities in markets where customer demands may be met with similar products

### More Orientations
- **Customer orientation**—company wants to penetrate markets in a given geographic area taken as a given
  - Extremes of approach
    - develop products tailored for foreign market
    - responds to requests from purchasing agents
- **Strategic marketing orientation**—combines production, sales, and customer orientation
  - Companies vary products abroad without deviating very far from their experience
  - Can retain some economies of standardization
  - Product designed for global market segment

### Societal Marketing Orientation
Societal marketing orientation—considers potential environmental, health, social, and work-related problems that may arise
- Is a variant of the Marketing orientation where we direct attention to a wider range of issues, publics, and constraints in designing products.
- What should we do in light of the severe unequal distribution of wealth and resources in the world?

### Emphasize Standardization of products for Global Market Segments
- Standardize when you can – Adapt when you must.
- Legal constraints constrain firm actions
  - Laws vary by culture
  - Sweden forbids toy guns
- Cultural Constraints constrain the firm
  - The U.S. restricts nudity on TV
  - Much of Europe restricts violence on TV
- Economic conditions constrain markets
  - Poor people consume less expensive products
Product Differentiation for Multiple Markets

- Packaging: Changes in the exterior can mask great similarities in function for the customer.
  - We can postpone differentiation to satisfy demand in similar markets.
- We can offer different parts of our product line in different markets.
- We can watch developments in markets for the appropriate time for introduction of various product types.

Five International Product and Promotion Strategies

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<thead>
<tr>
<th>Product</th>
<th>Do not change product</th>
<th>Adapt product</th>
<th>Develop new product</th>
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<td>Do not change promotion</td>
<td>Straight extension</td>
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<td>Adapt promotion</td>
<td>Communication adaptations</td>
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Push and Pull Promotion Strategies

- Push strategies: Firms focus promotional campaigns at their channel of distribution in an attempt to increase the selling effort of the channel to target customers.
- Pull strategies: Firms focus promotional campaigns at final customers in an attempt to develop final demand for their products that will have the effect of pulling products through the distribution channel.

Market and Demand Factors Affect Pricing Decisions

- Pure Competition: Many Buyers and Sellers Who Have Little Affection on the Price.
- Monopolistic Competition: Many Buyers and Sellers Trading Over a Range of Prices.
- Oligopolistic Competition: Few Sellers Each Sensitive to Other’s Pricing/Marketing Strategies
- Pure Monopoly: Single Seller

Different Types of Markets

Pure Competition
Monopolistic Competition
Oligopolistic Competition
Pure Monopoly

Pricing Policies in International Markets

- Three general price setting strategies:
  - Standard world-wide pricing – Benetton
  - Dual pricing - one price in the home market and another for export markets, and
  - Market-differentiated pricing - where price in each market is based on demand conditions.

Pricing Policies in International Markets

- Within each market those strategies can lead the firm to a position of:
  - Price Skimming:
  - Penetration Pricing
  - Cost Plus Pricing:
Other Pricing Concepts

- So called Price Escalation in international markets
- Experience curve pricing - basing current pricing decisions on future cost expectations.
- Dumping - selling goods below cost with the intent of harming competitive conditions in the target market.
- Price discrimination: charging different markets (segments) different prices.

Important Cost Concepts

- **Total Cost** = TFC + TVC = TFC + AVC x q
- Average and Marginal Cost are important
- **Fixed Cost**: is fixed, therefore it declines with increasing output TFC/q = AFC
- **Variable Costs**: Are incurred only due to the current production
- **Marginal Cost**: Is the cost of producing and selling one more unit of output.

Important Revenue Concepts

- Total Revenue = Average Revenue x q
- Average Revenue: The price in the market
- Marginal Revenue: The change in total revenue when the Quantity sold is increased by one unit.
- Sometimes considered a constant = price
- More accurately, it often declines as sales increase, as price must be lowered to increase revenue.

Branding in International Markets

- Control of the Product
  - Manufacturer (so called) Brands
    - Vs.
      - Distributor Brands

External Factors Affecting Pricing Decisions

- Market and Demand
- Competitors’ Costs, Price, and Offers

Other – External Factors
- Economic Conditions
- Reseller Needs
- Government Actions
- Social Concerns

Arriving at the ‘Right’ Price

- Demand
- Competition
- External Environmental conditions
- Legal Constraints
- Ethical Considerations
- Time Frame
- Strategic Goals of the Firm in the Market
Transfer Pricing

- The price at which a firm sell products/services to other parts of the same company.
- This is a common practice in multi-unit organizations.
- In international business these prices gain importance because they may be used by businesses to avoid regulations of sovereign governments.