International Marketing

Management Orientations

Strategic Predispositions – EPRG Framework

- The form and substance of a company's response to global market opportunities depend greatly on management's assumptions or beliefs (both conscious and unconscious) about the nature of the world.
- The worldview of a company's personnel can be described as:
  - **Ethnocentric**
  - **Polycentric**
  - **Regiocentric**
  - **Geocentric**
- Management at a company with a prevailing ethnocentric orientation may consciously make a decision to move in the direction of geocentricism.
- The orientations are collectively known as the **EPRG framework**.

Ethnocentric Orientation

- A person with ethnocentric orientation assumes that his or her home country is superior to the rest of the world
- Ethnocentrism is associated with attitudes of national arrogance or assumptions of national superiority or indifference to marketing opportunities outside the home country.
- Company personnel with an ethnocentric orientation see only similarities in markets and assume that products and practices that succeed in the home country will be successful anywhere
- Ethnocentric companies which ignore opportunities outside the home country are called domestic companies.
- Ethnocentric companies that conduct business outside the home country can be described as international companies, which adhere to the notion that the products that succeed in the home country are superior. This point of view leads to a standardized or extension approach to marketing based on the premise that products can be sold everywhere without adaptation.

Ethnocentric Orientation (contd.)

- In the ethnocentric international company, foreign operations or markets are typically viewed as being secondary or subordinate to domestic ones, where the term domestic denotes the country in which a company is headquartered.
- An ethnocentric company operates under the assumption that “tried and true” headquarters’ knowledge and organizational capabilities can be applied in other parts of the world. Although this can sometimes work to a company’s advantage, valuable managerial knowledge and experience in local markets may go unnoticed.
- Even if customer needs or wants differ from those in the home country, those differences are ignored at headquarters.
- Around 60 years ago, most business enterprises, especially those located in country like USA could operate quite successfully with an ethnocentric orientation. Today, however, ethnocentrism is one of the major internal weaknesses that must be overcome if a company is to transform itself into an effective global competitor.

Example of Ethnocentric Orientation

- Nissan’s earliest exports were cars and trucks that had been designed for mild Japanese winters; the vehicles were difficult to start in many parts of the United States during the cold winter months. In northern Japan, many car owners would put blankets over the hoods of their cars. Nissan’s assumption was that Americans would do the same thing. As a Nissan spokesman said, ***“We tried for a long time to design cars in Japan and shove them down the American consumer’s throat. That didn’t work very well.”***

Example of Ethnocentric Orientation (contd.)

- Until the 1980s, Eli Lilly and Company operated as an ethnocentric company: Activity outside the United States was tightly controlled by headquarters, and the focus was on selling products originally developed for the U.S. market.

- For many years, executives at California’s Robert Mondavi Corporation operated the company as an ethnocentric international entity. As former CEO Michael Mondavi explained, ***“Robert Mondavi was a local winery that thought locally, grew locally, produced locally, and sold globally. To be a truly global company, I believe it’s imperative to grow and produce great wines in the world in the best wine-growing regions of the world, regardless of the country or the borders.”***

ROBERT MONDAVI
ESTD WINERY 1966

Example of Ethnocentric Orientation (contd.)

- The cell phone divisions of various Japanese companies such as Toshiba, Sharp, Matsushita (owner of Panasonic brand) and NEC prospered by focusing on the domestic market in early part of 21st century. However, when their handset sales in Japan slowed, these companies realized that Nokia, Motorola, and Samsung already dominated key world markets. Atsutoshi Nishida, president of Toshiba, noted, ***“We were thinking only about Japan. We really missed [illegible]”***

Polycentric Orientation

- The polycentric orientation is the opposite of ethnocentrism.
- The term polycentric describes management’s belief or assumption that each country in which a company does business is unique. This assumption lays the groundwork for each subsidiary to develop its own unique business and marketing strategies in order to succeed; the term multinational company is often used to describe such a structure.
- This point of view leads to a localized or adaptation approach that assumes that products must be adapted in response to different market conditions.

Example of Polycentric Orientation

- Until the mid-1990s, Citicorp operated on a polycentric basis. James Bailey, a former Citicorp executive, explains, ***“We were like a medieval state. There was the king and his court and they were in charge, right? No. It was the land barons who were in charge. The king and his court might declare this or that, but the land barons went and did their thing.”***

- Realizing that the financial services industry was globalizing, then-CEO John Reed attempted to achieve a higher degree of integration between Citicorp’s operating units.

Example of Polycentric Orientation (contd.)

- Unilever, the Anglo-Dutch consumer-products company, once exhibited a polycentric orientation. For example, its Rexona deodorant brand had 30 different package designs and 48 different formulations. Advertising was also executed on a local basis. Top management has spent the last decade changing Unilever's strategic orientation by implementing a reorganization plan that centralizes authority and reduces the power of local country managers.

Regiocentric Orientation

- In a company with a regiocentric orientation, a region becomes the relevant geographic unit; management's goal is to develop an integrated regional strategy.
- What does regional mean in this context? A U.S. company that focuses on the countries included in the North American Free Trade Agreement (NAFTA) viz. USA, Canada, and Mexico has a regiocentric orientation.
- Similarly, a European company that focuses its attention on Europe is regiocentric.
- Some companies serve markets throughout the world, but do so on a regional basis. Such a company could be viewed as a variant of the multinational model discussed previously.

Example of Regiocentric Orientation

- For decades, a regiocentric orientation prevailed at General Motors. Executives in different parts of the world such as Asia-Pacific and Europe were given considerable autonomy when designing vehicles for their respective regions. Company engineers in Australia, for example, developed models for sale in the local market. As a result of this approach, a total of 270 different types of radios were being installed in GM vehicles around the world. As GM Vice Chairman Robert Lutz told an interviewer in 2004, ***"GM's global product plan used to be four regional plans stapled together."***

Geocentric Orientation

- A company with a geocentric orientation views the entire world as a potential market and strives to develop integrated global strategies.
- A company whose management has adopted a geocentric orientation is sometimes known as a global or transnational company.
- During the past several years, long-standing regiocentric policies at GM, such as those discussed previously, have been replaced by a geocentric approach. Among other changes, the new policy calls for engineering jobs to be assigned on a worldwide basis, with a global council based in Detroit determining the allocation of the company’s $7 billion annual product development budget. One goal of the geocentric approach: Save 40 percent in radio costs by using a total of 50 different radios.

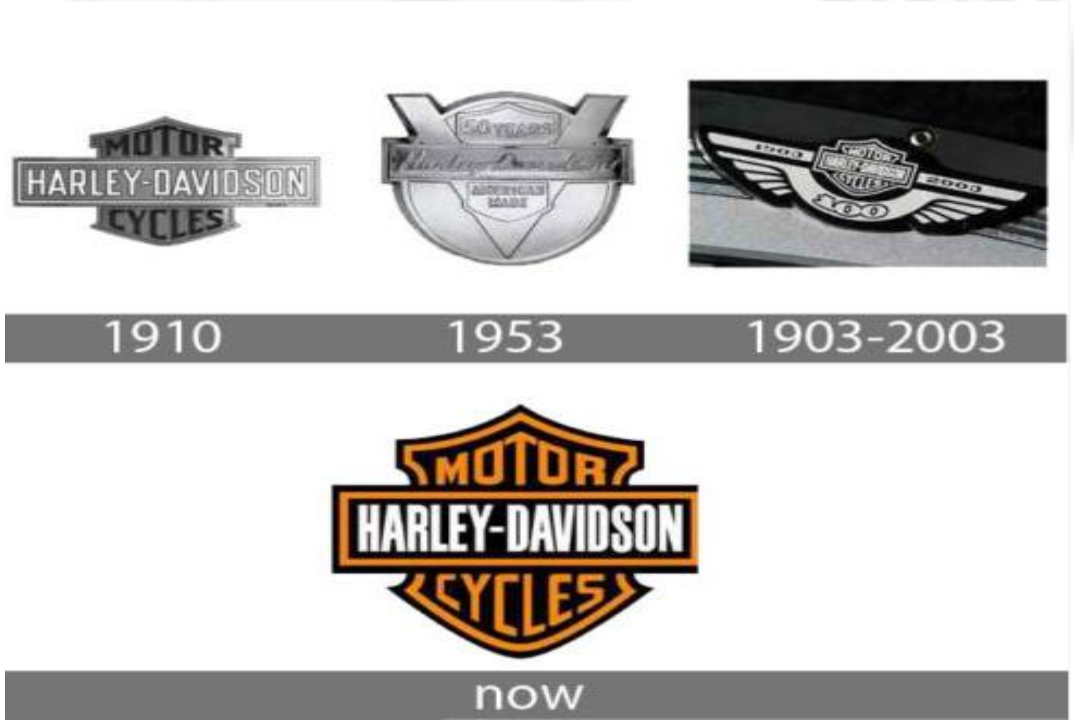
Geocentric Orientation (contd.)

- It is a positive sign that, at many companies, management realizes the need to adopt a geocentric orientation.
- However, the transition to new structures and organizational forms can take time to bear fruit. As new global competitors emerge on the scene, management at long-established industry giants such as GM must face up to the challenge of organizational transformation.
- About 20 years back, Louis R. Hughes, a GM executive, said, ***"We are on our way to becoming a transnational corporation."*** Basil Drossos, former president of GM de Argentina, echoed his colleague's words, noting, ***"We are talking about becoming a global corporation as opposed to a multinational company; that implies that the centres of expertise may reside anywhere they best reside."***

Geocentric Orientation (contd.)

- A global company can be further described as one that pursues either a strategy of serving world markets from a single country, or one that sources globally for the purposes of focusing on select country markets.

- Some global companies retain their association with a particular headquarters country.
  - Harley-Davidson serves world markets from the United States exclusively.
  - All the production for luxury goods (shoes, bags, accessories etc.) marketer Tod’s S.p.A., also known as Tod's Group takes place in Italy.



Geocentric Orientation (contd.)

- Some global companies follow a different strategy. Gap sources its apparel from low-wage countries in all parts of the world; a sophisticated supply chain ensures timely delivery to its network of stores.
- Benetton pursues a mixed approach, sourcing some of its apparel in Italy and some in low-wage countries.

Geocentric Orientation (contd.)

- Transnational companies serve global markets and use global supply chains, which often results in a blurring of national identity and hence are characterized as “state-less.”

- Toyota and Honda are two examples of companies that exhibit key characteristics of **transnationality**.

- At global and transnational companies, management uses a combination of standardized (extension) and localized (adaptation) elements in the marketing program.

- A key factor that distinguishes global and transnational companies from international or multinational companies is mind-set since their decisions regarding extension and adaptation are not based on assumptions, but on the basis of ongoing research into market needs and wants.

TOYOTA

HONDA

Geocentric Orientation (contd.)

- One way to assess a company's "degree of transnationality" is to compute an average of three figures:
  - Sales outside the home country to total sales
  - Assets outside the home country to total assets
  - Employees outside the home country to total employees
- Viewed in terms of these metrics, Nestlé S.A. (HQ: Vevey, Switzerland), Unilever plc (HQ: London, UK), Koninklijke (literally Royal) Philips N.V. (HQ: Amsterdam, Netherlands) and GlaxoSmithKline plc (HQ: Brentford, UK) can also be categorized as transnational companies. Each is headquartered in a relatively small home country market, which has compelled the management to adopt regiocentric or geocentric orientations to achieve revenue and profit growth.

Comparison between Management Orientations

- The geocentric orientation represents a synthesis of ethnocentrism and polycentrism; it is a “worldview” that sees similarities and differences in markets and countries and seeks to create a global strategy that is fully responsive to local needs and wants.
- A regiocentric manager might be said to have a worldview on a regional scale; the world outside the region of interest will be viewed with an ethnocentric or a polycentric orientation, or a combination of the two. However, recent research suggests that many companies are seeking to strengthen their regional competitiveness rather than moving directly to develop global responses to changes in the competitive environment.

Comparison between Management Orientations (contd.)

- The ethnocentric company is centralized in its marketing management; the polycentric company is decentralized; and the regiocentric and geocentric companies are integrated on a regional and global scale, respectively.
- A crucial difference between the orientations is the underlying assumption for each. The ethnocentric orientation is based on a belief in home-country superiority., whereas the underlying assumption of the polycentric approach is that there are so many differences in cultural, economic, and marketing conditions in the world that it is futile to attempt to transfer experience across national boundaries.
- A key challenge for the global managers today is how to manage a company’s evolution beyond an ethnocentric, polycentric, or regiocentric orientation to a geocentric one. The multinational solution encounters problems by ignoring a number of organizational impediments to the implementation of a global strategy and underestimating the impact of global competition.

Interesting thoughts regarding Management Orientations

- ***“These days everyone in the Midwest is begging Honda to come into their hometown. It is no longer viewed as a ’Japanese’ company, but a ’pro-American-worker corporation’ flush with jobs, jobs, jobs.”***

Douglas Brinkley, Professor of History, Tulane University

- ***“What unites us through our brands, markets, and businesses is the group’s identity, which we refer to as ’a worldwide business with local presence.’ Everywhere we operate, our priority is to create or develop a strong brand that reflects consumer needs in that market as closely as possible.”***

Franck Riboud, Former Chairman and CEO, Danone S.A.

Case Study : Boeing aiming at Chinese market

- Executives at The BoeingCompany – the American multinational corporation headquartered in Chicago, Illinois that designs, manufactures, and sells airplanes, rotorcraft, rockets, satellites, telecommunications equipment, and missiles worldwide forecast that Chinese airlines will order up to 5,000 aircraft valued at more than $600 billion by the year 2030.

- Chinese carriers, which include Air China and China Southern Airlines, will triple the size of their fleets and make China the largest aviation market in the world.

- Boeing (USA) will face tough competition from:

  - Airbus SE (EU) - the European multinational aerospace corporation based in Blagnac, Greater Toulouse, France (main office), Leiden, Netherlands (headquarters) and Madrid, Spain (international office)

  - Commercial Aircraft Corporation of China, Ltd. (COMAC), the Chinese state-owned aerospace manufacturer established on 11th May 2008 in Shanghai and headquartered in Pudong, Shanghai

Case Study : Boeing aiming at Chinese market (contd.)

- Most of Boeing’s current production takes place in the United States, but its business structure is changing. Boeing will do more to develop “global brains” outside the United States. It will also make sure that U.S.-based managers have more experiences outside the United States such as in China that they can bring home with them. Boeing currently commands a 50% market share in China, but Airbus is working hard to catch up. The company's A320 is assembled in north-eastern China; Boeing does not currently manufacture complete aircraft in China. COMAC attracted interest from Chinese airlines with its C919 which is meant to compete in the market for single-aisle jets dominated by Airbus A320 and Boeing 737 and also for ARJ21 jets,