

Guidelines for Developing International Marketing Strategies

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The formulation of international marketing strategies is requiring more sophisticated management approaches due to the increasing importance of international business operations. The authors examine the relevance of the E.P.R.G. framework (ethnocentrism, polycentrism, regiocentrism, geocentrism) as a guideline for international marketing strategies.

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ONE of the most striking trends in business has been the growing internationalization of business operations.¹ An increasing number of companies are operating on a global or regional rather than a national scale. Thus, new parameters are added to management decisions calling for a rethinking of organizational strategies and planning procedures. Marketing is no exception to this rule. International marketing managers are asking themselves how they should cope with the new scope of operations, and whether they can apply domestic strategies to international markets.

Some guidelines to these and other issues may be provided by the modified E.P.R.G. schema.² This framework identifies four types of attitudes or orientations toward internationalization that are associated with successive stages in the evolution of international operations—ethnocentrism (home country orientation), polycentrism (host country orientation), regiocentrism (a regional orientation), and geocentrism (a world orientation). These attitudes are assumed to reflect the goals and philosophies of the company with respect to international operations and to lead to different management strategies and planning procedures with regard to international operations.

In the ethnocentric phase, top management views domestic techniques and personnel as superior to foreign and as the most effective in overseas markets. As the company begins to recognize the importance of inherent differences in overseas markets, a *polycentric* attitude emerges. The prevalent philosophy in this stage is that local personnel and techniques are best suited to deal with local market conditions. This frequently gives rise to problems of coordination and control, resulting in the adoption of a regiocentric position. *Regiocentrism* recognizes regional com-

1. See, for example, David S. Leighton, "The Internalization of American Business—The Third Industrial Revolution," *JOURNAL OF MARKETING*, Vol. 34 (July, 1970), pp. 3-6.

2. Howard V. Perlmutter, "The Tortuous Evolution of the Multinational Corporation," *Columbia Journal of World Business*, Vol. IV, (January-February, 1969) pp. 9-18.

monalities and leads to the design of regional strategies. At the extreme, this orientation may lead to *geocentrism* which is characterized by the attitude of "the best man for the job" irrespective of national origin.

The implications of this schema for the functional areas of production, finance, and manpower have already been examined.³ This article explores the use of the E.P.R.G. framework as a guideline for planning and developing international marketing strategies. In particular, it is concerned with (1) examining the implications of each orientation in terms of marketing strategies, and (2) assessing the conditions under which international marketers are likely to adopt these orientations and associated strategies.

Two exploratory studies were undertaken to investigate these issues. The first analyzed the perceptions of international executives in a large multinational firm toward alternative marketing strategies hypothesized to be associated with different international orientations. The second, based on interviews with senior marketing executives in 10 U.S. companies, examined their evaluations of the appropriateness of the different international orientations and implied strategies to specific management objectives and individual company situations. While both of these studies were exploratory in character and based on very small sample sizes, they nonetheless provide some general indications concerning the relevancy of the E.P.R.G. framework in providing guidelines for marketing strategies.

The E.P.R.G. Framework and Marketing Decisions

A key assumption underlying the E.P.R.G. framework is that the degree of internationalization to which management is committed (or willing to move toward) affects the specific international strategies and decision rules of the firm. Based on this assumption and the nature of the E.P.R.G. orientations, hypothetical profiles of typical marketing strategies associated with each orientation may be inferred.

Ethnocentric Orientation

In the *ethnocentric company*, overseas operations are viewed as secondary to domestic operations and primarily as a means to dispose of "surplus" domestic production. Plans for overseas markets are developed in the home office,

utilizing policies and procedures identical to those employed in the domestic market. Overseas marketing is most commonly administered by an export department or international division, and the marketing personnel is composed primarily of home country nationals.

No systematic research is conducted overseas, and no major modifications are made to products sold in overseas markets. Prices are calculated on the same basis as in the home market, with the addition of overseas distribution costs. Promotion and distribution strategies are similar, to the extent possible, to that employed in the home country. The sales force is trained and hired in the home country. It operates from a home country base, and there is likely to be strong reliance on export agents.

Polycentric Orientation

In the *polycentric stage*, subsidiaries are established in overseas markets. Each subsidiary operates independently of the others and establishes its own marketing objectives and plans. Marketing activities are organized on a country-by-country basis, and marketing research is conducted independently in each country. Separate product lines are developed in each country, and home country products are modified to meet local needs. Each subsidiary establishes its own pricing and promotion policy. The sales force in each country is composed of local nationals, and the channels of distribution are those traditionally used in each country.

Regiocentric and Geocentric Orientations

In the *regiocentric and geocentric* phases the company views the region or the entire world as a potential market, ignoring national boundaries. The firm develops policies and organizes activities on a regional or worldwide basis. Marketing personnel include people from the region or from any country of the world. Standardized product lines for regional or worldwide markets are developed, and pricing is established on a similar basis. Promotional policy is developed regionally or worldwide to project a uniform image of the company and its products. Regional or global channels of distribution are also developed.

Empirical Support for E.P.R.G.

An exploratory study was recently conducted to provide some initial insight into the validity of this framework.⁴ The perceptions and preferences of international executives toward the current and future appropriateness of each of these alternative orientations and associated strategies were assessed. The sample consisted of 40 key

3. Howard V. Perlmutter, *Functional Studies Using the E.P.R.G. Categorization: Types of Headquarters Orientation Towards Subsidiaries in an International Enterprise*, Technical Memo B.R. 3:2, Division for Research and Development of Worldwide Institutions, Wharton School, University of Pennsylvania; and David Heenan, "The E.P.R.G. Approach to the Manpower Development Function," Working Paper 1972, Wharton School, University of Pennsylvania, Philadelphia.

4. The study was designed by Howard Perlmutter and the data collected by David Heenan.

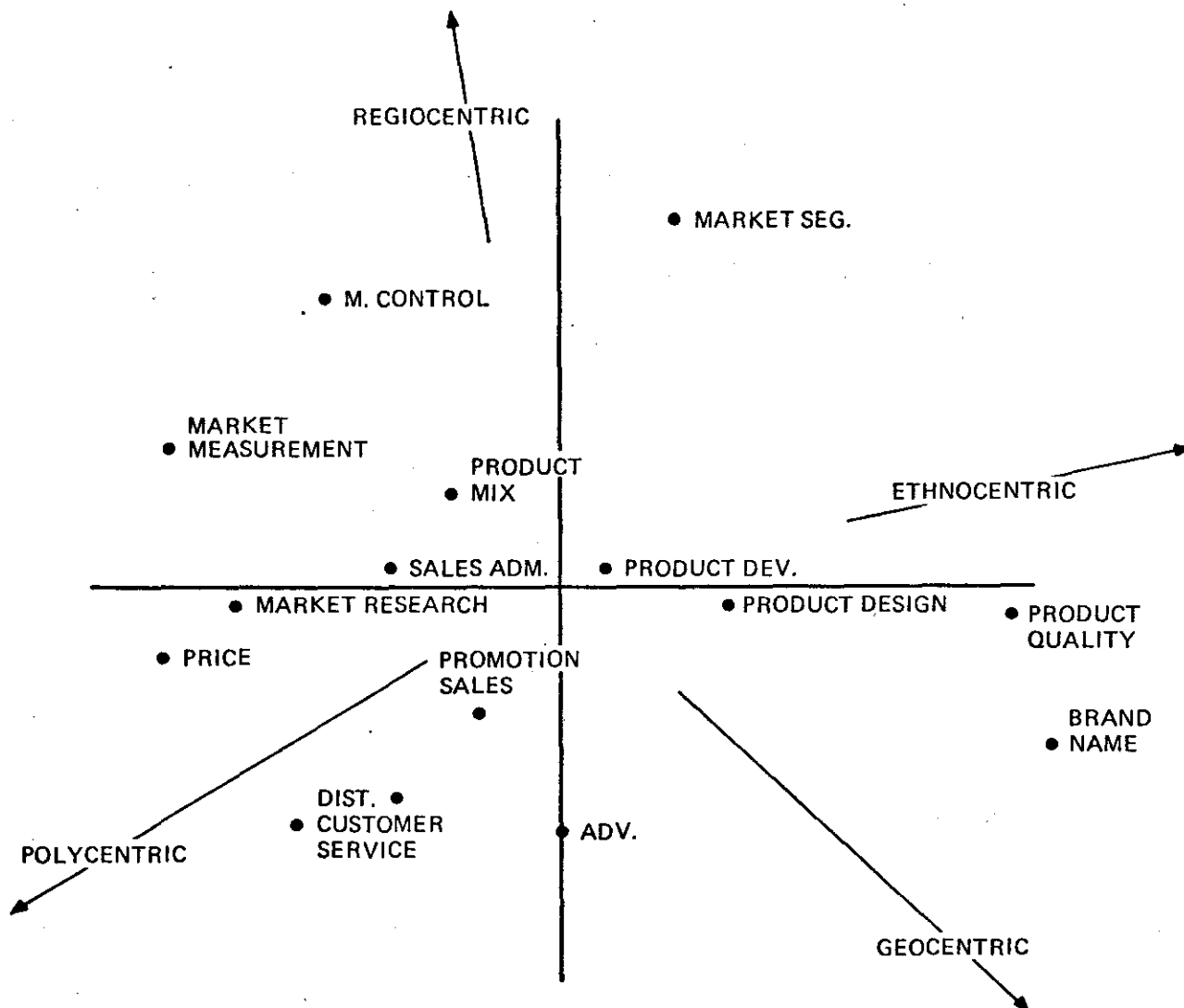


FIGURE 1. A joint space configuration of 15 international marketing decisions and international orientations: present situations.

international executives of one large U.S. firm whose product line is composed of frequently purchased household items.

Each respondent was presented with a set of 4 alternative strategies (one for each orientation) for each of 15 marketing decision areas. For example, for the brand name decision (orientation in parenthesis), the set was as follows:

Branding policy in overseas companies stresses the parent country as a unifying feature but not necessarily the origin of the parent country (ethnocentric).

Each local company brands products on an independent basis and consistent with local country criteria (polycentric).

Overseas companies brand products uniformly within a region (regiocentric).

A worldwide branding policy exists only for those brands which are acceptable worldwide (geocentric).

Respondents were then asked to select the statement that best described (1) the firm's current international marketing policy, and (2) the most appropriate future strategy for the firm (i.e., the "ideal" strategy). The frequency distribution of responses for the current and desired situation are shown in Tables 1 and 2. These tables suggest that the polycentric orientation is the dominant current approach across all fifteen marketing decisions. Use of the polycentric approach is particularly pronounced in the case of price, customer service, market research, and channels of distribution, and least marked in the case of brand name and product quality. In both these decision areas ethnocentric approaches were used by one-fifth and egocentric approaches by one-third of the sample. When considering the *desired* approach, however, a substantial shift in preference occurs from the polycentric approach to a regiocentric and geocentric approach. For seven out

TABLE 1
FREQUENCY OF SELECTING DIFFERENT INTERNATIONAL ORIENTATIONS AS BEST DESCRIPTORS
OF THE FIRM'S CURRENT INTERNATIONAL MARKETING ACTIVITIES. (Row Percentage)

Decision Areas	Ethnocentric	Polycentric	Regiocentric	Geocentric
Market Measurement & Forecasting	5	72	21	2
Market Segmentation	24	53	19	5
Market Research	7	78	10	5
Product Development	9	58	14	19
Product Design	21	61	4	13
Product Quality	16	48	5	31
Customer Service	12	81	1	6
Product Mix	19	68	9	4
Brand Name	22	43	4	31
Price	4	86	6	3
Sales Promotion	13	72	1	14
Advertising	10	67	0	22
Channels of Distribution	6	77	2	15
Sales Administration	13	63	11	14
Marketing Control	10	61	24	1
Cumulative Profile	13	66	9	12

TABLE 2
FREQUENCY OF SELECTING DIFFERENT INTERNATIONAL ORIENTATIONS AS BEST DESCRIPTORS
OF THE DESIRED INTERNATIONAL MARKETING STRATEGY (Row Percentage)

Decision Areas	Ethnocentric	Polycentric	Regiocentric	Geocentric
Market Measurement & Forecasting	2	69	16	13
Market Segmentation	12	38	18	33
Market Research	1	65	16	18
Product Development	3	45	14	38
Product Design	5	40	10	45
Product Quality	6	35	9	51
Customer Service	4	60	10	26
Product Mix	1	57	18	24
Brand Name	7	36	13	43
Price	0	67	12	21
Sales Promotion	5	45	7	43
Advertising	8	43	5	45
Channels of Distribution	1	39	19	41
Sales Administration	6	31	15	49
Marketing Control	6	30	25	36
Cumulative Profile	4	47	14	35

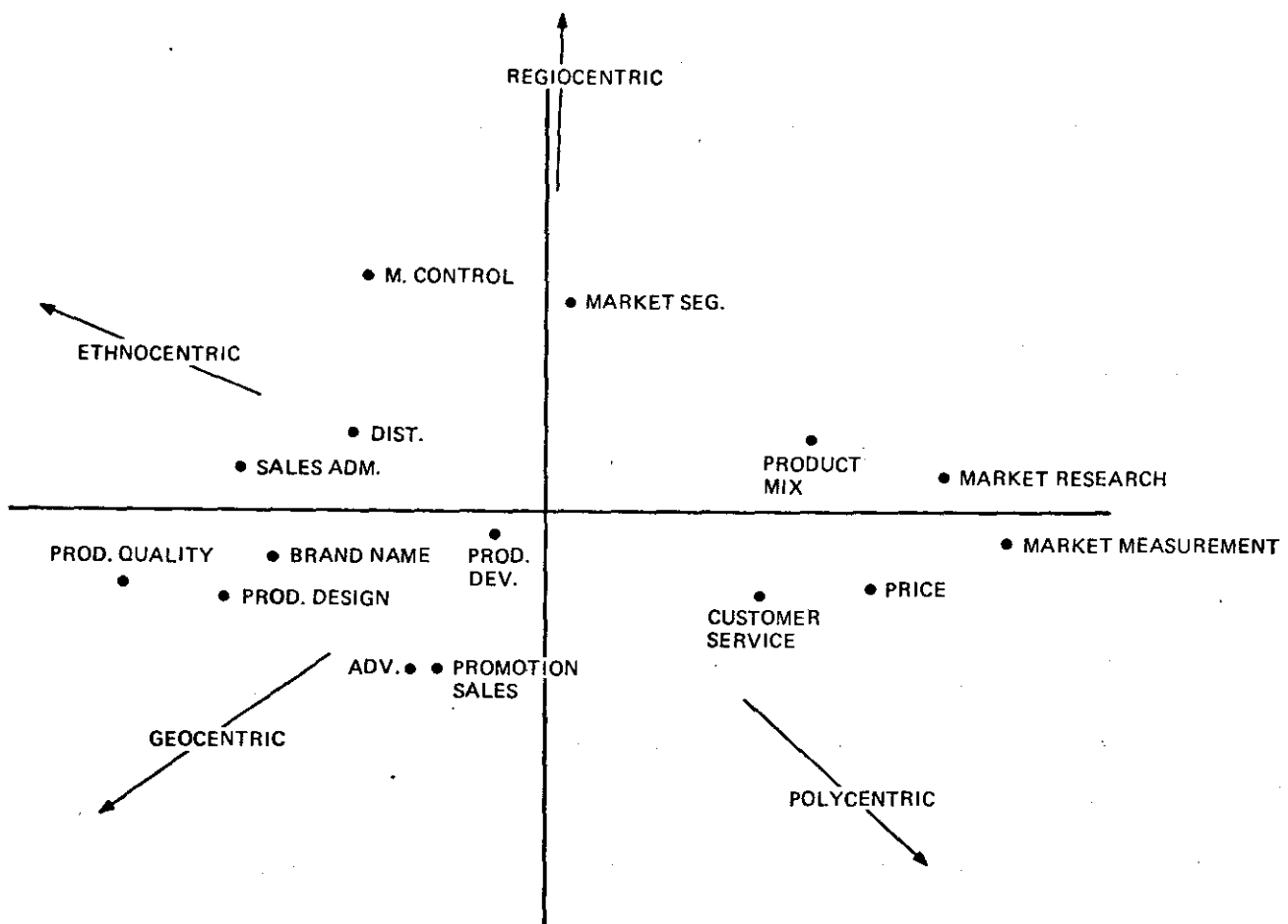


FIGURE 2. A joint space configuration of 15 international marketing decisions and 4 international orientations: desired situations.

of the fifteen decision areas, geocentrism is viewed as the ideal by the majority.

The executives' responses were then subjected to a multidimensional scaling analysis, using the TORSCA and PREFMAP programs to examine further the interrelationship between the various marketing decisions and their associated international orientations. The results of the two dimensional joint space configuration (the number of dimensions required in this case to represent the original data) are shown in Figures 1 and 2.⁵

The results of this analysis suggest that (1) each orientation does appear to be perceived as a distinct orientation: on both maps each orien-

tation—vector—is clearly separated from the others; (2) as in the simple frequency analysis, considerable differences seem to exist between the present and desired approach for this company; and (3) the type of orientation considered appropriate for both the current and desired operations of the firm differs depending on the specific decision area.

These findings and the specific position of each decision relative to the four orientations should be viewed, however, only as tentative and illustrative. The pilot study suffered from several severe limitations including a small sample size, incomplete data, and possible bias toward geocentrism (which stems from its intuitively greater appeal). In addition, no cross validation was undertaken. Nonetheless, the study does provide some initial support to the hypotheses: (1) The E.P.R.G. framework is *relevant* for describing both current and desired international marketing decisions; (2) distinct international orientations (E.P.R.G.) are presently employed in international marketing operations; and (3) different international orientations are appropriate for functionally different marketing decisions.

5. The respondents aggregated data which resulted in a 15 x 4 matrix was converted to a 15 x 15 decision similarity matrix. This matrix served as the input to the TORSCA multidimensional scaling program. The output of this phase was then submitted together with the aggregated international orientation vectors (15x4 for the actual and 15x4 for the desired data) to the Carroll-Chang PREFMAP program. These and other multidimensional scaling procedures are discussed in Paul E. Green and Frank J. Carmone, *Multidimensional Scaling and Related Techniques in Marketing Analysis*, (Boston: Allyn & Bacon, 1970).

E.P.R.G. Orientations and Organizational Characteristics

Once the relevance of the E.P.R.G. framework is accepted as a guideline for developing international marketing strategies, it should be determined (1) which orientation should be adopted, and (2) under what circumstances should each orientation be employed.

A second exploratory study was undertaken to examine the conditions under which different E.P.R.G. marketing strategies are appropriate. The study was based on unstructured in-depth interviews with senior international marketing executives from 10 U.S. corporations. The importance of their overseas operations varied from over two-thirds of the company's sales to only a small volume of export business.

Respondents were asked to describe their company's current strategies, the rationale underlying these strategies, their planned strategies, and their opinions concerning alternative E.P.R.G. strategies. The results of these interviews were content analyzed and categorized under the various E.P.R.G. positions.

Ethnocentric Position

The results of these interviews suggest that the ethnocentric position appears most appropriate when the absolute or relative volume of overseas sales is insignificant. In these situations product modifications are generally viewed as uneconomic. As one executive states, "We simply can't afford to produce different products for foreign buyers," that is, the cost of conducting extensive overseas research or of tailoring marketing policies to specific international customer requirements may not be justified by the low anticipated revenue. Hence, in these circumstances it may be most appropriate to export to countries with similar characteristics to those of the home country.

A similar approach was taken by an executive of a large consumer goods company concerning the development of marketing strategies for the introduction of an established product into new markets. He pointed out that in some cases the size of the potential market was so small that it was not worth the research effort or time to determine the most effective strategy. Similarly, separate advertising appeals and messages were only developed for an individual market if sales in that market were sufficiently large to support the additional cost involved. Otherwise appeals and themes developed in other countries were used. It was presumed that if these had been successful in another market, there was a strong possibility that they might also be effective in the new market.

The major advantage of the ethnocentric approach is that it entails minimal risk and com-

mitment to overseas markets. No international investment is required, and no additional selling costs are incurred with the possible exception of higher distribution costs. On the other hand, lack of research concerning overseas markets and insufficient attention to their specific needs suggests the possibility of lost opportunities for the firm.

The ethnocentric position may be appropriate for a small company just entering international operations or for companies with minimal international commitment. On the other hand, it may not be the most desirable approach for companies interested in expanding their international operations. Executives in several of the large companies interviewed indicated that their company initially had an ethnocentric orientation toward international operations. However, the need to adapt to differences in national markets in order to expand sales generally led to the establishment of separate marketing organizations in each country or region. In many cases, the ethnocentric position appears to result in lack of attention to the needs and interests of international customers, i.e., a minimal degree of marketing orientation. Only in a few instances, notably in small companies, is an ethnocentric attitude associated with systematic selection of target customers with similar needs and interests to those of domestic customers.

Polycentric Orientation

Consistent with the findings of the first pilot study, most executives interviewed tended to regard the polycentric position as currently the most desirable one. Market conditions in various countries were thought to differ significantly, and adaptation to these differences was considered to be critical in the development of marketing strategies. This was thought to be most effectively accomplished through autonomous marketing organizations in each country developing and administering the country's marketing strategies.

Several executives felt that local nationals had a better understanding and awareness of national market conditions than home office personnel. One head office executive said, "I don't presume to tell the Germans how to sell to the German." Another executive considered that at the current stage in the company's evolution, knowledge of the country and local market conditions was critical. This generally entailed national marketing organizations run by nationals of the country. Another executive suggested that the polycentric organization was the most effective means of motivating management. If the marketing manager in each country is responsible for policy decisions and for profits in his area, he was viewed as most likely to be motivated to promote company interests and to develop market potential.

Several problems regarding coordination and control of marketing activities were felt to result from polycentrism. First, the autonomy of national marketing organizations tends to result in a failure to coordinate marketing policies throughout the world. For example, considerable duplication often occurred with regard to the development of advertising appeals. Furthermore, it can also lead to competition between two national marketing organizations for sales in a third country. In one case, ideas developed by one national marketing organization had been adopted by a competitor and used against a subsidiary in another country.

Several executives felt that some of the problems associated with polycentrism might be reduced by centralizing and coordinating strategy development in the home office. For example, major advertising strategy themes could be developed in the head office and circulated to subsidiaries. Managers in subsidiaries were often convinced, however, that a significant difference existed between their customer interests and needs and customers in other countries. Thus, they tended to reject standardized strategy as unsuited to their particular country. Similarly, unique legal restrictions and barriers, differences in national distribution systems, and other environmental conditions in their country or area led managers to emphasize these idiosyncratic characteristics and to develop unique marketing policies and strategies. This may be an appropriate approach if in fact differences between countries are greater than within countries. The growth of cross-cultural communication and emergence of similar subcultural groupings across countries (e.g., the teenager's subculture) suggest, however, that the polycentric orientation may not be the most desirable approach in the future.

Regiocentric and Geocentric Orientations

Some significant advantages were thought to be inherent in the regiocentric and geocentric positions. Since these orientations imply the identification of regional or global market segments crossing national boundaries as well as the development of standard policies throughout a given segment, they may provide improved coordination and control. Geocentrism was viewed as entailing high costs in collecting information and administering policies on a worldwide basis. In this respect, the regiocentric appeal was generally viewed as more economical and manageable. In both cases, however, national environmental constraints may restrict multinational operations and make the approach infeasible. For example, national differences in laws and currencies may severely hinder any practical implementation of this "world market" perspective.

The impact of these national environmental differences is considered in most cases to be more critical with respect to marketing activities than for production and finance activities.⁶ Thus the geocentric position may be more advantageous for production and research development than for marketing. In fact, several executives suggested that geocentrism was infeasible due to the earlier mentioned attitudes of the local subsidiaries. Since some subsidiaries were convinced that different marketing policies were required for each country, movement toward global or even a regional policy development was virtually impossible.

Another executive suggested that the problem of implementing global and regional strategies was primarily one of information, timing, and relative market size. Once sufficient information and understanding of national market conditions was obtained, target segments could be identified on a regional or worldwide basis cutting across national boundaries. Then a regional or even global marketing strategies could be developed and aimed at selected target segments.

In brief, the desirability of the particular international orientation—E, P, R, or G—seems to depend on several factors: the size of the firm, experience in a given market, the size of the potential market, and the type of product and its cultural dependency.

Size of Firm: For a small firm, the most desirable approach is likely to be that associated with ethnocentrism—focusing on overseas customers who have needs and interests similar to domestic customers. Larger firms, on the other hand, are more likely to have adequate resources to investigate overseas markets and to find it economical to adopt a poly-, regio-, or geocentric approach.

Experience in Overseas Markets: For firms just entering overseas markets, an ethnocentric approach entails minimum risk, though further development or involvement in international markets will require movement to the polycentric or geocentric position. Similarly, adoption of geocentric strategies requires considerable knowledge and experience in various different national markets.

The Size and Degree of Heterogeneity of the Potential Market: Where the potential market is small relative to the domestic market, the design of separate strategies may be uneconomical. As overseas sales grow, segmentation on a country-by-country basis becomes feasible. As sales of

6. A similar point of view is often taken by academicians. See, for example, Millard H. Pryor, "Planning in a World-Wide Business," *Harvard Business Review*, Vol. 43 (January-February, 1965); and Robert D. Buzzell, "Can You Standardize Multinational Marketing?" *Harvard Business Review*, Vol. 46 (November-December, 1968).

national segments increase, further segmentation within each country may take place, and policies aimed at similar segments within different countries may be coordinated on a regional or world-wide basis.

The Nature of the Product: Products embedded in the life style or cultural patterns of consumers may be less susceptible to the development of global policies. For example, personal grooming products and food may have to be modified to suit differences in taste. Although the basic appeal is to the same needs, a different presentation of these appeals may be required. For industrial products, on the other hand, there may be no difference in customer interests or response.

The most appropriate E.P.R.G. position will, therefore, depend on the individual company, its objectives, and the specific market situation. While some executives feel that the polycentric type of organization is currently the most appropriate, the problems associated with this type of organization are being recognized. In some cases this results in interest in moving toward regiocentrism or geocentrism in regard to certain types of marketing decisions. In general, however, national and cultural differences are considered to be too great to permit substantial movement toward these positions at least in the near future.

Any international orientation may thus be selected and used to provide guidelines for developing marketing strategies, depending on the organization's desired degree of international involvement.

The E.P.R.G. Framework and Marketing Orientation

Whereas the E.P.R.G. framework suggests appropriate strategies relative to the desired degree of international involvement, it does not take into consideration how these strategies are developed. Assuming that the marketing concept is equally relevant for domestic and international operations, a company should be concerned not only with the degree of internationalization, but also the degree of marketing orientation. In other words, the analysis of consumer interests and the interests and objectives of channel members should provide the basis for developing international marketing policies.

The relationship between the degree of international orientation and marketing orientation were examined based on the data from the second pilot study. This analysis suggests that with the possible exception of ethnocentrism, the extent to which a marketing-oriented approach is adopted does not depend on the level of international involvement; i.e., a polycentric, regiocentric, or geo-

centric firm can employ a high or low degree of marketing orientation. Furthermore, the degree of marketing sophistication of a domestic firm does not imply that its international marketing operations (whether ethnocentric, polycentric, regiocentric, or geocentric) will also be highly sophisticated.

Adoption of an ethnocentric approach generally implies that customer behavior and interests in overseas markets are not investigated. Consequently, this orientation is generally associated with a low degree of marketing orientation. Some exceptions may occur, however. An example is the small firm which deliberately focuses its efforts on similar customers in domestic and overseas markets. Apart from such cases, given the heterogeneity of demand in overseas markets, any investigation of overseas markets seems likely to result in a movement away from this position.

Whereas polycentrism appears compatible with a high degree of marketing orientation, the extent to which marketing strategies are based on customer interests and characteristics may depend on the individual subsidiary and its marketing sophistication. For example, one subsidiary may have a high degree of marketing orientation whereas another's marketing orientation may be minimal. Similarly, a country-by-country segmentation, which is typical of polycentric companies, may be the wrong strategy if no significant differences exist between customers in different countries, or if the behavior of customers within a country is highly heterogeneous.

The relative lack of information available regarding international customer characteristics and their responses to marketing variables suggests that at least currently the geocentric position may imply a low degree of marketing orientation. Emphasis on the production and distribution savings association with a standardized marketing strategy may result in a tendency to ignore differences among world customers. This may, however, depend on the particular product, the degree of heterogeneity among world customers, and level of market segmentation. Where similar segments with similar interests and needs can be identified in different countries such as, for example, data processing requirements of banks, a geocentric approach may be coupled with a high rather than a low degree of market orientation.

Thus consideration of both the level of international orientation and the degree of marketing orientation is required to provide useful guidelines for the design of a firm's international marketing strategies. The level of international orientation determines the firm's desired level of involvement in international operations and the appropriate unit of analysis for developing mar-

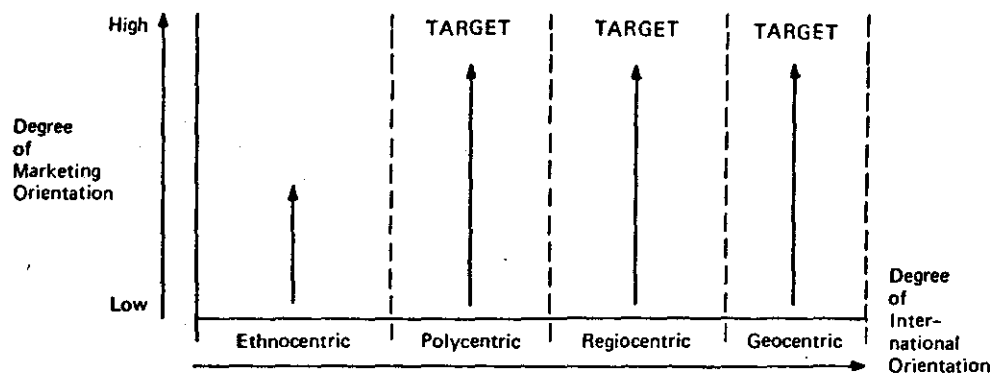


FIGURE 3. Guidelines for the development of international marketing strategies.

keting policies, i.e., by region, country, or world. The degree of marketing orientation, on the other hand, determines the specific analytical approach to be used. Regardless of the level of international involvement, a company's international operations should always reflect a high degree of marketing orientation. This implies that the company follows a rigorous marketing approach of examining its markets—individual markets in the polycentric stage, regional markets in the regiocentric stage, and world markets in the geocentric stage—and identifying relevant target segments. Product, price promotion, and distribution strategies are then designed to meet the needs and wants of these target segments.

Once the firm has determined its desired degree of involvement in international operations, it should then move toward a high degree of marketing orientation within the boundaries of the given international orientation. This idea is summarized in Figure 3. In some cases, a careful analysis of the market may precede the selection of the desired level of international involvement.

A company's position on two key dimensions of marketing and international orientation cannot be determined by observing its actions. Observing a common advertising strategy in several countries does not reveal, for example, whether the company is (1) an ethnocentric company implementing the same campaign it is using in the home country; (2) a polycentric company which decided after considerable study to use the same advertisement in each country; or a (3) regiocentric or geocentric company following a unified regionwide or worldwide advertising strategy.

One may, therefore, use as indicators for the degree of international marketing sophistication the extent and nature of marketing research activities, the inputs used and process followed in making the marketing decisions, and the nature of the marketing organization (structure, communications network, etc.).

Conclusions

Despite the limitations of the two exploratory studies reported here, the findings provide some initial empirical insights into the implications of the E.P.R.G. framework for international marketing strategies and its usefulness as a guideline for international marketing decisions.

First, the degree of international orientation alone does not appear to provide sufficient guidelines for developing international marketing policies. Assuming that a firm also strives to achieve a high degree of marketing sophistication, the appropriate approach to developing marketing strategies must also be considered.

Second, there appears to be no single superior or dominant international orientation. Despite the widespread popularity and intuitive appeal of geocentrism, its desirability and feasibility as a guideline for marketing operations appear questionable at least in the current international environment. Lack of adequate and comparable information on customer characteristics and response patterns within countries suggests that it may imply a somewhat low degree of marketing orientation. Polycentrism or regiocentrism with improved regional coordination of national marketing strategies at regional and corporate levels may thus provide a more appropriate approach. Ethnocentrism is appropriate in a limited number of situations, but may imply a low degree of marketing sophistication.

In general, the advantages and disadvantages of a particular orientation vary considerably with the individual company's financial situation, product line, and size of potential overseas markets. These affect the costs and benefits associated with each position and thus its desirability to the company. Each company must, therefore, evaluate independently the desirability of each position and select the most appropriate degree of international orientation in light of its own market situation and objectives.

Furthermore, the appropriateness of a given orientation tends to vary according to the specific marketing decision area. For example, while regiocentrism or geocentrism may provide an appropriate organizational base for distribution, logistics, and product policy, high costs may be entailed in adopting such an approach for customer service or promotional activities.

However, no definitive conclusions may be

drawn due to the exploratory character of the studies. Further study of the impact of different environmental and intracompany factors on the costs and benefits of the various international positions and the implications of different international orientations is needed. Hopefully such research will shed better light on the international marketing operations of the multinational firms of the seventies.