



Keynote Address at the Thirteenth Annual ISBM Members meeting by Dr. Fariborz Ghadar

“The Evolving Role of Global Business”

Shorter product life cycles dictate new global marketing rules

In the postwar era when the United States dominated the world economy and produced more than half of the world’s output, American exporters segmented foreign markets primarily by economic size and chose strategies based on product technology—approaches still widely followed today. The demands of global markets have changed radically since then, said Professor Fariborz Ghadar. Many marketers no longer have the luxury of earning adequate profit at each stage of a product’s life cycle. They must apply globally the rules they learned selling around the corner: “Get to the marketplace quickly, at a reasonable price, and look at profitability from a total life cycle viewpoint.”

Dr. Ghadar, director of Penn State’s Center for Global Business Studies, told the conference that the most successful global companies achieve a reputation for providing value throughout the “international product life cycle.” Shorter product life cycles and more expensive research and development now make these firms attractive strategic partners for emerging technology companies. In turn, the value leaders with marketing clout need to ally themselves with new-technology firms to avoid an otherwise inevitable slide into mature, commoditized markets with cutthroat competition and slim profit margins.

The International Product Life Cycle

A world map reflecting relative purchasing power, Exhibit 1 (shown on the following page) emphasizes the biggest national markets. The “Triad” of the largest economies—North America, Japan, and Western Europe—accounts for 70 percent of world production and consumption. The map does not indicate the areas

of fastest growth, however: 5 to 15 percent annual rates in developing regions such as Southeast Asia and Latin America. Nor does the map indicate the critical differentiating role played by technology in determining global market strategies.

Life Cycle Stages

From 1963 through 1986, a massive study of global marketing activity—the Harvard Multinational Enterprise Project encompassing 280 U.S., 163 European, 60 Japanese and 58 emerging-nation corporations—found that companies design strategies around their product technologies. High-technology producers behave differently than firms with less advanced wares, Dr. Ghadar explained.

The study revealed a three-stage international product life cycle guiding strategic behavior.

Phase 1—High Tech

At this stage, products have:

- unique, “leading edge” technologies;
- high engineering content;
- few manufacturers and competitors;
- high gross profit margins;
- manufacturing within the Triad;
- high R&D-to-sales ratios (10 percent or more);
- technically oriented advertising support;
- relatively small markets domestic and export.

Phase 2—Growth and Internationalization

Products at this stage have:

- some standardization with established technologies;
- greater emphasis on process engineering;
- more competitors;
- declining gross profit margins;
- international manufacturing;
- less emphasis on R&D;
- more mass marketing and advertising;
- growing domestic and export markets.

Phase 3—Mature

In this stage, products have:

- thorough standardization;
- no emphasis on engineering;
- intense competition;
- thin profit margins (a price to cost ratio approaching 1.0);
- manufacturing where factors of production are least expensive;
- no R&D;
- no advertising;
- saturated markets worldwide.

The Harvard study argued that over time, a specific product moves along the life cycle, from phase 1 to phase 2 to phase 3. But companies invest in more R&D to improve their products, refresh their technologies, and push them back toward phase 1.

Marketing can serve the same objective “by convincing customers that the product is better, through advertising and promotion,” Dr. Ghadar continued. “Marketing is sometimes more important than product characteristics.”

Global Competitive Positioning

Companies in the 1963-1986 study positioned themselves at various points along the international product life cycle, as shown in Exhibit 2. The study identified common patterns of external and internal behavior for each group. Dr. Ghadar pointed out some of the more prominent features of different positioning types:

A companies call themselves “leading edge” technologists: independent supercomputer companies, for example. They are concentrated in Triad nations. At *A companies*, “weird is in” as firms nurture a “nerd” culture where innovation is worshiped. Employee turnover is high, and *A companies* hire relatively large proportions of women and minorities, because one’s knowledge base is the critical factor in employment. *A companies* reward technical employees well, often with stock options. As Dr. Ghadar

Triad of Largest Economies

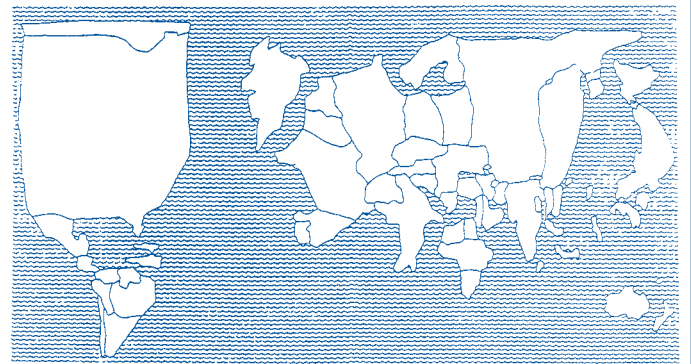


Exhibit 1

Global Competitive Positioning & Strategic Alliances

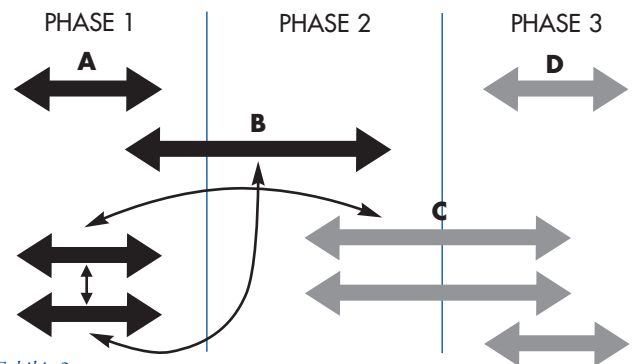


Exhibit 2

Corporate Strategy and Product Cycles

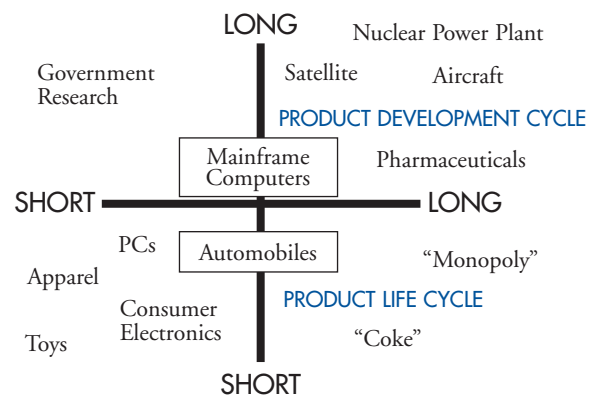


Exhibit 3

interprets their attitude toward the marketplace, “The nerds say, ‘We don’t like customers. We want to do research.’ At *A companies*, the customer has to adapt to the company.”

B companies portray themselves as leaders in reliable, “proven” technologies distinct from the risky “bleeding edge” of the *A companies*. A prime example: IBM. Executives in *B companies* speak the language of business and hew to a businesslike culture. “They look alike, and talk alike, because company culture is very important to impress the customer.” *B companies* have a tech-driven approach to customers, an arrogance that trades on the power of their brand names. *B companies* typically have strong sales forces.

C companies promote their mix of performance and price in a “value” positioning. These firms are the “gods of marketing” which are winning global markets today, Dr. Ghadar said, by moving quickly into markets with quality products at reasonable prices. The company culture emphasizes being sensitive to host cultures in foreign markets, acting accordingly, and segmenting markets conscientiously. Salaries and benefits tend to be lower for employees compared to *A* and *B companies*, however.

D companies, competing on the basis of price with standard products, position themselves as inexpensive—Hyundai automobiles’ original positioning of their products in North America, for instance. The *D company* approach to customers is price-driven. Often, employee benefits are slim, or non-existent when companies move production offshore.

New Pressures in the Nineties

“The established international product life cycle positioning is losing its effectiveness in most industries, however. Drastically shorter product life cycles, more expensive R&D, and pressure to outrun changing market tastes are forcing some global business and consumer product manufacturers to adopt a new framework,” Dr. Ghadar said.

Organizational Stress

Even if a firm has a mix of products at different international life cycle stages, it tends to have a single dominant competitive positioning. That can be a problem, Dr. Ghadar pointed out. A firm positioning itself as a *B* company, for example, does not appear “weird” enough to sell *A* products, nor is it “sensitive” enough to sell *C* products or “cheap” enough to sell *D* products.

To correct the problem, companies create separate business units to market their *A*, *B*, *C*, or *D* products. And when multiple units call on the same customers, corporations appoint global account managers to coordinate all the activity relating to major customers. A complex set of dotted-line relationships attempts to coordinate the activities of functional, regional, business unit, and global account managers.

An Urge to Partner

The speed of technological change raises problems as well. On average, Dr. Ghadar estimated product life cycles have shrunk from 15-20 years in the postwar era to about three years today. Meanwhile the cost of product development has skyrocketed. Companies must invest in R&D lest they slide toward market maturity, but short life cycles do not permit them to recoup R&D investments unless they have a global position in the marketplace.

“The pressure of short product life cycles and reduced political risk forces firms to move quickly into global markets, selling products at reasonable prices.”

In response, *A companies* pursue alliances with *C companies* (illustrated by the arcing arrow on Exhibit 2) which have deeper pockets and more marketing muscle. And *C companies* seek the technical expertise of the *A firms*, which can keep *C* products from sinking to *D* status. Companies in the chemical, computer, telecommunications, and automotive industries, for instance, have developed such partnerships, Dr. Ghadar observed. Lamborghini needed to develop a new state of the art engine, but didn’t have the volume to afford its development costs, so it allied with Chrysler which did have the

requisite marketing muscle and production volume, and wanted new engine technology.

Historically, companies with technical strengths often faced political risks in foreign countries, Dr. Ghadar added, pointing to instances where nations invited foreign companies to manufacture locally. Once the government partner learned the technology, it nationalized the factory. This threat has become less critical as the expropriated technology life cycle has shortened. Dr. Ghadar contrasted Compaq Computer’s willingness to share short-lived personal computer technology with China versus a leading chemical company’s reluctance to share advanced cigarette filter manufacturing in that market.

The pressure of short product life cycles and reduced political risk forces firms to move quickly into global markets, selling products at reasonable process, insisted Dr. Ghadar. To win, companies must be first or second in market share. “If you’re number four, you must find a niche where you’ll be number one or number two.” Companies might need alliances to acquire the market presence and investment resources demanded by that strategy.

Not all products require that strategy, of course. Those with long development cycles and long life cycles (the upper-right quadrant in Exhibit 3) face less pressure to enter global markets quickly with a reasonable price, Dr. Ghadar reasoned. “They can behave in the old way: Position yourself as an *A*, *B*, *C*, or *D* company and act accordingly.”

Of course, the model also applies to components and subsystems, including those of the product categories in the upper-right of Exhibit 3. An aircraft model might be in production for decades, for example, but technological change and competition require shorter life cycle component makers to market new products to aircraft manufacturers quickly, at reasonable prices.

Keys to Success

Global marketing success, Dr. Ghadar summarized, requires global positioning and an integrated organization that moves into markets with speed and flexibility. “If you can’t do it alone, you might need partnerships to do it well and with best-in-class processes. Focus operations on core competencies, be one or two in the market, and benchmark to be sure you’re one or two.”

“Since *C companies* are winning out, you must mass customize. The platform can be standardized, but in the marketplace you must meet the customer’s needs. The customer wants reasonably-priced new technology around the globe.” The key words, Dr. Ghadar emphasized, are “new,” “quick,” “global,” and “a good deal.”

FARIBORZ GHADAR, William A. Schreyer Chair of Global Management and Director of the Center for Global Business Studies at Pennsylvania State University, is an authority on future business trends, global economic assessment, and global corporate strategy and implementation. He consults with major corporations, governments, and government agencies, and regularly conducts award-winning executive programs for multinational corporations. *BusinessWeek* named him one of the top 10 “Stars of Finance,” and he was selected as one of the top 10 thought leaders and practitioners of strategy coaching in *Profiles in Coaching: The 2004 Handbook of Best Practices in Leadership Coaching*. Professor Ghadar is the author of more than 10 books, including *Global Tectonics: What Every Business Needs to Know*. He frequently is quoted in internationally circulated publications, and has been a featured speaker and an interviewee on major television networks and business broadcasts.

This keynote address was delivered by Dr. Fariborz Ghadar at the Thirteenth Annual Institute for the Study of Business Markets (ISBM) Members Meeting on Global Marketing Management, held at Penn State’s University Park campus. Edited by Bob Donath, of Bob Donath & Co., Inc.

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