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Piggybacking--A Quick Road to Internationalization

Vern Terpstra
Chwo-Ming J. Yu

College of Commerce and Business Administration
Bureau of Economic and Business Research
University of Illinois, Urbana-Champaign

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Vern Terpstra
University of Michigan

Chwo-Ming J. Yu, Assistant Professor
Department of Business Administration

ABSTRACT

Piggybacking, an early form of strategic alliances, as a strategic alternative to serve foreign markets is discussed in this paper. Hypothesis related to the conditions under which piggybacking is a preferred strategy for riders and carriers are proposed. The implications of piggybacking for developing countries are also discussed.

The name "strategic alliance" is a term of the 1980s. It describes a development of the 1980s also, that is the growing number of ad hoc cooperations between firms who seek to achieve some of their strategic goals by allying themselves with partners who can complement their own strengths and weaknesses. Because we are living in an increasingly global market place, many, if not most, of these strategic partnerships are between firms in different countries. Thus it is largely an international business phenomenon. It is also an appropriate form of internationalization for small and medium sized firms.

Firms going international have long had various forms of cooperation or relations across national boundaries. When they did not go it alone abroad by establishing their own foreign production and/or marketing, they worked with distributors, licensees, or joint venture partners in the foreign market. Such forms of cooperation or alliance are long established and not generally what is considered by the new term--strategic alliance. The strategic alliances of the 1980s are generally characterized by a variety of ad hoc, non-equity agreements (Terpstra 1985; Permutter and Heenan 1986). They are certainly not internalization as normally understood, but are between internalization and arm's length. Of course, licensing agreements and joint ventures have common elements and motivations with the more modern strategic alliances. Indeed, Porter groups them together in his analysis in Competition in Global Industries (1986).

From the firm's point of view, the critical factor in the international cooperation is probably not whether there is an equity tie but rather whether the partner has the appropriate complementary contribution to make and whether acceptable arrangements can be made. In any case, our purpose here is not to get involved in the semantics of strategic alliances but to discuss an old and early form of strategic partnering--piggybacking. Piggybacking is a non-equity arrangement wherein one producer markets the products of another producer. The first producer--the carrier in this case--performs as a distributor in marketing the products of the second producer--the rider. The fact that the rider's products are being distributed by another producer may bring important benefits to the rider as compared with using a regular distributor.

Piggybacking has been used by firms to serve the domestic market as well as to serve foreign markets. For example, Zenith recently signed a marketing agreement with Hewlett-Packard to sell its portable computers in the U.S. In this paper, we discuss piggybacking as a strategy to serve foreign markets. We organize the paper as follows. Section I explains what piggybacking is. Section II presents the rationale for using piggybacking. Section III summarizes the results of case analyses. Section IV demonstrates the advantage of piggybacking to firms from developing countries. The last section is the conclusion.

PIGGYBACKING: NATURE AND FORMS

In piggybacking, firms join together voluntarily--usually no equity-tie--to reach some objectives together that they cannot reach efficiently by themselves. The relationship in piggybacking between two parties is closer than arm's length but short of a formal joint venture or merger. Because piggybacking is also a form of cooperation in exporting, it has something in common with Export Management Companies, Export Trading Companies, and Webb-Pomerene Associations (Terpstra 1987).

Piggybacking connotes "carrying on ones' back" and involves two (or more) parties--the carrier and the rider. The carrier uses its overseas distribution facilities to sell the rider's products along with its own products. In this arrangement, depending on the agreement, the products can carry either the carrier's or the rider's brand name. A major motive for both parties is the attainment of economies of scale in one or more aspects of the international marketing task but they may also have other complementary motives. The relationships may be dissolved due to internal or external changes. This is similar to self-enforcing agreements, where two parties will keep the agreement effective as long as each party believes himself to be better off by continuing the agreement than by ending it (Telser 1980).

The rider and the carrier each has its own reasons for piggybacking. The rider relies on piggybacking to take advantage of the carrier's knowledge of the host country or the carrier's distribution system in the host country. At the same time, the carrier needs the rider's products to expand its product line. Thus, the alternative to piggybacking for both parties is to develop that product (service) or meet that need internally. Therefore, in forming a piggybacking relationship, each party receives some personal gain by going together as compared with going it alone.

Market Coverage

The market coverage of a piggyback arrangement can vary from one country to global markets. Many arrangements are a one country piggy-back agreement. That is probable when there is a large market that is particularly attractive for the rider firm and it doesn't have any marketing organization of its own to reach that market. It is also probable when the market has high entry barriers. Whirlpool used Sony only in Japan, for example. Perrier marketed the Swiss Chocolate Lindt only in the U.S. Breck Shampoo used Schick only in Germany. Champion Spark Plug used a Nanjing spark plug manufacturer to distribute its products only in China. ATT used Toshiba just for the Japanese market whereas Hitachi used NAS only for the U.S. market. WYKO Corporation is a small Arizona producer of precision optical test instruments. It wanted to reach the large but difficult Japanese market. It chose to piggyback with Panasonic (Matsushita Electric). It found Matsushita's market coverage and prestige in Japan was most helpful. In a similar vein, Uniflow, which had successfully exported to Europe, Africa and Latin America was unable to enter Japan until it piggybacked with Panasonic.

Other piggyback arrangements may have multi-country coverage, either regional or global. As a carrier, Borg Warner prefers global markets. "Otherwise only the plums get picked." The carrier firm may have good marketing coverage in many countries of a region that is attractive to the supplier firm which again may lack the marketing organization or resources or face high entry barriers. For example, Fujitsu used Siemens to cover Western European countries in computers.

Champion Spark Plug offered marketing coverage in Southeast Asia for several Australian and European auto parts makers.

In yet other cases, the rider firm may wish to cover all or most foreign markets by piggybacking with a well established global marketer around the world. Some multinational firms have such extensive global market coverage and industry expertise that they provide a most desirable carrier firm partner. Sankyo Seiki, a robotics firm, used the global coverage of IBM, as did Stratus mini-computers. Kyocera took advantage of Philips worldwide marketing in telecommunications equipment.

Reciprocal Piggybacking

Another dimension or form of piggybacking is reciprocal piggy-backing. Manufacturers which have good market coverage in their own country may look for a counterpart in a major foreign market or region of interest to them. This is mostly likely in the Triad countries--Europe, Japan, and the U.S.--where the markets are very attractive but have rather high entry barriers. An American auto component producer offers U.S. market coverage to a European producer of a complementary component. The European firm reciprocates by offering Western European markets to the American firm. ATT and Olivetti had such a reciprocal piggyback arrangement covering the U.S. and Europe. These reciprocal ties can strengthen the relations between the piggy-back partners as they are doubly tied together.

Product Coverage

Product coverage is another variable in piggybacking. A rider firm may choose to piggyback one or a few of its products or its whole product line. Of course, the desires of the carrier will also affect the product choice. A firm may have just one or a few products with foreign market potential. Or a firm may have a product that requires a different marketing approach from the rest of its line. American Cyanamid is a chemical company but one of its products, Breck Shampoo, is a consumer product. In the German market Breck piggybacked with Schick, a consumer marketer. Similarly DuPont, which has an extensive international industrial marketing network for chemicals, piggybacked its consumer product, Reveal Wrap with Colgate's extensive international consumer marketing network. In Thailand, DuPont markets its own industrial chemicals but piggybacks its agrochemicals with Shell and Union Carbide.

Other firms in different situations may piggyback all, or a large part of their product line. Firms which engage in reciprocal piggybacking are likely to carry as many complementary, non-competing products from their partner as have an opening in their market. Smaller firms with narrow product lines and limited resources are likely to piggyback as many of their products as the carrier will take. For example, WYKO offers all of its precision optical test instruments to Matsushita (Panasonic) for the Japanese market, and Uniflow does the same with its full line of icemaking and beverage cooling equipment.

WHY PIGGYBACKING?

Theories of multinational enterprise suggest that if a firm has some competitive advantages, under certain circumstances, it will internalize them to exploit economic rent. In piggybacking, a rider firm utilizes the market channels of the carrier firm instead of internalizing or developing its own channels. In this context, the rider relies on the carrier to sell its products and the carrier relies on the rider to provide the new products. The apparent reason for piggybacking is that the transaction cost is lower for each party than developing the products or channels by itself.

A firm basically can use three modes to serve a foreign market: exporting, foreign direct investment, and licensing. Assuming that the rider is in the early stage of internalization, it is not feasible to own production facilities in a host country. (Rider firms are frequently smaller firms.) Assume also that its technology can generate more profits than can be gained by licensing (Rugman 1981). This precludes the possibility of investing in foreign countries as well as licensing the technology to foreign firms. With respect to exporting, the rider has several alternatives, such as direct exporting, Export Management Companies, Export Trading Companies, Webb-Pomerene Associations, and piggyback. We emphasize the motivations of piggybacking from the rider's perspective in relation to direct exporting for three reasons. First, the advantages and disadvantages of Export Management Companies have been addressed (Brasch 1978; Bello and Williamson 1985) and serious problems exist in this approach. Piggybacking is better than this mode as long as a company can find an appropriate carrier. Second, domestic firms have been slow to form Export Trading Companies since the U.S. government passed the law in 1982 (Brevetti 1983). Firms are still in the early stage of familiarizing themselves with this export mechanism. Third, Webb-Pomerene Associations are not a major factor in exporting activities. For example, there were 36 registered associations in 1981, with limited product coverage. It is relatively unimportant as a vehicle of exporting (Terpstra 1987). And lastly, piggybacking has been overlooked by the literature.

The carrier is usually a large firm with considerable international business and international experience. It may have plants as well as distribution facilities in several countries. Its decision to carry the rider's products will be compared with the alternative of developing the new products by itself.

The Rider's Perspective

We compare two modes of serving foreign markets: direct exporting and piggybacking. In direct exporting, the tasks of market contact, marketing research, physical distribution, export documentation, pricing, and so on, all fall on the export department of a firm. Though direct exporting gives more control to a firm on its foreign marketing activities than does indirect exporting, such as piggybacking, the costs and investment needed are much higher than those of indirect exporting. These costs can be a significant entry barrier to the small firm.

In order to support the investment incurred by direct exporting, a firm should possess the following characteristics:

- It has a reasonable volume of international business.
- It has the resources in terms of capital and personnel.
- It has local knowledge (knowledge of the host country, or at least some experience of international marketing).
- It has the capability of managing foreign distribution.

A direct exporting approach would be less viable if the firm is lacking some of the above characteristics (Reid 1983). With piggybacking, none of the above conditions is necessary. In piggybacking, producing quality products and finding firms to carry the products are the only requirement. The marketing cost involved is domestic marketing. That is why, for firms with limited exporting activities, limited resources, and lack of foreign market knowledge, piggybacking is a good alternative. Even for firms with an established overseas marketing network, the opportunity cost involved and entry barriers associated with marketing a particular product may compell it to engage in piggybacking agreement with another manufacturer, as we saw in several examples earlier.

A distributor or other trading intermediary will often carry several competing products and show no particular support for any one of them. A piggyback carrier will carry only products that are complementary to those of the rider. Because products receive focussed selling to the appropriate market segments, better sales performance and market feedback are expected. A piggyback carrier will often be a firm with a strong brand name for its line of products. Occasionally it will put its brand on the complementary product of the rider. IBM did this with copiers from Minolta and

Stratus minicomputers, for example. This can aid market acceptance of the rider's product in a more forceful way than a distributor can.

Whirlpool illustrates other advantages of the carrier-producer over conventional intermediaries. Whirlpool was distributing appliances in Japan via a Japanese trading company. In the mid-1970s Whirlpool switched to Sony, a producer, as its Japanese distributor and found a substantial increase in sales. Sony was happy to have Whirlpool's white goods as complementary appliances to round out its appliance line. In Japan, Sony operates its own very extensive network of retail outlets which was now made available to Whirlpool. Whirlpool was thus able also to piggyback on the strong prestige of the Sony image in Japan by being sold in Sony outlets. Sony also has a strong service operation and reputation in Japan. Whirlpool was now able to benefit from this association too. In this way, Whirlpool, by moving from a trading company distributor to a piggyback arrangement with Sony, was able to realize several significant benefits which led to increased sales.

The Whirlpool-Sony example illustrates an important dimension of piggybacking--it is not limited to physical distribution. The carrier can also supply or cover most ingredients of the marketing mix. Generally the rider supplies the basic product while the carrier performs the marketing research, promotion, distribution, and international pricing tasks. The carrier may also lend its brand name and service organization and even supply or fulfill the warranty. For example, Sony and GE supplied warranty and service for Whirlpool and Hitachi-Seiki respectively.

Piggybacking is a dynamic process for the rider. A firm can build on its international marketing expertise through piggybacking. This points out that piggybacking may be a transitional strategy. Over time, the rider may switch to another mode to serve foreign markets when it accumulates enough international marketing experience. Eventually the benefits generated by piggybacking may be lower than another mode.

The rider has to invest in research and development to upgrade and improve the products or to reduce the cost of production because this the main concern of the carrier. The carrier may be able to turn to another supplier with better products or lower costs. Because the carrier is only interested in selling the products, not manufacturing them, the carrier will be less concerned about the possibility of losing its competitive advantages. To ensure the carrier's commitment to the agreement, the rider has to be a reliable supplier of product and should avoid the temptation of sacrificing exporting for domestic needs.

The Carrier's Perspective

The carrier has two alternatives when wanting to add new products to its existing product line: developing new products itself or buying products from markets. Its decision to buy a product from the market should be based on sound reasons. To be able to develop and produce a new product, the firm should possess the following capabilities:

- It has the knowledge, either in product development or in production. The implicit assumption is that the firm should have some experience related to the new product. It can buy the knowledge from the market but it takes some time to fully grasp the knowledge.

- It has the resources to do the new job and the opportunity cost should be lower than other activities.

Suppose a firm, after evaluation, decides to go with the buy-product alternative. It then has two considerations. First, the new product should be complementary to the existing product line. It is not necessary to buy a competing product because the firm can develop it internally and it would not want an unrelated product because the existing channels may not be able to carry it. A firm should seek products which utilize its existing channels and which appeal to the same market segments. Second, the carrier wants to add a new product quickly and thus the timing of the new product introduction becomes important. The carrier may use this product to capture new market opportunities or to compete with competitors which offer a similar product. Because piggybacking is one of the ways to achieve this objective with minimum investment and maximum speed it will be seriously considered by the carrier. Another way for the carrier to get a new product is through a licensing agreement. However, licensing involves a greater commitment of investment in production. Also, licensing is apt to be a longer commitment.

Through piggybacking the carrier can utilize excess capacity in its international marketing operation and leverage its marketing strengths across a wider product line. The carrier also gets a more complete line more quickly and cheaply than by developing the new products. R&D savings can be as important as the time saved. It saves the factory investment of producing new products. It avoids some of the commercial and technical risks of new product introduction because the rider's product has already been technically and commercially tested in the home market. Firms with seasonal or cylical sales may piggyback to keep their marketing and distribution organization employed.

The attractions of piggybacking, however, must be weighed against other concerns. One is quality control. Will the supplying firm, the rider, maintain adequate product quality? Most firms feel more comfortable with their ability to control the quality of products made in their own facilities. Another potential concern is reliability and continuity of supply. Will the supplier favor its own marketing needs in tight demand conditions? Will the supplier tend to replace the carrier once the carrier has successfully introduced its product into foreign markets? If the supplier firm is small or if it has a narrow product line in the relevant product markets, this latter concern may not be a problem. The carrier's experience, investment, and economies of scale may provide an entry barrier that is too great and costly for the rider firm to overcome. Besides, the carrier may be able to find other capable suppliers of similar products.

It is clear that the carrier has a narrower list of objectives then the rider. The complementary input needed by the carrier is generally a specific product or a wider product line which can be marketed through the existing marketing system utilizing the excess capacity of the carrier. This excess capacity is not limited to distribution but may be in brand name goodwill or in advertising, personal selling, or facilities for credit or service. The economies and strength of the carrier will not be easily imitated by the rider. If the rider decides to separate, the loss to the carrier is limited. It can usually find similar products provided by other producers. Because the rider provides a domestically proven product to the carrier, the odds of success in foreign markets are also higher.

CASE EXAMPLES

We have examined about 65 observations of piggyback situations. They are drawn from the business press in the 1970s and 1980s, especially Wall Street Journal, Fortune, Business Week, and Business International. Twenty-five observations come from the mid-1980s and were drawn from a database, which contains more than 600 observations on strategic alliances that one of the authors has been constructing and working on. We did not do any statistical analysis of the piggyback observations because the information needed for this kind of analysis is not complete for some observations. However, these observations gave us some insight and helped us in conceptualizing and proposing hypotheses. In this section, we discuss two cases with a little more detail to illustrate the piggybacking activities. We also present the hypothesized conditions under which piggybacking is a preferred strategy.

Sony and U.S. Companies (Business International, 1974)

In Spring of 1972, Sony put ads in the U.S. media to solicit piggybacking partners. Then Sony set up Sony International Housewares (SIH) to market the products of eight U.S. companies in Japan. SIH drew primarily on experienced people from Sony's TV and radio marketing group. Most of these people had contacts in the appropriate retail outlets.

From Sony's point of view, with minimum cost, it could carry complementary products which were compatible with its marketing capabilities. From the U.S. companies' point of view, they enjoyed the following benefits:

• Local knowledge needed to promote sales

• Social and cultural differences made it difficult for foreign firms to design an effective marketing mix to appeal to local demands. With the help of SIH, U.S. companies were in a better position to attract local consumers.

• Distribution channels and service networks

One of the major reasons for the failure of foreign companies to penetrate the Japanese market is its unique channel structure (Ross 1983). With the help of an established Japanese firm, U.S. companies could reach customers with a better distribution network.

• The brand image of Sony

With the backing of a Japanese company known for its quality products and service, an unfamiliar foreign brand was more likely to be accepted by local consumers.

<u>Source Perrier S. A. and European Companies (Wall Street Journal 1984)</u>

Source Perrier S. A., a spring-water bottler, made its American subsidiary, Perrier Group, the exclusive importer-distributor for two smaller European firms in the U.S. market. These two firms produced chocolate and fruit preserve respectively. Source Perrier S. A. had two reasons to market these products. First, it had only one product in the U.S. and thus a rather high cost marketing operation (diseconomics of scale). Second, it chose products which appealed to the same kinds of consumers who drank Perrier so that it could use the same marketing approach to market the new products. The two riders received the following benefits:

- They found a capable agent who could market their products in a rich market place.
- Lacking the resources to engage in exporting activities by themselves, they could benefit inexpensively from Perrier's established capability.
- They were learning international marketing from Perrier.

These two cases demonstrate the motivations or gains to the rider as well as the carrier. We have found from our case analyses that small firms and large firms are both increasingly interested in this strategy, from WYKO and Uniflow to IBM and Panasonic. One reason is that in order to achieve the goal of market diversification and to enter foreign markets quickly and effectively, many firms will have to team up with other firms. We hypothesize that under certain conditions, a firm will be inclined to be a carrier or a rider. The conditions under which a firm prefers to be a rider are the following:

- Diversifying geographically very quickly (Ayal and Zif 1979)
- Limited resources to engage in direct exporting
- Small volume of international business
- Limited knowledge about foreign markets
- Entering some special segments with high entry distribution barriers
- Ability to test foreign markets inexpensively
- Learning international marketing as a preparation for future exporting activities

The conditions which encourage a firm to become a carrier are the following:

- Providing a new product with minimum investment and releasing resources for other purposes
- Seeking complementary products to appeal to the same market segments
- Fully utilizing excess foreign marketing capacity
- Quickly introducing a new product to compete with competitors

IMPLICATIONS FOR DEVELOPING COUNTRIES

For firms from developing countries, piggybacking poses a very useful and effective way to break into foreign markets, especially those in developed countries. These firms, usually with limited resources and international marketing experience, have to face strong competition and high entry barriers in foreign markets. Researchers have suggested that a tie-in with a major multinational firm would be an effective way for these firms to overcome these problems (Ayal, 1981). Piggybacking then becomes a viable strategic alternative for these firms to enter the international arena. Because the People's Republic of China (PRC) is a newcomer to international markets, we will use it as an example to demonstrate how firms from developing countries can exploit the advantages of piggybacking.

Being centrally planned, the Chinese economy has been operated as a seller's market, where virtually any product has a guaranteed sale. It is not only international marketing that is a new experience for the Chinese. Even domestic marketing by producers is a new phenomenon. Hence, the Chinese manufacturing firms started with almost no international marketing expertise when the government adopted the "open door" policy in 1979. Like other developing or communist countries, China as a country currently is still at the beginning stages of international marketing and is rather unskilled and unsophisticated at it.

Three major problems for firms from developing countries in competing internationally are lack of foreign market knowledge, brand image, and distribution channels. Firms from the PRC also face these problems.

Being from a developing Communist country that was relatively closed until recently, Chinese producers are especially uninformed about world markets--especially in developed countries. Developing countries have different consumption patterns and marketing systems from developed countries. Their firms cannot extrapolate from domestic experience in marketing to OECD markets. A good solution to this deficiency is to piggyback with producers from OECD markets. These OECD firms can provide appropriate product specifications. Many firms from Europe, Japan and the U.S. have interests or operations in China. They provide available and natural piggyback partners for Chinese producers as they begin their education in international marketing. It is not surprising that many Chinese producers are using the piggyback approach.

Chinese products are newcomers to international markets, with no established name and reputation. Therefore, brand identification is critical for them to overcome the problem of consumer ignorance and fear about products from unfamiliar producers in the PRC. Besides this, the country-of-origin effect is another salient factor which tends to work negatively toward products from China. In order to overcome these problems, the Chinese have been trying to rely on the well known foreign brands of established manufacturers to push their products. For example, sports shoes made in China but sold in the U.S. carry the name of Nike. This is a typical case of piggybacking. Similarly, radios made in China but sold abroad carry the name of Sanyo.

Overcoming international distribution problems is another reason for Chinese firms to use foreign piggyback partners. Chinese producers, like most others in developing countries, tend to have little or no international marketing network or knowhow. They depend largely on indirect exporting to serve foreign markets. In this case, they sell products to buyers in China who then distribute and promote these products in foreign markets. American, European, Japanese firms and overseas Chinese are the major international distributors. For example, Yamaha is distributing motorcycles for the Chinese. Through this piggybacking approach, the Chinese can avoid the long delay and huge investment of building up their own distribution networks and try to get some initial experience of international marketing.

CONCLUSION

We have discussed the merits of piggybacking from the perspective of the rider as well as the carrier. Piggybacking provides a strategic alternative to large firms, small firms, and firms from developing countries to serve foreign markets. It can be especially attractive to the latter two groups. We also specify the conditions under which piggybacking is a preferred mode.

Piggybacking provides several benefits to the parties involved. The rider may seek to use its carrier's skills and resources in international financing and credit; exporting, shipping, documentation and insurance; foreign distribution, including entry to foreign markets and distribution channels within foreign markets; service facilities abroad; and promotional facilities abroad--personal selling, advertising, or brand name. There is a narrower list of objectives to the carrier. The main one is that it can get a reliable product to complement its existing products very quickly with no production investment.

Piggybacking arrangements usually have a finite life. They can lead to joint ventures or acquisitions, something stronger than the partial marriage of piggybacking. The parties may also agree to a separation, amicable or otherwise, as conditions change or one party's needs or objectives change. While piggyback arrangements are functioning, however, they can offer an efficient economic collaboration with important benefits for each party--a true strategic alliance.

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