

THE PERILS OF Prediction

How the Father of Globalization got it
(partly) wrong. BY JEREMY N. SMITH

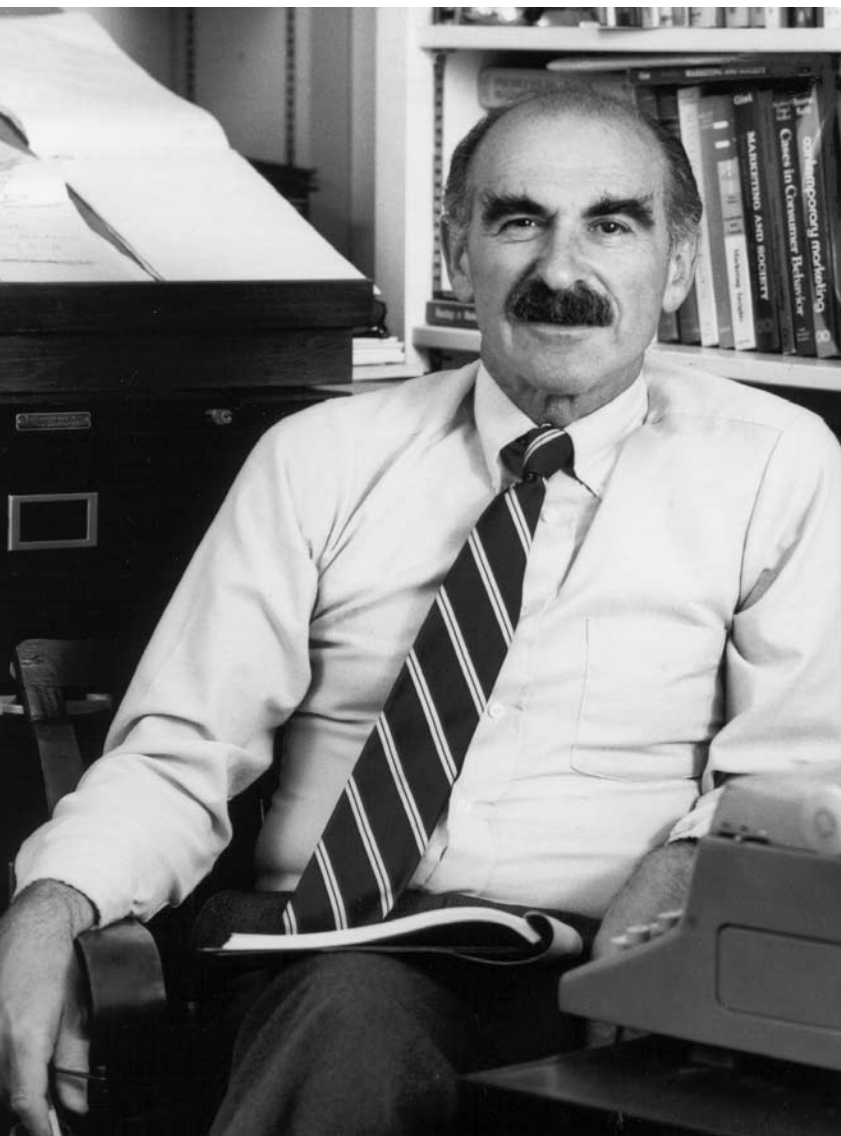


Photo courtesy Richard Chase

With equal parts flair, foresight, and far-reaching controversy, Theodore Levitt predicted the future of world trade for five decades.

Born March 1, 1925, outside Frankfurt, Germany, Levitt immigrated with his family to Dayton, Ohio when he was ten years old, an early Nazi escapee. By 1959, an accomplished academic and oil industry advisor, the former refugee joined the faculty of Harvard Business School. From this position, a quarter-century later, he would announce a new era in retail economics. Levitt's prediction? "Globalization."

Levitt loved to argue—in class and in print. "People don't want quarter-inch drills," he famously told his students. "They want quarter-inch holes." A renowned *Harvard Business Review* essay expanded the point, demanding managers always answer first, "What business are you in?" Railroads, for example, said Levitt, let cars, trucks, ships, and planes "take customers away from them because they assumed themselves to be in the railroad business instead of the transportation business."

"The Globalization of Markets," published in June of 1983, would prove the most important—and most debated—of the fearless forecaster's almost three dozen books and articles. Although Levitt did not coin the term 'globalization,' he made it his own with that essay's still-inflammatory argument: "Gone are accustomed differences in national or regional preference." To succeed abroad, in short, standardize, don't customize.

Levitt's thesis was that technological advances in communications, transportation, and travel—the satellite, the containership, the jumbo jet—enhanced similarities and erased differences between the world's markets. Observe "McDonald's from the Champs Elysées to the Ginza,... Coca-Cola in Bahrain and Pepsi-Cola in Moscow,... rock music, Greek salad, Hollywood movies, Revlon cosmetics, Sony televisions, and Levi jeans everywhere," Levitt wrote. Superior retailers, shippers, and manufacturers would embrace this "converging commonality"—globalization—by "selling the same things in the same way everywhere."

Companies who took his advice Levitt called examples of “the modern global corporation.” Those who would not be dismissed among “the aging multinational[s].” The multinational corporation, he defined, “operates in a number of countries, and adjusts its products and practices in each—at high relative costs.” By contrast, “the global corporation operates with resolute constancy—at low relative cost—as if the entire world (or major regions of it) were a single entity.” Whereas multinationals adapted to “superficial and even entrenched differences within and between nations,” truly global firms sought “to force suitably standardized products and practices on the entire globe.”

Ignore culture, in other words. Ignore politics. Ignore geography. If customers complain, nod politely, then ignore them, too. “The multinational corporation’s accommodating mode to visible national differences is medieval,” Levitt harangued. “Never assume that the customer is a king who knows his own wishes... The one great thing all markets have in common [is] an overwhelming desire for dependable, world-standard modernity in all things, at aggressively low prices.”

Stirring words. Inspired by them, Wal-Mart Germany, for one, opened shop in Europe’s largest economy and second most populous nation. Rather than waste time starting from scratch, Bentonville bought out existing German big-box retailers to boast an eighty-five store, five thousand employee, \$2.5 billion sales footprint almost overnight.

Now, however, came the questions. Should the company require non-American sales clerks to smile at customers in a culture that often took such attention as flirting? Should it shun organized labor dealings in a nation whose two largest political parties were the Christian Democratic Union and Social Democratic Party? Could low-cost concrete floors and bare fluorescent lighting satisfy shoppers accustomed to old-world sophistication? Would price, variety, and reliability alone convince Germans to buy cold cuts and shoe cleaner and cholesterol medication in one store, once every other week, when most were accustomed to daily shopping at separate specialized retail outlets? Lest Germany remake Wal-Mart, in sum, should Wal-Mart remake Germany?

Professor Levitt’s answer: Yes, yes, yes, yes, and absolutely. Management agreed. It obeyed. It failed.

This July 28, exactly a month after Theodore Levitt, 81, died at home in Belmont, Massachusetts, the world’s biggest retailer announced it was closing shop in Germany. Total losses since 1998 numbered hundreds of millions of dollars. “Wal-Mart’s experience in Germany,” wrote Mark Landler and Michael Barbaro in the *New York Times*, “has become a sort of template for how not to expand into a country.”

The only problem with bold predictions is what hap-



Wal-Mart

pens when they’re wrong.

“Technology may indeed be making the world a smaller place, but it is not eliminating the very real—and often very high—costs of distance,” says Pankaj Ghemawat, author of “Distance Still Matters: The Hard Reality of Global Expansion,” by now as much a landmark of globalization literature as Levitt’s “The Globalization of Markets.” In outline, Ghemawat distinguishes four ‘dimensions’ of distance— cultural, administrative,

geographic, and economic— affecting different industries. Cultural variables range from spoken language to existing preferences for or taboos against particular colors. Administrative attributes include forms of government and any trade agreements or tariffs. Geographic data includes transportation and communications networks— dirt road or superhighway, mailbag-burdened donkey or broadband Internet—while economic status means primarily the wealth or income of consumers. Each of

the above, in Ghemawat’s analysis, could be best considered a haystack of risk hiding needles of opportunity.

Whereas Levitt liked sweeping statements, Ghemawat prefers hard numbers. “A company is likely to trade ten times as much with a country that is a former colony, for instance, than with a country to which it has no such ties,” he writes. “A common currency increases trade by 340%.” Controlling for other variables, countries 5,000 miles apart trade only one-fifth as much as countries separated by 1,000 miles. And while Levitt claimed “the universal language of customers and users facilitates standardization,” Ghemawat counters that, all else equal, “trade between countries that share a language... will be three times greater than between countries without a common language.”

The most sensitive markets to cultural distance? Office machines, tobacco products, and—atop the list—meat and meat preparation. Little surprise, then, that when the *Times* interviewed German shoppers, they complained: “[Wal-Mart] tried to sell packaged

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meat when [we] like to buy meat from the butcher.” In South Korea, another country in which Wal-Mart has invested big but struggled, tall racks forced diminutive shoppers to borrow stockers’ ladders while heavy bulk packaging frustrated Seoul housewives shopping by subway instead of car. What Bentonville learned was that though an excited essayist may claim “executives in multinational corporations are thoughtlessly accommodating,” the absence of that accommodation may strike customers as confusing—or worse, insulting.

How to recover? Logistics leads the way. “All companies find that major disparities in supply chains and distribution channels are a significant barrier to business,” says Ghemawat. “Managers must always be conscious of distance—in all its dimensions.”

Put another way, differences in national preference and practice not only remain—ignore them and they overwhelm.

Yet, Theodore Levitt, too, proves impossible to ignore. Even as time tempers his theories’ boldest claims, continuous reprints and canonization in business school case studies mean those theories enjoy an ever-expanding audience. “Practically everyone is prepared to pronounce Levitt’s argument wrong,” say Richard S. Tedlow and Ravi Abdelal, both also at Harvard Business School, authors of a new assessment of Levitt in *The Global Market: Developing a Strategy to Manage Across Borders*. At the same time, they acknowledge, “everyone reads [him] twenty years later.” Why? “It is one thing to say that what Levitt argued about globalization was wrong, that what he predicted did not come true, and that the implications he derived for managers were (almost outrageously) overdrawn. It is quite another to suggest that therefore his analysis was not deeply insightful.”

What Levitt got right was that globalization allows management no excuses. Modern world trade and the logistics network that makes it possible require coordinating vastly-dispersed materials and workers with ever-higher precision; the final storefront end of that ever-shifting effort, however, must present an impression of stability. Even \$63 billion Wal-Mart International can find itself behind a curve and unable to catch up. Questioned at a 2003 globalization conference, Levitt himself conceded McDonald’s India was more profitable preparing vegetarian patties than convincing Hindus to eat cow.

Would he apologize to Wal-Mart, however? Not a chance. “If people don’t read what you write,” he liked to tell colleagues, “then what you write is a museum piece.”

Tedlow and Abdelal agree. “The reason to read Levitt is to find out not what is true about global markets, but how a manager ought to begin to think about them.” **WT**

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