# 8 Tapping into Global Markets

**The world has dramatically shrunk in recent years. Countries are increasingly multicultural,** and products and services developed in one country are finding enthusiastic acceptance in others. A German businessman may wear an Italian suit to meet an English friend at a Japanese restaurant, who later returns home to drink Russian vodka and watch a U.S. movie on a Korean TV. Emerging markets that embrace capitalism and consumerism are especially attractive targets. Some marketers are finding success both in developing and developed markets. Consider the rapid ascent of Hyundai.[1]

*Once synonymous with cheap and unreliable cars, Hyundai Motor Company has experienced a massive global transformation. In 1999, its new chairman, Mong-Koo Chung, declared that Hyundai would focus not on volume and market share but on quality instead. The company began to benchmark industry leader Toyota, adopted Six Sigma processes, organized product development cross-functionally, partnered more closely with suppliers, and increased quality oversight meetings. From a place near the bottom of J. D. Power's study of U.S. new vehicle quality in 2001—32nd of 37 brands—Hyundai zoomed to number 4 by 2009, surpassed only by luxury brands Lexus, Porsche, and Cadillac. Hyundai also transformed its marketing. Its groundbreaking 10-year warranty sent a strong signal of reliability and quality, and more consumers began to appreciate the value its stylish cars had to offer. The U.S. market was not the only one receiving attention from Hyundai and its younger, more affordable brand sibling, Kia. Hyundai is the second-largest carmaker in India. In Europe, it invested in a $1.4 billion factory in the Czech Republic and a new $7.5 research center near a famed German racetrack, and its market share has surpassed Toyota's. A joint venture with Beijing Automotive is targeting China.*

**Although opportunities to compete** in international markets are significant, the risks can be high. Companies selling in global industries have no choice, however, but to internationalize their operations. In this chapter, we review the major decisions in expanding into global markets.

## Competing on a Global Basis

Some companies have long been successful global marketers—firms like Shell, Bayer, and Toshiba have sold around the world for years. In luxury goods such as jewelry, watches, and handbags, where the addressable market is relatively small, a global profile is essential for firms like Prada, Gucci, and Louis Vuitton to profitably grow. But global competition is intensifying in more product categories as new firms make their mark on the international stage.

In China's fast-moving mobile-phone market, Motorola found its once-promising share drop to the point where it was only the eighth-ranked competitor behind a slew of new entrants.[2] To better understand the Chinese market, Starwood's CEO and top management team even temporarily relocated to Shanghai for five weeks in 2011. Sixty percent of guests in their hotels in China were native Chinese, and the firm anticipated a wave of Chinese travelers going abroad.[3]

Competition from developing-market firms is also heating up. Founded in Guatemala, Pollo Campero (Spanish for "country chicken') has launched more than 50 stores in different parts of the United States—including three as far north as Massachusetts—blending old favorites such as fried plantains and milky *horchata* drinks with traditional U.S. fare such as grilled chicken and mashed potatoes.[4] Tata has created a marketing powerhouse in India and set its sights on other parts of the world.[5]

**TATA NANO** Tata Group, India's biggest conglomerate, is also its largest commercial vehicle maker. The company created a stir with the 2009 launch of its $2,500 Tata Nano, dubbed the "People's Car." Although impossibly low by Western standards, the Nano's price of 1 Indian lakh is three times India's annual per capita income. Looking somewhat like an egg on wheels, the Nano comfortably seats five while running a 33-horsepower engine that gets nearly 50 miles per gallon. Aiming to sell 250,000 units annually, Tata targeted the 7 million Indians who buy scooters and motorcycles every year, in part because they cannot afford a car. Huge market potential exists in the country, which has just seven automobiles per 1,000 people. Tata is also targeting other "bottom of the pyramid" markets such as Africa and Southeast Asia, and perhaps even parts of Eastern Europe and Latin America, as well as the U.S. market. Despite its positive features, the Nano got off to a rocky start in India due in part to the stigma attached to buying a "cheap" car. In a country where incomes have risen dramatically in recent years, some saw it as a glorified version of a tuk-tuk, the three-wheeled motorized rickshaw often seen on the streets of developing nations. Many low-income consumers decided to try to stretch their budgets to buy the Maruti-Suzuki Alto instead, with its bigger 800cc engine. On the other hand, some target customers who had never owned a car before were intimidated by Tata's glittering showrooms. After sales reached a low point in November 2012—only 3,500 cars sold against a target of 10,000—another makeover was announced—the third since launch in 2009, including a possible 800cc engine and a diesel option.

Although some U.S. businesses may want to eliminate foreign competition through protective legislation, the better way to compete is to continuously improve products at home and expand into foreign markets. In a **global industry,** competitors' strategic positions in major geographic or national markets are affected by their overall global positions.[6] A **global firm** operates in more than one country and captures R&D, production, logistical, marketing, and financial advantages not available to purely domestic competitors.

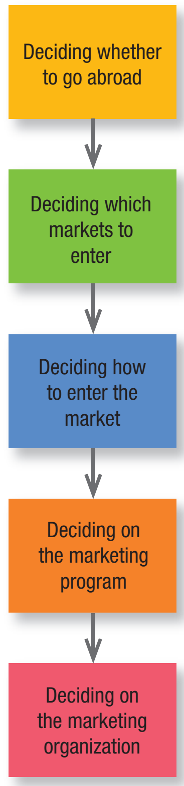
Global firms plan, operate, and coordinate their activities on a worldwide basis. Otis Elevator uses door systems from France, small geared parts from Spain, electronics from Germany, and motor drives from Japan; systems integration happens in the United States. Although some countries have erected entry barriers or regulations, the World Trade Organization, consisting of 160 countries, continues to press for more free trade in international services and other areas.[7] An interconnected world and global supply chains can have drawbacks, though, as the 2011 tsunami and earthquake in Japan vividly demonstrated.[8]

To sell overseas, many successful global U.S. brands have tapped into universal consumer values and needs—such as Nike with athletic performance, MTV with youth culture, and Coca-Cola with youthful optimism. These firms hire thousands of employees abroad and make sure their products and marketing activities are consistent with local sensibilities. Global marketing extends beyond products. Services represent the fastest-growing sector of the global economy and account for two-thirds of global output, one-third of global employment, and nearly 20 percent of global trade.


Tata is attacking automobile markets all over the world with its extraordinarily inexpensive Nano or "People's Car."

Source: © Neil McAllister/Alamy

For a company of any size or any type to go global, it must make a series of decisions (see Figure 8.1). We'll examine each of these decisions here.[9]




**| Fig. 8.1 |**

Major Decisions in International Marketing

# Deciding Whether to Go Abroad

Most companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations. Business would be easier and safer. Yet several factors can draw companies into the international arena:

- Some international markets present better profit opportunities than the domestic market.
- The company needs a larger customer base to achieve economies of scale.
- The company wants to reduce its dependence on any one market.
- The company decides to counterattack global competitors in their home markets.
- Customers are going abroad and require international service.

As cultures blend across countries, another benefit of global expansion is the ability to transfer ideas and products or services from one market into another market. Cinnabon discovered that products it developed for Central and South America were finding success in the United States, too, given its large Hispanic population.[10]

Reflecting the power of these forces, exports accounted for roughly 14 percent of U.S. GDP in 2013, more than double the figure 40 years ago.[11] Before making a decision to go abroad, the company must also weigh several risks:

- The company might not understand foreign preferences and could fail to offer a competitively attractive product.
- The company might not understand the foreign country's business culture.
- The company might underestimate foreign regulations and incur unexpected costs.
- The company might lack managers with international experience.
- The foreign country might change its commercial laws, devalue its currency, or undergo a political revolution and expropriate foreign property.

Some companies don't act until events thrust them into the international arena. The *internationalization process* typically has four stages:[12]

Stage 1: No regular export activities
Stage 2: Export via independent representatives (agents)
Stage 3: Establishment of one or more sales subsidiaries
Stage 4: Establishment of production facilities abroad

The first task is to move from stage 1 to stage 2. Most firms work with an independent agent and enter a nearby or similar country. Later, the firm establishes an export department to manage its agent relationships. Still later, it


*Source: Associated Press*

Cinnabon found that some products developed for Central and South America found acceptance in the U.S. too.

replaces agents with its own sales subsidiaries in its larger export markets. This increases investment and risk but also earning potential. Next, to manage subsidiaries, the company replaces the export department with an international department or division. If markets are large and stable or the host country requires local production, the company will locate production facilities there.

By this time, the firm is operating as a multinational and optimizing its sourcing, financing, manufacturing, and marketing as a global organization. According to some researchers, top management begins to focus on global opportunities when more than 15 percent of revenue comes from international markets.[13]

# Deciding Which Markets to Enter

In deciding to go abroad, the company needs to define its marketing objectives and policies. What proportion of international to total sales will it seek? Most companies start small when they venture abroad. Some plan to stay small; others have bigger plans.

## HOW MANY MARKETS TO ENTER

The company must decide how many countries to enter and how fast to expand. Typical entry strategies are the *waterfall* approach, gradually entering countries in sequence, and the *sprinkler* approach, entering many countries simultaneously. Increasingly, firms—especially technology-intensive firms or online ventures—are *born global* and market to the entire world from the outset.[14]

Matsushita, BMW, General Electric, Benetton, and The Body Shop followed the waterfall approach. It allows firms to carefully plan expansion and is less likely to strain human and financial resources. When first-mover advantage is crucial and a high degree of competitive intensity prevails, the sprinkler approach is better. Microsoft sold more than 60 million licenses and upgrades of Windows 8 in the first 10 weeks after its October 26, 2012, global launch. Marketing spanned 42 countries with TV, print, and banner ads, outdoor posters, and branded entertainment. The main risk in the sprinkler approach is the substantial resources needed and the difficulty of planning entry strategies for many diverse markets.[15]

The company must also choose the countries to enter based on the product and on factors such as geography, income, population, and political climate. Competitive considerations come into play too. It may make sense to go into markets where competitors have already entered to force them to defend their market share as well as to learn from them how they are marketing in that environment.

A critical consideration without question is market growth. Getting a toehold in a fast-growing market can be a very attractive option even if that market is likely to soon be crowded with more competitors.[16] KFC has entered scores of countries as a pioneer by franchising its retail concept and making its marketing culturally relevant.[17]

**KFC** KFC is the world's largest fast-food chicken chain, serving more than 12 million customers at more than 4,600 restaurants in the United States and more than 18,000 restaurants in 120 countries and territories around the world. The company is world famous for its Original Recipe fried chicken—made with the same secret blend of 11 herbs and spices Colonel Harland Sanders perfected more than a half-century ago. In China, KFC is the largest, oldest, most popular, and fastest-growing quick-service restaurant chain, with more than 4,260 locations in 850 towns or cities, often enjoying healthy margins of 20 percent per store. The company has tailored its menu in China to local tastes with items such as the Dragon Twister, a wrap stuffed with chicken strips, Peking duck sauce, cucumbers, and scallions. KFC even has a Chinese mascot—a kid-friendly character named Chicky, which the company boasts has become "the Ronald McDonald of China." Like any emerging market, China does pose challenges to KFC. Sales there took a stumble early in 2013 when state-owned Chinese media accused the company of using local suppliers that gave their chickens excessive antibiotics to stimulate faster growth. A social media firestorm followed, eventually causing KFC to apologize for not having tighter controls. Supply chain problems have posed a different challenge in Africa, KFC's next growth target. Without enough domestic supply of chickens, the company has to import them, but that is illegal in Nigeria and Kenya. To overcome the supply problem in Nigeria, it added fish to the menu. By 2013, KFC had more than 1,000 restaurants in 17 countries in Africa. As it moved into more and more African markets, the company made sure to localize its menu—selling Ugali, a type of porridge, in Kenya and jollof rice in Nigeria—and to showcase local culture on the walls and in the advertising.


Source: © Jeff Greenberg 5 of 6/Alamy

KFC has become one of the world's biggest global brands by adapting its products appropriately and overcoming any local market obstacles.

## EVALUATING POTENTIAL MARKETS

However much nations and regions integrate their trading policies and standards, each market still has unique features. Readiness for different products and services and attractiveness as a market depend on the market's demographic, economic, sociocultural, natural, technological, and political-legal environments.

How does a company choose among potential markets to enter? Many companies prefer to sell to neighboring countries because they understand them better and can control their entry costs more effectively. It's not surprising that the two largest U.S. export markets are Canada and Mexico or that Swedish companies first sold to their Scandinavian neighbors.

At other times, *psychic proximity* determines choices. Given more familiar language, laws, and culture, many U.S. firms prefer to sell in Canada, England, and Australia rather than in larger markets such as Germany and France. Companies should be careful, however, in choosing markets according to cultural distance. Besides overlooking potentially better markets, they may only superficially analyze real differences that put them at a disadvantage.[18]

It often makes sense to operate in fewer countries, with a deeper commitment and penetration in each. In general, a company prefers to enter countries that have high market attractiveness and low market risk and in which it possesses a competitive advantage. Digicel has a very unusual market expansion strategy, an interesting twist on those market-entry criteria.[19]

**DIGICEL** In its 11-year existence, Jamaica-based Digicel has conquered politically unstable developing countries such as Papua New Guinea, Haiti, and Tonga with mobile telecommunication products and services appealing to poor and typically overlooked consumers. The company strives for 100 percent population coverage with its networks, bringing affordable mobile service to local and rural residents who have never had the opportunity for coverage before and whose fierce loyalty helps protect Digicel from aggressive government interventions. It operates in 32 markets in the Caribbean, South Pacific, and Central and South America, serving 13 million customers. To be locally relevant, Digicel sponsors local cricket, rugby and other high-profile sports teams in each of these areas. Well-known champion Olympic sprinter Usain Bolt is the chief Digicel Brand Ambassador for various advertising and promotions across the region. The company also runs a host of community-based initiatives in each market through the educational, cultural, and social development programs of its Digicel Foundation. The company's marketing efforts in Fiji are instructive. Pitched in a fierce battle with incumbent Vodafone only two years after entry, Digicel Fiji even added a shade of light blue from the bottom of the Fiji national flag to its own red logo to reflect the company's pride in its contributions to Fijian life and sport, as reflected in its campaign, "Fiji Matters to Us."

## SUCCEEDING IN DEVELOPING MARKETS

One of the sharpest distinctions in global marketing is between developed and developing or emerging markets such as Brazil, Russia, India, China, and South Africa. These five countries have formed an


*Source: Digicel. Katie Taylor, Head of Marketing; Bernard Prasad, Graphic Designer.*

Digicel offers affordable mobile phone service and locally relevant marketing programs to overlooked consumers in developing markets.

association dubbed "BRICS" (for Brazil, Russia, India, China, and South Africa).[20] Another developing market with much economic and marketing significance is Indonesia. Some have begun grouping that country and South Africa with Columbia, Vietnam, Egypt, and Turkey, dubbing them CIVETS to raise their profile.[21] These markets offer many opportunities but also many challenges.

The unmet needs of the developing world represent huge potential markets for food, clothing, shelter, consumer electronics, appliances, and many other goods. Many market leaders are relying on developing markets to fuel their growth. Nestlé estimates about 1 billion consumers in emerging markets have increased their incomes enough to afford its products within the next decade. The world's largest food company now gets about 40 percent of its revenue from emerging markets. Developing markets make up more than 50 percent of Unilever's sales and 30 percent of Kraft's total business, as well as more than 40 percent of its newly spun-off snack business, Mondelēz.[22]

Developing markets account for about 82 percent of the world's population, and 90 percent of future population growth is projected to occur there.[23] Can marketers serve this huge population, which has much less purchasing power and lives in conditions ranging from mild deprivation to severe deficiency? Next we highlight some important developments in each of the BRICS countries and Indonesia.

**BRAZIL**[24] Resource-rich Brazil is the biggest economy in Latin America and the sixth largest in the world. According to a study by Goldman Sachs, it will likely move into fourth place by 2050, meaning it would economically be larger than countries like Germany, Japan, and the United Kingdom. The 2014 World Cup in soccer and the 2016 Summer Olympics in Rio de Janeiro will put the world's spotlight on recent progress made by Brazil, though also highlighting some of the country's unease in huge investments in athletic events as opposed to addressing pressing domestic concerns such as education and infrastructure.

Brazil is also the fifth-largest country globally in terms of digital users, with about 91 million people online, making digital strategies attractive. Social media are especially popular. Firms are increasingly using mobile marketing, with a strong local flavor in their marketing communications.

Marketers are finding innovative ways to sell products and services to Brazil's poor and low-income residents. Nestlé Brazil boosted sales of Bono cookies 40 percent after shrinking the package from 200 to 140 grams and lowering the price. One Unilever Brasil marketing vice president noted:

> There are common themes that resonate well with Brazilians—family life, happiness, optimism, and pride at being from Brazil. Brazilians are natural optimists, and notoriously upbeat, and the way brands engage with them must reflect this.

Brazil experienced some "go-go" growth years in the 1960s and 1970s, when it was the world's second-fastest-growing large economy. As a result, it now boasts large and well-developed agricultural, mining, manufacturing, and service sectors.

Brazilian firms that have succeeded internationally include aircraft manufacturer Embraer, sandal maker Havaianas, and brewer and beverage producer AmBev, which merged with Interbrew to form InBev. Brazil also differs from other emerging markets in being a full-blown democracy, unlike Russia and China, and it has no serious disputes with neighbors, unlike India.

A number of obstacles exist, however, that are popularly called *custo Brasil* ("the cost of Brazil"). The cost of transporting products eats up nearly 13 percent of Brazil's GDP, five percentage points more than in the United States. Unloading a container is twice as expensive as in India and takes three times longer than in China. Strict and costly labor laws have inspired a massive underground economy that McKinsey estimated accounted for as much as 40 percent of Brazil's gross domestic product, taking about half of all urban jobs. Crime and corruption are still problems.

**RUSSIA**[25] The 1991 splintering of the Soviet Union transformed Russia's isolated, centrally planned economy into a globally integrated, market-based economy. Russia is the largest exporter of natural gas, the second-largest exporter of oil, and the third-largest exporter of steel and primary aluminum. Reliance on commodities has its downside, however. The country's economy was hammered in the recent recession by plunging commodity prices and the credit crunch.

Russians make heavy use of social media, spending an average of 9.8 hours per visitor on a monthly basis, twice the world average, though Facebook has lagged behind local competitors. The company is engaging Russian developers of apps, games, and similar tools to provide more local content.

Russia has a dwindling workforce and poor infrastructure. The Organization for Economic Cooperation & Development (OECD) cautions that economic reforms have stagnated and ranks Russia as one of the most corrupt countries in the world. Many feel the government of Vladimir Putin has been unpredictable and difficult to work with.

For these and other reasons, market entry can be daunting. To distribute in Russia, Cyclo Industries, a U.S. manufacturer of chemicals for the automotive industry, had to translate its labeling, determine how to competitively price its products, and develop specialized marketing plans. Logistical problems caused one of the company's marketers to note, "The roads are just terrible and there's no way to get from one part of Russia to another." Although it took the company more than a year to even establish a presence there, within six months the Russian market was contributing 10 percent of Cyclo's revenue.

**INDIA**[26] India's transformation over a generation has been staggering. Reforms in the early 1990s lowered trade barriers and liberalized capital markets, bringing booming investment and consumption. India boasts a lively democracy and a youthful population. The world's second most populous nation with 1.21 billion people, it is also one of the youngest large economies, with a median age of 25. In fact, one-quarter of the entire world's under-25 population lives in India.

A strong economy has been matched by progress in literacy and access to financial services and modern technology. India has fully embraced mobile technology; mobile phone density is approximately 75 percent of the population, of whom around 15 percent use their mobile devices to go online. Enjoying some of the lowest prices anywhere, one-third of Indian mobile subscribers live in rural areas.

India's ascent opens a larger market for U.S. and Western goods. About 16 million, or 3 percent, of Indian consumers are high-earning targets of youth lifestyle brands connoting status and affluence, like luxury cars and shiny motorbikes, followed by clothing, food, entertainment, consumer durables, and travel. Opportunities abound for firms of all types. Indians drank an average of only 14 eight-ounce bottles of Coke in 2012, compared with an average of 241 bottles in Brazil and 745 bottles in Mexico, leading Coca-Cola to announce a $5 billion investment over 2012–2020.

As the seventh-largest country in size, however, India has important regional differences. Its 28 separate states each have their own policies and tax rules, 23 official languages, 1,500 dialects, and a multitude of faiths. Areas around Mumbai and Bangalore are richer and more highly literate, while poorer, less educated states lie in the east. Even the weather is significant to marketers. Cool winters in the north create dry skin conditions, in stark contrast to the humid climates of Mumbai and Chennai.

Some Indian firms—such as Mittal, Reliance Group, Tata, Wipro, Infosys, and Mahindra—have achieved international success. Reliance touches the life of one in 10 Indians every day, and its worldwide customer base numbers 100 million.

For all its opportunities, India struggles with poor infrastructure and public services—education, health, and water supply—and restrictive labor laws. The national government in New Delhi vows to spend $1 trillion on infrastructure over five years, although, as in many emerging markets, corruption remains a huge problem at virtually all levels of government. A complicated retail network has been slow to modernize, leading to distribution problems.

**CHINA**[27] China's 1.34 billion people have marketers scrambling to gain a foothold, and competition has heated up between domestic and international firms. Its 2001 entry into the World Trade Organization (WTO) eased China's manufacturing and investment rules and modernized retail and logistics industries. Greater competition in pricing, products, and channels resulted, though some industries remained fiercely protected or off-limits to foreigners altogether.

Foreign businesses complain about subsidized competition, restricted access, conflicting regulations, opaque and seemingly arbitrary bureaucracy, and lack of protection for intellectual property; 90 percent of PC software is reportedly pirated in China. The Chinese government encourages partnerships with foreign companies, in part so that its firms can learn enough to become global powerhouses themselves.

Nevertheless, opportunities exist. Although China is Nestlé's ninth-biggest market, the company sells half what it does in Brazil, despite China's having seven times the population. While it's the largest auto market in the world, at 60 vehicles per 1,000 people, China lags in car ownership at half the world average. PepsiCo has big plans for its food and beverage brands knowing that consumption of potato chips in China is around one small bag every two to four weeks, compared with 15 bags in the United States, and that the average Chinese buys a beverage 230 times per year while the average U.S. consumer buys 1,500.

Selling in China means going beyond the big cities to the second- and third-tier cities, as well as to the 700 million potential consumers in small communities in the rural interior. Chengdu and Chongqing are two second-tier economic powerhouses in western China and experiencing much growth. Rural consumers can be challenging; they have lower incomes (the income ratio between China's coastal cities and rural interior is six to one), are less sophisticated, and often cling to local habits. China is also ethnically diverse—the banknote features eight languages, including Arabic, Mongolian, and Tibetan.

China's emerging urban middle class is active and discerning, demanding higher-quality products and variety. Although they number four times the U.S. population, Chinese consumers spend a fraction of what U.S. consumers do. China is now the world's top consumer of luxury consumer goods, with many Chinese consumers viewing these as trophies of success. Luxury cars are the fastest-growing auto segment thanks to the swelling ranks of Chinese millionaires. Burberry's sales in China now almost match those in Europe as a whole.

Competition among foreign firms is fierce as they attempt to get the upper hand in the fast-growing market. Walmart contends with Carrefour, General Motors fights Volkswagen, and Nike battles Adidas. In competing with local firms, many Western companies benefit from their reputation of quality, safety, and dependability with Chinese consumers, who have seen numerous scandals from their domestic companies. At the same time, Western companies need to be locally relevant. Starbucks has a localized menu of beverages particularly tailored for Chinese consumers—including a unique "East meets West" blend—from which local stores can choose.

**SOUTH AFRICA**[28] Although South Africa is a developed market, we include it here not only as an important market in its own right but also for its role as an access point to the African region; many international companies are using it as a launch pad for African expansion. The 2010 World Cup in soccer offered a chance to reexamine economic progress in South Africa and other African countries.

Africa has experienced much change in recent years. Although political turmoil in Egypt, Tunisia, and Libya during the "Arab Spring" is a reminder of the instability that has plagued the continent and logistical and infrastructure problems prevail, improvements in many other areas such as health, education, and social services paint a rosier picture of the continent's future, as do economic forecasts. McKinsey Global Institute estimates the number of African households with discretionary income—money available to spend on items other than food—is expected to increase by a robust 50 percent to 128 million people by 2020.

Additional McKinsey research shows that many African consumers seek high-quality products and are brand conscious, "belying the view that the continent is a backwater where companies can sell second-rate merchandise." Unilever is finding success by tailoring products for African customers: affordable food, water-conserving washing powders, and grooming products to fit local tastes. Its best-selling Motions range of shampoos and conditioners were made especially for African hair and black skin.

Some firms have worked for years to develop their African business. General Motors now sells in more than 50 African countries and has manufacturing facilities in South Africa, Egypt, and Kenya. Like any other continent, Africa is highly heterogeneous, and some experts emphasize that it should be seen as 53 separate and often very different countries. The Boston Consulting Group has dubbed eight of Africa's strongest economies the "African Lions": Algeria, Botswana, Egypt, Libya, Mauritius, Morocco, South Africa, and Tunisia. Nestlé is especially bullish on Kenya, Ethiopia, Mozambique, Angola, and the Democratic Republic of the Congo.

Although agriculture is the largest economic sector, telecommunications, energy, consumer products, and health care are experiencing the fastest growth. More than 650 million Africans had mobile phones by the end of 2011; more than 300 million of them are new subscribers since 2000. Mobile phones are used not just for talking but also as a platform to support daily living, playing a crucial role in health care and banking, for example, where extensive infrastructure does not exist. Two-thirds of adults used a mobile money service, with Vodafone and MTN leading the way. The Internet is playing an increasingly important marketing role in Africa, often accessed by mobile phones.

**INDONESIA**[29] Indonesia's reputation as a country historically struggling with natural disasters, terrorism, and economic uncertainty is quickly being replaced by a profile of political stability and economic growth. The fourth-largest country in the world and the largest Muslim country, given all its progress, Indonesia strikes many as ready to join the BRICS countries.

It has become the third-fastest-growing economy in the region—behind India and China—largely on the basis of its 240 million consumers. By 2030, forecasts expect the number of middle-class Indonesians—those making between $2 and $20 per day—to increase from 131 million to 244 million and those in the "consumer class"—who make more than $3,600 per year—to increase from 45 million to 135 million. Marketers have found Indonesian consumers to be very brand conscious, an important preference given their rising incomes.

An archipelago with more than 14,000 islands in a hot and humid climate, Indonesia does present challenges. Effective, efficient distribution is critical. Large importers have established distribution networks that allow them to reach beyond the one-third of the population living in the six or seven largest cities, but as in many developing countries, infrastructure can be lacking.

Recent progress is noteworthy, however. Indonesia is L'Oréal's fastest-growing market in Asia-Pacific, leading the firm to build a plant there. IKEA has made a recent entry. With more than 20 percent of its Internet users having a Twitter account, Indonesia is the fifth-most active country on the microblogging site.

**MARKETING STRATEGIES FOR DEVELOPING MARKETS** Successfully entering developing markets requires a special set of skills and plans and an ability to do a number of things differently and well.[30] Consider how these companies pioneered ways to serve "invisible" consumers in these markets:[31]

- Grameenphone marketed cell phones to 35,000 villages in Bangladesh by hiring village women as agents who leased phone time to other villagers, one call at a time.
- Colgate-Palmolive rolled into Indian villages with video vans that showed the benefits of toothbrushing.
- Corporación GEO builds low-income housing in Mexico, featuring two-bedroom homes that are modular and expandable.

These marketers capitalized on the potential of developing markets by changing their conventional marketing practices. Selling in developing areas can't be "business as usual." Economic and cultural differences abound, a marketing infrastructure may barely exist, and local competition can be surprisingly stiff.[32]

Many companies are tapping into the growing middle class in developing markets. Boston Consulting Group estimates there will be nearly a billion middle-class Chinese and Indians by 2020.[33] Many will have aspirations that include the purchase of premium products and global brands.[34]

For example, when Unilever introduced TRESemmé in Brazil, it secured the support of 40 big retailers, courted fashion bloggers, distributed 10 million free samples, and launched the company's biggest-ever single-day online ad blitz, which eventually lured 1 million fans to the brand's Brazilian Facebook page. In under a year, sales of TRESemmé surpassed those of P&G shampoo stalwart Pantene in hypermarkets and drugstores, giving Unilever confidence to set its sights on India and Indonesia next.[35]

Because the needed marketing practices are more similar to those employed in developing markets, it is typically much easier to tap into the middle class in developing markets than to reach the 4 billion people at the "bottom of the pyramid." Although they may collectively be worth $3 trillion, each individual low-income consumer may have very little to spend.

Satisfying the bottom of the pyramid also requires careful planning and execution. Conventional wisdom says a "low price, low margin, high volume" business model is the key to successfully appealing to lower-income markets in developing markets. Although there are some good examples of such a strategy—Hindustan Unilever with Wheel detergent in India, for one—others have struggled. Procter & Gamble launched its Pur water-purification product in India, and although priced at only 10 cents a sachet, the product yielded a 50 percent margin. But after disappointing overall results, the company transitioned the brand to a philanthropic venture.[36]

Marketers are learning the nuances in marketing to a broader population in emerging markets, especially when cost reductions are difficult to realize because of the firm's established supply chain and when production methods and distribution strategy and price premiums are hard to command because of consumer price sensitivity.

Getting the marketing equation right in developing markets can pay big dividends:

- Smaller packaging and lower prices are often critical when income and space are limited. Unilever's four-cent sachets of detergent and shampoo were a big hit in rural India, where 70 percent of the population still lives.[37]
- The vast majority of consumers in emerging markets buy their products from tiny bodegas, stalls, kiosks, and mom-and-pop stores not much bigger than a closet, which Procter & Gamble calls "high-frequency stores." In India, food is largely purchased from the 12 million neighborhood mom-and-pop outfits called kirana stores. These thrive by offering convenience, credit, and even home delivery, though modern retailing is beginning to make inroads.[38]
- Nokia sent marketing, sales, and engineering staff from its entry-level phone group to spend a week in people's homes in rural China, Thailand, and Kenya to observe how they used phones. By developing rock-bottom-priced phones with just the right functionality, Nokia has retained market-share leadership in some parts of Africa and Asia despite being surpassed by other brands in parts of the developed world.[39]

Digital strategies will be crucial in developing markets given the rapid penetration of smart phones as more than a means of communication. One research study showed that social media is six times more important for brands in developing markets such as Indonesia and Thailand than it is in Japan or the United Kingdom. [40]


In India, millions of consumers buy their food from the ubiquitous kirana or "mom & pop" shops.

Source: © imageBROKER/Alamy

**DEVELOPING *AND* DEVELOPED MARKETS** Competition is also growing from companies based in developing markets. Wipro of India, Cemex of Mexico, HTC from Taiwan, and Petronas of Malaysia have emerged from developing markets to become strong multinationals selling in many countries. Often the key is to both develop a global business model and build a global brand that will effectively work in all the targeted markets.[41]

One strategy successfully employed by some companies from emerging markets is to identify neglected niches in larger markets.[42] Mahindra has been selling U.S. farmers small tractors from its three U.S. assembly plants for more than 20 years. It has used its expertise in manufacturing small tractors to also expand into niche markets for lawn care and golf course maintenance.

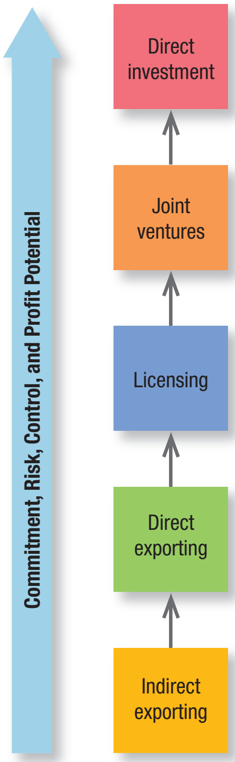
Another strategy for going global is to acquire one or more firms in developed markets. India's Apollo Tyres acquired businesses in the Netherlands and South Africa. After Lenovo bought IBM's PC business for $1.25 billion in 2005, many other Chinese firms began to look overseas for possible acquisitions, leading one pundit to declare that the well-known phrase "Made in China" would soon be replaced by "Owned by China."[43]

On the other hand, many firms from developed markets are using lessons gleaned from developing markets to better compete in their home or existing markets (recall the "bottom of the pyramid" discussion from Chapter 3). Product innovation has become a two-way street between developing and developed markets. The challenge is to think creatively about how marketing can fulfill the dreams of most of the world's population for a better standard of living.[44]

Many companies are betting they can do that. To feed a projected world population of 9 billion by 2050, analysts estimate that food production globally must increase by 60 percent, a challenge John Deere is addressing.[45]

**JOHN DEERE** John Deere's new 8R line was the first tractor line designed to accommodate the needs of different farmers in 130 countries worldwide. The 8R is powerful but agile and fuel-efficient, best suited for larger farms. But it is highly customizable to suit the needs of growers in developing markets like Brazil and Russia as much as the developed markets of the United States or Germany. From March 2011 to March 2012, customers ordered more than 7,800 different configurations of the 8R tractor. Deere has nine factories outside the United States in both developed and developing markets, including Germany, India, China, Mexico, and Brazil.

Regional economic integration—the creation of trading agreements between blocs of countries—has intensified in recent years. This means companies are more likely to enter entire regions at the same time. Certain countries have formed free trade zones or economic communities—groups of nations organized to work toward common goals in the regulation of international trade.




**| Fig. 8.2 |**

Five Modes of Entry into Foreign Markets

# Deciding How to Enter the Market

Once a company decides to target a particular country, it must choose the best mode of entry with its brands. Its broad choices are *indirect exporting, direct exporting, licensing, joint ventures,* and *direct investment,* shown in Figure 8.2. Each succeeding strategy entails more commitment, risk, control, and profit potential.

## INDIRECT AND DIRECT EXPORT

Companies typically start with export, specifically *indirect exporting*—that is, they work through independent intermediaries. *Domestic-based export merchants* buy the manufacturer's products and then sell them abroad. *Domestic-based export agents,* including trading companies, seek and negotiate foreign purchases for a commission. *Cooperative organizations* conduct exporting activities for several producers—often of primary products such as fruits or nuts—and are partly under their administrative control. *Export-management companies* agree to manage a company's export activities for a fee.

Indirect export has two advantages. First, there is less investment: The firm doesn't have to develop an export department, an overseas sales force, or a set of international contacts. Second, there's less risk: Because international marketing intermediaries bring know-how and services to the relationship, the seller will make fewer mistakes.

Companies may eventually decide to handle their own exports. The investment and risk are somewhat greater, but so is the potential return. Direct exporting happens in several ways:

- ***Domestic-based export department or division.*** A purely service function may evolve into a self-contained export department operating as its own profit center.
- ***Overseas sales branch or subsidiary.*** The sales branch handles sales and distribution and perhaps warehousing and promotion as well. It often serves as a display and customer service center.
- ***Traveling export sales representatives.*** Home-based sales representatives travel abroad to find business.
- ***Foreign-based distributors or agents.*** These third parties can hold limited or exclusive rights to represent the company in that country.

Many companies use direct or indirect exporting to "test the waters" before building a plant and manufacturing their product overseas. A company does not necessarily have to attend international trade shows if it can effectively use the Internet to attract new customers overseas, support existing customers who live abroad, source from international suppliers, and build global brand awareness.

Successful companies adapt their Web sites to provide country-specific content and services to their highest-potential international markets, ideally in the local language. Finding free information about trade and exporting has never been easier. Here are some places to start a search:

| | |
|---|---|
| www.trade.gov | U.S. Department of Commerce's International Trade Administration |
| www.exim.gov | Export-Import Bank of the United States |
| www.sba.gov | U.S. Small Business Administration |
| www.bis.doc.gov | Bureau of Industry and Security, a branch of the Commerce Department |

Many states' export-promotion offices also have online resources and allow businesses to link to their sites.

## LICENSING

Licensing is a simple way to engage in international marketing. The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains entry at little risk; the licensee gains production expertise or a well-known product or brand name.

The licensor, however, has less control over the licensee than over its own production and sales facilities. If the licensee is very successful, the firm has given up profits, and if and when the contract ends, it might find it has created a competitor. To prevent this, the licensor usually supplies some proprietary product ingredients or components (as Coca-Cola does). But the best strategy is to lead in innovation so the licensee will continue to depend on the licensor.

Licensing arrangements vary. Companies such as Hyatt and Marriott sell *management contracts* to owners of foreign hotels to manage these businesses for a fee. The management firm may have the option to purchase some share in the managed company within a stated period.

In *contract manufacturing,* the firm hires local manufacturers to produce the product. Volkswagen has a contract agreement with the GAZ Group through 2019, whereby GAZ will build the Volkswagen Jetta, Skoda Octavia, and Skoda Yeti models in Nizhny Novgorod for the Russian market, with planned production volume of 110,000 vehicles per year.[46] Toshiba, Hitachi, and other Japanese television manufacturers use contract manufacturing to service the Eastern European market.[47]


Source: © Tupungato /Shutterstock

Companies such as Best Western have used franchise arrangements to cost-effectively enter markets all over the world.

Contract manufacturing reduces the company's control over the process and risks loss of potential profits. However, it offers a chance to start faster, with the opportunity to partner with or buy out the local manufacturer later.

Finally, a company can enter a foreign market through *franchising,* a more complete form of licensing. The franchisor offers a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchisor. Quick-service operators like McDonald's, Subway, and Burger King have franchised all over the world, as have service and retail companies such as 7-Eleven, Hertz, and Best Western Hotels.[48]

## JOINT VENTURES

Historically, foreign investors have often joined local investors in a **joint venture** company in which they share ownership and control. To reach more geographic and technological markets and to diversify its investments and risk, GE Capital—GE's retail lending arm—views joint ventures as one of its "most powerful strategic tools." It has formed joint ventures with financial institutions in South Korea, Spain, Turkey, and elsewhere.[49] Emerging markets, especially large, complex countries such as China and India, see much joint venture action.

A joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical, or managerial resources to undertake the venture alone, or the foreign government might require joint ownership as a condition for entry. Joint ownership has drawbacks. The partners might disagree over investment, marketing, or other policies. One might want to reinvest earnings for growth, the other to declare more dividends. Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis.

The value of a partnership can extend far beyond increased sales or access to distribution. Good partners share "brand values" that help maintain brand consistency across markets. For example, McDonald's fierce commitment to product and service standardization is one reason its retail outlets are so similar around the world. McDonald's handpicks its global partners one by one to find "compulsive achievers" who will put forth the desired effort.

## DIRECT INVESTMENT

The ultimate form of foreign involvement is direct ownership: The foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities. Cisco had no presence in India before 2005, but it has already opened a second headquarters in Bangalore to take advantage of opportunities in India and other locations such as Dubai.[50]

If the market is large enough, direct investment offers distinct advantages. First, the firm secures cost economies through cheaper labor or raw materials, government incentives, and freight savings. Second, the firm strengthens its image in the host country because it creates jobs. Third, the firm deepens its relationship with the government, customers, local suppliers, and distributors, enabling it to better adapt its products to the local environment. Fourth, the firm retains full control over its investment and can develop manufacturing and marketing policies that serve its long-term international objectives. Fifth, the firm ensures its access to the market in case the host country insists that locally purchased goods must have domestic content.

The main disadvantage of direct investment is that the firm exposes a large investment to risks like blocked or devalued currencies, worsening markets, or expropriation. If the host country requires high severance pay for local employees, reducing or closing operations can be expensive.

## ACQUISITION

Rather than bringing their brands into certain countries, many companies choose to acquire local brands for their brand portfolio. Strong local brands can tap into consumer sentiment in a way international brands may find difficult. A good example of a company assembling a collection of "local jewels" is SABMiller.[51]

**SABMILLER** From its isolated origins as the dominant brewery in South Africa, SABMiller now has a presence in 75 different countries all over the world, thanks to a series of acquisitions including its 2002 purchase of Miller Brewing in the United States for $5.6 billion. The company is the world's second-largest beer maker, producing such well-known brands as Grolsch, Miller Lite, Peroni, Pilsner Urquell, South Africa's Castle Lager, and Australia's Victoria Bitter. Its global strategy, however, is in stark contrast to that of its main competitor. Anheuser-Busch InBev's strategy with Budweiser is to sell the brand all over the world, positioned as "The American Dream in a Bottle." SABMiller calls itself "the most local of global brewers" and believes the key to global success is pushing local brands that appeal to a home country's customs, attitudes, and traditions. The company relies on sociologists, anthropologists, and historians to find the right way to create "local intimacy" and also employs 10 analysts whose sole responsibility is segmentation research in different markets. Peru's Cusquena brand "pays tribute to the elite standard of Inca craftsmanship." Romania's Timisoreana brand taps into its own 18th-century roots. In Ghana and other parts of Africa, cloudy Chibuku beer is priced at only 58¢ a liter to compete with home brews. When research revealed that many beer drinkers in Poland felt "no one takes us seriously," SABMiller launched a campaign for its Tyskie brand featuring foreigners lauding the brew and the Polish people.

# Deciding on the Marketing Program

International companies must decide how much to adapt their marketing strategy to local conditions.[52] At one extreme is a *standardized marketing program* worldwide, which promises the lowest costs; Table 8.1 summarizes some pros and cons. At the other extreme is an *adapted marketing program* in which the company, consistent with the marketing concept, believes consumer needs vary and tailors marketing to each target group. A good example of the latter strategy is Oreo cookies.[53]

**TABLE 8.1** Globally Standardized Marketing Pros and Cons

| **Advantages** |
|---|
| Economies of scale in production and distribution |
| Lower marketing costs |
| Power and scope |
| Consistency in brand image |
| Ability to leverage good ideas quickly and efficiently |
| Uniformity of marketing practices |
| **Disadvantages** |
| Ignores differences in consumer needs, wants, and usage patterns for products |
| Ignores differences in consumer response to marketing programs and activities |
| Ignores differences in brand and product development and the competitive environment |
| Ignores differences in the legal environment |
| Ignores differences in marketing institutions |
| Ignores differences in administrative procedures |

SABMiller has assembled a diverse portfolio of iconic local beer brands from all over the world.


Source: Associated Press

**OREO** In launching its Oreo brand of cookies worldwide, Kraft chose to adopt a consistent global positioning, "Milk's Favorite Cookie." Although not necessarily highly relevant in all countries, it did reinforce generally desirable associations like nurturing, caring, and health. To help ensure global understanding, Kraft created a brand book with a CD in an Oreo-shaped box that summarized brand management fundamentals—what needed to be common across countries, what could be changed, and what could not. At first, Kraft tried to sell the U.S. Oreo everywhere. When research showed cultural differences in taste preferences—Chinese found the cookies too sweet whereas Indians found them too bitter—new formulas were introduced across markets. In China, the cookie was made less sweet and with different fillings, such as green tea ice cream, grape–peach, mango–orange, and raspberry–strawberry. Indonesia has a chocolate-and-peanut variety; Argentina has banana and dulce de leche varieties. In an example of reverse innovation, Kraft successfully introduced some of these new flavors into other countries. The company also tailors its marketing efforts to better connect with local consumers. One Chinese commercial has a child showing China's first NBA star Yao Ming how to dunk an Oreo cookie.

## GLOBAL SIMILARITIES AND DIFFERENCES

The vast penetration of the Internet, the spread of cable and satellite TV, and the global linking of telecommunications networks have led to a convergence of lifestyles. Increasingly shared needs and wants have created global markets for more standardized products, particularly among the young middle class. Once the butt of jokes like "Why do you need a rear-window defroster on a Skoda? To keep your hands warm when pushing it," the Czech carmaker Skoda was acquired by VW, which invested to upgrade quality and image and offer an affordable option to lower-income consumers worldwide.[54]

At the same time, consumers can still vary in significant ways.[55]

- The median age is only about 26 or 27 in India and Mexico and 35 in China but about 43 to 45 in Japan, Germany, and Italy.[56]
- Doughnuts don't appeal to British consumers for breakfast, while Kenyans need to be convinced that cereal is a good option.[57]
- When asked whether they are more concerned with getting a specific brand rather than the best price, roughly two-thirds of U.S. consumers agreed, compared with about 80 percent in Russia and India.[58]
- The percentage of the population online varies wildly across countries: United Kingdom (85 percent), Japan (80 percent), United States (79 percent), Brazil (40 percent), China (34 percent), and India (7.5 percent). U.S. Internet users spend an average of 32 hours per month, compared with 16 hours globally.[59]

Consumer behavior may reflect cultural differences that can be pronounced across countries.[60] Hofstede identifies four cultural dimensions that differentiate countries:[61]

1. ***Individualism versus collectivism***—In collectivist societies, the self-worth of an individual is rooted more in the social system than in individual achievement (high collectivism: Japan; low: United States).
2. ***High versus low power distance***—High power distance cultures tend to be less egalitarian (high: Russia; low: Nordic countries).

3. ***Masculine versus feminine***—This dimension measures how much the culture reflects assertive characteristics more often attributed to males versus nurturing characteristics more often attributed to females (highly masculine: Japan; low: Nordic countries).
4. ***Weak versus strong uncertainty avoidance***—Uncertainty avoidance indicates how risk-aversive people are (high avoidance: Greece; low: Jamaica).

Consumer behavior differences as well as historical market factors have led marketers to position brands differently in different markets.

- Heineken beer is a high-end super-premium offering in the United States but more middle-of-the-road in its Dutch home market.
- Honda automobiles denote speed, youth, and energy in Japan and quality and reliability in the United States.
- The Toyota Camry is the quintessential middle-class car in the United States but is at the high end in China, though in the two markets the cars differ only in cosmetic ways.

## MARKETING ADAPTATION

Because of all these differences, most products require at least some adaptation.[62] Even Coca-Cola is sweeter or less carbonated in certain countries. Rather than assuming it can introduce its domestic product "as is" in another country, a company should review the following elements and determine which add more revenue than cost if adapted:

- Product features
- Labeling
- Colors
- Materials
- Sales promotion
- Prices
- Advertising media
- Brand name
- Packaging
- Advertising execution
- Advertising themes

The best global brands are consistent in theme but reflect significant differences in consumer behavior, brand development, competitive forces, and the legal or political environment.[63] Oft-heard—and sometime modified—advice to marketers of global brands is to "Think Global, Act Local." In that spirit, HSBC was explicitly positioned for years as "The World's Local Bank."

Take McDonald's, for example.[64] It allows countries and regions to customize its basic layout and menu staples (see Table 8.2). In cities plagued by traffic tie-ups like Manila, Taipei, Jakarta, and Cairo, McDonald's delivers via fleets of motor scooters.

**TABLE 8.2** McDonald's Global Menu Variations

| Country | Noteworthy Menu Items |
|---|---|
| United States | Big Mac, Chicken McNuggets, Filet-o-Fish, Egg McMuffin, Fries |
| India | McVeggie, Chicken Maharaja-Mac, McSpicy Paneer |
| France | Le McBaguette, Le Croque McDo, Le Royal Cheese |
| Egypt | Beef N Pepper, McArabia (grilled kofta), McFalafel |
| Israel | McKebab, McFalafel, Big New York and Big Texas (hamburgers) |
| Japan | Ebi Filet-O, Mega Teriyaki Burger, Bacon Egg and Lettuce Wrap, Shaka Shaka Chicken |
| China | Prosperity Burger, Taro Pie, McWings, McNuggets with Chili Garlic sauce |
| Brazil | Banana Pie, McNífico Bacon, Cheddar McMelt, Big Tasty |
| Mexico | Big Mac, McChicken, Fries, etc. |

Sources: "Discover McDonald's Around the World," www.aboutmcdonalds.com/mcd/country/map.html, accessed May 20, 2014; David Griner, "McDonald's 60-Second Meals in Japan Aren't Going So Well," *Adweek*, January 7, 2013; Richard Vines and Caroline Connan, "McDonald's Wins Over French Chef with McBaguette Sandwich," www.bloomberg.com, January 15, 2013; Ségolène Poirier, "McDonald's Brazil Has Big Plans," *The Rio Times*, April 8, 2012; Susan Postlewaite, "McDonald's McFalafel a Hit with Egyptians, *Advertising Age*, June 19, 2001.

Companies must make sure their brands are relevant to consumers in every market they enter. After highlighting how Amazon and Netflix are entering global markets, we next consider some specific issues in developing global product, communications, pricing, and distribution strategies.[65]

**AMAZON AND NETFLIX** Two of the most successful marketing companies in recent years, Amazon and Netflix are going overseas to fuel their rapid growth, but they are also finding themselves butting heads as they both seek to become the market leader for digital movie downloads. The older of the two, Amazon has been overseas longer, finding much success in the United Kingdom, Germany, and other parts of Europe. Amazon has also moved into Asia-Pacific but has found progress in emerging markets like China to be slow. Amazon acquired LoveFilm, a European DVD rental and movie-streaming business, to compete with Netflix. It also opened up a massive media R&D center in London and expanded its Android-based Appstore distribution business to cover 200 countries. Netflix has expanded aggressively overseas, starting with Canada in 2010 and Latin America in 2011 and then the United Kingdom, Ireland, and Nordic countries in 2012. Although its international base of more than 6 million consumers is formidable, the company faces heavy local and regional competition and has to negotiate with local broadcasters and distributors for its streaming TV licenses. To attract new users, Netflix is emphasizing breadth of content and original programming such as the Emmy- and Golden Globe–winning political thriller "House of Cards."

## GLOBAL PRODUCT STRATEGIES

Developing global product strategies requires knowing what types of products or services are easily standardized and what are appropriate adaptation strategies.

**PRODUCT STANDARDIZATION** Some products cross borders without adaptation better than others, and consumer knowledge about new products is generally the same everywhere because perceptions have yet to be formed. Many leading Internet brands—such as Google, eBay, Twitter, and Facebook—made quick progress in overseas markets.

High-end products also benefit from standardization because quality and prestige often can be marketed similarly across countries. Culture and wealth factors influence how quickly a new product takes off in a country, though adoption and diffusion rates are becoming more alike across countries over time. Food and beverage marketers find it more challenging to standardize, of course, given widely varying tastes and cultural habits.[66]

A company may emphasize its products differently across markets. In its medical-equipment business, Philips traditionally reserved higher-end, premium products for developed markets and emphasized products with basic functionality and affordability in developing markets. Increasingly, however, the company is designing, engineering, and manufacturing locally in emerging markets like China and India.[67]


Source: © Robert Morris/Alamy

Amazon has found great success moving into global markets, especially in Europe.


*Source: Groupe Danone. Used with permission.*

Milkuat is a popular milk beverage in Indonesia due to its six month shelf life and affordability.

With a growing middle class in many emerging markets, many firms are assembling product portfolios to tap into different income segments. French food company Danone has many high-end healthy products, such as Dannon yogurt, Evian water, and Bledina baby food, but it also sells much lower priced products targeting consumers with "dollar-a-day" food budgets. In Indonesia, where average per-capita income is about US$10 a day, the company sells Milkuat, a 6 month shelf life neutral ph milk beverage. Danone now generates over 60% of its sales from growth markets (i.e. all except Western Europe), up from just 23% in 1996 (source: www.danone.com).[68]

**PRODUCT ADAPTATION STRATEGIES** Warren Keegan has distinguished five product and communications adaptation strategies (see Figure 8.3).[69] We review the product strategies here and the communication strategies in the next section.

**Straight extension** introduces the product in the foreign market without any change. Tempting because it requires no additional R&D expense, manufacturing retooling, or promotional modification, the strategy has been successful for cameras, consumer electronics, and many machine tools. In other cases, it has been a disaster. Campbell Soup Company lost an estimated $30 million introducing condensed soups in England; consumers saw expensive small-sized cans and didn't realize water needed to be added.

**Product adaptation** alters the product to meet local conditions or preferences. Flexible manufacturing makes it easier to do so on several levels.

- A company can produce a *regional version* of its product. Dunkin' Donuts has been introducing more regionalized products, such as Coco Leche donuts in Miami and sausage kolaches in Dallas.[70]
- A company can produce a *country version*. Kraft blends different coffees for the British (who drink coffee with milk), the French (who drink it black), and Latin Americans (who want a chicory taste).
- A company can produce a *city version*—for instance, a beer to meet Munich's or Tokyo's tastes.
- A company can produce different *retailer versions*, such as one coffee brew for the Migros chain store and another for the Cooperative chain store, both in Switzerland.

| Communications | Product: Do Not Change Product | Product: Adapt Product | Product: Develop New Product |
|---|---|---|---|
| Do Not Change Communications | Straight extension | Product adaptation | Product invention |
| Adapt Communications | Communication adaptation | Dual adaptation | |

**| Fig. 8.3 |**

Five International Product and Communication Strategies

Some companies have learned adaptation the hard way. The Euro Disney theme park, launched outside Paris in 1992, was harshly criticized as an example of U.S. cultural imperialism that ignored French customs and values, such as the serving of wine with meals. As one

Euro Disney executive noted, "When we first launched, there was the belief that it was enough to be Disney. Now we realize our guests need to be welcomed on the basis of their own culture and travel habits." Renamed Disneyland Paris, the theme park eventually became one of Europe's biggest tourist attraction—even more popular than the Eiffel Tower—by implementing a number of local touches.[71]

On the other hand, South Korea's LG Electronics has found success in India by investing in local design and manufacturing facilities that helped it develop TVs with higher-quality speakers, refrigerators with brighter colors and smaller freezers, and microwaves with one-touch "Indian menu" functions, all reflecting Indian preferences.[72]

**Product invention** creates something new. It can take two forms:

- **Backward invention** reintroduces earlier product forms well adapted to a foreign country's needs. A big hit in developing markets in Latin America, Mexico, and the Middle East, the powdered drink Tang has added local flavors like lemon pepper and soursop. Although its U.S. sales have fallen precipitously, its worldwide sales doubled from 2006 to 2011.[73]
- **Forward invention** creates a new product to meet a need in another country. Less-developed countries need low-cost, high-protein foods. Companies such as Quaker Oats, Swift, and Monsanto have researched their nutrition requirements, formulated new foods, and developed advertising to gain product trial and acceptance.

**BRAND ELEMENT ADAPTATION** When they launch products and services globally, marketers may need to change certain brand elements.[74] Even a brand name may require a choice between phonetic and semantic translations.[75] When Clairol introduced the "Mist Stick," a curling iron, in Germany, it found that *mist* is slang for *manure*. In China, Coca-Cola and Nike have both found sets of Chinese characters that sounds broadly like their names but also offer some relevant meaning at the same time ("Can Be Tasty, Can Be Happy" and "Endurance Conquer," respectively).[76]

Numbers and colors can take on special meaning in certain countries. The number four is considered unlucky throughout much of Asia because the Japanese word sounds like "death." Some East Asian buildings skip not only the fourth floor but often every floor that has a four in it (14, 24, 40–49). Nokia doesn't release phone models with the number four in them in Asia.[77]

Purple is associated with death in Burma and some Latin American nations, white is a mourning color in India, and in Malaysia green connotes disease. Red generally signifies luck and prosperity in China.[78]

Brand slogans or ad taglines sometimes need to be changed too:[79]

- When Coors put its brand slogan "Turn it loose" into Spanish, some read it as "suffer from diarrhea."
- A laundry soap ad claiming to wash "really dirty parts" was translated in French-speaking Quebec to read "a soap for washing private parts."
- Perdue's slogan—"It takes a tough man to make a tender chicken"—was rendered into Spanish as "It takes a sexually excited man to make a chicken affectionate."

Table 8.3 lists some other famous marketing mistakes in this area.

**TABLE 8.3 Classic Blunders in Global Marketing**

- Hallmark cards failed in France, where consumers dislike syrupy sentiment and prefer writing their own cards.
- Philips became profitable in Japan only after reducing the size of its coffeemakers to fit smaller kitchens and its shavers to fit smaller hands.
- Coca-Cola withdrew its big two-liter bottle in Spain after discovering that few Spaniards owned refrigerators that could accommodate it.
- General Foods' Tang initially failed in France when positioned as a substitute for orange juice at breakfast. The French drink little orange juice and almost never at breakfast.
- Kellogg's Pop-Tarts failed in Britain because fewer homes have toasters than in the United States and the product was too sweet for British tastes.
- The U.S. campaign for Procter & Gamble's Crest toothpaste initially failed in Mexico. Mexicans did not care as much about the decay-prevention benefit nor the scientifically oriented advertising appeal.
- General Foods squandered millions trying to introduce packaged cake mixes to Japan, where only 3 percent of homes at the time were equipped with ovens.
- S. C. Johnson's wax floor polish initially failed in Japan. It made floors too slippery for a culture where people do not wear shoes at home.

## GLOBAL COMMUNICATION STRATEGIES

Changing marketing communications for each local market is a process called **communication adaptation.** If it adapts both the product and the communications, the company engages in **dual adaptation.**

Consider the message. The company can use one message everywhere, varying only the language and name.[80] General Mills positions its Häagen-Dazs brand in terms of "indulgence," "affordable luxury," and "intense sensuality." To communicate that message, it ran a 30-second TV spot called "Sensation," with the tagline "Anticipated Like No Other" in markets all over the world, substituting only the voice-over in the language of each country.[81]

The second possibility is to use the same message and creative theme globally but adapt the execution. GE's global "Ecomagination" ad campaign substitutes creative content in Asia and the Middle East to reflect cultural interests there. Even in the high-tech space, local adaptations may be necessary.[82]

The third approach, which Coca-Cola and Goodyear have used, consists of developing a global pool of ads from which each country selects the most appropriate. Finally, some companies allow their country managers to create country-specific ads—within guidelines, of course. The challenge is to make the message as compelling and effective as in the home market.

**GLOBAL ADAPTATIONS** Companies that adapt their communications wrestle with a number of challenges. They first must ensure their communications are legally and culturally acceptable. U.S. toy makers were surprised to learn that in many countries (Norway and Sweden, for example), no TV ads may be directed at children under 12. To foster a culture of gender neutrality, Sweden also now prohibits "sexist" advertising—a commercial that spoke of "cars for boys, princesses for girls" was criticized by government advertising regulators.[83]

A number of countries are taking steps to eliminate "super skinny" and airbrushed models in ads. Israel has banned "underweight" models from print and TV ads and runway shows. Models must have a body-mass index—a calculation based on height and weight—of greater than 18.5. According to that BMI standard, a female model who is 5 feet, 8 inches tall can weigh no less than 119 pounds.[84]

Firms next must check their creative strategies and communication approaches for appropriateness. Comparative ads, though acceptable and even common in the United States and Canada, are less frequent in the United Kingdom, unacceptable in Japan, and illegal in India and Brazil. The EU seems to have a very low tolerance for comparative advertising and prohibits bashing rivals in ads.

Companies also must be prepared to vary their messages' appeal.[85] In advertising its hair care products, Helene Curtis observed that middle-class British women wash their hair frequently, Spanish women less so. Japanese women avoid overwashing for fear of removing protective oils. Language can vary too, whether the local language, another such as English, or some combination.[86]

When the brand is at an earlier stage of development in its new market, consumer education may need to accompany brand development efforts. In launching Chik shampoo in rural areas of South India, where hair is washed with soap, CavinKare showed people how to use the product through live "touch and feel" demonstrations and free sachets at fairs.[87]

Personal selling tactics may need to change too. The direct, no-nonsense approach favored in the United States ("let's get down to business" and "what's in it for me") may not work as well in Europe or Asia as an indirect, subtle approach.[88]

Source: Associated Press

Marketers in Israel must observe the body-mass restrictions prohibiting overly-skinny models.

## GLOBAL PRICING STRATEGIES

Multinationals selling abroad must contend with price escalation and transfer prices (and dumping charges). As part of those issues, two particularly thorny pricing problems are gray markets and counterfeits.

**PRICE ESCALATION** A Gucci handbag may sell for $120 in Italy and $240 in the United States. Why? Gucci must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. **Price escalation** from these added costs and currency-fluctuation risk might require the price to be two to five times as high for the manufacturer to earn the same profit.

Companies have three choices for setting prices in different countries:

1. ***Set a uniform price everywhere.*** PepsiCo might want to charge $1 for Pepsi everywhere in the world, but then it would earn quite different profit rates in different countries. Also, this strategy would make the price too high in poor countries and not high enough in rich countries.
2. ***Set a market-based price in each country.*** PepsiCo would charge what each country could afford, but this strategy ignores differences in the actual cost from country to country. It could also motivate intermediaries in low-price countries to reship their Pepsi to high-price countries.[89]
3. ***Set a cost-based price in each country.*** Here PepsiCo would use a standard markup of its costs everywhere, but this strategy might price it out of markets where its costs are high.

When companies sell their wares over the Internet, price becomes transparent and price differentiation between countries declines. Consider an online training course. Whereas the cost of a classroom-delivered day of training can vary significantly from the United States to France to Thailand, the price of an online-delivered day would be similar everywhere.

In another new global pricing challenge, countries with overcapacity, cheap currencies, and the need to export aggressively have pushed their prices down and devalued their currencies. Sluggish demand and reluctance to pay higher prices make selling in these markets difficult. Here is what IKEA did to compete in China's challenging pricing market.[90]

IKEA When the Swedish home furnishings giant IKEA opened its first store in Beijing in 2002, local stores were selling copies of its designs at a fraction of IKEA's prices. The only way to lure China's frugal customers was to drastically slash prices. Western brands in China usually price products such as makeup and running shoes 20 percent to 30 percent higher than in their other markets, both to make up for China's high import taxes and to give their products added cachet. By stocking its Chinese stores with Chinese-made products, IKEA has been able to slash prices as low as 70 percent below their level outside China. Western-style showrooms provide model bedrooms, dining rooms, and family rooms and suggest how to furnish them, an important consideration given home ownership in China has gone from practically zero in 1995 to about 70 percent today. Young couples are especially drawn to IKEA's stylish, functional modern styles. Although it still contends with persistent knockoffs, IKEA maintains sizable stores in eight locations and aims to have 15 by 2015.

Source: © ZUMA Press, Inc./Alamy

IKEA has gone to great lengths to draw customers into its showrooms and establish a market presence in China.

**TRANSFER PRICES** A different problem arises when one unit charges another unit in the same company a **transfer price** for goods it ships to its foreign subsidiaries. If the company charges a subsidiary too *high* a price, it may end up paying higher tariff duties, though it may pay lower income taxes in the foreign country. If the company charges its subsidiary too *low* a price, it can be accused of **dumping,** charging either less than its costs or less than it charges at home in order to enter or win a market. Various governments are watching for abuses and often force companies to charge the **arm's-length price**—the price charged by other competitors for the same or a similar product.

When the U.S. Department of Commerce finds evidence of dumping, it can levy a dumping tariff on the guilty company. After much debate over government support for clean-energy products, the United States chose to set anti-dumping duties of 44.99 percent to 47.59 percent on wind towers produced in China and Vietnam and sent to the United States.[91]

**GRAY MARKETS** Many multinationals are plagued by the **gray market,** which diverts branded products from authorized distribution channels either in-country or across international borders. Often a company finds some enterprising distributors buying more than they can sell in their own country and reshipping the goods to another country to take advantage of price differences.

Gray markets create a free-rider problem, making legitimate distributors' investments in supporting a manufacturer's product less productive and selective distribution systems more intensive to reduce the number of gray market possibilities. They harm distributor relationships, tarnish the manufacturer's brand equity, and undermine the integrity of the distribution channel. They can even pose risks to consumers if the product is damaged, relabeled, obsolete, without warranty or support, or just counterfeit. Because of their high prices, prescription drugs are often a gray market target, though U.S. government regulators are looking at the industry more closely after fake vials of Riche Holding AG's cancer drug Avastin were shipped to U.S. doctors.[92]

Multinationals try to prevent gray markets by policing distributors, raising their prices to lower-cost distributors, or altering product characteristics or service warranties for different countries.[93] 3Com successfully sued several companies in Canada (for a total of $10 million) for using written and oral misrepresentations to get deep discounts on 3Com networking equipment. The equipment, worth millions of dollars, was to be sold to a U.S. educational software company and sent to China and Australia but instead ended up back in the United States.

One research study found that gray market activity was most effectively deterred when penalties were severe, manufacturers were able to detect violations or mete out punishments in a timely fashion, or both.[94]

**COUNTERFEIT PRODUCTS** As companies develop global supply chain networks and move production farther from home, the chance for corruption, fraud, and quality-control problems rises.[95] Sophisticated overseas factories seem able to reproduce almost anything. Name a popular brand, and chances are a counterfeit version of it exists somewhere in the world.[96]

Counterfeiting is estimated to cost more than a trillion dollars a year. U.S. Customs and Border Protection seized $1.26 billion worth of goods in 2012; the chief culprits were China (81 percent) and Hong Kong (12 percent), and the chief products were apparel and accessories, followed by electronics, optical media, handbags and wallets, and watches and jewelry.[97]

At the Summer Olympics in London in 2012, the Egyptian Olympic team even admitted to buying fake Nike gear from a Chinese distributor because of the country's dire economic situation. Once Nike found out what had happened, the company donated all the necessary training and village wear to the team.[98]

Fakes take a big bite of the profits of luxury brands such as Hermès, LVMH Moët Hennessy Louis Vuitton, and Tiffany, but faulty counterfeits can literally kill people. Cell phones with counterfeit batteries, fake brake pads made of compressed grass trimmings, and counterfeit airline parts pose safety risks to consumers. Pharmaceuticals are especially worrisome. Toxic cough syrup in Panama, tainted baby formula in China, and fake teething powder in Nigeria have all led to the deaths of children in recent years.[99]

Virtually every product is vulnerable. Microsoft estimates that four-fifths of Windows OS software in China is pirated.[100] As one anti-counterfeit consultant observed, "If you can make it, they can fake it." Defending against counterfeiters is a never-ending struggle; some observers estimate that a new security system can be just months old before counterfeiters start nibbling at sales again.[101]

The Internet has been especially problematic. After surveying thousands of items, LVMH estimated 90 percent of Louis Vuitton and Christian Dior pieces listed on eBay were fakes, prompting the firm to sue. Manufacturers are fighting back online with Web-crawling software that detects fraud and automatically warns apparent violators without the need for any human intervention. Acushnet, maker of Titleist golf clubs and balls, shut down 75 auctions of knockoff gear in one day with a single mouse click.[102]

Web-crawling technology searches for counterfeit storefronts and sales by detecting domain names similar to legitimate brands and unauthorized Internet sites that plaster brand trademarks and logos on their homepages. It also checks for keywords such as *cheap, discount, authentic,* and *factory variants,* as well as colors that products were never made in and prices that are far too low.

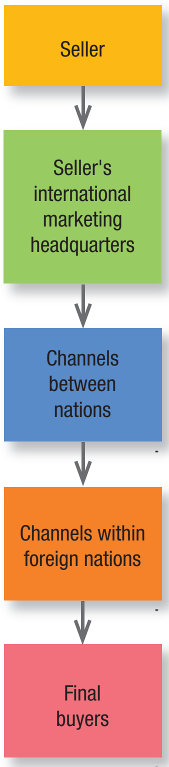

Source: Associated Press

Nike came to the rescue of the Egyptian Olympic team after they admitted buying fake Nike gear because of the country's budgetary problems.

## GLOBAL DISTRIBUTION STRATEGIES

Too many U.S. manufacturers think their job is done once the product leaves the factory. They should instead note how the product moves within the foreign country and take a whole-channel view of distributing products to final users.

**CHANNEL ENTRY** Figure 8.4 shows three links between the seller and the final buyer. In the first, *seller's international marketing headquarters,* the export department or international division makes decisions about channels and other marketing activities. The second




**| Fig. 8.4 |**

Whole-Channel Concept for International Marketing

link, *channels between nations,* gets the products to the borders of the foreign nation. Decisions made in this link include the types of intermediaries (agents, trading companies), type of transportation (air, sea), and financing and risk management. The third link, *channels within foreign nations,* gets products from their entry point to final buyers and users.

When multinationals first enter a country, they prefer to work with local distributors with good local knowledge, but friction often arises later.[103] The multinational complains that the local distributor doesn't invest in business growth, doesn't follow company policy, and doesn't share enough information. The local distributor complains of insufficient corporate support, impossible goals, and confusing policies. The multinational must choose the right distributors, invest in them, and set up performance goals to which they can both agree.[104]

**CHANNEL DIFFERENCES** Distribution channels across countries vary considerably. To sell consumer products in Japan, companies must work through one of the most complicated distribution systems in the world. They sell to a general wholesaler, who sells to a product wholesaler, who sells to a product-specialty wholesaler, who sells to a regional wholesaler, who sells to a local wholesaler, who finally sells to retailers. All these distribution levels can make the consumer's price double or triple the importer's price. Taking these same consumer products to tropical Africa, the company might sell to an import wholesaler, who sells to several jobbers, who sell to petty traders (mostly women) working in local markets.

Another difference is the size and character of retail units abroad. Large-scale retail chains dominate the U.S. scene, but much foreign retailing is in the hands of small, independent retailers. Millions of Indian retailers operate tiny shops or sell in open markets. Markups are high, but the real price comes down through haggling. Incomes are low, most homes lack storage and refrigeration, and people shop daily for whatever they can carry home on foot or bicycle. In India, people often buy one cigarette at a time. Breaking bulk remains an important function of intermediaries and helps perpetuate long channels of distribution, a major obstacle to the expansion of large-scale retailing in developing countries.

Nevertheless, retailers are increasingly moving into new global markets, offering firms the opportunity to sell across more countries and creating a challenge to local distributors and retailers.[105] France's Carrefour, Germany's Aldi and Metro, and United Kingdom's Tesco have all established global positions. But even some of the world's most successful retailers have had mixed success abroad. Despite concerted efforts and earlier success in Latin America and China, Walmart had to withdraw from both the German and South Korean markets after heavy losses. Walmart now earns a quarter of its revenue overseas by being more sensitive to local market needs in different countries.[106]

# Country-of-Origin Effects

*Country-of-origin perceptions* are the mental associations and beliefs triggered by a country. Government officials want to strengthen their country's image to help domestic marketers that export and to attract foreign firms and investors. Marketers want to use positive country-of-origin perceptions to sell their products and services.

## BUILDING COUNTRY IMAGES

Governments now recognize that the images of their cities and countries affect more than tourism and have important value in commerce. Foreign business can boost the local economy, provide jobs, and improve infrastructure. Image can also help sell products. For its first global ad campaign for Infiniti luxury cars, Nissan chose to tap into its Japanese roots and association with Japanese-driven art and engineering.[107]

Countries are being marketed like any other brand. New Zealand has developed concerted marketing programs both to sell its products outside the country, via its New Zealand Way program, and to attract tourists, by showing the dramatic landscapes featured in *The Lord of the Rings* film trilogy. Both efforts reinforce the image of New Zealand as fresh and pure. The launch of the new *Hobbit* trilogy in November 2012—with the fictional Middle Earth again being depicted by New Zealand—has attracted a new wave of visitors.[108]

Another film affected the image of a country in an entirely different way. Kazakhstan has a positive story to tell given its huge size, rich natural resources, and rapid modernization. British comedian Sacha Baron Cohen's mock documentary *Borat*, however, portrayed the country in a sometimes crude and vulgar light, and the character Borat was sexist, homophobic, and anti-Semitic. Despite that fact, Yerzhan Kazykhanov, Kazakhstan's foreign minister, observed: "After this film, the number of visas issued to Kazakhstan grew by ten times. This is a big victory for us, and I thank Borat for attracting tourists to Kazakhstan." Evidently, enough publicity about the country surrounded the film to boost its awareness.[109]

A strong company that emerges as a global player can do wonders for a country's image. Before World War II, Japan had a poor image, which the success of Sony with its Trinitron TV sets and of Japanese automakers Honda, Nissan, and Toyota helped change. Relying partly on the global success of Nokia, Finland campaigned to enhance


Source: © Moviestore collection Ltd/Alamy

The government of New Zealand markets the country as fresh and pure, a message reinforced by the use of stunning New Zealand scenery in many popular films such as the *Hobbit* trilogy.

its image as a center of high-tech innovation. Current events can also shape the image of a country. When public unrest and violent protests surrounded the government's austerity program to address Greece's debt crisis, tourist bookings there dropped as much as 30 percent.[110]

## CONSUMER PERCEPTIONS OF COUNTRY OF ORIGIN

Global marketers know that buyers hold distinct attitudes and beliefs about brands or products from different countries.[111] These perceptions can be attributes in decision making or influence other attributes in the process ("If it's French, it must be stylish"). Coca-Cola's success against local cola brand Jianlibao in China was partly due to its symbolic values of U.S. modernity and affluence.[112]

The mere fact that a brand is perceived as successful on a global stage—whether it sends a quality signal, taps into cultural myths, or reinforces a sense of social responsibility—may lend credibility and respect.[113] Research studies have found the following:[114]

- People are often ethnocentric and favorably predisposed to their own country's products, unless they come from a less developed country.
- The more favorable a country's image, the more prominently the "Made in…" label should be displayed.
- The impact of country of origin varies with the type of product. Consumers want to know where a car was made, but not the lubricating oil.
- Certain countries enjoy a reputation for certain goods: Japan for automobiles and consumer electronics; the United States for high-tech innovations, soft drinks, toys, cigarettes, and jeans; France for wine, perfume, and luxury goods.
- Sometimes country-of-origin perception can encompass an entire country's products. In one study, Chinese consumers in Hong Kong perceived U.S. products as prestigious, Japanese products as innovative, and Chinese products as cheap.

Marketers must look at country-of-origin perceptions from both a domestic and a foreign perspective. In the domestic market, these perceptions may stir consumers' patriotic notions or remind them of their past. As international trade grows, consumers may view certain brands as symbolically important in their own cultural identity or as playing an important role in keeping jobs in their own country. More than three-quarters of U.S. consumers said that, given a choice between a product made at home and an identical one made abroad, they would choose the U.S. product.[115]

Patriotic appeals underlie marketing strategies all over the world, but they can lack uniqueness and even be overused, especially in economic or political crises. Many small businesses tap into community pride to emphasize their local roots. To be successful, these need to be clearly local and offer appealing product and service offerings.[116]

Sometimes consumers don't know where brands come from. In surveys, they routinely guess that Heineken is German and Nokia is Japanese (they are Dutch and Finnish, respectively). Few consumers know Häagen-Dazs and Estée Lauder originated in the United States.

With outsourcing and foreign manufacturing, it's hard to know what the country of origin really is anyway. Only 65 percent of the content of a Ford Mustang comes from the United States or Canada, whereas the Toyota Avalon is assembled in Georgetown, Kentucky, with one of the highest percentages of local components, 85 percent. Foreign automakers

China's large appliance maker Haier has made being seen as a localized U.S. brand one of their top business priorities.


Source: Wang jun qd - Imaginechina

are pouring money into North America, investing in plants, suppliers, and dealerships as well as design, testing, and research centers. But what makes a product more "American"—having a higher percentage of North American components or creating more jobs in North America? The two measures may not lead to the same conclusion.[117]

Many brands have gone to great lengths to weave themselves into the cultural fabric of their foreign markets. One Coca-Cola executive tells of a young child visiting the United States from Japan who commented to her parents on seeing a Coca-Cola vending machine—"Look, they have Coca-Cola too!" As far as she was concerned, Coca-Cola was a Japanese brand. Haier is another global brand working hard to establish local roots in other countries.[118]

HAIER As China's leading maker of refrigerators, washing machines, and air conditioners, Haier was well known and respected in its home market for its well-designed products. For rural customers, Haier sold extra-durable washing machines that could wash vegetables as well as clothes; for urban customers, it made smaller washing machines to fit in tiny apartments. In 1999, the company set its sights on a much bigger goal: building a truly global brand. Unlike most other Asian companies that chose to enter Asian markets before considering Western markets, Haier decided to first target the United States and Western Europe. The company felt success there would enable greater success elsewhere in the world. In the United States, Haier established a beachhead by tapping a neglected market—mini-fridges for homes, offices, dorms, and hotels—and securing distribution at Walmart, Target, Home Depot, and other top retailers. After some initial success, the company began to sell higher-end refrigerators and other appliances such as air conditioners, washing machines, and dishwashers. Its goal is to be seen as a "localized U.S. brand," not an "imported Chinese brand." Thus, Haier invested $40 million in a manufacturing plant in South Carolina and became a marketing partner with the National Basketball Association. The firm's global marketing efforts have paid off. By 2012, 30 percent of U.S. households owned a Haier product, and Haier is now the world's top-selling home appliance brand.

Interestingly, even when the United States has not been that popular, its brands typically have been. As one marketer noted, "Regardless of all the problems we have as a country, we are still looked to as the consumer capital of the world."[119]

# Summary

1. Despite shifting borders, unstable governments, foreign-exchange problems, corruption, and technological pirating, companies selling in global industries need to internationalize their operations.
2. Upon deciding to go abroad, a company needs to define its international marketing objectives and policies. It must determine whether to market in a few or many countries and rate candidate countries on three criteria: market attractiveness, risk, and competitive advantage.
3. Developing countries offer a unique set of opportunities and risks. The "BRICS" countries—Brazil, Russia, India,

China, and South Africa—plus other significant markets such as Indonesia are a top priority for many firms.

4. Modes of entry are indirect exporting, direct exporting, licensing, joint ventures, and direct investment. Each succeeding strategy entails more commitment, risk, control, and profit potential.
5. In deciding how much to adapt their marketing programs at the product level, firms can pursue a strategy of straight extension, product adaptation, or product invention. At the communication level, they may choose communication adaptation or dual adaptation. At the price level, firms may encounter price escalation, dumping, gray markets, and discounted counterfeit products. At the distribution level, firms need to take a whole-channel view of distributing products to the final users. Firms must always consider the cultural, social, political, technological, environmental, and legal limitations they face in other countries.
6. Country-of-origin perceptions can affect consumers and businesses alike. Managing those perceptions to best advantage is a marketing priority.

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# Applications

## Marketing Debate

### Is the World Coming Closer Together?

Many social commentators maintain that youth and teens are becoming more alike across countries over time. Others, though not disputing the fact, point out that differences between cultures at even younger ages by far exceed the similarities.

**Take a position:** **People are becoming more and more similar *versus* The differences between people of different cultures far outweigh their similarities.**

## Marketing Discussion

### Diverse Channels

As observed in the chapter, global economy does not necessarily mean homogeneity in distribution channels and similarities in marketing, advertising, and promotions. In fact, distribution channels around the world could not be more different. Why is this the case?

## Marketing Excellence

### >> Twitter

Few companies have had such a vast global impact in so short a time as Twitter. The online social networking company was the brainchild of Jack Dorsey, Evan Williams, Biz Snow, and Noah Glass back in 2005. Dorsey thought it would be revolutionary if people could send a text to one number and have it broadcast to all their friends: "I want to make something so simple, you don't even think about it, you just write." The code name for the concept was "twttr," which eventually morphed into Twitter. Dorsey sent the first Twitter message on March 21, 2006.

At the heart of Twitter are tweets, text messages limited to 140 characters. Dorsey once tweeted, "One could change the world with 140 characters." Registered users can send and receive tweets, while unregistered users can only read them. In response to users' comments and ideas, the company added more features to help organize the ongoing communication on Twitter, including the @ sign in front of usernames, direct messages, and the retweet. Web developer Chris Messina suggested adding a hashtag (#) symbol to help organize categories of conversation or search for tweets on a common topic. For example, *#Grammys* will bring a user to conversations about the Grammys.

Twitter grew slowly during its first year, but things started to heat up in 2007 when the company set up 51-inch plasma screens around the grounds of the South by Southwest interactive festival and broadcast tweets sent by attendees. Overnight, activity increased from 20,000 to 60,000 tweets a day.

Another milestone came on January 15, 2009, when US Airways flight 1549 landed safely on the Hudson River in New York City during an emergency. An eyewitness on a commuter ferry broke the news worldwide when he snapped a photo of the plane on the river, wrote a tweet, and sent it to his 170 followers. The tweet and #Flight1549 went viral within minutes and proved that Twitter had transformed the way we get news.

Seth Mnookin, MIT's Associate Director of Science Writing, explained why Twitter has been so revolutionary in media: "What the advent of television or radio did was give a small group of people a new way to reach the masses. And this essentially is doing the same thing, for the masses." Twitter captures and records history in real time with eyewitness accounts, pictures, and thoughts.

Celebrities and sports figures started to embrace Twitter in 2009. Perhaps the most influential early adopter was Ashton Kutcher, the first celebrity to reach 1 million followers. Katy Perry, Barack Obama, Lady Gaga, and Justin Bieber are now among the most followed Tweeters, with tens of millions followers each.

By 2011, Twitter had expanded across seven different countries and languages. The medium had a huge impact on the Arab Spring, when millions demanded the overthrow of oppressive Middle East regimes. Bahraini protester Maryam Al-Khawaja explained that in many countries Twitter is about entertainment, but in the Middle East and North Africa, it can make the difference between life and death. Twitter gave activists a means to share accurate and uncensored information, connect with like-minded individuals, and organize street operations at unheard-of speed. Hussein Amin, professor of mass communication at the American University in Cairo, explained, "[Social networks] for the first time provided activists with an opportunity to quickly disseminate information while bypassing government restrictions."

During the 2012 U.S. presidential election, Twitter had enormous impact on campaigns and communications with voters. In fact, the most popular tweet of 2012 was "Four more years," posted by Barack Obama after he won the reelection. It was retweeted almost 1 million times.

Twitter went public in November 2013 and raised \$2.1 billion in the second-biggest Internet IPO in history (Facebook raised \$16 billion in 2012). Its global impact has grown so great that it operates in 35 languages and 70 percent of users live outside the United States. In 2014, 500 million users were registered on Twitter, 250 million were active, and more than 400 million tweets were posted each day around the globe.

Today, people use Twitter for many reasons, including promoting a brand or company, raising money for charities, breaking news, following favorite celebrities, or, as Dorsey said, changing the world. Twitter describes itself as a global platform for public self-expression and conversation in real time. Mark Burnett, the producer of shows like *The Voice, Survivor,* and *The Apprentice,* stated, "Twitter actually is the real time, water cooler conversation of young America." The company's ultimate goal is to reach everyone in the world.

### Questions

1. Discuss Twitter's global impact since its inception.
2. Who are Twitter's biggest competitors? How does Twitter differ from other social media companies?
3. What marketing challenges does Twitter face as it continues to expand its brand globally?

**Sources**: Dom Sagolla, 140Characters.com, January 30, 2009; Nicholas Carlson, "The Real History of Twitter," BusinessInsider.com, April 13, 2011; Victor Luckerson, "The 7 Most Important Moments in Twitter History," *Time,* November 7, 2013; Drew Olanoff, "Twitter's Social Impact Can't Be Measured, but It's the Pulse of the Planet," Techcrunch.com, January 15, 2013; Heesun Wee, "Twitter May Be Going Public but Can It Make Money?" *CNBC,* November 5, 2013; Elizabeth Kricfalusi, "The Twitter Hashtag: What Is It and How Do You Use It?" *Tech for Luddites,* November 12, 2013; Julianne Pepitone, "#WOW! Twitter Soars 73% in IPO," CNNMoney.com, November 7, 2013; "#Twitter Revolution," CNBC.com, August 7, 2013; David Wolman, "Facebook, Twitter Help the Arab Spring Blossom," *Wired,* April 16, 2013; David Jolly, Mark Scott, and Eric Pfanner, "Twitters IPO Plan Has an International Focus," *New York Times,* October 5, 2013; Saleem Kassim, "Twitter Revolution: How the Arab Spring Was Helped by Social Media," PolicyMic.com, July 3, 2012; www.twitter.com.

## Marketing Excellence

## >> L'Oréal

When it comes to globalizing beauty, no one does it better than L'Oréal. The company was founded in Paris more than 100 years ago by a young chemist, Eugene Schueller, who sold his patented hair dyes to local hairdressers and salons. By the 1930s, Schueller had invented beauty products like suntan oil and the first mass-marketed shampoo. Today, the company has evolved into the world's largest beauty and cosmetics company, with distribution in 130 countries, 27 global brands, and more than \$30.8 billion in sales.

Much of the company's early international expansion is credited to Sir Lindsay Owen-Jones, who transformed L'Oréal from a small French business into an international cosmetics phenomenon with strategic vision and precise brand management. During his almost 20 years as CEO and chairman, Owen-Jones divested weak brands, invested heavily in product innovation, acquired ethnically diverse brands, and expanded into markets no one had dreamed of, including China, South America, and the former Soviet Union. His quest was to achieve diversity and "meet the needs of men and women around the globe, and make beauty products available to as many people as possible."

Today, L'Oréal focuses on five areas of beauty expertise: skin care, hair care, makeup, hair coloring, and perfume. Its brands fall into four different groups: (1) *Consumer Products* (52 percent of sales, includes mass-marketed brands like Maybelline and high-technology products sold at competitive prices through mass-market retailing chains), (2) *L'Oreal Luxe* (27 percent of sales, includes prestigious brands like Ralph Lauren perfume that are available only in premium stores, department stores, or specialty stores), (3) *Professional Products* (14 percent of sales, includes brands such as Redken designed specifically for professional hair salons), and (4) *Active Cosmetics* (7 percent of sales, includes dermo-cosmetic products sold at pharmacies, drugstores, and medi-spas).

L'Oréal believes precise target marketing—hitting the right audience with the right product and message at the right place—is crucial to its global success. Owen-Jones explained, "Each brand is positioned on a very precise [market] segment, which overlaps as little as possible with the others."

The company has built its portfolio primarily by purchasing local beauty companies all over the world, revamping them with strategic direction, and expanding the brand into new areas through its powerful marketing arm. For example, L'Oréal instantly became a player (with 20 percent market share) in the growing ethnic hair care industry when it purchased and merged the U.S. companies Soft Sheen Products in 1998 and Carson Products in 2000. L'Oréal believed the competition had overlooked this category because it was fragmented and misunderstood. Backed by a deep portfolio of brands and products, SoftSheen-Carson is now the market leader in the ethnic hair care industry.

L'Oréal also invests significant money and time in its 22 local research centers around the world. The company spends 3.5 percent of annual sales on R&D, more than one percentage point above the industry average, researching and innovating products that meet the local needs of each region.

Understanding the unique beauty routines and needs of different cultures, climates, traditions, and physiologies is critical to L'Oréal's global success. Hair and skin greatly differ from one part of the world to another, so L'Oreal listens to and observes consumers across the globe to gather a deep understanding of their beauty needs. L'Oréal scientists study consumers in laboratory bathrooms and in their own homes, sometimes achieving scientific beauty milestones.

In Japan, for example, L'Oréal developed Wondercurl mascara specially formulated to curl Asian women's eyelashes, which are usually short and straight. Within three months, Wondercurl mascara had become Japan's number-one selling mascara, and young women lined up outside stores to buy it. L'Oréal continued to research the market and developed nail polish, blush, and other cosmetics aimed at this new Asian generation.

L'Oréal believes its future lies in emerging areas such as Asia, Africa, and Latin America, where it expects to find millions of new customers over the next few years. Marc Menesguen, L'Oréal's managing director-strategic marketing, explained, "Our projection for 2020 is that 50% to 60% of sales will be coming from [emerging] markets." As a result, new research centers have popped up in these countries, and the company is working aggressively on understanding these consumers' needs and developing beauty products to satisfy them.

Well known for its 1973 advertising tagline—"Because I'm Worth It"—L'Oréal is the leader in beauty products around the world. The company spends approximately $5 billion in advertising each year, making it the third-largest advertiser. As Gilles Weil, its head of luxury products, explained, "You have to be local and as strong as the best locals, but backed by an international image and strategy."

## Questions

1. Review L'Oréal's brand portfolio. What role have local and global marketing, smart acquisitions, and R&D played in growing those brands?
2. What are the keys to successful local product launches like Maybelline's Wondercurl in Japan?
3. What's next for L'Oréal on a global level? Who are its biggest competitors? If you were CEO, how would you sustain the company's global leadership?

**Sources:** Andrew Roberts, "L'Oréal Quarterly Sales Rise Most since 2007 on Luxury Perfume," *Bloomberg BusinessWeek*, April 22, 2010; Richard Tomlinson, "L'Oréal's Global Makeover," *Fortune*, September 30, 2002; Doreen Carvajal, "International Business; Primping for the Cameras in the Name of Research," *New York Times*, February 7, 2006; Richard C. Morais, "The Color of Beauty," *Forbes*, November 27, 2000; Jack Neff, "How L'Oreal Zen Master Menesguen Shares Best Practices around the Globe," *Advertising Age,* June 11, 2012; L'Oréal, www.loreal.com.

# Part 4 Building Strong Brands




LinkedIn offers a variety of relevant value-added online services to its target market of career-minded professionals.

*Source: © PSL Images/Alamy*

## In This Chapter, We Will Address the Following Questions

1. In what ways can a company divide the consumer market into segments? (p. 268)
2. How should business markets be segmented? (p. 283)
3. How should a company choose the most attractive target markets? (p. 284)
4. What are the requirements for effective segmentation? (p. 285)
5. What are the different levels of market segmentation? (p. 285)