Global Marketing Strategies

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CHAPTER OVERVIEW

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On a political map, country borders are clear as ever. But on a competitive map, financial, trading, and industrial activities across national boundaries have rendered those political borders less relevant. Despite the current anti-globalization sentiment brewing in some parts of the world, including the United States, the most important political and economic forces that have chipped away at those boundaries are the development of various regional trading blocs (see Chapter 2), technology developments (particularly in the IT area), and the flow of information.

Today people can see for themselves what tastes and preferences are like in other countries. For instance, people in India watching CNN and Star TV now know instantaneously what is happening in the rest of the world. A farmer in a remote village in Rajasthan in India asks the local vendor for Surf (the detergent manufactured by Unilever) because he has seen a commercial on TV. Now, about 170 million Chinese travel abroad each year. A large percentage of these travelers are women who like to shop and are lured by countries that produce high-quality goods.[1] Such information access about other countries has created a demand that would not have existed before.

The availability and explosion of information technology, including telecommunications and social media as well as e-commerce, has forever changed the nature of global competition. Geographical boundaries and distance have become less a constraint in designing strategies for the global market. The other side of the coin is that not only firms that compete internationally but also those whose primary market is home based will be significantly affected by competition from around the world.

The firm is essentially a collection of activities that are performed to design, procure materials, produce, market, deliver, and support its product. This set of interrelated corporate activities is called the **value chain**. In this chapter, we explain the nature of global competition and examine various ways to gain competitive advantage along the value chain for the firm facing global competition.

[1] "Outbound Journeys of Chinese Tourists in 2009–2019," Statista, www.statista.com, November 30, 2021.

Information Technology and Global Competition

The development of transportation technology, including jet air transportation, cold storage containers, and large ocean carriers, had changed the nature of world trade in the 70 years after World War II. Since the 1990s, the explosion of information technology, particularly telecommunications, and more recently, electronic commerce (e-commerce), as well as the emergence of "born global" companies, such as Alphabet (Google), Uber, and Spotify, that utilize such technologies (see Chapter 1), has forever changed the nature of competition around the world. Geographical distance has become increasingly less relevant in designing global strategy.

Real-Time Management

Information that managers have about the state of the firm's operations is almost in real time. Routinely, the chief executive officer of a firm can know the previous day's sales down to a penny, and can be alerted to events and trends now instead of in several months, when it may be too late to do anything about them.

In the mid-1990s, Volvo faced a classic supply chain dilemma. For whatever reason—perhaps just capricious consumer tastes—halfway through the year, the company found itself with an excess inventory of green cars. The sales and marketing team responded appropriately by developing an aggressive program of deals, discounts, and rebates to push green vehicles through the distribution channel. The program worked well, and green Volvos began to move out off dealer lots. However, back at the factory, manufacturing planners also noted the surge in sales of green cars. Unfortunately, they were unaware of the big push taking place on the sales and marketing side and assumed that customers had suddenly developed a preference for the color green. So, they responded by increasing production of green cars. The company soon found itself caught in a feedback loop that resulted in an even bigger surplus of green Volvos at end of the year. This story is typical of the kind of disconnect that is far too common in manufacturing companies, especially those that rely on multitier distribution. And that inability or failure to share real-time data or knowledge with partners can result in erroneous assumptions and costly errors in decision-making. In order to avoid the problem from happening, companies need to use information technology to link all parts of the organization into a real-time enterprise.[2]

Today, top retailers such as Walmart and Costco get information from their stores around the world every 2 hours via telecommunications. Industry analysts say that former leader K-Mart fell behind due to its delay in installing point-of-sale information technology, which would have enabled it to get faster and more accurate information on inventories and shelf movement of products.[3] Such access is now possible because advances in electronic storage and transmission technology have made it possible to store 26 volumes of *Encyclopedia Britannica* on a single chip and transmit that material in a second; the computing power is expected to double every 2 years (known as Moore's Law).

The combination of information technology, access tools, and telecommunication has squeezed out a huge chunk of organizational slack from corporate operations that were previously inherent due to the slow and circuitous nature of information flow within the firm, with holdups due to human "switches." Ordering and purchasing components, which was once a cumbersome, time-consuming process, is now done by Electronic Data Interchange (EDI), reducing the time involved in such transactions from weeks to days and eliminating a considerable amount of paperwork.

[2] "Rise of the Real-Time Enterprise: It's All about the Data," *Database Trends and Applications*, www.dbta.com, November 1, 2017.

[3] Julia King, "OLAP Gains Fans among Data-Hungry Firms," *Computerworld*, 30, January 8, 1996, pp. 43, 48.

In fact, some Japanese companies not yet having become globally recognizable household names, such as Uniqlo (a clothing retailer), Saizeriya (an Italian fast food chain), Muji (a furniture and other household products manufacturer/retailer) and Daiso (a dollar store chain), operating in the Japanese economy that has been battered by a decade-long recession are revolutionizing management of the value chain by getting directly involved both physically and via EDI in the whole process from materials procurement, manufacturing, and retailing. By doing so, they are able to control cost and quality as well as reduce what the Japanese call "muda," or waste, throughout the process.[4]

Blockchain Technology

In a high-tech era, the development of information technology has improved not only the speed of operations within the firm and across firms but also the ability of those firms connecting to their customers on a global basis. Clearly, this is a favorable development going forward. However, unfortunately, there are those cyberhackers who exploit the computer networks by "hacking" into them to steal precious information such as customers' personal data or implanting malicious computer viruses to wreak havoc over what would otherwise be smoothly operating computer network systems. According to Cybersecurity Ventures' estimate, companies around the world would $6 trillion to hackers in 2021 and cybercrime costs would grow by 15% per year over the next 5 years, reaching $10.5 trillion annually by 2025—or almost half the U.S. 2020 GDP.[5]

As we speak, a new technology, called **blockchain technology**, is being developed to better cope with cybersecurity. According to IBM blockchain developers, (1) blockchain creates a shared system of record among business network members, eliminating the need to reconcile disparate ledgers; (2) each member of the network must have access privileges and information is shared only on a need-to-know basis; and (3) consensus is required from all members and all validated transactions are permanently recorded.[6] Since information is completely distributed without any centralized point of operation, blockchain technology makes it almost impossible for hackers to break into the system to steal data or implant viruses. As a result, some forward-looking companies have already begun to use blockchain technology to improve their operations and further reduce "muda" from their global activities. For example, FedEx is one of the world's biggest logistics management companies and handles billions of dollars' worth of cargo every year. FedEx has now adopted blockchain technology into its supply chain management for its global cargo shipments. Similarly, China's Huawei uses blockchain technology to organize the mobile industry further to reduce fraud and trickery, and offers mobile carriers superb opportunities to support the transformation of business models through new network layers, which can revolutionize how data integrity is verified and value and rights are transmitted and tracked over the infrastructure to subscribers.[7] Burger King launched its crypto-currency token in Russia, called WhopperCoin on the Waves platform in 2017. Although this promotional program did not succeed, WhopperCoin was Burger King's attempt at using blockchain to power its rewards program by enabling customers to store WhopperCoin online, trade or even transfer it to other people using the Waves platform.[8] This is a significant move that can have far-reaching

[4] If interested in these Japanese companies, see, for example, "As U.S. Retailers Retreat, a Japanese Chain Sees an Opening," *The New York Times*, May 22, 2012 (for Uniqlo); "Saizeriya," Wikipedia, http://en.wikipedia.org/ wiki/Saizeriya; "Daiso," http:// en.wikipedia.org/wiki/Daiso; and Tetsuya Usui, Masaaki Kotabe, and Janet Y. Murray, "A Dynamic Process of Building Global Supply Chain Competence by New Ventures: The Case of Uniqlo," *Journal of International Marketing*, 25(3), 2017, pp. 1–20.

[5] "Cybercrime to Cost the World $10.5 Trillion Annually by 2025," *Cybercrime Magazine*, cybersecurityventures.com, November 13, 2020.

[6] IBM Blockchain, www.ibm.com/blockchain, accessed March 20, 2019.

[7] "Top 10 Companies That Have Already Adopted Blockchain," *Blockchain Council*, www.blockchain-council.org, July 2, 2018.

[8] "Whatever Happened to Burger King's Own Official Cryptocurrency?" *Cryptonewsreview*, cryptonewsreview.com, December 14, 2018.

consequences for all kinds of rewards programs in the future—from movie theaters to frequent flier miles.

On-Time Communication

Sales representatives on field calls who were previously, in effect, tied to the regional or central headquarters due to lack of product information and limited authority, are now able to act independently in the field, because laptop computers, faxes, and satellite uplinks enable instant access to data from the company's central database. Changes in prices due to discounts can now be cleared online from the necessary authority. This reduces reaction time for the sales representative and increases productivity. Monitoring problems for the firm are also reduced, as is paperwork.

Multiple design sites around the world in different time zones can now work sequentially on the same problem. A laboratory in California can close its day at 5 p.m. local time when the design center in Japan is just opening the next day. That center continues work on the design problem and hands it over to London at the end of its day, which continues the work and hands over the cumulated work of Japan and London back to California. Finally, the use of telecommunications improves internal efficiency of the firm in other ways. For instance, when Microsoft came up with an upgrade on one of its applications that required some customer education, a customer, using video conferencing on its global information network, arranged a single presentation for the relevant personnel, dispersed across the world, obviating travel and multiple presentations.

Electronic Commerce (E-Commerce)

Since the 1990s, we have seen the explosive growth of e-commerce on the internet, beginning from the United States. In 1995, only 4% of Americans used the internet every day. In 2021, 66% of the world population used the internet, and 90% of Americans used the internet daily. U.S. share of internet users in the world is 3.8%. In China 69% of people use internet daily. The Chinese share of internet users in the world is 16.6%.[9] In 2020, global e-commerce retail sales reached $4.3 trillion USD with the COVID-19 pandemic boosting e-commerce's share of total retail sales to 20%.[10] China is by far the largest e-commerce market with annual sales of $2.8 trillion billion in 2021, followed by the United States with $843 billion, then Britain at $169 billion and Japan at $144 billion.[11]

There is no other marketing channel than e-commerce where revenues are growing at this fast pace. There is no other way a business can grow unimpeded by the need to build commercial space and hire sales staff. While traditional mass retailers, such as Walmart in the United States, Carrefour in France, and Metro in Germany, will not disappear any time soon, the internet has fundamentally changed customers' expectations about convenience, speed, comparability, price, and service. Even the traditional mass retailers are benefiting from e-commerce. For example, Walmart, the largest U.S. company by sales volume, generated some 12% of its retail sales online in 2021.[12] Likewise, Dell Computer rocketed to the top of the personal computer business in the United States by selling directly to consumers online. As commented by Mike George, the chief marketing officer and general manager of its consumer business unit, "if Dell changes prices on its website, its customers' buying patterns change literally within a minute." Many consumers

[9] *Internet World Stats*, www.internetworldstats.com/stats.htm, accessed March 15, 2022.

[10] "Global Online Sales Reach Nearly $4.29 Trillion in 2020," *Digital Commerce 360*, www.digitalcommerce360.com, April 26, 2021.

[11] "Top 10 Countries, Ranked by Ecommerce Sales, 2020 & 2021," *eMarketer*, www.emarketer.com, December 2020.

[12] "Walmart's Online Sales Keep Topping Pandemic Peaks," *Digital Commerce 360*, www.digitalcommerce360, November 16, 2021.

are well-researched and knowledgeable about their prospective purchase from the internet before they arrive at a showroom or a retail store.[13] Those new expectations will reverberate throughout the world, affecting every business, domestic or global, in many ways.

Marketing beyond the home country has always been hampered by geographical distance and the lack of sufficient information about foreign markets, although transportation and communications technology has reduced, if not eliminated, many difficulties of doing business across the national boundary. Thanks to an explosive growth of e-commerce on the internet, those difficulties are increasingly becoming a thing of the past. In other words, product life cycle is becoming shorter and shorter. E-commerce breaks every business free of the concept of geographic distance. No longer will geography bind a company's aspirations or the scope of its market. Traditional bookstores used to be constrained to certain geographical areas . . . probably within a few miles in radius of their physical locations. Now, Amazon.com and eBay.com can reach any place on earth whether you are in Amsterdam or Seoul as long as you have access to the internet. For every early e-commerce mover to eliminate the geographic boundaries of its business, there will be dozens of companies that lose their local monopolies to footloose online businesses.

Although Japan was somewhat slower in adopting personal computers than the United States, the internet has also taken off in the world's third-largest economy. For example, Dell Computer and other U.S. computer manufacturers arguably were the first to market their products directly to Japanese consumers over the internet. Dell Computer Japan reported that 75% of the total number of computers it sold to individual buyers was bought online in Japan. Rakuten, Japan's largest internet shopping site with more than 95 million registered users, has seen its annual sales grow from $26 million in 2000 to $13.7 billion in 2020. Ever since it was founded in 1997, Rakuten's primary business model has been to offer virtual store fronts to any retailers, or what is now called virtual marketplaces. Since Rakuten does not directly sell anything to consumers but rather sells virtual marketplace links on its platform, it does not incur huge transportation and other logistics costs associated with door-to-door customized marketing. On the other hand, as Amazon used to only sell goods on its own, logistics costs associated with customized delivery made it difficult to generate enough profit margins over large logistics costs. Amazon immediately adopted Rakuten's selling of virtual store fronts, or marketplaces, to traditional retailers and others who wanted to use Amazon's platform for direct sales around 2000, and began to become profitable for the first time in 2001. Now Amazon has a dual business model of not only selling products on its own but also selling virtual marketplaces to other retailers for a fee. Rakuten is competing head-on with Amazon, which along with Rakuten dominates the e-commerce market in Japan.[14]

The same explosive internet growth has been experienced in countries that are still catching up technologically to developed countries such as the United States and Japan. For example, China has already become the world's largest internet market. The internet community in China increased by more than 44 times from 2000 to 2021, soaring from just 22.5 million users in 2000 to 989 million by June 2021.[15] Just looking at one day of the year for China's leading e-commerce companies can give an indication of how strong e-commerce in China is. Let's look at Alibaba, China's largest e-commerce company. Although Amazon's $280 billion global revenue is more than four times larger than Alibaba's $56 billion in 2019, statistics predict that Alibaba might catch up with Amazon in a number of years, given Alibaba's consistent revenue growth in revenue compared to Amazon.[16] Alibaba's primary business model is similar to Rakuten's or eBay's virtual marketplaces, facilitating the sale of goods between buyers and sellers online through its

[13] "Crowned at Last," *The Economist*, April 2, 2005, pp. 3–6.
[14] "Japanese E-Commerce Giant Rakuten Struggles to Retake the Lead from Amazon," *The Economist*, www.economist, com, August 14, 2018; and calculated from data available at Rakuten, global.rakuten, accessed January 2, 2022.
[15] www.internetworldstats.com.
[16] "Amazon vs. Alibaba," *California Business Journal*, calbizjournal.com, December 21, 2021.

extensive network of websites. The largest site, Taobao, operates as a fee-free virtual marketplace for both sellers and buyers, but sellers on Taobao pay to rank higher on the site's internal search engine, generating advertising revenue for Alibaba, similar to Google's core business model.[17]

E-Company

The ultimate effect of information networks within the multinational firm is expected to be on the nature of its organizational structure. As information flows faster across the organization and the number of "filtering" points between the source of information (e.g., point-of-sale information or market and industry analysis) and the user of the information (e.g., the brand manager or the chief executive officer) decreases, the nature of the organization chart in the multinational firm changes drastically. An increasing number of multinational firms have begun to use their intranet (internal web servers on the internet) to facilitate communications and transactions among employees, suppliers, independent contractors, and distributors.[18]

Many companies today realize the key to this change is e-business. Siemens, for example, spent €1 billion to turn itself into an **e-company**. Siemens is enabling itself to connect the different parts of its far-flung empire into a more coherent whole. In practice, Siemens plans to utilize its information technology to enhance knowledge management, online purchasing, change the company's value chain, and efficiently deal with its customers. Now customers can click on "Buy from Siemens" on the company's home page and place orders. Inevitably, the Siemens demand chain is going smoothly from customers, through Siemens, and then to its suppliers.[19] Similarly, an assembly line worker in a Procter & Gamble plant knows from his computer that stores have been selling a particular brand of facial cream more briskly than anticipated. Having this information, he can change production scheduling on his own by giving the computer necessary instructions to cut down on some other brands and to increase the production of the brand in question. The foreperson and the section manager of a conventional plant are no longer required.

Faster Product Diffusion and Connectivity

The obvious impact of information technology is the more rapid dispersion of technology and the shorter product life cycles in global markets than ever before. It suggests that the former country-by-country sequential approach to entering markets throughout the world, described in the international product cycle model in Chapter 1, is increasingly untenable.

This trend is already reflected in many product markets. In the 1970s, the diffusion lag for color television between the United States on the one hand and Japan and Europe on the other was 6 years. In the 1990s, with compact discs the household penetration rates had come down to 1 year. Now for Intel Core i-based computers, Taiwan, India, Japan, and U.S.-based companies released computers at about the same time in their respective national markets. Thus, a firm selling personal computers would have to launch a new product on a worldwide basis in order not to fall behind in the global sweepstakes.[20]

Thanks to the increased networking capability of many products in recent years, ranging from consumer electronics, automobile, and home appliances to computer games and various social

[17] "Amazon's vs. Alibaba's Business Models: What's the Difference?" *Investopedia*, www.investopedia.com, December 16, 2021.
[18] John A. Quelch and Lisa R. Klein, "The Internet and International Marketing," *Sloan Management Review*, 37, Spring 1996, pp. 60–75; and "Global Intranets Aren't Just Big Versions of Normal Intranets," reworked, www.reworked.co, November 8, 2021.
[19] Herbert Heinzel, "Siemens—The e-Company: In Its Quest to Become an e-Business Company, Siemens Is Pursuing a Comprehensive Approach That Goes Far beyond the Mere Selling of Products over the Internet," *Supply Chain Management Review*, March 2002.
[20] Shlomo Kalish, Vijay Mahajan, and Eitan Muller, "Waterfall and Sprinkler New-Product Strategies in Competitive Global Markets," *International Journal of Research in Marketing*, 12, July 1995, pp. 105–119.

media (e.g., Facebook, Instagram, and Twitter), two things are happening at the same time that are bound to usher a new era of global marketing opportunities. First, thanks to the development of the **internet of things (IoT)**, products that used to be considered completely different and separate, such as smartphones and home appliances, are getting increasingly interconnected with each other. The internet of things refers to the networking capability of different devices, such as smartphones and home appliances, that allow consumers to "communicate" between the devices from anywhere and anytime. Now, companies from those different industries are increasingly collaborating for joint product development and launch. Second, consumers can be increasingly connected in real time with other consumers from around the world through internet-connected computer game consoles and online games, as well as through social media tools. In other words, consumers are getting more knowledgeable about products and services available in many parts of the world through this internet connectivity.[21] This issue will be further discussed later when we discuss new product development in Chapter 10.

Global Strategy

The global environment thus demands a strategy that encompasses numerous national boundaries and tastes as well as environmental issues and that integrates a firm's operations across the national borders. This strategy is truly global in nature and has gone beyond the home-country-focused ethnocentric orientation or the multicountry-focused polycentric orientation of many multinational firms of the twentieth century. The firm thus needs to adopt a geocentric orientation that views the entire world as a potential market and integrates firm activities on a global basis.

The acid test of a well-managed company is being able to conceive, develop, and implement an effective global strategy. A **global strategy** is to array the competitive advantages arising from location, world-scale economies, or global brand distribution, namely, by building a global presence, defending domestic dominance, and overcoming country-by-country fragmentation. Because of its inherent difficulties, global strategy development presents one of the stiffest challenges for managers today. Companies that operate on a global scale need to integrate their worldwide strategy, in contrast to the earlier multinational or multidomestic approach. The earlier strategies would be categorized more truly as multidomestic strategies rather than as global strategies. In the section below, we approach the issue of global strategy through five conceptualizations: (1) global industry, (2) competitive industry structure, (3) competitive advantage, (4) hypercompetition, and (5) interdependency.

Global Industry

The first conceptualization is that of a *global industry*.[22] **Global industries** are defined as *those where a firm's competitive position in one country is affected by its position in other countries, and vice versa*. Therefore, we are talking about not just a collection of domestic industries but also a series of interlinked domestic industries in which rivals compete against one another on a truly worldwide basis. For instance, 40 years after Honda began making cars in the first Japanese transplant in Marysville, Ohio, in 1982, the automaker has steadily grown its manufacturing capacities in the region. Honda now employs more than 25,000 associates at 12 plants in the United States with the capacity to produce more than 1 million cars, 3 million engines, 400,000 power equipment products, and 330,000 powersports products each year, using domestic and

[21] Shuo-Yan Chou, "The Fourth Industrial Revolution: Digital Fusion with Internet of Things," *Journal of International Affairs*, 72, Fall/Winter 2018, pp. 107–120.

[22] Michael E. Porter, ed., *Competition in Global Industries* (Boston, MA: Harvard University Press, 1986).

globally sourced parts. In 2019, nearly two-thirds of all Honda and Acura automobiles sold in the United States were made locally in the United States.[23] Today, more than half the passenger sedans sold in the United States are import brands, and more than half the vehicles sporting foreign nameplates are made in the United States. It is foreign players that are reinvigorating America's automobile business and turning the United States into the center of a global industry.

Therefore, the first question that faces managers is the extent of globalization of their industry. Assuming that the firm's activities are indeed global or, alternatively, that the firm wishes to grow toward global operations and markets, managers must design and implement a global strategy. This is because virtually every industry has global or potentially global aspects—some industries have more aspects that are global and more intensely so. Indeed, a case has been made that the globalization of markets has already been achieved, that consumer tastes around the world have converged, and that the global firm attempts, unceasingly, to drive consumer tastes toward convergence.[24] Four major forces determining the globalization potential of industry are presented in **Exhibit 8-1**.

Exhibit 8-1 **Industry Globalization Drivers**

Market Forces

Market forces depend on the nature of customer behavior and the structure of channels of distribution. Some common market forces are as follows:

- Per capita income converging among industrialized nations
- Emergence of rich consumers in emerging markets such as China and India
- Convergence of lifestyles and tastes (e.g., McDonald's in Moscow and Stolichnaya vodka in America)
- Revolution in information and communication technologies (e.g., personal computer, mobile devices, and the internet)
- Increased international travel creating global consumers knowledgeable about products from many countries
- Organizations beginning to behave as global customers
- Growth of global and regional channels (e.g., America's Walmart, France's Carrefour/Promodès, Germany's Metro, and Japan's 7-Eleven)
- Establishment of world brands (e.g., Apple, Coca-Cola, Microsoft, Toyota, and Nestlé)
- Push to develop global advertising (e.g., Saatchi and Saatchi's commercials for British Airways)
- Spread of global and regional media (e.g., CNN, MTV, and Al Jazeera)

(continued)

[23] "Honda Reaches 20 Million Auto Production Milestone in Ohio," *Honda News*, hondanews.com, January 13, 2020.
[24] Theodore Levitt, "The Globalization of Markets," *Harvard Business Review*, 61, May–June 1983, pp. 92–102.

Cost Forces

Cost forces depend on the economics of the business. These forces particularly affect production location decisions, as well as global market participation and global product development decisions. Some of the cost forces are as follows:

- Push for economies of scale and scope, further aided by flexible manufacturing
- Accelerating technological innovations
- Advances in transportation (e.g., FedEx, UPS, DHL, and Yamato Transport)
- Emergence of newly industrializing countries with productive capabilities and low labor costs (e.g., China, India, and many Eastern European countries)
- High product development costs relative to shortened product life cycle

Government Forces

Rules set by national governments can affect the use of global strategic decision-making. Some of these rules/policies include the following:

- Reduction of tariff and nontariff barriers
- Creation of trading blocs (e.g., EU, USMCA, and MERCOSUR—a common market in South America)
- Establishment of world trading regulations (e.g., World Trade Organization and its various policies)
- Deregulation of many industries
- Privatization in previously state-dominated economies in Latin America
- Shift to open market economies from closed communist systems in China, Eastern Europe, and the former Soviet Union

Competitive Forces

Competitive forces raise the globalization potential of their industry and spur the need for a response on the global strategy levels. The common competitive forces include the following:

- Increase in world trade
- More countries becoming key competitive battlegrounds (e.g., China, Japan, Korea, India, and Brazil)
- Increased ownership of corporations by foreign investors
- Globalization of financial markets (e.g., listing of corporations on multiple stock exchanges and issuing debt in multiple currencies)
- Rise of new competitors intent on becoming global competitors (e.g., Japanese firms in the 1970s; Korean firms in the 1980s; Taiwanese firms in the 1990s; Brazilian, Chinese, and Indian firms in the 2000s)
- Rise of "born global" internet and other companies
- Growth of global networks making countries interdependent in particular industries (e.g., electronics and aircraft manufacturing)
- More companies becoming geocentric rather than ethnocentric (e.g., Stanley Works, a traditional U.S. company, moved its production offshore; Uniden, a Japanese telecommunications equipment manufacturer, has never manufactured in Japan)
- Increased formation of global strategic alliances

Source: Adapted from, and expanded on, George S. Yip, *Total Global Strategy II* (Upper Saddle River, NJ: Prentice Hall, 2003), pp. 10–12.

The implications of a distinction between multidomestic and global strategy are quite profound. In a multidomestic strategy, a firm manages its international activities like a portfolio. Its subsidiaries around the world each control all the important activities necessary to maximize their returns in their area of operation independent of the activities of other subsidiaries in the firm. The subsidiaries enjoy a large degree of autonomy, and the firm's activities in each of its national markets are determined by the competitive conditions in that national market. In contrast, a global strategy integrates the activities of a firm on a worldwide basis to capture the linkages among countries and to treat the entire world as a single, borderless market. This requires more than the transferring of intangible assets between countries.

In effect, the firm that truly operationalizes a global strategy is a geocentrically oriented firm. It considers the whole world as its arena of operation, and its managers maintain equidistance from all markets and develop a system with which to satisfy its needs for both global integration for economies of scale and scope *and* responsiveness to different market needs and conditions in various parts of the world (to be discussed in Chapter 15 in the context of sourcing strategy). In a way, the geocentric firm tries to "kill two birds with one stone."[25] Such a firm tends to centralize some resources at home, some abroad, and distributes others among its many national operations, resulting in a complex configuration of assets and capabilities on a global basis.[26]

This is in contrast to an ethnocentric orientation, where managers operate under the dominant influence of home country practices, or a polycentric orientation, where managers of individual subsidiaries operate independently of each other—the polycentric manager in practice leads to a multidomestic orientation, which prevents integration and optimization on a global basis. Until the early 1980s, the global operations of Unilever were a good example of a multidomestic approach. Unilever's various country operations were largely independent of each other, with headquarters restricting itself to data collection and helping out subsidiaries when required. Unilever started adding some geocentric dimensions to its global strategy when the CEO, Patrick Cescau, kicked off an ambitious restructuring program in 2005. Under his direction, the "One Unilever" plan was implemented in which unnecessary complexity was removed. One formulation, one packaging design, and one marketing strategy replaced the fragmented approach.[27]

Sometimes, however, marketing in emerging markets may need a different approach from all previously known ones. Emerging countries such as China, India, Brazil, and other large nations are not enough to be approached with a country-level strategy. A more detailed approach such as a city-cluster approach would be needed to pursue growth in these markets. See **Global Perspective 8-1**.

GLOBAL PERSPECTIVE 8-1 "City-Cluster" Approach to Reach the Emerging Markets

As emerging markets experience rapid growth, multinational companies (MNCs) are competing to tap the market. Seven emerging markets including Brazil, Russia, India, Indonesia, China, Turkey, and Mexico are expected to contribute 45% of global GDP growth in the coming decade. Approaches employed in these markets may be different from those employed earlier, though. In order to accelerate penetration in these markets, a country-level strategy as mostly implemented by MNCs earlier may not be enough anymore.

Developing economies have become increasingly diverse and competitive. Such diversity requires MNCs to adjust their approaches strategically. A more meticulous attention into subgroups smaller than a country might be

[25] Masaaki Kotabe, "To Kill Two Birds with One Stone: Revisiting the Integration-Responsiveness Framework," in Michael Hitt and Joseph Cheng, eds., *Managing Transnational Firms* (New York: Elsevier, 2002), pp. 59–69.
[26] Christopher A. Bartlett and Sumantra Ghoshal, *Managing across Borders* (Boston, MA: Harvard Business School Press, 1989).
[27] Kerry Capell, "Unilever Lathers Up," businessweek.com, February 15, 2008.

at work. In China, a "city-cluster" approach—that is, targeting groups of relatively homogeneous, fast-growing cities in China, often with excellent air and rail connectivity—allows companies to address opportunities in attractive smaller cities cost effectively. It also enables the companies to spot opportunities for expanding within the clusters—a strategy that requires a less complex supply chain and fewer partners.

In the application of the city-cluster approach, companies should not be fooled with generalizations. For example, although Guangzhou and Shenzhen are located in the same province and are separated only by a 2-hour drive, consumer characteristics of the two first-tier cities are totally different. Residents of Guangzhou speak Cantonese, are mostly locally born, and like to spend time at home with family and friends. In contrast, the majority of Shenzhen's residents are young migrants from all across the country, speak Mandarin, and spend most of their time away from home. Therefore, marketers will need to distinguish their marketing campaigns and channels to reach them.

This example of marketing approaches in China suggests that identifying growth opportunities increasingly requires a detailed understanding of regional variations. There is no one-size-fits-all strategy in capturing opportunities in emerging markets. Aggregated approaches will become obsolete as they fail to account for the variability and rapid changes in these markets. Companies with a more granular-level approach have a better chance of winning in the emerging markets.

Sources: Yuval Atsmon, Ari Kertesz, and Ireena Vittal, "Is Your Emerging-Market Strategy Local Enough?" *McKinsey Quarterly*, April 2011; and Kun Wang, Changmin Jiang, Adolf K. Y. Ng, and Zhenran Zhu, "Air and Rail Connectivity Patterns of Major City Clusters in China," *Transportation Research Part A: Policy & Practice*, 139, September 2020, pp. 35–53.

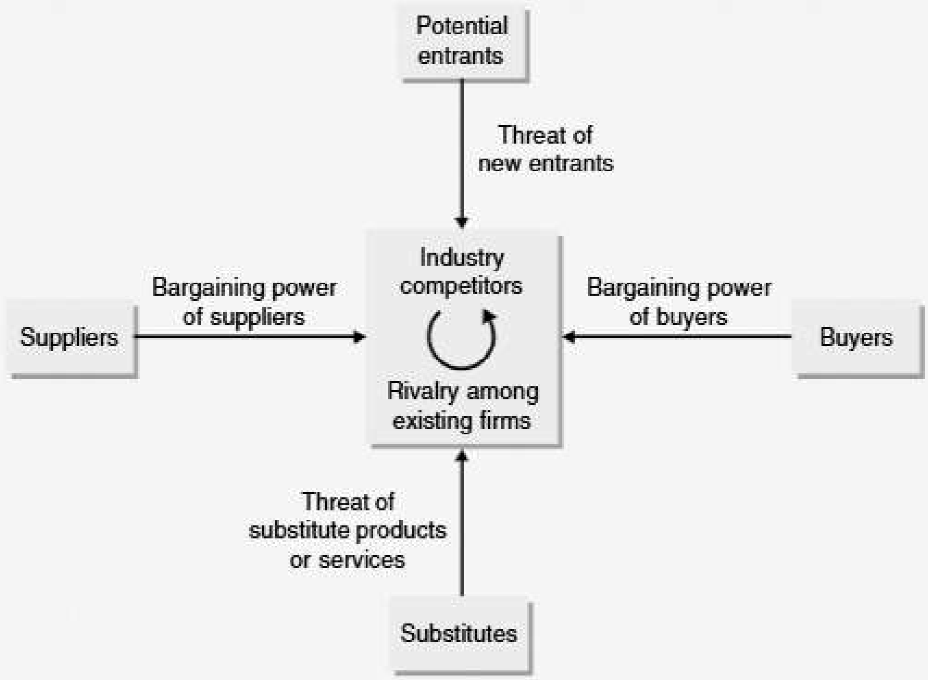
Competitive Industry Structure

Competitive industry structure is the second conceptualization that is useful in understanding the nature of global strategy. A conceptual framework that portrays the multidimensional nature of competitive industry structure is presented in **Exhibit 8-2**. It identifies the key structural factors that determine the strength of competitive forces within an industry and consequently industry profitability. Competition is not limited to the firms in the same industry. If firms in an industry collectively have insufficient capacity to fulfill demand, the incentive is high for new market entrants. However, such entrants need to consider the time and investment it takes to develop new or additional capacity, the likelihood of such capacity being developed by existing competitors, and the possibility of changes in customer demand over time. Indirect competition also comes from suppliers and customers, as well as substitute products or services.

1. **Industry competitors** determine the rivalry among existing firms.
2. **Potential entrants** may change the rules of competition but can be deterred by entry barriers. For example, Shanghai Jahwa Co., Ltd., its predecessor founded in 1898, became the largest domestic cosmetics and personal care products company in China by 1990.[28] Shanghai Jahwa owns such successful brands as Maxam, Liushen, Ruby, and GLF, among others, and is making gradual inroads into markets outside China. Although not yet known to the Western world, its brands may someday pose a major competitive threat to Clinique, Estée Lauder, Lancôme, Max Factor, SK-II, and other well-known brands and may change the nature of competition in the cosmetics and personal care products industry.
3. The **bargaining power of suppliers** can change the structure of industries. Intel has become a dominant producer of microprocessors for personal computers. Its enormous bargaining power has caused many PC manufacturers to operate on wafer-thin profit margins, making the PC industry extremely competitive.

[28]Based on the first author's visit to Shanghai Jahwa based in Shanghai, China, August 2002.

Exhibit 8-2 Nature of Competitive Industry Structure



Source: Reprinted with the permission of the Free Press, a division of Simon & Schuster from COMPETITIVE STRATEGY: Techniques for Analyzing Industries and Competitors by Michael E. Porter, p. 4. Copyright © 1980 by The Free Press.

4. The **bargaining power of buyers** may affect the firm's profitability. It is particularly the case when governments try to get price and delivery concessions from foreign firms. Similarly, Nestlé, whose subsidiaries used to make independent decisions on cocoa purchases, has centralized its procurement decision at its headquarters to take advantage of its consolidated bargaining power over cocoa producers around the world. Given its bargaining power, Nestlé has further completed a trial of a ground-breaking supply chain project that allows suppliers to view its production information and ensure it can meet fluctuations in demand for its products by removing about 20% of excess stock from its supply chain.[29]

5. The **threat of substitute products or services** can restructure the entire industry above and beyond the existing competitive structure. For example, the rising consumer interest in car sharing services has reshaped the industry of "vehicle ownerships." Car sharing has become an attractive alternative to owning a car. Pioneered in Switzerland and Germany, the growth of car sharing is springing up in cities in North America and Europe for general hassle, car cost, and gasoline price surge reasons. Share Now (a joint venture that originated from Daimler's Car2Go and BMW's DriveNow in Germany) is dominant in Europe; Zipcar bills itself as the largest car sharing service in North America. Uber and Lyft, alternatives to taxi services, are another form of car sharing. They collectively threaten the nature of the current automobile industry focused on personal car ownership.[30] Another example is demonstrated in the film entertainment industry that has been affected by the development

[29]"Nestlé Links SAP Systems to Allow Suppliers to View Production Data," *Computer Weekly*, October 21, 2003, p. 8.
[30]"Update: 10 Best Car Sharing Programs," CleanFleet Report, cleanfleetreport.com, December 19, 2019.

of digital streaming services such as Netflix. Since its transition to a subscription video-on-demand model in 2007, Netflix's revenue has grown from 1.36 billion to around 25 billion in just 12 years.[31] As revenues from subscription of online streaming services have increased, sales of feature films on iTunes have slowed down precipitously, as well as DVD (digital video disc) rental and online film buying.

Competitive Advantage

Competitive advantage is a third conceptualization that is of use in developing and understanding a strategy on a global scale. Companies may adopt different strategies for different competitive advantage. The firm has a competitive advantage when it is able to deliver the same benefits as competitors but at a lower cost, or deliver benefits that exceed those of competing products. Thus, a competitive advantage enables the firm to create superior value for its customers and superior profits for itself.[32] Simply stated, competitive advantage is a temporary monopoly period that a firm can enjoy over its competitors. To prolong such a monopolistic period, the firm strives to develop a strategy that would be difficult for its competitors to imitate.

The firm that builds its competitive advantage on economies of scale is known as one using a **cost leadership** strategy. Customized flexible manufacturing as a result of CAD/CAM (computer-aided design and computer-aided manufacturing) technology has shown some progress. However, it proved to be more difficult operationally than was thought, so economies of scale still remain the main feature of market competition. The theory is that the greater the economies of scale, the greater the benefits to those firms with a larger market share. As a result, many firms try to jockey for larger market shares than their competitors. Economies of scale come about because larger plants are more efficient to run, and their per-unit cost of production is less as overhead costs are allocated across large volumes of production. Further economies of scale also result from learning effects: the firm learns more efficient methods of production with increasing cumulative experience in production over time. All of these effects tend to intensify competition. Once a high level of economies of scale is achieved, it provides the firm strong barriers against new entrants to the market. In the 1970s and early 1980s, many Japanese companies became cost leaders in such industries as automobiles and consumer electronics. However, there is no guarantee that cost leadership will last. In addition, the cost leadership strategy does not necessarily apply to all markets. According to a recent study, implementation of a cost leadership strategy by developed-country MNCs actually is rarely effective in emerging markets. In order to achieve high performance, therefore, MNCs that benefit from cost leadership strategy may try using different strategies in different markets instead of a single generic strategy globally.[33]

Until flexible manufacturing and customized production becomes fully operational, cost leaders may be vulnerable to firms that use a **product differentiation** strategy to better serve the exact needs of customers. Although one could argue that lower cost will attract customers away from other market segments, some customers are willing to pay a premium price for unique product features that they desire. Uniqueness may come in the form of comfort, product performance, and aesthetics, as well as status symbol and exclusivity. Despite the Japanese juggernaut in the automobile industry (primarily in the North American and Asian markets) in the 1970s and the 1980s, BMW of Germany and Volvo of Sweden (currently owned by China's Geely Automobile), for example, managed to maintain their competitive strengths in the high-end segments of the

[31] "Netflix – Statistics & Facts," Statista, www.statista.com, November 11, 2021.
[32] Michael E. Porter, *Competitive Advantage: Techniques for Analyzing Industries and Competitors* (New York: The Free Press, 1980).
[33] Daniel W. Baack and David J. Boggs, "The Difficulties in Using a Cost Leadership Strategy in Emerging Markets," *International Journal of Emerging Markets*, 3, April 2008, pp. 125–139.

automobile market. Indeed, Japanese carmakers have struggled for years to make a dent in the European market, and they are finally seeing a turnaround after releasing a spate of new models that European drivers want to buy—small cars with spacious cabins—the type that European firms have yet to make, such as Honda's Jazz (known as the Fit in Japan), Toyota's Yaris (known as the Vitz in Japan), and Mazda's Mazda 6 (known as the Atenza in Japan).[34]

Smaller companies may pursue a limited differentiation strategy by keeping a niche in the market. Firms using a **niche** strategy focus exclusively on a highly specialized segment of the market and try to achieve a dominant position in that segment. Again, in the automobile industry, Porsche and Lamborghini maintain their competitive strengths in the high-power sports car enthusiast segment. However, particularly in an era of global competition, niche players may be vulnerable to large-scale operators due to sheer economies of scale needed to compete on a global scale.

First-Mover Advantage versus First-Mover Disadvantage

For many firms, technology is the key to success in markets where significant advances in product performance are expected. A firm uses its technological leadership for rapid innovation and introduction of new products. The timing of such introductions in the global marketplace is an integral part of the firm's strategy. However, the dispersion of technological expertise means that any technological advantage is temporary, so the firm should not rest on its laurels. The firm needs to move on to its next source of temporary advantage to remain ahead. In the process, firms that are able to continue creating a series of temporary advantages are the ones that survive and thrive. Technology, marketing skills, and other assets that a firm possesses become its weapons to gain advantages in time over its competitors. The firm now attempts to be among the pioneers, or first-movers, in the market for the product categories that it operates in.[35] Apple offers an excellent example of a company in constant pursuit of **first-mover advantage** with iPod (2001), iPhone (2007), iPad (2010), Apple Watch (2015) although not all of its products, such as Apple Phone, have succeeded in the market. Another example is Tesla, the timely first major entrant in the electric car segment as the world has to grapple with increased air pollution and global warming.

Indeed, there could even be some **first-mover disadvantages**.[36] In China, Beijing-based start-up, Xiaomi smartphone maker was doing well in 2014. Valued then at $45 billion, the high-flying smartphone maker is now stumbling. This was one of China's most exciting start-up stories of the past few years. Xiaomi has struggled partly because competitors Huawei, Lenovo, Oppo, and Vivo quickly copied Xiaomi's business model with ultrathin devices, glossy websites, and lower prices that allowed consumers to switch to the hippest new phones.[37] In general, stable markets favor the first-mover strategy, while market and technology turbulence favor the follower strategy. Followers have the benefit of hindsight to determine more preciously the timing, form, and scale of their market entry. It is therefore important for the firm to clearly assess the key success factors and the resulting likelihood of success for achieving the ultimate targeted position in the highly competitive global business environment.[38]

[34]"Comparison: The Most and Least Reliable Small Cars," *The Independent*, www.independent.co.uk, November 30, 2017.

[35]Gerard J. Tellis and Peter N. Golder, "First to Market, First to Fail? Real Causes of Enduring Market Leadership," *Sloan Management Review*, 37, Winter 1996, pp. 65–75; and Richard Makadok, "Can First-Mover and Early-Mover Advantages Be Sustained in an Industry with Low Barriers to Entry/Imitation?" *Strategic Management Journal*, b19, July 1998, pp. 683–696.

[36]Marvin B. Lieberman and David B. Montgomery, "First-Mover (Dis)advantages: Retrospective and Link with the Resource-Based View," *Strategic Management Journal*, 19, December 1998, pp. 1111–1125.

[37]"Xiaomi's $45 Billion Valuation Seen Unfeasible as Growth Cools," *Bloomberg Business*, www.bloomberg.com, November 25, 2015; and "In Price and Value, Chinese Phone Makers Outpace Apple in Much of the World," *The New York Times*, www.nytimes.com, January 4, 2019.

[38]Gerard J. Tellis and Peter N. Golder, "First to Market, First to Fail? Real Causes of Enduring Market Leadership, "*Sloan Management Review*, 37, 1996, pp. 65–75; and Dean Shepherd and Mark Shanley, *New Venture Strategy: Timing, Environmental Uncertainty and Performance* (Thousand Oaks, CA: Sage Publications, 1998).

A firm's competitive advantage lies in its capability to effectively anticipate, react to, and lead change continuously and even rhythmically over time. Firms should "probe" into the unknown by making many small steps to explore their environments. These probes could take the form of a number of new product introductions that are "small, fast, and cheap" and can be supplemented by using experts to contemplate the future, making strategic alliances to explore new technologies, and holding meetings where the future is discussed by management. To compete on the edge, firms need to understand that:

1. Advantage is temporary. In other words, firms need to have a strong focus on continuously generating new sources of advantages.
2. Strategy is diverse, emergent, and complicated. It is crucial to rely on diverse strategic moves.
3. Reinvention is the goal. It is how firms keep pace with a rapidly changing marketplace.
4. Live in the present, stretch out the past, and reach into the future. Successful firms launch more experimental products and services than others, while they exploit previous experiences and try to extend them to new opportunities.
5. Grow the strategy and drive strategy from the business level. It is important for managers to pay attention to the timing and order in which strategy is grown and agile moves at the business level.
6. To maintain sustainable power in fast-paced, competitive, and unpredictable environments, senior management needs to recognize patterns in firms' development and articulate a semi-coherent strategic direction.[39]

With these strategic flexibilities in mind, we could think of three primary approaches to gaining competitive advantage. First, the *technology-driven* approaches involve not only development of technologies and innovations but also constant search for their applications that cut across industries in pursuit of growth opportunities and profitability. Second, the *competitor-focused* approaches involve comparison with the competitor on costs, prices, technology, market share, profitability, and other related activities. These two approaches, however, may lead to a preoccupation with some activities, and the firm may lose sight of its customers and various constituents. Third, the *customer-driven* approaches to gaining competitive advantage emanate from an analysis of customer benefits to be delivered. In practice, finding the proper links between required customer benefits and the activities and variables controlled by management is needed. Besides, there is evidence to suggest that listening too closely to customer requirements may cause a firm to miss the bus on innovations, because current customers might not want innovations that require them to change how they operate.[40]

Technology-Driven Approach

Amazon is an e-commerce and cloud computing company based in Seattle, Washington. It is the largest internet-based retailer in the United States. Although Walmart's annual sales of $559 billion are 45% more than Amazon's $386 billion sales in 2020, Amazon already surpassed Walmart as the most valuable retailer by market capitalization in the United States in 2015; and in 2021, Amazon stood at $1.6 trillion worth compared to Walmart's $420 billion, or almost four times higher in capitalization than Walmart.[41] Amazon started as a web-based bookseller, and then learned how to develop online retail interfaces that are distinctive and easy to use.

[39] Shona L. Brown and Kathleen M. Eisenhardt, *Competing on the Edge* (Boston, MA: Harvard Business Press, 1998).
[40] See, for example, John P. Workman, Jr. "Marketing's Limited Role in New Product Development in One Computer Systems Firm," *Journal of Marketing Research*, 30, November 1993, pp. 405–421.
[41] "Amazon vs. Walmart: The Epic Battle of Retail Kings Gets Hot," *Investor's Business Daily*, www.investors.com, August 23, 2021.

Amazon combined this with world-class IT and supply chain capabilities and its own approach to customer recommendations on the basis of sales and preference data. This enabled Amazon to expand across multiple product categories. Amazon also produces consumer electronics, notably Amazon Kindle e-readers, Fire tablets, Fire TV, and Fire phones. Expanding on its world-class IT, Amazon has grown to become the world's largest provider of cloud infrastructure services, known as cloud computing. Amazon cloud computing is the delivery of IT resources and applications via the internet with pay-as-you-go pricing. With cloud computing, a business does not have to make large upfront investments in hardware and manage that hardware.[42] Clearly, investors see that Amazon has a much higher growth potential than Walmart.

Competitor-Driven Approach

Stanley Black & Decker, a U.S.-based manufacturer of hand tools, switched to a global strategy using its strengths in the arenas of cost and quality and timing and know-how. In the 1980s, Stanley Black & Decker's position was threatened by a powerful Japanese competitor, Makita. Makita's strategy of producing and marketing globally standardized products worldwide made it into a low-cost producer and enabled it to steadily increase its world market share. Within the company, Stanley Black & Decker's international fiefdoms combined with nationalist chauvinism to stifle coordination in product development and new product introductions, resulting in lost opportunities.

Then, responding to the increased competitive pressure, Stanley Black & Decker moved decisively toward globalization. It embarked on a program to coordinate new product development worldwide in order to develop core standardized products that could be marketed globally with minimum modification. The streamlining of R&D also offered scale economies and less duplication of effort—and new products could be introduced faster. Its increased emphasis on design made it into a global leader in design management. It consolidated its advertising into two agencies worldwide in an attempt to give a more consistent image worldwide. Stanley Black & Decker also strengthened the functional organization by giving the functional manager a larger role in coordinating with the country management. Finally, Stanley Black & Decker purchased General Electric's small appliance division to achieve world-scale economies in manufacturing, distribution, and marketing. The global strategy initially faced skepticism and resistance from country managers at Stanley Black & Decker. The chief executive officer took a visible leadership role and made some management changes to start moving the company toward globalization. These changes in strategy helped Stanley Black & Decker increase revenues and profits by as much as 50% in the 1990s.[43] In order to meet further cost competition, Stanley Black & Decker's new global restructuring project plans to reduce manufacturing costs by transferring additional power tool production from the United States and England to low-cost facilities in Mexico, China, and a new leased facility in the Czech Republic and by sourcing more manufactured items from third parties where cost advantages are available and quality can be assured. Its global restructuring plan resulted in global sales increase from $5.4 billion in 2005 to $14.5 billion by 2020.[44]

A word of caution is in order. Although a company's financial resources provide durability for its strategy, regulatory and other barriers could prove to be overwhelming even in a very promising market such as China. As presented in **Global Perspective 8-2**, Google's expansion into China illustrates this difficulty.

[42]"Inside Amazon: Wrestling Big Ideas in a Bruising Workplace," *The New York Times*, www.nytimes.com, August 15, 2015; Thomas N. Hubbard, Paul Leinwand, and Cesare Mainardi, "The New Supercompetitors," *Strategy + Business*, http://www.strategy-business.com, August 8, 2014; Synergy Research Group, "Microsoft Cloud Revenues Leap; Amazon Is Still Way Out in Front," www.srgresearch.com, October 29, 2014; Amazon Web Services, www.aws.amazon.com, accessed January 25, 2019; and "The Top 100 Retailers 2018," Stores, stores.org, accessed March 15, 2019.

[43]Stanley Black & Decker, various annual reports.

[44]Stanley Black & Decker, Investor Relations, 2021 Annual Report.

GLOBAL PERSPECTIVE 8-2 "Rome" Could Not Be Built in a Day . . . Even by Google in China

Google entered the Chinese market with its successful search engine services in 2000. By 2009, Google's search engine market share had increased to 36% in China and became the most dominant search engine in China. However, Google discovered that the Chinese government was attacking Google by hacking into the Gmail accounts of a number of Chinese human-rights activists. Despite the Chinese government's censorship policies, Google was offering a version of its services that conformed to the government's censorship policies. Google initially decided that the most ethical option was to offer some services—albeit restricted by China's censors—to the enormous Chinese market, rather than leave millions of internet users with limited access to information.

In 2010, searching via all Google search sites, including Google Mobile, were moved from mainland China to Hong Kong. Google directed all of its Chinese traffic to the uncensored Hong Kong version of its search engine, but such a decision left Google more vulnerable to being shut down in China.��eed, Google's services became inaccessible to most Chinese users within months.

Consequently, Google had to shut down its Chinese search engine in 2010 and gave up access to an enormous market. Not only is the sheer size of the internet user market in China much larger any other country, but the number of Chinese internet users is growing at a rate that far surpasses that of any other country. By November 2013 its search market share had declined to 1.7% from its 2009 level of 36%. As a result, Baidu has now taken the helm of search engines in China.

A rumor still exists that Google is thinking about reentering the Chinese search engine market by offering censorship of keywords and topics deemed sensitive by the Chinese government, including "human rights, democracy, religion, and peaceful protest," although the company denies it. A lesson that Google learned in China is that if you want to do business, you have to abide by local laws, which can include restrictions on speech.

Sources: "Report: Google Plans to Re-enter China with Government-Approved Search App," Search Engine Land, searchengineland.com, August 2, 2018; "Why Google Quit China—and Why It's Heading Back," *The Atlantic*, www.theatlantic.com, January 19, 2019; and "Why Google Has No Plans of Going Back to China," *The Times of India*, timesofindia.indiatimes.com, June 17, 2019.

Customer-Focused Approach

Estée Lauder is one good corporate example that superbly used cost and quality, timing and know-how, strongholds, and financial resources to its advantage. Estée Lauder has grown from a small, woman-owned cosmetics business to become one of the world's leading manufacturers and marketers of quality skin care, makeup, fragrance, and hair care products. Its brands include Estée Lauder, Aramis, Clinique, Prescriptives, Origins, M · A · C, La Mer, Bobbi Brown, and Tommy Hilfiger, among others.

How did Estée Lauder accomplish such a feat? The answer lies in its ability to reach consumers in nearly every corner of the world, in its internal strengths, and the diversity of its portfolio of brands. Since the beginning of its international operations, the company has always conducted in-depth research to determine the feasibility and compatibility of its products with each particular market, which has led to its high-quality image. Another reason for the company's success lies in its focus on global expansion before its competitors. Estée Lauder's international operations started in 1960.

Because of its strong visibility in Europe, it served as a springboard to other European markets. Shortly thereafter, the company made its foray with the Estée Lauder brand into new markets in the Americas, Europe, and Asia. In the late 1960s, the Aramis and Clinique brands were founded, and a manufacturing facility was established in Belgium. In the 1970s, Clinique was introduced overseas, and Estée Lauder began to explore new opportunities in the former Soviet Union. During the 1980s, the company made considerable progress in reaching markets that were still out of reach for many American companies. For example, in 1989, Estée Lauder was the first American cosmetic company to enter the former Soviet Union when it opened a perfumery in Moscow. The same year, it established its first free-standing beauty boutique in Budapest, Hungary. In the 1990s, the firm moved further into untapped markets such as China. Recently, Clinique established a presence in Vietnam. The company is focusing further on China and the rest of Asia. In addition, there are still many opportunities in Europe. The company will continue to look to Latin America for expansion but with caution, due to economic circumstances and political instability. One more reason for the company's success is its use of financial resources to further strengthen brand value. Since 1989, the firm has opened some of its free-standing stores overseas because it could not find the right channels of distribution to maintain the brand's standards. Estée Lauder has built strong brand equity all over the world with each brand having a single, global image. The company's philosophy of never compromising brand equity has guided it in its selection of the appropriate channels of distribution overseas. In the United States and overseas, products are sold through limited distribution channels to uphold the particular images of each brand.

At the same time, Estée Lauder has successfully responded to the needs of different markets. In Asia, for example, a system of products was developed to whiten the skin. This ability to adapt and create products to specific market needs has contributed greatly to the company's ability to enter new markets. Estée Lauder currently has manufacturing facilities in the United States, Canada, Belgium, Switzerland, and the United Kingdom, and research and development laboratories in the United States, Canada, Belgium, and Japan. Estée Lauder's global strategies have paid off. In 2020, the total global net sales were $16.2 billion, of which 23% came from the Americas (as compared to 61% in 2001), 43% from Europe, the Middle East, and Africa (as compared to 26% in 2001), and 34% from Asia Pacific (as compared to 13% in 2001).[45]

Hypercompetition

Hypercompetition, a fourth conceptualization, refers to the fact that all firms are faced with a form of aggressive competition that is tougher than oligopolistic or monopolistic competition, but is not perfect competition where the firm is atomistic and cannot influence the market at all. Hypercompetition is pervasive not just in fast-moving high-technology industries like computers and deregulated industries like airlines, but also in industries that have traditionally been considered more sedate, like processed foods. The central thesis of this argument is that no type of competitive advantage can last—it is bound to get eroded.

In any given industry, firms jockey among themselves for better competitive position, given a set of customers and buyers, the threat of substitutes, and the barriers to entry in that industry. However, the earlier arguments represent the description of a situation without any temporal dimension; there is no indication as to how a firm should act to change the situation to its advantage. For instance, it is not clear how tomorrow's competitor can differ from today's. A new competitor can emerge from a completely different industry given the convergence of industries. Ricoh, once a low-cost facsimile and copier maker, has now come up with a product that records moving images digitally, which is what a camcorder and a movie camera do using different technologies. This development potentially pits Ricoh as a direct competitor to camcorder and movie camera makers, emphasizing differentiation by providing unique technical features—something not possible 20 years ago.

[45] Estée Lauder, 2021 Annual Report, 2021.

Such a shift in competition is referred to as *creative destruction*. This view of competition assumes continuous change, where the firm's focus is on disrupting the market. In a hyper-competitive environment, a firm competes on the basis of price, quality, timing, and know-how, creating strongholds in the markets it operates in (this is akin to entry barriers) and financial resources to outlast one's competitors.[46]

Interdependency

A fifth aspect of global strategy is **interdependency** of modern companies. Recent research has shown that the number of technologies used in a variety of products in numerous industries is rising.[47] Because access to resources limit how many distinctive competencies a firm can gain, firms must draw on outside technologies to be able to build a state-of-the-art product. Since most firms operating globally are limited by a lack of all required technologies, it follows that for firms to make optimal use of outside technologies, a degree of components standardization is required. Such standardization would enable different firms to develop different end products, using, in a large measure, the same components.[48] Research findings do indicate that technology intensity—that is, the degree of R&D expenditure a firm incurs as a proportion of sales—is a primary determinant of cross-border firm integration.[49]

The smartphone industry is a good instance of a case where firms use components from various sources. Apple's iPhones operating on Apple's iOS and Samsung's Galaxy smartphones operating on Google's Android operating system have been the two major competing brands in the smartphone industry. In 2020, Samsung enjoyed a global market share of 19% and Apple, 15%, although Huawei was fast catching up with 14%.[50] Behind the scene, Samsung also benefited greatly from the increased iPhone sales that Apple enjoyed. Samsung is not only a smartphone brand but a really huge conglomerate that does business in various fields as electronic component manufacturing and smartphones as well as life insurance and chemicals. It builds a lot of tiny equipment and parts including processors, RAM, and flash storages that are used in assembling smartphones, tablet computers, and laptops. Apple, which designs its own processors but does not manufacture them, relies on Samsung and other companies including Sony for most of the components used by Foxconn, a Taiwanese company, assembling latest Apple devices such as iPhone 13, iPad, Apple Watch, and MacBook Air.[51]

In the international context, governments also tend to play a larger role and may, directly or indirectly, affect parts of the firm's strategy. Tariffs and nontariff barriers such as voluntary export restraints and restrictive customs procedures could change cost structures so that a firm could need to change its production and sourcing decisions. As presented in Chapter 2, the creation of the World Trade Organization in 1995, which launched the Doha Round of trade negotiations in 2001, is an encouraging sign because it leads to greater harmonization of tariff rules and less freedom for national governments to make arbitrary changes in tariff and nontariff barriers and in intellectual property laws.

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[46] Richard D'Aveni, *Hypercompetition: Managing the Dynamics of Strategic Maneuvering* (New York: The Free Press, 1994).
[47] Aldor Lanctot and K. Scott Swan, "Technology Acquisition Strategy in an Internationally Competitive Environment," *Journal of International Management*, 6, Autumn 2000, pp. 187–215.
[48] Masaaki Kotabe, Arvind Sahay, and Preet S. Aulakh, "Emerging Roles of Technology Licensing in Development of Global Product Strategy: A Conceptual Framework and Research Propositions," *Journal of Marketing*, 60, January 1996, pp. 73–88.
[49] Stephen Kobrin, "An Empirical Analysis of the Determinants of Global Integration," *Strategic Management Journal*, 12, 1991, pp. 17–31.
[50] "Top Smartphone Brands, by Global Sales," *Visual Capitalist*, www.visualcapitalist.com, April 21, 2021.
[51] "How Samsung Became the World's No. 1 Smartphone Maker," *Bloomberg Businessweek*, www.bloomberg.com, March 29, 2013.

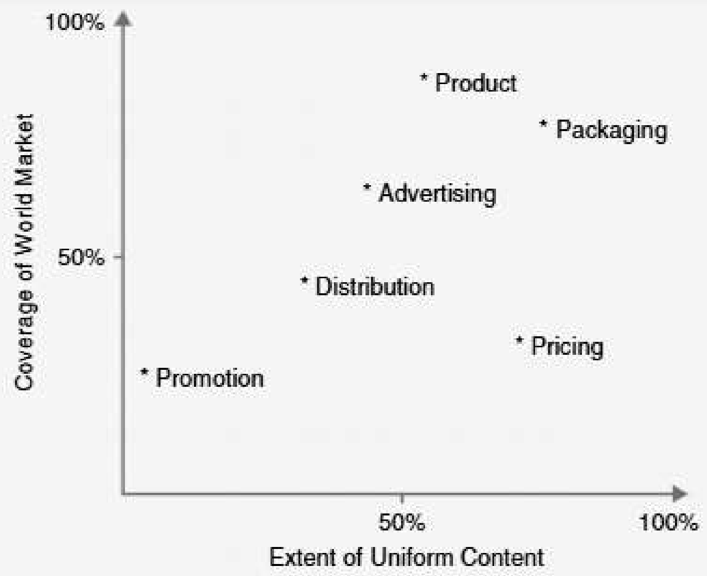
Global Marketing Strategy

MNCs increasingly use global marketing and have been highly successful—for example, Nestlé with its common brand name applied to many products in all countries, Coca-Cola with its global advertising themes, Xerox with its global leasing policies, and Dell Computer's "sell-direct" strategy. But global marketing is not about standardizing the marketing process on a global basis. Although every element of the marketing process—product design, product and brand positioning, brand name, packaging, pricing, advertising strategy and execution, promotion, and distribution—may be a candidate for standardization, standardization is only one part of a global marketing strategy, and it may or may not be used by a company, depending on the mix of the product-market conditions, stage of market development, and the inclinations of the multinational firm's management. For instance, a marketing element can be global without being 100% uniform in content or coverage. **Exhibit 8-3** illustrates a possible pattern.

Let us take an instance from Exhibit 8-3 and look at distribution with a magnitude of less than 50% on both coverage of world market and extent of uniform content. If we assume that the firm in question (represented in the diagram) does not have a manufacturing facility in each of the markets it serves, then to the extent that various markets have a uniform content, and presumably similar operations, there is a requirement for coordination with manufacturing facilities elsewhere in the firm's global network. In addition, where content is not uniform, any change requirements for the nonuniform content of distribution require corresponding changes in the product and/or packaging.

Thus, a global marketing strategy requires more intimate linkages with a firm's other functions, such as research and development, manufacturing, and finance.[52]

Exhibit 8-3 **Variation in Content and Coverage of Global Marketing**



Source: George S. Yip, *Globalizing Strategy*, 1st ed., ©1992. Reprinted by permission of Pearson Education, Inc., New York.

[52]Masaaki Kotabe, *Global Sourcing Strategy: R&D, Manufacturing, and Marketing Interfaces* (New York: Quorum Books, 1992).

In other words, a **global marketing strategy** is but one component of a global strategy. For an analogy, you may think of a just-in-time inventory and manufacturing system that works for a single manufacturing facility to optimize production. Extend this concept now to finance and marketing, and include all subsidiaries of the firm across the world as well. One can imagine the magnitude and complexity of the task when a manager is attempting to develop and implement a global strategy. One implication is that without a global strategy for R&D, manufacturing, and finance that meshes with the various requirements of its global marketing strategy, a firm cannot best implement that global marketing strategy.

Benefits of Global Marketing

Global marketing strategy can achieve one or more of four major categories of potential globalization benefits: cost reduction, improved quality of products and programs, enhanced customer preference, and increased competitive advantage.[53] General Motors and Ford approach global marketing somewhat differently; such a strategic difference suggests that the two U.S. automakers are in search of different benefits of global marketing.

Cost Reduction

When multiple national marketing functions are consolidated, personnel outlays are reduced through avoidance of duplicating activities. Costs are also saved in producing global advertisements and commercials and producing promotional materials and packaging. Savings from standardized packaging include reduction in inventory costs. With typical inventory carrying costs at 20% of sales, any reduction in inventory can significantly affect profitability. With the availability of a global span of coverage by various forms of modern communication media, multicountry campaigns capitalizing on countries' common features would also reduce advertising costs considerably. ExxonMobil's "Put a Tiger in Your Tank" campaign and the Tiger in many other forms offer a good example of a campaign that used the same theme across much of the world, taking advantage of the fact that the tiger is almost universally associated with power and grace.[54]

Owning a website on the internet and marketing to consumers is another way to reduce costs of conducting global marketing. It benefits both consumers, who can order to their own specifications everything from cars to swimsuits, and manufacturers in helping avoid inventory buildups. It also allows companies to have direct contact with consumers from different parts of the world, giving them deeper insight into market trends at a fraction of the cost incurred in traditional marketing. Cost savings can also translate into increased program effectiveness by allowing more money and resources into a smaller number of more focused programs. In fact, the world's largest advertiser Proctor & Gamble wants to spend less on marketing and is preparing to make deep cuts in the number of its advertising agencies. Proctor & Gamble has had success with a video called "Always Like a Girl" (www.youtube.com/watch?v=-EckBupKXuo), which has won an Emmy award and been viewed around the world by 85 million people either online or on mobile devices. Around the world, up to half of people's media viewing time is spend on digital (computers) and about a third on mobile viewing. Proctor & Gamble is using the medium for creativity enabled by technology and turning it into an art and business model to build its brands.[55] Similarly, Disney

[53]George S. Yip, Total *Global Strategy: Managing for Worldwide Competitive Advantage* (Englewood Cliffs, NJ: Prentice Hall, 1992), pp. 21–23.

[54]If interested in the history of the Esso (ExxonMobil) tiger, probably one of the most recognized mascots in the world in the last 100 years, read "Esso and the Tiger," at ExxonMobil's website, http://www.exxonmobil.com/ UK-English/about_history_esso_tiger.aspx, accessed May 11, 2016.

[55]"Big Companies Put the Squeeze on Ad Agencies," *The Wall Street Journal*, www.wsj.com, April 27, 2015; and "Why P&G Is Quickly Shifting to a Digital-First Approach to Building Brands," *Forbes*, www.forbes.com, March 12, 2015.

is trying to break out of its traditional marketing methods with some alternative media. Now the company is launching a multiplayer online game—My Virtual Magic Kingdom (www.myvmk.com) intended to drive kids to Disney resorts.

Improved Products and Program Effectiveness

This may often be the greatest advantage of a global marketing strategy. Good ideas are relatively scarce in the business arena. So, a globalization program that overcomes local objections to allow the spread of a good marketing idea can often raise the effectiveness of the program when measured on a worldwide basis. Traditionally, R&D has been concentrated in the headquarters country of a global company. This has sometimes circumscribed a possible synergy from amalgamation of good ideas from around the world.

Procter & Gamble has solved this problem by setting up major R&D facilities in each of its major markets in the Triad—North America, Japan, and Western Europe—and by putting together the pertinent findings from each of the laboratories. As in the saying, "Necessity is the mother of invention," different needs in different parts of the world may lead to different inventions. For example, Procter & Gamble's Liquid Tide laundry detergent was an innovative product developed in an innovative way by taking advantage of both the company's technical abilities and various market requirements in the key markets around the world. Germans had been extremely concerned about polluting rivers with phosphate, a key whitening ingredient in the traditional detergent. To meet the German customer demand, Procter & Gamble in Germany had developed fatty acid to replace phosphate in the detergent. Similarly, Procter & Gamble Japan had developed surfactant to get off grease effectively in tepid water that Japanese use in washing their clothes. In the United States, Procter & Gamble in Cincinnati, Ohio, had independently developed "builder" to keep dirt from settling on clothes. Putting all these three innovations together, the company introduced Liquid Tide and its sister products (e.g., Ariel) around the world.[56]

Three benefits followed from this multiple R&D location strategy. By being able to integrate required product attributes from three separate markets, P&G was able to introduce a much better product than would otherwise have been possible and increase its chances of success. Second, its development costs were spread over a much larger market—a market that was more inclined to receive the product favorably because of the incorporation of the product features described. Third, it increased the sources from which product ideas are available to it. Thus, not only does P&G have immediate returns but also it has secured for itself a reliable resource base of future products.

Enhanced Customer Preference

Awareness and recognition of a product on a worldwide basis increase its value. A global marketing strategy helps build recognition that can enhance customer preferences through reinforcement. With the rise in the availability of information from a variety of sources across the world and the rise in travel across national borders, more and more people are being exposed to messages in different countries. So, a uniform marketing message whether communicated through a brand name, packaging, or advertisement reinforces the awareness, knowledge, and attitudes of people toward the product or service. Pepsi has a consistent theme in its marketing communication across the world—that of youthfulness and fun as a part of the experience of drinking Pepsi anywhere in the world.[57]

[56]"Development of Tide Synthetic Detergent: National Historic Chemical Landmark," American Chemical Society, www.acs.org, October 25, 2006.
[57]PepsiCo, Press Release, "#MixItUp With #PepsiCoDesign at Milan Design Week," www.pepsico.com, April 14, 2015.

Increased Competitive Advantage

By focusing resources into a smaller number of programs, global strategies magnify the competitive power of the programs. Although larger competitors might have the resources to develop different high-quality programs for each country, smaller firms might not. Using a focused global marketing strategy could allow a smaller firm to compete with a larger competitor in a more effective manner. However, the most important benefit of a global strategy may be that the entire organization gets behind a single idea, thus increasing the chances of the success of the idea. Equally, if not more, important are the benefits of market and competitive intelligence provided by the increased flow of information due to the worldwide coordination of activities. As the global firm meshes the different parts of the organization into the framework of a focused strategy, information flow through the organization improves and enables the functioning of the strategy. A by-product is that the organization as a whole becomes much better informed about itself and about the activities of its competitors in markets across the world. For example, Nike has been able to evolve its global presence through careful selection of international sponsorships such as its partnership with Manchester United. This type of partnership helps capture the attention of a global audience. Nike's NikeID is a cocreation platform that serves as another strategy that Nike is using to appeal to international customers. NikeID puts the power of design into consumer's hands. Nike can then deliver customized products that align with different cultural preferences and styles.

Limits to Global Marketing

Although national boundaries have begun losing their significance both as a psychological and as a physical barrier to international business, the diversity of local environments, particularly cultural, political, and legal environments, still plays an important role not as a facilitator, but rather as an inhibitor, of optimal global marketing strategy development. Indeed, we still debate the very issue raised more than 50 years ago: counteracting forces of "unification versus fragmentation" in developing operational strategies along the value chain. As early as 1969, John Fayerweather wrote emphatically:

> *What fundamental effects does (the existence of many national borders) have on the strategy of the multinational firm? Although many effects can be itemized, one central theme recurs; that is, their tendency to push the firm toward adaptation to the diversity of local environments which leads toward fragmentation of operations. But there is a natural tendency in a single firm toward integration and uniformity that is basically at odds with fragmentation. Thus, the central issue... is the conflict between unification and fragmentation—a close-knit operational strategy with similar foreign units versus a loosely related, highly variegated family of activities.*[58]

Many authors have since revisited the same counteracting forces in such terms as "standardization versus adaptation" (1960s–1970s), "globalization versus localization" (1970s–1980s), "global integration versus local responsiveness" (1980s–1990s), and most recently, "aggregation versus adaptation (vs. arbitrage)" (2000s).[59] Today, we may even add our own internet-era variant, "online scale versus offline market sensitivity." Basically, the left-side concept (i.e., unification, standardization, globalization, global integration, aggregation, and online scale) refers to a *supply-side* argument in favor of the benefits of economies of scale and scope, while the right-side concept (i.e., fragmentation, adaptation, localization, local responsiveness, and offline

[58]John Fayerweather, *International Business Management: Conceptual Framework* (New York: McGraw Hill, 1969), pp. 133–34.
[59]The most recent entry to the supply side versus demand side argument is by Pankaj Ghemawat, *Redefining Global Strategy: Crossing Borders in a World Where Differences Still Matter* (Boston, MA: Harvard Business School Press, 2007).

market sensitivity) refers to a *demand-side* argument addressing the existence of market differences and the importance of catering to the differing market needs and conditions. Terms have changed, but the quintessence of the strategic dilemma that those multinational firms face today has not changed and will probably remain unchanged for years to come.[60]

Now the question is to what extent successful multinational firms can circumvent the impact of local environmental diversity. In some industries, product standardization may result in a product that satisfies customers nowhere. For processed foods, for example, national tastes and consumption patterns differ sufficiently to make standardization counterproductive. In Latin America, a variety of canned spicy peppers, such as jalapeño peppers, is a national staple in Mexico, but is virtually unheard of in Brazil and Chile. Obviously, firms cannot lump together the whole of Latin America into one regional market for condiments.

The internet is global in nature and so are the websites. Being on the web arguably translates into reaching customers in many corners of the world from day one. However, it does not mean that e-commerce can be developed without any need for local and regional adaptation. To effectively target and reach global consumers online, many companies still need to approach them in their languages, conforming to their cultural value systems.[61] Indeed, one recent study clearly shows that local websites of India, China, Japan, and the United States not only reflect cultural values of the country of their origin but also differ significantly from each other on cultural dimensions.[62]

On the other hand, Merck, one of the world's largest pharmaceutical companies, faces a different kind of problem with global marketing. The company can market the same products around the world for various ailments, but cultural and political differences make it very difficult to approach different markets in a similar way. Merck, which operates internationally as MSD, has to increase public awareness of health-care issues in Mexico, Central America, and much of South America by bringing top journalists from these countries together on a regular basis to meet with health-care experts ranging from physicians to government officials. The company is trying to change the way it does business in the Pacific Rim. It used to operate through local distributors and licensees without learning the local quirks of pharmaceutical business. Now, the company is creating subsidiaries in nearly all main Asian countries, including Korea, China, the Philippines, Taiwan, Singapore, and Malaysia, to learn what goes on inside those markets. In Eastern Europe, Merck is starting from scratch, because its entry had been previously barred under the region's strict communist control. For example, in Hungary, the company devoted its initial investment to establishing resource centers that are affiliated with local hospitals and universities in order to create a special image for Merck.[63] Even in supposedly similar cultures, there can be huge differences in what are effective marketing campaigns. The Body Shop found this out when it took a successful ad campaign in Britain and brought it to the United States, assuming it would have the same appeal. The ad showed the naked buttocks of three men and completely misfired in the U.S. market. In the words of Body Shop founder Anita Roddick, "We thought it was funny and witty here, but women in New Hampshire fainted."[64]

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[60] Masaaki Kotabe, "To Kill Two Birds with One Stone: Revisiting the Integration-Responsiveness Framework," in Michael Hitt and Joseph Cheng, eds., *Managing Transnational Firms* (New York: Elsevier, 2002), pp. 59–69.

[61] E. James Randall and L. Jean Harrison-Walker, "If You Build It, Will They Come? Barriers to International e-Marketing," *Journal of Marketing Theory & Practice*, 10, Spring 2002, pp. 12–21; and Kendall Goodrich and Marieke de Mooij, "New Technology Mirrors Old Habits: Online Buying Mirrors Cross-National Variance of Conventional Buying," *Journal of International Consumer Marketing*, 23 (3/4), 2011, pp. 246–259.

[62] Nitish Singh, Hongxin Zhao, and Xiaorui Hu, "Analyzing the Cultural Content of Web Sites: A Cross-National Comparison of China, India, Japan, and US," *International Marketing Review*, 22 (2), 2005, pp. 129–145,

[63] Fannie Weinstein, "Drug Interaction: Merck Establishes Itself, Country by Country, in Emerging Markets," *Profiles*, September 1996, pp. 35–39; and Richard T. Clark, "Standing Behind Our Core Values," *Vital Speeches of the Day*, January 15, 2006, pp. 220–224.

[64] Ernest Beck, "Body Shop Gets a Makeover to Cut Costs," *The Wall Street Journal*, January 27, 1999, p. A18.

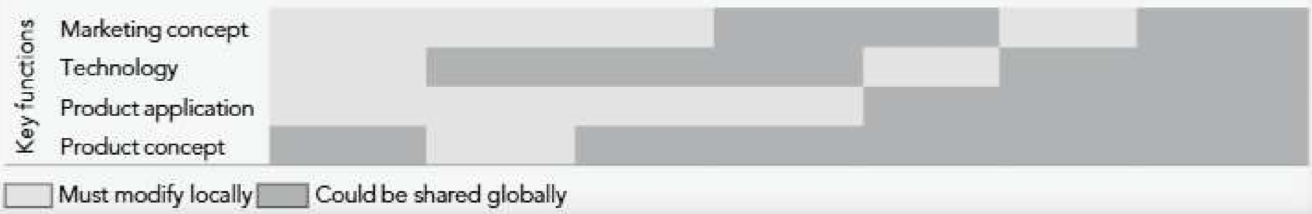
However, despite such cultural and political constraints in the markets, Nestlé, for example, has managed to integrate procurement functions to gain bargaining power in purchasing common ingredients such as cocoa and sugar. In other industries, such as computers and telecommunications, consumption patterns are in the process of being established and the associated cultural constraint is getting less prominent. In addition, the simultaneous launch of most products in these categories across the world precludes large differences. For these products, governments frequently attempt to exert national control over technological development, the products or the production process.[65] However, while it is the multinational firms that are the vehicle through which technology, production, and economic activity in general are integrated across borders, *it is the underlying technology and economic activity that should be globally exploited for economies of scale and scope*. National markets, regardless of how they are organized economically, are no longer enough to support the development of technology in many industries. See **Exhibit 8-4** for some generalizations about the degree of product standardization around the world.

R&D, Operations, and Marketing Interfaces

Marketing managers cannot develop a successful marketing strategy without understanding how other functional areas, such as R&D and operations, influence the degree of their marketing

Exhibit 8-4 Degree of Standardizability of Products in World Markets

Local	←			→			**Universal**
Factors Limiting Universality	**Culture/Habits**	**Design Taste**	**Language**	**Size/Package**	**Technical System**	**User/ Application**	**None**
Example	• Fish sausage	• Furniture	• Word processor	• Textile	• Color TV (PAL system in European voltage)	• Smart phones	• Watch
	• Root beer	• Refrigerator	• Computer	• Automotive (seat size)		• Computer games	• Motorcycle
	• Boxer shorts	• Processed food		• Soft drinks			• Petrochemical products
	• Rice cooker						• Piano
							• Money (capital market)



Source: Adapted from Kenichi Ohmae, *Triad Power: The Coming Shape of Global Competition* (New York: The Free Press), p. 193.

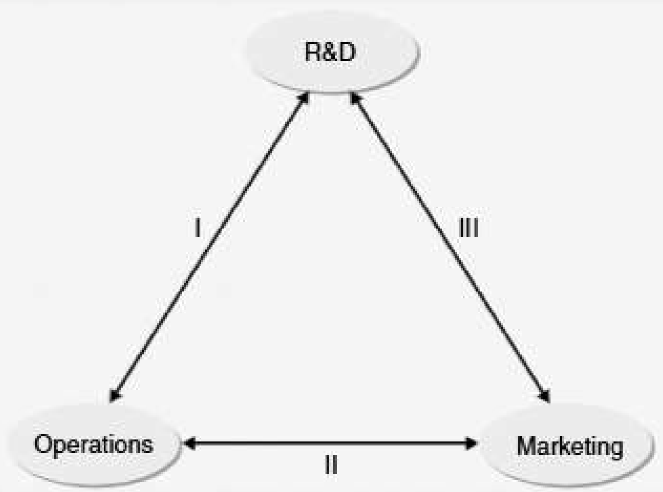
[65] C. K. Prahalad and Yves L. Doz, *The Multinational Mission* (New York: The Free Press, 1987).

decision-making as well as how those functions may be influenced by them. In this section, we focus on the three most important interrelated activities in the value chain: R&D (e.g., technology development, product design, and engineering), operations (e.g., manufacturing), and marketing activities. Marketing managers should understand and appreciate the important roles that product designers, engineers, production managers, and purchasing managers, among others, play in marketing decision-making. Marketing decisions cannot be made in the absence of these people.[66] Management of the **interfaces**, or linkages, among these value-adding activities is a crucial determinant of a company's competitive advantage. A recent study also shows that marketing not only plays a pivotal role but also affects firm performance more than R&D and operations.[67] See **Exhibit 8-5** for an outline of a basic framework of management of R&D, operations, and marketing interfaces. Undoubtedly, these value-adding activities should be examined as holistically as possible, by linking the boundaries of these primary activities. As presented in **Global Perspective 8-3**, linking R&D and operations with marketing provides enormous direct and indirect benefits to companies operating in a highly competitive environment.

R&D/Operations Interface

Technology is broadly defined as know-how. It can be classified based on the nature of know-how composed of product technology (the set of ideas embodied in the product) and process technology (the set of ideas involved in the manufacture of the product or the steps necessary to combine new materials to produce a finished product). However, executives tend to focus solely on product-related technology as the driving force of the company's competitiveness. Product technology alone may not provide the company a long-term competitive edge over competition unless it is matched with sufficient manufacturing capabilities.[68]

Exhibit 8-5 **Interfaces among R&D, Operations, and Marketing**



I. R&D/Manufacturing Interface
- Product innovation
- Designing for manufacturability
- Manufacturing process innovation
- Components sourcing

II. Operations/Marketing Interface
- Product and component standardization
- Product modification

III. Marketing/R&D Interface
- New product development
- Product positioning

[66]David B. Montgomery and Frederick E. Webster, Jr., "Marketing's Interfunctional Interfaces: The MSI Workshop on Management of Corporate Fault Zones," *Journal of Market Focused Management*, 2, 1997, pp. 7–26.
[67]Alexander Krasnikov and Staish Jayachandran, "The Relative Impact of Marketing, Research-and-Development, and Operations Capabilities on Firm Performance," *Journal of Marketing*, 72, July 2008, pp. 1–11.
[68]Bruce R. Guile and Harvey Brooks, eds., *Technology and Global Industry: Companies and Nations in the World Economy* (Washington, D.C.: National Academy Press, 1987).