GLOBALIZATION

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GLOBAL MARKETING STRATEGIES

A successful global marketing strategy requires a thorough analysis of the various value chain activities, to bring a balance between activities to be performed at global and local levels. Achieving this balance is a challenging task and calls for a good understanding of customer requirements in each market in which the company operates. The article talks about different strategies to be adopted during each activity from selection of markets to enter, to management of distribution channels.

"The multinational corporation knows a lot about a great many countries and congenially adapts to supposed differences..... By contrast, the global corporation knows everything about one great thing. It knows about the absolute need to be competitive on a worldwide basis as well as nationally and seeks constantly to drive down prices by standardizing what it sells and how it operates. It treats the world as composed of a few standardized markets rather than many customized markets."

Theodre Levitt[1]

Introduction

Transnational corporations operate around the world, in different markets, where customer requirements may vary. The temptation to customize for each market has to be tempered by the need to keep costs down through standardization. A truly global marketing strategy involves standardizing some elements of the marketing mix across the world, while customizing others. The correct approach is to identify and analyze the various value chain activities that make up the marketing function and decide which of these must be performed on a global basis and which localized.

Key issues in global marketing

Typically, marketing includes the following activities:

- Market research
- Concept and idea generation
- Product design
- Prototype development and test marketing
- Positioning
- Choice of brand name
- Selection of packaging material, size and labeling
- Choice of advertising agency
- Development of advertisement copy
- Execution of advertisements
- Recruitment and posting of salesforce
- Pricing
- Sales promotion
- Selection and management of distribution channels.

Some of these activities are amenable to a uniform global approach. Others involve a great degree of customization. Again, within a given activity, some parts can be globalizing while others have to be customized. For instance, product development may be customized to suit the needs of different markets but basic research may be conducted on a global basis. Indeed, this is what companies like Unilever do.

A global marketing strategy typically evolves over a period of time. In the initial phase, the main concern for an MNC is to decide which market(s) to enter. Then comes the mode of entry. A related decision is whether to enter several markets simultaneously or one at a time. With growing overseas presence, MNCs also have to resolve issues such as customization of the marketing mix for local markets and in some cases, development of completely new products. In the final phase, global companies examine their product portfolio across countries, strive for higher levels of co-ordination and integration and attempt to strike the right balance between scale efficiencies and local customization.

Entering new markets

While choosing new markets, TNCs need to consider several macro and micro issues. Some of the macro issues to be examined are the *political/regulatory environment, financial/economic environment, socio cultural environment and technological infrastructure*. At a micro level, *competitive considerations* and *local infrastructure* such as transportation and logistics network and availability of mass media for advertising are important. It may not be a bad idea to do a preliminary screening on the basis of different criteria and then do an in-depth analysis of the selected countries. The factors which need to be examined carefully include legal and religious restrictions, political stability, economic stability, income distribution, literacy rate, education, age distribution, life expectancy and penetration of television sets in homes.

[1]Harvard Business Review, May-June, 1983.

A Framework for Global Marketing: Striking the balance between centralization and decentralization

Pricing	Discounts, responding to seasonal trends	Policy guidelines for regional trading blocks, common markets	Policy guidelines for the worldwide system
Distribution	Channel selection, schemes and discounts	Internet initiatives, warehousing	Policy guidelines
Advertising & Positioning	Execution, choice of sponsor, choice of media	Theme, choice of brand name	Choice of agency, positioning management of brand equity
Product Development	Local customization	Module building	Design and prototype development
Market Research	Questionnaire administration	Questionnaire design	Identification of information to be collected

Dominance of Local Considerations → Dominance of Global Considerations

How to enter

While entering new markets, an MNC has various options. These include contract manufacturing, franchising, licensing, joint ventures, acquisitions and full-fledged greenfield projects. *Contract manufacturing* avoids the need for heavy investments and facilitates a quick entry with a lot of flexibility. On the other hand, there can be supply bottlenecks in such arrangements and production may not keep pace with demand. It may also be difficult to maintain the desired quality levels. *Franchising*, like contract manufacturing involves limited financial investment, but needs fairly intensive training to orient the franchisees. Quality control is again an area of concern in franchising. While *licensing* offers advantages similar to those in the case of contract manufacturing and franchising, it offers limited returns, builds up a future competitor (if licensees decide to part ways) and restricts future market development. Quality control is again a source of worry in licensing. A *joint venture* helps in spreading risk, minimizes capital requirements and provides quick access to expertise and contacts in local markets. However, most joint ventures lead to some form of conflict between partners. If the conflicts are not properly resolved, they tend to collapse. The tie up between P&G and Godrej in India is a good example. An *acquisition* gives quick access to distribution channels, management talent and established brand names. However, the acquired company should have a strategic fit with the acquiring company and the integration of the two companies, especially when there are major cultural differences, needs to be carefully managed. *Greenfield projects* are time consuming and delay market access. They also involve big investments. On the other hand, the delay may be worth it, as such projects usually incorporate state-of- the - art technology, which maximizes efficiency and flexibility.

Another important decision for TNCs is whether to enter different markets simultaneously or sequentially. Simultaneous entry involves high risk and high return. It enables a firm to build learning curve advantages quickly and pre-empt competitors. But this strategy also consumes more resources, needs strong managerial capabilities and is inherently more risky. In contrast, incremental entry involves lesser risk, lesser resources and a steady and systematic process of gaining international experience. The pitfall here is that the scale economies available in a global launch are not available.

Timing is another important issue while entering new markets. An early entrant can develop a strong customer franchise, exploit the most profitable segments and establish formidable barriers to entry. On the other hand, an early entrant may have to invest heavily in promotional activities and in distribution infrastructure, especially in developing economies. Later entrants may reap free rider advantages.

Market Research

International market research is far more complicated than domestic marketing research. Global co-ordination is necessary to facilitate sharing and transfer of knowledge. Each country should be aware of not only the research activities it is carrying out but also of the activities being carried out by other subsidiaries. While the general methodology can be standardized, the research design must incorporate cultural differences. Questions have to take into account the sensitivity of both the host government and the local people. In particular, personal and embarrassing questions have to be avoided in certain countries. The method of administering the questionnaire may also vary from country to country. One way of generating efficiencies is to examine the possibility of standardization of market research activities within a cluster of culturally similar countries.

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Product Development

Product development is a critical activity for all TNCs. A globally standardized product can be made efficiently and priced low but may end up pleasing few customers. On the other hand, excessive customization for different markets may be too expensive. The challenge, as in other value chain activities, is to identify those elements of the product which can be standardized across markets and those which need to be customized. In general, a standard core should be developed, around which customized features can be built to suit the requirements of different segments.

Take the example of cars. Traditionally, car manufacturers have developed hundreds of models to meet the needs of different markets without exploring the scope for standardization. This has resulted in unused capacities and inefficiencies. Car manufacturers are now attempting to cut costs by building models of different shapes around standardized platforms. The idea here is that the basic functionality of a car can be extended globally while features and shape are customized to appeal to varying consumer tastes in different parts of the world. Ford, Honda, Toyota and Volkswagen have made a lot of progress in standardizing their platforms.

Japanese companies such as Sony and Matsushita have been quite successful in marketing standardized versions of their consumer electronics products. These companies, cleverly identified features, which were universally popular among customers across the world. Global economies of scale helped them to offer competitively priced, quality products that appealed to customers.

In the case of industrial products, standardization may become unavoidable if customers co-ordinate their purchases globally. This seems to be true in the PC industry. MNCs often choose to replicate the computer system in their headquarters across their worldwide network to minimize training and software development costs. Companies such as Dell are taking full advantage of this trend and serving MNCs on a worldwide basis.

In industries characterized by high product development costs (as in the pharmaceuticals industry) and great risk of obsolescence (as in the case of fashion goods), globally standardized products and services that cater to large markets facilitate quick recovery of costs. Even in the food industry, where tastes are largely local, companies are looking for opportunities to standardize as developing different products for individual markets can be prohibitively expensive. Though identical offerings cannot be made in different markets, companies are developing a core product with minor customization, (like a different drink to go with the main course in the case of McDonald's), to appeal to local tastes. Moreover, activities such as quality control, restaurant design and cooking practices can be standardized across the world.

In their enthusiasm to reduce costs through standardization, MNCs need to avoid some pitfalls. Customer preferences vary across countries. A product developed on the basis of some 'average' preference may well end up pleasing no one. As Kenichi Ohmae has remarked[2]: "When it comes to product strategy, managing in a borderless economy doesn't mean managing by averages. It doesn't mean that all tastes run together into one amorphous mass of universal appeal. And it doesn't mean that the appeal of operating globally removes the obligation to localize products. The lure of a universal product is a false allure."

The inherent nature of some products makes them more global than the others. These include cameras, watches, pocket calculators, premium fashion goods and luxury automobiles. In the case of many industrial products, purchase decisions are normally taken on the basis of

[2]The Borderless World

performance characteristics and considerable scope exists for global standardization. However, even here, local customization may be required in areas such as engineering, installation, sales, service and financing. Another point to note here is that in the same industry, different segments may have different characteristics. Institutional financial services tend to be more global than retail ones. Ethical (prescription) medicines tend to be more global than OTC drugs.

Branding

Global branding can create some important cost advantages. By using a standard positioning, advertising strategy, personality, look and feel, there is possibility for generating tremendous economies of scale that would be difficult, if local brands are allowed to proliferate. However, the pitfalls in global branding should not be overlooked. As Aaker and Joachimsthaler[3] point out, "Managers who stampede blindly towards creating a global brand without considering whether such a move fits well with their company or their markets risk falling over a cliff."

> Well-entrenched local brands can also cause problems by creating competitive pressures that demand a different positioning

Positioning

International positioning is far more complicated than positioning in the domestic market. The degree and nature of segmentation can vary across countries. Brands may not be perceived in the same way in different regions. The importance of product attributes may vary from market to market. Positioning may also be influenced by the local marketing infrastructure. Well-entrenched local brands can also cause problems by creating competitive pressures that demand a different positioning. Having said that, opportunities for global positioning are expanding due to the convergence of tastes. Global communication media and frequent travel between countries are homogenizing consumer tastes. In the case of industrial products, organizational linkages created by professional organizations are accentuating this trend.

In general, global positioning is recommended when similar customer segments exist across countries, similar means of reaching such segments are available, the product is evaluated in a similar way by different segments, and competitive forces are comparable. On the other hand, differing usage patterns, buying motives and competitive pressures across countries result in the need for different positioning strategies for individual markets. As Aaker and Joachimsthaler point out, the Honda stands for quality and reliability in the US but in Japan, it represents speed, youth and energy. Similarly, the Ford Escort is a family car in the US but is a luxury car aimed at senior corporate executives in India.

For a long time, Citibank has been serving the premium segment in India. To open a savings bank account, the minimum deposit required is Rs.1 lakh. While this may sound reasonable in dollar terms ($2000 approximately) it is obviously beyond the reach of the Indian middle class. Citibank has probably realized that targeting the mass market is a Herculean task in a vast, predominantly rural country like India where there are also several restrictions on the expansion of foreign banks. Hence its decision to limit itself to India's major cities and target wealthy individuals and blue chip corporates. Citibank's up market positioning as a consumer finance company, rather than a commercial bank, needs to be appreciated in this context. Now Citibank seems to have realized the need for offering products and services for the mass market. Its new Suvidha scheme is in line with the changed philosophy.

Global positioning of products often evolves over time. The automobile giant, Ford offers some useful insights in this context. While launching the Escort, each country not only came up with its own positioning but also developed its own advertising messages using local agencies. In some countries, the product was positioned as a limousine and in others as a sports car. Compared to the Escort, Ford's new compact, Focus is a classic example of global positioning. The Focus has been launched across different markets as a car with a lot of design flair, plenty of space, great fuel efficiency and special engineering features to enhance safety. Ford has employed only one advertising agency for the launch of the Focus.

The global food company, Nestlé uses positioning documents for its global, as well as, important regional brands. These documents are prepared by the respective strategic business units in consultation with marketing personnel from different parts of the world and are approved by the general management. In the late 1990s, roughly 40 percent of Nestlé's total sales was generated by products covered by the Nestlé corporate brand. For some products such as pet foods and mineral water, Nestlé has chosen to

[3] Harvard Business Review, November – December 1999

keep the brands as distant as possible from the corporate brand. CEO Peter Letmathe has explained[4]: "We felt that people buying water are looking for the purity of the source whereas our seal is that of a manufacturer. So we set up a special institute, Perrier – Vittel, which puts its own guarantee on mineral water."

The choice of brand name is an important issue in global marketing. Companies such as Coca-Cola have used the same brand name around the world for their flagship products. Others have used different names to convey the same meaning in different languages across the world. Volkswagen has chosen the same brand name across various countries for many models but there have been some exceptions. It has a series of model names denoting Wind – Golf (gulf wind), Sirocco (hot wind in North Africa) and Passaat (trade wind). Golf is one of Europe's most popular cars. For the US market, however, Volkswagen renamed the Golf as Rabbit to project a youthful image. Japanese car maker Nissan's experience offers useful lessons. When Nissan started exporting cars to the US, it chose the name Datsun. After establishing the brand over a period of time, it decided to revert back to the Nissan name, only to see a sharp decline in sales.

> While local agencies are often in the best position to understand the needs of the local markets, no global company can afford a totally uncoordinated approach towards advertising

Advertising

In general, advertising is more difficult to standardize, than product development. Due to language differences, chances of being misunderstood are great, especially in the case of idiomatic expressions. Besides, cultural differences can result in different interpretations of the same advertisement in different countries. Differences in media infrastructure also play an important role. In many emerging markets, due to a low penetration of TV sets in rural areas, film based advertising is ruled out. Differences in government regulations also stand in the way of developing a standardized approach to advertising. Many countries impose restrictions on the advertising of alcohol and cigarettes. Due to all these factors, advertising copy content may have to be modified suitably. And in some cases, it may be easier to develop a new ad for a local market rather than customize a global ad. Yet, some advertising activities can be rationalized, to do away with inefficiencies resulting from excessive customization.

Consider the choice of advertising agency. A totally decentralized approach would mean selection of different agencies for different countries. While local agencies are often in the best position to understand the needs of the local markets, no global company can afford a totally uncoordinated approach towards advertising. Nestle once employed over a hundred different agencies. As the company looked for global branding opportunities, coordinating the activities of multiple agencies became a major problem. Nestlé decided to retain only a few agencies – Mc Cann Ericsson, Lintas, Ogilvy & Mather, JWT, Publicis/FCB and Dentsu. Nestlé CEO Peter Letmathe has explained the role of an advertising agency in the company's globalization efforts[5]: " To us, the most important thing is to have dedicated teams. Mc Cann for instance has 10 people working only with Nestlé. I see them as an extended arm of my communications team. They visit every six weeks to tell us what they are doing around the world." Nestlé subsidiaries have encouraged their local agencies to tie up with the company's global agencies. The rationalization of worldwide communications efforts has helped Nestlé cut advertising expenses in the case of products such as coffee, ice creams and chocolates.

Balancing global brand leadership with local brands

Aaker and Joachimsthaler[6] define, "global brand leadership as the use of organizational structures, processes and cultures to allocate brand building resources globally, to create global synergies and to develop a global brand strategy that co-ordinates and leverages country brand strategies." They feel that global brand leadership and strong local brands are complementary. Global brand leadership is built around four planks:

- Knowledge sharing across subsidiaries.
- A common global brand – planning process.
- Clearly defined managerial responsibilities for generating cross-country synergies.
- Execution of effective brand-building strategies.

A company wide intranet, powerful website and regular meetings are some of the tools available to share insights and best practices. A global brand planning process involves consistency in brand presentation, vocabulary, strategic analysis inputs, brand strategy model and brand-building programs. Responsibility for global co-ordination

[4]The McKinsey Quarterly 1996 No.2

[5]The McKinsey Quarterly 1996 No.2

[6]Harvard Business Review, November – December, 1999

can be put on a business management team, a brand champion, a global brand manager or a global brand team.

Pricing

The use of global or local pricing depends on the specific situation. Consider the virtual bookstore Amazon.com, which sells books – essentially branded products. Customers typically have a distinct preference for a particular book. For Amazon. com, global pricing generally makes sense. On the other hand, in the car industry, pricing has to take into account local factors. Companies such as Ford and General Motors are realizing that their Indian customers are unwilling to pay Rs.8-9 lakhs (based on an exchange rate of Rs.45/$) for the same models which cost $15 – 18,000 in the US and Western Europe. This is putting pressure on them to look for ways to cut costs, indigenize and offer cheaper models. Fiat's success in Brazil has been largely due to its ability to design and offer value for money cars. Sometimes, global pricing becomes difficult because of different levels of competition in different markets. Using a uniform price relative to competitors appears to make sense in many cases as it protects market share while maintaining a consistent positioning. A company like GE which follows global pricing for its jet engines, makes suitable adjustments to take into account local competitive factors. A point which MNCs should appreciate is that multiplying the home country price by exchange rate to arrive at the price in the overseas market is often inappropriate. Very often, there is a significant difference between the market exchange rate and the exchange rate calculated on the basis of the relative purchasing power of the two currencies. The Indian rupee trades at about Rs.48 to the dollar but based on relative purchasing power, the rate is closer to Rs.12.

Sales and Distribution

Approaches to personal selling can vary from country to country. In some markets, door-to-door selling is very popular while in others, people prefer to shop at retail stores. Telemarketing is quite popular in the US but not so in many developing countries. Yet, opportunities to standardize should not be ignored. Dell Computer has been highly successful in replicating its direct selling practices in many parts of the world. To be closer to overseas customers in Europe and Asia, Dell has a plant in Limerick, Ireland and another in Penang, Malaysia. In Ireland, Dell's facilities are very close to the plants of its suppliers such as Intel (microprocessors), Maxtor (hard drive) and Selectron (motherboard). Such arrangements facilitate the smooth execution of Dell's direct selling, build to order, just in time model. While large institutional accounts are served by Dell's salesperson, retail customers can dial toll free, one of its call centers in Europe and Asia. If a customer in Portugal makes a local call, it is automatically forwarded to the call center in France where a Portuguese speaking sales representative answers the customer's questions.

International distribution has to take into account local factors. Strategies can vary from country to country owing to different buying habits. In some countries like China, 'mom and pop' stores proliferate, while in others like the US, large departmental stores carrying several items under one roof are popular. In some countries, intermediaries handle credit sales, while in others, cash transactions are the norm. Even within developed countries, significant differences exist in distribution channels. In Japan for example, the distribution network, consisting of several layers intermediaries is fairly complicated. The Japanese also believe in a high degree of personalized customer service. The rapid emergence of the Internet has however created opportunities for global distribution. Two good examples are Amazon.com and Cisco. Similarly, catalog companies like Burlington pursue a global distribution strategy.

Conclusion

Global marketing strategies have to respond to the twin needs of global standardization and local customization. In their quest to maximize local responsiveness, companies should not overlook opportunities to standardize and cut costs. On the other hand, an excessive emphasis on generating efficiencies through a standard marketing mix may result in loss of flexibility. The challenge for global marketers is to identify the core product which can be standardized and add customized features to suit the needs of individual markets. In real life, striking the right balance between standardization and customization can be extremely challenging. A classic example is Volkswagen, which faced major problems while trying to market its best selling model, Golf in the US. CEO, Carl Hahn, admitted[7] "Our basic mistake was to trust the design adaptation of the Golf to American thinking: Too much attention to outward appearances, too little to engineering detail.... We were not true to our heritage. We gave American customers a car that had all the handling characteristics – one might say the smell – of a US car. We should have restricted ourselves to our traditional appeal, aiming at customers, who were looking not for American style but for a European feel. Instead, we gave them plush, color co-ordinated carpeting on the door and took away the utility pocket. We gave them seats that matched the door but were not very comfortable."

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