Part 5 | Functional Area Excellence

Chapter 16

Marketing in the Global Firm

Learning Objectives *After studying this chapter, you should be able to:*

16.1 Explain global market segmentation.

16.2 Understand standardization and adaptation of international marketing.

16.3 Describe global branding and product development.

16.4 Explain international pricing.

16.5 Understand international marketing communications.

16.6 Describe international distribution.

Michael Kors: The Global Affordable Luxury Market

Michael Kors established a company in New York to design and sell fashion apparel and accessories. The firm, Michael Kors Holdings Limited ("Kors") targets the affordable-luxury segment. Today, gross sales of Kors exceed $5 billion. About 15 percent of sales come from each of Europe and Asia. Top Asian markets include China and Japan. A growing global presence helped the firm double its sales between 2013 and 2017. Growth has been achieved partly through licensing agreements with partners such as Fossil (watches) and Estée Lauder (fragrances). Kors bought the luxury British shoe company Jimmy Choo in 2017, further enhancing the company brand.

Perfume, watches, handbags, and other accessories earn much higher margins than clothing due to the power of branding. Consumer awareness of the Kors brand is about 75 percent in the United States, 50 percent in Europe, and 30 percent in Japan. The United States is the largest market for fashion and personal luxury goods, followed by China, France, Italy, and Japan. The fashion industry emphasizes a global marketing strategy partly because international tourists account for a large proportion of total sales. Standardized marketing helps avoid confusing global consumers.

Marketing gained momentum when Michael Kors served as a judge on the reality TV program *Project Runway*. Kors exhibits enormous creative talent in producing and marketing distinctive styles. Women are the main target market. Kors handbags are especially popular among teenage girls. Major competitors include Coach, Donna Karan, and Ralph Lauren.

Alongside buyers in the advanced economies, affordable luxury appeals to the growing middle class in emerging markets. The Chinese spend about $50 billion on luxury goods annually, nearly as much as the $60 billion U.S. buyers spend. In China, to accommodate variation in spending power and sophistication, Kors

Source: Sorbis/Shutterstock

positions the brand as luxury in major cities and as fashion in smaller cities. In many countries, Kors appeals to the aspirational buyer who is hungry for new brands. In a tough economy, Kors is luring Europeans once loyal only to high-end French and Italian labels.

Kors clothing emphasizes meticulous tailoring and luxurious fabrics. It appeals across the demographic spectrum, from teenagers to seniors. Most Kors items—for example, handbags and jackets—are priced between $200 and $300. Luxury brands such as Prada and Louis Vuitton command much higher prices.

Kors conducts marketing communications through its flagship stores, traditional advertising in magazines and newspapers, public relations events, and e-commerce sites and social media. In some countries, most consumers buy clothes online. Social media are particularly effective in Asia.

Kors has embraced the shift to online and mobile commerce. The firm leverages social media and has more than 40 million followers on Facebook, Instagram, and other social sites. Kors also developed a strong "omnichannel" platform, seamlessly integrating customers' online experiences with in-store shopping. Market research revealed the typical Kors customer initiates in-store purchases only after learning about clothes, shoes, handbags and other accessories from the firm's website and other online platforms.

Kors spends more than $65 million annually on advertising worldwide. Advertising emphasizes the luxurious, jet-set lifestyle. Ads feature celebrities on cruises or aircraft. Kors partners with well-known celebrities such as Angelina Jolie, Jennifer Lopez, and Uma Thurman. They help maintain an image of glamour among consumers worldwide. At the same time, Kors has pledged to avoid the use of animal fur in its products.

Distribution strategy is versatile. Currently, Kors products are available in some 3,700 stores across 85 countries, including licensed locations. Kors has 133 company-owned stores in Europe and about 50 in each of China and Japan. The firm recently launched or expanded stores in London, Milan, Munich, Paris, Seoul, Shanghai, and Tokyo, all global fashion centers. Management is expanding distribution to 100 stores in China and Japan.

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Questions

16-1. What international marketing strategies have been key to Kors's success?

16-2. Describe the role of branding in the global luxury products market.

16-3. What can Kors do to expand international sales?

SOURCES: Matthew Cochrane, "The Secret to Michael Kors' Success," *The Motley Fool*, March 3, 2018, www.fool.com; Hoovers.com, company profile of Michael Kors, www.hoovers.com; Suzanne Kapner, "The Kors Brand of Luxury Populism," *Wall Street Journal*, August 4, 2014, pp. B1–B2; Nancy Kross, "10 Reasons Why Everyone Loves Michael Kors," *Bidness Etc.*, July 10, 2014, www.bidnessetc.com; Andrew Roberts and Liza Lin, "Born-in-the-USA Luxury Gains in China," *Business Week*, March 3, 2014, pp. 24–25; Carol Ryan, "Michael Kors Pays a Lot to See If the Jimmy Choo Fits," *New York Times*, July 25, 2017, www.nytimes.com; Kyle Stock, "Michael Kors Seeks 'Jet-Set' Status Despite All-American Customers," *Bloomberg Business*, May 28, 2014, www.bloomberg.com; Lauren Thomas, "Michael Kors Shares Pop on Earnings Beat," *CNBC*, February 7, 2018, www.cnbc.com; Cotten Timberlake, "Michael Kors Wins over Europe's Fashionistas," *Bloomberg*, May 5, 2014, pp. 27–28; *WWD: Women's Wear Daily*, "A Trip with Michael to the Mainland," May 9, 2014, p. 10. This case was written by Dr. Ilke Kardes, Valdosta State University.

In international business, marketing is concerned with identifying, measuring, and responding to market opportunities abroad.[1] In this chapter, we examine company marketing activities aimed at meeting international customer needs. Marketing is a critical activity because it is the primary conduit through which the firm finds and interacts with customers abroad.

Exhibit 16.1 provides a framework for marketing activities and previews the topics of this chapter. The outer ring represents the cultural, social, political, legal, and regulatory environment of foreign markets. These environmental conditions influence the way the firm develops and adapts products. It affects product pricing, distribution, and promotional activities. In high-inflation countries, for example, management must review prices frequently. The firm must adapt the positioning or selling propositions of its products to suit local customer expectations across diverse cultures. It must ensure that its products comply with local government regulations.

Global marketing strategy
A plan of action for foreign markets that guides the firm in deciding how to position itself and its offerings, which customer segments to target, and the degree to which it should standardize or adapt its marketing program elements.

The middle ring in Exhibit 16.1 represents **global marketing strategy**—a plan of action the firm develops for foreign markets that guides managerial decision making on:

- How to position itself and its offerings.
- Which customer segments to target.
- Standardizing versus adapting marketing program elements.[2]

We investigate the balance between marketing standardization and adaptation and the development of global brands as well as the critical roles that elements of the marketing mix play. We begin by examining global market segmentation.

16.1 Explain global market segmentation.

Global Market Segmentation

Market segmentation is the process of dividing the firm's total customer base into homogeneous clusters in a way that allows management to formulate unique marketing strategies for each group. Within each market segment, customers exhibit similar characteristics, including income level, lifestyle, demographic profile, and desired product benefits. Take earthmoving equipment as an example. Caterpillar develops distinct marketing approaches for several major market segments—farmers, construction firms, the military, and others. In setting prices, Caterpillar creates value-priced tractors for farmers, moderately priced earthmoving equipment for construction firms, and high-priced, heavy-duty vehicles for the military. Caterpillar formulates relatively unique advertising and distribution approaches for each segment as well.

In international business, firms frequently formulate market segments by grouping countries based on macro-level variables, such as level of economic development or cultural dimensions. Many MNEs group Latin American countries based on a common language (Spanish) or European countries based on similar economic conditions. This approach has proven most effective for product categories in which governments play a key regulatory role (such as

EXHIBIT 16.1

Organizing Framework for Marketing in the International Firm

Global market segment
A group of customers who share common characteristics across many national markets.

telecommunications, medical products, and processed foods) or where national characteristics prevail in determining product acceptance and usage. Louis Vuitton is a leading seller of luxury fashion goods, especially handbags and luggage. The firm's main market segment is upper-middle-class and upper-class consumers worldwide who are segmented based on income. The firm targets luxury consumers through company stores in London, New York, Paris, Sydney, Tokyo, and other global hot spots.[3]

Today, firms increasingly target global market segments. A **global market segment** is a group of customers who share similar characteristics across many national markets. Firms target such buyers by using a relatively uniform marketing strategy and marketing programs. For example, the music network MTV targets a relatively homogenous youth market that exists in most of the world. This segment generally follows global media, is quick to embrace new fashions and trends, and has significant disposable income. Another global market segment is frequent business travelers. They are affluent, eager consumers of premium hotels, clothing, jewelry, and other products that represent luxury and style.

Source: Solovyov Andriy/123RF

Popular music stars such as Bruno Mars and Ariana Grande target the global market segment of young adults who love music.

A key objective in pursuing global market segments is to create a unique position in the minds of target customers. *Positioning* is a marketing strategy in which the firm develops both the product and its marketing to evoke a distinct impression in the customer's mind, emphasizing differences from competitors' offerings. In the theme park business, Disney positions itself as standing for family values and "good, clean fun" to attract families around the world.[4] Starbucks positions its products to attract customers with sophisticated tastes who do not mind paying several dollars for a cup of coffee.

In the automobile industry, BMW positions its cars as luxurious, powerful, and superior quality. Volvo positions its vehicles as good quality, safe, family-oriented, and sophisticated. Honda positions its cars as good quality, affordably priced, fuel efficient, and environmentally friendly. Hyundai cars are positioned as affordable, value-priced, reliable, and stylish.

Positioning may also evoke the specific *attributes* that consumers associate with a product. Diet Coke elicits an image of someone who wants to lose or maintain weight. When Coca-Cola first entered Japan, research revealed that Japanese women do not like products labeled "diet," nor is the population considered overweight. Thus, management altered the product's positioning in Japan by changing the name to Coke Light.

Internationalizing firms aim for a *global positioning strategy*, which positions the offering similarly in the minds of targeted buyers worldwide. Starbucks, Volvo, and Sony successfully use this approach. Consumers worldwide view these strong brands in the same way. Global positioning strategy reduces international marketing costs by addressing the shared expectations of a global customer market segment.[5]

16.2 Understand standardization and adaptation of international marketing.

Standardization and Adaptation of International Marketing

In addition to guiding targeting and positioning, a global marketing strategy also clarifies the degree to which the firm's marketing program should vary between different foreign markets. **Adaptation** refers to modifying one or more elements of the firm's international marketing program to accommodate specific customer requirements in a particular market. **Standardization** refers to making the marketing program elements uniform with a view to targeting entire regions, or even the global marketplace, with the same product or service.

Adaptation
The firm's efforts to modify one or more elements of its international marketing program to accommodate specific customer requirements in a particular market.

Standardization
The firm's efforts to make its marketing program elements uniform with a view to targeting entire regions, or even the global marketplace, with the same product or service.

In the center of Exhibit 16.1, we identify the key elements of the marketing program (sometimes referred to as the *marketing mix*) affected by the standardization/adaptation decision. These are:

- Global branding.
- Product development.
- International pricing.
- International marketing communications.
- International distribution.

In the international context, marketing strategy tackles the complexity of having both global and local competitors as well as cross-national differences in culture, language, living standards, economic conditions, regulations, and quality of business infrastructure. A key challenge is to resolve the trade-offs between standardization and adaptation.

When they enter international markets, managers undertake a broad corporate strategy in which they attempt to strike an ideal balance between *global integration* and *local responsiveness.* As discussed in Chapter 11, global integration seeks cross-national synergy in the firm's value-chain activities to take maximum advantage of similarities between countries, whereas local responsiveness aims to meet the specific needs of buyers in individual countries. How the firm resolves the balance between global integration and local responsiveness also affects how it makes standardization and adaptation decisions in its marketing program elements.

Exhibit 16.2 highlights the trade-offs between standardization and adaptation in international marketing. Let's examine the advantages of each approach.

Standardization

Standardization represents a tendency toward global integration and is more likely to be pursued in global industries such as aircraft manufacturing, pharmaceuticals, and credit cards. Airbus,

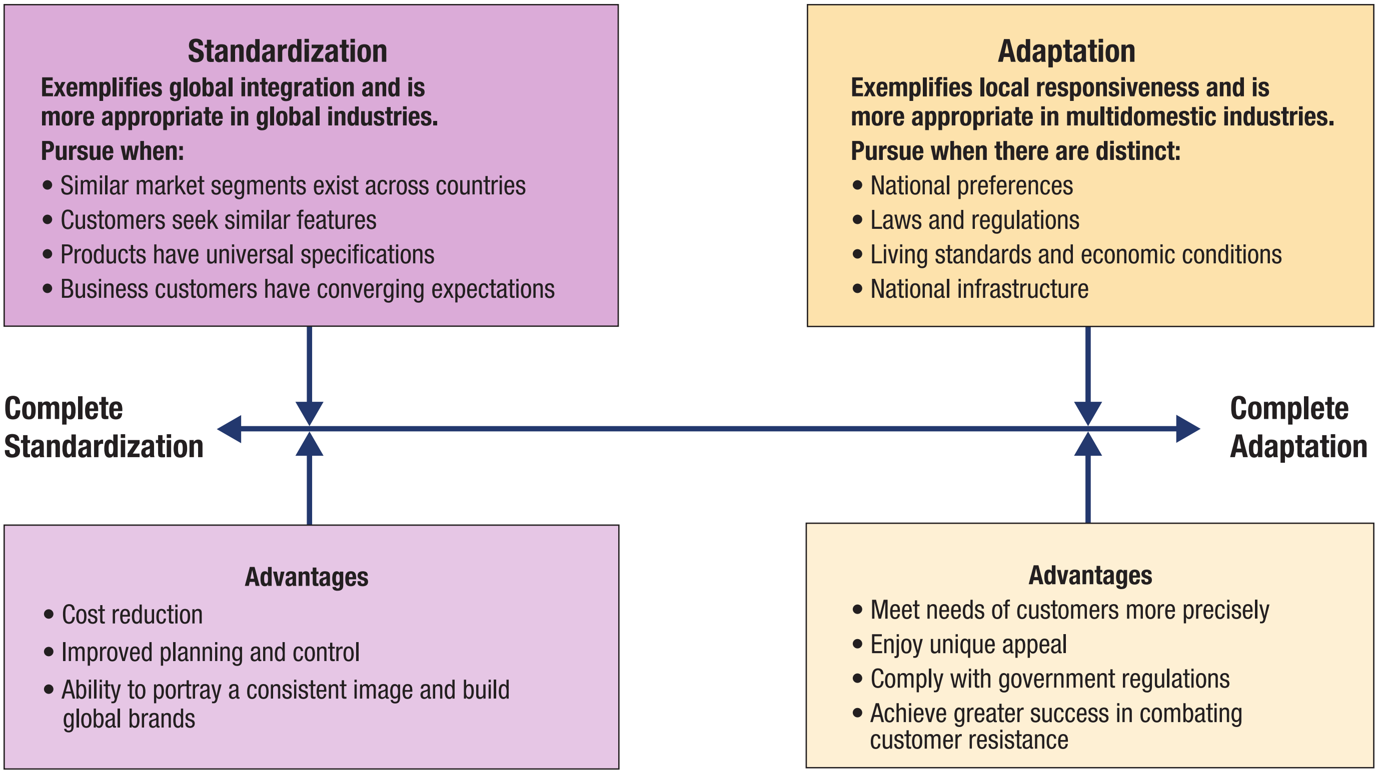


EXHIBIT 16.2

Trade-Offs Between Adaptation and Standardization of International Marketing Program

Pfizer, and MasterCard use a standardized marketing strategy with great success. Their offerings are largely uniform across many markets worldwide. A standardized marketing approach is most appropriate when market segments and customer needs are consistent across numerous countries. Products that feature universal specifications are also candidates for a standardized approach. In industrial sales, businesses often prefer parts and components of similar specifications, quality and performance, and other product attributes.

The feasibility of standardization varies across industries and product categories. Commodities, industrial equipment, and technology products lend themselves to a high degree of standardization. Popular consumer electronics such as Apple's iPhone, Samsung's Galaxy smartphone, and Canon digital cameras, as well as well-known fashion accessories such as Rolex watches and Michael Kors handbags, are largely standardized around the world. Automotive parts, building materials, dinnerware, and basic food ingredients are other products that require little or no adaptation.

Advertising may be standardized too. One TV ad featured an attractive 25-year-old British woman eagerly anticipating a scoop of Haagen-Dazs ice cream. The same ad was broadcast worldwide, with voice-overs in French, Portuguese, Spanish, and Mandarin Chinese.[6] Gillette sells shaving products, uses uniform marketing in all the countries where it does business, and often introduces them with simultaneous global launches under universal brand names such as Sensor and Fusion. Gillette's global approach has achieved an impressive 70 percent global market share while minimizing marketing and distribution costs.[7]

When managers build on commonalities in customer preferences and attempt to standardize their international marketing program, they can expect at least three major benefits.

- *Cost reduction.* Standardization reduces costs by making possible economies of scale in design, sourcing, manufacturing, and marketing. Offering a similar marketing program to the global marketplace or across entire regions is more efficient than having to adapt products for each market. Electrolux (based in Sweden, www.electrolux.com) once made hundreds of refrigerator models to accommodate the diverse tastes and regulatory requirements of each country in Europe. As product standards and tastes gradually

Source: Augustin Lazaroiu/123RF

Luxury products such as Rolex watches and Gucci clothing are largely standardized around the world. Pictured is the Champs-Élysées in Paris, one of the world's most luxurious shopping streets.

harmonized across the European Union, Electrolux was able to reduce the number of its refrigerator models to a few dozen. This enabled Electrolux to consolidate manufacturing facilities and streamline its marketing activities across the EU. The resulting consolidation saved Electrolux millions of euros. Electrolux used the money to invest in R&D to develop advanced features and superior technology.

- *Improved planning and control.* Standardization reduces the complexity of planning and control of value-adding activities. The ability to offer fewer products allows Electrolux to simplify quality control and reduce the number of replacement parts it needs to stock. Marketing activities are also simplified. Instead of designing a unique marketing campaign for each country in Europe, the firm can simultaneously offer a relatively standardized campaign for numerous countries.
- *Ability to portray a consistent image and build global brands.* A brand is a name, sign, symbol, or design intended to identify the firm's product and to differentiate it from those of competitors. A **global brand** is one whose positioning, advertising strategy, look, and personality are standardized worldwide. Global branding increases customer interest and reduces the confusion that can arise when the firm offers numerous adapted products and marketing programs.[8]

Global brand
A brand whose positioning, advertising strategy, look, and personality are standardized worldwide.

Read the *You Can Do It: Recent Grad in IB* story about John Dykhouse to learn how working in brand strategy and marketing can provide the basis for an exciting international business career.

Adaptation

Although firms usually prefer to standardize their products, adaptation is often necessary due to differences across countries in language, culture, regulation, economic conditions, and other factors. Adaptation is useful in *multidomestic industries* such as publishing and software, which tailor their offerings to suit individual markets. It may be as straightforward as translating labels, instructions, or books into a foreign language or as complex as completely modifying a product to fit unique market conditions. Local adaptation can provide the marketer with important advantages. When the firm emphasizes adaptation in international marketing, it seeks to meet the needs of local customers more precisely and create unique appeal for its products. The presence of numerous local competitors may force the firm to accommodate local consumer needs more closely. Adaptation also is frequently driven by the need to comply with local regulations. Let's delve more deeply into the specific rationale that drives firms to adapt marketing program elements.

- *Differences in national preferences.* Companies adapt their products to suit the specific, unique wants and needs of customers in individual markets. For example, Häagen-Dazs operates more than 900 ice cream shops in 50 countries. In Japan, customers favor green tea–flavored ice cream. In Latin America, *dulce de leche* flavor is preferred. Customers in France enjoy ice cream chocolate fondue. In China, shops feature ice cream and mooncakes to celebrate the lunar festival popular in Chinese culture.[9]

  When *The Simpsons* cartoon series was broadcast in Saudi Arabia, it was adapted for language and local Islamic culture. The show was renamed *Al Shamshoon*, Homer Simpson's name was changed to "Omar," and Bart Simpson became "Badr." In addition to translating the show into Arabic, producers had to address the way the Simpson daughter and mother dress. Producers removed references to potentially offensive practices such as consuming pork and beer. *The Simpsons* is broadcast around the world and dubbed in numerous languages, including Czech, Italian, Portuguese, and Spanish. In France all the characters speak standard French. The cartoon was localized by adopting some French stereotypes—Homer eats snails, and Bart tries to make goose liver pate by choking a live goose.[10]

McDonald's has been able to standardize its hamburgers across most world markets but not all. Some cultures and religions shun the consumption of beef. McDonald's substitutes lamb or chicken in its burgers in some markets such as India. It also adds additional items such as *kofte* burgers (hamburger with special spices) in Turkey. In Hong Kong, burgers are sandwiched between buns made of glutinous rice. McDonald's outlets in Norway serve McLaks, a grilled salmon sandwich with dill sauce. In Berlin, consumers can savor a beer with their double cheeseburgers and fries. In some Arab countries, the McArabia, a spicy chicken filet on flatbread, has been a success. Customers in France can get a burger on a baguette bun.[11]

- *Differences in living standards and economic conditions.* Because income levels vary greatly worldwide, firms frequently adjust the pricing and the complexity of their product offerings for individual markets. In China, IKEA reduced prices on its furniture to make it more affordable for lower-income segments. Dell sells less-expensive, simplified versions of its computers in developing economies. Inflation and economic recessions also influence pricing policy. A recession signals a drop in consumer confidence, and firms may need to reduce prices to generate sales, which will also reduce profits. Companies will do this, short term, to maintain market share. High inflation can rapidly erode profits even as prices rise. Exchange rate fluctuations also necessitate adjustments. When the importing country currency is weak, the purchasing power of its consumers is reduced.[12]
- *Differences in laws and regulations.* Germany, Norway, and Switzerland are among the countries that restrict advertising directed at children. Packaged foods in Europe are often labeled in several languages, including English, French, German, and Spanish. In Quebec, Canada's French-speaking province, local law requires product packaging to be in both English and French. In some markets, the use of certain sales promotion activities such as coupons and sales contests is restricted.
- *Differences in national infrastructure.* The quality and reach of transportation networks, marketing intermediaries, and overall business infrastructure influence the marketing communications and distribution systems that firms employ abroad. Infrastructure is poor in many rural parts of developing economies. This necessitates innovative approaches for getting products to customers. Road and rail networks in many parts of western China are underdeveloped. Firms use small trucks to reach retailers in the outlying communities of these areas. Undeveloped media also require substantial adaptations to carry marketing communications. In rural regions of Vietnam, most consumers cannot access television, magazines, or the Internet. Radio, billboards, and brochures are favored for targeting low-income buyers.

Adaptation also provides managers an opportunity to explore alternate ways of marketing the product or service. What they learn in the process can guide R&D efforts, often leading to superior products for sale abroad and at home. Products developed or modified for foreign markets sometimes prove so successful that they are launched as new products in the firm's home market. After developing an inexpensive, battery-powered electrocardiograph machine for doctors in China and India, General Electric realized the device's potential for advanced economies and began marketing it to rural clinics and visiting nurses in the United States.[13]

Source: Jaroslav Frank/123RF

Smartphones, tablets, and other popular consumer electronics have a worldwide following and require little adaptation from country to country.

Standardization and Adaptation: A Balancing Act

A managerial decision about standardization and adaptation is not an either-or decision but, rather, a balancing act. There are good arguments and outcomes that favor both options; it is up to senior marketing managers and the global new-product planning team to sort out the trade-offs, given the distinctive environments where the firm operates.

Perhaps the most important distinction between standardization and adaptation is that standardization

You Can Do It

RECENT GRAD IN IB

JOHN DYKHOUSE

John's major: Bachelor of business administration (International Business, Marketing)
Objectives: Inspiration, business success, adventure, a global outlook on life, community involvement, and helping others achieve their goals
Internships during college: Nonprofit marketing; business innovations for a large consumer packaged goods firm
Jobs held since graduating:

- Associate brand manager, Amway Corporate Marketing, Nutrition Brands
- Brand manager, Amway Corporate Marketing, Nutrition Brands
- Trade development manager, Amway Global, Health Brands
- Senior global product marketing manager—KitchenAid Small Appliances, Whirlpool Corporation

A single decision made in the blink of an eye can shape your life. As an undergraduate, John Dykhouse decided to study abroad in Grenoble, France, for one year. John notes, "For the first time, I understood that learning a new culture and language doesn't open doors just to communication, but to a new way of thinking."

Upon graduation, the combination of international experience and several marketing-related internships helped John obtain a position at Amway Corporation. Over time, he became associate brand manager with Nutrilite, a brand of vitamins, minerals, and dietary supplements sold in many countries worldwide. His job responsibilities included managing several product categories within the brand, managing a global product portfolio, marketing communications, and pricing, to name a few.

Within two years, John was offered the position of brand manager. With this new role came a shift into the world of athletic sponsorships. The position gave John the chance to work with professional athletes and their agencies to develop their brands further through awareness-generating sponsorships and events around the world. His work brought John back to Europe many times, as well as to Korea and Japan, to perform various functions in the corporate strategy he helped create. John worked in trade development to create training tools, product campaigns, and digital strategies. Most recently, John worked as a senior global product marketing manager in the KitchenAid Small Appliances division of Whirlpool Corporation, where he was responsible for product innovation and marketing.

John's Advice for Career Success

- Be a good oral and written communicator. With international work, think about when to use simplified English and be brief.
- Be persistent. Many people give up on the first, second, or even third try. You will likely make a few blunders during an international career. Treat these as learning experiences and move on—just don't make them again.
- Find a great mentor and learn from him or her.
- Be a team player. You will likely work with people who come from cultures you don't completely understand. Make sure you explore diverse and multicultural environments and learn what is behind others' opinions, be respectful, and at times, be cautious.
- Be curious. Take in the sights, sounds, people, and even some smells of the places you visit.
- Don't skip lunch. Although it's tempting to sit at a desk to work through lunch, it is better to lunch with mentors and colleagues—you will have very productive discussions, helping you navigate through challenges in your career.

Source: Photo courtesy of John Dykhouse.

helps the firm cut costs, whereas local adaptation helps the firm more precisely cater to local needs and requirements. However, adaptation is costly and time-consuming, often requiring substantial modifications to product design, manufacturing, pricing, distribution, and communications. Thus, managers usually prefer standardization. Many firms adapt marketing program elements *only when necessary* to respond to local customer preferences and mandated regulations. Unilever streamlined the number of its brands from more than 1600 to about 400, and consolidated its marketing campaigns. However, the firm had to retain many local adaptations to suit individual markets.[14]

In many cases, for a given product or service, managers both standardize and adapt in varying degrees. Some marketing mix elements are standardized, some are localized, and others require a team-based solution developed among corporate, regional, and local decision makers. For example, the firm might offer a standardized product worldwide but modify its pricing or advertising for different markets. Management decides not only *what* elements to adapt but also *how much* to adapt them. IKEA offers uniform products across its markets while modifying, say, the size of beds or chests of drawers in individual countries. It emphasizes its catalog as the principal promotional tool worldwide but supplements it with local TV advertising in some major markets.

Companies rarely find it feasible or practical to follow a one offering–one world strategy across *all* dimensions of the marketing program. Automakers tried for years to market a world car that met customer preferences everywhere and that complied with various governments' safety specifications. Ambitious experiments such as the Ford Mondeo failed to meet the approval of customers and regulatory bodies around the world. Ford was forced to modify its design to accommodate climate and geography (which affected engine specifications), government emissions standards, gas prices, and customer preferences for frills such as cupholders.

As a compromise, some firms pursue standardization as part of a *regional* strategy, formulating international marketing elements to exploit commonalities across a geographic region instead of the whole world. General Motors markets distinctive car models for China (Excelle, Sail), Europe (Corsa, Mokka), and North America (Silverado, Escalade). A regional marketing approach is often appropriate in industries where the following conditions are present.

- Buyer preferences and product standards have converged at the regional level.
- Media and distribution channels are organized on a regional basis.
- Countries in target regions have formed regional economic integration blocs.[15]

Global Branding and Product Development

16.3 Describe global branding and product development.

Global marketing strategy poses unique challenges and opportunities for managers, especially in branding and product development. Let's examine these topics.

Global Branding

A key outcome of a global positioning strategy is the development of a global brand. Well-known global brands include Hollywood movies (*Spider-Man*), pop stars (Lady Gaga), personal care products (Gillette Fusion), toys (Barbie), credit cards (Visa), food (Cadbury chocolate), beverages (Coca-Cola), furniture (IKEA), and consumer electronics (iPad).[16] Consumers frequently prefer globally branded products because global branding provides a sense of trust and confidence in their purchasing.[17]

A strong global brand:

- Increases the efficiency and effectiveness of marketing programs.
- Stimulates brand loyalty.
- Allows the firm to charge premium prices.
- Increases the firm's leverage with intermediaries and retailers.
- Enhances the firm's competitive advantage in global markets.[18]

The firm can reduce its marketing and advertising costs by concentrating on a single global brand instead of on numerous national brands. The strength of a global brand is best measured by its *brand equity*—the market value of the brand. Exhibit 16.3 provides brand equity figures for selected global brands.

The most successful global brands tend to have several of the following characteristics.

- High, conspicuous visibility such as consumer electronics and jeans
- Status symbols, such as cars and jewelry
- Widespread appeal, due to innovative features that seem to fit everyone's lifestyle, such as mobile phones, credit cards, and cosmetics
- Close identification with a particular country such as Levi's (U.S. style) and IKEA furniture (Scandinavian style)

Still, in other cases, global brands reap the benefits of first-mover advantages in offering new and novel products or services. In 1971, the first Starbucks opened in Seattle, Washington, and offered freshly brewed coffee in a comfortable setting that encouraged people to sit and relax. Fashionable shoppers worldwide favor distinctive Louis Vuitton handbags and accessories. Samsung propelled itself into consumer electronics with unique design and leading-edge technology.

Developing and maintaining a global brand name is one of the best ways for firms to build global recognition. The Eveready Battery Co. consolidated its various national brand names—such

EXHIBIT 16.3

Top Global Brands, by Region

Sources: Based on Forbes, "The World's Most Valuable Brands: 2017 Ranking," www.forbes.com; Interbrand, www.interbrand.com; and Hoovers.com company profiles, www.hoovers.com.

Company	Brand Value (US$ billions)	Country of Origin	Main Product or Service
Asian Brands			
Toyota	$41	Japan	Automobiles
Samsung	38	South Korea	Consumer electronics
Honda	24	Japan	Automobiles
Lexus	9	Japan	Automobiles
Nissan	9	Japan	Automobiles
European Brands			
Mercedes-Benz	29	Germany	Automobiles
Louis Vuitton	29	France	Fashion accessories
BMW	29	Germany	Automobiles
SAP	24	Germany	Software
Nescafe	17	Switzerland	Beverages
L'Oréal	16	France	Cosmetics
U.S. Brands			
Apple	170	United States	Technology
Google	102	United States	Internet services, software
Microsoft	87	United States	Internet services, software
Facebook	74	United States	Technology
Coca-Cola	56	United States	Beverages

as Ucar, Wonder, and Mazda—into one global brand name, Energizer. The move increased the efficiency of Eveready's marketing efforts worldwide. Although most managers conceive brands for a national market and then internationalize them, the preferred approach is to build a global brand from the beginning with input from all major markets. Several firms have succeeded in this approach, including Japan's Sony Corporation. "Sony" was derived from the Latin for "sound." The Japanese car company Datsun switched its name to Nissan to create a unified global brand worldwide.[19]

Global branding also helps the MNE compete more effectively with popular local brands that appeal to buyers' sense of local tradition, pride, and preference. In Peru, Inca Kola was long a successful local brand that established itself as Peru's Drink. Its experience reveals how local brands can be vulnerable to the market power of strong global brands. Coca-Cola purchased 50 percent of the Inca Kola Corporation. Coca-Cola and Inca Kola each have about 30 percent of the Peruvian market, giving Coca-Cola an edge because it owns half the other brand.

Global Product Development

In developing products with multicountry potential, managers emphasize their commonalities across countries rather than the differences between them.[20] A basic product will incorporate only core features into which the firm can inexpensively implement variations for individual markets. For example, although the basic computers that Dell sells worldwide are essentially identical, the letters on its keyboards and the languages used in its software are unique to countries or major regions. Many firms design products by using *modular architecture*, a collection of *standardized* components and subsystems that they can rapidly assemble in various configurations to suit the needs of individual markets. Honda and Toyota design models such as the Accord and Corolla around a standardized platform to which modular components, parts, and features are added to suit specific needs and tastes.

The cosmetics firm L'Oréal develops new products through its Research and Innovation Group, concentrated at headquarters in Paris. Each year, the center's staff of 80 develops more than 1000 new products for Lancôme, Armani, Maybelline, and other L'Oréal brands. L'Oréal systematically recruits and builds teams around managers experienced and knowledgeable about the norms and tastes of multiple cultures. For example, a team consisting of three researchers working on women's hair-care products might include a Lebanese-Spanish-American manager in charge of hair color and a French-Irish-Cambodian in charge of hair care. Team members share offices so they can exchange ideas. By centralizing R&D and drawing on knowledge from the firm's six key areas—Europe, United States, Japan, China, Brazil and India—L'Oréal develops new products that reflect tastes in major markets and facilitate global marketing. L'Oréal's centralized teams of multicultural managers leverage continuous knowledge-based interactions to produce a stream of new products every year.[21]

A *global new-product planning team* is a group of product managers who represent the firm's leading country markets. Certain elements of the product as well as marketing and advertising plans are decided centrally at the corporate level. Other elements are approved for local adaptation based on financial, legal or cultural necessities. Some elements are decided jointly by both the corporate brand team and the local country brand managers. Product launch may be simultaneous across numerous countries or done sequentially. Sequential release implies launching a product one country at a time and is often preferred for products that require local adaptation. Some firms launch a new product in high-priced markets first and then gradually enter lower-priced markets. This helps reduce potential consumer objections to higher prices.

Global new-product planning teams formulate best practices that the firm implements in all its units worldwide. These teams assemble employees with specialized knowledge and expertise from various geographically diverse units of the MNE. The teams then collaborate to develop products that address needs or problems common to the firm's major international markets. For example, the iXi Bike was designed by a team from France, the United Kingdom, and the United States for France's iXi Bicycle Company. The bike fits easily into the trunk of a small car. The Logiq & Vivid E9 is a mobile ultrasound system developed by a global team from France, Japan, and the United States. Used for medical examinations, the ergonomic equipment offers substantial efficiency with minimal environmental impact. A global new-product planning team from the Netherlands and the United States created the Nuance Syringe, an electronic needle used to repair teeth.[22]

International Pricing

16.4 Explain international pricing.

Pricing is complex. It is particularly challenging in international business, with multiple currencies, trade barriers, added costs, diverse regulations, and typically longer distribution channels. Given lower incomes in much of the world, firms often feel pressure to lower prices. Conversely, prices tend to escalate because of tariffs, taxes, and higher markups by foreign intermediaries. Price variations among different countries can lead to **gray market activity**—legal importation of genuine products into a country by intermediaries other than authorized distributors (also known as 'parallel imports'). We discuss gray markets later in this chapter.[23]

Gray market activity Legal importation of genuine products into a country by intermediaries other than authorized distributors (also known as parallel imports).

Prices influence customers' perception of value, determine the level of motivation of foreign intermediaries, affect promotional spending and strategy, and compensate for weaknesses in other elements of the marketing mix. Let's explore the unique aspects of international pricing.

Factors That Affect International Pricing

Factors that influence international pricing fall into four categories.

- *Nature of the market.* Buyers' income level and demographic profile are major factors that influence their ability to pay for products and services. Most consumers in emerging markets and developing economies lack significant disposable income. Firms must set lower prices to generate significant product sales. Local regulation, climate, infrastructure, and other factors often drive the firm to modify products, communications, and other marketing elements. Such adjustments cost money. Food items shipped to hot climates require refrigeration, which drives up costs. In countries with many rural residents or those with poor distribution systems, delivering products to widely dispersed customers necessitates higher pricing because of steeper shipping costs. In addition, foreign governments impose tariffs, taxes, or other costs that lead to higher prices. Foreign governments also enforce health rules, safety standards, and other regulations that increase the cost of doing business locally. The federal government in Canada and many countries in Europe impose price limits on prescription drugs, which reduces pharmaceutical firms' pricing flexibility.

- *Nature of the product or industry.* Products with substantial added value—such as cars or high-end computers—usually necessitate charging relatively high prices. A specialized product, or one with a technological edge, gives a company greater price flexibility. When the firm holds a relative monopoly in a product (such as Microsoft operating system software), it can generally charge premium prices.
- *Type of distribution system.* Firms that export rely on independent distributors based abroad. Distributors often modify pricing to suit their own goals. Some distributors mark up prices substantially, which can harm the exporter's image and pricing strategy in the market. By contrast, when the firm internationalizes through FDI by establishing company-owned marketing subsidiaries abroad, management maintains control over pricing strategy. Firms that sell directly to end users also control their pricing and can quickly make adjustments to suit local conditions.
- *Location of the production facility.* Locating manufacturing in those countries with low-cost labor enables a firm to charge lower prices. Locating factories in or near major markets cuts transportation costs and may reduce problems that foreign exchange fluctuations can create. Daimler established a factory in Hungary to produce Mercedes-Benz cars. Wages are one-fifth those in Germany, Daimler's home country. Major markets in Western Europe are only a few hours away by truck and rail. Achieving lower manufacturing costs helps Daimler compete more effectively with rival BMW.[24]

Exhibit 16.4 lists internal and external factors that influence how firms set international prices. Internally, management accounts for its own objectives regarding profit and market share, the cost of goods sold, and the degree of control desired over international pricing. Externally,

EXHIBIT 16.4

Internal and External Factors That Affect International Pricing

Internal to the Firm

- Management's profit and market share expectations
- Cost of manufacturing, marketing, and other value-chain activities
- The degree of control management desires over price setting in foreign markets

External Factors

- Customer expectations, purchasing power, and sensitivity to price increases
- Nature of competitors' offerings, prices, and strategy
- International customer costs
    - Product/package modification; labeling and market requirements
    - Documentation (certificate of origin, invoices, banking fees)
    - Financing costs
    - Packing and container charges
    - Shipping (inspection, warehousing, freight forwarder's fee)
    - Insurance
- Landed cost
    - Tariffs (customs duty, import tax, customs clearance fee)
    - Warehousing charges at the port of import; local transportation
- Importer's cost
    - Value-added tax and other applicable taxes paid by the importer
    - Local intermediary (distributor, wholesaler, retailer) margins
    - Cost of financing inventory
- Anticipated fluctuations in currency exchange rates

management must account for customer characteristics, competitor prices, exchange rates, tariffs, taxes, and costs related to generating international sales as well as transporting and distributing the goods. Many countries in Europe and elsewhere charge value-added taxes (VATs) on imported products. Unlike a sales tax, which is calculated based on the retail sales price, the VAT is determined as a percentage of the gross margin—the difference between the sales price and the cost to the seller of the item sold. In the EU, for example, VAT rates range between 15 and 25 percent, which adds substantially to local prices.

Framework for Setting International Prices

Managers examine the suitability of prices at several levels in the international distribution channel—importers, wholesalers, retailers, and end users—and then set prices accordingly. Exhibit 16.5 presents a systematic approach for managers to use in setting international prices.[25]

Let's illustrate the international pricing framework with an example. Suppose a leading U.S. musical instrument manufacturer, Melody Corporation, wants to begin exporting electric guitars to Japan and needs to set prices. Melody decides to export its John Mayer brand of guitar, which retails for $2,000 in the United States. Initial research reveals that additional costs of shipping, and insurance, and a 5 percent Japanese tariff will add a total of $300 to the price of each guitar, bringing the total landed price to $2,300. Melody has identified an importer in Japan, Aoki Wholesalers, which wants to add a 10 percent profit margin to the cost of each imported guitar. Thus, the total price once a guitar leaves Aoki's Japan warehouse is $2,530. This is the *floor price*, the lowest acceptable price to Melody, because management doesn't want Japanese earnings to dip below those in the United States.

Next, market research on income levels and competitor prices reveals that Japanese musicians are willing to pay prices about 30 percent above typical U.S. prices for high-quality instruments. Given this information, Melody management believes Japan can sustain a ceiling price for the Mayer guitar of $2,600. Additional research provides estimates for Melody's sales potential at the floor price and at the ceiling price. Managers eventually decide on a suggested retail

Step 1. Estimate the "landed" price of the product in the foreign market by totaling all costs associated with shipping the product to the customer's location.

Step 2. Estimate the price the importer or distributor will charge when it adds its profit margin.

Step 3. Estimate the target price range for end users. Determine:
- Floor price (lowest acceptable price to the firm, based on cost considerations)
- Ceiling price (highest possible price, based on customer purchasing power, price sensitivity, and competitive considerations)

Step 4. Assess the company sales potential at the price the firm is most likely to charge (between the floor price and ceiling price).

Step 5. Select a suitable pricing strategy based on corporate goals and preferences from:
- Rigid cost-plus pricing
- Flexible cost-plus pricing
- Incremental pricing

Step 6. Check consistency with current prices across product lines, key customers, and foreign markets (in order to deter potential gray market activity).

Step 7. Implement pricing strategy and tactics, and set intermediary and end-user prices. Then, continuously monitor market performance and make pricing adjustments as necessary to accommodate evolving market conditions.

EXHIBIT 16.5
Key Steps in International Price Setting

price of $2,560. Research has revealed this is the most appropriate price in light of factors in Japan such as local purchasing power, size of the market, market growth, competitors' prices, and Japanese attitudes on the relationship of price to product quality. Management also feels the price is reasonable given Melody's pricing in other markets, such as Hawaii and Australia. Accordingly, the firm implements the price level for end users and the corresponding price for Aoki, the importer. Melody begins shipping guitars to Japan and monitors the marketplace, tracking demand and the need to adjust prices in light of demand, economic conditions, and other emergent factors.

Step 5 in Exhibit 16.5 identifies three common pricing strategies in international business.

- *Rigid cost-plus pricing* refers to setting a fixed price for all export markets. It is an approach favored by less experienced exporters. In most cases, management simply adds a flat percentage to its domestic price to compensate for the added costs of doing business abroad. The final price to the customer includes a markup to cover transporting and marketing the product as well as profit margins for both intermediaries and the manufacturer. A key disadvantage of this method is that it may fail to account for local market conditions such as buyer demand, income level, and competition.
- *Flexible cost-plus pricing* is used when management includes any added costs of doing business abroad in its final price. Management also accounts for local market and competitive conditions, such as customer purchasing power, demand, competitor prices, and other external variables, as identified in Exhibit 16.4. This approach is more sophisticated than rigid cost-plus pricing because it accounts for specific circumstances in the target market. For example, the fashion retailer Zara uses this approach, adapting prices to suit conditions in each of the countries where it does business.
- *Incremental pricing* refers to setting prices to cover only the firm's variable costs but not its fixed costs. Here, management assumes fixed costs are already paid from sales of the product in the firm's home country or other markets. The approach enables the firm to offer competitive prices, but it may result in suboptimal profits. When carried to an extreme, incremental pricing may invite competitors to accuse a company of *dumping*—charging a lower price for exported products, sometimes below manufacturing cost, potentially driving local suppliers out of business. Dumping may be regarded as unfair or illegal, leading to sanctions from the World Trade Organization (www.wto.org).

Managing International Price Escalation

International price escalation
The problem of end-user prices reaching exorbitant levels in the export market, caused by multilayered distribution channels, intermediary margins, tariffs, and other international customer costs.

International price escalation refers to the problem of end-user prices reaching exorbitant levels in the export market, caused by multilayered distribution channels, intermediary margins, tariffs, and other international customer costs (identified in Exhibit 16.4). International price escalation means the retail price in the export market can be much higher than the price in the firm's home market, creating a competitive disadvantage for the exporter. Corporations can use five key strategies to combat export price escalation abroad, which we review next.[26]

- *Shorten the distribution channel* to establish a more direct route to reach the final customer by bypassing some intermediaries in the channel. With a shorter channel, there are fewer intermediaries to compensate, which reduces the product's final price.
- *Redesign the product* to remove costly features. Whirlpool developed a no-frills, simplified washing machine that it manufactures inexpensively and sells for a lower price in developing economies.
- *Ship products unassembled,* as parts and components, to qualify for lower import tariffs. Then perform final assembly in the foreign market, ideally by using low-cost labor. Some firms have their product assembled in foreign trade zones, where import costs are lower and government incentives may be available.
- *Reclassify the exported product* to qualify for lower tariffs. Suppose Motorola faces a high tariff when exporting telecommunications equipment to Bolivia. By having the product reclassified as computer equipment, Motorola might be able to export the product under a lower tariff. The practice is possible because imported products often fit more than one product category for determining tariffs.
- *Move production or sourcing to another country* to take advantage of lower production costs, favorable currency rates, or lower tariffs.[27]

Managing Pricing Under Varying Currency Conditions

In export markets, a strong domestic currency can reduce competitiveness, whereas a weakening domestic currency makes the firm's foreign pricing more competitive. Exhibit 16.6 presents various firm responses to a weakening or appreciating domestic currency.[28]

Transfer Pricing

Transfer pricing, or intra-corporate pricing, refers to the practice of pricing intermediate or finished products exchanged among the subsidiaries and affiliates of the same corporate family located in different countries.[29] For example, when the Ford auto parts plant in South Africa sells parts to the Ford factory in Spain, it charges a transfer price for this intra-corporate transaction. This price generally differs from the market prices Ford charges its usual customers.

Transfer pricing
The practice of pricing intermediate or finished products exchanged among the subsidiaries and affiliates of the same corporate family located in different countries.

MNEs such as Ford manage their internal prices primarily for two reasons.[30] First, it gives them a way to repatriate—that is, bring back to the home country—the profits from a country that restricts MNEs from taking their earnings out, often due to a shortage of its own currency. High prices charged to its foreign affiliate serve as an alternative means of transferring money out of the affiliate's country. The strategy works because controls imposed on money transferred in this way are not normally as strict as controls imposed on straight repatriation of profits.

Second, transfer pricing can help MNEs shift profits out of a country that has high corporate income taxes into a country with low corporate income taxes to increase companywide profitability. In this case, the MNE may opt to maximize the expenses (and therefore minimize the profits) of the foreign-country affiliate by charging high prices for goods sold to the affiliate. MNEs typically centralize transfer pricing under the direction of the chief financial officer at corporate headquarters.

Consider Exhibit 16.7 for a simple illustration of transfer pricing. A subsidiary may buy or sell a finished or intermediate product from another affiliate below cost, at cost, or above cost. Suppose the MNE treats Subsidiary A as a favored unit. That is, Subsidiary A is allowed to *source at or below cost* and *sell at a relatively high price* when transacting with other subsidiaries. Over time, Subsidiary A will achieve superior financial results at the expense of Subsidiaries B, C, and D. Why would the MNE headquarters allow this? In general, headquarters would do this to optimize profits of the firm as a whole. A subsidiary would receive such a favorable treatment if it is located in a country with:

- Lower corporate income-tax rates.
- High tariffs for the product in question.
- Favorable accounting rules for calculating corporate income.

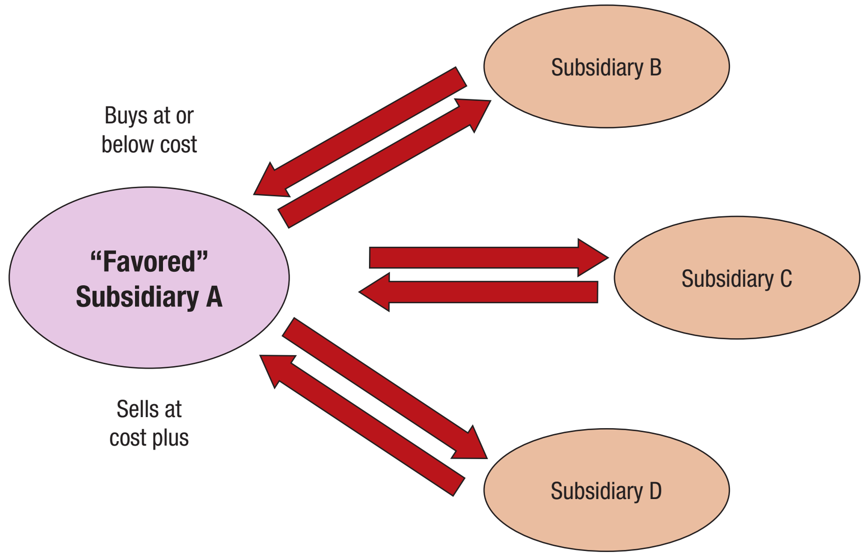
EXHIBIT 16.6

Strategies for Dealing with Varying Currency Conditions

When the exporter gains a price advantage because its home-country currency is weakening relative to the customer's currency, then it should:	When the exporter suffers from a price disadvantage because its home-country currency is appreciating relative to the customer's currency, then it should:
Stress the benefits of the firm's low prices to foreign customers.	Accentuate competitive strengths in nonprice elements of exporter's marketing program, such as product quality, delivery, and services.
Maintain normal price levels, expand the product line, or add more costly features.	Consider lowering prices by improving productivity, reducing production costs, or eliminating costly product features.
Exploit greater export opportunities in markets where this favorable exchange rate exists.	Concentrate exporting to those countries whose currencies have not weakened in relation to the exporter.
Speed repatriation of foreign-earned income and collections.	Maintain foreign-earned income in the customer's currency and delay collection of foreign accounts receivable (assuming the customer's currency likely will regain strength over a reasonable time period).
Minimize expenditures in the customer's currency (for example, for advertising and local transportation).	Maximize expenditures in the customer's currency.

EXHIBIT 16.7

How Transfer Pricing Can Help Maximize Corporate-Wide Reported Earnings



- Political stability.
- Little or no restrictions on profit repatriation.
- Strategic importance to the MNE.

Although the subsidiary's financial performance has been boosted in an artificial way, the earnings of the MNE as a whole are optimized. However, this benefit frequently comes at a cost. First, there is the complication of internal control measures. Manipulating transfer prices may make it more difficult to determine the true profit contribution of a subsidiary. Second, some subsidiary managers may react negatively to price manipulation. Third, as local businesses, subsidiaries must abide by local accounting rules. Legal problems will arise if they follow accounting standards the host government doesn't accept. Indeed, governments often scrutinize MNE transfer pricing practices to ensure that foreign firms pay their fair share of taxes by reporting accurate earnings. Thus, transfer pricing must be managed with great care.

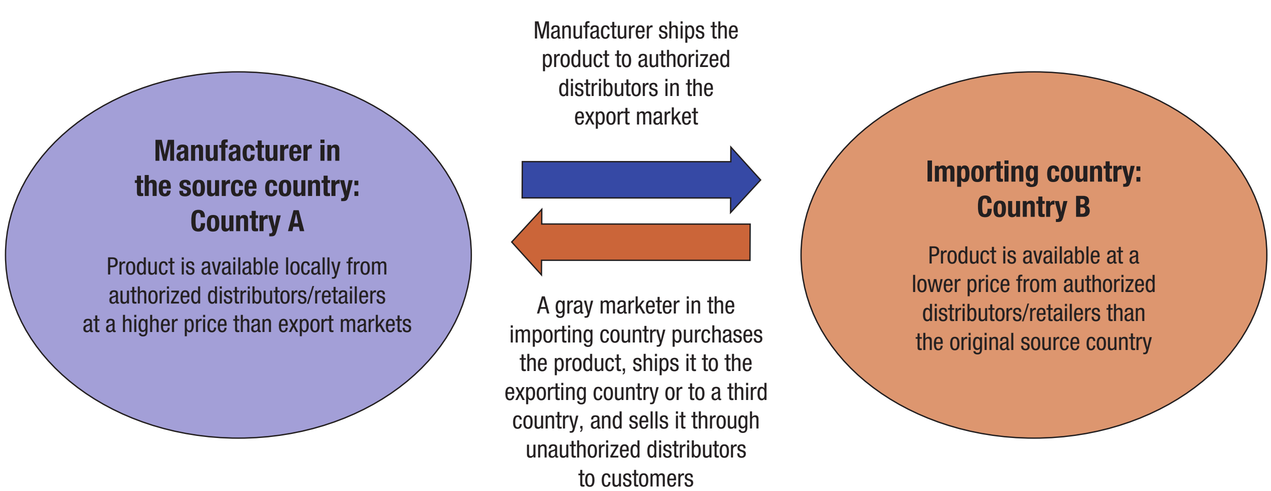
Gray Market Activity (Parallel Imports)

Caterpillar, Duracell, Gucci, and Sony all have been the target of gray market activity. Exhibit 16.8 illustrates the nature of flows and relationships in gray market activity—the legal importation of genuine products into a country by intermediaries who are not authorized distributors.[31]

Consider a manufacturer that produces its products in one country and exports them to another, illustrated by the green arrow between countries A and B in Exhibit 16.8. If the going

EXHIBIT 16.8

Illustration of Gray Market Activity



price of the product happens to be sufficiently lower in Country B, then gray market brokers can exploit arbitrage opportunities—buy the product at a low price in Country B, import it into the original source country, and sell it at a high price there, illustrated by the orange arrow.

In this scenario, the first transaction, illustrated by the upper arrow, is carried out by authorized channel intermediaries. The second transaction, illustrated by the orange arrow, is carried out by unauthorized intermediaries. Often referred to as *gray marketers*, the unauthorized intermediaries are typically independent entrepreneurs. Because their transactions parallel those of authorized distributors, gray market activity is also called *parallel importation.*

Source: Meunierd/Shutterstock

BMW is typical of many firms that apply a global, standardized approach to advertising and distribution. Shown here is BMW headquarters in Munich, Germany.

In Canada, government determines pharmaceutical drug prices by imposing price controls. Consequently, drug prices are often lower there than in the United States. Because of this difference, many U.S. consumers purchase their prescription drugs from online pharmacies in Canada to benefit from lower prices even though it is illegal for individuals to import prescription medications into the United States. Worldwide, gray market activity is common in pharmaceuticals, cameras, watches, computers, perfumes, and even construction equipment.[32]

The root cause of gray market activity is a large enough difference in price of the same product between two countries. Such price differences arise due to (i) the manufacturer's inability to coordinate prices across its markets, (ii) the firm's deliberate efforts to charge higher prices in some countries when competitive conditions permit, or (iii) exchange rate fluctuations that result in a price gap between products priced in different currencies.

Manufacturers of branded products are concerned about gray market activity because it can lead to:

- *A tarnished brand image* when customers realize the product is available at a lower price through alternative channels, particularly less-prestigious outlets.
- *Strained manufacturer–distributor relations* that can arise when parallel imports result in lost sales to authorized distributors.
- *Disruptions in company planning* that occur in regional sales forecasting, pricing strategies, merchandising plans, and general marketing efforts. Managers can pursue at least four strategies to cope with gray market imports.[33]
  - Aggressively cut prices in countries and regions that gray market brokers target.
  - Hinder the flow of products into markets where gray market brokers procure the product. For instance, in dealing with the pharmaceutical gray market between Canada and the United States, the U.S. firm Pfizer could reduce shipment of its cholesterol drug Lipitor to Canada to levels just sufficient for local use by Canadians.
  - Design products with exclusive features that strongly appeal to customers. Adding distinctive features unique to each market reduces the likelihood that products will be channeled elsewhere.
  - Publicize the limitations of gray market channels. Trademark owners publicize the disadvantages of buying gray market goods to potential buyers.

International Marketing Communications

16.5 Understand international marketing communications.

Companies use *marketing communications* (also known as *marketing promotion*) to provide information to and communicate with existing and potential customers with the ultimate aim of stimulating demand. The various activities of marketing communications vary substantially around the world. Let's examine them in more detail.

International Advertising

Firms conduct advertising through *media*, which include direct mail, radio, television, cinema, billboards, transit, print media, and the Internet. *Transit* refers to ads placed in buses, trains, and subways; they are particularly useful in large cities. *Print media* are newspapers, magazines, and trade journals. Managers assess the availability and viability of media by examining the amount and types of advertising spending already occurring in each market. In 2017, advertising expenditures on major media surpassed $575 billion worldwide. On a regional basis, ad expenditures were approximately $220 billion in the United States, $120 billion in Western Europe, and $140 billion in the Asia-Pacific region. Worldwide spending on digital advertising exceeded $220 billion, which is nearly 40 percent of total paid media outlays. Mobile advertising accounts for more than 60 percent of digital ads and about one-quarter of total media ad spending overall. Procter & Gamble (United States), Samsung (South Korea), Nestlé (Switzerland), Unilever (Netherlands), and L'Oréal (France) spend the most on ads. These five firms collectively spend more than $45 billion annually on advertising worldwide. The United States is the world's largest ad market, followed by China, Japan, the United Kingdom, and Germany. For example, such firms as Alibaba, Avon Products, Colgate-Palmolive, Procter & Gamble, and Yum Brands spend enormous sums on advertising in China.[34]

The availability and quality of media closely determine the feasibility and nature of marketing communications. Exhibit 16.9 provides statistics on media for various countries. The literacy rate indicates the number of people who can read, which is necessary to understand much advertising. Other data reveal the diversity of communication media in selected countries. In developing economies, some communication media such as the Internet can be quite limited. The firm must use creative approaches to advertise in countries with low literacy rates and limited media. Certain media selections make sense for some countries but not others. In Mexico and Peru, for example, marketers emphasize television advertising. In Kuwait and India, print media are prominent. China, Japan, and the United States are the top countries for outdoor advertising on billboards and buildings. Norway, Australia, and the United Kingdom are the leaders in digital media ads. Diffusion of digital technologies is increasing access to radio, television, and print media. Many more people have gained access to the Internet in recent years. In Kenya, for

EXHIBIT 16.9

Media Characteristics in Selected Countries

Note: Data are for the most recent year available.

Sources: Based on *CIA World Factbook* at www.cia.gov; World Bank at www.worldbank.org; Internet World Stats, "Internet Usage Statistics," www.internetworldstats.com; *World Press Trends 2017* (Paris: WAN-IFRA, 2017).

	Literacy Rate (percentage of population)	Households with Television (percentage of all households)	Radio Stations (per one million people)	Mobile Cellular Subscriptions (per one million people)	Internet Users (percentage of population)
Argentina	99%	97%	29.4	1,440,000	93%
Australia	99	99	112.1	1,140,000	88
China	96	99	2.3	990,000	55
Ethiopia	49	5	0.3	490,000	15
India	71	66	0.4	880,000	34
Japan	99	100	2.4	1,320,000	93
Mexico	94	95	14.1	900,000	65
Netherlands	99	99	32.2	1,220,000	96
Nigeria	60	43	2.4	810,000	50
Saudi Arabia	95	98	2.7	1,680,000	90
United Kingdom	99	99	14.5	1,220,000	95
United States	99	99	42.3	1,210,000	88

example, adoption of the Internet and smartphones is giving many more citizens access to television. More than 4 million households in Kenya now own TV sets, a substantial increase over a few years ago. Worldwide readership of traditional newspapers has been declining as consumers obtain their news increasingly online. Global advertising revenues from newspapers fell from $87 billion in 2012 to less than $68 billion in 2017, a 23 percent decline.[35]

International advertising expenditures vary depending on the size and extent of the firm's foreign operations. Smaller firms often lack the resources to advertise on TV or to develop a foreign sales force. Differences in culture, laws, and media availability mean it is seldom possible to duplicate in foreign markets the type and mix of advertising used in the home market. For example, the Italian government limits television advertising on state channels to 12 percent of airtime per hour and 4 percent per week. Mexico and Peru require firms to produce commercials for the local audience in their respective countries and use local actors.

Culture determines buyer attitudes toward the role and function of advertising, humor content, the depiction of characters (such as the roles of men and women), and decency standards. Advertising conveys a message encoded in language, symbols, colors, and other attributes, each of which may have distinctive meanings. Buyer receptiveness differs as a function of culture and language. In China, Nike ran an ad in which NBA basketball star LeBron James battles—and defeats—a computer-generated Chinese Kung Fu master. Chinese consumers were offended, and China's national government banned the ad. Benetton got into trouble for print advertising that depicted the presidents of China and the United States kissing each other.[36]

Many MNEs employ relatively standardized advertising around the world, an approach that simplifies the communications strategy and saves money. Benetton, the Italian clothing manufacturer, has enjoyed much success by using essentially the same "United Colors of Benetton" ad campaigns in markets worldwide. Levi Strauss's advertising approach is similar around the world, stressing the all-American image of its jeans. One TV ad in Indonesia showed teenagers cruising around a U.S. town in 1960s convertibles. In Japan, Levi Strauss frequently used James Dean, the 1950s U.S. film star, as the centerpiece of its advertising. The dialogue in Levi's ads is often in English worldwide.[37]

Most MNEs employ advertising agencies to create promotional content and select media for foreign markets. The choice is usually from among a home country–based agency with international expertise, a local agency based in the target market, or a *global advertising agency* that has offices in the target market. Exhibit 16.10 identifies leading global advertising agencies. These firms maintain networks of affiliates and local offices around the world. They can create advertising that is both global and sensitive to local conditions while offering a range of additional services such as market research, publicity, and package design.

MyLab Management Watch It! 1

If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete the video exercise titled Unilever International Marketing.

EXHIBIT 16.10

Large Global Advertising Agencies

Rank	Agency	Headquarters	Worldwide Revenue (billions of dollars)
1	WPP	United Kingdom	$19.4
2	Omnicom Group	United States	15.5
3	Hakuhodo	Japan	11.4
4	Publicis	France	10.6
5	Interpublic Group	United States	7.8
6	Dentsu	Japan	7.7
7	Havas	France	2.5
8	Young & Rubicam	United States	1.3

Sources: Based on *Ad Age*, "Ad Age Agency Report 2018: Rankings and Analysis," April 29, 2018, www.adage.com; *Forbes*, "The World's Biggest Public Companies: 2017 Ranking," www.forbes.com; Hoovers.com, company profiles, www.hoovers.com.

International Promotional Activities

Promotional activities are short-term marketing activities intended to stimulate an initial purchase, immediate purchase, or increased purchases of the product and to improve intermediary effectiveness and cooperation. They include tools such as coupons, point-of-purchase displays, demonstrations, samples, contests, gifts, and Internet interfacing.

Greece, Portugal, and Spain permit virtually every type of promotion, and Germany, Norway, and Switzerland forbid or restrict some. Couponing is illegal or restricted in some countries. Other promotional activities, such as giveaways, may be considered unethical or distasteful. In much of the world, such activities are uncommon and may be misunderstood. Promotions usually require a high level of intermediary or retailer sophistication to succeed.

16.6 Describe international distribution.

International Distribution

Distribution refers to the processes of getting the product or service from its place of origin to the customer. Distribution is the most inflexible of the marketing program elements—once a firm establishes a distribution channel, it may be difficult to change it. The most common approaches to international distribution include engaging independent intermediaries (for exporting firms) or establishing marketing and sales subsidiaries directly in target markets (an FDI-based approach). The exporting firm ships goods to its intermediary, which moves the product through customs and the foreign distribution channel to retail outlets or end users.

Ethical Connections

Walmart paid some $24 million in bribes to mayors, zoning officials, and other civil servants in Mexico to obtain building permits, clearances, and preferential treatment. The bribes were paid to expedite construction of the firm's huge network of stores in Mexico. Confronted with news of corruption at the firm's Mexican subsidiary, top executives focused on minimizing damage to Walmart's image rather than on rooting out wrongdoing. When the scandal was revealed, Walmart's stock price fell and the firm faced prosecution from government officials.

Source: Jef Feeley, "Wal-Mart Beats Back Suits Against Directors over Bribes," *Bloomberg,* January 25, 2018, www.bloomberg.com.

By contrast, the foreign direct investor establishes its own operations in the market and works directly with intermediaries to move offerings through the channel to buyers. Using this approach, the firm will lease, acquire, or set up a sales office, warehouse, or an entire distribution channel directly in the target market. The main disadvantage of direct investment is its high cost. However, direct investment allows the firm to:

- Gain control over marketing and distribution activities in the market.
- Monitor the performance of employees and other actors in the market more effectively.
- Get closer to the market, which is especially helpful when the market is complex or rapidly changing.

Some firms bypass traditional distribution systems altogether by using *direct marketing*—selling directly to end users. It typically implies using the Internet to provide detailed product information and the means for foreigners to buy offerings. Some firms such as Amazon.com are mainly Internet based, with few retail stores. Others, such as Coles, Tesco, and Home Depot, combine direct marketing with traditional retailing.

Channel length refers to the number of distributors or other intermediaries that it takes to get the product from the manufacturer to the market. The longer the channel, the more intermediaries the firm must compensate, and the costlier the channel. For example, Japan is characterized by long distribution channels with numerous intermediaries. High channel costs contribute to international price escalation, creating a competitive disadvantage for the firm.

Distribution is especially challenging in emerging markets and developing economies, where delivery infrastructure is often poor. Nestlé expected nearly half its sales to come from emerging markets through 2020. In South Africa, the firm employs 80 sales personnel to sell baby food, nondairy creamers, and other products in areas characterized by poverty and small-scale retailing. Nestlé has invested almost a billion dollars in Africa to build up supply chains and distribution channels. Delivery is often accomplished by taxi, by bicycle, or on foot. Small-scale retailing accounts for about one-third of Nestlé's distribution in Africa.[38]

Global Account Management

In a gradually globalizing world, foreign customers increasingly seek uniform and consistent prices, quality, and customer service. **Global account management (GAM)** means serving a key global customer in a consistent and standardized manner, regardless of where in the world it operates. Walmart is a key global account for Procter & Gamble, purchasing many different P&G products. Walmart expects consistent service, including uniform prices for the same P&G product regardless of where in the world it is delivered.

Global account management (GAM)
Serving a key global customer in a consistent and standardized manner, regardless of where in the world it operates.

Key accounts such as Migros, Zellers, and Walmart typically purchase from a collection of preferred suppliers that meet their specifications. Suppliers target these key customers by shifting resources from national, regional, and function-based operations to GAM, whose programs feature dedicated cross-functional teams, specialized coordination activities for specific accounts, and formalized structures and processes. Private IT-based portals facilitate the implementation of such systems. Each global customer is assigned a global account manager, or team, who provides the customer with coordinated marketing support and service across various countries.[39]

MyLab Management **Watch It! 2**

If your professor has assigned this, go to the Assignments section of **www.pearson.com/mylab/management** to complete the video exercise titled Companies Look at the Hispanic American Consumer.

CLOSING CASE H&M: International Marketing Success Story

H&M is a Swedish clothing retailer that specializes in fast fashion and cheap chic styles for men, women, and children. The firm is one of the world's largest fashion retailers. The Gap and Zara are key competitors. When H&M opens a new store, it is accompanied by much attention and interest. From New York to Berlin to Tokyo, store openings typically receive massive media coverage. The Pasadena, California, store launch was covered from news helicopters, and numerous people slept outside the store the night before it opened. In 2015, H&M opened its largest, new flagship store in New York City with a performance by Grammy winner John Legend. Such excitement is typical of H&M store launches worldwide.

The firm began as a women's clothing retailer, Hennes, and later merged with the Swedish men's store Mauritz. Management changed the name to H&M to simplify worldwide perception of the brand.

Initially, H&M was cautious about international expansion, restricting its reach to nearby European countries, where Germany, France, and the United Kingdom became top markets. In 2000, H&M opened its first U.S. store on Fifth Avenue in New York. The firm expanded into China, Japan, Russia, South Korea, and the Middle East. Today, H&M has more than 170,000 employees operating some 4,000 stores in about 60 countries. About 65 percent of the stores are located in Europe, 20 percent are in Asia, and the remaining 15 percent are in North and South America. H&M leverages e-commerce in 35 countries where it lacks a physical presence to obtain additional global coverage.

On the heels of the spacious Fifth Avenue store launch, H&M opened several more outlets in the United States. The success of its Manhattan store did not consistently translate to other locations. Some new stores were too big, forcing management to downsize them. In the United States, H&M quickly learned that styles vary between cities and suburban locales. Management focused trendy fashions in city stores and maintained more conservative items at suburban mall stores. A decision to launch a colorful apparel collection backfired, forcing retreat to traditional styles with subdued shades. Compared to Europe, top management noted that U.S. stores need to be more inviting. U.S. salespeople prefer focusing on a single segment such as children's wear or men's clothing.

Rapid Response Retailing

H&M emphasizes fast turnaround—the ability to take a garment from design to store shelf in three weeks. Although this falls short of competitor Zara's two-week turnaround, H&M's prices are usually lower. Known for its flexibility, H&M constantly monitors sales and restocks stores daily to replenish popular merchandise quickly.

Another cost-saving measure comes from outsourcing apparel manufacturing to 700 independent suppliers through 20 production offices, mainly located in Asia and Europe. Large quantities of materials are ordered from suppliers, allowing economies of scale that are passed on to consumers.

Rapid response retailing means that H&M ensures the right product gets to the right stores at the right time. It requires careful cost control and management of lead times with suppliers, factories, and distributors. The approach results in retail prices that are substantially lower than those of competitors.

Branding and Image

The H&M brand symbolizes fashion and design at an affordable price. Men's and women's collections emphasize innovative styling for fashion-minded people of all ages. Strong branding increases marketing effectiveness, stimulates brand loyalty, and enhances customer confidence in purchase decisions. It helps customers know what H&M stands for—simple, stylish fashions offered at popular prices. The brand drives management decisions about how to design products and where and how to launch new stores.

Most H&M stores are located in Europe, where brand awareness is substantial. However, brand awareness is still limited in other parts of the world. In some markets, building a strong brand remains challenging. Weak brand image limits H&M's sales potential and its ability to recruit and retain employees, who are crucial to long-term success.

Countries differ in social and environmental regulations. Thus, H&M aims to apply consistently high standards of corporate social responsibility (CSR) in its operations worldwide. Management emphasizes employing ethical suppliers, paying fair wages, and ensuring fair working conditions. The firm's website states: "We are always working to create the best offering for our customers, in the most sustainable way." For example, some 43 percent of the cotton in H&M apparel is sustainably sourced. The firm's *Conscious Exclusive* collection features *BIONIC* fabric, a polyester made from recovered plastic. Management emphasizes responsible sourcing of water, chemicals, and energy in its supply chains. By 2040, H&M aspires to eliminate fossil fuels from its supply chain through the use of alternative energy and reduction of carbon emissions.

Marketing

H&M has more than 100 in-house designers who interpret apparel trends and create fashions accessible to everyone. H&M collaborates with well-known designers, offering limited edition clothing lines in some stores. Collaboration with Chanel design chief Karl Lagerfeld drew large crowds to H&M stores, selling out the exclusive line in only three days. Other design partners include Stella McCartney, Madonna, and Versace. At the Tokyo store opening, H&M introduced a collection with Comme des Garçons, one of Japan's most respected fashion houses. The initial response exceeded expectations, with customers waiting in line for three days before the launch.

H&M employs unique strategies to reach target markets and attract customers to new stores. Management is careful to choose the location of stores in each city, preferring exclusive shopping districts with high traffic. Stores are intended to be fun, inspiring, and inviting, with interior design and displays that communicate what H&M stands for. Together, the products, shop floors, displays, and staff make up the whole package that communicates the H&M brand.

The firm employs conventional promotional tactics such as print advertisements and catalogues as well as more novel approaches. *H&M Magazine* offers readers a mix of fashion and the latest lifestyle trends. The firm has its own Facebook page and sends out tweets on Twitter, maintaining a social network with fans around the world. The H&M YouTube site offers Fashion TV and inspirational films.

Use of celebrities such as Benicio Del Toro and Molly Sims helps maintain a trendy image. H&M experiments with nontraditional methods to communicate with customers. Partnering with marketing agencies Mobiento and Adiento, H&M launched a mobile marketing campaign targeted to 20- to 40-year-old women. The campaign included banner ads placed on carrier portals and media sites and a website with click-through slideshows and animated images of the firm's latest designs. Beyond promoting new additions to its apparel collection, the campaign drove customers to the H&M Club and its loyalty rewards program. Consumers received alerts and mobile coupons redeemable at nearby stores.

H&M has expanded beyond traditional apparel by venturing into the home textiles business. H&M Home's products, including pillows, towels, curtains, and other textile products, are sold online and by mail. With this addition, H&M now competes with Spanish retailer Zara in the home textile market. H&M launched its online sales in several countries to complement its physical stores. It also initiated a new beauty line featuring cosmetics and hair and skin care products.

Global Strategy and Localization

H&M management follows a global approach by emphasizing a uniform global brand and similar apparel in all its stores. Company designers at headquarters draw inspiration from key markets so that different regions' styles are incorporated into apparel designs. The product assortment is 80 percent the same in all markets, and local managers adjust the remaining 20 percent to fit local tastes. Apparel offered in the Tokyo stores is essentially the same as that offered in Europe, but the presentation is modified.

The head office provides substantial guidance on global strategy, and store managers localize tactics to their markets. At individual stores, local managers can adapt pricing, advertising, and product range to suit local conditions. The firm offers smaller sizes in Asia, conservative apparel in Islamic countries, and garments adjusted for seasonal differences between the northern and southern hemispheres.

In a fickle industry, H&M has achieved much success. However, like many retailers, the firm is grappling with growing consumer preference for online shopping. The firm closed more than 150 stores in 2018 alone. Management is struggling to adapt to a digital world in which customers are abandoning physical stores and embracing online shopping.

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Case Questions

16-4. Visit H&M's website at www.hm.com. Summarize the characteristics of H&M's global market segment(s). How does H&M position itself to target customers around the world?

16-5. How does management at H&M use global branding and global product development to create and offer its fashions? How does the firm use marketing mix elements to market its offerings around the world?

16-6. A key aspect of H&M's strategy is to provide value to customers by maximizing perceived product benefits, minimizing prices, or both. In light of this, how can H&M further increase the value of its offerings to customers? That is, what steps can management take to increase the benefits and reduce the prices that its customers encounter when shopping for H&M products?

16-7. How does H&M strike a balance between standardization and adaptation of its marketing program? What advantages does H&M gain from standardization? From adaptation? What factors drive management to adapt offerings in particular markets?

16-8. H&M is targeting emerging markets such as China, Russia, and Saudi Arabia, which are often characterized by distinctive cultures, lower incomes, and inexperience with leading-edge fashion. In terms of marketing program elements, what can management do to ensure that H&M succeeds in these markets?

16-9. H&M is pursuing key CSR and sustainability goals. How do you believe customers view such initiatives? How do such initiatives create value for the firm? Please elaborate.

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Note: This case was prepared by Professor Erin Cavusgil, University of Michigan, Flint, and Elizabeth Napier, doctoral candidate, Georgia State University, for classroom discussion.

END-OF-CHAPTER REVIEW

MyLab Management

Go to **www.pearson.com/mylab/management** to complete the problems marked with this icon ✪.

Key Terms

adaptation 490
global account management (GAM) 507
global brand 492
global market segment 489
global marketing strategy 488
gray market activity 497
international price escalation 500
standardization 490
transfer pricing 501

Summary

In this chapter, you learned about:

- **Global market segmentation**

  Developing a marketing strategy requires managers to assess the unique foreign market environment and then make choices about market segments, targeting, and positioning. Global marketing strategy is a plan of action that guides the firm in how to position itself and its offerings in foreign markets, which customer segments to pursue, and to what degree its marketing program elements should be standardized and adapted. A global market segment is a group of customers who share common characteristics across many national markets.

- **Standardization and adaptation of international marketing**

  How management balances adaptation and standardization determines the extent to which the firm must modify a product and its marketing to suit foreign markets. On the whole, firms prefer to standardize their products to achieve scale economies and minimize complexity. A global market segment is a group of customers that shares common characteristics across many national markets. *Positioning* strategy involves using marketing to create a particular image of a product or service, especially relative to competitor offerings, among the firm's customers worldwide.

- **Global branding and product development**

  A global brand is perceived similarly in all the firm's markets and increases marketing strategy effectiveness, allowing the firm to charge higher prices and deal more effectively with channel members and competitors. In developing products with multicountry potential, managers emphasize the commonalities rather than the differences across countries. The development of global products facilitates economies of scale in R&D, production, and marketing. Innovation and design in international product development are increasingly performed by *global teams*—internationally distributed groups of people with a specific mandate to make or implement decisions that are international in scope.

- **International pricing**

  International prices are determined by factors both internal and external to the firm that often cause prices to inflate abroad. A special challenge for exporters in pricing is international price escalation—the problem of end-user prices reaching exorbitant levels in the export market, caused by multilayered distribution channels, intermediary margins, tariffs, and other international customer costs. Transfer pricing is the practice of pricing intermediate or finished products exchanged among the subsidiaries and affiliates of the same corporate family located in different countries. Gray market activity, also known as parallel imports, refers to legal importation of genuine products into a country by intermediaries other than authorized distributors.

- **International marketing communications**

  International marketing communications involves the management of advertising and promotional activities across national borders. Managers are often compelled to adapt their international communications due to unique legal, cultural, and socioeconomic factors in foreign markets. Firms must also accommodate literacy levels, language, and available media.

- **International distribution**

  Firms usually engage foreign intermediaries or foreign-based subsidiaries to reach customers in international markets. Some firms bypass traditional distribution systems by using *direct marketing*. *Channel length* refers to the number of distributors or other intermediaries it takes to get the product from the manufacturer to the market. Long channels are relatively costly. In working with key business customers, firms may undertake global account management (GAM)—servicing key global customers in a consistent and standardized manner regardless of where in the world they operate.

Test Your Comprehension

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16-10. Outline the environment for international business. What dimensions need to be considered by organizations that operate internationally?

16-11. Toledo Glass Sociedad Anónima operates successfully in the Spanish domestic market and across many countries in Latin America. The company struggles to compete elsewhere. What might be the fundamental problems that are preventing the company from being successful elsewhere?

16-12. How does a positioning strategy help an organization differentiate itself from competitors?

16-13. Consider your favorite brand of laptop computer. In terms of the marketing program elements, what attributes of laptop computers does the firm need to adapt and which attributes can it standardize for international markets?

16-14. Why do businesses engaged in internationalization opt to create a global positioning strategy?

16-15. What are the most important factors to consider when formulating international pricing strategies? What steps would you follow in arriving at international prices?

16-16. Suppose export customers of a consumer product are highly sensitive to price. However, the firm is experiencing substantial price escalation in the market. What factors may be causing this situation? What can management do to reduce the harmful impact of international price escalation?

16-17. What does a global account manager do?

Apply Your Understanding

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16-18. Products must be adapted to accommodate national differences arising from customer preferences and each market's economic conditions, climate, culture, and language. Think about the following products: packaged flour, swimsuits, textbooks, and automobiles. Describe how a firm would need to adapt the marketing for each of these products to suit conditions in China, Germany, and Saudi Arabia. In particular, think about the nature of the product, its pricing and distribution, and the marketing communications associated with it. China is an emerging market whose average per-capita income is relatively low, Saudi Arabia is an emerging market with a conservative culture rooted in Islam, and Germany is an advanced economy with a liberal culture. You may wish to consult globalEDGE™ (www.globalEDGE.msu.edu) to learn more about these specific markets.

16-19. Office Depot (www.officedepot.com) is a supplier of office equipment and supplies. It has stores in Japan, Mexico, and Poland. Suppose Office Depot decides to launch a line of notebook computers and wants to know how to price them in each of these markets. What factors should Office Depot consider in setting prices in each market? Should the firm standardize its pricing, or should prices be adapted to each country? Suppose Office Depot's final prices proved to be too high for Mexico; what steps could management take to lower the price and still generate profits from selling notebooks there? Suggest a step-by-step approach to international pricing.

16-20. Your parent company is supposedly based in Singapore with manufacturing plants in Malaysia. The company sells sterile dressings and other surgical disposal items to hospitals and clinics in over 30 African countries. Last week, at a routine sales conference in Singapore, the production manager admitted they had shifted 70 percent of production to mainland China and that there was a high probability that counterfeit products had entered the supply chain. Without individual examination, it was almost impossible to tell. The decision was made to keep this information within the business. Using the ethical framework and other material in Chapter 4 as a guide, consider what types of ethical problems might arise when situations like this occur. What should the business do about the situation? Justify your answer.

globalEDGE | INTERNET EXERCISES

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AACSB and CKR Intangible Soft Skills to improve employability and success in the workplace: Written and Oral Communication, Information Technology, Analytical Thinking, Diverse and Multicultural Work Environments, Reflective Thinking, and Application of Knowledge.

16-21. Global branding is key to international marketing success. Each year *Interbrand* (www.interbrand.com) publishes a ranking of the top 100 global brands. The ranking can be accessed by searching at the *Interbrand* site or by entering Best Global Brands in a Google search. For this exercise, locate and retrieve the most current ranking and answer the following questions:

a. In your view, what are the strengths and weaknesses of the methodology *Interbrand* uses to estimate brand equity?
b. What patterns do you detect in terms of the countries and industries most represented in the top 100 list?
c. According to *Interbrand*, what managerial guidelines will help a company develop a strong global brand?

16-22. Procter and Gamble (P&G) and Unilever are the two leading firms in the consumer products industry for offerings such as soap, shampoo, and laundry detergent. P&G (www.pg.com) is based in the United States, and Unilever (www.unilever.com) is based in Europe. What are the major regional markets of each firm? What products does each firm offer through a global marketing strategy? Structure your answer in terms of the marketing-mix elements. That is, what global strategy approaches does each firm use for the product, its pricing, communications, and distribution?

16-23. A *third-party logistics provider (3PL)* provides outsourced or third-party logistics services to companies for part or all of their distribution activities. Examples include DHL, DB Schenker Logistics, C.H. Robinson Worldwide, and FedEx. Your firm needs to find a 3PL to handle its distribution efforts abroad. Your task is to locate two 3PLs online and address the following questions:

a. What logistical services does each firm provide?
b. What types of customers does each 3PL serve?
c. Where are their headquarters and branch offices located?
d. Based on the information provided, which of the two 3PLs would you most likely choose? Why?

CKR Tangible Process Tool Exercise™

Developing a Distribution Channel in Japan

A critical step in developing export operations is creating the foreign distribution channel. It provides the means to convey products (and many services) from their point of production to a convenient location where customers can buy them. In the absence of a well-conceived distribution channel, marketing and selling may prove ineffective.

The direct exporting firm should establish a reliable distribution channel in the foreign market from the beginning of export operations. Channels are often costly to set up and, once established, may be difficult to change. Because buyers may view the distributor as the originator of the product or service, the exporter must choose a good distributor. In this exercise, your challenge is to investigate the nature of distribution channels in Japan for a firm that manufactures medical equipment. Managers typically undertake such an investigation in the course of developing a channel in a promising foreign market.

Background

The *Japanese medical equipment and supplies market* is very promising. It is the second-largest medical products market in the world and has achieved steady growth in recent years. Japanese distribution channels are usually complex, multilayered, and often inefficient. The market in Japan for medical equipment exceeds $10 billion annually. Imports are about 40 percent of this figure. The Japanese government regulates many medical products because of potential health risks. The government also has established programs to hold down medical product prices. The Japanese often are not the leading producers of medical technologies. Foreign firms see bright prospects for sales of pacemakers, artificial implants, and interventional cardiology devices. Sales of software and other products used in medical information and communications systems are also promising.

Various types of intermediaries provide distribution, including merchant distributors, agents, trading companies, and export management companies. Trading companies are common in Japan. However, because they deal in thousands of imported goods, large trading companies often do not give products individual attention. The direct exporter typically engages one or more independent intermediaries in the market.

To complete this exercise, go to MyLab Management (www.pearson.com/mylab/management) and click on **Career Toolbox.**

Endnotes

1. Instructors and managers often use the terms *international marketing* and *global marketing* interchangeably. However, some experts make a distinction between these terms. They suggest that smaller or inexperienced firms tend to emphasize international marketing, while the larger multinational enterprises (MNEs) usually favor global marketing. According to this view, *international marketing* refers to the cross-border marketing activities of firms engaged in a relatively small number of countries. Such firms manage pricing, communications, distribution, and other marketing activities country by country, a multidomestic strategy based on the distinctive conditions in each market.

   MNEs that apply *global marketing* tend to target many countries simultaneously. The firm deliberately designs and implements product development, launch, pricing, communication, and distribution activities across multiple markets in a relatively systematic and coordinated manner. Managers often apply standardized approaches—they attempt to sell identical or relatively similar products in all their markets, and strive for synergy, scale, and consistent image. Such coordinated marketing activities generally emphasize global brands, a defining feature of MNEs.

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Chapter 17

Human Resource Management in the Global Firm

Learning Objectives

After studying this chapter, you should be able to:

17.1 Understand the strategic role of human resources in international business.

17.2 Explain international staffing policy.

17.3 Describe the process of establishing training needs and programs to help employees perform well in international environments.

17.4 Discuss performance appraisal and compensation of international employees.

17.5 Understand international labor relations.

17.6 Describe diversity in the international workforce.

Etisalat Egypt: Attracting and Maintaining the Best Employees

Etisalat is an Emirates-based telecommunications company now operating in 15 countries in the Middle East, Asia, and Africa. Their biggest claim to excellence is that Etisalat was able to attract 1 million subscribers in Egypt within their first 50 days of operations. Simply put, they believe they are the best and they believe that in order to maintain their standing as an outstanding service provider, they need to ensure that each aspect of the business is able to uphold the quality of service expected from a global company.

Operating in such a dynamic and labor-intensive industry and drawing from the experience of operating in several countries around the world, Etisalat understands the need to uphold the highest standards when it comes to their employees. In fact, they recognize that the core of their success stems directly from the performance of their employees.

As the third mobile operator to open in Egypt, Etisalat's focus on hiring the best telecom employees and continuously inspiring them to be the best was, no doubt, one of the reasons why Etisalat was able to build a strong consumer base in a short number of years despite the fierce competition in the telecom industry. In Egypt, Vodafone has 45 million connections; Orange, 45 million; and Etisalat, 23 million.

Etisalat realizes that operating in the service sector means it must ensure that its people are highly skilled, motivated, and talented in order to provide the best service possible. In order to promote such employee