Part 5

Functional Area Excellence

Chapter 16

Marketing in the Global Firm

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International Marketing

- The cultural, social, political, legal, and regulatory environment of international markets influences the way the firm develops, adapts, and markets products and services. It affects pricing, distribution, and marketing communications. E.g., In high-inflation countries, the firm must review its prices frequently.

- **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.

Market Segmentation

- The process of dividing the firm’s total customer base into homogeneous clusters that allows management to formulate unique marketing strategies for each group.
- Within each *market segment*, customers exhibit similar characteristics regarding income level, lifestyle, demographic profile, or desired product benefits.
- Internationally, common market segment variables include income level, culture, legal system, etc.

Example

Caterpillar targets its earthmoving equipment by applying distinct marketing approaches to several major market segments. What segments does Caterpillar target?

Global Market Segment

- A group of customers that share common characteristics across many national markets.
- Firms target these buyers with relatively uniform marketing programs, regarding product, pricing, communications, and distribution
- Such segments often follow global media, embrace new fashions or trends, and have much disposable income.

Examples

- Young people worldwide who are customers to MTV, Levi's
- The global segment of jet-setting business executives
- People worldwide with elevated cholesterol (e.g., Pfizer and Lipitor)

Standardization and Adaptation

- **Adaptation:** Modifying elements of the marketing program to accommodate specific customer requirements in individual foreign markets. E.g., Industries in automaking, publishing, and furniture.
- **Standardization:** Efforts to make marketing program elements uniform, so as to target entire regions of countries, or even the global marketplace, with a similar product or service. However, targeting the same product everywhere is not usually feasible.
- Management tries to strike some ideal balance between adaptation and standardization.

Standardized Marketing is Appropriate When:

- Similar market segments exist across countries.
- Customers seek similar features in the product or service.
- Products have universal specifications.
- Business customers have converging expectations or needs regarding specifications, quality, performance, and other product attributes.

Advantages of Standardized Marketing

- *Cost reduction*. Standardization reduces costs through economies of scale in design, sourcing, manufacturing, and marketing. Offering a similar marketing program globally is more efficient than adapting products and marketing for each of the numerous individual markets.
- *Improved planning and control*. Fewer offerings simplify quality control and reduce the number of replacement parts. Global marketing is easier to manage than having to develop numerous campaigns.
- *Ability to portray a consistent image and build global brands*. Standardized marketing increases customer interest and reduces the customer confusion.

Adaption is needed due to:

- *Differences in national preferences*. Companies adapt their products to suit the specific, unique wants and needs of customers in individual markets.
- *Differences in living standards and economic conditions.* Firms adjust the pricing and complexity of their products to accommodate differing income levels worldwide.
- *Differences in laws and regulations*. E.g., Germany and Norway restrict advertising directed at children. Packaged foods in Europe are often labeled in several languages, including English, French, and Spanish.
- *Differences in national infrastructure*. The quality and reach of transportation and communications systems, and of general infrastructure differ worldwide.

Standardization and Adaptation: A Balancing Act

- Adaptation is costly, often requiring major changes to the marketing mix, especially when many national markets are involved. Thus, managers usually err on the side of standardization, that is, they adapt marketing elements only when necessary.
- Some firms pursue a *regional* strategy, in which marketing elements are formulated across a geographic region.
- Dell balances standardization and adaptation – the basic machines are identical worldwide, while the keyboards and software are adapted to suit local conditions.

Global Branding

- Well-known global brands include: electronics (PlayStation), personal care products (Gillette), toys (Barbie), food (Cadbury), beverages (Heineken), credit cards (Visa), movies (e.g., Star Wars), pop stars (Shakira), sports stars (David Beckham).

- A strong global brand enhances:
  - efficiency and effectiveness of marketing programs;
  - facilitates the ability to charge premium prices;
  - increases the firm’s leverage with resellers;
  - stimulates brand loyalty; and
  - inspires trust and confidence in the product.

Top Global Brands by Region

Company	Brand Value (US$ billions)	Country of Origin	Main Product or Service
Asian Brands			
Samsung	38	South Korea	Consumer electronics
Toyota	38	Japan	Automobiles
Honda	23	Japan	Automobiles
Hyundai	8	South Korea	Automobiles
Canon	7	Japan	Copiers, cameras
European Brands			
Louis Vuitton	28	France	Fashion accessories
BMW	28	Germany	Automobiles
Mercedes-Benz	23	Germany	Automobiles
Nescafe	17	Switzerland	Beverages
H&M	15	Sweden	Clothing retailing
U.S. Brands			
Apple	145	United States	Consumer electronics
Microsoft	69	United States	Software
Google	66	United States	Internet services, software
Coca-Cola	56	United States	Beverages
IBM	50	United States	Technology, consulting

Sources: Based on Forbes, "The World's Most Valuable Brands: 2015 Ranking," www.forbes.com; Interbrand, www.interbrand.com; and Hoovers.com company profiles, www.hoovers.com.

Global Product Development

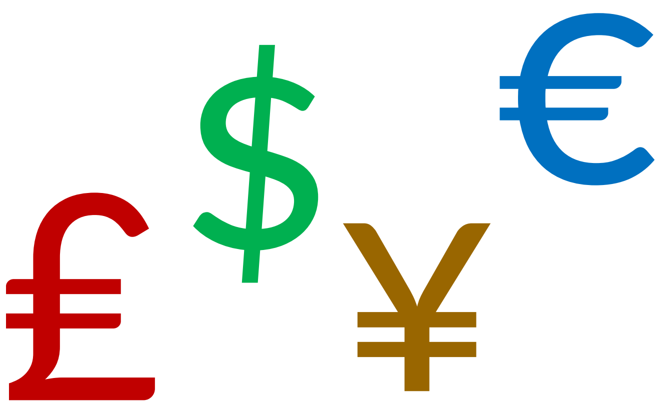
- In developing international products, managers emphasize their commonalities across countries rather than the differences between them.
- A basic product incorporates only core features that are then varied at the margins for individual markets.
- A *global new-product planning team* is a group within a firm that determines which product elements will be standardized and which will be adapted locally, and how products will be launched.

International Marketing Opportunity

- The median age in Japan, Italy, and Germany is 43 years old. They countries have many senior citizens.
- The countries also enjoy high per-capita income, excellent distribution channels, and well developed health care systems that support the elderly.
- They represent the most promising target markets for firms that produce medical equipment, mobility aids, and other products that appeal to seniors.
- In China, the proportion of seniors is growing rapidly and represents a promising market as well.

International Pricing

- Pricing is complex in international business, due to multiple currencies, trade barriers, added costs, and typically longer distribution channels.
- Prices affect sales and profits. An inverse relationship often exists between profits and market share.
- Firms face pressure to lower prices abroad, mainly due to lower income levels.
- Conversely, prices can escalate due to tariffs, taxes transportation, intermediary markups, and |after-sales service.



Factors that Affect International Pricing

- **Nature of the market**. Local purchasing power and distribution infrastructure are big factors.
- **Nature of the product or industry**. A specialized or highly advanced product, or an industry with few competitors, may necessitate charging a higher price.
- **Type of distribution system**. Channels are complex in some countries, which pushes prices up.
- **Location of the production facility**. Locating manufacturing near customers or in countries with low-cost labor facilitates lower prices.

Three Pricing Strategies

- **Rigid cost-plus pricing**. Set a fixed price for all export markets, by adding a flat percentage to the domestic price to compensate for the added costs of doing business abroad.
- **Flexible cost-plus pricing**. Set price to accommodate local market conditions, such as customer purchasing power, demand, and competitor prices.
- **Incremental pricing**. Set price to cover only variable costs, not fixed costs. This assumes that fixed costs are already paid from sales in the home or other countries.

Transfer Pricing

- The pricing of intermediate or finished goods exchanged among the subsidiaries and affiliates of the same corporate family located in different countries.
- May be used to repatriate profits from countries that restrict MNEs from taking their earnings out of the country.
- May be used to shift profits out of a high corporate tax county into a low corporate tax one, thereby increasing company-wide profits.

Gray Marketing

- Legal importation of genuine products into a country by *other than* authorized intermediaries.
- Gray marketers buy the product at a low price in one country, import it into another country, and sell it there at a higher price.
- **Causes:**
  - Large difference in pricing of same product between two countries, often the result of company strategy.
  - Exchange rate differences of products priced in two different currencies.

International Advertising

- Firms conduct advertising via media, which includes direct mail, radio, television, cinema, billboards, transit, print media, and the Internet.
- Advertising spending on major media amounts to more than $100 billion in each of Asia-Pacific and Western Europe.
- In the United States, advertising expenditures total nearly $200 billion.
- Advertising is influenced by local factors, such as availability of media, literacy, regulations, culture, and local customs, as well as the goals of the firm.

International Distribution

- Distribution is the most inflexible of the marketing program elements – once established, it may be difficult to change.
- The most common international distribution approaches are via independent intermediaries (for exporters) and establishing a subsidiary directly in the market (FDI).
- Both types of channels must perform a range of downstream marketing activities.
- The firm should seek to minimize *channel length,* to minimize final prices and decrease complexity.