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Regional economic integration—the creation of trading agreements between blocs of countries—has intensified in recent years. This means companies are more likely to enter entire regions at the same time. Certain countries have formed free trade zones or economic communities—groups of nations organized to work toward common goals in the regulation of international trade (see Table 21.1).

Evaluating Potential Markets

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

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

At other times, *psychic proximity* determines choices. Given more familiar language, laws, and culture, many U.S. firms prefer to sell in Canada, England, and Australia rather than in larger markets such as Germany and France. Companies should be careful, however, in choosing markets according to cultural distance. Besides overlooking potentially better markets, they may only superficially analyze real differences that put them at a disadvantage.[31]

TABLE 21.1 Regional Trade Areas and Agreements

The European Union Formed in 1957, the European Union set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries, and by developing trade policies with nonmember nations. Today, it's one of the world's largest single markets, with 27 member countries, a common currency—the euro—and more than 495 million consumers, accounting for 37 percent of the world's exports. Still, companies marketing in Europe face 23 different languages, 2,000 years of historical and cultural differences, and a daunting mass of local rules.
NAFTA In January 1994, the North American Free Trade Agreement (NAFTA) unified the United States, Mexico, and Canada in a single market of 440 million people who produce and consume $16 trillion worth of goods and services annually. Implemented over a 15-year period, NAFTA eliminates all trade barriers and investment restrictions among the three countries. Before NAFTA, tariffs on U.S. products entering Mexico averaged 13 percent, whereas U.S. tariffs on Mexican goods averaged 6 percent.
MERCOSUR MERCOSUR (or MERCOSUL) links Brazil, Argentina, Paraguay, Uruguay, and (soon) Venezuela to promote free trade and the fluid movement of goods, people, and currency. These five countries have 270 million citizens and collective GDP of $2.4 trillion. Bolivia, Chile, Columbia, Ecuador, and Peru are associate members and do not enjoy full voting rights or access to all the same markets. NAFTA will likely eventually merge with this and other arrangements to form an all-Americas free trade zone.
APEC Twenty-one countries, as well as the NAFTA members and Japan and China, are working to create a pan-Pacific free trade area under the auspices of the Asian Pacific Economic Cooperation (APEC) forum. These countries account for approximately 40.5 percent of the world's population, approximately 54.2 percent of world GDP, and about 43.7 percent of world trade. Heads of government of APEC members meet at an annual summit to discuss regional economy, cooperation, trade, and investment.
ASEAN Ten countries make up the Association of Southeast Asian Nations: Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Viet Nam. The region is an attractive market of over 590 million people with $1.2 trillion in GDP. Member countries aim to enhance the area as a major production and export center.

Sources: www.europa.eu; "World Trade Report 2009," www.wto.org; www.naftanow.org; Council on Foreign Relations, "Mercosur: South America's Fractious Trade Bloc," www.cfr.org; www.apec.org; www.asean.org.

Busy ports, such as in Buenos Aires, Argentina, are fueling the demand for greater trade cooperation.

It often makes sense to operate in fewer countries, with a deeper commitment and penetration in each. In general, a company prefers to enter countries that have high market attractiveness and low market risk, and in which it possesses a competitive advantage. Consider how these firms have assessed market opportunities:

- Coke and Suntory are looking for energy-drink distribution opportunities outside saturated North America where Red Bull and Monster rule, focusing on less competitive markets in Western Europe and Asia. Both companies are considering using their extensive distribution networks to sell brands whose rights they have acquired, Monster and V, respectively.[32]
- Jamaica-based Digicel has conquered politically unstable developing countries such as Papua New Guinea, Haiti, and Tonga with products appealing to poor and typically overlooked consumers, whose fierce loyalty helps protect Digicel from aggressive government interventions.[33]
- Bechtel Corporation, the construction giant, does a cost-benefit analysis of overseas markets, factoring in the position of competitors, infrastructure, regulatory and trade barriers, and corporate and individual taxes. It looks for untapped needs for its products or services, a skilled labor pool, and a welcoming environment (governmental and physical).[34]

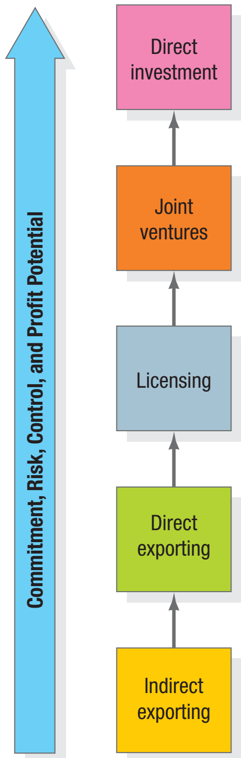
Deciding How to Enter the Market

Once a company decides to target a particular country, it must determine the best mode of entry. Its broad choices are *indirect exporting, direct exporting, licensing, joint ventures,* and *direct investment,* shown in Figure 21.2. Each succeeding strategy entails more commitment, risk, control, and profit potential.

Indirect and Direct Export

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

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



|Fig. 21.2|

Five Modes of Entry into Foreign Markets

Companies may eventually decide to handle their own exports.[35] The investment and risk are somewhat greater, but so is the potential return. Direct exporting happens in several ways:

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

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

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

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

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

Licensing

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

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

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

In *contract manufacturing,* the firm hires local manufacturers to produce the product. When Sears opened department stores in Mexico and Spain, it found qualified local manufacturers to produce many of its products. Contract manufacturing reduces the company's control over the process and risks loss of potential profits. However, it offers a chance to start faster, with the opportunity to partner with or buy out the local manufacturer later.

Finally, a company can enter a foreign market through *franchising,* a more complete form of licensing. The franchisor offers a complete brand concept and operating system. In return, the franchisee invests in and pays certain fees to the franchisor. McDonald's, Ramada, and Avis have entered scores of countries by franchising their retail concepts and making their marketing culturally relevant.[36]

KFC Corporation KFC is the world's largest fast-food chicken chain, serving more than 12 million customers at more than 5,200 restaurants in the United States and more than 15,000 units in 109 countries and territories around the world. KFC is world famous for its Original Recipe fried chicken—made with the same secret blend of

11 herbs and spices Colonel Harland Sanders perfected more than a half-century ago. Its success in Asia is instructive:

- When KFC entered the Japanese market in 1970, the Japanese saw fast food as artificial, made by mechanical means, and unhealthy. To build trust in the brand, advertising depicted Colonel Sanders's beginnings in Kentucky to convey Southern hospitality, old U.S. tradition, and authentic home cooking. The campaign was hugely successful. KFC now offers sesame and soy sauce–flavored chicken and a panko-fried salmon sandwich.
- In China, KFC is the largest, oldest, most popular, and fastest-growing quick-service restaurant chain, with over 3,400 locations in 650 towns or cities and healthy margins of 20 percent per store. Using its own supply and distribution system, it has expanded quickly into ever-smaller cities. The company has also tailored its menu to local tastes with items such as the Dragon Twister, a sandwich stuffed with chicken strips, Peking duck sauce, cucumbers, and scallions. KFC even has a Chinese mascot—a kid-friendly character named Chicky, which the company boasts has become "the Ronald McDonald of China."

By adapting its marketing to different regions of the world, KFC has met with much global success, such as with its many restaurants in Tokyo, Japan.

Joint Ventures

Historically, foreign investors have often joined local investors in a **joint venture** company in which they share ownership and control. To reach more geographic and technological markets and to diversify its investments and risk, GE Money—GE's retail lending arm—views joint ventures as one of its "most powerful strategic tools." It has formed joint ventures with financial institutions in South Korea, Spain, Turkey, and elsewhere.[37] Emerging markets, especially large, complex countries such as China and India, see much joint venture action.

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

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

Direct Investment

The ultimate form of foreign involvement is direct ownership: the foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities. Cisco had no presence in India before 2005 but opened a second headquarters in Bangalore to take advantage of opportunities in India and other locations such as Dubai.[38]

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

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

TABLE 21.2 Globally Standardized Marketing Pros and Cons

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

Deciding on the Marketing Program

International companies must decide how much to adapt their marketing strategy to local conditions.[39] At one extreme is a *standardized marketing program* worldwide, which promises the lowest costs; Table 21.2 summarizes some pros and cons. At the other extreme is an *adapted marketing program* in which the company, consistent with the marketing concept, believes consumer needs vary and tailors marketing to each target group.

Global Similarities and Differences

The development of the Web, the spread of cable and satellite TV, and the global linking of telecommunications networks have led to a convergence of lifestyles. Increasingly common needs and wants have created global markets for more standardized products, particularly among the young middle class. Once the butt of jokes, after being acquired by VW, the Czech carmaker Skoda used its investments to upgrade its quality and image and offer an affordable option to lower-income consumers worldwide.[40]

As this Prague waiter demonstrates, many Czech people like to drink beer!

At the same time, consumers still vary across markets in significant ways.[41] The median age is about 25 in India and China, and around 43 in Japan, Germany, and Italy. When asked if they are more concerned with getting a specific brand than the best price, roughly two-thirds of U.S. consumers agreed, compared to around 80 percent in Russia and India.[42] Consider the following beverage facts.[43]

- U.S. per capita consumption of soft drinks is 760 eight-ounce servings, the highest in the world. Mexicans drink 674 servings per year, Brazilians 315, Russians 149, and the Chinese 39.
- When it comes to beer, the Czech Republic leads the pack in Europe with 81.9 liters per capita; Norway is among the lowest at 40.3 liters.
- With wine, Portugal tops Europe with 33.1 liters per capita, while Finland is among the lowest at 9.9 liters.

Consumer behavior may reflect cultural differences that can be pronounced across countries.[44] Hofstede identifies four cultural dimensions that differentiate countries:[45]

1. ***Individualism versus collectivism***—In collectivist societies, the self-worth of an individual is rooted more in the social system than in individual achievement (high collectivism: Japan; low: United States).
2. ***High versus low power distance***—High power distance cultures tend to be less egalitarian (high: Russia; low: Nordic countries).
3. ***Masculine versus feminine***—This dimension measures how much the culture is dominated by assertive males versus nurturing females (highly masculine: Japan; low: Nordic countries).
4. ***Weak versus strong uncertainty avoidance***—Uncertainty avoidance indicates how risk-averse people are (high avoidance: Greece; low: Jamaica).

Consumer behavior differences as well as historical market factors lead marketers to position brands differently in different markets.[46]

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

Marketing Adaptation

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

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

The best global brands are consistent in theme but reflect significant differences in consumer behavior, brand development, competitive forces, and the legal or political environment.[47] Oft-heard—and sometime modified—advice to marketers of global brands is to: "Think Global, Act Local." In that spirit, HSBC is even explicitly positioned as "The World's Local Bank." Take McDonald's for example.[48]

McDonald's

McDonald's allows countries and regions to customize its basic layout and menu staples. In China, corn replaces fries in Happy Meals, some U.S. stores blend fruit smoothies, and Australia and France have Starbucks-like lounges. In India, the mutton-based Maharaja Mac replaces the beefy Big Mac, and cottage cheese wraps and potato patties are offered for vegetarians. In cities plagued by traffic tie-ups like Manila, Taipei, Jakarta, and Cairo, McDonald's delivers via fleets of motor scooters.

Companies must make sure their brands are relevant to consumers in every market they enter. (See "Marketing Memo: The Ten Commandments of Global Branding.")

We next consider some specific issues in developing global product, communications, pricing, and distribution strategies.

McDonald's customizes its menu offerings and even its service delivery to suit the markets to which it sells—in busy cities, it may deliver meals via scooters.

marketing Memo

The Ten Commandments of Global Branding

These guidelines can help a company retain the advantages of global branding while minimizing potential disadvantages:

1. *Understand the global branding landscape.* One international market is rarely identical to or completely different from another in brand development, consumer behavior, competitive activity, or legal restrictions.
2. *Avoid shortcuts in brand building.* Build from the bottom up, creating awareness before brand image (strategy) and developing the right sources of brand equity (tactics).
3. *Establish a marketing infrastructure.* Build marketing infrastructure from scratch or adapt to and modify existing infrastructure in other countries.
4. *Embrace integrated marketing communications.* Many forms of communication work in overseas markets, not just advertising.
5. *Establish brand partnerships.* Most global brands carefully choose marketing partners that help improve distribution, profitability, and added value.
6. *Balance standardization and customization.* Packaging and brand name can often be standardized, while distribution channels and communications typically require greater customization.
7. *Balance global and local control.* Companies must balance global and local control within the organization and distribute decision making between global and local managers.
8. *Establish operable guidelines.* Brand definition and guidelines let marketers everywhere know what to do and not do. The goal is to communicate and enforce rules for positioning and marketing the brand.
9. *Implement a global brand-equity measurement system.* Information from a global brand-equity system lets marketers make the best short-run tactical and long-run strategic decisions in each market.
10. *Leverage brand elements.* Proper design and implementation of brand name and trademarked identifiers can be an invaluable source of brand equity worldwide.

Source: Adapted from Kevin Lane Keller and Sanjay Sood, "The Ten Commandments of Global Branding," *Asian Journal of Marketing* 8, no. 2 (2001), pp. 97–108.

Global Product Strategies

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

PRODUCT STANDARDIZATION Some products cross borders without adaptation better than others. While mature products have separate histories or positions in different markets, consumer knowledge about new products is generally the same everywhere because perceptions have yet to be formed. Many leading Internet brands—Google, eBay, Amazon.com—made quick progress in overseas markets.

High-end products also benefit from standardization, because quality and prestige often can be marketed similarly across countries. Food and beverage marketers find it more challenging to standardize given widely varying tastes and cultural habits. Culture and wealth factors influence how quickly a new product takes off in a country, although adoption and diffusion rates are becoming more alike across countries over time.[49]

A company may emphasize its products differently across markets. IBM takes a two-track approach for its services business: because U.S. clients often are economizing, it focuses on helping them cut costs; for developing-market clients seeking to modernize and catch up with other countries, IBM helps develop their technology infrastructure. In its medical-equipment business, Philips reserves higher-end, premium products for developed markets and emphasizes products with basic functionality and affordability in developing markets.[50]

PRODUCT ADAPTATION STRATEGIES Warren Keegan has distinguished five product and communications adaptation strategies (see Figure 21.3).[51] We review the product strategies here and the communication strategies in the next section.

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

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

|Fig. 21.3|

Five International Product and Communication Strategies

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

- A company can produce a *regional version* of its product, such as a Western European version. Finnish cellular phone superstar Nokia customized its 6100 series phone for every major market. Developers built in rudimentary voice recognition for Asia, where keyboards are a problem, and raised the ring volume to make it audible on crowded Asian streets.
- A company can produce a *country version*. Kraft blends different coffees for the British (who drink coffee with milk), the French (who drink it black), and Latin Americans (who want a chicory taste).
- A company can produce a *city version*—for instance, a beer to meet Munich's or Tokyo's tastes.
- A company can produce different *retailer versions*, such as one coffee brew for the Migros chain store and another for the Cooperative chain store, both in Switzerland.

Some companies have learned adaptation the hard way. The Euro Disney theme park, launched outside Paris in 1992, was harshly criticized as an example of U.S. cultural imperialism that ignored French customs and values, such as serving wine with meals. As one Euro Disney executive noted, "When we first launched, there was the belief that it was enough to be Disney. Now we realize our guests need to be welcomed on the basis of their own culture and travel habits." Renamed Disneyland Paris, the theme park eventually became Europe's biggest tourist attraction—even more popular than the Eiffel Tower—by implementing a number of changes and more local touches.[52]

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

- **Backward invention** reintroduces earlier product forms well adapted to a foreign country's needs. The National Cash Register Company reintroduced its crank-operated cash register at half the price of a modern model and sold substantial numbers in Latin America and Africa.
- **Forward invention** creates a new product to meet a need in another country. Less-developed countries need low-cost, high-protein foods. Companies such as Quaker Oats, Swift, and Monsanto have researched their nutrition requirements, formulated new foods, and developed advertising to gain product trial and acceptance.

BRAND ELEMENT ADAPTATION When they launch products and services globally, marketers may need to change certain brand elements.[53] Even a brand name may require a choice between phonetic and semantic translations.[54] When Clairol introduced the "Mist Stick," a curling iron, in Germany, it found that *mist* is slang for *manure*. Brand slogans or ad taglines sometimes need to be changed too:[55]

- When Coors put its brand slogan "Turn it loose" into Spanish, some read it as "suffer from diarrhea."
- A laundry soap ad claiming to wash "really dirty parts" was translated in French-speaking Quebec to read "a soap for washing private parts."
- Perdue's slogan—"It takes a tough man to make a tender chicken"—was rendered into Spanish as "It takes a sexually excited man to make a chick affectionate."
- Electrolux's British ad line for its vacuum cleaners—"Nothing sucks like an Electrolux"—would certainly not lure customers in the United States!

Table 21.3 lists some other famous marketing mistakes in this area.

Disneyland Paris found greater success when it adapted more closely to the local culture and traditions in France.

TABLE 21.3 Classic Blunders in Global Marketing

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

Global Communication Strategies

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

Consider the message. The company can use one message everywhere, varying only the language, name, and perhaps colors to avoid taboos in some countries.[56] Purple is associated with death in Burma and some Latin American nations, white is a mourning color in India, and in Malaysia green connotes disease.[57]

The second possibility is to use the same message and creative theme globally but adapt the execution. GE's global "Ecomagination" ad campaign substitutes creative content in Asia and the Middle East to reflect the cultural interest there. Even in the high-tech space, local adaptations may be necessary.[58]

Apple

Apple Apple Computer's highly successful "Mac vs. PC" ad campaign featured two actors bantering. One is hip (Apple), the other nerdy (PC). Apple dubbed the ads for Spain, France, Germany, and Italy but chose to reshoot and rescript for the United Kingdom and Japan—two important markets with unique advertising and comedy cultures. The UK ads followed a similar formula but used two well-known actors in character and tweaked the jokes to reflect British humor; the Japanese ads avoided direct comparisons and were more subtle in tone. Played by comedians from a local troupe called the Rahmens, the two characters were more alike and represented work (PC) vs. home (Mac).

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

GLOBAL ADAPTATIONS Companies that adapt their communications wrestle with a number of challenges. They first must ensure their communications are legally and culturally acceptable. Beer, wine, and spirits cannot be advertised or sold in many Muslim countries. Tobacco products are subject to strict regulation in many places. U.S. toy makers were surprised to learn that in many countries (Norway and Sweden, for example) no TV ads may be directed at children under 12. To play it safe, McDonald's advertises itself as a family restaurant in Sweden.

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

Companies also must be prepared to vary their messages' appeal.[59] In advertising its hair care products, Helene Curtis observed that middle-class British women wash their hair frequently, Spanish women less so. Japanese women avoid overwashing for fear of removing protective oils. Language can vary too, whether the local language, another such as English, or some combination.[60]

Many messages need adjustment because the brand is at an earlier stage of development in its new market. Consumer education about the product itself may then need to accompany brand development efforts.

- In certain developing markets in Asia, consumers loved the Coca-Cola brand but had never tasted it. They needed to be advised to drink it cold.[61]
- When launching Chik shampoo in rural areas of South India, where hair is washed with soap, CavinKare showed people how to use the product through live "touch and feel" demonstrations and free sachets at fairs.[62]

Personal selling tactics may need to change too. The direct, no-nonsense approach favored in the United States ("let's get down to business" and "what's in it for me") may not work as well in Europe or Asia as an indirect, subtle approach.[63]

Global Pricing Strategies

Multinationals selling abroad must contend with price escalation and transfer prices (and dumping charges). Two particularly thorny pricing problems are gray markets and counterfeits.

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

Companies have three choices for setting prices in different countries:

1. ***Set a uniform price everywhere.*** PepsiCo might want to charge 75 cents for Pepsi everywhere in the world, but then it would earn quite different profit rates in different countries. Also, this strategy would make the price too high in poor countries and not high enough in rich countries.
2. ***Set a market-based price in each country.*** PepsiCo would charge what each country could afford, but this strategy ignores differences in the actual cost from country to country. It could also motivate intermediaries in low-price countries to reship their Pepsi to high-price countries.[64]
3. ***Set a cost-based price in each country.*** Here PepsiCo would use a standard markup of its costs everywhere, but this strategy might price it out of markets where its costs are high.

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

In another new global pricing challenge, countries with overcapacity, cheap currencies, and the need to export aggressively have pushed prices down and devalued their currencies. Sluggish demand and reluctance to pay higher prices make selling in these markets difficult. Here is what IKEA did to compete in China's challenging pricing market.[65]

IKEA

IKEA IKEA has used market-penetration pricing to get a lock on China's surging market for home furnishings. When the Swedish home furnishings giant opened its first store in Beijing in 2002, shops were selling copies of its designs at a fraction of IKEA's prices. The only way to lure China's frugal customers was to drastically slash prices. Western brands in China usually price products such as makeup and running shoes 20 percent to 30 percent higher than in their other markets, both to make up for China's high import taxes and to give their products added cachet. By stocking its Chinese stores with Chinese-made products, IKEA has been able to slash prices as low as 70 percent below their level outside China. Although it still contends with persistent knockoffs, IKEA maintains sizable stores in Beijing, Shanghai, Guangzhou, Chengdu, and Tianjin, opening one or two new locations each year.

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

When the U.S. Department of Commerce finds evidence of dumping, it can levy a dumping tariff on the guilty company. After finding that exporters and producers from China were selling off-road tires in the United States at 11 percent to 210 percent below fair market value, the U.S. Department of Commerce imposed a duty of 11 percent to 52 percent on four Chinese tire manufactures and an average duty of 25 percent on 23 other tire makers there.[66]

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

Research suggests that gray market activity accounts for billions of dollars in revenue each year and makes up about 8 percent of total global IT sales of $725 billion. Information technology manufacturers lose about $10 billion in profits to the gray market each year.[67]

Gray markets create a free-rider problem, making legitimate distributors' investments in supporting a manufacturer's product less productive and selective distribution systems more intensive. They harm distributor relations, tarnish the manufacturer's brand equity, and undermine the integrity of the distribution channel. They can even pose risks to consumers if the seemingly brand-new product they think they are buying is damaged, remarked, obsolete, without warranty or support, or just counterfeit.

Multinationals try to prevent gray markets by policing the distributors, raising their prices to lower-cost distributors, or altering product characteristics or service warranties for different countries.[68] 3Com successfully sued several companies in Canada (for a total of $10 million) that provided written and oral misrepresentations to get deep discounts on 3Com networking equipment. The equipment, worth millions of dollars, was to be sold to a U.S. educational software company and sent to China and Australia but instead ended up back in the United States.

One research study found that gray market activity was most effectively deterred when penalties were severe, manufacturers were able to detect violations or mete out punishments in a timely fashion, or both.[69]

Counterfeit products are a major headache for luxury-goods makers.

COUNTERFEIT PRODUCTS Name a popular brand, and chances are a counterfeit version of it exists somewhere in the world.[70] Counterfeiting is estimated to cost over a trillion dollars a year. U.S. Customs and Border Protection seized $260 million worth of goods in 2009; the chief culprits were China (81 percent) and Hong Kong (10 percent), and the chief product was footwear (38 percent).[71]

Fakes take a big bite of the profits of luxury brands such as Hermès, LVMH Moët Hennessy Louis Vuitton, and Tiffany, but faulty counterfeits can literally kill people. Cell phones with counterfeit batteries, fake brake pads made of compressed grass trimmings, and counterfeit airline parts pose safety risks to consumers. Virtually every product is vulnerable. As one anticounterfeit consultant observed, "If you can make it, they can fake it." Defending against counterfeiters is a never-ending struggle; some observers estimate that a new security system can be just months old before counterfeiters start nibbling at sales again.[72]

The Web has been especially problematic. After surveying thousands of items, LVMH estimated 90 percent of Louis Vuitton and Christian Dior pieces listed on eBay were fakes, prompting the firm to sue. Manufacturers are fighting back online with Web-crawling software that detects fraud and automatically warns apparent violators without the need for any human intervention. Acushnet, maker of Titleist golf clubs and balls, shut down 75 auctions of knockoff gear in one day with just one mouse click.[73]

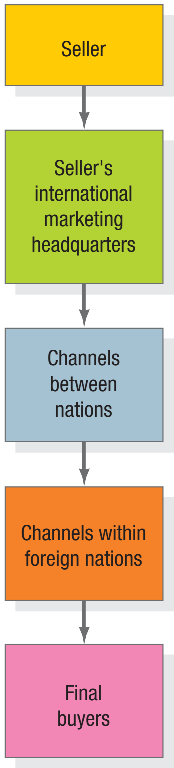
Web-crawling technology searches for counterfeit storefronts and sales by detecting domain names similar to legitimate brands and unauthorized Web sites that plaster brand trademarks and logos on their homepages. It also checks for keywords such as *cheap, discount, authentic,* and *factory variants,*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

Global Distribution Strategies

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

CHANNEL ENTRY Figure 21.4 shows three links between the seller and the final buyer. In the first, *seller's international marketing headquarters,* the export department or international division makes decisions about channels and other marketing activities. The second link, *channels between nations,* gets the products to the borders of the foreign nation. Decisions made in this link include the types of intermediaries (agents, trading companies), type of transportation (air, sea), and financing and risk management. The third link, *channels within foreign nations,* gets products from their entry point to final buyers and users.

When multinationals first enter a country, they prefer to work with local distributors with good local knowledge, but friction often arises later.[74] The multinational complains that the local distributor doesn't invest in business growth, doesn't follow company policy, and doesn't share enough information. The local distributor complains of insufficient corporate support, impossible goals, and confusing policies. The multinational must choose the right distributors, invest in them, and set up performance goals to which they can agree.[75]



|Fig. 21.4|

Whole-Channel Concept for International Marketing

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

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

Sometimes companies mistakenly adapt infrastructure strategies that were critical success factors, only to discover that these changes eroded the brand's competitive advantage. Dell Computer initially abandoned its direct distribution strategy in Europe for a traditional retailer network of existing channels, with poor results. Ignoring critics who claimed the direct distribution model would never work in Europe, Dell then revamped its direct approach, relaunching its personal computer line with a new management team to execute the direct model it had pioneered in the United States, finding greater success as a result.

Increasingly, retailers are moving into new global markets, offering firms the opportunity to sell across more countries and creating a challenge to local distributors and retailers.[76] France's Carrefour, Germany's Metro, and United Kingdom's Tesco have all established global positions. But some of the world's most successful retailers have had mixed success abroad. Despite concerted efforts and earlier success in Latin America and China, Walmart had to withdraw from both the German and South Korean markets.

Country-of-Origin Effects

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

Building Country Images

Governments now recognize that the images of their cities and countries affect more than tourism and have important value in commerce. Attracting foreign business can boost the local economy, provide jobs, and improve infrastructure. Image can also help sell products. For its first global ad campaign for Infiniti luxury cars, Nissan chose to tap into its Japanese roots and association with Japanese-driven art and engineering.[77]

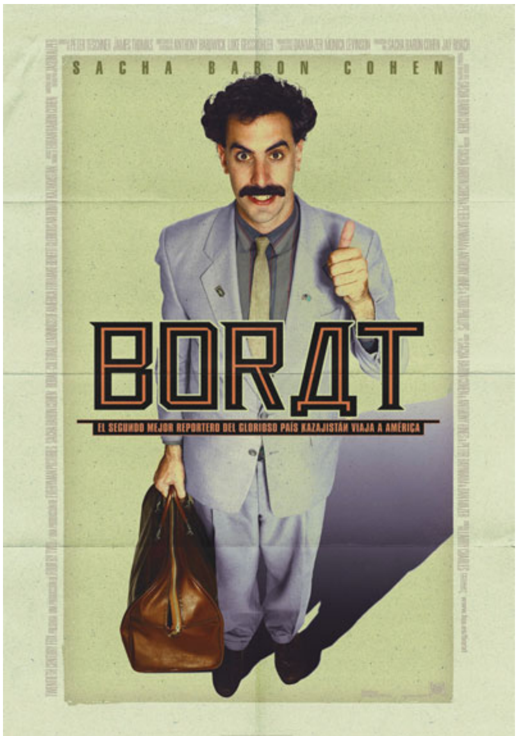
Countries are being marketed like any other brand.[78] New Zealand developed concerted marketing programs both to sell its products outside the country, via its New Zealand Way program, and to attract tourists by showing the dramatic landscapes featured in *The Lord of the Rings* film trilogy. Both efforts reinforce the image of New Zealand as fresh and pure.[79]

Another film affected the image of a country in an entirely different way. Although Kazakhstan has a positive story to tell given its huge size, rich natural resources, and rapid modernization, British comedian Sacha Baron Cohen's mock documentary *Borat* portrayed the country in a sometimes crude and vulgar light. As one government official noted, "the only fact of the movie is the geographic location of Kazakhstan." Fortunately, the tongue-in-cheek film also created awareness and interest in the country and what has been called the "Borat Bounce," an unanticipated surge in tourism.[80]

Attitudes toward countries can change over time. Before World War II, Japan had a poor image, which the success of Sony with its Trinitron TV sets and of Japanese automakers Honda and Toyota helped change. A strong company that emerges as a global player can do wonders for a country's image. Relying partly on the global success of Nokia, Finland campaigned to enhance its image as a center of high-tech innovation.[81]

Current events can also shape the image of a country. With public unrest and violent protests surrounding the austerity program to address Greece's debt crisis, tourist bookings there dropped as much as 30 percent.[82]

Although the film *Borat* poked fun at Kazakhstan, it also created much public awareness of and interest in the country.



Consumer Perceptions of Country of Origin

Global marketers know that buyers hold distinct attitudes and beliefs about brands or products from different countries.[83] These perceptions can be an attribute in decision making or influence other attributes in the process ("if it's French, it must be stylish"). The mere fact that a brand is perceived as successful on a global stage—whether it sends a quality signal, taps into cultural myths, or reinforces a sense of social responsibility—may lend credibility and respect.[84] Several studies have found the following:[85]

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

Marketers must look at country-of-origin perceptions from both a domestic and a foreign perspective. In the domestic market, these perceptions may stir consumers' patriotic notions or remind them of their past. As international trade grows, consumers may view certain brands as symbolically important in their own cultural heritage and identity.

Patriotic appeals underlie marketing strategies all over the world, but they can lack uniqueness and even be overused, especially in economic or political crises. Many small businesses tap into community pride to emphasize their local roots. To be successful, these need to be clearly local and offer appealing product and service offerings.[86]

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

With outsourcing and foreign manufacturing, it's hard to know what the country of origin really is anyway. Only 65 percent of the content of a Ford Mustang comes from the United States or Canada, whereas the Toyota Sienna is assembled in Indiana with 90 percent local components. Foreign automakers are pouring money into North America, investing in plants, suppliers, and dealerships as well as design, testing, and research centers. But what makes a product more "American"—having a higher percentage of North American components or creating more jobs in North America? The two measures may not lead to the same conclusion.[87]

Many brands have gone to great lengths to weave themselves into the cultural fabric of their foreign markets. One Coca-Cola executive tells of a young child visiting the United States from Japan who commented to her parents on seeing a Coca-Cola vending machine—"Look, they have Coca-Cola too!" As far as she was concerned, Coca-Cola was a Japanese brand.

Even when the United States has not been that popular, its brands typically have been. One recent study found that 70 percent of consumers in developing countries, ranging from Argentina to the United Arab Emirates, felt local products weren't as good as international brands.[88] In Saudi Arabia, Kraft packaged cheese, Lay's potato chips, and McDonald's restaurants were all viewed as top brands in their categories. As one marketer said of the study, "Regardless of all the problems we have as a country, we are still looked to as the consumer capital of the world."[89]

Companies can target niches to establish a footing in new markets. China's leading maker of refrigerators, washing machines, and air conditioners, Haier, is building a beachhead among U.S. college students who loyally buy its mini-fridges at Walmart and elsewhere. Haier's long-term plans are to introduce innovative products in other areas, such as flat-screen TV sets and wine-cooling cabinets.[90]

China's Haier has ambitious plans to sell its many different appliances in the United States and other markets.

Deciding on the Marketing Organization

Companies manage their international marketing activities in three ways: through export departments, international divisions, or a global organization.

Export Department

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, it organizes an export department consisting of a sales manager and a few assistants. As sales increase, the export department expands to include various marketing services so the company can go after business more aggressively. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate to manage international operations.

International Division

Sooner or later, companies that engage in several international markets and ventures create an international division to handle all this activity. The unit is headed by a division president who sets goals and budgets and is responsible for the company's international growth.

The international division's corporate staff consists of functional specialists who provide services to various operating units. Operating units can be *geographical organizations.* Reporting to the international-division president might be regional vice presidents for North America, Latin America, Europe, Africa, the Middle East, and the Far East. Reporting to the regional vice presidents are country managers responsible for a sales force, sales branches, distributors, and licensees in the respective countries. Or the operating units may be *world product groups,* each with an international vice president responsible for worldwide sales of each product group. The vice presidents may draw on corporate-staff area specialists for expertise on different geographical areas. Finally, operating units may be *international subsidiaries,* each headed by a president who reports to the president of the international division.

Global Organization

Several firms have become truly global organizations. Their top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows, and logistical systems. The global operating units report directly to the chief executive or executive committee, not to the head of an international division. The firm trains its executives in worldwide operations, recruits management from many countries, purchases components and supplies where it can obtain them at least cost, and makes investments where anticipated returns are greatest.

These companies face several organizational complexities. For example, when the firm is pricing a company's mainframe computers for a large banking system in Germany, how much influence should the headquarters product manager have? And the company's market manager for the banking sector? And the company's German country manager?

When forces for "global integration" (capital-intensive production, homogeneous demand) are strong and forces for "national responsiveness" (local standards and barriers, strong local preferences) are weak, a global strategy that treats the world as a single market can make sense (for example, with consumer electronics). When the reverse is true, a multinational strategy that treats the world as a portfolio of national opportunities can be more appropriate (such as for food or cleaning products).[91]

Korea's globally integrated LG decided to hire a number of top executives from Western firms to help transform it from "an engineering powerhouse that excelled at manufacturing and selling in different parts of the world" to a "globally efficient, trend-setting organization." The new executives were charged with standardizing the hodgepodge of processes and systems LG had developed in different markets in purchasing, the supply chain, marketing, and other areas. A single agency (London's Bartle Bogle Hegarty) was given global responsibility to sell an increasing number of higher-end products.[92]

When both forces prevail to some extent, a "glocal" strategy that standardizes certain elements and localizes others can be the way to go (for instance, with telecommunications). Many firms seek a blend of centralized global control from corporate headquarters with input from local and regional marketers. As one top marketer for global brand icon Jack Daniels described the challenges of managing the world's biggest-selling whiskey brand across 135 countries: "'Not invented' here is a good thing; 'invented here' is also a good thing; 'not invented but improved here' is the best!"[93]

Finding the balance can be tricky, though. Coca-Cola adopted a "think local, act local" philosophy, decentralizing power and responsibility for designing marketing programs and activities. Execution faltered because many local managers lacked the skills or discipline to do the job. Decidedly un-Coke-like ads appeared—such as skinny-dippers streaking down a beach in Italy—and sales stalled. The pendulum swung back, and Coke executives in Atlanta resumed a strong strategic role.[94]

Effectively transferring successful marketing ideas from one region to another is a key priority for many firms. Rather than developing global products for jointly owned Renault and Nissan, CEO Carlos Ghosn has mandated that companies design for local tastes and have the flexibility to export the design to other regions to tap into similar consumer trends. The no-frills Logan was developed by Renault for Eastern Europe and Latin America but found another home in France. When products cross a region, ideas and a way of thinking may also transfer in the process. Ghosn teamed Nissan and Renault with Bajaj Auto to sell a $3,000 car in the Indian market, in part to infuse those companies with India's low-cost design thinking: "They understand frugal engineering, which is something we aren't as good at in Europe or Japan."[95]

Summary

1. Despite shifting borders, unstable governments, foreign-exchange problems, corruption, and technological pirating, companies selling in global industries need to internationalize their operations.
2. Upon deciding to go abroad, a company needs to define its international marketing objectives and policies. It must determine whether to market in a few or many countries and rate candidate countries on three criteria: market attractiveness, risk, and competitive advantage.
3. Developing countries offer a unique set of opportunities and risks. The "BRIC" countries—Brazil, Russia, India, and China—plus other significant markets such as Indonesia and South Africa are a top priority for many firms.
4. Modes of entry are indirect exporting, direct exporting, licensing, joint ventures, and direct investment. Each succeeding strategy entails more commitment, risk, control, and profit potential.
5. In deciding how much to adapt their marketing programs at the product level, firms can pursue a strategy of straight extension, product adaptation, or product invention. At the communication level, they may choose communication adaptation or dual adaptation. At the price level, firms may encounter price escalation, dumping, gray markets, and discounted counterfeit products. At the distribution level, firms need to take a whole-channel view of distributing products to the final users. Firms must always consider the cultural, social, political, technological, environmental, and legal limitations they face in other countries.
6. Country-of-origin perceptions can affect consumers and businesses alike. Managing those perceptions to best advantage is a marketing priority.
7. Depending on their level of international involvement, companies manage international marketing activity in three ways: through export departments, international divisions, or a global organization.

Applications

Marketing Debate

Is the World Coming Closer Together?

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

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

Marketing Discussion

Country of Origin

Think of some of your favorite brands. Do you know where they come from? Where and how are they made or provided? Do you think knowing these answers would affect your perceptions of quality or satisfaction?

Marketing Excellence

>>Nokia

Nokia has made a remarkable transformation over the past two decades from an obscure Finnish conglomerate to a cell phone powerhouse. Now the world's largest manufacturer of mobile telephones, it has over 1 billion users and a global market share of 33 percent in 2010. The company sells approximately 11 cell phones every second and is the standout leader in Asia, Eastern Europe, and Africa.

Nokia's transformation started in the early 1990s with its strategic decision to divest its product portfolio and focus entirely on telecommunications. Business soon exploded, in part due to Nokia's mastery in innovating telecommunications technologies. Nokia was a key developer of new mobile technologies like GSM (Global System for Mobile Communications) that allow consumers to roam internationally and use new data services like text messaging. Although the firm has struggled in North America—in part because many networks there use a different wireless standard (CDMA) than in Europe (GSM)—its global footprint is still impressive.

Nokia's success also derives from its broad strategic view of how to build a global brand and international consumer base. The company sells a wide range of products and services in all price ranges to different types of consumers all over the world. In short, its approach is "All price points, all markets." Nokia has a practical understanding of what consumers need, value, and can afford depending on their geographical location and demographics. By providing the right products, features, and price, the firm has successfully built long-term brand value all over the world.

With the bulk of industry growth coming from developing markets, Nokia has made sure its cheapest handsets are appealing—and profitable—in markets such as China, India, and Latin America. On the flip side, to sustain its market leadership and compete in challenging markets like Europe and the United States, it has launched a range of high-end handsets with advanced features and applications. This consumer base is so critical to Nokia's growth that it has created a business division focused entirely on creating software and services for it, including music, video, games, maps, messaging, and media. Today, Nokia's products range from $30 basic models to $600 smart phones that include video editing, voice-guided navigation, and thousands of applications. Nokia's future also lies in its growing line of mobile computers, devices with the advanced capabilities of a computer that fit into the palm of your hand.

Nokia takes a broad perspective on competition as well, viewing Apple, Sony, and Canon as threats as much as traditional rivals Motorola and Samsung. Competitors' products like the iPhone, BlackBerry, and Android smart phones have all gained significant market share. Although 84 percent of its sales consist of cell phones, Nokia is focused on making its smart phones durable, reliable, and affordable to consumers in emerging markets, as it did with cell phones.

As a global leader, Nokia understands how critical it is to have a finger on the pulse of countries and cultures all over the world. With 16 different R&D factories, manufacturing plants in 10 countries, Web sites in 7 countries, and 650,000 points-of-sale—the widest distribution network in the world—Nokia strives to be a global leader but locally relevant. It forms relationships with local business partners, gets involved in the community, and works to earn consumers' trust on a local level.

In India, for example, the company has increased its local involvement by including in the Nokia Music Store a significant percentage of songs by local and regional artists, adding thousands of local customer care services, and supporting a local environmental initiative called "Planet Ke Rakwale" that encourages consumers to recycle their old phones and batteries. Nokia even added the tagline, "Made in India for India."

Today, with a value of nearly $35 billion, Nokia is the fifth most valuable global brand in the Interbrand/*BusinessWeek* ranking, surpassing Google, Samsung, Apple, and BlackBerry. The brand continues to rank well in consumers' minds as high quality, robust, easy to use, and trustworthy—a perfect combination for succeeding in both emerging and mature countries.

Questions

1. What have been the keys to Nokia's global strength?
2. What can Nokia do to gain market share in the United States and Europe where its presence is not as strong?
3. In the ever-changing world of mobile technology, what are the greatest threats to Nokia's global presence?

Sources: Jack Ewing, "Nokia: Lesson Learned, Reward Reaped," *BusinessWeek*, July 30, 2007; "Face Value," *Economist*, May 27, 2006; Oli Pekka Kalasvuo, "Brand Identity: A Delicate Balance between Image and Authenticity," *Economic Times*, August 31, 2010; Kevin J. O'Brien, "Nokia Seeks to Reconnect with the U.S. Market," *New York Times*, August 15, 2010; "Best Global Brands 2009," *Interbrand/BusinessWeek*; Nokia Capital Markets Day presentation, 2009; Nokia, www.nokia.com.

Marketing Excellence

>>L'Oréal

When it comes to globalizing beauty, no one does it better than L'Oréal. The company was founded in Paris over 100 years ago by a young chemist, Eugene Schueller, who sold his patented hair dyes to local hairdressers and salons. By the 1930s, Schueller had invented beauty products like suntan oil and the first mass-marketed shampoo. Today, the company has evolved into the world's largest beauty and cosmetics company, with distribution in 130 countries, 23 global brands, and over €17.5 billion in sales.

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

Today, L'Oréal focuses on its five areas of expertise: skin care, hair care, makeup, hair coloring, and perfume. Its brands fall into four different groups: (1) Consumer Products (52 percent of L'Oréal's portfolio, including mass-marketed Maybelline and high-technology products sold at competitive prices through mass-market retailing chains), (2) Luxury Products (prestigious brands like Ralph Lauren perfume offered only in premium stores, department stores, or specialty stores), (3) Professional Products (brands such as Redken designed specifically for professional hair salons), and (4) Active (dermo-cosmetic products sold at pharmacies).

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

The company has built its portfolio primarily by purchasing local beauty companies all over the world, revamping them with strategic direction, and expanding the brand into new areas through its powerful marketing arm. For example, L'Oréal instantly became a player (with 20 percent market share) in the growing ethnic hair care industry when it purchased and merged the U.S. companies Soft Sheen Products in 1998 and Carson Products in 2000. L'Oréal believed the competition had overlooked this category because it was previously fragmented and misunderstood. SoftSheen-Carson now derives approximately 30 percent of its annual revenues from South Africa.

L'Oréal also invests money and time in innovating at 14 research centers around the world, spending 3 percent of annual sales on R&D, more than one percentage point above the industry average. Understanding the unique beauty routines and needs of different cultures, countries, and consumers is critical to L'Oréal's global success. Hair and skin greatly differ from one part of the world to another, so L'Oréal scientists study consumers in laboratory bathrooms and in their own homes, sometimes achieving scientific beauty milestones. In Japan, for example, L'Oréal developed Wondercurl mascara specially formulated to curl Asian women's eyelashes, which are usually short and straight. The result: within three months it had become Japan's number-one selling mascara, and girls excitedly lined up in front of stores to buy it. L'Oréal continued to research the market and developed nail polish, blush, and other cosmetics aimed at this new generation of Asian girls.

Well known for its 1973 advertising tagline—"Because I'm Worth It"—L'Oréal is now a leader in beauty products around the world. As Gilles Weil, L'Oréal's head of luxury products, explained, "You have to be local and as strong as the best locals, but backed by an international image and strategy."

Questions

1. Review L'Oréal's brand portfolio. What role have target marketing, smart acquisitions, and R&D played in growing those brands?
2. Who are L'Oréal's greatest competitors? Local, global, or both? Why?
3. What has been the key to successful local product launches such as Maybelline's Wondercurl in Japan?
4. What's next for L'Oréal on a global level? If you were CEO, how would you sustain the company's global leadership?

Sources: Andrew Roberts, "L'Oréal Quarterly Sales Rise Most Since 2007 on Luxury Perfume," *Bloomberg BusinessWeek*, April 22, 2010; Richard Tomlinson, "L'Oréal's Global Makeover," *Fortune,* September 30, 2002; Doreen Carvajal, "International Business; Primping for the Cameras in the Name of Research," *New York Times,* February 7, 2006; Richard C. Morais, "The Color of Beauty," *Forbes,* November 27, 2000; L'Oréal, www.loreal.com.

Chapter 22

In This Chapter, We Will Address the Following Questions

1. What are important trends in marketing practices?
2. What are the keys to effective internal marketing?
3. How can companies be responsible social marketers?
4. How can a company improve its marketing skills?
5. What tools are available to help companies monitor and improve their marketing activities?

Timberland's passion for the outdoors and the environment influences its choice of products to sell and the way it makes and sells those products.

Managing a Holistic Marketing Organization for the Long Run

Healthy long-term growth for a brand requires that the marketing organization be managed properly. Holistic marketers must engage in a host of carefully planned, interconnected marketing activities and satisfy an increasingly broader set of constituents and objectives. They must also consider a wider range of effects of their actions. Corporate social responsibility and sustainability have become a priority as organizations grapple with the short-term and long-term effects of their marketing. Some firms have embraced this new vision of corporate enlightenment and made it the very core of what they do. Consider Timberland.[1]

Timberland, the maker of rugged boots, shoes, clothing, and gear, has a passion for the great outdoors. The company targets individuals who live, work, and play outdoors, so it only makes sense that it wants to do whatever it takes to protect the environment. Over the past two decades, Timberland's commitment and actions have blazed trails for green companies around the world. Its revolutionary initiatives include giving its shoes a "nutrition label" that measures their "greenness"—how much energy was used in making them, what transportation and labor costs were incurred, and what portion is renewable. Timberland also introduced a new line of shoes called Earthkeepers, made of organic cotton, recycled PET, and recycled tires (for the soles). The shoes are designed to be taken apart and over 50 percent of the parts can be recycled. Timberland has attracted an online community for Earthkeepers by offering tips and information about events focused on preserving the environment. Its business accomplishments prove that socially and environmentally responsible companies can be successful. Sales topped $1.2 billion in 2009, and Timberland has won numerous awards from a steady spot on Fortune's 100 Best Companies to Work For to the Ron Brown Award for Corporate Leadership, the only Presidential Award recognizing companies for outstanding employee and community relations.

Many other brands such as Ben & Jerry's, Odwalla, Patagonia, Stonyfield Farm, Whole Foods, and Seventh Generation have embraced similar philosophies and practices. Successful holistic marketing requires effective relationship marketing, integrated marketing, internal marketing, and performance marketing. Preceding chapters addressed the first two topics and the strategy and tactics of marketing. In this chapter, we consider the latter two topics and how to conduct marketing responsibly. We look at how firms organize, implement, evaluate, and control marketing activities in a context heightened by social responsibility. We begin by examining changes in the way companies conduct marketing today.

Trends in Marketing Practices

Chapters 1 and Chapter 3 described important changes in the marketing macroenvironment, such as globalization, deregulation, market fragmentation, consumer empowerment, and environmental concerns.[2] With these and all the remarkable developments in computers, software, the Internet, and cell phones, the world has unquestionably become a very different place for marketers. In earlier chapters, we detailed the many shifts in marketing that dominated the first decade of the 21st century.[3] Table 22.1 summarizes some important ones and we briefly review a few next.

TABLE 22.1 Important Shifts in Marketing and Business Practices
• ***Reengineering.*** Appointing teams to manage customer-value-building processes and break down walls between departments
• ***Outsourcing.*** Buying more goods and services from outside domestic or foreign vendors
• ***Benchmarking.*** Studying "best practice companies" to improve performance
• ***Supplier partnering.*** Partnering with fewer but better value-adding suppliers
• ***Customer partnering.*** Working more closely with customers to add value to their operations
• ***Merging.*** Acquiring or merging with firms in the same or complementary industries to gain economies of scale and scope
• ***Globalizing.*** Increasing efforts to "think global" and "act local"
• ***Flattening.*** Reducing the number of organizational levels to get closer to the customer
• ***Focusing.*** Determining the most profitable businesses and customers and focusing on them
• ***Justifying.*** Becoming more accountable by measuring, analyzing, and documenting the effects of marketing actions
• ***Accelerating.*** Designing the organization and setting up processes to respond more quickly to changes in the environment
• ***Empowering.*** Encouraging and empowering personnel to produce more ideas and take more initiative
• ***Broadening.*** Factoring the interests of customers, employees, shareholders, and other stakeholders into the activities of the enterprise
• ***Monitoring.*** Tracking what is said online and elsewhere and studying customers, competitors, and others to improve business practices

Recently, marketers have had to operate in a slow-growth economic environment characterized by discriminating consumers, aggressive competition, and a turbulent marketplace. An era of conspicuous consumption has come to an end as many consumers cope with reduced incomes and less wealth.[4] A debt-laden consumer base penalizes companies still promoting a "buy now, pay later" sales philosophy, and consumers and companies alike are increasingly considering the environmental and social consequences of their actions.

As consumers become more disciplined in their spending and adopt a "less is more" attitude, it is incumbent on marketers to create and communicate the true value of their products and services.[5] Marketing can and should play a key role in improving standards of living and quality of life, especially in tough times. Marketers must continually seek to improve what they do.[6]

In today's highly competitive, ever-changing marketing environment, firms such as Blockbuster that do not adapt fast enough may encounter financial setbacks or even failure.

Companies can't win by standing still. Recent business problems and failures by firms such as Blockbuster, Barnes & Noble, and Kodak reflect an inability to adjust to a dramatically different marketing environment. Firms must invest instead in improving their offerings and finding big new ideas. Sometimes, like IBM, Microsoft, and Intel, they may have to fundamentally change their business models. Marketers must collaborate closely and early with product development and R&D, and later with the sales force, to develop and sell products and services that fully satisfy customer needs and wants. They must also work with finance, manufacturing, and logistics to establish a value-creation mind-set in the organization.

Emerging markets such as India and China offer enormous new sources of demand—but often only for certain types of products and at certain price points. Across all markets, marketing plans and programs will grow more localized and culturally sensitive, while strong brands that are well differentiated and continually improved will remain fundamental to marketing success. Businesses will continue to use social media more and traditional media less. The Web allows unprecedented depth and breadth in communications and distribution, and its transparency requires companies to be honest and authentic.

Marketers also face ethical dilemmas and perplexing trade-offs. Consumers may value convenience, but how to justify disposable products or elaborate packaging in a world trying to minimize waste? Increasing material aspirations can defy the need for sustainability. Given increasing consumer sensitivity and government regulation, smart companies are creatively designing with energy efficiency, carbon footprints, toxicity, and disposability in mind. Some are choosing local suppliers over distant ones. Auto companies and airlines must be particularly conscious of releasing CO_2 in the atmosphere.

Toyota Prius

Toyota Prius Some auto experts scoffed when Toyota predicted sales of 300,000 cars within five years of launching its gas-and-electric Prius hybrid sedan in 2001. But by 2004, the Prius had a six-month waiting list. Toyota's winning formula consists of a powerful electric motor and the ability to quickly switch power sources—resulting in 55 miles per gallon for city and highway driving—with the roominess and power of a family sedan and an eco-friendly design and look, for a little over $20,000. The lesson? Functionally successful products that consumers see as good for the environment can offer enticing options. Toyota is now rolling out hybrids throughout its auto lineup, and U.S. automakers have followed suit.[7]

Now more than ever, marketers must think holistically and use creative win-win solutions to balance conflicting demands. They must develop fully integrated marketing programs and meaningful relationships with a range of constituents.[8] They must do all the right things inside their company and consider the broader consequences in the marketplace, topics we turn to next.

Internal Marketing

Traditionally, marketers played the role of middleman, charged with understanding customers' needs and transmitting their voice to various functional areas.[9] But in a networked enterprise, *every* functional area can interact directly with customers. Marketing no longer has sole ownership of customer interactions; rather, it now must integrate all the customer-facing processes so customers see a single face and hear a single voice when they interact with the firm.[10]

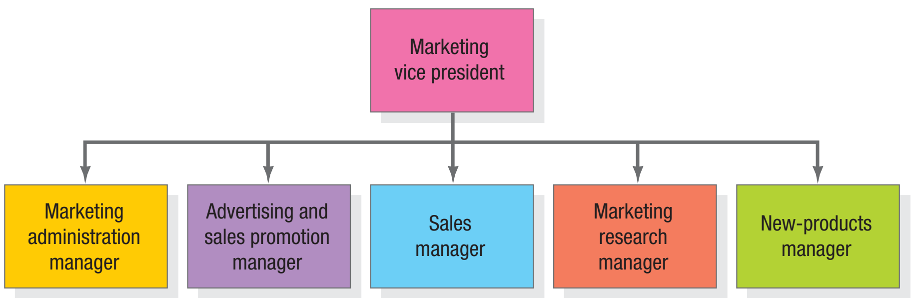
Internal marketing requires that everyone in the organization accept the concepts and goals of marketing and engage in choosing, providing, and communicating customer value. Only when *all* employees realize their job is to create, serve, and satisfy customers does the company become an effective marketer.[11] "Marketing Memo: Characteristics of Company Departments That Are Truly Customer Driven" presents a tool that evaluates which company departments are truly customer driven.

Let's look at how marketing departments are being organized, how they can work effectively with other departments, and how firms can foster a creative marketing culture across the organization.[12]

Organizing the Marketing Department

Modern marketing departments can be organized in a number of different, sometimes overlapping ways: functionally, geographically, by product or brand, by market, or in a matrix.

FUNCTIONAL ORGANIZATION In the most common form of marketing organization, functional specialists report to a marketing vice president who coordinates their activities. Figure 22.1 shows five specialists. Others might include a customer service manager,



|Fig. 22.1|

Functional Organization

marketing **Memo**

Characteristics of Company Departments That Are Truly Customer Driven

R&D	___	They spend time meeting customers and listening to their problems.
	___	They welcome the involvement of marketing, manufacturing, and other departments on each new project.
	___	They benchmark competitors' products and seek "best of class" solutions.
	___	They solicit customer reactions and suggestions as the project progresses.
	___	They continuously improve and refine the product on the basis of market feedback.
Purchasing	___	They proactively search for the best suppliers rather than choose only from those who solicit their business.
	___	They build long-term relationships with fewer but more reliable high-quality suppliers.
	___	They do not compromise quality for price savings.
Manufacturing	___	They invite customers to visit and tour their plants.
	___	They visit customer factories to see how customers use the company's products.
	___	They willingly work overtime when it is important to meet promised delivery schedules.
	___	They continuously search for ways to produce goods faster and/or at lower costs.
	___	They continuously improve product quality, aiming for zero defects.
	___	They meet customer requirements for "customization" where this can be done profitably.
Marketing	___	They study customer needs and wants in well-defined market segments.
	___	They allocate marketing effort in relationship to the long-run profit potential of the targeted segments.
	___	They develop winning offerings for each target segment.
	___	They measure company image and customer satisfaction on a continuous basis.
	___	They continuously gather and evaluate ideas for new products, product improvements, and services to meet customers' needs.
	___	They influence all company departments and employees to be customer-centered in their thinking and practice.
Sales	___	They acquire specialized knowledge of the customer's industry.
	___	They strive to give the customer "the best solution" but make only promises they can keep.
	___	They feed customers' needs and ideas back to those in charge of product development.
	___	They serve the same customers for a long period of time.
Logistics	___	They set a high standard for service delivery time and meet it consistently.
	___	They operate a knowledgeable and friendly customer service department that can answer questions, handle complaints, and resolve problems in a satisfactory and timely manner.
Accounting	___	They prepare periodic profitability reports by product, market segment, sales territory, order size, and individual customers.
	___	They prepare invoices tailored to customer needs and answer customer queries courteously and quickly.
Finance	___	They understand and support marketing investments (like image advertising) that produce long-term customer preference and loyalty.
	___	They tailor the financial package to the customers' financial requirements.
	___	They make quick decisions on customer creditworthiness.
Public Relations	___	They disseminate favorable news about the company and they handle damage control for unfavorable news.
	___	They act as an internal customer and public advocate for better company policies and practices.
Other Customer-Contact Personnel	___	They are competent, courteous, cheerful, credible, reliable, and responsive.

Some companies employ market specialists who focus on very specific regions of the country, for example, Miami-Dade County in Florida.

a marketing planning manager, a market logistics manager, a direct marketing manager, and a digital marketing manager.

The main advantage of a functional marketing organization is its administrative simplicity. It can be quite a challenge for the department to develop smooth working relationships, however. This form also can result in inadequate planning as the number of products and markets increases and each functional group vies for budget and status. The marketing vice president constantly weighs competing claims and faces a difficult coordination problem.

GEOGRAPHIC ORGANIZATION A company selling in a national market often organizes its sales force (and sometimes marketing) along geographic lines.[13] The national sales manager may supervise 4 regional sales managers, who each supervise 6 zone managers, who in turn supervise 8 district sales managers, who each supervise 10 salespeople.

Some companies are adding *area market specialists* (regional or local marketing managers) to support sales efforts in high-volume markets. One such market might be Miami-Dade County, Florida, where almost two-thirds of the households are Hispanic.[14] The Miami specialist would know Miami's customer and trade makeup, help marketing managers at headquarters adjust their marketing mix for Miami, and prepare local annual and long-range plans for selling all the company's products there. Some companies must develop different marketing programs in different parts of the country because geography alters their brand development so much.

PRODUCT- OR BRAND-MANAGEMENT ORGANIZATION Companies producing a variety of products and brands often establish a product- (or brand-) management organization. This does not replace the functional organization but serves as another layer of management. A group product manager supervises product category managers, who in turn supervise specific product and brand managers.

A product-management organization makes sense if the company's products are quite different or there are more than a functional organization can handle. This form is sometimes characterized as a **hub-and-spoke system**. The brand or product manager is figuratively at the center, with spokes leading to various departments representing working relationships (see Figure 22.2). The manager may:

- Develop a long-range and competitive strategy for the product.
- Prepare an annual marketing plan and sales forecast.
- Work with advertising and merchandising agencies to develop copy, programs, and campaigns.
- Increase support of the product among the sales force and distributors.
- Gather continuous intelligence about the product's performance, customer and dealer attitudes, and new problems and opportunities.
- Initiate product improvements to meet changing market needs.

The product-management organization lets the product manager concentrate on developing a cost-effective marketing program and react more quickly to new products in the

|Fig. 22.2|

The Product Manager's Interactions

marketplace; it also gives the company's smaller brands a product advocate. However, it has disadvantages too:

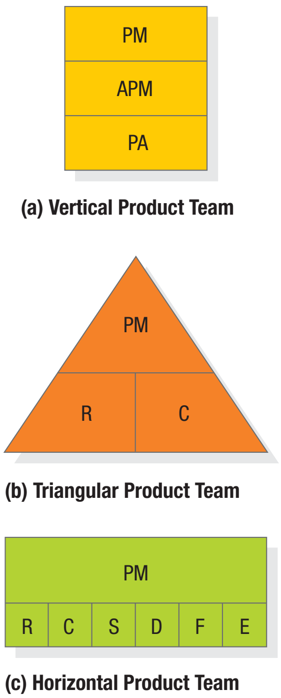
- Product and brand managers may lack authority to carry out their responsibilities.
- They become experts in their product area but rarely achieve functional expertise.
- The system often proves costly. One person is appointed to manage each major product or brand, and soon more are appointed to manage even minor products and brands.
- Brand managers normally manage a brand for only a short time. Short-term involvement leads to short-term planning and fails to build long-term strengths.
- The fragmentation of markets makes it harder to develop a national strategy. Brand managers must please regional and local sales groups, transferring power from marketing to sales.
- Product and brand managers focus the company on building market share rather than customer relationships.

A second alternative in a product-management organization is *product teams.* There are three types: vertical, triangular, and horizontal (see Figure 22.3). The triangular and horizontal product-team approaches let each major brand be run by a **brand-asset management team (BAMT)** consisting of key representatives from functions that affect the brand's performance. The company consists of several BAMTs that periodically report to a BAMT directors committee, which itself reports to a chief branding officer. This is quite different from the way brands have traditionally been handled.

A third alternative is to eliminate product manager positions for minor products and assign two or more products to each remaining manager. This is feasible where two or more products appeal to a similar set of needs. A cosmetics company doesn't need product managers for each product because cosmetics serve one major need—beauty. A toiletries company needs different managers for headache remedies, toothpaste, soap, and shampoo because these products differ in use and appeal.

In a fourth alternative, *category management*, a company focuses on product categories to manage its brands. Procter & Gamble, a pioneer of the brand-management system, and other top packaged-goods firms have made a major shift to category management, as have firms outside the grocery channel.[15] P&G cites a number of advantages. By fostering internal competition among brand managers, the traditional brand-management system created strong incentives to excel, but also internal competition for resources and a lack of coordination. The new scheme was designed to ensure adequate resources for all categories.

Another rationale is the increasing power of the retail trade, which has thought of profitability in terms of product categories. P&G felt it only made sense to deal along similar lines. Retailers and



PM = product manager
APM = associate product manager
PA = product assistant
R = market researcher
C = communication specialist
S = sales manager
D = distribution specialist
F = finance/accounting specialist
E = engineer

|Fig. 22.3|

Three Types of Product Teams

regional grocery chains such as Walmart and Dominick's embrace category management as a means to define a particular product category's strategic role within the store and address logistics, the role of private-label products, and the trade-offs between product variety and inefficient duplication.[16]

In fact, in some packaged-goods firms, category management has evolved into aisle management and encompasses multiple related categories typically found in the same sections of supermarkets and grocery stores. General Mills' Yoplait Yogurt has served as category advisor to the dairy aisle for 24 major retailers, boosting the yogurt base footprint four to eight feet at a time and increasing sales of yogurt by 9 percent and category sales in dairy by 13 percent nationwide.[17]

Marketers of General Mills' Yoplait Yogurt used category management to help major retailers gain more profit by reorganizing their yogurt shelves.

MARKET-MANAGEMENT ORGANIZATION Canon sells fax machines to consumer, business, and government markets. Nippon Steel sells to the railroad, construction, and public utility industries. When customers fall into different user groups with distinct buying preferences and practices, a **market-management organization** is desirable. Market managers supervise several market-development managers, market specialists, or industry specialists and draw on functional services as needed. Market managers of important markets might even have functional specialists reporting to them.

Market managers are staff (not line) people, with duties like those of product managers. They develop long-range and annual plans for their markets and are judged by their market's growth and profitability. Because this system organizes marketing activity to meet the needs of distinct customer groups, it shares many advantages and disadvantages of product-management systems. Many companies are reorganizing along market lines and becoming **market-centered organizations**. Xerox converted from geographic selling to selling by industry, as did IBM and Hewlett-Packard.

When a close relationship is advantageous, such as when customers have diverse and complex requirements and buy an integrated bundle of products and services, a **customer-management organization**, which deals with individual customers rather than the mass market or even market segments, should prevail.[18] One study showed that companies organized by customer groups reported much higher accountability for the overall quality of relationships and employees' freedom to take actions to satisfy individual customers.[19]

MATRIX-MANAGEMENT ORGANIZATION Companies that produce many products for many markets may adopt a matrix organization employing both product and market managers. The rub is that it's costly and often creates conflicts. There's the cost of supporting all the managers, and questions about where authority and responsibility for marketing activities should reside—at headquarters or in the division?[20] Some corporate marketing groups assist top management with overall opportunity evaluation, provide divisions with consulting assistance on request, help divisions that have little or no marketing, and promote the marketing concept throughout the company.

Relationships with Other Departments

Under the marketing concept, all departments need to "think customer" and work together to satisfy customer needs and expectations. Yet departments define company problems and goals from their viewpoint, so conflicts of interest and communications problems are unavoidable. The marketing vice president, or the CMO, must usually work through persuasion rather than through authority to (1) coordinate the company's internal marketing activities and (2) coordinate marketing with finance, operations, and other company functions to serve the customer.[21] To help marketing and other functions jointly determine what is in the company's best interests, firms can provide joint seminars, joint committees and liaison employees, employee exchange programs, and analytical methods to determine the most profitable course of action.[22]

Many companies now focus on key processes rather than departments, because departmental organization can be a barrier to smooth performance. They appoint process leaders, who manage cross-disciplinary teams that include marketing and sales people. Marketers thus may have a solid-line responsibility to their teams and a dotted-line responsibility to the marketing department.

Building a Creative Marketing Organization

Many companies realize they're not yet really market and customer driven—they are product and sales driven. Transforming into a true market-driven company requires:

1. Developing a company-wide passion for customers
2. Organizing around customer segments instead of products
3. Understanding customers through qualitative and quantitative research

The task is not easy, but the payoffs can be considerable. It won't happen as a result of the CEO making speeches and urging every employee to "think customer." See "Marketing Insight: The Marketing CEO" for concrete actions a CEO can take to improve marketing capabilities.

Although it's *necessary* to be customer oriented, it's not *enough.* The organization must also be creative.[23] Companies today copy each others' advantages and strategies with increasing speed, making differentiation harder to achieve and lowering margins as firms become more alike. The only answer is to build a capability in strategic innovation and imagination. This capability comes from assembling tools, processes, skills, and measures that let the firm generate more and better new ideas than its competitors.[24]

Companies must watch trends and be ready to capitalize on them. Motorola was 18 months late in moving from analog to digital cellular phones, giving Nokia and Ericsson a big lead. Nestlé was

Marketing Insight

The Marketing CEO

What steps can a CEO take to create a market- and customer-focused company?

1. ***Convince senior management of the need to become customer focused.*** The CEO personally exemplifies strong customer commitment and rewards those in the organization who do likewise. Former CEOs Jack Welch of GE and Lou Gerstner of IBM were said to have each spent 100 days a year visiting customers in spite of their many strategic, financial, and administrative burdens.
2. ***Appoint a senior marketing officer and marketing task force.*** The marketing task force should include the CEO, the vice presidents of sales, R&D, purchasing, manufacturing, finance, and human resources, and other key individuals.
3. ***Get outside help and guidance.*** Consulting firms have considerable experience helping companies adopt a marketing orientation.
4. ***Change the company's reward measurement and system.*** As long as purchasing and manufacturing are rewarded for keeping costs low, they will resist accepting some costs required to serve customers better. As long as finance focuses on short-term profit, it will oppose major investments designed to build satisfied, loyal customers.
5. ***Hire strong marketing talent.*** The company needs a strong marketing vice president who not only manages the marketing department but also gains respect from and influence with the other vice presidents. A multidivisional company will benefit from establishing a strong corporate marketing department.
6. ***Develop strong in-house marketing training programs.*** The company should design well-crafted marketing training programs for corporate management, divisional general managers, marketing and sales personnel, manufacturing personnel, R&D personnel, and others. GE, Motorola, and Accenture run such programs.
7. ***Install a modern marketing planning system.*** The planning format will require managers to think about the marketing environment, opportunities, competitive trends, and other forces. These managers then prepare strategies and sales-and-profit forecasts for specific products and segments and are accountable for performance.
8. ***Establish an annual marketing excellence recognition program.*** Business units that believe they've developed exemplary marketing plans should submit a description of their plans and results. Winning teams should be rewarded at a special ceremony and the plans disseminated to the other business units as "models of marketing thinking." Becton, Dickinson and Company; Procter & Gamble; and SABMiller follow this strategy.
9. ***Shift from a department focus to a process-outcome focus.*** After defining the fundamental business processes that determine its success, the company should appoint process leaders and cross-disciplinary teams to reengineer and implement these processes.
10. ***Empower the employees.*** Progressive companies encourage and reward their employees for coming up with new ideas and empower them to settle customer complaints to save the customer's business. IBM lets frontline employees spend up to $5,000 to solve a customer problem on the spot.

late seeing the trend toward coffeehouses such as Starbucks. Coca-Cola was slow to pick up beverage trends toward fruit-flavored drinks such as Snapple, energy drinks such as Gatorade, and designer water brands. Market leaders can miss trends when they are risk averse, obsessed about protecting their existing markets and physical resources, and more interested in efficiency than innovation.[25]

Socially Responsible Marketing

Effective internal marketing must be matched by a strong sense of ethics, values, and social responsibility.[26] A number of forces are driving companies to practice a higher level of corporate social responsibility, such as rising customer expectations, evolving employee goals and ambitions, tighter government legislation and pressure, investor interest in social criteria, media scrutiny, and changing business procurement practices.[27]

Virtually all firms have decided to take a more active, strategic role in corporate social responsibility, carefully scrutinizing what they believe in and how they should treat their customers, employees, competitors, community, and the environment. Taking this broader stakeholder view is believed to also benefit another important constituency—shareholders. Look at how Walmart is addressing corporate social responsibility.[28]

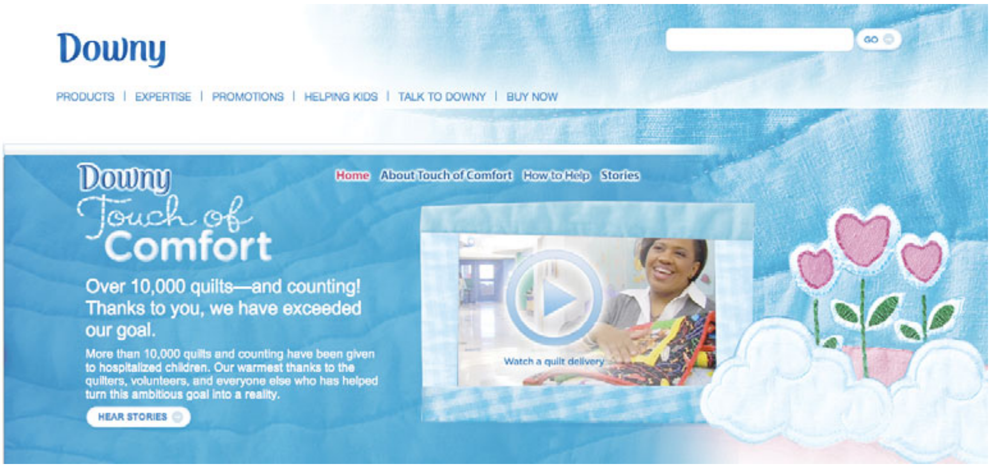
Walmart

Walmart In 2005, Walmart ex-CEO Lee Scott said, "We thought we could sit in Bentonville [Arkansas], take care of customers, take care of associates—and the world would leave us alone. It doesn't work that way anymore." Determined to become more environmentally friendly, Scott vowed that the company would invest $500 million in sustainability projects, such as doubling the efficiency of its vehicle fleet over the next ten years, eliminating 30 percent of the energy used in stores, and reducing solid waste from U.S. stores by 25 percent in three years. Little decisions can make big differences for the retail giant. By eliminating excess packaging on its Kid Connection private-label toys, the company saved 3,800 trees and 1 million barrels of oil, along with an estimated $2.4 million a year in shipping costs. It redirected more than 57 percent of the waste generated by stores and Sam's Club facilities to recycling centers instead of landfills, and it enlisted long-time environmentalist and Patagonia founder Yvon Chouinard to provide insight and advice. Major environmental groups have been pleased, but Walmart still faces criticism from union leaders and liberal activists about its wage rates, employee health care, gender discrimination, and treatment of local competition. The company has responded by citing progress in each area, such as the fact that it created approximately 63,000 jobs around the world in 2008, including more than 33,000 in the United States.

Businesses have not always believed in the value of social responsibility. In 1776, Adam Smith proclaimed, "I have never known much good done by those who profess to trade for the public good." Legendary economist Milton Friedman famously declared social initiatives "fundamentally subversive" because he felt they undermined the profit-seeking purpose of public companies and wasted shareholders' money. Some critics worry that important business investment in areas such as R&D could suffer as a result of a focus on social responsibility.[29]

But these critics are in a tiny minority. Many now believe that satisfying customers, employees, and other stakeholders and achieving business success are closely tied to the adoption and implementation of high standards of business and marketing conduct. A further benefit of being seen as socially responsible is the ability to attract employees, especially younger people who want to work for companies they feel good about.

The most admired—and most successful—companies in the world abide by a code of serving people's interests, not only their own. Procter & Gamble's new CEO Bob McDonald has made "brand purpose" a key component of the company's marketing strategies, noting: "Consumers have a higher expectation of brands and want to know what they are doing for the world. But it has to be authentic with a genuine desire to do it." Downy fabric softener's "Touch of Comfort" cause program, for example, donates 5 cents from purchases to Quilts for Kids, an organization that works with volunteer quilters to make and distribute custom-sewn quilts to children in hospitals.[30] P&G is not alone, as the following demonstrates.



Downy fabric softener's "Touch of Comfort" cause marketing program donated thousand of blankets to hospitalized children.

Firms of Endearment

Firms of Endearment

Researchers Raj Sisodia, David Wolfe, and Jag Sheth believe humanistic companies make great companies. They see "Firms of Endearment" as those with a culture of caring that serve the interests of their stakeholders, defined by the acronym SPICE: Society, Partners, Investors, Customers, and Employees. Sisodia et al. believe Firms of Endearment create a love affair with stakeholders. Their senior managers run an open-door policy, are passionate about customers, and earn modest compensation. They pay more to their employees, relate more closely to a smaller group of excellent suppliers, and give back to the communities in which they work. The researchers assert that Firms of Endearment actually spend less on marketing as a percentage of sales yet earn greater profits, because customers who love the company do most of the marketing. The authors see the 21st-century marketing paradigm as creating value for all stakeholders and becoming a beloved firm. Table 22.2 lists firms receiving top marks as Firms of Endearment from a sample of thousands of customers, employees, and suppliers.[31]

Corporate Social Responsibility

Raising the level of socially responsible marketing calls for making a three-pronged attack that relies on proper legal, ethical, and social responsibility behavior. One company that puts social responsible marketing squarely at the center of all it does is Stonyfield Farm.[32]

Stonyfield Farm

Stonyfield Farm

As Chapter 1 described, social responsibility is at the foundation of Stonyfield Farm. The company was cofounded in 1983 by long-time "CE-Yo" Gary Hirshberg on the belief that there was a business opportunity in selling organic dairy products while "restoring the environment." The global market leader in organic yogurt, Stonyfield works

TABLE 22.2 Top Firms of Endearment

Best Buy	BMW	CarMax	Caterpillar
Commerce Bank	Container Store	Costco	eBay
Google	Harley-Davidson	Honda	IDEO
IKEA	JetBlue	Johnson & Johnson	Jordan's Furniture
L.L.Bean	New Balance	Patagonia	Progressive Insurance
REI	Southwest	Starbucks	Timberland
Toyota	Trader Joe's	UPS	Wegmans
Whole Foods			

Source: Raj Sisodia, David B. Wolfe, and Jag Sheth, *Firms of Endearment: How World-Class Companies Profit from Passion and Purpose* (Upper Saddle River, NJ: Wharton School Publishing, 2007), p. 16, © 2007. Printed and electronically reproduced by permission of Pearson Education, Inc., Upper Saddle River, New Jersey.

with socially responsible suppliers, adopts environmentally friendly manufacturing practices, and uses packaging to promote its views on environmental and health issues. Stonyfield donates 10 percent of profits "to efforts that help protect and restore the Earth" and has launched a nonprofit foundation called "Climate Counts." Progressive business practices have not hurt its financial performance. Stonyfield is the number three yogurt brand in the United States, and it now also sells smoothies, milk, frozen yogurt, and ice cream.

LEGAL BEHAVIOR Organizations must ensure every employee knows and observes relevant laws.[33] For example, it's illegal for salespeople to lie to consumers or mislead them about the advantages of buying a product. Salespeople may not offer bribes to purchasing agents or others influencing a B2B sale. Their statements must match advertising claims, and they may not obtain or use competitors' technical or trade secrets through bribery or industrial espionage. Finally, they must not disparage competitors or their products by suggesting things that are not true. Managers must make sure every sales representative knows the law and acts accordingly.

ETHICAL BEHAVIOR Business practices come under attack because business situations routinely pose ethical dilemmas: It's not easy to draw a clear line between normal marketing practice and unethical behavior. Some issues sharply divide critics. Though Kraft chose to stop advertising some of its less healthy products such as Oreos and Chips Ahoy! on television programs targeted to children ages 6 to 11, some watch groups felt that was not enough.[34]

Of course certain business practices are clearly unethical or illegal. These include bribery, theft of trade secrets, false and deceptive advertising, exclusive dealing and tying agreements, quality or safety defects, false warranties, inaccurate labeling, price-fixing or undue discrimination, and barriers to entry and predatory competition.

Companies must adopt and disseminate a written code of ethics, build a company tradition of ethical behavior, and hold their people fully responsible for observing ethical and legal guidelines.[35] In the past, a disgruntled customer might bad-mouth an unethical or poorly performing firm to 12 other people; today, via the Internet, he or she can reach thousands. Microsoft, for example, has attracted scores of anti-Microsoft sites, including www.msboycott.com and www.ihatemicrosoft.com. The general distrust of companies among U.S. consumers is evident in research showing the percentage who view corporations unfavorably has reached 26 percent.[36]

SOCIAL RESPONSIBILITY BEHAVIOR Individual marketers must exercise their social conscience in specific dealings with customers and stakeholders. Some top-rated companies for corporate social responsibility are Microsoft, Johnson & Johnson, 3M, Google, Coca-Cola, General Mills, UPS, Sony, and Procter & Gamble.[37]

Increasingly, people want information about a company's record on social and environmental responsibility to help them decide which companies to buy from, invest in, and work for.[38] H. J. Heinz received awards for its 108-page 2009 Corporate Social Responsibility report, which reflects the company's commitment to "achieving sustainable growth that benefits our shareholders, consumers, customers, employees and communities, guided by the principles of integrity, transparency and social responsibility." Table 22.3 contains the opening words of that report.

Communicating corporate social responsibility can be a challenge. Once a firm touts an environmental initiative, it can become a target for criticism. Many well-intentioned product or marketing initiatives can have unforeseen or unavoidable negative consequences.[39]

Nestlé Palm oil was hailed as a renewable fuel for food companies looking to find a solution to a trans-fat ban, until its use was linked to the destruction of tropical rain forests and the extinction of the orangutan and the sun bear. When Greenpeace released a report criticizing Nestlé for purchasing palm oil for its KitKat candy bars from an Indonesian firm linked to rain forest destruction there, a social media war ensued. Protestors posted a negative video on YouTube, bombarded Twitter and Nestlé's Facebook page, and took to the