

# 12

## Distribution and communication decisions

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### Learning objectives

After studying this chapter you should be able to do the following:

- Explore the determinants of channel decisions.
- Discuss the key points in putting together and managing global marketing channels.
- Discuss the factors influencing channel width (intensive, selective or exclusive coverage).
- Explain what is meant by integration of the marketing channel.
- Define and classify the different types of communication tool.
- Describe and explain the major steps in advertising decisions.
- Describe the techniques available and appropriate for setting the advertising budget in foreign markets.
- Discuss the possibilities of marketing via the Internet.
- Explain how important personal selling and sales force management are in the international marketplace.
- Define and explain the concept of 'viral marketing'.
- Discuss how standardized international advertising has both benefits and drawbacks.

## 12.1 Introduction

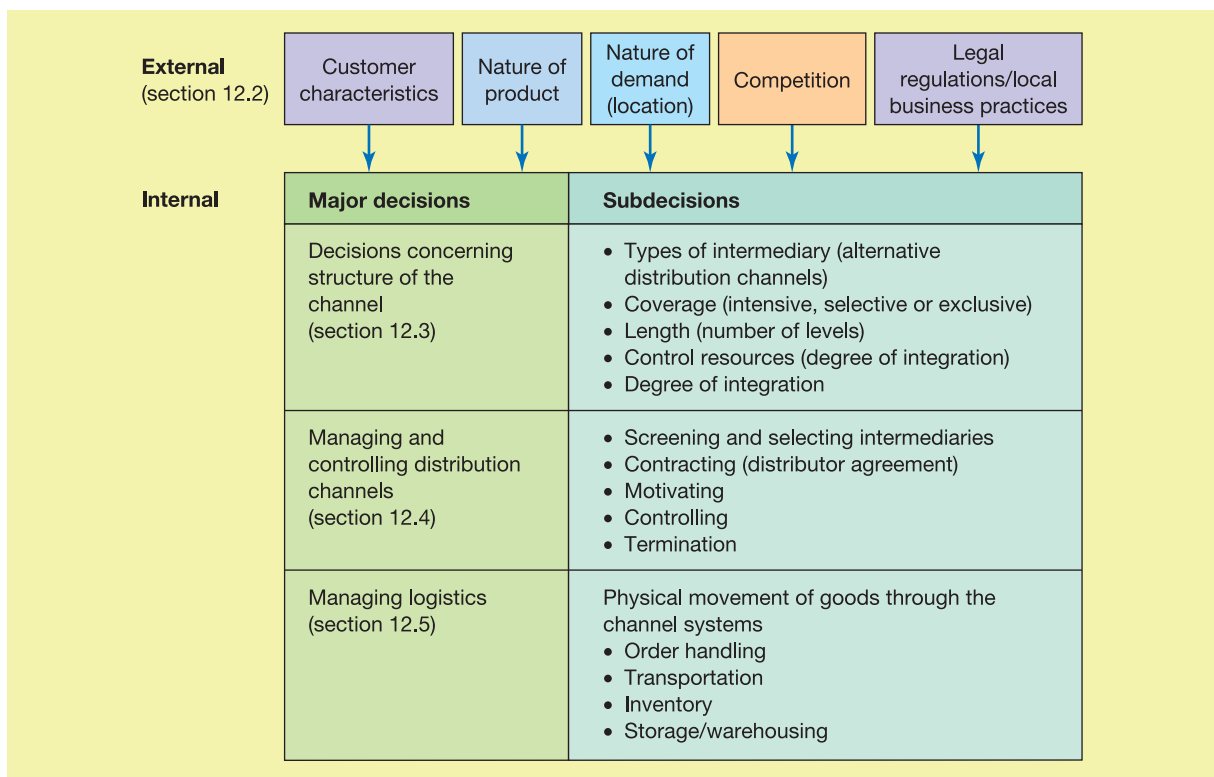
Access to international markets is a key decision area facing firms into the 2000s. In Part III we considered the firm's choice of an appropriate market entry mode that could assure the entry of a firm's products and services into a foreign market. After the firm has chosen a strategy to get its products into foreign markets the next challenge (and the topic of this chapter: see Figure 12.1) is the distribution of the products within those foreign markets. The first part of this chapter concerns the structure and management of foreign distribution. The second part is concerned with the management of international logistics.

Distribution channels typically account for 15–40 per cent of the retail price of goods and services in an industry.

Over the next few years the challenges and opportunities for channel management will multiply, as technological developments accelerate channel evolution. Data networks are increasingly enabling end users to bypass traditional channels and deal directly with manufacturers and service providers.

The following presents a systematic approach to the major decisions in international distribution. The main channel decisions and their determinants are illustrated in Figure 12.1. Distribution channels are the links between producers and final customers. In general terms, an international marketer distributes either directly or indirectly. As we saw in Chapter 9, direct distribution amounts to dealing with a foreign firm, while the indirect method means dealing with another home country firm that serves as an intermediary. Figure 12.1 shows that the choice of a particular channel link will be strongly influenced by various characteristics of the host markets. We will now consider these in more detail.

Figure 12.1 Channel decisions



Communication is the fourth and final decision to be made about the global marketing programme. The role of communication in global marketing is similar to that in domestic operations: to communicate with customers so as to provide information that buyers need to make purchasing decisions. Although the communication mix carries information of interest to the customer, in the end it is designed to persuade the customer to buy a product – at the present time or in the future.

To communicate with and influence customers, several tools are available. Advertising is usually the most visible component of the promotion mix, but personal selling, exhibitions, sales promotions, publicity (public relations) and direct marketing (including the Internet) are also part of a viable international promotion mix.

One important strategic consideration is whether to standardize worldwide or to adapt the promotion mix to the environment of each country. Another consideration is the availability of media, which varies around the world.

## 12.2 External determinants of channel decisions

### Customer characteristics

The customer, or final consumer, is the keystone in any channel design. Thus the size, geographic distribution, shopping habits, outlet preferences and usage patterns of customer groups must be taken into account when making distribution decisions.

Consumer product channels tend to be longer than industrial product channels because the number of customers is greater, the customers are more geographically dispersed, and they buy in smaller quantities. Shopping habits, outlet preferences and usage patterns vary considerably from country to country and are strongly influenced by sociocultural factors.

### Nature of product

Product characteristics play a key role in determining distribution strategy. For low-priced, high-turnover convenience products, the requirement is an intensive distribution network. On the other hand it is not necessary or even desirable for a prestigious product to have wide distribution. In this situation a manufacturer can shorten and narrow its distribution channel. Consumers are likely to do some comparison shopping and will actively seek information about all brands under consideration. In such cases limited product exposure is not an impediment to market success.

Transportation and warehousing costs of the product are also critical issues in the distribution and sale of industrial goods such as bulk chemicals, metals and cement. Direct selling, servicing and repair, and spare parts warehousing dominate the distribution of such industrial products as computers, machinery and aircraft. The product's durability, ease of adulteration, amount and type of customer service required, unit costs and special handling requirements (such as cold storage) are also significant factors.

### Nature of demand/location

The perceptions that the target customers hold about particular products can force modification of distribution channels. Product perceptions are influenced by the customer's income and product experience, the product's end use, its life cycle position and the country's stage of economic development.

The geography of a country and the development of its transportation infrastructure can also affect the channel decision.

### Competition

The channels used by competing products and close substitutes are important because channel arrangements that seek to serve the same market often compete with one another. Consumers generally expect to find particular products in particular outlets (e.g. speciality stores), or they have become accustomed to buying particular products from particular sources. In addition, local and global competitors may have agreements with the major wholesalers in a foreign country that effectively create barriers and exclude the company from key channels.

Sometimes the alternative is to use a distribution approach totally different from that of the competition and hope to develop a competitive advantage.

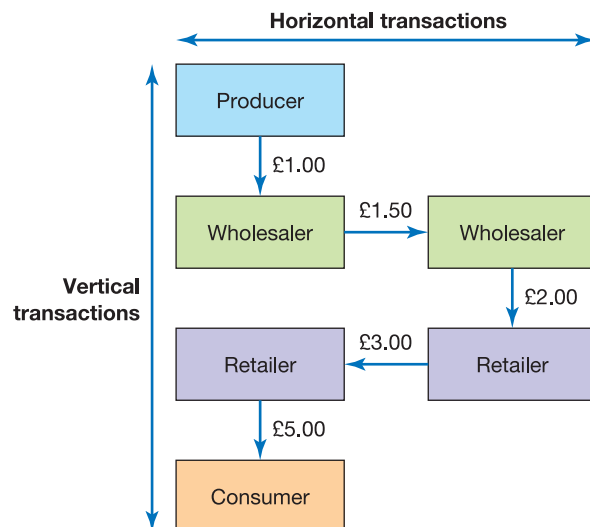
### Legal regulations/local business practices

A country may have specific laws that rule out the use of particular channels or intermediaries. For example, until recently all alcoholic beverages in Sweden and Finland had to be distributed through state-owned outlets. Other countries prohibit the use of door-to-door selling. Channel coverage can also be affected by law. In general, exclusive representation may be viewed as a restraint of trade, especially if the product has a dominant market position. EU antitrust authorities have increased their scrutiny of exclusive sales agreements. The Treaty of Rome prohibits distribution agreements (e.g. grants of exclusivity) that affect trade or restrict competition.

Furthermore, local business practices can interfere with efficiency and productivity and may force a manufacturer to employ a channel of distribution that is longer and wider than desired. Because of Japan's multitiered distribution system, which relies on numerous layers of intermediaries, foreign companies have long considered the complex Japanese distribution system as the most effective non-tariff barrier to the Japanese market.

Figure 12.2 shows how the complex Japanese distribution system escalates prices with a factor 5 through both vertical transactions and horizontal transactions (e.g. from one wholesaler to another wholesaler).

Figure 12.2 A hypothetical channel sequence in the Japanese consumer market



Source: Pirog and Lancioni, 1997, p. 57. Adapted with kind permission from *International Journal of Physical Distribution and Logistics Management*, Emerald Group Publishing Ltd.

Let us now return to the major decisions concerning the structure of the distribution channel (Figure 12.1).

## 12.3 The structure of the channel

### Market coverage

#### Market coverage

Coverage can relate to geographical areas or number of retail outlets. Three approaches are available: intensive, selective or exclusive coverage.

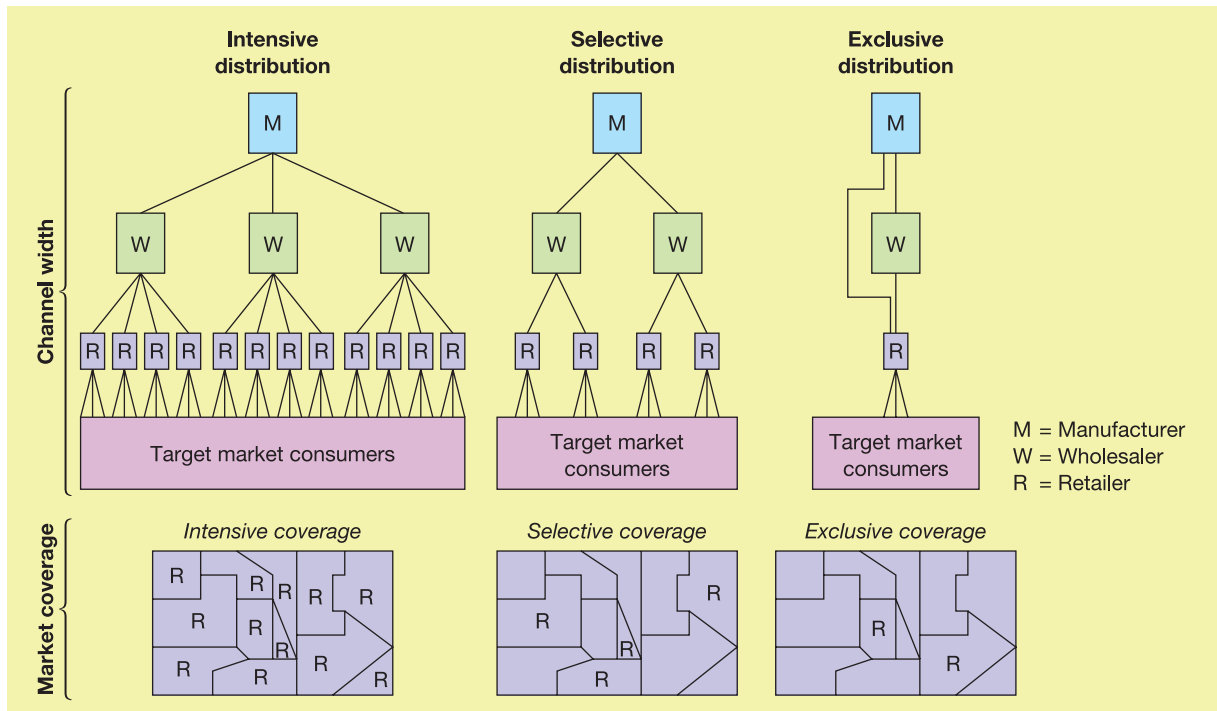
The amount of **market coverage** that a channel member provides is important. Coverage is a flexible term. It can refer to geographical areas of a country (such as cities and major towns) or the number of retail outlets (as a percentage of all retail outlets). Regardless of the market coverage measure(s) used the company has to create a distribution network (dealers, distributors and retailers) to meet its coverage goals.

As shown in Figure 12.3, three different approaches are available:

1. *Intensive coverage*. This calls for distributing the product through the largest number of different types of intermediary and the largest number of individual intermediaries of each type.
2. *Selective coverage*. This entails choosing a number of intermediaries for each area to be penetrated.
3. *Exclusive coverage*. This involves choosing only one intermediary in a market.

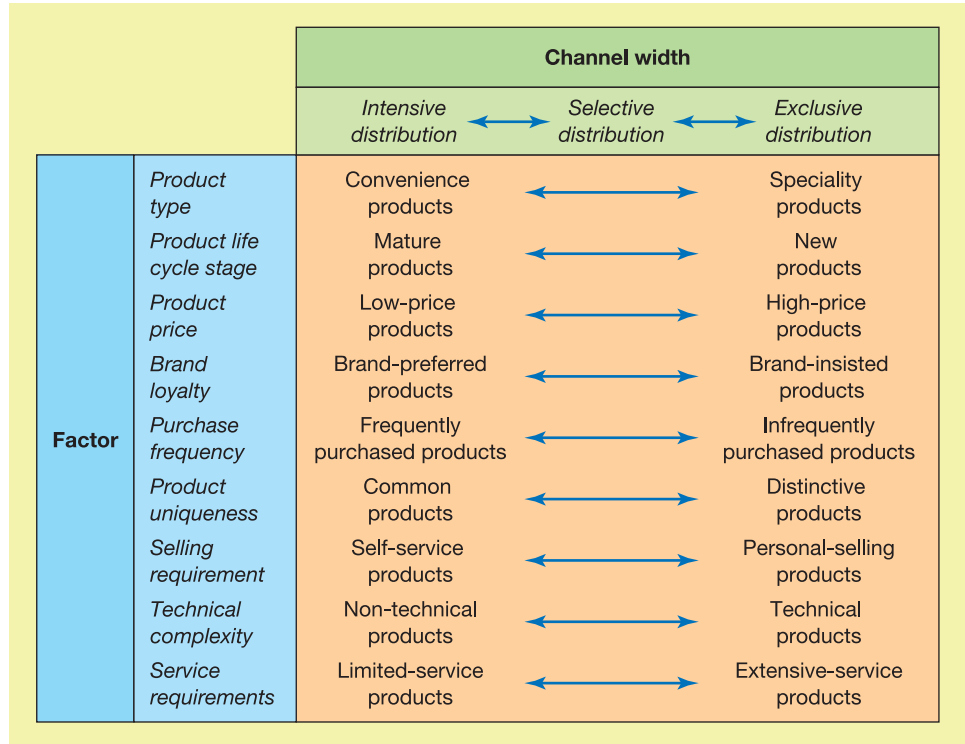
Channel coverage (width) can be identified along a continuum ranging from wide channels (intensive distribution) to narrow channels (exclusive distribution). Figure 12.4 illustrates some factors favouring intensive, selective and exclusive distribution.

Figure 12.3 Three strategies for market coverage



Source: Lewison, 1996, p. 271.

**Figure 12.4** Factors influencing channel width



Source: Adapted from Lewison, 1996, p. 279.

**Channel length**  
Number of levels (middlemen) in the distribution channel.

### Channel length

This is determined by the number of levels or different types of intermediaries. Longer channels, those with several intermediaries, tend to be associated with convenience goods and mass distribution. As seen in Exhibit 12.1, Japan has longer channels for convenience goods because of the historical development of its system. One implication is that prices increase considerably for the final consumer (price escalation: see section 12.3).

### Control/cost

The ‘control’ of one member in the vertical distribution channel means its ability to influence the decisions and actions of other channel members. Channel control is of critical concern to international marketers wanting to establish international brands and a consistent image of quality and service worldwide.

The company must decide how much control it wants to have over how each of its products is marketed. The answer is partly determined by the strategic role assigned to each market. It is also a function of the types of channel member available, the regulations and rules governing distribution activity in each foreign market, and to some extent the roles traditionally assigned to channel members.

Normally a high degree of control is provided by the use of the firm’s own sales force in international markets. The use of intermediaries will automatically lead to loss of some control over the marketing of the firm’s products.

An intermediary typically performs certain functions:

- carrying of inventory;
- demand generation, or selling;

- physical distribution;
- after-sales service;
- extending credit to customers.

In getting its products to end-user markets a manufacturer must either assume all of these functions or shift some or all of them to intermediaries. As the old saying goes, 'You can eliminate the intermediary, but not the functions of the intermediary.'

In most marketing situations there is a trade-off between a producer's ability to control important channel functions and the financial resources required to exercise that control. The more intermediaries involved in getting a supplier's product to user customers, the less control the supplier can generally exercise over the flow of its product through the channel and the way it is presented to customers. On the other hand, reducing the length and breadth of the distribution channel usually requires that the supplier perform more functions itself. In turn this requires the supplier to allocate more financial resources to activities such as warehousing, shipping, credit, field selling or field service.

In summary, the decision to use an intermediary or to distribute via a company-owned sales force requires a major trade-off between the desire to control global marketing efforts and the desire to minimize resource commitment costs.

## Degree of integration

Control can also be exercised through integration. Channel integration is the process of incorporating all channel members into one channel system and uniting them under one leadership and one set of goals. There are two different types of integration:

- 1 **vertical integration** seeking control of channel members at different levels of the channel;
- 2 **horizontal integration**: seeking control of channel members at the same level of the channel (i.e. competitors).

Integration is achieved either through acquisitions (ownership) or through tight cooperative relationships. Getting channel members to work together for their own mutual benefit can be a difficult task. However, today cooperative relationships are essential for efficient and effective channel operation.

Figure 12.5 shows an example of vertical integration.

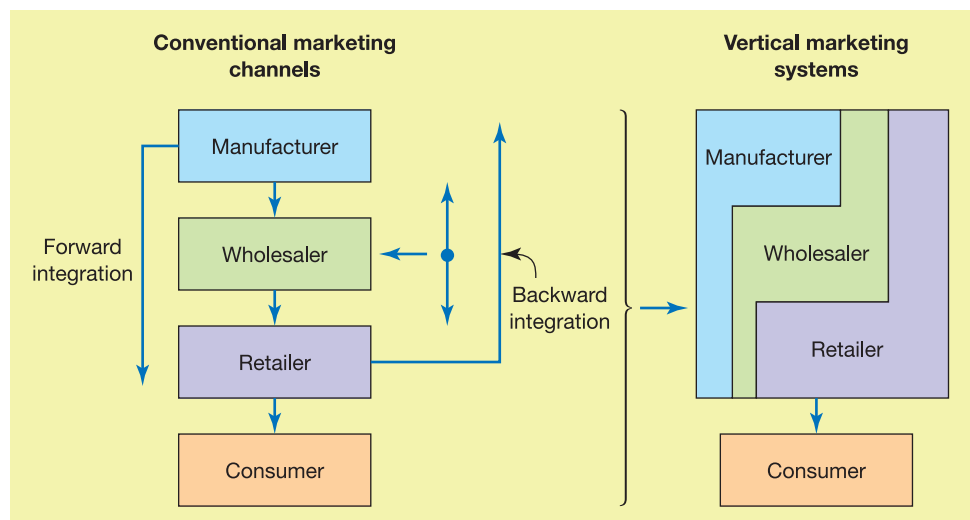
### Vertical integration

Seeking control of channel members at different levels of the channel, e.g. the manufacturer's acquisition of the distributor.

### Horizontal integration

Seeking control of channel members at the same level of the channel, e.g. the manufacturer's acquisition of the competitor.

Figure 12.5 Vertical integration



The starting point in Figure 12.5 is the conventional marketing channels, where the channel composition consists of isolated and autonomous participating channel members. Channel coordination is here achieved through arm's-length bargaining. At this point, the vertical integration can take two forms – forward and backward.

- The manufacturer can make forward integration when it seeks control of businesses of the wholesale and retail levels of the channel.
- The retailer can make backward integration, seeking control of businesses at wholesale and manufacturer levels of the channel.
- The wholesaler has two possibilities: both forward and backward integration.

The result of these manoeuvres is the vertical marketing system (Figure 12.5). Here the channel composition consists of integrated participating members, where channel stability is high due to assured member loyalty and long-term commitments.

## 12.4 Managing and controlling distribution channels

In the beginning of a market entry, partnerships with local distributors make good sense: Distributors know the distinctive characteristics of their market, and most customers prefer to do business with local partners. Arnold (2000) propose the following guidelines to the international marketer (manufacturer) in order to anticipate and correct potential problems with international distributors:

- *Select distributors – do not let them select you:* Typically, manufacturers are approached by potential distributors at international fairs and exhibitions, but the most eager potential distributors are often the wrong people to partner with.
- *Look for distributors capable of developing markets, rather than those with a few obvious contacts:* This means sometimes bypassing the most obvious choice – the distributor who has the right customers and can generate quick sales – in favour of a partner with a greater willingness to make long-term investments and an acceptance of an open relationship.
- *Treat the local distributors as long-term partners, not temporary market-entry vehicles:* Many companies actively signal to distributors that their intentions are only for the short term, drawing up contracts that allow them to buy back distribution rights after a few years. Under such a short-term agreement the problem is that the local distributor does not have much incentive to invest in the necessary long-term marketing development.
- *Support market entry by committing money, managers, and proven marketing ideas:* Many manufacturers are reluctant to commit resources at the early stages of a market entry. However, to retain strategic control, the international marketer must commit adequate corporate resources. This is especially true during market entry, when companies are least certain about their prospect in new countries.
- *From the start, maintain control over marketing strategy:* An independent distributor should be allowed to adapt the manufacturer's strategy to local conditions. However, only companies providing solid leadership for marketing will be in a position to exploit the full potential of a global marketing network.
- *Make sure distributors provide you with detailed market and financial performance data:* Most distributors regard data like customer identification and local price levels as key sources of power in the relationship with the manufacturer. But the manufacturer's ability to exploit its competitive advantages in the international



market depends heavily on the quality of information it obtains from the market. Therefore a contract with the distributor must include the exchange of such information, like detailed market and financial performance data.

- *Build links among national distributors at the earliest opportunity:* The links may take form of creating an independent national distributor council or a regional corporate office. The transfer of ideas within local markets can improve performance and result in greater consistency in the execution of international marketing strategies because links to other national distributor networks could be established. This could lead to a cross-national transfer of efficient marketing tools.

Once the basic design of the channel has been determined the international marketer must begin to fill it with the best available candidates, and must secure their cooperation.

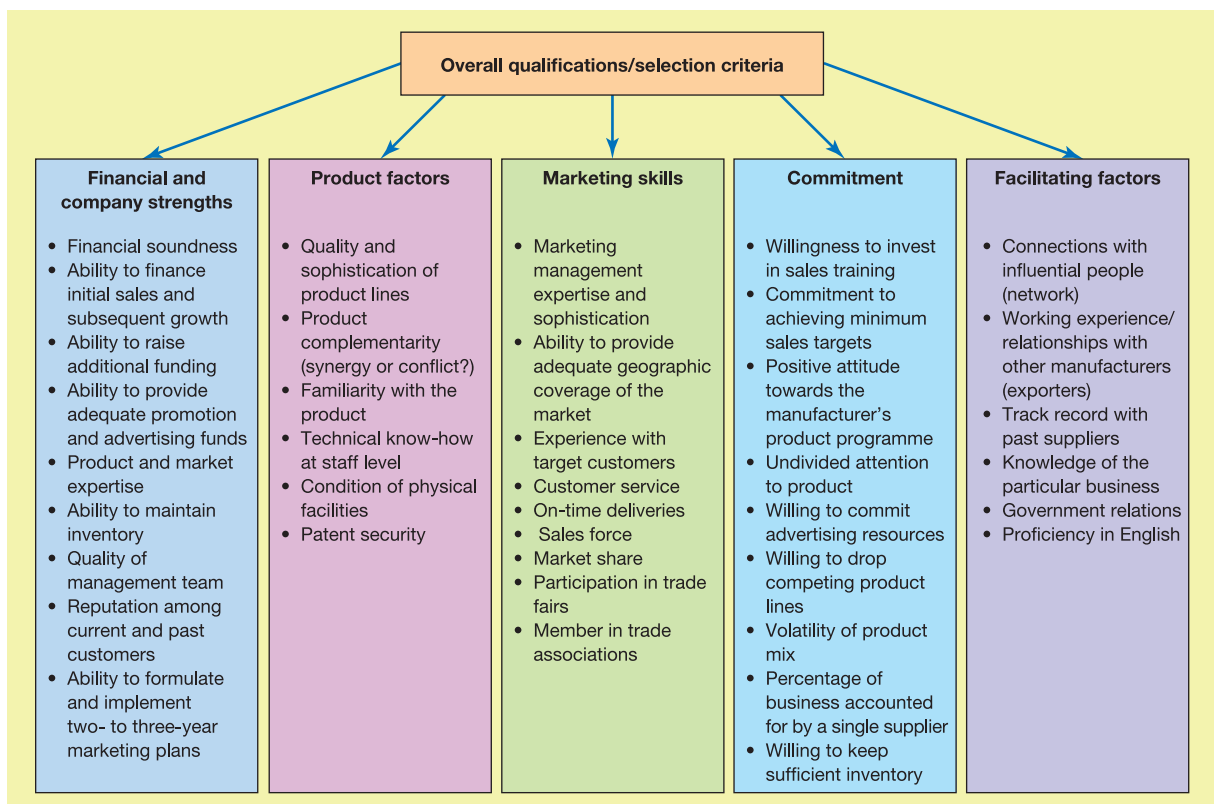
### Screening and selecting intermediaries

Figure 12.6 shows the most important criteria (qualifications) for selecting foreign distributors, grouped in five categories.

After listing all important criteria (like in Figure 12.6), some of these must then be chosen for a more specific evaluation, where the potential candidates are compared and contrasted against determining criteria.

The example in Table 12.1 uses the first two criteria in each of Figure 12.6's five categories for screening potential channel members, in total ten criteria. The specific criteria to be used depend on the nature of a firm's business and its distribution objectives in given markets. The list of criteria should correspond closely to the marketer's own determinants of success – all the things that are important to beating the competition.

Figure 12.6 Criteria for evaluating foreign distributors



Source: Adapted from Cavusgil et al. (1995).

**Table 12.1** An example of distributor evaluation by the use of selection criteria from Figure 12.6

Criteria (no ranking implied)	Weight	Distributor 1		Distributor 2		Distributor 3	
		Rating	Score	Rating	Score	Rating	Score
<b>Financial and Company strengths:</b>							
Financial soundness	4	5	20	4	16	3	12
Ability to finance initial sales and subsequent growth	3	4	12	4	12	3	9
<b>Product factors:</b>							
Quality and sophistication of product lines	3	5	15	4	12	3	9
Product complementarity (synergy or conflict?)	3	3	9	4	12	2	6
<b>Marketing skills:</b>							
Marketing management expertise and sophistication	5	4	20	3	15	2	10
Ability to provide adequate geographic coverage of the market	4	5	20	4	16	3	12
<b>Commitment:</b>							
Willingness to invest in sales training	4	3	12	3	12	3	12
Commitment to achieving minimum sales targets	3	4	12	3	9	3	9
<b>Facilitating Factors:</b>							
Connections with influential people (network)	3	5	15	4	12	4	12
Working experience/relationships with other manufacturers (exporters)	2	4	8	3	6	3	6
<b>Score</b>			<b>143</b>		<b>122</b>		<b>94</b>

Scales:

<i>Rating</i>	<i>Weighting</i>
5 Outstanding	5 Critical success factor
4 Above average	4 Prerequisite success factor
3 Average	3 Important success factor
2 Below average	2 Of some importance
1 Unsatisfactory	1 Standard

The hypothetical manufacturer (a consumer packaged goods company) used in Table 12.1 considered the distributor's marketing management expertise and financial soundness to be of greatest importance. These indicators will show whether the distributor is making money and is able to perform some of the necessary marketing functions such as extension of credit to customers and risk absorption. Financial reports are not always complete or reliable, or may lend themselves to differences of interpretation, pointing to the need for a third-party opinion. In order to make the weighting and grading in Table 12.1, the manufacturer must have had some personal interviews with the management of each potential distributor. In the example of Table 12.1, *Distributor 1 would be selected by the manufacturer.*

Alternatively, an industrial goods company may consider the distributor's product compatibility, technical know-how and technical facilities, and service support, of high importance, and the distributor's infrastructure, client performance and attitude

towards its products of low importance. Quite often global marketers find that the most desirable distributors in a given market are already handling competitive products and are therefore unavailable.

A high-tech consumer goods company, on the other hand, may favour financial soundness, marketing management expertise, reputation, technical know-how, technical facilities, service support and government relations. In some countries religious or ethnic differences might make an agent suitable for one part of the market coverage but unsuitable for another. This can result in more channel members being required in order to give adequate market coverage.

### Contracting (distributor agreements)

When the international marketer has found a suitable intermediary a foreign sales agreement is drawn up. Before final contractual arrangements are made it is wise to make personal visits to the prospective channel member. The agreement itself can be relatively simple but, given the numerous differences in the market environments, certain elements are essential. These are listed in Figure 12.7.

The long-term commitments involved in distribution channels can become particularly difficult if the contract between the company and the channel member is not carefully drafted. It is normal to prescribe a time limit and a minimum sales level to be achieved, in addition to the particular responsibilities of each party. If this is not carried out satisfactorily the company may be stuck with a weak performer that either cannot be removed or is very costly to buy out from the contract.

*Contract duration* is important, especially when an agreement is signed with a new distributor. In general, distribution agreements should be for a specified, relatively short period (one or two years). The initial contract with a new distributor should stipulate a trial period of either three or six months, possibly with minimum purchase requirements. Duration is also dependent on the local laws and their stipulations on distributor agreements.

*Geographic boundaries* for the distributor should be determined with care, especially by smaller firms. Future expansion of the product market might be complicated if a distributor claims rights to certain territories. The marketer should retain the right to distribute products independently, reserving the right to certain customers.

The *payment section* of the contract should stipulate the methods of payment as well as how the distributor or agent is to draw compensation. Distributors derive

**Figure 12.7** Items to include in an agreement with a foreign intermediary (distributor)

- Names and addresses of both parties.
- Date when the agreement goes into effect.
- Duration of the agreement.
- Provisions for extending or terminating the agreement.
- Description of sales territory.
- Establishment of discount and/or commission schedules and determination of when and how paid.
- Provisions for revising the commission or discount schedules.
- Establishment of a policy governing resale prices.
- Maintenance of appropriate service facilities.
- Restrictions to prohibit the manufacture and sale of similar and competitive products.
- Designation of responsibility for patent and trade mark negotiations and/or pricing.
- The assignability or non-assignability of the agreement and any limiting factors.
- Designation of the country and state (if applicable) of contract jurisdiction in the case of dispute.

Source: From Jain, S.C. (1996) *International Marketing Management*, 5th edn, pub. South-Western, p. 523. Reprinted by permission of Subhash C. Jain.

compensation from various discounts, such as the functional discount, whereas agents earn a specific commission percentage of net sales (typically 10–20 per cent). Given the volatility of currency markets the agreement should also state the currency to be used.

*Product and conditions of sale* need to be agreed on. The products or product lines included should be stipulated, as well as the functions and responsibilities of the intermediary in terms of carrying the goods in inventory, providing service in conjunction with them, and promoting them. Conditions of sale determine which party is to be responsible for some of the expenses (e.g. marketing expenses) involved, which will in turn have an effect on the price to the distributor. These conditions include credit and shipment terms.

*Means of communication* between the parties must be stipulated in the agreement if a marketer–distributor relationship is to succeed. The marketer should have access to all information concerning the marketing of its products in the distributor's territory, including past records, present situation assessments and marketing research.

### Motivating

Geographic and cultural distance make the process of motivating channel members difficult. Motivating is also difficult because intermediaries are not owned by the company. Since intermediaries are independent firms they will seek to achieve their own objectives, which will not always match the objective of the manufacturer. The international marketer may offer both monetary and psychological rewards. Intermediaries will be strongly influenced by the earnings potential of the product. If the trade margin is poor and sales are difficult to achieve intermediaries will lose interest in the product. They will concentrate upon products with a more rewarding response to selling efforts, since they make their sales and profits from their own assortment of products and services from different companies.

It is important to keep in regular contact with agents and distributors. A consistent flow of all relevant types of communication will stimulate interest and sales performance. The international marketer may place one person in charge of distributor-related communications and put into effect an exchange of personnel so that both organizations gain further insight into the workings of the other.

### Controlling

Control problems are reduced substantially if intermediaries are selected carefully. However, control should be sought through the common development of written performance objectives. These performance objectives might include some of the following: sales turnover per year, market share growth rate, introduction of new products, price charged and marketing communications support. Control should be exercised through periodic personal meetings.

Evaluation of performance has to be done against the changing environment. In some situations economic recession or fierce competition activity prevents the possibility of objectives being met. However, if poor performance is established, the contract between the company and the channel member will have to be reconsidered and perhaps terminated.

### Termination

Typical reasons for the termination of a channel relationship are as follows:

- The international marketer has established a sales subsidiary in the country.
- The international marketer is unsatisfied with the performance of the intermediary.

Open communication is always needed to make the transition smooth. For example, the intermediary can be compensated for investments made, and major customers can be visited jointly to assure them that service will be uninterrupted.

Termination conditions are among the most important considerations in the distribution agreement. The causes of termination vary and the penalties for the international marketer may be substantial. It is especially important to find out what local laws say about termination and to check what type of experience other firms have had in the particular country.

In some countries terminating an ineffective intermediary can be time consuming and expensive. In the European Union one year's average commissions are typical for termination without justification. A notice of termination has to be given three to six months in advance. If the cause for termination is the manufacturer's establishment of a local sales subsidiary, then the international marketer may consider engaging good employees from the intermediary as, for example, managers in the new sales subsidiary. This can prevent a loss of product know-how that has been created at the intermediary's firm. The international marketer could also consider an acquisition of this firm if the intermediary is willing to sell.

## 12.5 Implications of the Internet for distribution decisions

The Internet has the power to change drastically the balance of power among consumers, retailers, distributors, manufacturers and service providers. Some participants in the distribution chain may experience an increase in their power and profitability. Others will experience the reverse; some may even find that they have been bypassed and have lost their market share.

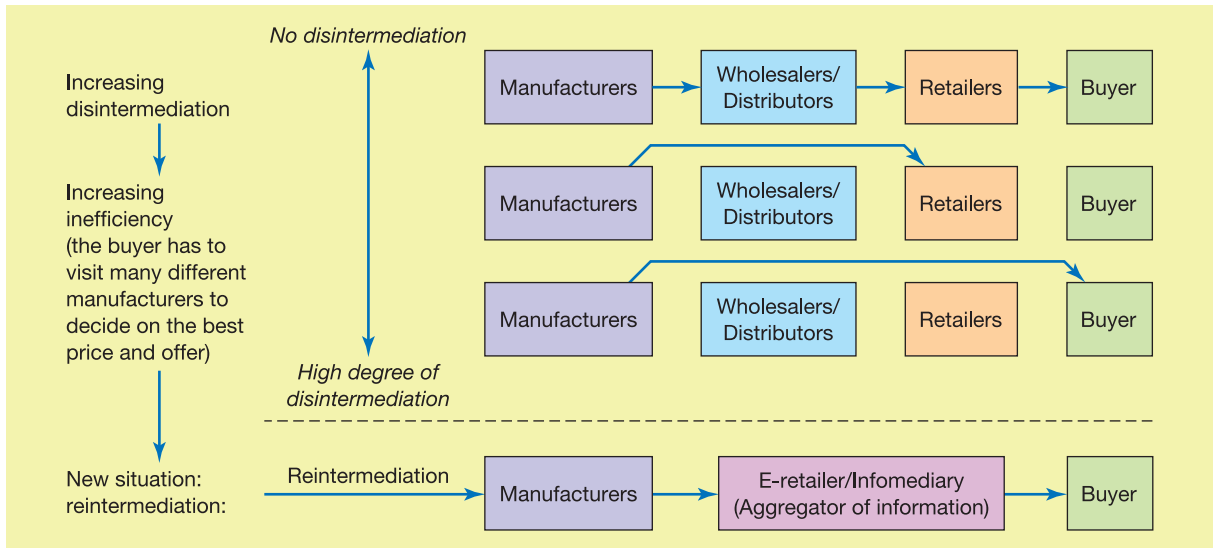
Physical distributors and dealers of goods and services that are more conveniently ordered and/or delivered online are indeed subject to increasing pressure from e-commerce. This *disintermediation* process, with increasing direct sales through the Internet, leads manufacturers to compete with their resellers, which may also result in *channel conflict*. The reality is that the Internet may eliminate the traditional 'physical' distributors, but in the transformation process of the value chain new types of intermediaries may appear. So the disintermediation process has come to be balanced by a re-intermediation force – the evolution of new intermediaries tailor-made for the online world (Figure 12.8).

The transformation of any industry structure in the Internet economy is likely to go through the intermediation–disintermediation–reintermediation (IDR) cycle – as shown in Figure 12.8. The IDR cycle will occur because new technologies are forcing change in the relationships among buyers, suppliers and middlemen. Intermediation occurs when a firm begins as a middleman between two industry players (e.g. buyer–supplier, buyer–established intermediary or established intermediary–supplier). Disintermediation occurs when an established middleman is pushed out of the value chain. Reintermediation occurs when a once disintermediated player is able to re-establish itself as an intermediary.

### Distinction between e-marketing and m-marketing

A key distinction between e-marketing and m-marketing (mobile marketing) lies in the different enabling technologies. Most notably, the facilitative mode for traditional e-marketing, the PC, is a relatively large and cumbersome device that is probably

Figure 12.8 Disintermediation and reintermediation



desktop and equipped with a Web browser through standard connectivity. Even when configured as a laptop it is not easy to move. M-marketing is faced with the challenge of developing capabilities in a much more diverse technical context, albeit within the single framework of mobility. Mobile devices currently vary in terms of the network to which they are connected – the ‘European’ standard or the North American standard.

Rapidly emerging innovations will deliver the possibility of smart phones able to use product bar codes to access product-related information and phones able to act as e-wallets, as either a prepaid card for small purchases or a fully functioning credit/debit card unit.

### Benefits of m-marketing

The introduction of m-marketing should bring a series of benefits to consumers, merchants and telecommunication companies. As with all technologies, many benefits will arise in the future that are not yet even imagined. Some benefits that are apparent now, however, include the following:

#### For consumers

- **Comparison shopping:** Consumers can access on demand, at the point of purchase, the best prices in the marketplace. This can be done now without mobility, with services such as [pricescan.com](http://www.pricescan.com).
- **Bridge the gap between bricks and clicks:** Services permitting users to examine merchandise in a store and still shop electronically for the best price.
- **Opt-in searches:** Customers may receive alerts from merchants when products they are looking for become available.
- **Travel:** Ability to change and monitor scheduled travel any time, any place.

#### For merchants

- **Impulse buying:** Consumers may buy discounted products from a Web page promotion or a mobile alert, increasing their willingness to buy as they are right near or even inside the store, and thus increasing merchants’ sales.
- **Drive traffic:** Companies will guide their customers to where it is easier to carry out the transaction, to either online or offline stores, due to the time-sensitive, location-based and personalized characteristics of the mobile device.

- *Education of consumers:* Companies will send information to customers about product benefits or new products.
- *Perishable products:* This is especially important for products that do not retain their value when unused, such as service-based products. For example, the use of an aeroplane seat, that, when unused, generates no revenue and is lost value. This will enable companies to better manage inventory.
- *Drive efficiency:* Companies will save time with their clients. Because information is readily available on the mobile device they will not have to talk about the benefits of the different products or about prices.
- *Target market:* Companies will be better able to target their products and promotions to those in a given geographic area at a specific time.

For telecommunication companies the advantages are primarily more airtime used by the consumers and higher fees charged to content providers for each m-commerce transaction. M-marketing requires direct marketers to rethink their strategies to tap into already existing communities—such as sports fans, surfers and music fans; time-context communities such as spectators at sports events and festivals; and location-sensitive communities such as gallery visitors and small shoppers – and develop ways to get them to opt in to m-marketing. Applications must be responsive to location, customer needs and device capabilities. For example, time and location-sensitive applications, such as travel reservations, cinema tickets and banking will be excellent vehicles for young, busy and urban people.

Finally, as highlighted, m-marketing enables distribution of information to the consumer at the most effective time, place and in the right context. This suggests that m-marketing, via mobile devices, will cement further the interactive marketing relationship.

## 12.6 The communication process

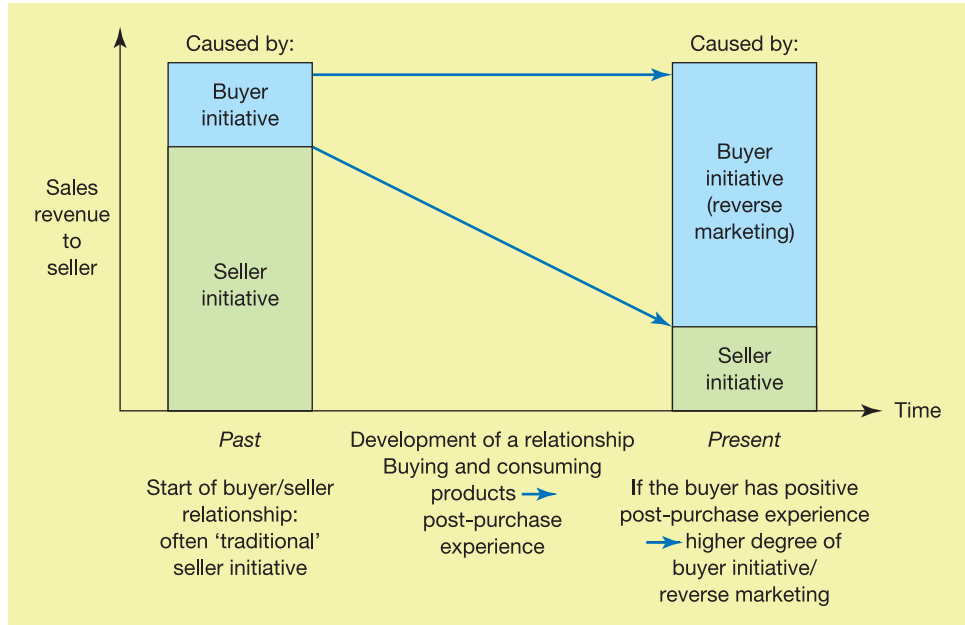
In considering the communication process we normally think about a manufacturer (sender) transmitting a message through any form of media to an identifiable target segment audience. Here the seller is the initiator of the communication process. However, if the seller and the buyer have already established a relationship it is likely that the initiative in the communication process will come from the buyer. If the buyer has positive post-purchase experience with a given offering in one period of time this may dispose the buyer to rebuy on later occasions: that is, take initiatives in the form of making enquiries or placing orders (so-called reverse marketing).

The likely development of the split between total sales volume attributable to buyer and seller initiatives is shown in Figure 12.9. The relative share of sales volume attributable to buyer initiative will tend to increase over time. Present and future buyer initiatives are a function of all aspects of a firm's past market performance: that is, the extent, nature and timing of seller initiative, the competitiveness of offerings, post-purchase experience, the relationships developed with buyers as well as the way in which buyer initiative has been dealt with (Ottesen, 1995).

### Key attributes of effective communication

The rest of the chapter will be devoted to the communication process and communicative tools based on seller initiatives. All effective marketing communication has

**Figure 12.9** The shift from seller initiative to buyer initiative in buyer/seller relationships



four elements: a sender, a message, a communication channel and a receiver (audience). The communication process in Figure 12.10 highlights the key attributes of effective communication.

To communicate in an effective way the sender needs to have a clear understanding of the purpose of the message, the audience to be reached and how this audience will interpret and respond to the message. However, sometimes the audience cannot hear clearly what the sender is trying to say about its product because of the 'noise' of rival manufacturers making similar and often contradictory claims about their products.

Another important point to consider in the model of Figure 12.10 is the degree of 'fit' between medium and message. For example, a complex and wordy message would be better for the press than for a visual medium such as television or cinema.

## Other factors affecting the communication situation

### Language differences

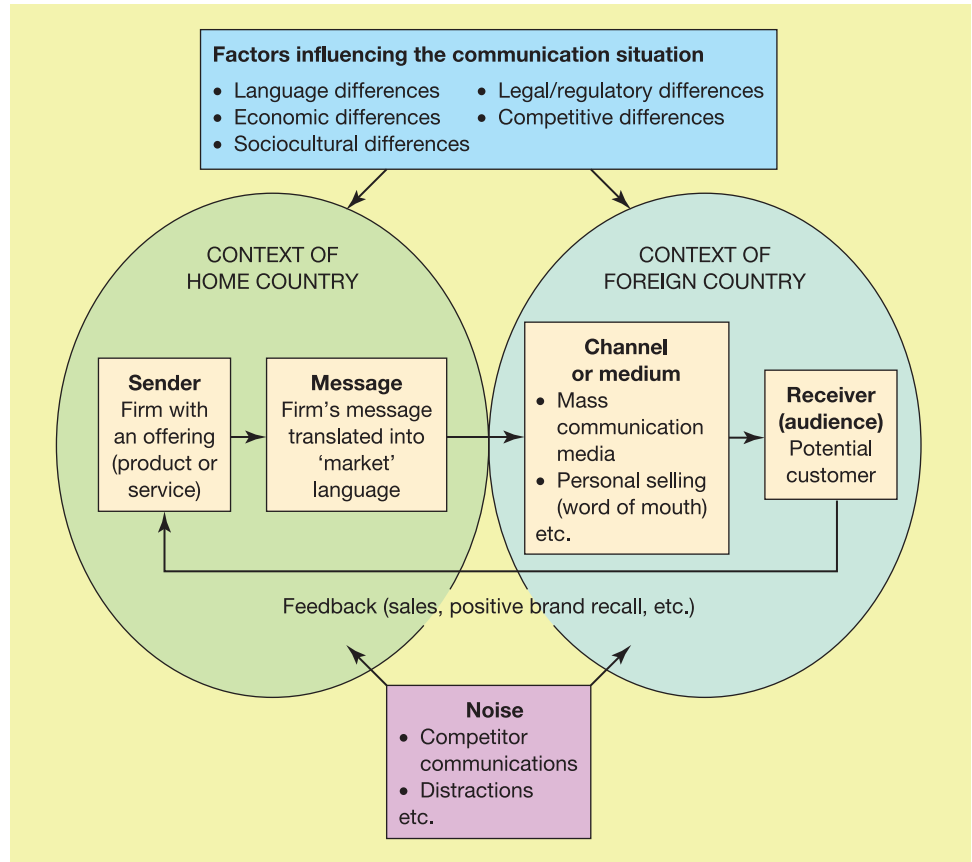
A slogan or advertising copy that is effective in one language may mean something different in another language. Thus the trade names, sales presentation materials and advertisements used by firms in their domestic markets may have to be adapted and translated when used in other markets.

There are many examples of unfortunate translations of brand names and slogans. General Motors has a brand name for one of its models called the Vauxhall Nova – this does not work well in Spanish-speaking markets because there it means 'no go'. In Latin America 'Avoid embarrassment – Use Parker Pens' was translated as 'Avoid pregnancy – Use Parker Pens'. Scandinavian vacuum manufacturer Electrolux used the following in a US ad campaign: 'Nothing sucks like an Electrolux.'

A Danish company made up the following slogan for its cat litter in the UK market: 'Sand for Cat Piss.' Unsurprisingly, sales of the firm's cat litter did not increase! Another Danish company translated 'Teats for baby's bottles' as 'Loose tits'. In Copenhagen Airport the following poster could be seen until recently: 'We take your baggage and



Figure 12.10 Elements of the intentional communication process



send it in all directions.' A slogan thus used to express the desire to give good service might cause concern as to where the baggage might end up (Joensen, 1997).

### Economic differences

In contrast to industrialized countries, developing countries may have radios but not television sets. In countries with low levels of literacy written communication may not be as effective as visual or oral communication.

### Sociocultural differences

Dimensions of culture (religion, attitudes, social conditions and education) affect how individuals perceive their environment and interpret signals and symbols. For example, the use of colour in advertising must be sensitive to cultural norms. In many Asian countries white is associated with grief; hence an advertisement for a detergent where whiteness is emphasized would have to be altered for promotional activities in, say, India.

### Exhibit 12.1 In Muslim markets only God is great

One of the major car manufacturers was using Muhammad Ali in one of its Arab advertising campaigns. Muhammad Ali is very popular in the Middle East, but the theme was him saying 'I am the greatest', which offended people because the Muslims regard only God as great.

Source: Harper, 1986.

### Legal and regulatory conditions

Local advertising regulations and industry codes directly influence the selection of media and content of promotion materials. Many governments maintain tight regulations on content, language and sexism in advertising. The type of product that can be advertised is also regulated. Tobacco products and alcoholic beverages are the most heavily regulated in terms of promotion. However, the manufacturers of these products have not abandoned their promotional efforts. Camel engages in corporate-image advertising using its Joe Camel. Regulations are found more in industrialized economies than in developing economies, where the advertising industry is not yet as highly developed.

### Competitive differences

As competitors vary from country to country in terms of number, size, type and promotional strategies used, a firm may have to adapt its promotional strategy and the timing of its efforts to the local environment.

## 12.7 Communication tools

Earlier in this chapter we mentioned the major forms of promotion. In this section the different communication tools, listed in Table 12.2, will be further examined.

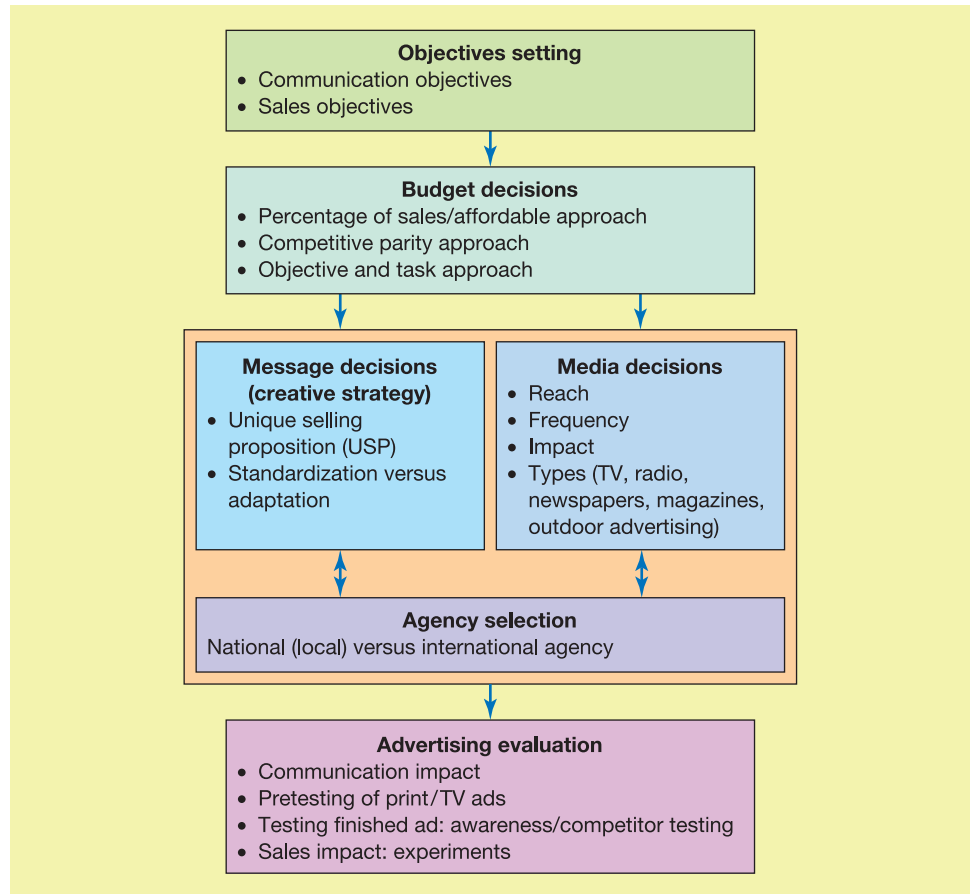
### Advertising

Advertising is one of the most visible forms of communication. Because of its wide use and its limitations as a one-way method of communication advertising in international markets is subject to a number of difficulties. Advertising is often the most important part of the communications mix for consumer goods, where there are a large number of small-volume customers who can be reached through mass media. For most business-to-business markets advertising is less important than the personal selling function.

**Table 12.2** Typical communication tools (media)

One-way communication ←		→ Two-way communication		
Advertising	Public relations	Sales promotion	Direct marketing	Personal selling
Newspapers	Annual reports	Rebates and price discounts	Direct mail/ database marketing	Sales presentations
Magazines	Corporate image	Catalogues and brochures	Internet marketing (WWW)	Sales force management
Journals	House magazines	Samples, coupons and gifts	Telemarketing	Trade fairs and exhibitions
Directories	Press relations	Competitions	Viral marketing	
Radio	Public relations			
Television	Events			
Cinema	Lobbying			
Outdoor	Sponsorship			

Figure 12.11 The major international advertising decisions



The major decisions in advertising are shown in Figure 12.11. We will now discuss these different phases.

### Objectives setting

Although advertising methods may vary from country to country the major advertising objectives remain the same. Major advertising objectives (and means) might include some of the following:

- *Increasing sales from existing customers* by encouraging them to increase the frequency of their purchases; maintaining brand loyalty via a strategy that reminds customers of the key advantages of the product; and stimulating impulse purchases.
- *Obtaining new customers* by increasing consumer awareness of the firm's products and improving the firm's corporate image among a new target customer group.

### Budget decisions

Controversial aspects of advertising include determining a proper method for deciding the size of the promotional budget and its allocation across markets and over time.

In theory the firm (in each of its markets) should continue to put more money into advertising, as an amount of money spent on advertising returns more than an amount of money spent on anything else. In practice it is not possible to set an optimum advertising budget. Therefore firms have developed more practical guidelines.

The manager must also remember that the advertising budget cannot be regarded in isolation, but has to be seen as one element of the overall marketing mix.

### **Affordable approach/percentage of sales**

These budgeting techniques link advertising expenditures directly to some measure of profits or, more commonly, to sales. The most popular of these methods is the **percentage of sales method**, whereby the firm automatically allocates a fixed percentage of sales to the advertising budget.

#### **Percentage of sales method**

The firm will automatically allocate a fixed percentage of sales to the advertising budget.

Advantages of this method are as follows:

- For firms selling in many countries this simple method appears to guarantee equality among the markets. Each market seems to get the advertising it deserves.
- It is easy to justify in budget meetings.
- It guarantees that the firm only spends on advertising as much as it can afford. The method prevents 'good money being thrown after bad'.

Disadvantages of this method are as follows:

- It uses historical performance rather than future performance.
- It ignores the possibility that extra spending on advertising may be necessary when sales are declining, in order to reverse the sales trend by establishing a 'recycle' on the product life cycle curve (see section 11.4).
- It does not take into account variations in the firm's marketing goals across countries.
- The 'percentage of sales' method encourages local management to maximize sales by using the easiest and most flexible marketing tool: price (that is, lowering the price).
- The method's convenience and simplicity encourage management not to bother investigating the relationships between advertising and sales or analysing critically the overall effectiveness of its advertising campaigns.
- The method cannot be used to launch new products or enter new markets (zero sales = zero advertising).

### **Competitive parity approach**

**Competitive parity approach** involves estimating and duplicating the amounts spent on advertising by major rivals. Unfortunately, determining the marketing expenditures of foreign-based competitors is far more difficult than monitoring home country businesses, whose financial accounts (if they are limited companies) are open to public inspection and whose promotional activities are obvious the moment they occur. Another danger in following the practice of competitors is that they are not necessarily right.

#### **Competitive parity approach**

Duplicating the amounts spent on advertising by major rivals.

Furthermore, the method does not recognize that the firm is in different situations in different markets. If the firm is new to a market its relationships with customers are different from those of existing domestic companies. This should also be reflected in its promotion budget.

### **Objective and task approach**

The weaknesses of the above approaches have led some firms to follow the **objective and task approach**, which begins by determining the advertising objectives and then ascertaining the tasks needed to attain these objectives. This approach also includes a cost/benefit analysis, relating objectives to the costs of achieving them. To use this method the firm must have good knowledge of the local market.

#### **Objective and task approach**

Determining the advertising objectives and then ascertaining the tasks needed to attain these objectives.

A research study (Hung and West, 1991) showed that only 20 per cent of companies in the United States, Canada and the United Kingdom used the objective and task approach. Although it is the 'theoretically correct' way of determining the promotion

budget it is sometimes more important to be operational and to use a 'percentage of sales' approach. This is not necessarily a bad method if company experience shows it to be reasonably successful. If the percentage is flexible it allows different percentages in different markets.

### Message decisions (creative strategy)

#### USP

Unique selling proposition is the decisive sales argument for customers to buy the product.

This concerns decisions about what unique selling proposition (USP) needs to be communicated, and what the communication is intended to achieve in terms of consumer behaviour in the country concerned. These decisions have important implications for the choice of advertising medium, since certain media can better accommodate specific creative requirements (use of colour, written description, high definition, demonstration of the product, etc.) than others.

An important decision area for international marketers is whether an advertising campaign developed in the domestic market can be transferred to foreign markets with only minor modifications, such as translation into the appropriate languages. Complete standardization of all aspects of a campaign over several foreign markets is rarely attainable. Standardization implies a common message, creative idea, media and strategy, but it also requires that the firm's product has a USP that is clearly understood by customers in a cross-cultural environment.

Standardizing international advertising can lead to a number of advantages for the firm. For example, advertising costs will be reduced by centralizing the advertising campaign in the head office and transferring the same campaign from market to market, as opposed to running campaigns from different local offices.

However, executing an advertising campaign in multiple markets requires a balance between conveying the message and allowing for local nuances. The adaptation of global ideas can be achieved by various tactics, such as adopting a modular approach, adapting international symbols and using international advertising agencies.

### Media decisions

The selection of the media to be used for advertising campaigns needs to be done simultaneously with the development of the message theme. A key question in media selection is whether to use a mass or target approach. The mass media (television, radio and newsprint) are effective when a significant percentage of the general public are potential customers. This percentage varies considerably by country for most products, depending on, for example, the distribution of incomes in different countries.

The selection of the media to be used in a particular campaign typically starts with some idea of the target market's demographic and psychological characteristics, regional strengths of the product, seasonality of sales, and so on. The media selected should be the result of a careful fit of local advertising objectives, media attributes and target market characteristics. Furthermore, media selection can be based on the following criteria:

- **Reach.** This is the total number of people in a target market exposed to at least one advertisement in a given time period ('opportunity to see', or **OTS**).
- **Frequency.** This is the average number of times within a given time period that each potential customer is exposed to the same advertisement.
- **Impact.** This depends on compatibility between the medium used and the message. *Penthouse* magazine continues to attract advertisers for high-value-added consumer durables, such as cars, hi-fi equipment and clothes, which are geared primarily to a high-income male segment.

High reach is necessary when the firm enters a new market or introduces a new product so that information about, for example, the new product's availability is spread to the widest possible audience. A high level of frequency is appropriate when

#### OTS

Opportunity to see – total number of people in the target market exposed to at least one ad in a given time period ('reach').

#### Frequency

Average number of times within a given timeframe that each potential customer is exposed to the same ad.

#### Impact

Depends on the compatibility between the medium used and the message (the 'impact' on the consumer's brain).

brand awareness already exists and the message is about informing the consumer that a campaign is under way. Sometimes a campaign should have both a high frequency and extensive reach, but limits on the advertising budget often create the need to trade off frequency against reach.

#### GRPs

Gross rating points – Reach multiplied by frequency. GRPs may be estimated for individual media vehicles. Media planning is often based on 'cost per 1,000 GRPs'.

A media's gross rating points (GRPs) are the result of multiplying its reach by the frequency with which an advertisement appears within the media over a certain period. Hence it contains duplicated exposure, but indicates the 'critical mass' of a media effort. GRPs may be estimated for individual vehicles, for entire classes of media or for a total campaign.

The cost of running a media campaign also has to be taken into consideration. Traditionally media planning is based on a single measure, such as 'cost per thousand GRPs'. When dealing with two or more national markets the selection of media also has to take the following into account:

- differences in the firm's market objectives across countries;
- differences in media effectiveness across countries.

Since media availability and relative importance will not be the same in all countries plans may require adjustment in cross-border campaigns.

As a way of distributing advertising messages through new communication channels, co-promotion has a strong foothold.

Let us now take a closer look at the main media types.

### Television

Television is an expensive but commonly used medium in attempting to reach broad national markets. In most developed countries coverage is no problem. However, television is one of the most regulated of communications media. Many countries have prohibited the advertising of cigarettes and alcohol other than beer. In other countries (e.g. in Scandinavia) there are limits on the number of minutes that TV advertising is permitted. Some countries also prohibit commercial breaks in TV programmes.

### Exhibit 12.2 Mercedes uses Janis Joplin's hit to market its cars in the United States

*'Oh, Lord, won't you buy me a Mercedes Benz.  
My friends all drive Porsches, I must make amends.  
Worked hard all my lifetime. No help from my friends.  
So, Lord, won't you buy me a Mercedes Benz.'*

Some 30 years ago rock singer Janis Joplin begged the Lord for a Mercedes Benz. The vocal version of a poor woman's evening prayer was a hit then and is still played frequently on radio stations all over the world.

#### Buying power of the generation of 1968

The generation of 1968 have now reached an age with purchasing power, and the German car company has decided to let the prayer be heard as part of a huge advertising campaign. Mercedes Benz has bought the rights to use the song in its advertisements in coming years. The campaign has already been launched on US TV, where Joplin's 'whisky' voice accompanies the delicate pictures of two of Mercedes' newest luxury models. Many classic rock hits from the 1950s and 1960s have been used commercially in advertisements during recent years. But Joplin's hit is different in two ways. First, it mentions the product directly. Second, the song was originally a satire of the poor's dream that happiness was found in one of the day's most materialistic status symbols.

'It was never meant to be taken seriously,' songwriter Bob Neuwirth recalls, who back in 1970 helped Joplin fabricate the song in a break between two concerts. He has nothing to do with the song today and has not been asked for advice. 'But I am surprised that it took them so long to think of the idea,' he says, and maintains that Joplin had no desperate personal need for an expensive status symbol.

### Drove a Porsche

In those days, Joplin owned a Porsche. Mercedes Benz has chosen Joplin as part of an attempt to reach a younger audience through advertisements that, according to the director for Mercedes' North American department Andrew Goldberg, create an instant emotional and physical connection to the product.

The reactions of a test audience have documented that the song produced warm, nostalgic feelings and created a more positive attitude towards Mercedes. 'What she meant by the song 25 years ago can be freely interpreted by anyone. But when a customer sees the advertisement it is solely about emotions and not sociology,' says Goldberg.

Janis Joplin became a world name with the group Big Brother and the Holding Co. at the end of the 1960s, but died from an overdose of heroin on 4 October 1970. Six months later her solo LP *Pearl* was released. It contained among others the Mercedes song, which a chuckling Joplin finishes with the words 'That's it,' after the famous refrain: 'So Lord won't you buy me a Mercedes Benz.' Exactly as she is doing now a quarter of a century later in the advertisement.

Source: Translated from an article by Jan Lund in the Danish newspaper *Jyllands-posten*, 24 March 1995.

### Radio

Radio is a lower-cost broadcasting activity than television. Commercial radio started several decades before commercial television in many countries. Radio is often transmitted on a local basis and therefore national campaigns have to be built up on an area-by-area basis.

### Newspapers (print)

In virtually all urban areas of the world the population has access to daily newspapers. In fact the problem for the advertiser is not having too few newspapers, but rather having too many of them. Most countries have one or more newspapers that can be said to have a truly national circulation. However, in many countries newspapers tend to be predominantly local or regional and, as such, serve as the primary medium for local advertisers. Attempting to use a series of local papers to reach a national market is considerably more complex and costly.

Many countries have English-language newspapers in addition to local-language newspapers. For example, the aim of the *Asian Wall Street Journal* is to supply economic information in English to influential Asian business people, politicians, top government officials and intellectuals.

### Magazines (print)

In general, magazines have a narrower readership than newspapers. In most countries magazines serve to reach specific segments of the population. For technical and industrial products magazines can be quite effective. Technical business publications tend to be international in their coverage. These range from individual businesses (e.g. beverages, construction, textiles) to worldwide industrial magazines covering many industries.

Marketers of international products have the option of using international magazines that have regional editions (e.g. *Newsweek*, *Time* and *Business Week*). In the case of *Reader's Digest*, local-language editions are distributed.

### Cinema

In countries where it is common to subsidize the cost of showing films by running advertising commercials prior to the feature film, cinema advertising has become an important medium. India, for example, has a relatively high level of cinema attendance per capita (few have television at home). Therefore cinema advertisements play a much greater role in India than in, for example, the United States.

Cinema advertising has other advantages, one of the most important being that it has a truly captive audience (no channel hopping!). The problem, of course, is that people know that commercials will be shown before the film. So they will not turn up until the main feature begins.

### Outdoor advertising

Outdoor advertising includes posters/billboards, shop signs and transit advertising. This medium shows the creative way in which space can be sold to customers. In the case of transit advertising, for example, a bus can be sold as an advertising medium. In Eastern Europe transit advertising is very effective. The use of transit media is expanding rapidly in China as well. Outdoor posters/billboards can be used to develop the visual impact of advertising. France is a country associated with the effective use of poster/billboard advertising. In some countries legal restrictions limit the poster space available.

### Agency selection

Confronted with the many complex problems that international advertising involves, many businesses instinctively turn to an advertising agency for advice and practical assistance. Agencies employ or have instant access to expert copywriters, translators, photographers, film makers, package designers and media planners who are skilled and experienced in the international field. Only the largest of big businesses can afford to carry such people in-house.

If the international marketer decides to outsource the international advertising functions they have a variety of options including the following:

- Use different national (local) agencies in the international markets where the firm is present.
- Use the services of a big international agency with domestic overseas offices.

In Table 12.3 the different factors favoring a national or an international agency are listed. The single European (pan-European) market is used as an example of an international agency.

The criteria relevant to the choice of a national or an international agency include the following:

- *Policy of the company.* Has the company got any realistic plans for a more standardized advertising approach?
- *Nature of the advertising to be undertaken.* Corporate image advertising might be best undertaken by a single large multinational agency that operates throughout the world via its own subsidiaries. For niche marketing in specialist country sectors a local agency might be preferred.

**Table 12.3** European agency selection: national (local) or pan-European (international)

National (local)	Pan-European (international)
Supports national subsidiary.	Reflects new European reality and trends.
Investment in existing brand best handled nationally.	Economies of scale in new product development and branding.
Closer to marketplace.	Uniformity of treatment across Europe.
Smaller size more conducive to personalized service and greater creativity.	Resources and skills of major European or global agency.
Diversity of ideas.	Easier to manage one agency group.

Source: Adapted from Lynch, (1994), *European Marketing*, Table 11-4 pub. Irwin Professional Publishing.



- *Type of product.* The campaign for an item that is to be presented in a standardized format, using the same advertising layouts and messages in all countries, might be handled more conveniently by a single multinational agency.

### Advertising evaluation

Advertising evaluation and testing is the final stage in the advertising decision process shown in Figure 12.11. Testing advertising effectiveness is normally more difficult in international markets than in domestic markets. An important reason for this is the distance and communication gap between domestic and foreign markets. Thus it can be very difficult to transfer testing methods used in domestic ones to foreign ones. For example, the conditions for interviewing people can vary from country to country. Consequently, many firms try to use sales results as a measure of advertising effectiveness, but awareness testing is also relevant in many cases, for example, brand awareness is of crucial importance during the early stages of a new product launch.

Testing the impact of advertising on sales is very difficult because it is difficult to isolate the advertising effect. One way to solve this problem is to use a kind of *experiment*, where the markets of the firm are grouped according to similar characteristics. In each group of countries, one or two are used as test markets. Independent variables to be tested against the sales (dependent variable) might include the amount of advertising, the media mix, the unique selling proposition and the frequency of placement.

This kind of experiment is also relevant for testing other types of communication tool mentioned in Table 12.2.

### Exhibit 12.3 Baileys Irish Cream liqueur: sales expansion with market and product development

In 1993 R&A Bailey and Co. decided to increase sales of its brand in Europe by expanding usage of the drink. A cross-border television advertising campaign, 'Baileys with ice', was developed to reinforce the contemporary all-year-round image of the drink and to distinguish it from the 'stuffy' image of traditional liqueurs with their mainly after-dinner role. The appeal was to younger consumers to drink Bailey's on a greater number of occasions. Special promotional packs were also developed, consisting of a one-litre bottle together with two free liqueur glasses.

In early 1993 Baileys was also launched on the Japanese market after a period of test marketing. The regular brand was offered in addition to a specially developed brand for the Japanese called Baileys Gold, which was developed with ten-year-old malt whiskey to appeal to the Japanese taste for premium-quality spirits. This Baileys Gold was also priced at double the price of the regular brand.



Source: MacNamee and McDonnell, 1995. Baileys® Irish Cream Liqueur Image by permission of Diageo.

### Public relations

Word-of-mouth advertising is not only cheap, it is very effective. Public relations (PR) seeks to enhance corporate image building and influence favourable media treatment. PR (or publicity) is the marketing communications function that carries out programmes designed to earn public understanding and acceptance. It should be viewed as an integral part of the global marketing effort.

**Table 12.4** Target groups for public relations

Publics or target groups: domestic markets	Extra international dimensions: international markets
<i>Directly connected with the organization</i> Employees Shareholders	Wider range of cultural issues The degree of remoteness of the corporate headquarters
<i>Suppliers of raw materials and components</i> Providers of financial services Providers of marketing services (e.g. marketing research, advertising, media)	Is this to be handled on a country-by-country basis, or is some overall standardization desirable?
<i>Customers of the organization</i> Existing customers Past customers Those capable of becoming customers	May have less knowledge of the company The country-of-origin effect will influence communications
<i>Environment</i> The general public Government: local, regional, national Financial markets generally	Wide range of general publics Host governments Regional grouping (e.g. EU), world groupings

Source: Phillips et al., 1994, p. 362. Reprinted by permission of Thomson Publishing Services Ltd.

PR activities involve both internal and external communication. Internal communication is important to create an appropriate corporate culture. The target groups for public relations are shown in Table 12.4.

The range of target groups is far wider in public relations than it is for the other communications tools. Target groups are likely to include the main stakeholder groups of employees, customers, distribution channel members and shareholders. For companies operating in international markets this gives a very wide range of communication tasks. Internal communications in different country subsidiaries, employing people from a number of different countries, with different cultural values, will be particularly challenging.

In a more market-oriented sense, the PR activity is directed towards an influential, though relatively small, target audience of editors and journalists who work for newspapers/magazines, or towards broadcasting aimed at the firm's customers and stakeholders.

Since the target audience is small it is relatively inexpensive to reach. Several methods can be used to gain PR. Such methods include the following:

- Contribution of prizes at different events.
- Sponsorship of events (sporting, cultural, etc.).
- Press releases of news about the firm's products, plant and personnel.
- Announcements of the firm's promotional campaigns.
- Lobbying (government).

The degree of control of the PR messages is quite different. Journalists can use PR material to craft an article of so many words, or an interview of so many seconds. How material is used will depend on the journalist and the desired story line. On occasions a thoroughly negative story can result from a press release that was designed to enhance the company image.

Hence PR activity includes anticipating criticism. Criticisms may range from general ones against all multinational corporations to more specific ones. They may also be based on a market: for example, doing business with prison factories in China.

## Sales promotion

Sales promotion is defined as those selling activities that do not fall directly into the advertising or personal selling category. Sales promotion also relates to so-called below-the-line activities such as point-of-sale displays and demonstrations, leaflets, free trials, contests and premiums such as 'two for the price of one'. Unlike media advertising, which is 'above the line' and earns a commission, below-the-line sales promotion does not. To an advertising agency 'above the line' means traditional media for which they are recognized by the media owners, entitling them to commission.

Sales promotion is a short-term effort directed primarily to the consumer and/or retailer, in order to achieve specific objectives:

- consumer product trial and/or immediate purchase;
- consumer introduction to the shop;
- encouraging retailers to use point-of-purchase displays for the product. E.g. perfume manufacturer, Chanel, focuses heavily on in-store point-of-purchase information displays like wall displays and seasonal floor displays (Marber and Wellen, 2007).
- encouraging shops to stock the product.

Especially in the United States, the sales promotion budgets for fast-moving consumer goods (FMCG) manufacturers are larger than the advertising budgets. Factors contributing to the expansion of sales promotion activities include the following:

- greater competition among retailers, combined with increasingly sophisticated retailing methods;
- higher levels of brand awareness among consumers, leading to the need for manufacturers to defend brand shares;
- improved retail technology (e.g. electronic scanning devices that enable coupon redemptions, etc., to be monitored instantly);
- greater integration of sales promotion, public relations and conventional media campaigns.

In markets where the consumer is hard to reach because of media limitations the percentage of the total communication budget allocated to sales promotions is also relatively high. Here are some of the different types of sales promotion:

- *Price discounts.* These are very widely used. A variety of different price reduction techniques is available, such as cash-back deals.
- *Catalogues/brochures.* The buyer in a foreign market may be located at quite a distance from the closest sales office. In this situation a foreign catalogue can be very effective. It must be able to close the gap between buyer and seller in the way that the potential buyer is supplied with all the necessary information, from prices, sizes, colours and quantities to packing, shipping time and acceptable form of payment. In addition to catalogues, brochures of various types are useful for salespersons, distributors and agents. Translations should be done in cooperation with overseas agents and/or distributors.
- *Coupons.* Coupons are a classic tool for FMCG brands, especially in the United States. A variety of coupon distribution methods exists: door-to-door, on pack, in newspapers. Coupons are not allowed in all European countries.
- *Samples.* A sample gives the potential foreign buyer an idea of the firm and quality of product that cannot be attained by even the best graphic picture. Samples may prevent misunderstandings over style, sizes, models and so on.
- *Gifts.* Most European countries have a limit on the value of the premium or gift given. Furthermore, in some countries it is illegal to offer premiums that are conditional

on the purchase of another product. The United States does not allow alcoholic beer to be offered as a free sample.

- *Competitions.* This type of sales promotion needs to be communicated to the potential customers. This can be done on the pack, in stores via leaflets or through media advertising.

The success of sales promotion depends on local adaptation. Major constraints are imposed by local laws, which may not permit premiums or free gifts to be given. Some countries' laws control the amount of discount given at retail level; others require permits for all sales promotions. Since it is impossible to know the specific laws of each and every country, international marketers should consult local lawyers and authorities before launching a promotional campaign.

## Direct marketing

According to Onkvisit and Shaw (1993, p. 717), direct marketing is the total of activities by which products and services are offered to market segments in one or more media for informational purposes or to solicit a direct response from a present or prospective customer or contributor by mail, telephone or personal visit.

Direct marketing covers direct mail (marketing database), telephone selling and marketing via the Internet as in the light of the development in Internet technologies it is highly relevant to consider the Web as a direct marketing tool.

## Personal selling

The differences between advertising and personal selling were indicated in Table 12.2. Advertising is a one-way communication process that has relatively more 'noise', whereas personal selling is a two-way communication process with immediate feedback and relatively less 'noise'. Personal selling is an effective way to sell products, but it is expensive. It is used mainly to sell to distribution channel members and in business-to-business markets. However, personal selling is also used in some consumer markets – for example, for cars and for consumer durable products. In some countries labour costs are very low and here personal selling will be used to a greater extent than in high-cost countries.

If personal selling costs on business-to-business markets are relatively high it is relevant to economize with personal selling resources, and use personal selling only at the end of the potential customer's buying process (Figure 12.12). Computerized database marketing (direct mail, etc.) is used in a customer screening process, to point out possible customers, who will then be 'taken over' by salespersons. Their job is to turn 'hot' and 'very hot' customer candidates into real customers.

## The international sales force organization

In international markets firms often organize their sales forces similarly to their domestic structures, regardless of differences from one country to another. This means that the sales force is organized by geography, product, customer or some combination of these (Table 12.5).

A number of firms organize their international sales force along simple geographical territories within a given country or region. Firms that have broad product lines and large sales volume, and/or operate in large, developed markets may prefer more specialized organizations, such as product or customer assignment. The firm may also organize the sales force based upon other factors such as culture or languages spoken in the targeted foreign markets. For example, firms often divide Switzerland into different regions reflecting French, Italian and German language usage.

Figure 12.12 Combination of direct mail (database marketing) and personal selling

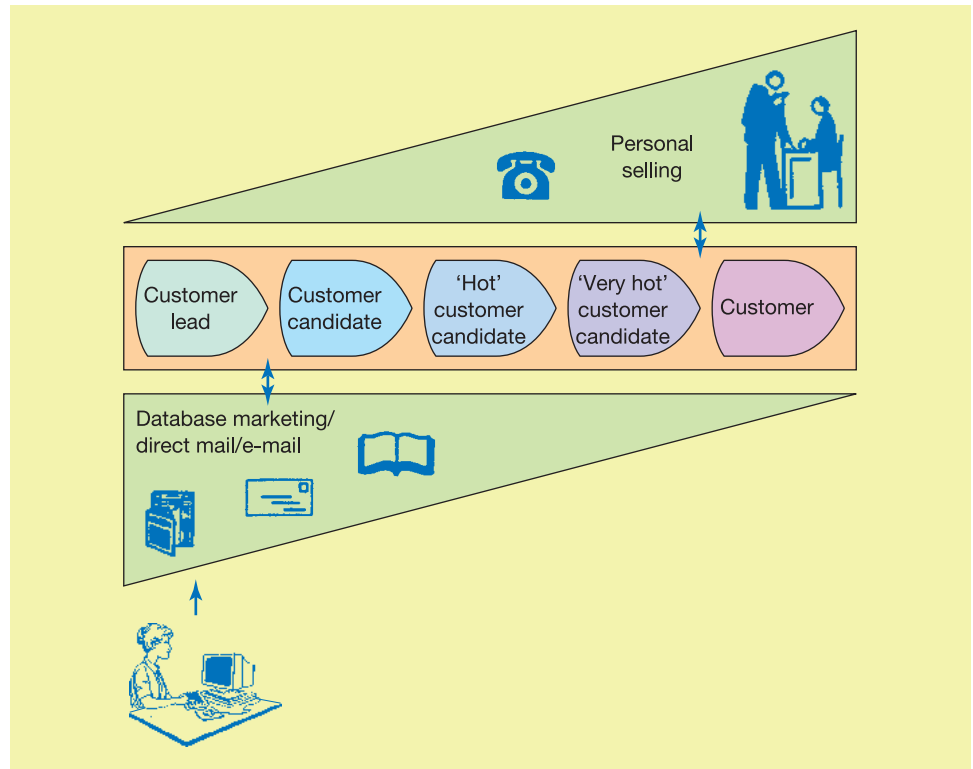


Table 12.5 Sales force organizational structure

Structure	Factors favouring choice of organizational structure	Advantages	Disadvantages
<i>Geographic</i>	Distinct languages/cultures Single product line Underdeveloped markets	Clear, simple Incentive to cultivate local business and personal ties Travel expenses	Breadth of customers Breadth of products
<i>Product</i>	Established market Broad product lines	Product knowledge	Travel expenses Overlapping territories/customers Local business and personal ties
<i>Customer*</i>	Broad product lines	Market/customer knowledge	Overlapping territories/products Local business and personal ties Travel expenses
<i>Combination</i>	Large sales volume Large/developed markets Distinct language/cultures	Maximum flexibility Travel expenses	Complexity Sales management Product/market/geography overlap

\* By type of industry, size of account, channel of distribution, individual company.

### Type of international sales force

Management should consider three options when determining the most appropriate international sales force. The salespeople hired for sales positions could be expatriates, host country nationals or third country nationals. For example, a German working for a German company in the United States is an expatriate. The same German working for a US company in Germany is a host country national. They are a third country national if assigned to France.

- *Expatriate salespersons.* These are viewed favourably because they are already familiar with the firm's products, technology, history and policies. Thus the 'only' kind of preparation they would need is a knowledge of the foreign market. Yet this may be a great problem for the expatriate salesperson. Whereas some may enjoy the challenge and adjustment, other expatriate personnel find it difficult to come to terms with a new and unfamiliar business environment. The failure to understand a foreign culture and its customers will hinder the effectiveness of an expatriate sales force. The family of the expatriate may also face adaptation problems. However, very expensive items often require selling directly from the head office, which usually involves expatriates.
- *Host country nationals.* These are personnel who are based in their home country. As native personnel they have extensive market and cultural knowledge, language skills and familiarity with local business traditions. Since the government and local community undoubtedly prefer that their own nationals be hired instead of outsiders, the firm can avoid charges of exploitation while gaining goodwill at the same time. Using local sales representatives also permits the firm to become active more quickly in a new market because the adjustment period is minimized.
- *Third country nationals.* These are employees transferred from one country to another. They tend to be born in one country, employed by a firm based in another country and working in a third country.

The advantages and disadvantages of the three types of international sales force are summarized in Table 12.6.

**Table 12.6** Advantages and disadvantages of sales force types

Category	Advantages	Disadvantages
<i>Expatriates</i>	Product knowledge High service levels Train for promotion Greater home control	Highest costs High turnover High training cost
<i>Host country</i>	Economical High market knowledge Language skills Best cultural knowledge Implement actions sooner	Needs product training May be held in low esteem Importance of language skills declining Difficult to ensure loyalty
<i>Third country</i>	Cultural sensitivity Language skills Economical Allows regional sales coverage May allow sales to country in conflict with the home country	Face identity problems Blocked promotions Income gaps Needs product/company training Loyalty assurance

Source: Reprinted from *Industrial Marketing Management*, Vol. 24, Honeycutt, E.D. and Ford, J.B. (1995) 'Guidelines for managing an international sales force', p. 138, Copyright 1995, with permission from Elsevier.

Expatriates and third country nationals are seldom used in sales capacities for long periods of time. They are used for three main reasons: to upgrade a subsidiary's selling performance, to fill management positions and to transfer sales policies, procedures and techniques. However, most companies use local nationals as their sales personnel. They are familiar with local business practices and can be managed accordingly.

### Trade fairs and exhibitions

A trade fair (TF) or exhibition is a concentrated event at which manufacturers, distributors and other vendors display their products and/or describe their services to current and prospective customers, suppliers, other business associates and the press.

Trade fairs can enable a company to reach in a few days a concentrated group of interested prospects that might otherwise take several months to contact. Potential buyers can examine and compare the outputs of competing firms in a short period at the same place. They can see the latest developments and establish immediate contact with potential suppliers. TFs also offer international firms the opportunity to gather vital information quickly, easily and cheaply. For example, within a short period a firm can learn a considerable amount about its competitive environment, which would take much longer and cost much more to get through other sources (e.g. secondary information).

Whether a marketer should participate in a trade fair depends largely on the type of business relationship it wants to develop with a particular country. A company looking only for one-off or short-term sales might find the TF expense prohibitive, but a firm looking for long-term involvement may find the investment worthwhile.

## 12.8 International advertising strategies in practice

In the introduction to Part IV the question of standardization or adaptation of the whole marketing mix was discussed. Standardization allows the realization of economies of scale in the production of advertising materials, reducing advertising costs and increasing profitability. On the other hand, since advertising is based largely on language and images, it is mostly influenced by the sociocultural behaviour of consumers in different countries.

In reality it is not a question of either/or. For the internationally oriented firm it is more a question of the degree of standardization/localization. A study by Hite and Frazer (1988) showed that a majority (54 per cent) of internationally oriented firms were using a combination strategy (localizing advertising for some markets and standardizing advertising for others). Only 9 per cent of the firms were using totally standardized advertising for all foreign markets, much lower than in previous studies (Sorenson and Weichman, 1975; Boddewyn *et al.*, 1986). This could indicate a trend towards less standardization. A total of 37 per cent of the firms reported that they were using only localized advertising. Many of the global companies using standardized advertising are well known (e.g. Coca-Cola, Intel, Philip Morris/Marlboro).

The Cathay Pacific advertisements show that the company uses a standardized strategy in the South-East Asian area. The only element of adaptation is the translation of the English text into Japanese.



Standardized advertisements from Cathay Pacific

### Examples of adaptation (localization) strategies

#### Courvoisier Cognac: Hong Kong/China versus Europe

The Chinese love affair with western alcohol goes back a long way. The first imported brandy arrived in Shanghai in 1859 when Hennessy unloaded its first cargo. Then in 1949 the favourite drink of ‘the Paris of the East’ suddenly became a symbol of western capitalist decadence; alcohol shipments came to an abrupt halt and did not resume for the next 30 years. However, when foreign liquor once again became



Habits of cognac drinking in Western Europe and Asia



available in the late 1970s, cognac quickly resumed its place as a guest at the Chinese banquet table.

Today cognac and brandy still account for about 80 per cent of all imported spirits in China. Most of the imported brandy goes through Hong Kong via grey markets (see also section 12.8). Chinese awareness of brand and category of cognac is particularly high in the South, where the drinking habits of visiting Hong Kong businessmen set a strong example. This impact is reinforced by alcohol advertising on Hong Kong television, available to millions of viewers in Guangdong province.

The key to Chinese consumption patterns lies in the importance of 'face'. Whatever the occasion, be it the father of the bride toasting his son-in-law's family in Beijing or a Shenzhen entrepreneur's night out on the town, brandy is of paramount importance. Unlike their western counterparts, who like to curl up on the couch with a snifter of brandy, the Chinese consider cognac drinking an extremely social – and conspicuous – pastime.

Two different Courvoisier advertisements are shown: the one for the western European market shows couples drinking cognac with their coffee; the Asian advertisement shows people drinking cognac from beer glasses during the meal.

Folklore as much as marketing has propelled the growth of cognac sales. Cognac has long had the inestimable commercial benefit of being widely regarded by the Chinese as enhancing a man's sexual prowess. And much to the delight of the liquor companies, the Chinese believe that the older (and pricier) the cognac, the more potent its effect.

Source: adapted from *Business Week*, 1984; Balfour, 1993.

### **Prince cigarettes: UK versus Germany**

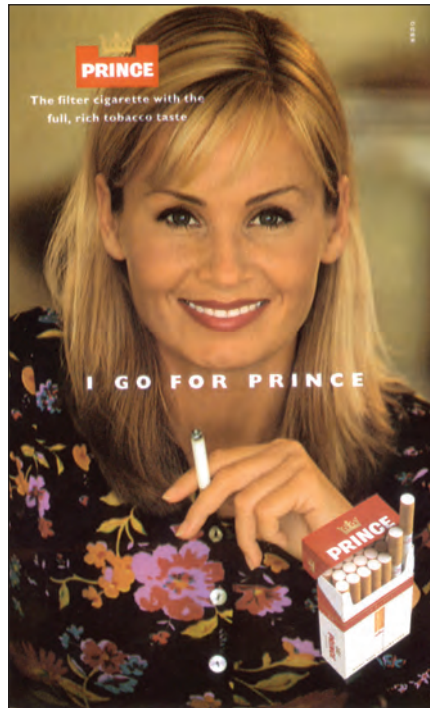
The Danish cigarette company House of Prince has high market share (50–90 per cent) in Scandinavian countries, but outside this area its market share is very low, typically 1–2 per cent.

The House of Prince cigarettes images show advertisements used in the UK and Germany. The UK version is based on an invitation to try the product ('I go for Prince'). The target group is also above average in education and income. The German advertisement is somewhat different. Prince is promoted as an 'original import from Denmark'. Apparently there is no 'buy German' mentality working against the use of this slogan. In the German consumer's mind Danish cigarettes are strongly positioned compared to light German cigarettes. Therefore the product's position is emphasized as 'men's business', with Viking associations and ideas of freedom. Incidentally, the two products Prince and Prince Denmark are not identical. The German Prince Denmark has a milder taste than does Prince.

### **Gammel Dansk (Danish Distillers/Danisco): Denmark versus Germany**

The Danish bitter Gammel Dansk has a 75 per cent share of the bitter market in Denmark. Thus the product has a high degree of recognition there (nearly all Danish adults know the label). The objective of the Danish advertisement has therefore primarily been to maintain Gammel Dansk's high degree of recognition.

Although the market share in Denmark is very high, Gammel Dansk does not have any position worth mentioning outside Denmark. In Germany the situation is totally different. Here the knowledge (and trial share) is at a minimum. The Germans have their own Jägermeister and competition is tough. The strategy behind the German campaign has therefore been to make people try Gammel Dansk by letting them fill out a coupon. By sending it in they receive a little bottle of Gammel Dansk and two original Gammel Dansk glasses.



Advertisements for Prince cigarettes in the UK and Germany



Advertisements for Gammel Dansk in Denmark and Germany (Danisco Distillers Berlin GmbH).

### LEGO FreeStyle: Europe versus the Far East

The LEGO images show European and Far Eastern versions of an advertisement for LEGO FreeStyle. The Asian version, 'Build your child's mind', appeals to Asian parents' desire for their children to do well in school.

The Asian educational system is very competitive and only those with the highest grades are admitted to university. In many places in Asia it is a defeat for parents if their



Advertisement for LEGO® FreeStyle in the Far East, © 1997  
Source: © 2008 The LEGO Group, used by permission.



Advertisement for LEGO® FreeStyle in Europe, © 1997  
Source: © 2008 The LEGO Group, used by permission.

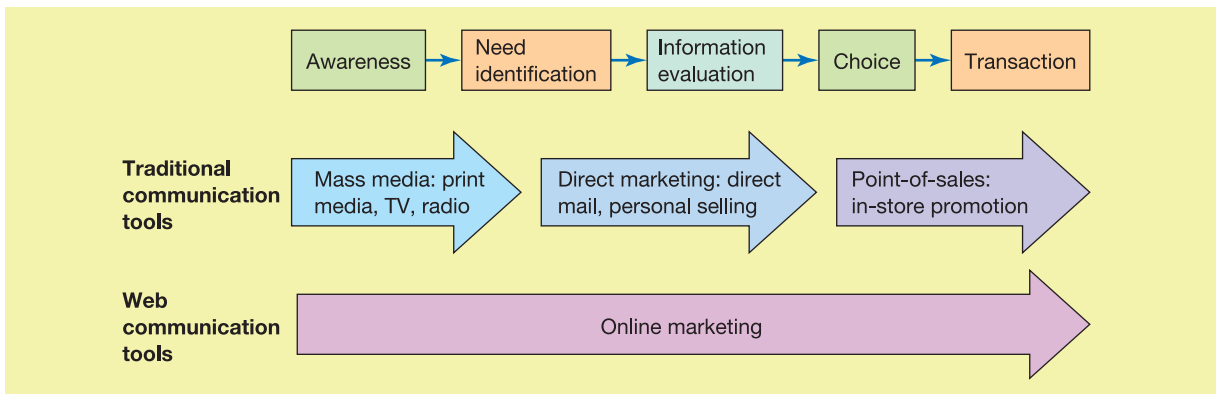
child does not do well in school. The Asian version has been run in Hong Kong, Taiwan and Korea (preferably in the local languages because the majority of consumers do not understand English). In Hong Kong the advertisements are run in English or Chinese (depending on the language of the magazine).

The European version implies creativity when playing with the different FreeStyle bricks: ‘What will your child make of it?’

## 12.9 Implications of the Internet for communication decisions

In the physical marketplace different communication tools are used in the buying process of customers (see Figure 12.13). Traditional mass communication tools (print advertising, TV and radio) can create awareness and this can result in consumers’ identification of new needs. From then on other elements of the communication mix take over, such as direct marketing (direct marketing, personal selling) and in-store promotion. Unlike marketing in the physical marketplace the Internet/e-commerce encompasses the entire ‘buying’ process. Of course, the online markets also make use of traditional mass advertising in order to get potential customers into the online buying process (from the left in Figure 12.13)

Figure 12.13 The role of Internet communication in the buying process of customers



Market communication strategies change dramatically in the online world. On the Internet it is easier than ever to actually *communicate* a message to large numbers of people. However, in many cases, it is much harder for your message to be heard above the noise by your target audience. Various strategies for conducting online marketing have been developed in the past several years – from the most common (website linking) to the most expensive (banner advertising) to the most offensive (e-mail spamming), and everything in between. It is almost certain that a continual stream of new market communication strategies will emerge as the Internet medium evolves.

How, then, can a web audience be created? One of the new possibilities in this field is Viral Marketing:

## Viral Marketing

Global selling and buying is part of a social process. It involves not only a one-to-one interaction between the company and the customer but also many exchanges of information and influence among the people who surround the customer.

For example, diffusion occurs when an innovation is communicated through certain channels among members of a social system. An innovation is an idea, practice, or object that an individual or unit of adoption perceives as new (Rogers, 1995). According to Rogers, mass media channels are relatively more important for learning about an innovation, whereas interpersonal communication is especially important for persuasion. Thus, consumers communicating via e-mail may be persuaded more readily than those via mass media advertising.

Passing along e-mail is even easier than writing comments. Beyond this, pass-along e-mail seems particularly well suited for the spread of images and/or verbal content that is too detailed to be disseminated via word of mouth.

The Internet has radically changed the concept of word-of-mouth, so much so that the term **viral marketing** was coined by venture capitalist Steve Jurvetson in 1997. The term was used to describe Hotmail's e-mail practice of appending advertising for itself to outgoing mail from its users. In the Hotmail case each e-mail sent arrived with the appended message '*Get your private, free e-mail from Hotmail at <http://www.hotmail.com>*'.

The assumption is that if such an advertisement reaches a 'susceptible' user, that user will become 'infected' (i.e. sign up for an account) and can then go on to infect other susceptible users.

### Definition

Viral marketing can be defined as a marketing technique that seeks to exploit pre-existing social networks to produce exponential increases in brand awareness, through viral processes similar to the spread of an epidemic. It is word-of-mouth delivered and enhanced online; it harnesses the network effect of the Internet and can be very useful in reaching a large number of people rapidly. From a marketing perspective, it is the process of encouraging individuals to pass along favourable or compelling marketing information they receive in a hypermedia environment: information that is favourable or compelling either by design or by accident.

### Motives for viral marketing

The creation of technologies such as SMS technology, satellite radio and Internet ad blocking software are driving a fundamental shift in the way the public consumes media and the advertising often tied to it. Television ads, radio spots, online ads and even e-mails are facing increasing competition for effectively capturing the viewer's

#### Viral marketing

Online word-of-mouth is a marketing technique that seeks to exploit existing social networks to produce exponential increases in brand awareness.

attention and provide positive ROI for the marketer. Additionally, consumers are becoming increasingly immune to mass marketing and advertising, so this form of marketing offers something that does not feel like they are being sold to, making them more receptive to the offer.

This competition, coupled with the rising cost of media buys, has caused marketers to search for an alternative means to reach the customer. Viral marketing is an attractive solution because it utilizes the free endorsement of the individual rather than purchasing mass media to spread the word. Because the distribution model is free, viral can potentially be lower cost and more effective than traditional media.

### Advantages of viral marketing

- It incurs very little expense since the individual passing on the referral carries the cost of forwarding the brand message. Viral marketing offers SMEs the opportunity to target a whole new set of customers while keeping distribution costs to a minimum.
- Unlike traditional advertising viral is not an interruptive technique. Instead, viral campaigns work the Internet to deliver exposure via peer-to-peer endorsement. Viral campaigns, whether ultimately liked or disliked, are often welcomed by the receiver. The act of forwarding electronic messages containing advertising is voluntary rather than a paid testimonial or a mass ad campaign and thus may be viewed more favourably by the recipient. The focus is on campaigns containing material that consumers want to spend time interacting with and spreading proactively.
- Those forwarding the messages will be more likely to know which of their friends, family members and work colleagues have similar interests and are thus more likely to read the message: hence, more effective targeting. Here, the term 'interests' refers not only to the narrow sense of just the product or service but also includes the way the message is presented, such as the humour, the artwork, or the medium itself.

### Disadvantages of viral marketing

Viral marketing, like all marketing is hit or miss. However, viral marketing by nature is often more risky or controversial than traditional marketing. If done improperly viral marketing can backfire and create negative buzz:

- If particular software is needed that is not widely used, then people will not be able to open or view the message
- Many people receive viral marketing messages while at the office, and company anti-virus software or firewalls can prevent people from receiving or viewing such attachments
- For a viral marketing campaign to be successful, it must be easy to use. For example, if the promotion is some sort of game or contest, then asking for referrals should be an option immediately after the game, not as a condition to play.

### Developing a viral marketing campaign

Viral marketing is by no means a substitute for a comprehensive and diversified marketing strategy. In employing viral marketing to generate peer-to-peer endorsement, the technique should not be considered as a standalone miracle worker.

While the messaging and strategy ranges radically from campaign to campaign, most successful campaigns contain some commonly used approaches. These approaches are often used in combination to maximize the viral effect of a campaign.

Successful viral campaigns are easily spread. The key is to get your customers to do the hard work for you by recommending your company or its promotional offers to friends and colleagues, who in turn will recommend it to their friends and so on. An effective viral marketing campaign can get your marketing message out to thousands of potential customers at phenomenal speeds.

When creating a campaign marketers should evaluate how people will communicate the message or campaign to others.

### **1 *Creating compelling content***

Creating quality content can often be more expensive than simply offering a free product, but the results are often better. Fun is often a vital part of any viral marketing campaign. The general rule of thumb is that the content must be compelling, it must evoke a response on an emotional level from the person viewing it. This fact alone has allowed many smaller brands to capitalize on content-based viral campaigns. Traditionally, larger brands are more reserved and risk adverse to the possibility of negative reaction. Central to the success of these campaigns is one or more of the following: their entry timing (early), their visibility or the simplicity of the idea.

### **2 *Targeting the right audience***

If a campaign is skewed towards a certain audience or certain regions (countries), marketers should make sure they seed towards that audience. Failure to do so may kill a campaign before it ever gets off the ground.

The influence and, in some cases, the power of reference groups or opinion leaders in individual decision making is significant.

### **3 *Campaign seeding***

'Seeding' the original message is a key component of a viral campaign. Seeding is the act of planting the campaign with the initial group who will then go on to spread the campaign to others. The Internet provides a wide array of options for seeding, including:

- e-mail/SMS
- online forums (Google groups)
- social networks (Facebook.com, MySpace.com)
- chatroom environment (MSN Messenger)
- blogs
- podcasts.

When determining where to seed it is important that marketers consider the audience they are aiming for. Is the target audience using the above-mentioned media (technologies) and to what degree?

Companies often use a combination of technologies to 'spread the virus'. Many use SMS. An example of an SMS campaign is that of Heineken, which linked an SMS promotion with the British pub tradition of playing quiz games. Heineken combined both online and offline promotions through point-of-sale signs in pubs, inviting customers to call from their mobile phones, type in the wordplay and receive a series of multiple-choice questions to answer. Food and beverage prizes were awarded for correct answers. From a promotional perspective, the idea was successful as customers told others what they were doing, prompting them to call in too.

### **4 *Control/measuring results***

The goal of a viral campaign is explosive reach and participation. To measure the success of a viral marketing campaign, establish specific and obtainable goals within a

timeframe. For example, you would like to see a 20 per cent increase in traffic to a website within three months or to double your subscriber rate to an e-mail newsletter in one year.

Marketers should also be adequately prepared to meet the needs of participants in the event that the campaign is successful. Server space, bandwidth, support staff, fulfilment and stocking should be taken into consideration well in advance of campaign launch. The marketer should have the ability to capitalize on the full success of the campaign.

### Exhibit 12.4 *Cloverfield*: promotion of a Paramount Pictures movie by a viral marketing campaign in January 2008

The film is presented as a video file recovered by the United States Department of Defense from a digital hand-held camera. At the start of the film, it is stated the camera was 'found in US-447, area formerly known as Central Park'.

The film follows five young New Yorkers who throw their friend a going-away party on the same night that a gigantic monster attacks the city.

The film was shot and edited to look like it was filmed with one hand-held camera, including jump cuts similar to ones found in home movies. What the audience is watching is a home movie that turns into something other than planned.

The film was provisionally entitled *Cloverfield* from the beginning, but this changed frequently throughout production – due to the hype caused by the 'teaser trailer' – before it was finalized as the title. The excitement spread to such a degree that the producers suddenly couldn't use the name anymore, so they started to refer to it as *Slusho* and *Cheese*.

The filmmakers decided to create a teaser trailer that would be a surprise compared to commonplace media saturation; and they put it together during the preparation stage of the production process. The teaser trailer for *Cloverfield* showed the release date of 18 January 2008 but not the title, and this fuelled media speculation over the film's plot. For example, *USA Today* reported the possibilities of the film being based on the works of H. P. Lovecraft, a live-action adaptation of *Voltron*, a new film about *Godzilla*, or a spin-off of the TV show *Lost*.

A second trailer was then released on 16 November 2007, which published the real title, *Cloverfield*.

In early April 2008, a video-oriented contest website, 'Where Were You When *Cloverfield* Hit?', was launched to promote the release of the DVD, which allowed fans to upload their own enactments of the *Cloverfield* experience. The DVD was released on 22 April 2008 in two versions: the standard single-disc edition and an exclusive 'steel-book' special edition.

#### The financial outcome

With no expensive actors, the production costs of *Cloverfield* could be kept at \$25 million. *Cloverfield* opened in 3,411 theaters on 18 January 2008 and grossed a total of nearly \$17 million on its opening day in the United States and Canada. It made \$40 million on its opening weekend. Up to May 2008 it has worldwide grossed \$170 million ([www.boxofficemojo.com/movies/?id=cloverfield.htm](http://www.boxofficemojo.com/movies/?id=cloverfield.htm)). Forty-seven per cent of this came from United States, and 53% come from abroad.



Source: © Frank Trapper/Corbis.

Sources: Adapted from: [www.cloverfieldmovie.com/](http://www.cloverfieldmovie.com/); [www.imdb.com/title/tt1060277/](http://www.imdb.com/title/tt1060277/); [www.boxofficemojo.com/movies/?id=cloverfield.htm](http://www.boxofficemojo.com/movies/?id=cloverfield.htm); [www.moviesonline.ca/movienews\\_12553.html](http://www.moviesonline.ca/movienews_12553.html) (*JJ Adams talks Cloverfield*); other public sources.

## 12.10 Summary

In this chapter we have examined the management of international distribution channels and logistics. The main structure of this chapter was given in Figure 12.1, and from the discussion it is evident that the international marketer has a broad range of alternatives for selecting and developing an economical, efficient and high-volume international distribution channel.

The fear of cannibalizing existing distribution channels and potential channel conflict requires manufacturers to trade off existing sales through the traditional distribution network and potential future sales through the Internet. Unfortunately, history suggests that most companies tend to stay with declining distribution networks for too long.

Five ingredients of international communication have been presented in this chapter:

- 1 advertising;
- 2 public relations;
- 3 sales promotion;
- 4 direct marketing;
- 5 personal selling.

As international marketers manage the various elements of the promotions mix in differing environmental conditions decisions must be made about what channels are to be used in the communication, the message, who is to execute or help execute the programme, and how the results of the communication plan are to be measured. The trend is towards greater harmonization of strategy, at the same time allowing for flexibility at the local level and early incorporation of local needs into the communication plans.

Hence an important decision for international marketers is whether the different elements of the communication should be standardized worldwide or localized. The main reasons for seeking standardization are as follows:

- Customers do not conform to national boundaries.
- The company is seeking to build an international brand image.
- Economies of scale can be achieved.
- The few high-quality creative ideas can be exploited as widely as possible.
- Special expertise can be developed and exploited.

However, some communication tools, especially personal selling, have to be localized to fit conditions of individual markets. Another reason for the localization of the personal selling tool is that distribution channel members are normally located firmly within a country. Consequently decisions concerning recruitment, training, motivation and evaluation of salespeople have to be made at the local level.

The process of selecting agencies has also been considered. The requisite blend of local knowledge, cultural understanding and management expertise across international markets is elusive. Too much centralization and standardization results in inappropriate marketing communications.

A very important communication tool for the future is the Internet. Any company eager to take advantage of the Internet on a global scale must select a business model for its Internet ventures and estimate how information and transactions delivered through this new direct marketing medium will influence its existing distribution and communication system.



Viral marketing is by no means a substitute for a comprehensive and diversified marketing strategy. Viral marketing is a credible marketing tactic that can deliver positive ROI when properly executed as a component of an overarching strategic plan. Marketers should utilize viral marketing when the messaging can coincide and support a measurable business goal.

## CASE STUDY 12.1

### De Beers: Forward integration into the diamond industry value chain

Since the late 1800s the South African multinational De Beers ([www.debeers.com](http://www.debeers.com)) has regulated both the industrial and gemstone diamond markets and effectively maintained an illusion of diamond scarcity. It has developed and nurtured the belief that diamonds are precious, invaluable symbols of romance. Every attitude consumers hold today about diamonds exists – at least in part – because of the persistent efforts of De Beers.

Moreover, by monitoring the supply and distribution of diamonds throughout the world, De Beers has introduced and maintained an unprecedented degree of price stability for a surprisingly common mineral: compressed carbon. Such unique price stability lies within the cartel's tight control over the distribution of diamonds. De Beers' operating strategy has been pure and simple: to restrict the number of diamonds released into the market in any given year and to perpetuate the myth that they are scarce and should therefore command high prices.

De Beers spends about \$200 million a year to promote diamonds and diamond jewellery. 'A diamond is forever' and the firm controls nearly 70 per cent of the rough diamond market.

De Beers controls a producer's cartel that operates as a quantity-fixing entity by setting production quotas for each member (as does OPEC). De Beers has successfully convinced the producers that the diamond supply must be regulated in order to maintain favourably high prices and profits.

During the early part of the last century much of the diamond cartel's strength rested with De Beers' control of the South African mines. Today the source



of power no longer comes from rough diamond production alone, but from a sophisticated network of production, marketing sales and promotion arrangements, all administered by De Beers.

It is interesting to note that diamond prices have little or no relation to the cost of extraction (production).

Table 1 shows average or 'normal' price mark-ups on gemstones along the channel of distribution.

**Table 1** Mark-ups on diamonds

Stage of distribution	Mark-up (%)	Average value of 0.5 carat gem (\$/carat)
Cost of mining	–	100
Mine sales	67	167
Dealers of rough gems	20	200
Cutting units	100	400
Wholesaler dealers	15	460
Retail	100	920

Source: adapted from Ariovich, 1985 and Bergenstock and Maskula, 2001.

A diamond that may cost \$100 to mine can end up costing a consumer \$920 at a local jewellery store. Business cycles and individual commercial practices may positively or negatively influence these figures, together with the gemstone quality. Diamond sales, known in the trade as ‘sights’, are held ten times a year in London, in Lucerne, Switzerland, and in Kimberley, South Africa. The sales are limited to approximately 160 privileged ‘sightholders’, primarily owners of diamond-cutting factories in New York, Tel Aviv, Mumbai and Antwerp, who then sell to the rest of the diamond trade.

Diamond output from De Beers’ self-owned and self-operated mines constitutes only 43 per cent of the total world value of rough diamonds. Because it is not the sole producer of rough stones in the world De Beers has had to join forces with other major diamond-producing organizations, forming the international diamond cartel that controls nearly three-quarters of the world market.

De Beers has constructed a controlled supply and distribution chain whereby all cartel producers are contracted to sell the majority of their entire output to a single marketing entity: the De Beers-controlled Central Selling Organization (CSO) (see Figure 12.14).

The total rough diamond supply controlled by the CSO comes from three sources: De Beers/Centenary-owned mines, outside suppliers contracted to the CSO (cartel members) and open market purchases via buying offices in Africa,

Antwerp and Tel Aviv (rough output purchased from countries that have not signed an agreement with De Beers). De Beers functions as the sole diamond distributor. In any given year approximately 75 per cent of the world’s diamonds pass through the CSO to cutters and brokers.

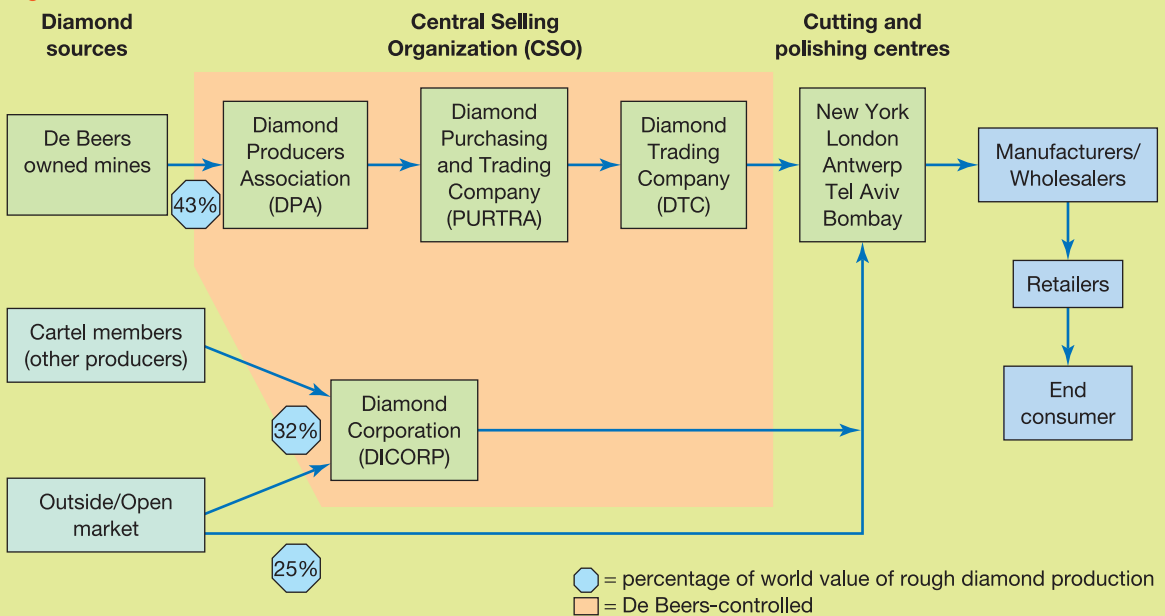
The economic success of the cartel depends highly on strict adherence to their rules, written or unwritten. Clients who follow the rules are rewarded with consistent upgrades in the quality and quantity of rough stones in their boxes, while those who circumvent them find progressively worse allocations and risk not being invited back to future sights.

**De Beers’ ‘forward integration’ decision**

Until 2001 De Beers concentrated on supplying its diamonds to brand manufacturers, such as Cartier. The core business of the De Beers Group remains the mining and marketing of rough diamonds. However, in January 2001 the De Beers Group, the world’s premier diamond group, and LVMH Moët Hennessy Louis Vuitton, the world’s leading luxury products group, agreed to establish an independently managed joint venture, De Beers LV, to develop the global consumer brand potential of the De Beers name.

LVMH Moët Hennessy Louis Vuitton is the home of premier brands in the categories of fashion and leather goods, watches and jewellery, wine and spirits, cosmetics and perfumes. LVMH will contribute with

**Figure 12.14** De Beers’ diamond distribution



Sources: Adapted from De Beers Annual Report and Bergenstock and Maskula, 2001.

its extensive experience in both developing luxury brands and rolling out premium retail concepts.

The 'mother' company, De Beers SA, contributes to the joint venture with its over 100 years of experience in the form of technology and individual experts to allow for the selection of the most beautiful diamonds.

As part of the joint venture agreement De Beers SA has transferred to De Beers LV the worldwide rights to use the De Beers brand name for luxury goods in consumer markets. From now on, De Beers will design, manufacture and sell premium diamond jewellery under its own brand name. The diamonds bearing De Beers brand name will be sold exclusively through De Beers stores. De Beers has opened a

flagship store in London (Oxford Street) and have plans for further openings in New York and Paris.

Source: information and news on [www.diamonds.net](http://www.diamonds.net).

### Questions

- 1 What could be De Beers' motives for making this 'forward integration' into the retail and consumer market?
- 2 Is it a wise decision?
- 3 How should De Beers develop its Internet strategy following this 'forward integration' strategy?
- 4 Would it be possible for De Beers, with its branded diamonds, to standardize the international marketing strategy across borders.

For further exercises and cases, see this book's website at [www.pearsoned.co.uk/hollensen](http://www.pearsoned.co.uk/hollensen)



### Questions for discussion

- 1 Discuss current distribution trends in world markets.
- 2 What are the factors that affect the length, width and number of marketing channels?
- 3 In attempting to optimize global marketing channel performance, which of the following should an international marketer emphasize: training, motivation or compensation? Why?
- 4 When would it be feasible and advisable for a global company to centralize the coordination of its foreign market distribution systems? When would decentralization be more appropriate?
- 5 Compare domestic communication with international communication. Explain why 'noise' is more likely to occur in the case of international communication processes.
- 6 Why do more companies not standardize advertising messages worldwide? Identify the environmental constraints that act as barriers to the development and implementation of standardized global advertising campaigns.
- 7 Explain how personal selling may differ overseas from how it is used in the home market.
- 8 What is meant by saying that advertising regulations vary around the world?
- 9 Evaluate the 'percentage of sales' approach to setting advertising budgets in foreign markets.
- 10 Explain how the multinational firm may have an advantage over local firms in training the sales force and evaluating its performance.
- 11 Identify and discuss problems associated with allocating the company's promotion budget across several foreign markets.

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## Guinness: How can the iconic Irish beer brand compensate for declining sales in the home market?

Beer is a alcoholic beverage made by brewing and fermenting cereals, especially malted barley, usually with the addition of hops as a flavouring agent and stabilizer. One of the oldest of alcoholic beverages (there is archaeological evidence dating to c.3000 BC), beer was well known in ancient Egypt, where it may have been made from bread. At first brewed chiefly in the household and monastery, it became in late medieval times a commercial product and is now made by large-scale manufacture in almost every industrialized country. Although British, European, and American beers can differ markedly in flavour and content, brewing processes are similar. A mash, prepared from crushed malt (usually barley), water, and, often, cereal adjuncts such as rice and corn, is heated and rotated in the mash tun to dissolve the solids and permit the malt enzymes to convert the starch into sugar. The solution, called wort, is drained into a copper vessel, where it is boiled with the hops (which provide beer with its bitter flavour), then run off for cooling and settling. After cooling, it is transferred to fermenting vessels where yeast is added, converting the sugar into alcohol. Modern beers contain about 3 per cent to 6 per cent alcohol. After brewing, the beer is usually a finished product. At this point the beer is kegged, casked, bottled, or canned. Beers fall into two broad categories:

- *Lighter beer (lagers)*. These are made with yeast that ferments more quickly at warmer temperatures and tends to rise to the surface. Lagers use yeast that ferments more slowly at cooler temperatures and tends to settle, and they are aged at cold temperatures for weeks or months, hence the name (German, Lager = storage place). Lagers are the most commonly-consumed beer in the world, with brands like Budweiser, Heineken, Fosters, Carlsberg, Becks, Carling, Kronenbourg and Stella Artois.
- *Darker beer*. Included in this broad category are ales, stout and porters. Stout (and porter) are dark beers made using roasted malts or roast barley. Porter is a strong and dark beer brewed with the addition of roasted malt to give flavour and colour. Stout (today more or less identical to Guinness) is normally darker and maltier than porter, has a more pronounced hop aroma. Porter was first recorded as being made and sold in London in the 1730s. It

became very popular in the British Isles, and was responsible for the trend toward large regional breweries with tied pubs. Originally, the adjective 'stout' meant 'proud' or 'brave', but later, after the fourteenth century, 'stout' came to mean 'strong'. The first known use of the word *stout* about beer was in 1677, the sense being that a stout beer was a strong beer. The expression *Stout-Porter* was applied during the 1700s for strong versions of porter, and was used by Guinness of Ireland in 1820, although Guinness had been brewing porters since 1759. 'Stout' still meant only 'strong' and it could be related to any kind of beer, as long as it was strong: in the United Kingdom it was possible to find 'stout pale ale', for example. Later 'stout' was eventually associated only with porter, becoming a synonym of dark beer. During the end of the nineteenth century, stout porter beer (especially the so-called 'milk stout' – a sweeter version) got the reputation of being a healthy strengthening drink, so it was used by athletes and nursing women, while doctors often recommended it to help recovery. Stouts can be classed into two main categories, sweet and bitter, and there are several kinds of each. Irish stout or Dry stout is the original product, equivalent to the Guinness beer. It is very dark in colour and it often has a 'toast' or coffee-like taste. Major brands in this broad category include Murphy's (Heineken), Castle Milk Stout (SAB Miller) and of course Guinness (Diageo).

### Diageo

UK-based Diageo was formed in 1997 through the merger of Guinness and Grand Metropolitan. Both companies were themselves products of earlier mergers and acquisitions – Guinness had acquired Distillers in 1986 while Grand Metropolitan had diversified from its origins as a hotel chain into spirits (IDV), food (Pillsbury), restaurants (Burger Kings) and pubs. Diageo quickly in to pick up as many brands it could. Pillsbury and Burger King were sold off; and the Guinness business was integrated into the global spirits organization. Today Diageo is a Fortune 500 Company listed on both the New York Stock Exchange and the London bourse. The firm is the world's leading premium drinks enterprise, with a broad selection of brands. It currently occupies a 30 per cent share of the

**Table 1** Key financial figures of Diageo, 2003–05

	2003 £m	2004 £m	2005 £m
Total net sales	9,281	8,891	9,036
Profit before taxations	1,955	1,969	1,822

global market, and owns nine of the world's top 20 spirit brands, including Smirnoff vodka, Bushmills Irish whiskey, Johnnie Walker Scotch whisky, Captain Morgan rum, Gordon's dry gin, J&B Scotch whisky, Crown Royal whiskey and Baileys cream liqueur. The portfolio also includes Guinness stout. The company has over 25,000 employees, and trades in over 180 markets around the world. Its annual turnover in fiscal year 2005 reached £9 billion, with a total market capitalization of over £20 billion. The financial development of Diageo during the last three years is illustrated in Table 1.

Diageo Plc has one major beer brand: Guinness, which is the world's leading stout brand. However, in the world beer market the stout only accounts for 1.1 per cent of the world beer sales (see Table 2). As a result of Guinness' status, Diageo Plc's beer performance is heavily reliant on the fortunes of the Guinness brand. However, cracks have started to appear in the brand as an aggressive price increases policy was employed to mask volume declines in key markets. Diageo Plc fails to disclose operating profit figures for its beer sector or for the flagship Guinness stout brand. However, it is estimated that beer accounts for 20 per cent of company sales, while its contribution to profits is thought to be smaller, at around 15 per cent.

Diageo top-management has growing concern over the company's principal beer brand, Guinness. The company reported a volume sales decline of 2 per cent for the brand in 2005, with value sales growth of 5 per cent only being achieved as a result of aggressive price increases in its main markets. The adoption of such a strategy has raised doubts of the sustainability of brand profitability. The Guinness brand has suffered on a number of levels, being hit by deteriorating demographics, with younger drinkers turning away from stout in general, a growing preference for wine and spirits, and a shift towards off-trade consumption (buying beers in the shops and drink them at home), which puts the on-trade (pubs and bars) skewed Guinness at a distinct disadvantage.

One of the reasons for this shift away from traditional pub consumption towards home drinking experiences is the banning of smoking in public places, both in United Kingdom and Ireland. Nowhere

have these trends been more evident than in the brand's key markets of the United Kingdom and Ireland. In general, Diageo Plc in 2005 reported a 2 per cent decline in Guinness worldwide volume sales, while in the United Kingdom and Ireland the fall was steeper, at 3 per cent. Nevertheless, on the back of notable price rises, value growth of 4 per cent was achieved in both markets.

### Guinness - an iconic Irish brand

As an adopted Irish national icon (though it is actually not Irish-owned), the Guinness brand is readily recognized throughout the world, even by non-consumers. Indeed, it is one of only a few truly global beer brands, possessing a geographic coverage that spans all international regions. Brewed in over 50 countries, the Guinness recipe is modified to suit different market tastes in type and strength, with around 20 different variants sold worldwide. Its prime line is Guinness Draught, launched in 1959 and marketed in over 70 countries. This subbrand accounts for around 55 per cent of all Guinness sold worldwide.

Widget technology saw Guinness Draught move into cans in 1989, and into bottles in 1999. To entice younger lager drinkers to stout, Guinness Draught Extra Cold was added to its range in its core markets of the UK and Ireland in 1998. The subbrand actually comes from the same barrel as Guinness draught but goes through a super cooler on the way to the glass, and is served at a temperature around one-third lower than regular Guinness. This product is generally served in more modern outlets, where people prefer their beer cooler than standard.

Other line extensions include Guinness Bitter, a dark beer primarily sold in the United Kingdom, Guinness



Extra Stout, which is mainly distributed in Europe in bottles and cans and Guinness Foreign Extra Stout. The latter is a higher strength, carbonated stout with a strong oaky flavour and no head, which is distributed throughout Africa, Asia and the Caribbean. Malta Guinness, an alcohol-free beer sold in Africa, and Guinness Extra Smooth, a smoother and creamy variation on traditional Guinness Draught, complete the Guinness portfolio.

### The world market for beer and stout

Although Guinness is holding 55 per cent of the world stout market the brand accounts for less than 1 per cent of the total world beer market (see Table 2).

Guinness's market share has declined slightly, however, falling from 58 per cent in 2000. This was caused mainly by the South African Breweries/Miller merger in 2001, which gave impetus to brands such as Castle Milk Stout and Tyskie Porter, which have encroached on Guinness.

### Competitors

Despite recent regional declines, the global strength of Diageo Plc's Guinness brand has left little room for other major brands to become established in stout. Its main international rivals are SAB Miller's Castle Milk Stout, Heineken with its Murphy's brand and, to a lesser extent, Scottish & Newcastle's Beamish.

**Table 2** World market for beer and stout, 2005

Beer/stout 2005	Western Europe	Eastern Europe	North America	Latin America	Asia Pacific	Australia and Asia	Africa and Middle East	World total
Beer volume sales (million litres)	30,290	19,543	26,154	21,918	43,656	2,075	6,961	150,596
Stout volume sales (million litres)	637	121	122	21	88	25	720	1,734 (1.1% of total beer sales)
Brand (company) market shares of stout	%	%	%	%	%	%	%	%
Guinness (Diageo)	80	12	86	2	64	66	30	55
Murphy's (Heineken)	8	6	3					5
Zywiec Porter (Heineken)		14						2
Kelt (Heineken)		8						1
Beamish (Scottish & Newcastle)	4	1						3
Carlsberg (Carlsberg)	1	1						1
Okocim Porter (Carlsberg)		4						1
Danish Royal Stout (Carlsberg)					5			
Lvivske (BBH)		12						1
Baltica 6 Porter (BBH)		5						
Tyskie Porter (SAB Miller)		10						1
Castle Milk Stout (SAB Miller)							64	20
Morenita (CCU)				97				1
Speight's (Lion Nathan)						12		
Monteith's (Asia Pacific Breweries)						12		
Hite Stout (Hite Brewery)					10			1
Others	7	27	11	1	21	10	6	8
Total	100	100	100	100	100	100	100	100
Beer distribution	%	%	%	%	%	%	%	%
On-trade (bars, pubs etc.)	48	22	25	39	33	26	34	34
Off-trade (retail)	52	78	75	61	67	74	66	66
Total	100	100	100	100	100	100	100	100

Source: Adapted from Euromonitor.

### **Castle Milk Stout (SAB Miller)**

Castle Milk Stout is only present in South Africa but it is very strongly placed here. This country has a considerable base, equivalent in size to the US stout environment, and, combined with relatively low consumption of stout on a global level, this means that Castle Milk Stout had a heavy influence on the global market, with a volume share of 20 per cent in 2005. The product's performance of late has been dramatic. Under the guidance of SAB Miller, the brand is by far the leading stout product in South Africa, with a share of 89 per cent, a notable leap from the 74 per cent posted in 2003. It appears that Diageo Plc's decision to cut back marketing spend and implement aggressive price increases has backfired in South Africa.

### **Murphy's (Heineken)**

Murphy's features in most markets across Western and Eastern Europe and North America, but most significantly it holds a 7 per cent volume share of the largest stout market: the United Kingdom. Here, Murphy's has exerted limited pressure on Guinness in recent years, although its own share is partially under threat, facing similar problems in appealing to younger demographics. Conversely, notable brand growth in 2004 was evident in Slovakia, while forward momentum was maintained in Italy, France, the Netherlands, Norway and Russia.

### **Beamish (Scottish & Newcastle)**

Beamish remains the most popular stout after Guinness in Ireland, posting a notable increase in volume share in 2004, up from 7 per cent to 8 per cent. Beamish is less of a threat in the United Kingdom, and is also present in the smaller stout markets of Canada, Portugal, France, Spain and the Ukraine. In 2003, Beamish was also introduced to the Finnish off-trade environment. Carlsberg is another international player in stout, but its competitive position is diluted by the fragmentation of its brand portfolio, which includes Carlsberg, Danish Royal Stout and Okocim Porter.

### **Local brand competition**

Other local brands that generate reasonable volumes include Zywiec Porter in Poland and Kelt in Slovakia. Both of these brands are owned by Heineken and contributed to the company retaining its position as the number three player in stout, with a volume share of 8 per cent in 2004. That said, it remains some way behind the two leaders. Asahi Stout and Kirin Stout in Japan are also strong localized brands. Across eastern Europe, Asia-Pacific, Australasia and Africa and the Middle East, Guinness has to contend with strong local brands. Aside from Castle Milk Stout, SAB Miller's other key brand is Tyskie Porter, which is hugely popular in



The Guinness Surgeur

Poland. Overall, SAB Miller sits in second place in global sales of stout, reflecting the strong performance of Castle Milk Stout in its domestic market.

### **Guinness market shares across regions**

As seen in Table 2, Guinness is the market leader in four of the seven regions: western Europe, North America, Asia Pacific and Australia and Asia. In the remaining three regions Guinness is No. 2 or 3.

### **Western Europe**

Focusing on stout, in Western Europe, Diageo Plc led every national market with the exception of Denmark and Greece. Despite this strength, the company experienced its second successive year of volume sales decline in the region. At the heart of this downward trend in 2005 was a notable volume sales decline in Ireland, at 5 per cent and stagnation in the United Kingdom. Also the other markets in the region are declining. Key to this decline is the ageing profile of stout drinkers, with younger consumers failing to connect with the product. In addition, wine and spirits have grown in popularity, taking share from beer, and momentum behind the off-trade sector has grown, placing the on-trade-focused Guinness brand at a disadvantage.

### **Eastern Europe**

The strength of local brands also poses a problem to Guinness in Eastern Europe, with limited market shares in markets such as Poland (10 per cent in 2005), the Ukraine (3 per cent) and Slovakia (4 per cent). Guinness' volume share of stout is at 12 per cent in the region, its second lowest showing, with only its presence in Latin America smaller. Notably, Diageo posted a steady increase in its volume share of stout



between 2004 and 2005 as consumers enjoyed rising disposable income levels and looked to trade up from low-to-middle end local brands. In contrast, Heineken, in pole position with its standard brand (Zywiec Porter), steadily lost share over the same period.

#### **North America**

Guinness also suffered a decline in North America, with sales volume falling in 2005. Poor US beer market conditions, with a price war taking place among leading players, were the main reason behind the downbeat performance, as performance in Canada was stronger. Nevertheless, the company remained the dominant force in stout in the region, with a volume share of 86 per cent in 2005.

#### **Latin America**

In Latin America a relatively new arrival in stout is Cía de Cervecerías Unidas SA (CCU) in Chile, although its global presence is negligible. CCU's entry with its Morenita brand has knocked Guinness off the top spot.

#### **Asia-Pacific**

Demand for stout is underdeveloped in Asia-Pacific, where an almost total lack of demand in the populous markets of China and India is a notable barrier to growth. The Guinness sales volume declined in Hong Kong as well as a marked dip for Guinness in Indonesia and Thailand. A key force behind Diageo Plc's decline was the success of local player Hite Brewery Company Ltd, whose Hite Stout products quickly and confidently gained volume share of stout following its entry in 2000. Given its performance to date, this product comprises a considerable threat to Diageo Plc in the region. In addition, other local players performed well in recent years, negatively affecting Diageo Plc's regional position. Despite the dip in volume share, Diageo Plc remained the number 1 player in stout, even maintaining the top spot in Hong Kong, where decline was at its steepest. Another source of positive momentum in 2004 was Japan, where the company took its volume share to over 40 per cent. This growth was a notable achievement given the extent of local competition from Asahi and Kirin, which both have rival products to Guinness (Asahi Stout and Kirin Stout) and both enjoy significant price advantages.

#### **Australia and Asia**

This region is one of the strongest markets for Guinness, which enjoys a market share of 66 per cent in the region as a whole.

#### **Africa and Middle East**

This region is one of the most important for the company in terms of growth potential as the level of stout

consumption is among the highest in the world and much growth is expected in the short term. At the centre of Guinness' troubles in Africa and the Middle East is the growing strength of SAB Miller and its Castle Milk Stout brand, in particular in South Africa, where Guinness saw its market volume share decline from 20 per cent in 2004 to 12 per cent in 2005. Elsewhere, Nigeria is a major market for Guinness, as is Cameroon, where it has invested in increased production and distribution, and dominated sales.

#### **The international marketing strategy**

In the following, Guinness' initiatives within the international marketing mix will be explained.

#### **New product innovation/packaging**

Diageo Plc moved its Guinness Draught into bottles in late 1999 following the development of a new 'rocket widget', which enabled Guinness to retain its distinctive foamy white head when consumed from its packaging. Presented in long-neck bottles, this line positioned Guinness alongside premium lagers and flavoured alcoholic beverages, such as Diageo Plc's popular Smirnoff Ice.

The beer market in the United Kingdom is seeing a dynamic shift away from traditional pub consumption towards home drinking experiences, partially due to the banning of smoking in public places. The impact of banning smoking in pubs in Ireland and the United Kingdom was indicating a switch from on-trade (pubs, bars) into off-trade as more people opted to smoke and drink at home.

In February 2006 the Guinness Surger was launched. It is a plug-in unit promising to deliver the perfect pint at home by sending ultra-sonic sound waves through the special Guinness Draught Surger beer. By releasing this new product, Diageo is aiming to recreate the 'pub experience' in consumers' own homes, as the idea of pubs in which people can smoke will be a thing of the past. Consumers purchasing drinks for at-home occasions want to mimic the on-trade experience as much as possible, particularly in terms of presentation and quality (Carey, 2006). The new Surger gadget delivers exactly this, as well as having a 'shareability' factor to enhance consumers' at home drinking experience through the novelty of using the ultrasound device. The price in the United Kingdom is £17 for the starter kit which includes one Surger, a pint glass and two cans of Surger Beer.

Guinness Draught Surger could help Diageo to capitalize on the growing movement towards the off-trade. The product has already been released with success in Japan and Singapore, and will be the focus of a £2.5 million marketing campaign in the UK.

### *Distribution*

Diageo Plc handles its own distribution as a rule. However, in many countries, stout occupies a very small niche in the beer environment, making it uneconomical for Guinness to set up its own production and distribution network. It therefore operates in partnership with a number of local and international brewers. Sometimes the company appoints third party distributors or agrees a joint venture for the purpose.

Distribution agreements most often include licensing and distribution agreements for beer. These include both Guinness and rival brands. For example, with Carlsberg it is allowing them the production of their beer in Ireland. In return Carlsberg helps Guinness with distribution in some countries. Japanese Sapporo beer is also produced in the Guinness breweries. As compensation, Guinness gets access to Japanese distribution.

Diageo has also entered into a three-way joint venture with Heineken and Namibia Breweries Limited in southern Africa, called Brandhouse, to take advantage of the consumer shift towards premium brands. The company is also aiming to merge its business in Ghana (Guinness Ghana Limited) with Heineken's Ghana Breweries Limited, to achieve operational synergy benefits.

Diageo terminated its rights agreement for the distribution of Bass Ale in the United States with effect from 30 June 2003. According to the original agreement Diageo had the rights to distribute Bass Ale in the US until 2016. After negotiation, the distribution rights reverted to the global brand owner, Interbrew, for £69 million.

### *Advertising of Guinness*

Guinness advertising spend has been reduced in recent years, falling in both 2004 and 2005. In the latter, it stood at £1,023 million, compared to £1,039 million, a fall of 2 per cent. Whether this caution is a wise move in times of increased competition remains to be seen. As a largely unique product that leads its category, Guinness has historically been supported by a high degree of creative and ground-breaking marketing and advertising, beginning with the 'Guinness for Strength' girder-man in 1934, and its long-surviving Toucan character, which ran from 1935 to 1982. Guinness has increasingly developed below-the-line campaigns to target existing and potential consumers with the development of customer relationship marketing (CRM). However, above-the-line spend in 2002 was notable, with Guinness's first ever global campaign entitled 'believe'. This focused on the concept of 'self belief' and 'belief in Guinness', and was created by BBDO. The campaign featured a logo with the V in 'believe' replaced with the Guinness harp, and was designed to reinforce brand loyalty among existing consumers and, of course, attract new ones.

### *Advertising in the United Kingdom and Ireland*

Especially in the United Kingdom and Ireland, the Guinness marketing campaigns have been very high profiled, turning the brand into one of the most successful fast-moving consumer goods in the UK, with very strong top-of-mind recall awareness. In Ireland, however, repeated attempts to reinvigorate the Guinness brand have met with limited success. In February 2004, Diageo Plc launched a new advertising campaign for Guinness in the UK called 'Out of Darkness Comes Light'. The first advert in the series – Moth – represented the start of a campaign marking a new chapter in the heritage of Guinness advertising. This advert was followed up by the Mustang execution, which has all the epic drama and scale characteristic of Guinness advertising. It was supported by a total media spend of £15 million, and first appeared on national TV in September 2004.

In 2005, Diageo Plc launched a new advertising campaign for the core Guinness brand in the United Kingdom and Ireland late in the year. The 'Evolution' campaign features an advert depicting three men in a bar taking a sip of Guinness and then being transported back in time, going back through the main stages of evolution. The new advert had a more contemporary and youthful feel than previous showings, suggesting that Diageo Plc has responded to the problem of deteriorating demographics affecting the brand.

As the biggest growth markets for Guinness are African countries, the greatest marketing innovation generated by Diageo Plc are being implemented here. Guinness spent more than £25 million on advertising in Africa, where the brand commands premium pricing through its reputation. Following on from Saatchi & Saatchi's 1999 creation of character Michael Power in a series of five-minute action thriller advertisements, the concept has culminated in a full-length promotional film production shown across Africa. Guinness Nigeria shot a new Michael Power film, which was screened in 2004. In a further display of commitment to this growth region, Guinness Nigeria has worked with local communities to provide them with clean, safe water. Royalties from the Guinness-sponsored feature film 'Critical Assignment', which highlights the need for clean drinking water, have helped fund a Water of Life project.

### *How to attract young consumer*

Despite its previous marketing successes, Guinness is suffering from a lack of take-up among younger consumers in preference for more fashionable lagers and FABs. An interesting trend in Diageo Plc's marketing strategy was a further change in the way the company marketed its flagship Guinness brand. For a period on

its Guinness.com website, the company actively encouraged consumers to mix Guinness with other products to produce various ‘cocktails’. This was clearly a further effort to appeal to the youth segment given that many consumers in this age group find the taste of Guinness too bitter. Examples of mixers suggested by the company included champagne, blackcurrant juice, lime juice or curacao, cacao and Dubonnet.

### **Sponsoring**

In 2005, Guinness made a notable investment in sports sponsorship, putting its name to the 2005 tour of the British and Irish Lions rugby union team to New Zealand and paying £20 million to sponsor the 2005/2006 season of top league domestic rugby union in the United Kingdom. In addition, the brand was the sponsor of the G8 Summit in Gleneagles, Scotland.

### **Investments in a new Irish-theme pub concept**

Guinness consumption rose partly because of the development of the Irish-theme pub. In the UK, Diageo Plc invested £13 million in 2001 in developing a new bar concept that it encouraged independent owners of Irish-theme pubs to adopt.

The idea was to make traditional pubs less cluttered and more contemporary, lighter and cleaner, and thereby more appealing to women. This new concept also put a stronger focus on spirits rather than draught beer, thereby signalling that Diageo Plc saw its spirits brands driving future revenue growth rather than Guinness beer.

The top management in Diageo is really in doubt, what to do about the Guinness in future. Should they continue the ‘milking strategy’ by withdrawing marketing resources (lowering costs) and increasing revenues (by increasing the end-consumer prices)? At least that would maximize profits over a shorter term and Diageo could use the financial resources in acquiring other beer brands. Or should Diageo instead make a long term investment in developing the brand, by implementing new global marketing initiatives?

Sources: Muzellec, L. and Lambkin, M. (2007) ‘Does Diageo make your Guinness taste better’, *Journal of Product & Brand Management*, Vol. 16, No. 5, pp. 321–333; Wiggins, J. (2006) ‘Guinness still posing slow sales problems at Diageo’, *Financial Times*, 30 June; Choueke, M. (2006) ‘Dark times for the black stuff?’, *Marketing Week*, 15 June; Carey, B. (2006) ‘Is Guinness still good for Diageo?’ *Sunday Times* (London), 9 April; www.diageo.com www.euromonitor.com. Guinness® brand images by permission of Diageo.

### **Questions**

As an international marketing consultant you are asked to give an independent assessment of Guinness’ opportunities in the world beer market. You are specifically asked the following questions:

- 1 How would you explain the Guinness pricing strategy and the underlying assumptions about consumer behaviour when Diageo reports for 2005 that in the United Kingdom and Ireland the Guinness sales volume fell by 3 per cent, but a value growth of 4 per cent was achieved in both markets, mainly due to price increases?
- 2 Motivated by the success of this pricing strategy should Diageo continue to increase the price of Guinness?
- 3 In Choueke (2006) an anonymous beer retail buyer comments on Guinness’ decreasing sales volume:

‘Guinness has an older profile of drinker and with an ever-increasing availability of continental lagers and a fast-growing range of alcopops, the younger generation of drinkers simply haven’t bought into it. Innovation – widgets and gadgets – will keep the brand alive for a while but where else can Diageo go? Flavored Guinness? No thanks. It is in decline and Diageo’s best minds can’t do much about it. The brand may have only a couple of decades worth of life in it and I would milk it for everything before getting rid of it and concentrating on spirits’

Do you agree with this statement? Explain your reasons.

- 4 What elements of the Guinness international marketing strategy would you do differently, in order to increase both global sales volume, value and profits.

CASE  
STUDY  
IV.2

## Dyson Vacuum Cleaner: Shifting from domestic to international marketing with the famous bagless vacuum cleaner

### The Dyson history

It is impossible to separate the very British Dyson vacuum cleaner from its very British inventor. Together they are synonymous with innovation and legal battles against established rivals.

James Dyson was born in Norfolk in 1947. He studied furniture design and interior design at the Royal College of Art from 1966 to 1970 and his first product, the Sea Truck, was launched while he was still studying.

Dyson's foray into developing vacuum cleaner technology happened by chance. In 1978, while renovating his 300-year-old country house, Dyson became frustrated with the poor performance of his conventional vacuum cleaner. Whenever he went to use it, there was poor suction. One day he thought he would find out what was wrong with the design. He noted that the appliance worked by drawing air through the bag to create suction, but when even a fine layer of dust got inside, it clogged its pores, stopping the airflow and suction.



Source: Matthew Fearn/PA/EMPIGS.

In his usual style of seeking solutions from unexpected sources, Dyson noticed how a nearby sawmill used a cyclone – a 30-foot-high cone that spun dust out of the air by centrifugal force – to expel waste. He reasoned that a vacuum cleaner that could separate dust by cyclonic action and spin it out of the airstream which would eliminate the need for both bag and filter. James Dyson set out to replicate the cyclonic system.

Over the next eight years, Dyson tried to license his Dual Cyclone concept to established vacuum manufacturers, only to be turned down. At least two of these initial contacts forced him to file patent infringement lawsuits, which he won in out-of-court and in-court settlements. Finally in 1985, a small company in Japan contacted him out of the blue after seeing a picture of his vacuum cleaner in a magazine. Mortgaged to the hilt and on the brink of bankruptcy, Dyson took the cheapest flight to Tokyo to negotiate a deal. The result was the G Force vacuum cleaner, priced at \$2,000, which became the ultimate domestic appliance status symbol in Japan.

In June 1993, using money from the Japanese licence, Dyson opened a research centre and factory in Malmesbury, Wiltshire. Here he developed the Dyson Dual Cyclone and within two years it was the fastest-selling vacuum cleaner in the UK.

Dyson was nearly bankrupted by the legal costs of establishing and protecting his patent. It took him more than 14 years to get his first product into a shop and it is on display in the Science Museum. Other products can be seen in the Victoria & Albert Museum, the San Francisco Museum of Modern Art and the Georges Pompidou Centre in Paris.

Dyson went on to develop the Root 8 Cyclone, which removes more dust by using eight cyclones instead of two. In 2000, he launched the Contrarotator washing machine, which uses two drums spinning in opposite directions and is said to wash faster and with better results than traditional washing machines.

In 2005 the company's sales reached £470 million, roughly two-thirds of which came from outside the United Kingdom, while pre-tax profit for the year was £103 million, up 32 per cent on 2004. Almost all the sales come from vacuum cleaners – a product in which Dyson has built large sales in the United States, Japan and Australia.

### Marketing of the Dyson vacuum cleaner

Dyson believes the most effective marketing tool is by word of mouth, and today the company claims 70 per cent of its vacuum cleaners are sold on personal recommendation. An enthusiastic self-publicist, Dyson believes that if you make something, you should sell it yourself, so he often appears in his own advertisements.

When a Belgian court banned Dyson from denigrating old-style vacuum cleaner bags, he was pictured wearing his trademark blue shirt and holding a Dyson vacuum cleaner in a press advertisement that had the word 'bag' blacked out several times. A note at the bottom said: 'Sorry, but the Belgian courts won't let you know what everyone has a right to know'.

Dyson has sometimes shunned advertising altogether. For example, in 1996–97 the company spent its marketing budget sponsoring Sir Ranulph Fiennes' solo expedition to Antarctica, and gave £1.5 million to the charity Breakthrough Breast Cancer.

As rivals started to manufacture their own bagless cleaners, Dyson knew he would have to advertise more aggressively and in 2000 he appointed an advertising agency to promote the £2 million business. The marketing strategy, however, remains true to Dyson's original principles, with an emphasis on information and education rather than brand-building. Moreover, it seems to be working, one in every three vacuum cleaners bought in Britain today is a Dyson. See also Table 1.

**Table 1** Vacuum cleaners: market volume and market shares (2005)

Market/%/ Manufacturers (brands)	Germany	Italy	Sweden	France	Spain	UK	Netherlands	Total Western Europe	United States
<b>Total market</b>								+ others 3.0	
<b>Volume</b> (mio. units)	7.2	1.8	0.4	3.0	0.7	4.8	0.9	=21.8	26.6
<b>% – types:</b>									
Cylinder	67	50	94	88	73	34	80	65	9
Upright	13	30	1	5	2	62	5	25	66
Hand-held	20	20	5	7	25	4	15	10	25
<b>Total</b>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
<b>Market shares (%):</b>									
BSH (Bosch-Siemens Hausgeräte)	18	–	9	–	–	–	28	8	
Electrolux (Eureka in US)	16	–	51	19	–	19	9	14	22
Miele	15	–	12	9	–	3	23	9	
Dyson Appliances	2	1	2	1	1	34	2	9	4
SEB Group (Rowenta + Moulinex)	–	18	–	22	19	–	8	7	
Maytag (Hoover)	–	–	–	–	–	–	–	–	20
Candy SpA (Hoover)	5	12	–	–	–	11	–	6	
Philips	8	–	2	–	7	–	10	4	
De Longhi	–	15	–	–	–	–	–	2	
Matsushita (Panasonic)	–	–	8	–	21	–	–	2	
Daewoo Group	–	8	–	–	–	–	–	1	
Samsung	–	6	–	–	–	–	–	1	
Electromomésticos Solac SA	–	–	–	–	10	–	–	1	
Private label	8	–	15	2	–	3	3	4	10
<b>Others</b>	<u>28</u>	<u>40</u>	<u>1</u>	<u>47</u>	<u>37</u>	<u>30</u>	<u>17</u>	<u>33</u>	<u>44</u>
<b>Total</b>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

**Comments:**

Two different companies in Europe and United States own the Hoover-brand. In United States the brand is now owned by the Whirlpool, but in 1995 Maytag sold its European operations to Italian Candy Spa, which owns the brand in Europe.

The SEB group took over the Rowenta brand in 1988. In 2001 the SEB Group took over Moulinex SA and the SEB Group now markets the Moulinex vacuum cleaner.

Source: Author's own work, based on Euromonitor.

### The world market for vacuum cleaners

The use of vacuum cleaners is largely related to national preferences for carpets rather than floor tiles. In many warm countries instead of carpets floor tiles are more usual, and these can be swept rather than vacuumed. In countries where houses are predominantly carpeted, such as in Northern Europe, Eastern Europe and North America, the number of households owning vacuum cleaners is high. In 2005 app. 95 per cent of households owned vacuum cleaners in Belgium, Germany, Japan, the Netherlands, Sweden, the United States and the United Kingdom. Many Belgian households possess more than one vacuum cleaner, as traditional vacuum cleaners are often complemented with hand-held cleaners (cleanettes). In parts of Eastern Europe, it is also common to carpet walls, which provides additional demand for vacuum cleaners.

Few vacuum cleaners are sold in China and India. Vacuum cleaners have only been available in China for ten years, but ownership has not become widespread. In India many of the rural population do not have the means for such appliances and power supply is erratic. The Asia-Pacific market for vacuum cleaners (not shown in Table 1) is 11.1 million units per year.

The world market for vacuum cleaners is fairly mature and stable. As average prices fell throughout 2000–05, value growth amounted to only 2 per cent overall. In 2005 the number of vacuum cleaners sold throughout the world was 74 million units. Demand is driven mainly by replacement purchases at the end of a product's life cycle (the commercial lifetime of a vacuum cleaner is about 8 years), although new product developments such as bagless models spurred growth in some markets.

The most sold vacuum cleaner types are the upright and the cylinder types. The distinction between upright and cylinder vacuum cleaners became less clear in recent years, with the addition of hoses and tools to the upright version and cylinders mimicking uprights by adding turbo brushes to eradicate dust from carpets.

Cylinder, or canister, vacuum cleaners make up the majority of the global market, but do not take a strong lead, accounting for 65 per cent of European volume sales in 2005, compared with 25 per cent for upright models (see Table 1). As upright vacuum cleaners are more expensive, their share is higher by value, amounting to 33 per cent of the market by value.

Generally, the sales of upright vacuum cleaners grew faster than cylinders over the five-year period from 2000 to 2005. This largely reflected trends in the US, which was the world's leading market for vacuum cleaners (especially upright vacuum cleaners). Here, the addition of new features fuelled the upright subsector, including bagless operation, HEPA (High Efficiency

Particulate Air) filtration and self-propulsion, which are available in various combinations on models selling for less than US\$200.

In other markets, such as in Eastern Europe, cylinder vacuum cleaners are the most popular type, as they are more practical for use on wall carpets, which are common for example, in Russia.

The handheld vacuum cleaners do not play an important role in the market, so they are neglected in the rest of this case.

The market for vacuum cleaners tends to be dominated by leading white goods manufacturers. Electrolux was uncontested world leader in this sector with a volume share of 14 per cent in 2005, through its brands Eureka and Electrolux.

In recent years one of the most significant developments in the market was that of bagless technology. Dyson UK pioneered its dual cyclone technology back in 1993, Dyson's technology is protected by patent, but other manufacturers were quick to develop bagless versions. In the United States, bagless vacuum cleaners increased their unit share from just 2.6 per cent in 1998 to over 20 per cent in 2005.

Electrolux owes its global dominance to its leadership in both Western Europe and North American markets, though in the latter market its position is strongly contested by Maytag and Royal Appliance Manufacturing (under 'others' in Table 1). Between them, these three manufacturers accounted for 60 per cent of the North American market in 2005. Electrolux also led the emerging market in Africa and the Middle East, and ranked second in Latin America behind Swiss manufacturer Koblenz Electrica.

The Western European market is more fragmented. Dyson was some way behind Electrolux with a share of 9 per cent (see Table 1), closely followed by the premium appliance manufacturer Miele, while BSH and Candy also had strong shares. Though Dyson's overall market share is not high it used to be one of the dominating brands in the high-priced segment.

The Asia-Pacific market for vacuum cleaners is highly concentrated, with the top five players accounting for 80 per cent of sales in 2005. These were all Japanese companies, led by Matsushita. The latter also led the Australasian market, slightly ahead of Dyson. Interestingly, Samsung did not rank among the top five Asian manufacturers in 2002, although it led the eastern European market.

In the United States Dyson now sells 1 million units, equal to a total market share of 4 per cent. However, in the high-priced segment (\$400 – plus) Dyson (in 2005) pushed Hoover to a second place with 21 per cent of the market against Hoover's 15 per cent. Dyson is taking market shares in the high-end, which Hoover used to

dominate, and at the same time Hoover lost the low-cost market to non-brand Asian competitors.

### Competitors

The following describes the five most important players in the world vacuum cleaner industry:

#### *BSH (Bosch-Siemens Hausgeräte)*

Bosch-Siemens Hausgeräte ([www.bsh-group.com](http://www.bsh-group.com)) was established in 1967 by the merger of the domestic appliance divisions of Robert Bosch Hausgeräte and Siemens. During the 1990s, the company was largely geared towards improving its international presence. This was achieved mainly through organic growth, with a cautious approach taken towards acquisitions (e.g. Ufesa).

Ufesa is the leading manufacturer in Spain and Portugal of small appliances such as vacuum cleaners, irons and coffee makers, and has a good export network to Latin America. The acquisition allowed BSH to improve its production and distribution arrangements.

Bosch-Siemens Hausgeräte (BSH) is entirely focused on the production and servicing of domestic electrical appliances, including large kitchen appliances and small electrical appliances. Total revenue for the group amounted to €6,289 million in 2002, of which a small proportion (4 per cent) was derived from customer services. The rest came from electrical appliances. The operating profit in 2002 was €434 million.

The company is involved in all five sectors of the large kitchen appliances market, in which cooking appliances are the most important with 28 per cent of sales in 2002. This is followed by refrigeration/freezing appliances and washing/drying appliances, which each took 20 per cent of the total. Dishwashing appliances accounted for a further 16 per cent. Other business activities centred on the production of consumer products, including small kitchen appliances such as food processors and coffee makers and small appliances such as vacuum cleaners and hair dryers.

BSH remains highly focused on Western Europe, especially its domestic German market. Germany alone accounted for 28 per cent of total sales in 2002, which was down from 30 per cent the previous year. This was due to the difficult trading environment, which led to a 4 per cent decline in sales in this market.

The rest of western Europe took a further 54 per cent of sales in 2002, up by two percentage points on 2001 as sales in the region rose by 8 per cent. This was due to particular growth in France (8 per cent), the United Kingdom (10 per cent), Spain (8 per cent) and Italy (11 per cent). Turkey also continued to see very high growth of 9 per cent, despite the impact of economic and political turmoil in this market.

Sales in markets outside western Europe were minimal, with North America, eastern Europe and Asia-Pacific each accounting for 6 per cent of the total, and Latin America just 3 per cent. Eastern Europe recorded above-average growth rates, especially Russia with over 21 per cent.

Sales in Latin America continued to decline, due to the ongoing economic crisis in Argentina, and both Brazil and Argentina causing significant foreign-exchange-related losses. However, double-digit growth was achieved in China, where the company saw sales rise for the fourth consecutive year.

#### *Electrolux*

Electrolux (headquarters in Sweden) [www.electrolux.com](http://www.electrolux.com) is the world's second largest manufacturer of large kitchen appliances behind American Whirlpool, in terms of revenue derived from this activity. The company produces a wide range of large kitchen appliances, as well as vacuum cleaners, and heating and cooling equipment. In addition, Electrolux manufactures products outside the scope of this report, such as garden equipment, food service equipment and chainsaws.

Electrolux dates back to 1901 when its predecessor, Lux AB was formed in Stockholm as a manufacturer of kerosene lamps. The company changed its name to Electrolux AB in 1919, following collaboration between Lux AB and Svenska Elektron AB. The company shifted into electrical appliances in 1912, when it introduced its first household vacuum cleaner, the Lux 1. In 1925, this was followed by the launch of the first Electrolux absorption refrigerator. The company was quick to expand internationally, and by the 1930s was selling refrigerators and vacuum cleaners across the globe.

Between the 1940s and the 1980s, Electrolux expanded into all areas of the large kitchen appliances, floor care and garden equipment sectors through a wide range of acquisitions. In the 1990s the company worked to expand its appliance business internationally.

From 1997, Electrolux entered into a restructuring programme to improve profitability. In line with this, several divestments were made, including industrial products, sewing machines, agricultural implements, interior decoration equipment, recycling, kitchen and bathroom cabinets, professional cleaning equipment, heavy-duty laundry equipment, leisure appliances, baking equipment and electric motors. Furthermore, the programme aimed to streamline the product portfolio down to a smaller number of well-defined brands. Concurrently, the company made some further notable acquisitions in core areas.

The company is divided into two major business areas:

- 1 Consumer durables, including large kitchen appliances and air conditioners, floor care products (vacuum cleaners) and garden equipment (such as lawn mowers, garden tractors and lawn trimmers).
- 2 Professional products, including foodservice equipment, laundry equipment for apartment/house laundry rooms, laundrettes, hotels and institutions, components such as compressors, forestry equipment such as chainsaws and clearing saws, and other products such as landscape maintenance equipment, turf-care equipment and professional-use power cutters.

In 2002 the Electrolux Group had a total sales of €14,500 million, of which €800 million was left for operating profit. Consumer durables accounted for 84 per cent of total sales, and 7 per cent came from vacuum cleaners.

Electrolux's business is largely split between Europe and North America, which together accounted for 87 per cent of sales in the consumer durables division in 2002. The company has achieved a good balance between these regions, with similar sales levels.

#### **Miele**

Miele ([www.mielevacuums.com](http://www.mielevacuums.com)) is a German-based, family-run company, which produces a range of premium household appliances (e.g. vacuum cleaners), commercial appliances, components and fitted kitchens.

Carl Miele and Reinhard Zinkann established Miele in Gütersloh, Germany in 1899. The company has, since its inception, been focused on producing high-quality appliances at the premium end of the market.

The company began producing washing machines in 1900, with vacuum cleaners and dishwashers added to the product portfolio in the 1920s. During the 1950s and 1960s the company began to produce fully automatic washing machines and dishwashers, as well as tumble dryers. The 1970s saw further advances in technology, with the launch of built-in washing machines and condenser dryers and microcomputer-controlled appliances.

Since then, the company has produced a number of innovative appliances including washing machines with hand wash programmes for woollens, and during the 1990s, vacuum cleaners with the HEPA filter and Sealed System.

Over the past decade, Miele has focused on expanding its business overseas, especially in eastern Europe and Asia-Pacific. The company opened a branch office in Hong Kong in 1998, followed by offices in Poland and Russia. In 1999, Miele opened its US headquarters in Princeton, New Jersey and in 2001 it opened sales offices in Singapore and Mexico.

Miele has made few significant acquisitions through its history. Its largest acquisition was that of Imperial in 1990, a German company specialising in built-in appliances and catering equipment.

Miele products are marketed throughout Europe and also in the United States, Canada, South Africa, Australia, Japan and Hong Kong, through subsidiaries, and elsewhere in the world via authorized importers.

The company's range of domestic electrical appliances covers vacuum cleaners, large kitchen appliances such as home laundry appliances, refrigeration appliances, large cooking appliances, microwaves and dishwashers, and other small appliances such as rotary irons and coffee makers. The company specializes in producing innovative products within these sectors.

As a private company, Miele does not release detailed financial results. In 2002, company revenue reached €2,200 million, up by 3.2 per cent on the previous year. This occurred despite a difficult operating environment, particularly in its domestic market of Germany.

Miele does not publish detailed financial results by geographic region. However, for the 2002 financial year, the company reported that sales in Germany fell back by 1 per cent to reach €800 million. Outside Germany, sales increased by a strong 6 per cent to reach €1.4 billion. As a result, international sales accounted for 65 per cent of total sales in 2002.

The company lists its highest gross overseas market as the Netherlands, followed by Switzerland, France, Austria, the United Kingdom and the United States. The United States recorded especially swift growth at double-digit rates. Double-digit growth was also achieved in Greece, Finland and Ireland, while other markets showing above average growth, included the United Kingdom and Norway. Russia also showed extremely good growth, although to date the company has only focused on Moscow and St Petersburg.

#### **SEB Group**

SEB Group of France ([www.seb.com](http://www.seb.com)) is one of the world's leading producers of small domestic equipment. The company is entirely focused on this area, manufacturing household goods (cookware), as well as small electrical appliances such as cooking appliances (steam cookers, toasters, coffeemakers, and grills), home appliances (vacuum cleaners and fans), and personal care appliances (hair dryers, scales, and electric toothbrushes). SEB's key brands include T-Fal/Tefal, Rowenta, Krups and SEB. The total sales of SEB Group in 2002 were €2,496 million.

Groupe SEB's origins date back to 1857, when the tinware company Antoine Lescure was founded. The company gradually expanded its activities to include



products such as kitchen utensils and zinc tubs, beginning to mechanize its production at the beginning of the 20th century. In 1953, the company launched the first pressure cooker.

The company has since grown by acquisition. This began with Tefal in 1968, a company specialising in nonstick cookware, and continued with the acquisition of the Lyon company, Calor, a maker of irons, hair dryers, small washing machines and portable radiators in 1972. In 1973, a group structure was formed under a lead holding company, SEB SA, which was listed on the Paris Stock Exchange two years later.

Groupe SEB made a significant push into international markets when it acquired Rowenta in 1988, a German manufacturer of irons, electric coffee makers, toasters and vacuum cleaners. In 1992 and 1993, it took advantage of the opening up of Eastern Europe, setting up marketing operations to make inroads in these countries and gain a foothold in the Russian market.

In 1997–98, Groupe SEB entered South America with the acquisition of Arno, Brazil's market leader in small electrical appliances. Arno specializes in the manufacture and sale of food preparation appliances (mixers/blenders), non-automatic washing machines and fans.

In September 2001, Groupe SEB's main domestic rival, Moulinex, filed for bankruptcy. The company submitted an offer for a partial takeover of the business assets of Moulinex, for which it finally received approval by both the European Commission and the French Finance Ministry in 2002. Moulinex had purchased one of Europe's leading brands, Krups, in the early 1990s, and was a good fit with Groupe SEB's existing businesses.

Examples of new SEB vacuum cleaners introduced in 2002 are:

- The new Neo vacuum cleaner, with a futuristic and compact design and very high performance which heralded the arrival of a new ultra-modern range.
- The relaunch of Moulinex vacuum cleaners in all market segments, including the Boogy supercompact vacuum cleaner with an automatic bag ejection system; and the Alto high-power compact vacuum cleaner.

Groupe SEB is one of the few small electrical appliance manufacturers to have achieved a truly global presence. Furthermore, the company has a good geographical balance of sales. Although its domestic market in France accounted for the highest proportion of sales, 26.4 per cent in 2002, a further 30.6 per cent of revenues was derived from other EU countries. The Americas represented 23.2 per cent of sales, with the rest of the world accounting for the remaining 19.8 per cent.

Groupe SEB has stated its intention to expand in emerging markets which offer high growth potential, such as Brazil, Korea, the CIS countries and China, although it also sees potential for development of high added-value niche products in developed markets such as the EU, North America and Japan.

Growth was achieved in all regions in 2002, which was largely due to the partial acquisition in that year of Moulinex-Krups.

### **Whirlpool**

In 2006 Whirlpool announced that it had taken over Maytag's Hoover vacuum cleaner division. Whirlpool closed its takeover of Maytag in March, after passing an extended Justice Department antitrust review. Hoover was acquired as part of its \$1.68 billion purchase of Maytag Corp. The company operates under the premium brands Maytag, Jenn-Air, and the lower-end brands Magic Chef, Amana and Admiral. It operates mainly in the United States, but has sales subsidiaries in Canada, Australia, Mexico, Puerto Rico and the United Kingdom.

Maytag Corp traces its roots back to 1893 when FL Maytag began manufacturing farm implements in Newton, Iowa. In order to offset seasonal slumps in demand he introduced a wooden-tub washing machine in 1907. The company diversified into cooking appliances and refrigerators after the Second World War in 1946. It introduced its first automatic washing machine in 1949, and its first portable dishwashers in 1966.

One of the most famous brands in the vacuum cleaner industry – Hoover – dates back to 1907, when it was developed by the Hoover family in Canton, Ohio. The Hoover Company began selling its products worldwide in 1921. Maytag took over the Hoover brand in 1989 when they merged with Chicago Pacific Corporation. In 1995, Maytag sold the European Hoover operations to Italian appliance manufacturer, Candy.

In the vacuum cleaner sector, Whirlpool operates only under the Hoover brand, which has a strong heritage and is the leading brand in the US market. Hoover manufactures a wide range of vacuum cleaners, including uprights, canisters, stick and handheld vacuums, hard surface cleaners, extractors and other home care products.

In mid-2006 Whirlpool Corp. announced that it planned to sell the Hoover vacuum cleaner business. The Hoover brand, with its 3,000 employees, does not fit with Whirlpool's core products – laundry, refrigeration and kitchen equipment.

### **Distribution of vacuum cleaners**

The situation in Dyson's domestic market, the UK, is as follows:

Department stores are the most popular source of small electrical goods in the UK, with many trusted names (e.g. Co-op Home Stores and John Lewis) who are able to stock a sufficient variety of competitively priced goods to attract consumer loyalty. Their share has increased slightly over recent years, as department stores in general have become more fashionable again.

Specialist multiples have the second largest share, although not far behind are the independents which have a larger share of the small electrical appliances market than they do of large appliances. Smaller high street stores in small and medium-sized towns attract buyers of small electrical appliances, like vacuum cleaners, since consumers are less motivated to drive to a retail park for these items, than they are say, for a fridge.

Grocery multiples, such as Tesco and Asda, sell vacuum cleaners and generally offer advantageous deals on a narrow range of goods. Catalogue showrooms such as Argos also benefited from increasing their range and from low pricing and online shopping facilities.

Distribution of vacuum cleaners has become hugely extensive, with supermarkets and grocery stores stocking the cheaper to mid-end of the market. For electrical retailers still selling smaller items, their domain lies more in the pricier, higher-end of the market.

The distribution of vacuum cleaners in most other major countries is limited principally to specialist 'household appliance' store chains and department stores.

Huge retail chains like Electric City, Best Buy and Sears more and more dominate the distribution of vacuum cleaners in United States.

### Latest development

During the last years, Dyson has decided to move most of its vacuum cleaner production from the United Kingdom to the Far East (Malaysia).

Although Dyson is still a leading vacuum cleaner brand, it is beginning to lose out to cheaper machines that have developed their own bagless technology.

The dilemma Dyson faces is dropping its own prices or reinforcing the power and quality of its brand. The loyalty of Dyson's customers has dropped off and the company's market share in UK by volume has also decreased.

Besides vacuum cleaners Dyson is also trying to make headway in washing machines, an industry with global annual sales of £15 billion and with big competitors including Whirlpool of the United States and Japan's Matsushita.

Dyson gained success in vacuum cleaners through high price and stylish machines that featured a new way

of sucking up dirt without a bag, which appealed to consumers' desire to try something new. Then in 2000 Dyson unveiled a novel type of washing machine – called the 'Contrarotator' because it featured two drums spinning in opposite directions. Most industry analysts say that the complexity of manufacturing washing machines, which feature a host of sophisticated mechanisms including pumps and motors that have to work reliably, is a lot higher than for the relatively simple design of a vacuum cleaner. Dyson's washing machine is very expensive, retailing at more than £500, or twice the price of a standard washing machine sold in the United Kingdom. And whether consumers will pay significantly extra for a new design – even if its performance is better – is open to question.

Even in its best year for sales in 2002 the Contrarotator accounted for sales of only 18,000 units in the United Kingdom, out of total washing machine sales of some 2.2 million a year. In 2005, the number of Contrarotators sold slumped to 2,500.

Counting only those sales of 'up-market' washing machines retailing at above £500, the Dyson product chalked up a creditable 21 per cent share of the market in 2002. But by 2005, when the machine was quietly withdrawn, this figure had fallen to 2 per cent.

Dyson insists that a new type of washing machine – now being worked on by a research and development team at Dyson's headquarters in Malmesbury, Wiltshire – will be better than the first one. He says: 'We will develop a new machine and then see how many people want to buy it. I am sure it can be a success.' (Marsh, 2006)

Sources: [www.dyson.com](http://www.dyson.com); [www.electrolux.com](http://www.electrolux.com); [www.mielevacuums.com](http://www.mielevacuums.com); [www.seb.com](http://www.seb.com); [www.hoover.com](http://www.hoover.com); <http://news.bbc.co.uk> Marsh, P. (2006), 'A 10-year struggle to clean up in the appliance market', *Financial Times*, 27 June, p. 26.

### Questions

- 1 Until now Dyson has concentrated its efforts in the United Kingdom, the United States, Japan and Australia. In your opinion, which new international markets should be allocated more marketing resources, in order to develop them into future Dyson growth markets?
- 2 In the US market Dyson achieved its market share by moving into the mass retail channels, like Electric City and Best Buy. Some industry specialists are critical towards this the long-term strategy for Dyson's high-priced product. Evaluate the Dyson distribution strategy in the US market.
- 3 Do you think that James Dyson can repeat the international vacuum cleaner success with the new washing machine? Why? Why not?