

## Communication decisions (promotion strategies)

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### Learning objectives

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

- 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.

### 17.1 Introduction

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.

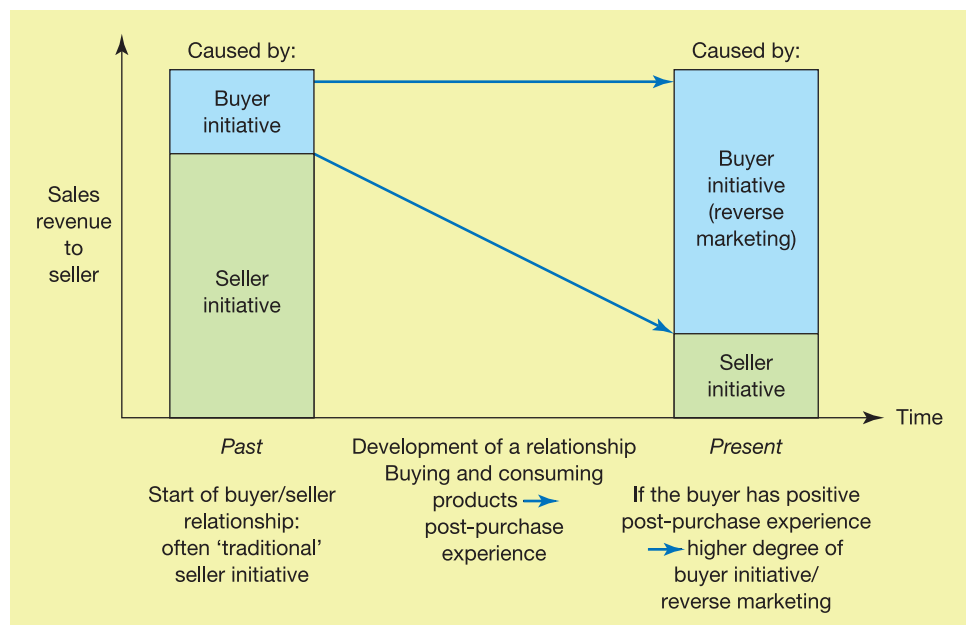
One important strategic consideration is whether to standardize worldwide or to adapt the promotion mix to the environment of each country. Another consideration is the availability of media, which varies around the world.

## 17.2 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 17.1. 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).

**Figure 17.1** The shift from seller initiative to buyer initiative in buyer/seller relationships



## 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 four elements: a sender, a message, a communication channel and a receiver (audience). The communication process in Figure 17.2 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.

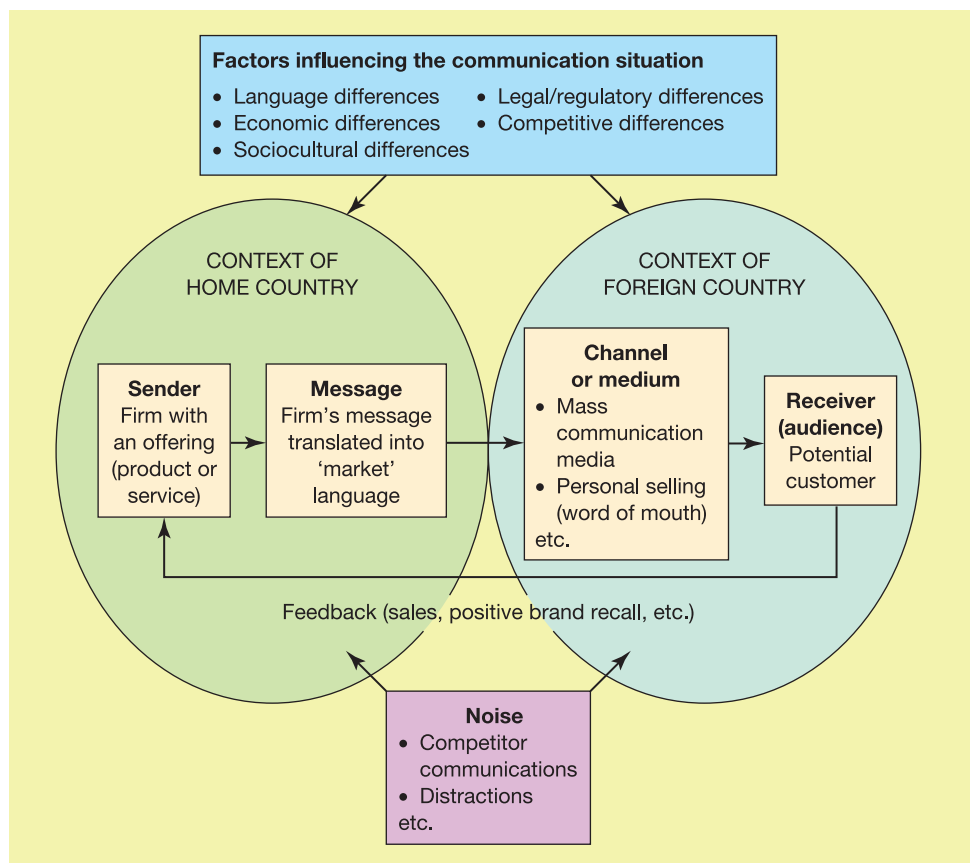
Another important point to consider in the model of Figure 17.2 is the degree of ‘fit’ between medium and message. For example, a complex and wordy message would be better for the press than for a visual medium such as television or cinema.

## 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.

Figure 17.2 Elements of the international communication process



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 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 17.1 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.

## 17.3 Communication tools

Earlier in this chapter we mentioned the major forms of promotion. In this section the different communication tools, listed in Table 17.1, 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.

The major decisions in advertising are shown in Figure 17.3. 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.

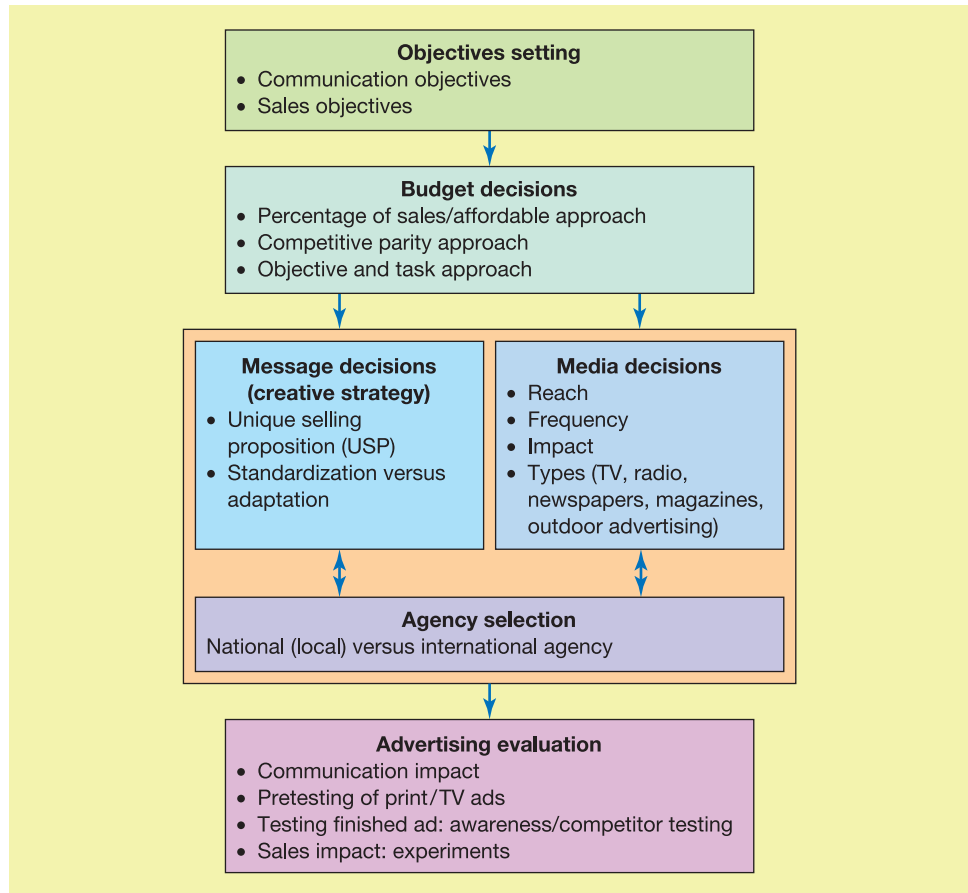
### Budget decisions

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.

**Table 17.1** 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 17.3 The major international advertising decisions



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 14.4).
- 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

Duplicating the amounts spent on advertising by major rivals.

**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.

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*

#### Objective and task approach

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

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.

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.



## Exhibit 17.2 Developing the 'Me and my Magnum' campaign: the power of persuasion

In 1989 Unilever launched the ice-cream brand Magnum in a number of European countries. A special and unique relationship arose between Magnum and the customer due to the backbone of the advertising campaign 'Me and my Magnum', which was developed in 1991–92 by Barry Day, creative consultant at Lintas, together with Langnese-Iglo's marketing director, Klaus Rabbel, and Michael Bronsten, Ice Cream Group advertising member.

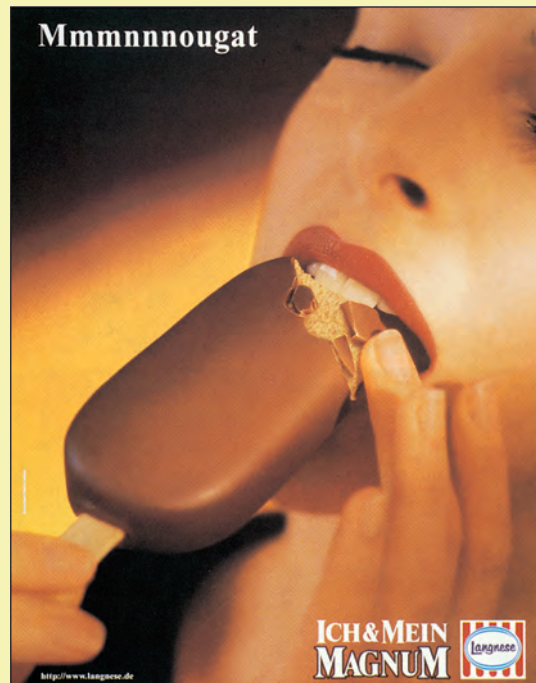
The ironic thing about the advertising – and the key to its success, says Barry Day – was that 'The Magnum campaign was not dreamt up by some ad man: the consumer "wrote" it.' The advertising is based on what consumers were saying about the brand.

The advertisement contains three elements, two visual and one audio. The first visual element surrounds one particular aspect of Magnum: its size. Consumers have related that Magnum's size makes it awkward and unwieldy. Thus, they say, it cannot be eaten quickly: time is needed to consume a Magnum and this special moment should not be interrupted. They have also confessed that eating it can be quite an erotic experience. These two elements come together in the second visual image: the body language of the Magnum consumer, who eats it slowly and with great care, gently toying with the crisp, cracking chocolate before teasing out the ice-cream underneath.

Binding these two visual elements together is a soundtrack that gives the consumer 'licence to indulge,' says Barry Day. It consists of genuine testimonies from consumers reflecting on what Magnum means to them. The advertisement works, Barry Day believes, because the words it uses to describe the experience of eating a Magnum really do accord with those of the consumer. This recognition is translated into a close affinity between one Magnum consumer and another. 'It gives the viewer the feeling that he or she is part of some sort of elite or club – the Magnum Club,' he explains. It is, however, a singles club. Magnum is a purely personal indulgence: people eating one are not going to share it with anyone else.

Where does the Magnum advertising go from here? Barry Day feels that future campaigns can go deeper into the psychology of the brand, but should never take away from the values that have made Magnum the success it is today.

Source: Shelly, 1995.



'Me and My Magnum' advertisement, German version

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 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.

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 (see Exhibit 17.3).

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

### 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).

### GRPs

Gross rating points – Reach multiplied by frequency. GRPs may be estimated for individual media vehicles. Media planning is often based on 'cost per 1000 GRPs'.

### Exhibit 17.3 Co-promotion in practice: McDonald's and LEGO

In 1994 LEGO carried out its then largest European co-promotion with McDonald's as collaborator. The family restaurant's children's menu Happy Meal contained a LEGO product for four weeks, one every week. The activity was marketed on television and in print media.

The campaign included 16 countries in Europe plus Turkey and Israel. LEGO's motives for an increasing interest in co-promotion, says brand manager Carsten Sørensen, are twofold:

- There is increasing competition in media that are becoming more and more crowded. Co-promotion offers the opportunity of getting more value for money from the marketing budget.
- In some markets LEGO needs an increased market share. The more it is in contact with consumers, the better they know the company. Co-promotion can thus be a relevant tool if a company is introducing a new product in an existing market or existing products in new markets.

Source: Normark, 1994.

#### 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 17.4 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 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 Romania transit advertising is very effective. According to a survey by Mueller (1996), in Bucharest 91 per cent of all consumers surveyed said they remembered the content of transit advertisements, compared with 82 per cent who remembered the content of print adverts. 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 17.2 the different factors favouring 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:

**Table 17.2** 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, Table 11-4.

- *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.
- *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 17.3. 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, e.g. is brand awareness 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 17.1.

#### Exhibit 17.5 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.



## 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.

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 17.3.

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.). According to Meenaghan (1996), the worldwide sponsorship market grew from \$2 billion in 1984 to \$13.02 billion in 1994. In 1994 Europe and the United States together accounted for 32.6 per cent of worldwide sponsorship expenditure.
- Press releases of news about the firm's products, plant and personnel.

**Table 17.3** Target groups for public relations

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

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



- 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;
- encouraging shops to stock the product.

In the United States, the sales promotion budgets for fast-moving consumer goods (FMCG) manufacturers are larger than the advertising budgets. In Europe, the European Commission estimates that the rate of growth of spending on sales promotions was double that for conventional advertising throughout the period 1991–94 (Bennett, 1995, p. 321). 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. A number of factors have encouraged the rapid expansion of the international direct marketing industry (Bennett, 1995, p. 318):

- developments in mailing technology, which have reduced the costs of distributing direct-mail literature;
- escalating costs of other forms of advertising and sales promotion;
- the increasing availability of good-quality lists of prospective customers;
- developments in information technology (especially database technology and desktop publishing) that enable smaller companies to produce high-quality direct marketing materials in-house;
- the increasing availability throughout the developed world of interactive television facilities, whereby consumers may order goods through a teletext system.

### Direct mail

Direct mail is a viable medium in many countries. It is especially important when other media are not available. Direct mail offers a flexible, selective and potentially highly cost-effective means of reaching foreign consumers. Messages can be addressed exclusively to the target market, advertising budgets may be concentrated on the most promising market segments, and it will be some time before competitors realize that the firm has launched a campaign. In addition, the size, content, timing and geographical coverage of mailshots can be varied at will: the firm can spend as much or as

little as necessary to achieve its objectives. There are no media space or airtime restrictions, and no copy or insertion deadlines to be met. All aspects of the direct-mail process are subject to the firm's immediate control, and it can experiment by varying the approach used in different countries. Direct mail can take many forms – letters, catalogues, technical literature – and it can serve as a vehicle for the distribution of samples. A major problem in the effective use of direct mail is the preparation of a suitable mailing list (marketing database).

European marketers are still far behind the United States in exploiting the medium and also with regard to the response to direct mail in the form of mail orders. Per capita mail-order sales in the United States are more than double those of any European country (Desmet and Xardel, 1996, p. 58). The use of direct mail in Japan is also below that in the United States. One reason for this discrepancy is that the Japanese feel printed material is too impersonal and insufficiently sincere.

Direct mail is not only relevant for the consumer market. However, effective use of direct mail for business-to-business purposes requires the preparation of an accurate customer profile (marketing database), including industry classification, size of target company (measured, for example, by turnover, number of employees or market share), the people to approach in each business (purchasing officer, project development engineer, product manager, etc.), industry purchasing procedures and (where known) supplier selection criteria and the buying motives of prospective customers.

Telemarketing is today used for both consumer and business-to-business campaigns throughout the industrialized world. The telephone can be used both to obtain orders and to conduct fast, low-cost market research. Telemarketing covers cold calling (unsolicited calls) by salespeople, market surveys conducted by telephone, calls designed to compile databases of possible sales prospects and follow-ups to customer requests for further information, resulting from print and broadcast advertisements. Currently, the majority of cross-border telemarketing campaigns focus on business-to-business contacts, essentially because of the combined telephone/fax/database facilities that an increasing number of companies possess and, in consequence, the greater reliability of business-to-business communications.

The administration of international telemarketing normally requires the use of a commercial telemarketing agency. Language skills are required, plus considerable skills and experience in identifying decision makers in target firms.

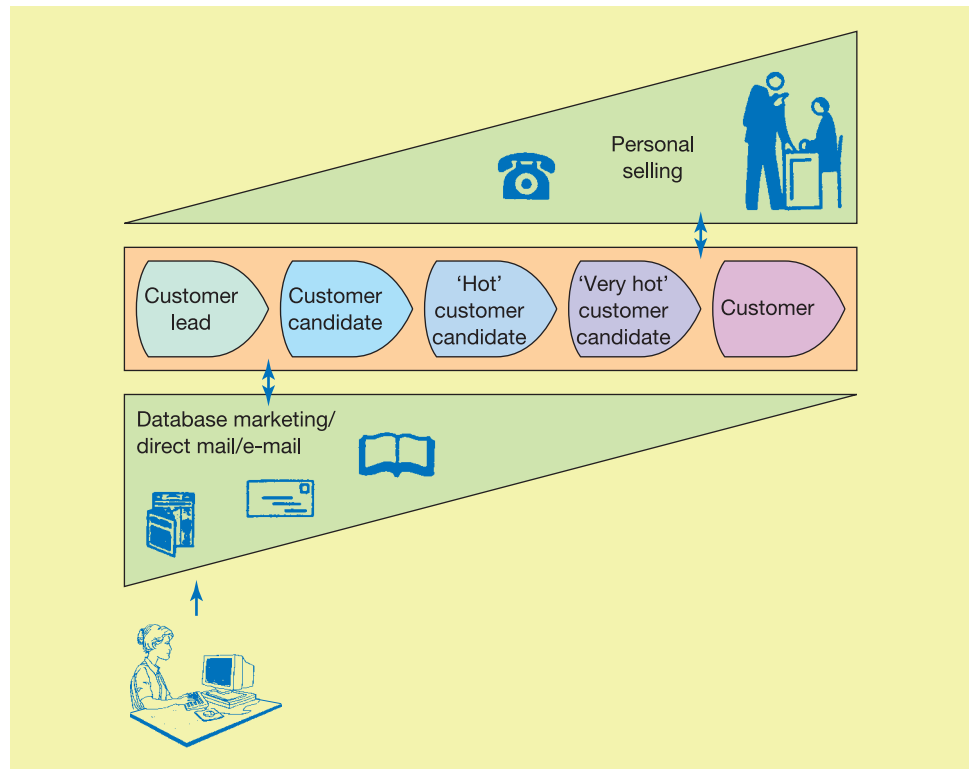
In some European countries cold calling of consumers is under close scrutiny in the name of consumer protection and respect for privacy. For example, Germany has prohibited calls on the grounds of privacy invasion, and this ban even applies to an insurance salesperson's announcement of a visit.

In the light of the development in Internet technologies it is very relevant to consider the World Wide Web as a direct marketing tool. This issue was discussed in Chapter 14.

## Personal selling

The differences between advertising and personal selling were indicated in Table 17.1. 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.

**Figure 17.4** Combination of direct mail (database marketing) and personal selling



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 17.4). 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.

### Assessing sales force effectiveness

There are five essential questions to ask in assessing sales force effectiveness:

- 1 *Is the selling effort structured for effective market coverage?*  
 Organization.  
 Size of sales force.  
 Territory deployment.
- 2 *Is the sales force staffed with the right people?*  
 Type of international sales force: expatriates/host country/third country.  
 Age/tenure/education profile.  
 Interpersonal skills.  
 Technical capabilities.  
 Selling technique.
- 3 *Is strong guidance provided?*  
 Written guidelines.  
 Key tasks/mission definition.  
 Call frequency.  
 Time allocation.

People to be seen.  
 Market/account focus.  
 Territory planning and control tools.  
 On-the-job coaching.

4 *Is adequate sales support in place?*

Training.  
 Technical back-up.  
 Inside sales staff.  
 Product and applications literature.

5 *Does the sales compensation plan provide the proper motivation?*

Total compensation.  
 Split of straight salary/straight commission.  
 Incentive design/fit with management objectives.  
 Non-cash incentives.

In the following we will go into further details regarding questions 1 and 2.

### International sales force organization

In international markets firms often organise 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 17.4).

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

**Table 17.4** 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.

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.

### 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 17.5.

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. It appears from Figure 17.5 that trade fairs are multipurpose events involving many interactions between the TF exhibitor and numerous parties.

TFs 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 supplying businesses.

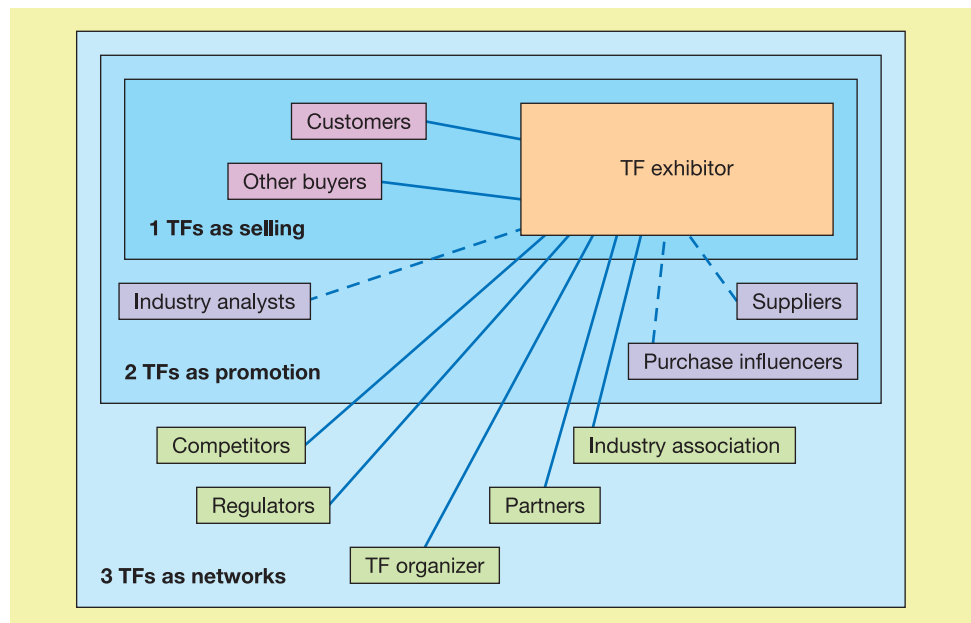
**Table 17.5** Advantages and disadvantages of sales force types

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.

Traditionally TFs have been regarded as a personal selling tool, but Sharland and Balogh (1996) conclude that TFs are an excellent environment for non-selling activities such as information exchange, relationship building and channel partner assessment. TFs 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).

We conclude this section by listing the arguments for and against participation in TFs.

**Figure 17.5** Three conceptions of trade fairs: major interactions for a local exhibitor

Source: adapted from Rosson and Seringhaus, 1996, p. 1181, with kind permission of P.J. Rosson, Dalhousie University.

### *Arguments for participation in TFs*

- Marketers are able to reach a sizeable number of potential customers in a brief time period at a reasonable cost per contact. Orders may be obtained on the spot.
- Some products, by their very nature, are difficult to market without providing the potential customer with a chance to examine them or see them in action. TFs provide an excellent opportunity to introduce, promote and demonstrate new products.
- SMEs without extensive sales forces have the opportunity to present their outputs to large buying companies on the same face-to-face basis as large local rivals.
- Finding an intermediary may be one of the best reasons to attend a TF. A show is a cost-effective way to solicit and screen candidates to represent the firm, especially in a new market.
- Although many technical specialists and company executives refuse to see or take telephone calls from outsiders who try to sell them things at their places of work, these same managers often do attend trade exhibitions. The customer goes to the exhibition in order to see the seller. This is also an important aspect in the concept of reverse marketing or buyer initiative (see, for example, Figure 17.1).
- An appearance also produces goodwill and allows for cultivation of the corporate image. Beyond the impact of displaying specific products, many firms place strong emphasis on 'waving the company flag' against competition. This facet also includes supporting the morale of the firm's sales personnel and intermediaries.
- TFs provide an excellent chance for market research and collecting competitive intelligence. The marketer is able to view most rivals at the same time and to test comparative buyer reactions.
- Visitors' names and addresses may be used for subsequent mailshots.

### *Arguments against participation in TFs*

- There is a high cost in terms of time and administrative effort needed to prepare an exhibition stand in a foreign country. However, a marketer can lower costs by sharing expenses with distributors or representatives. Furthermore, the costs of closing a sale through trade shows are estimated to be much lower than those for a sale closed through personal representation.
- It is difficult to choose the appropriate trade fairs for participation, but this is a critical decision. Because of scarce resources many firms rely on suggestions from their foreign distributors on which TFs to attend and what specifically to exhibit.
- Coordination problems may arise. In LSEs with multiple divisions more divisions may be required to participate in the same TF under the company banner. In SMEs coordination is required with distributors and agents if joint participation is desired, and this necessitates joint planning.

Furthermore, the firm faces a lot of practical problems; for example, most people visit exhibitions to browse rather than to buy. How does the exhibiting firm obtain the names and addresses of the callers who influence major buying decisions within their companies? Second, gimmicks may be highly effective in attracting visitors to a stand, but they can attract the wrong people. An audience may be greatly impressed by the music, dancing, demonstration or whatever is provided, yet not be remotely interested in the product. Third, how can the employees who staff a stand be prevented from treating the exercise as a holiday, paying more attention to the social aspects of their involvement with the exhibition than to finding customers? What specific targets can staff be given and how can the attainment of targets be measured?

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.



## 17.4 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 email may be persuaded more readily than those via mass media advertising.

Passing along email is even easier than writing comments. Beyond this, pass-along email 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.

While e-mail may have been the original catalyst, the advent of social networks, online communities and chatrooms provide the ability to distribute information exponentially faster than ever before. Where word-of-mouth marketing could take weeks or months to reach a thousand people, viral marketing can reach hundreds of thousands or millions in a matter of days or hours. The spread of an effective viral marketing campaign is akin to an epidemic outbreak of a virus, limited only by the potency and relevance of the marketing message. Hotmail discovered that a personal recommendation is more powerful than any advertising campaign, and viral marketing's strength is based on the fact that people are more likely to respond to a marketing message or take interest in a product if it comes with the endorsement of a friend. In the Hotmail case, the viral activity turned out to be one of the most successful viral marketing campaigns of all time: simple text advertisement appended to each user's e-mail. The free e-mail service spent a mere \$50,000 on traditional marketing and still became the world's leading e-mail provider almost overnight, with 75 million users (Phelps *et al.*, 2004).

### 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.

#### Viral marketing

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

## Exhibit 17.6 Trojan Games

The Trojan Games viral marketing campaign ([www.trojangames.co.uk](http://www.trojangames.co.uk)), with its award-winning sex-and-games spoof video content, has been seen by over 38 million people globally since the site launched in October 2003. In its first month alone, over 6 million people visited the site. Only sites such as Google and Yahoo reach more people over such a time period. The following brand benefits were revealed in a consumer survey:

- 77 per cent recalled the Trojan brand after seeing the campaign;
- 73 per cent positive rating of the overall impression of the campaign;
- 80 per cent perceived the campaign to be unique;
- 50 per cent would be more likely to consider the Trojan brand after seeing the campaign.

Source: Adapted from MindComet (2006).

### 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 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.

A study by Sharpe Partners (Business Wire, 2006), an award-winning interactive marketing agency, revealed that 89 per cent of adult Internet users in the United States share content with others via e-mail.

Sharpe Partners' study on viral marketing also found that 63 per cent of the respondents share content at least once a week, with 25 per cent sharing daily or almost daily, and as many as 75 per cent of the respondents forwarding this content to up to six other recipients.

In addition to highlighting the rampant frequency of content sharing, the study generated some interesting results regarding the type of content that is sent. The most popular content is humorous material, with 88 per cent forwarding jokes or cartoons. The second most popular category is news (56 per cent), followed by health care and medical information (32 per cent), religious and spiritual material (30 per cent), games (25 per cent), business and personal finance information (24 per cent), and sports/hobbies (24 per cent).

For companies looking to employ a viral marketing programme, the study found that adding overt brand messages only slightly reduces the likelihood that the content will be shared. Some 56 per cent of the respondents are less or slightly less likely to forward such content, whereas 43 per cent said they are more or slightly more likely to send marketing-related messages. Only 5 per cent refuse to share content that contains a clear brand message.

### 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.

### Exhibit 17.7 Honda UK - 'The Cog' viral marketing campaign

In 2001 Honda took a look at its 3 per cent market share and realized the brand needed to communicate clearly that 'a car is not a car'. The company understood that consumers never realize much of what goes into making a Honda car: the number of parts, their coordination, and the precision engineering that makes this coordination possible. The question was how to create a good market position without following traditional communication formats and themes. The campaign also needed to connect with those who might influence the purchase decision, such as family, friends, work colleagues, and even the local mechanic, in order to gain brand support. In other words, the ad had to be really good to cut through the clutter, encourage a favourable attitude toward the brand, and encourage consumers not only to buy but to talk as well.

The result of the creative effort was an ad in 2003 known as '*The Cog*' that featured hundreds of individual pieces of a new Honda Accord connecting with each other as though they were a big tumbling domino display. Given the nature of the Internet, the unintended consequence of this viral campaign was the spread of communication beyond the United Kingdom. In the United States, where the cost of running a two-minute ad on national television is substantial, or even prohibitive, it was reported that the ad was widely viewed over the Internet, with hits to the US website quadrupling to 55,000 a week and brochure requests tripling.

After three months '*The Cog*' was also screened on Australian television, sparking a renewed spread of the ad across the Internet. Senders emailing the ad to friends and colleagues added their stamp of approval to the Honda brand. In cases where a recipient had recently purchased a Honda, receipt of the ad could be seen as the sender's approval of the brand choice, reinforcing the message that the consumer had, indeed, made the right choice in purchasing a car with such quality precision parts.

In summary, Honda used multiple forms of media, including TV advertising and Web-based messages, enabling '*The Cog*' to cross between word-of-mouth and traditional media. As an extra, the ad was often discussed on television chat shows!

Source: Adapted from Dobeles *et al.* (2005).

## 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. The Honda Cog example (see Exhibit 17.7) broke a complex idea into a simple engaging one: each car component forming part of an elaborate domino-type setup.

### 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 (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 17.8 Philips 'Quintippio' viral ad campaign (created by advertising agency Tribal DDB)

In November 2005 a viral website with a fictional 15-bladed razor was developed in order to create some buzz and make fun of the real-life introduction of the four-bladed Schick Quattro and the five-bladed Fusion by Gillette in October 2005 (<http://www.quintippio.co.uk/> – the website was removed).

On the website it was possible to download an ad that had run also on TV. The script of the commercial proclaimed: 'Looking for a close shave? Then you're looking for the new Quintippio Mega Shave, now with 15 extra large blades!' A new product, 'Quintippio Multi-Shave' opens the spot and we find out that it has 15 blades. Then a puzzled man looks at it, wondering how he is going to shave his face with it. A voiceover says, 'Everyone's talking more blades – we're talking less irritation.' The selling point is an electric shaver that has a pump for dispensing Nivea skin cream as a shaving lubricant and moisturizer. The spot ends with the claim, 'As close as a blade with less irritation.'

The commercial is genuinely funny – it uses humour to serve the advertising strategy and reinforce the brand positioning. Philips makes fun of both Gillette and Schick for their multi-blade obsession.

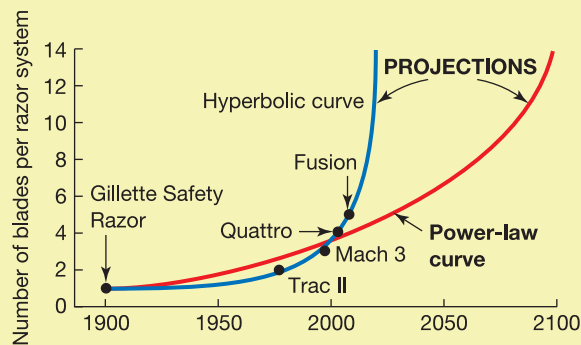
Here is what works:

- *Norelco makes the category leader look out of touch* – although the end-benefit of 'multi-blade' is supposed to be 'close shave', it is not clear that either Gillette or Schick remembers this. Gillette's macho, tech-oriented advertising is so obsessed with the product that it seems to forget the consumer in the process.
- *Cool Shave focuses on a relevant, ownable end-benefit* – 'We're talking about less irritation' which presumably is a secondary benefit for many users



## Exhibit 17.8 continued

Figure 1



Source: *The Economist*, 16 March 2006. © The Economist Newspaper Limited, London (16.3.06).

but not owned by any male shaving system. This spot does a good job of using humour, voiceover, visuals and co-branding (with Nivea) to reinforce this end-benefit. The humour is used to reinforce the brand positioning.

- *Humour reinforces the brand positioning* – Showing that Gillette and Schick don't 'get it' with their blade-spawning razors and focusing on a different benefit is worlds more effective than trying to argue that rotary shavers have more blades than multi-blade razors, for example.

That the issue raised in the commercial is relevant is underlined by the 'serious' magazine *The Economist*, which took up the 'Blade running' issue.

The article discusses whether Moore's law can be transferred from computer chips to number of razor blades. The article concludes that the most likely projection is that, if the so-called power-law curve is followed then the 14-bladed razor should arrive in year 2100. But as we have seen, the fictional Philips 15-blade razor is already here, and so are the discussions in the media and among internet users – so Philips has reached its goals for its viral marketing campaign.

Sources: Adapted from: WorldNetDaily.com (2005) 'Razor wars: 15-blade fever', 26 November; *The Economist* (2006) 'The cutting edge – A Moore's law for razor blades', 16 March.

## 17.5 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).





Standardized advertisements from Cathay Pacific

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.

### 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 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 17.8). 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.





Habits of cognac drinking in Western Europe and Asia

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

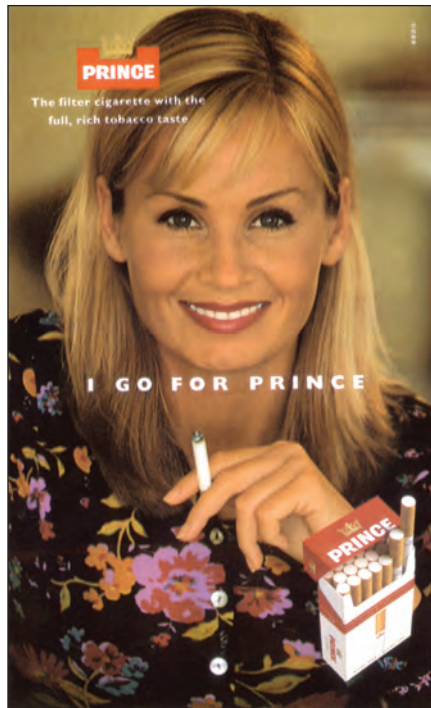
The Danish cigarette company House of Prince has high market share (50–90 per cent) in Scandinavian countries, but outside this area its market share is very low, typically 1–2 per cent.

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



Advertisements for Prince cigarettes in the UK and Germany

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 Gammel Dansk in Denmark and Germany

### 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 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?’



Advertisement for LEGO® FreeStyle in the Far East, © 1997

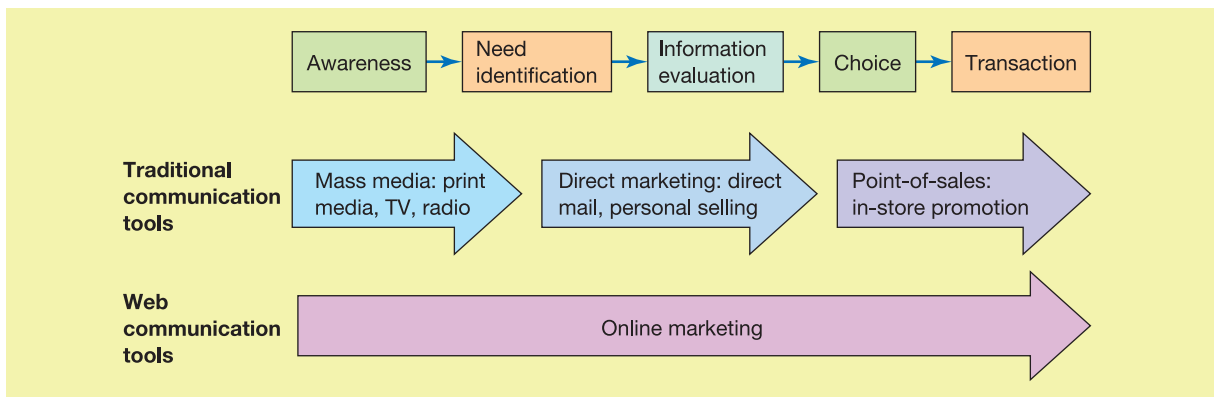


Advertisement for LEGO® FreeStyle in Europe, © 1997

## 17.6 Implications of the Internet for communication decisions

In the physical marketplace different communication tools are used in the buying process of customers (see Figure 17.6). Traditional mass communication tools (print

Figure 17.6 The role of Internet communication in the buying process of customers





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.

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.

Although some companies do business exclusively on the Web, for most the Internet offers exciting opportunities to develop an additional sales channel. This new channel can extend a company's reach significantly, enabling it to do business with a new customer base that was previously unreachable. Customer preferences are driving e-commerce because many consumers simply prefer online shopping because of the convenience, reach and availability of products and services. Companies that do not develop an internet presence risk losing these customers to more aggressive competitors.

Developing a successful online marketing programme boils down to the same objectives as in the physical world: how to create an audience. 'Audience development' is the preferred phrase for online marketing, because it more precisely communicates the point of the activity.

How, then, can a web audience be created? The web audience development process consists of the following six phases:

- 1 integration;
- 2 design requirements that are unique;
- 3 techniques for audience creation;
- 4 methods of advertising the site;
- 5 effective promotions that attract attention;
- 6 measurement and analysis to ensure ongoing success.

## 1 Integration of Internet strategy into an overall business strategy

Before a company builds a site it should determine how the site will fit into the company's overall business strategy. A holistic approach does not look at the site in isolation, but in the context of overall marketing and sales efforts. Marketers must understand the role of each medium within the company's marketing mix and utilize the strengths of each. Creating the right online corporate identity is the first step for audience development, the step from which all other components of a successful web marketing programme flow. Synergy and consistency are essential. Although individual messages may vary to apply the unique strengths of each medium, the overall flavour should be consistent across media.

All marketing and sales activities should work together, and each marketing objective should be supported across multiple media where possible. A company should cross-promote among media, for example promoting its website in brochures and print advertising.

## 2 Design requirements that are unique

Given the free flow of information in the *market space* and the potential for overload, the marketer with the best-designed information package will generate the competitive advantage.

While audience creation, advertising and promotions drive traffic to a site it is the design that either encourages visitors to explore or drives them away in frustration. A good design is, of course, aesthetically pleasing. More importantly, though, it engages visitors, makes it easy for them to navigate the site and compels them to explore the site further, purchase products and return another day. Attractive graphics that support the company's message are important, but large graphics that take a long time to load frustrate users. Many visitors will not wait long enough for the graphic to finish loading. Additionally, visitors are less likely to return to a site that has confusing navigational cues.

The design should use clear, consistent navigational cues that make it easy for visitors to determine where they are within the site structure. With more than a million sites competing for users' attention, first impressions are critical. A confusing, poorly organized site structure can negate even the highest quality content.

Web design differs significantly from design for other media. The most important difference is that the Web is interactive, incorporating hyperlinks and devices for immediate visitor feedback. Some sophisticated designs include dynamically generated pages that are custom-tailored to each visitor's interests, preferences and buying habits.

## 3 Techniques for audience creation

Developing traffic on a site requires expert knowledge of the numerous online search devices. The audience creation methods described in this section are highly cost effective for generating a large number of repeat site visitors:

- *Search engine optimization.* Search engines and directories play a critical role in internet marketing, because the majority of web surfers rely on these navigation guides to conduct their research. Because users typically explore only the first ten or 20 sites on the list, an understanding of how search ranking works can make a huge difference in traffic volume. Effective optimization of search engine results requires carefully designed meta tags and other HTML code and pointer pages specialized for individual search engines.
- *Editorial placement in new media.* In addition to using the Internet as a communication tool to contact traditional journalists, companies can reach out to the new and rapidly increasing breed of 'online-only' news media. Most online stories contain hyperlinks to the sites of featured marketers. Because online stories are typically archived in news databases and indexed by search engines they provide a source of new visitors for an indefinite period.
- *Strategic linking.* A major differentiator between the Web and other media is the use of hyperlinks, in which a user clicks on a link and is instantly transported to another site. The more inbound links a company establishes on other sites, the more qualified visitors the site will attract. Unlike banner ads, links frequently stay in place for months and bear the credibility of editorial selection. Best of all, they are usually free. Some of the best investments of time marketers can make is to contact web masters of affinity sites in an attempt to place inbound links on their sites. Web masters of many popular sites actively seek out quality sites to which they can link.

- *Interactive public relations.* Interactive public relations facilitates worldwide new delivery as well as direct interactivity with individuals. Newsgroups, mailing lists, forums, bulletin boards and other virtual communities are important sources of visitors for a site.

One method for tapping into virtual communities is to employ interactive public relations with materials such as electronic press releases or other stories that may be of interest to specific groups.

#### 4 Methods of advertising the site

To take full advantage of the power of Internet marketing companies must understand the differences between online advertising and other, more traditional media.

- *Banner advertising.* Online banner ads use eye-catching multimedia effects such as animation, interactivity, sound, video and 3D to attract attention and draw visitors to a site. Even in-the-banner commerce transactions are becoming common.

With online advertising companies can target ads with far greater precision than with any other medium. Today's ad server technology offers highly sophisticated, automatic targeting that uses factors such as demographic data and visitor behaviour while at the site. In addition, technology is emerging that allows online ads to be tailored automatically to each individual visitor.

Marketers can take advantage of this targeting capability to place banner ads on sites that attract visitors who match the demographic profile for companies' products. As a result they can increase brand awareness among a carefully targeted audience and drive highly qualified traffic to their site.

- *Sponsorships.* Exclusive sponsorship of site content is a growing trend. Sponsoring strategic editorial content is an effective way to establish long-term brand identification among target audiences.

Sponsorship of content or pages on certain sites – for example a site maintained by an influential industry group or a leader in a particular industry – associate a company with that group or industry leader. This association lends credibility and helps increase customer interest and brand awareness.

- *Barter advertising.* In addition to paid advertising, many sites are performing banner exchanges and ad barter arrangements. Even among top content sites bartering is a common, cost-effective way to boost traffic. Companies can take advantage of this low-cost advertising method by establishing personal relationships and negotiating barter deals with other sites.

#### 5 Effective promotions that attract attention

Promotions offer an excellent opportunity for public relations exposure and online community awareness. These promotions can take a variety of forms:

- *Contests.* Quizzes, sweepstakes and other contests are sometimes effective components of online marketing. Companies can use contests for a variety of purposes, including sales generation, brand recognition establishment, customer loyalty building and market research.
- *Loyalty programmes.* It is well known that the cost of retaining a current customer is about one-tenth that of acquiring a new one. As a result, customer loyalty programmes can have a dramatic impact on the bottom line. Loyalty programmes and

similar online campaigns can help retain customers and motivate them to recruit new customers by recommending a company's site or products to friends and associates.

- *Online events.* Live events (for example live sporting events) in which users from around the world participate have proven tremendously popular with the online public. Promoters have seized on this trend to capture audiences for a variety of online events, including celebrity chats, live concert broadcasts, virtual conferences and auctions. Such events can be effective for gaining mind share among new users and positioning a company or site at the cutting edge of its market.

## 6 Measurement and analysis to ensure ongoing success

The Internet is one of the most measurable of all communications media. The ability to monitor the effectiveness and continually fine-tune sites and campaigns is one of the medium's greatest benefits.

Paul (1996) argues that the Web has the ability to compile statistics about the *reach* (how many people have viewed each advertisement) and *exposure time* (how long the viewers have looked at the advertisement). This helps companies to measure the effectiveness of their advertisements.

Server logs and other performance data are valuable indicators that can be used to develop insights which are far beyond what any print circulation figures or TV ratings data can provide. It is important, however, to combine these quantitative measures with qualitative measures to achieve a meaningful evaluation of effectiveness. Tracking which external sources refer the most visitors to the home page is useful when evaluating the success of ad banners, affinity links and other promotional campaigns.

### Audience qualification

Counting web page hits alone is not sufficient to determine effectiveness of audience development strategies. It is more important to determine *who* the visitors are. Are they prospective customers or simply confused and curious surfers who will never return? How many pages past the first home page does the average visitor explore from a particular banner ad? What percentage of visitors return again, and which ones become paying customers?

### Customer feedback

Perhaps the most valuable form of analysis comes not from technology but directly from site visitors. Sites that post their e-mail addresses or telephone numbers to encourage contact from visitors are sending a strong message that invites relationship building with prospects and customers. An interactive process that incorporates visitor feedback enables the company to raise the site to its full potential and keep it there.

Marketers can get information on visitors' perception of the site through online visitor surveys. Because they are convenient and even fun to respond to, response rates are typically high. For additional opinions marketers can monitor discussions about the brand and general product category on discussion boards in newsgroups as well as other independent forums. Such feedback is a natural by-product of many online marketing activities and can be effectively incorporated into the other components of audience development.



## 17.7 Summary

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  
17.1

## Helly Hansen: Sponsoring fashion clothes in the US market

On a warm autumn day in 1997 Johnny Austad, President of the Norwegian clothing manufacturer Helly Hansen Co. (HH), arrives at the company's US subsidiary. Johnny can still not quite understand the incredible development that HH has seen in the US market. During the last couple of years Helly Hansen USA has had an increase in turnover of 10 per cent per year, but in 1996 turnover doubled, amounting to one-third of HH's worldwide sales.

### How it all started

Helly Hansen Co. was founded in 1877 by the Norwegian captain Helly Juell Hansen. During the era of the sailing ship he felt the forces of nature when he had to stand at the helm in all kinds of weather. Many hours were spent oiling clothes so they would become waterproof before rough weather set in. However, the clothes became stiff and

sticky, so when Helly Juell Hansen finally went ashore he decided to develop better rain clothes for Norwegian sailors. Today HH sells its products in more than 20 countries. Production takes place in the company's own factories in Norway and Portugal, as well as in the Far East, and via contract manufacturing. Design of the new collections takes place at the company's headquarters in Norway.

### From a producer of functionalistic clothes to a supplier of fashion clothes to the US 'underground'

The honourable 100-year-old Norwegian producer of functionalistic clothes for sailors has by chance become the supplier of fashion clothes to black hip-hopsters in New York's underground. The label, which for generations has been connected with wind and waterproof leisure wear, and work clothes for the quality-conscious consumer who likes to be dressed 'sensibly', has now become a symbol of the avant-garde and the different. The young think the clothes are smart and don't care if they have taped seams and that it might be difficult to breathe through four layers of waterproof coating.

In earlier days, the first and last thing that HH thought of when making jackets was functionalism. The result was a very large collection of jackets with small specialized differences that only real enthusiasts could appreciate. HH's prices, on the other hand, became unreasonably high. By gathering several of the functions in the same jacket HH is able to make allowances for its choosy customers, as well as producing at a price that a larger part of the market is able to pay. Where HH used to direct its collections toward alpine skiers, fishermen, sea sportspeople and snow boarders, it is now beginning to look more at current fashion trends. HH is trying to link its look to street fashion and hopes that in this way its core customers will feel smarter, while new customers will be encouraged to buy because of the look of the clothes.

Before Johnny Austad gets on the plane back to Norway, the US subsidiary receives an enquiry about sponsorship from one of the most well-known rap groups in the United States. The manager of the rap group in question is seeking \$200,000 from HH



American rap group Bad Boys in Helly Hansen clothes

Source: A/S Helly Hansen.

for Bad Boys to perform in HH clothes at all their concerts in the next six months as well as in their coming music video.

### Questions

As a newly employed marketing assistant in the US HH subsidiary, you are asked to take care of this

enquiry. You are specifically asked the following questions.

- 1 Would you recommend that HH sponsors Bad Boys? Give reasons for your answer.
- 2 How can an eventual sponsorship be integrated into the total marketing plan for HH clothes in the US market?

## CASE STUDY 17.2

### Chevrolet: Helping to create a global brand via an European online (and CRM) strategy

#### History

The brand with the legendary 'bow tie' logo has European origins. Swiss engineer and racing driver, Louis Chevrolet (1878–1941) gave his name to the Chevrolet Motor Car company in Detroit in 1911 and, as a result, to millions of cars.

Zürich-based GM Daewoo Europe was formed in late 2002 to distribute vehicles built by GM Daewoo Auto & Technology Co., a Korean subsidiary of GM. In early 2004, GM decided that Chevrolet should become a truly global brand and that GMDAT's cars (branded as Daewoo cars) should in future be marketed under the Chevrolet brand in Europe.

Another decisive factor was that the GM Daewoo products were a perfect fit with Chevrolet's global positioning. The product range at that time had the potential to grow beyond its previous limits and GM would thus be able to realize this potential in Europe much faster as part of a worldwide brand. The Chevrolet brand provided the growth opportunity.

With this objective, an ambitious project called 'MIDAS' was launched to manage the brand transition from GM Daewoo to Chevrolet. This project integrated all major functions of the pan-European organization to facilitate consumer reassurance, retail buy-in, media acceptance, business continuity and continued volume and share growth.

In September 2004, the name change to Chevrolet was announced at the Paris Motor Show. Chevrolet was reintroduced into Europe in early 2005 as GM's global affordable entry brand with products offering durability, high quality, expressive and friendly design and, above all, outstanding value for money – all attributes summarized by the term 'expressive value'.

In 2005, Chevrolet Europe set a new company record for European sales. The division sold above 240,000 units in 2005, up 26.5 per cent over 2004. It was the first time that Chevrolet had reached the significant 1 per cent market share milestone in passenger cars in Europe. (See Figure 17.7.)

By the end of 2005, Chevrolet Europe had 1,904 dealers in its retail network. Of these, about 750 were combined with another GM brand, and approximately 300 were paired with a non-GM brand. The remaining points were standalone Chevrolet dealerships. In Eastern and Central Europe, Chevrolet had 380 dealers, of which about 300 were multi-branded.

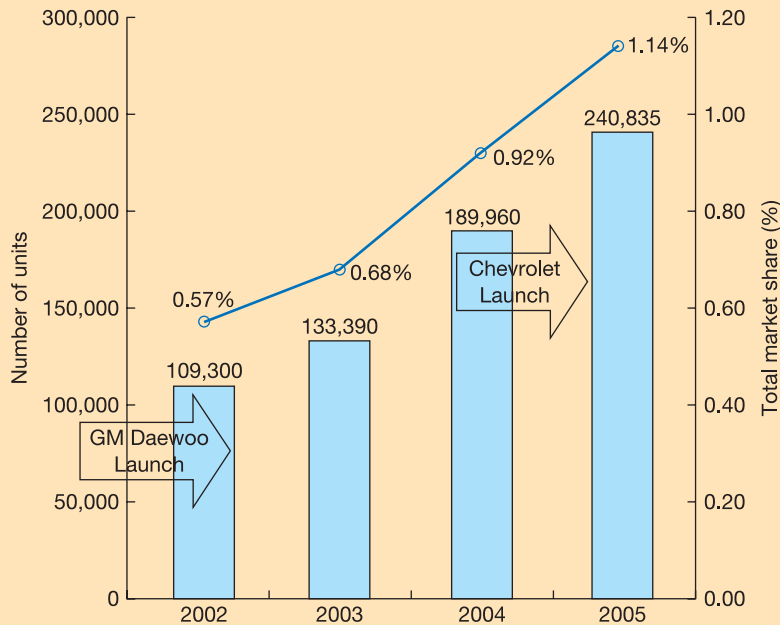
#### Why is selling online so important to Chevrolet Europe?

Firstly, because more than three-quarters of Internet users who are in the process of buying a car use the Internet to assist them with their purchase (see Figure 17.8). Secondly, the majority of these online buyers actually discover models via the Internet that they were previously unaware of. This is of benefit to a brand with limited product familiarity, like Chevrolet in Europe. And, finally, more than half of all online car buyers change their minds as to their final choice due to the Internet (according to Cartrack IV by Cospirit, February 2003). Therefore, the Internet has been identified by Chevrolet Europe as an effective medium for reaching 'in-market' consumers.

#### The challenge

Chevrolet Europe's challenge was to build an effective online (and CRM) capability from scratch – and quickly, too. Capability in this area was indeed rather poor at the time of the takeover, with limited

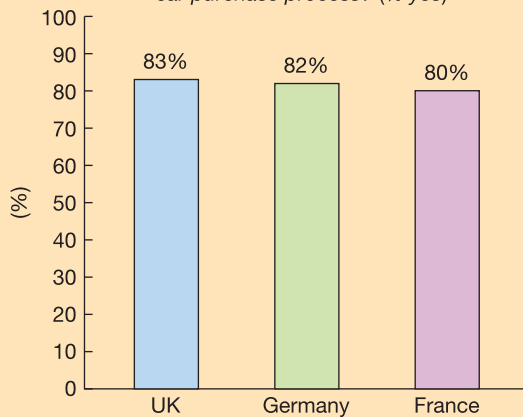
**Figure 17.7 Sales in Europe**



Source: internal Chevrolet material.

**Figure 17.8 The importance of the Internet in the car-buying process**

*Have you used the Internet in the context of your car purchase process? (% yes)*



Source: Cartrack IV, February 2003.

expertise across the organization, inconsistent processes, and various and weak infrastructures across Europe.

To face the challenge, Chevrolet Europe developed the following pragmatic approach:

- Transfer learning and expertise from GM Europe (Dos and Don'ts).
- Share a clear common vision throughout the organization.

- Quickly build a common Pan-European foundation based on 'quick wins'.
- Adopt GME multibrand capabilities – when it makes business sense.
- Use common processes and metrics.
- Focus on marketing versus system issues.
- Build networking and expertise.
- Facilitate best-practice sharing across markets.

**What are Chevrolet's 'online' communication objectives?**

Chevrolet Europe has used the Internet to achieve a positive impact at each step of the sales funnel. Through the Internet, Chevrolet aims not only to increase awareness, familiarity and consideration of the Chevrolet brand in Europe, but also to prompt actions from the visitor and engage them in dialogue.

For each 'online activity', Chevrolet Europe has defined a specific role in the sales funnel (see Figure 17.19 below).

The Chevrolet Europe Online process consisted of five steps:

**Step 1: Build an effective Pan-European web platform**

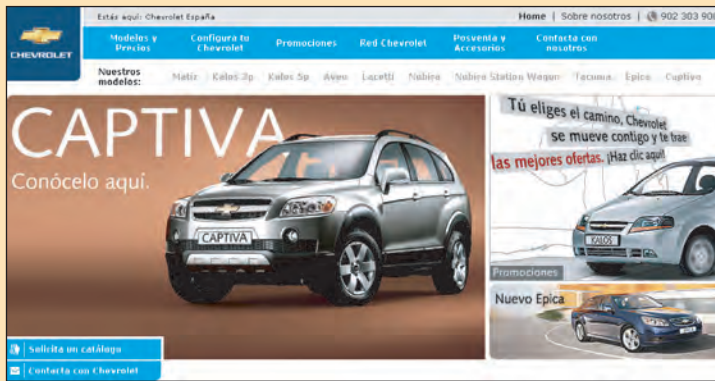
An effective Pan-European web platform was constructed and rolled out rapidly prior to the brand transition. As a result, over 30 European countries are now on the same web platform with the same

Figure 17.9 Specific roles

	Awareness	Familiarity/ Opinion	Consideration Intention	Lead Generation	Dealer activity	Ownership
Online Advertising	☺	☺	→	→	→	
Online Game/Viral Marketing	☺	☺	→	→		
Search Engine Marketing	☺	☺	→	→	→	
Email Campaign	☺	☺	→	→	→	
E-newsletter		☺	☺	→	→	☺
Chevrolet Website		☺	☺	☺	→	☺
Retailer websites		☺	☺	☺	☺	☺

☺ = Direct impact    → = Bridge to

Source: Internal Chevrolet material.



The redesigned website – here is the homepage of the Spanish website

functionalities, look and feel. This uniformity of approach brings significant benefits for the brand such as:

- brand consistency across Europe;
- significant cost saving and lead time;
- availability of advanced functionality to potential buyers in Europe (even in smaller markets);
- sharing of best practices between markets;
- full integration with the CRM database.

**Step 2: Migration of websites from GM Daewoo to Chevrolet**

Thanks to the common platform, it was possible to achieve the migration of all countries’ websites (including redirection of GM Daewoo properties to Chevrolet) in a very short space of time (three

months) and prior to the launch date of Chevrolet.

However, it required a significant effort to secure the registration of all Chevrolet web domain names, due to the fact that some of them were already registered by third parties.

**Step 3: Enhance online customer experience**

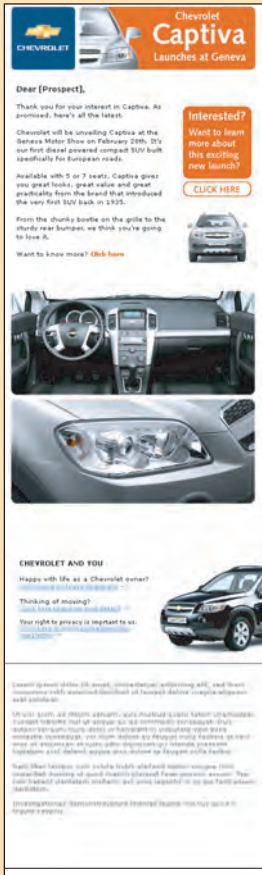
As soon as the migration to Chevrolet had been completed successfully, work started on a website redesign project. The strategy was to build upon the websites’ strengths and to address the weaknesses of the GM Daewoo websites.

The new website has been designed to reflect the Chevrolet positioning, and to provide relevant product and service information to visitors via improved navigation. A special effort has been made to ensure that the site is goal-oriented. In other words, it has been designed to stimulate responses from visitors through the use of retailer locator queries, car configuration, brochure and test drive requests. Optimizing the new website for search engines like Google and Yahoo! was another important objective.

A new and sophisticated content management tool has also been developed. The idea behind this was to transfer the control of managing and localizing content according to the needs of each market to the local Chevrolet subsidiaries/importers themselves.







Captiva email campaign



Chevrolet launch – mailing pack elements

**Step 4: Drive quality traffic to the Chevrolet websites and Promo-Micro sites**

To complement the natural search optimization, Chevrolet Europe has also developed several initiatives to drive traffic to the websites, such as a centralized pay per click

program (search engine marketing) which is up and running in 18 countries.

Search Engine Marketing activities have been combined with local initiatives such as online ads, e-newsletters and e-mails, as shown in the screenshot above. In addition, key benefits have been gained through consistency, cost effectiveness, and best practice-sharing through centralized expertise.

**Step 5: Build Chevrolet awareness and product familiarity**

Chevrolet Europe develops online materials that each country can adapt for its own needs. One example is the Chevrolet Sudoku game which won a 2006 Future Marketing Award, for ‘best brand/product integration into a game’.

These materials are designed to help European consumers to make a connection between the Chevrolet brand and its full product range through active learning and experience of the products.

Online (and CRM) have contributed to the brand transition from GM Daewoo to Chevrolet. Immediately after the public announcement, current owners of Daewoo cars were sent a corporate letter which included Q&As and an opportunity to re-qualify their data. In the letter, the owners were invited to access a specific Daewoo owner web portal ([www.mychevrolet.info](http://www.mychevrolet.info)) to obtain additional information. The fact that the Internet has been fully integrated with the other relationship marketing channels has been of the utmost importance.

The primary objective was to reassure and retain the owner base which was essential for the future growth of Chevrolet. It allowed Chevrolet to optimize the country customer databases through a customer data requalification process in the owner portal.

In early 2005, the Internet and CRM were also drawn upon to support the Chevrolet launch.

Each element in the communication package had its own purpose as follows:

Communication element	Purpose
Letter and brand brochure	Introduction to the Chevrolet brand
Brand CD-rom	Interaction with the Chevrolet brand
Retailer network map	Bridge with the Chevrolet retailers
Incentive flyer	Showroom traffic builder
Data capture	Lead generator



Sources: Stein, J. (2006) 'Chevrolet will increase European dealer network', *Automotive News*, 10 April; Moon, I. (2006); 'GM Sees More Than the USA in a Chevrolet', *Business Week* online, 11 May; Salmon, A., Stein, J. and Hamprecht, H. (2006) 'Chevrolet wants 300,000 sales by 2007', *Automotive News Europe*, 23 January; [www.chevrolet-europe.com](http://www.chevrolet-europe.com); [www.gm.com](http://www.gm.com)

The author would like to thank: Wordbank ([www.wordbank.com](http://www.wordbank.com)), especially Gordon Husbands and Rebecca Hampton for access to Chevrolet Europe; Chevrolet Europe ([www.chevrolet-europe.com](http://www.chevrolet-europe.com)), especially Eric Wepierre and his team, CRM and Internet, for their valuable contributions to the case.

### Questions

Chevrolet Europe is in the process of evaluating the effectiveness of the online approach, which is why

the European marketing manager has approached you as an international marketing expert.

- 1 What are the advantages and disadvantages of rebranding from GM Daewoo to Chevrolet and having only one global brand – Chevrolet?
- 2 Propose some communication measures/metrics which Chevrolet may be able to use to measure the effectiveness of the online channel.
- 3 Which other marketing tools would you propose to improve market share for Chevrolet passenger cars in Europe?

## VIDEO CASE STUDY

### 17.3

download from  
[www.pearsoned.co.uk/hollensen](http://www.pearsoned.co.uk/hollensen)

## BMW Motorcycles

Bayerische Motoren Werke (BMW) ([www.bmw.com](http://www.bmw.com)) is one of the leading manufacturers of premium passenger cars and motorcycles in Europe. Although car buyers are extremely familiar with the BMW brand, the brand has a much lower profile among motorcycle buyers. This is a major challenge for BMW Motorcycles, which has been producing high-end motorcycles for more than 80 years. The company's main promotional goal is to attract serious riders who are looking for an exceptional riding experience. To do this, its marketers carefully coordinate every promotional detail to convey a unified brand message positioning the BMW motorcycle as 'the ultimate riding machine', as its advertising slogan states.

### Questions

- 1 What are the advantages of using more personal advertising copy and encouraging customers to become missionaries for BMW motorcycles?
- 2 Should BMW use standardization or adaptation in promoting the motorcycles outside the United States and Germany?
- 3 Why is BMW using its website as a virtual showroom rather than also selling online directly to consumers?
- 4 Should BMW develop and promote a new motorcycle brand to differentiate its motorcycles from competing motorcycle brands (i.e. selling to new target groups) as well as differentiating them from BMW cars?

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 Identify and discuss problems associated with assessing advertising effectiveness in foreign markets.
- 2 Compare domestic communication with international communication. Explain why 'noise' is more likely to occur in the case of international communication processes.

- 3 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.
- 4 Explain how personal selling may differ overseas from how it is used in the home market.
- 5 What is meant by saying that advertising regulations vary around the world?
- 6 Evaluate the 'percentage of sales' approach to setting advertising budgets in foreign markets.
- 7 Explain how the multinational firm may have an advantage over local firms in training the sales force and evaluating its performance.
- 8 Identify and discuss problems associated with allocating the company's promotion budget across several foreign markets.

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CASE  
STUDY  
IV.1

## Absolut Vodka: Defending and attacking for a better position in the global vodka market

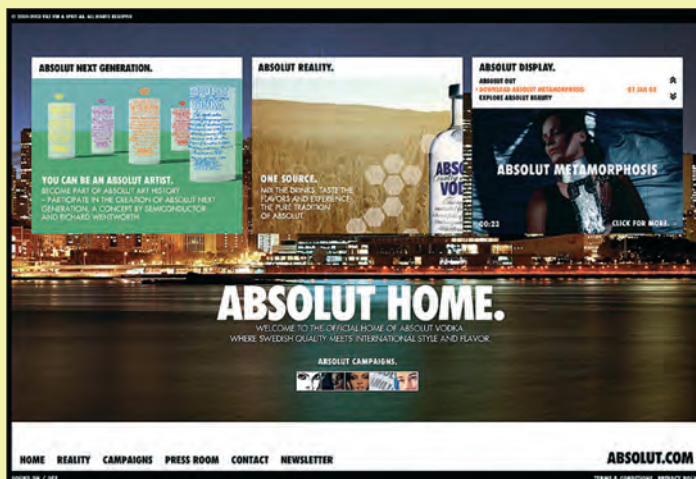
On a lovely day in March 2007 the President of V&S Absolut Spirits packs his suitcase for the third time in the month for a business trip to the subsidiary in New York, The Absolut Spirits Company Inc., which imports ABSOLUT into the US and distributes the brand through Future Brands, a joint venture with Jim Beam Brands. While packing he thinks of how hard the company must fight to keep and increase its market share for Absolut Vodka in the United States and other markets. In the last five years Absolut Vodka has increased its world market share, but can it continue?

Until 1994 Absolut Vodka was distributed by Carillon Importers, with the charismatic Michael Roux in charge. In 1994 the Absolut Company entered into an agreement with the somewhat larger Seagram Co. to distribute Absolut Vodka in the United States and a number of other countries. Seagram is the world's fourth largest distributor of spirits, with local distributors in 150 countries and worldwide sales of nearly \$6 billion. In the United States it distributed such well-known labels as Chivas Regal, Coyote Tequila and Martell Cognac but it needed a well-known vodka label in its portfolio.

The shift from Carillon Importers to Seagram Co. has not been without problems and drama. Michael Roux was very upset when he heard he had been fired as importer for the US market. As a countermove, he has taken the Russian competitor Stolichnaya into his portfolio, thus intensifying the 'vodka war'.

In 1995 the Latin American and south-east Asian markets were transferred to Seagram. In January 1996 Canada was also transferred to Seagram. In 2000 Pernod Richard and Diageo acquired the Seagram wine and spirits business.

Then in March 2001 Vin & Sprit (V&S), Jim Beam Brands Worldwide and Maxxium announced a set of agreements that established new global distribution for V&S. Together, V&S and Jim Beam Brands Worldwide, a unit of Fortune Brands, Inc., the US-based consumer products company, have created a joint venture for the distribution of the companies' brands in the United States. With the creation of Future Brands LLC – the new US distribution joint venture – both V&S and Jim Beam Brands will reap the revenue and cost benefits of greater scale in a consolidating industry while retaining



the ownership and marketing responsibilities for their respective brands. With a combined US sales volume of approximately 21 million 9-litre cases in 2005, the partners' brands will drive the second highest case volume in the United States. Absolut accounts for more than half of all imported vodka sales in the United States and the bourbon, Jim Beam, is the no. 1 whisky in the country.

Worldwide, Absolut Vodka is the third largest international premium spirit and is available in 126 markets. Among premium vodkas Absolut Vodka is no. 2 worldwide, after Smirnoff. V&S has also become the fourth equal shareholder in Maxxium – the distribution joint venture of Jim Beam Brands, Rémy Cointreau and Highland Distillers – which will handle distribution of Absolut Vodka and the other brands outside the United States.

When Bengt gets on the plane at Stockholm's airport bound for New York, there are two things that worry him:

- 1 Apparently the market share of Absolut Vodka in the United States has reached saturation point. Has V&S Absolut Spirits reached its maximum market share in that country or is it time for a frontal attack on the number one brand, Smirnoff?
- 2 Until now, the market share for Absolut Vodka in Europe (especially in eastern Europe) has been a lot smaller. This can be a problem, as 80 per cent of the world's vodka is consumed in Russia and the other countries of Eastern Europe (see Table 1).

On his way over the Atlantic Bengt thinks back on the story and adventure of Absolut Vodka.

### The history of Absolut Vodka

The Swedish state-owned Vin & Sprit AB can justly call the launch of its Absolut Vodka an absolute success. Absolut Vodka is probably the biggest success story in the world of spirits. It has become an icon.

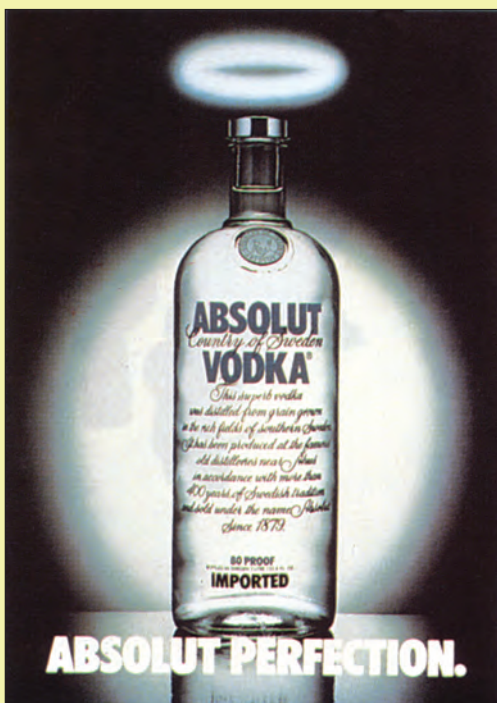
### The shape of the bottle

The shape of the bottle dates back to the mid-eighteenth century, but is based on a traditional design: in the sixteenth century, Swedish pharmacies sold a clear, distilled liquid as a cure for ailments such as colic or even the plague. The custom was to ingest it by the spoonful, not by the shot glass.

Rediscovered in an antique store in Stockholm by Gunnar Broman, of the now defunct advertising agency Carlsson & Broman, the clear medicine bottle has since been fine-tuned by Absolut's team of shrewd marketers. The neck was lengthened, curves were adjusted and labels were replaced by printed typeface. To top it off, a medallion bearing the portrait of Lars Olsson Smith, known as 'The King of Vodka', was stamped on each bottle. In 1879, Smith successfully broke Stockholm's spirit monopoly by distilling and marketing Absolut Rent Bränvin (that is, Absolute Pure Vodka). His tipple was the beginning of a dynasty.

The current Absolut family consists of the following ten variants/flavours:

- 1 *Absolut Vodka* has a rich taste, and is smooth and mellow with a distinct character of grain. Introduced in 1979.
- 2 *Absolut Peppar* is aromatic, complex and spicy. The peppery flavour is a combination of the spicy components in the capsicum pepper family and the fresh green jalapeño pepper. Introduced in 1986.
- 3 *Absolut Citron* is flavoured with citrus fruits. Lemon is dominant, but other citrus flavours are added to give a fuller body. Absolut Citron has a distinctive character made up of lemon and lime with a hint of sweetness. Introduced in 1988.
- 4 *Absolut Kurant* is flavoured with blackcurrant, a distant cousin to the grape. This is a fragrant dark berry that grows on shrubs up to six feet in height. Absolut Kurant has a distinct character, with a hint of tartness and sweetness. Introduced in 1992.
- 5 *Absolut Mandrin* is flavoured with citrus fruits. Mandarin and orange are dominant, but other citrus flavours are added to give a fuller body. Absolut Mandrin has a distinctive character with a hint of sweetness. Introduced in 1999.
- 6 *Absolut Vanilia* has a rich, robust and complex taste of vanilla with notes of butterscotch and hints of dark chocolate. Introduced in 2003.
- 7 *Absolut Raspberri* is rich and intense, revealing the fresh and fruity character of ripened raspberries. Introduced in 2004.
- 8 *Absolut Apeach* is smooth and mellow, with a sophisticated and fruity character of peach. Introduced in 2005.
- 9 *Absolut Ruby Red* is smooth and fruity with a crisp and refreshing character of zesty grapefruit. Introduced in 2006.







10 *Absolut Pears* has the fresh and clear aroma of mellow pears with a slight touch of sweet almonds. It's fruity, smooth and full-bodied with a long and slightly dry aftertaste. Introduced in 2007.

#### *Introduction to the US market*

Independent market research in the United States concluded, in 1979, that no one would buy Swedish vodka. Nevertheless the first shipment of Absolut Vodka was sent off to that country in April 1979; its destination was Boston. Some 90,000 liters were sold worldwide in 1979; and in 2005 worldwide sales were 82.9 million liters, of which about 50 per cent was exported to the United States. Apart from the United States, the most important markets are (in decreasing order of importance): Canada, Greece, Spain, Germany, Mexico, Poland, the United Kingdom, Israel and Sweden.

#### *The marketing of the bottle*

For more than 25 years advertisements for Absolut Vodka have been based on the same fundamental concept, with the focus being on the product. The very first advertisement, 'Absolut Perfection', was created in 1980 and today it is the one which is used most often.

Since Andy Warhol, patron saint of pop art, created his first Absolut painting in 1985 ('Absolut Warhol'), artists around the world have been asked to render their interpretation of the bottle. Distinctive advertising campaigns such as 'Absolut London', in which the door of 10 Downing Street resembles an Absolut bottle, have made the vodka brand nearly as famous as Coca-Cola

or Nike. In the advertisement 'Absolut Essence' magazine readers were able to fold back the cover and smell the scent of Absolut Kurant. Most countries maintain strict rules concerning alcohol advertisements to consumers, but Absolut's PR machine has milked the free publicity that its advertising generates.

The Absolut Vodka President's thoughts have become dream-like on the plane to New York, but he wakes with a start when passengers are asked to buckle their seat belts. To use his time sensibly before landing, The President takes a report out of his suitcase describing conditions in the US and world markets. The following is the essence of the report, which also describes recent Absolut Vodka initiatives in this market:

#### **The world market for vodka**

Table 1 shows that eastern European countries account for 86 per cent of the world's total vodka sales, and the area's average consumption per capita per year is also high (5 liters). In Poland the average vodka consumption per capita per year is about 10 liters, while the average in the Confederation of Independent States is 5 liters. By comparison, average consumption in the United States is 1.3 liters and in the United Kingdom 0.6 liters. It should be noted that all these figures are based on registered sales and don't include home-made products which are distilled in quite a large part of eastern Europe as well as in Sweden and Finland.

The markets of eastern Europe are distinguished not only by their high vodka consumption but also by how much consumers know about alcoholic beverages and



**Table 1** Distribution of world vodka sales – volume and value – V&S Absolut Spirits' market share

	The Absolut			
	Volume: million litres	Value: \$ million	The Absolut Company million litres	Absolut market share – volume
<b>WORLD</b>	<b>3,600 % of total</b>	<b>16,600 % of total</b>	<b>82.9 % of total</b>	<b>2.3 %</b>
Eastern Europe	85.9	63.8	5.0	1.3
North America	8.7	20.7	55.0	9.8
Western Europe	3.3	11.7	15.0	6.3
Latin America	0.8	1.5	9.0	7.0
Africa & the Middle East	0.8	1.2	5.0	2.4
Asia-Pacific	0.4	0.9	6.0	10.9
Australasia	0.1	0.2	4.0	3.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

Source: adapted from Impact International and Euromonitor.

their appreciation of quality. However, political uncertainty and the lack of a well-functioning infrastructure in several eastern European countries make short-term developments difficult to predict.

For several years Absolut Vodka has been exported to most eastern European countries, and in 1995 the brand was introduced into Poland. Ten years later (in 2005) Poland was the seventh largest Absolut Vodka market. Thus Absolut Vodka is now represented in all the major vodka markets of the world.

### The US market for vodka

In the last 15 years the consumption of alcohol in the United States has decreased by 20 per cent. There are several reasons for this. One of the main reasons is the 'health trend' in the country, which has led to a greater awareness of the harmful effects of alcohol. At the same time a tendency has developed for drinking 'less but better'; thus many people now drink cleaner and more pure alcohol. This has meant that the sale of 'super-premium' (high-quality) brands has not fallen but has been stable in the last five years. As nearly all imported brands are in the super-premium segment this is the main reason that vodka imports have not fallen.

Although the vodka importers' share of the total market is only 12–15 per cent, the gross margin on imported vodka represents about 40 per cent of the total gross margin of all vodka sales in the United States.

Historically vodka has not been a differentiated product, but more and more flavoured brands have gradually been introduced to the market, including Absolut Citron, Absolut Peppar and Absolut Kurant. However, it is risky introducing new brands into the American market, as consumers' tastes there are so volatile. A producer can introduce a flavour that is popular one year and unpopular the next.

### Product segments

The different product segments are as follows:

- *Platinum.* The most expensive category, with prices around \$25 per bottle or more. Brands in this category include Stolichnaya Cristall. This segment accounts for less than 1 per cent of total US vodka consumption.
- *Super-premium.* Nearly all brands are imported, the leaders being Swedish Absolut, Russian Stolichnaya, Finnish Finlandia, and French Grey Goose. The price level is \$15–20 per bottle. This category's share of the total vodka consumption in the United States is about 10 per cent.
- *Premium.* Here we find the world's most popular vodka, American Smirnoff, sold for \$10–12 a bottle. This group's share of the United State's total vodka consumption is 22 per cent.
- *Standard priced.* Here are the two English labels Gilbey's and Gordon's which are sold for \$7–8 a bottle. This category's share is 14 per cent.
- *Popular priced.* This is the largest group. Its share of total US vodka consumption is about 54 per cent, and the group consists of a number of local labels at about \$6 a bottle.



Source: © 2007 V&S Vin & Sprit AB (publ). All rights reserved.



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Worldwide, the three largest imported brands are Absolut (number two), Stolichnaya (number six) and Finlandia (number fifteen). Absolut’s main competitors are Smirnoff, Finlandia and Stolichnaya, which may be characterised as follows:

- **Stolichnaya** (brand owner: Sojuzplodimport). The pioneer among imported vodka brands, this was the first vodka into be introduced in the United States, in 1972. Stolichnaya was at the time a good alternative to the USA-produced vodka brands as it tasted milder due to a more refined distilling process. But Stolichnaya’s popularity has been dependent on the political climate between the United States and the former USSR. Today, Stolichnaya is distributed by Absolut Vodka’s former importer, Carillon Importers.
- **Finlandia** (brand owner: Alko Group). This brand was introduced into the United States in 1976. Despite many marketing campaigns, Finlandia has never been able to get a grip on the vodka market. In the trade it is estimated that Finlandia has the most exposed position, as all new importers go for the esteemed third place (which seems to be a realistic goal for a new brand). In 2002, Finlandia celebrated its 30th anniversary in style by forming a partnership with MGM Pictures for their James Bond film, *Die Another Day*. Bond still likes his martinis shaken, not stirred, but his vodka in that particular film was Finlandia, not Smirnoff.
- **Smirnoff** (brand owner: Diageo Plc) Diageo was created in December 1997, following the merger of Guinness plc and Grand Metropolitan plc. Among the wine and spirits companies included in the merger were Carillon Importers Ltd, The Paddington Corporation, UDV, Glenmore, Schieffelin & Somerset, Heublein Inc., and International Distillers & Vintners North America. Guinness/UDV’s primary US division is United Distillers & Vintners North America (UDVNA). In 2000, UDVNA was the second largest

spirits company in the US market, with a 13.5 per cent volume share. Three of the top ten US spirits brands in 2000 were UDVNA brands: Smirnoff vodka, José Cuervo tequila, and Gordon’s gin and vodka. After a four-year interruption, Smirnoff was confirmed itself as the ‘vodka of choice’ for James Bond in the new film, *Casino Royale*. The renewed strategic alliance between Smirnoff and Bond involved a fully integrated multi-million dollar global media campaign. In several countries, the campaign included on-pack promotions offering two-for-the-price-of-one cinema tickets to *Casino Royale* and a fully interactive *Casino Royale* microsite.

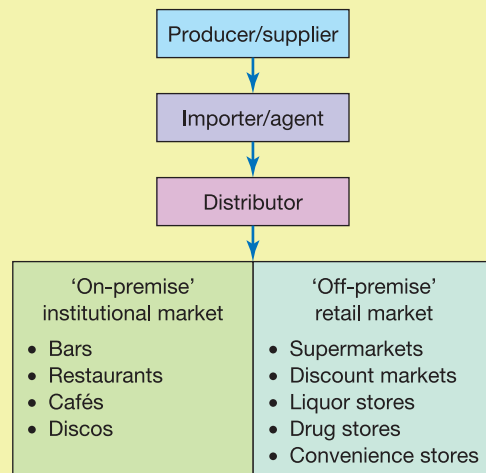
One of the newcomers to the super-premium segment is Grey Goose. It is distilled in Cognac, France from French wheat, then imported by the Sidney Frank Importing Company based in New York. In 1997, it quickly gained a reputation for quality and has won several prestigious awards in distilled spirit competitions. In 2004, Sidney Frank sold the manufacturing rights to Bacardi for \$2.2 billion.

**The distribution system for vodka in the United States**

Generally, the sale of spirits goes through the distribution system shown in Figure 1. For US producers, the roles of producer/supplier and importer/agent coincide. The retail (‘off-premise’) sale of wine, spirits and beer takes place through two different distribution systems. In ‘open states’ (licensed states) the market is free, and spirits are distributed via liquor stores, supermarkets or other grocery stores where the owner has a license to sell spirits. In ‘controlled states’ spirits can only be sold in liquor stores owned by the state, similar to the Nordic monopoly system.

The importer/agent usually has only a small sales force, which concentrates on selling to and servicing a distributor. An importer/agent usually cooperates with one distributor in each state (although one distributor can

**Figure 1** The general distribution system for spirits in the United States



handle several states), and in large states a distributor can have up to 500 salespeople (geographically divided). Generally these salespeople pay for their own car and receive a low basic wage, plus commission. The salesperson in the area concerned visits both the wholesale and the retail market, often once a week, taking orders and in exceptional cases delivering goods and collecting payment.

#### ***Absolut Vodka - New advertising campaign in 2006***

A new range of superpremium brands such as Grey Goose has nibbled into Absolut's image of 'coolness in a bottle'. To fight back, V&S rolled out a new marketing campaign in January 2006 to raise the brand's profile with a new generation of vodka drinkers. The multimillion dollar push in the US was Absolut's first all-new campaign in 25 years – and it also marked the first time the brand was advertised on TV. The ads from Absolut's global agency, TBWA/Chiat/Day in New York, positioned the liquor as 'The Absolute Vodka', while highlighting other classics that are 'absolutes' in pop culture. One spot featured footage from the Apollo moon landing under the banner 'Absolute Road Trip'. Another showed Marilyn Monroe entertaining troops with the tag line 'Absolute Morale Booster'. The 30-second spots were shown on cable channels such as Comedy Central, Fox Sports Net, and E! Absolut will also continue its iconic print ads starring the Absolut bottle dressed up by fashion designers, famous photographers, and artists, with a two-word tag line.

As part of the new marketing push in the US, Absolut also commissioned rock musician Lenny Kravitz to come up with his own interpretation of the Absolut brand. The result is a dance track. Kravitz recorded a new song entitled 'Breathe', which will be featured in the campaign. The result is a track that is a transition from Kravitz's traditional rock and roll to a distinctly dance music sound, with minimal lyrics (no mention of Absolut of vodka anywhere in the lyrics), a memorable melody and pulsating beat.

#### **World market shares for top vodka brands - (retail channels)**

If we include vodka sales through all distribution channels (retail + HORECA (HOTel, REStaurant, CAtering) and duty free) brands such as Stolichnaya and Moskovskaya would be very highly ranked. But in reality these brands do not really exist as discreet products: in Russia, Stolichnaya, for instance, is produced by 800 distilleries and in various bottle and case sizes. Moreover, products differ widely between distilleries. Thus, brands such as Stolichnaya are only 'brands' when exported, when control is under a single organisation, Sojuzplodimport.

The leader of the world retail market for vodka is Kristal, with around 7 per cent share of the world market. Kristal is a local Russian brand but it is only being

sold on the world's biggest vodka market – Russia. Diageo's Smirnoff is the leading international brand of vodka. These are the only two brands of vodka worldwide commanding more than 5 per cent of global sales.

#### ***Western Europe***

Smirnoff, with a regional market share of 16 per cent, was the clear brand leader in western Europe in 2005. Its nearest rival brand, Gorbatschow, held just over 8 per cent of regional sales. Only three brands in Western Europe – Smirnoff, Gorbatschow and Absolut – account for more than 5 per cent of regional vodka sales in 2005.

#### ***Eastern Europe***

The vodka market in Eastern Europe is large and diverse, with hundreds of brands on the market. Consequently regional leader Kristal controlled 'only' 7 per cent of regional sales in 2005, with its nearest rival brand, Smirnov, holding 4 per cent of sales. Diageo's Smirnoff was the largest international brand on the market.

#### ***North and Latin America***

Diageo's Smirnoff brand was the leader of the North American vodka market in 2005, accounting for 18 per cent of regional sales. Its main rival was the premium Absolut brand. Smirnoff was also the largest vodka brand in Latin America, where it controlled over 24 per cent of the regional market. Smirnoff has few serious rivals in Latin America. Its closest competitor, Oso Negro from José Cuervo, held only 8 per cent of regional sales in 2005.

#### ***Rest of the world***

In the rest of the world Smirnoff is the dominant brand of vodka. In 2005, it led the market in Asia-Pacific, Australasia and Africa and the Middle East.

Having read the above report, the President of V&S Absolut Spirits acknowledges that it is necessary to get external input on some essential strategic questions. Besides the above information you also have access to data about the competitive situation in different parts of the world. When the President lands in New York he has written down the following questions, which he asks you to answer.

#### **Absolut Vodka enters the FAB market**

The market for RTD (Ready-To-Drink) pre-mixed alcoholic beverages or FAB (Flavored Alcoholic Beverages) has developed at a rapid pace in the last few years. It is also a market that Absolut Vodka has entered.

#### ***The international FAB market***

Demand for FAB has grown sharply in the United Kingdom with spirit-based beverage brands Bacardi Breezer and Smirnoff Ice being the key brands driving the market.

A significant proportion of FABs are consumed licensed premises, with modern town bars and nightclubs being the most popular venues for consuming these products. They are perceived as trendy, desirable products and are particularly popular among image-conscious consumers within the 18–30 age group who drink directly from the bottle. To a large extent, it is through strong branding that the industry has managed the transition from alcopops, with its connotation of under-age drinking, to the positive, premium image FABs currently enjoy. The use of energy drinks in combination with alcohol has become a popular trend in nightclubs and bars.

Consumption of FABs generally declines steadily with age (particularly after the age of 35), although this category is beginning to attract a wider audience: consumer research, for instance, shows that brands such as Smirnoff Ice are popular with consumers right up to the age of 65! It is clear that there is scope to push the category further among consumers of all ages and backgrounds. Although women continue to consume more than men, the difference in consumption levels according to gender is narrowing.

‘Opinion leaders’ form the segment of the consumer base that is socially influential in terms of fashions, and the product is taken to places where opinion leaders congregate an attempt to secure acceptance by these trend-setters. Consequently, this expands the appeal of the product to consumers who are driven by more peer-led drinking. In the designer alcoholic drinks market opinion leaders tend to be young professional adults who frequent city-centre bars. In the international FAB market the club scene (on-premise) is also very important – allying a product with the nightclubbing market increases brand exposure and means that the product acquires acceptance from the socially influential nightclub audience. Both of these are integral to the development of designer alcoholic drinks. The trend for going to stylish bars and drinking expensive cocktails mixed at the bar is another affirmation of wealth and style and it has experienced a resurgence due to rising disposable incomes. ‘Cocktail culture’ has influenced flavour trends, especially in the premixed spirits market.

The ‘cult of the individual’ is also a major aspect of culture and is a growing trend across all markets. This term refers to the trend for individuality in consumption. For instance, rather than drinking the same brand as one’s peers, consumers drink something that is particular to their own consumption habits in order to assert their own character and individuality. This trend is manifesting itself in both an assertion of individuality and a rejection of blanket marketing. This is a strong driver for sales of designer alcoholic drinks, even though brands have targeted opinion leaders in an attempt to capture more peer-led consumption. Ultimately, the brands’ contribution to

the consumers’ perception of their own individuality is key to the success of designer alcoholic drinks, despite the inherent contradictions in this.

Consumers are becoming more adept at discerning which products are qualitatively better than others; they are also becoming quicker to abandon those that do not appeal to them. This is increasing the pressure on producers to create products that are obviously better than others. Despite the importance of image, poor quality in the premium market is less tolerated among consumers now.

#### ***Absolut Vodka enters the international FAB market***

As consumer preferences evolve, Absolut Vodka sees an opportunity for launching a more sophisticated product into the international FAB market.

In 2004, V&S entered the international FAB market by starting to sell Absolut Vodka in Canada. Here the 7 per cent abv (alcohol by volume) vodka drink was aimed at the more mature drinker – rather than the younger generation traditionally targeted by RTDs – offering the ease of a pre-mix but with a less sugary taste.

V&S intend to take a more mature approach in its advertising, moving away from the image-based campaigns of other brands, so frequently criticized for glamorizing alcohol consumption and tempting underage drinkers. The ‘product’ is to be the centre piece of any advertising rather than the ‘image’.

By the end of 2006 the Absolut Cut had been launched in three flavours:

- 1 *Absolut Cut*, containing a fresh citrus flavor.
- 2 *Absolut Clear Cut*, containing a mandarin flavor enhanced by kiwi.
- 3 *Absolut Crisp Cut*, containing a crisp apple flavor and a fresh finish of lime.

Absolut Cut has the same distinctive bottle shape as its parent brand and was rolled out to both the on- and off-trade FAB markets in Canada, Australia and UK

#### **Questions**

- 1 Which alternative marketing strategies does V&S Absolut Spirits have to increase its market share for:
  - (a) Absolut Vodka in the USA?
  - (b) Absolut Vodka in Europe (including eastern Europe)?
  - (c) Absolut Vodka in other parts of the world (including eastern Europe)?
- 2 In which region (country) of the world would you recommend V&S Absolut Spirits to allocate more marketing resources?
- 3 Does Absolut Vodka have the right competences for achieving international success for its Absolut Cut?
- 4 Which new geographical regions would you recommend for the internationalization of the Absolut Cut?



## 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 flavoring 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

**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

brands. It currently occupies a 30 per cent share of the 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 account 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



The Guinness Surger



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	%	%	%	%	%	%	%	%
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 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 regions 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: 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](http://www.diageo.com-www.euromonitor.com).

### **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.



## 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/EMPICS.

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	<u>20</u>	<u>20</u>	<u>5</u>	<u>7</u>	<u>25</u>	<u>4</u>	<u>15</u>	<u>10</u>	<u>25</u>
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>
<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>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

*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, 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 specialises 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?

## CASE STUDY IV.4

# Triumph Motorcycles Ltd: Rising from the ashes in the international motorcycle business

When Marlon Brando led a group of outlaw bikers in the 1950s film, *The Wild One*, he rode a Triumph. It was the obvious choice back then. Britain was the biggest motorbike maker in the world and led the motorcycling world in performance and engineering innovation with such bygone makers as BSA, Matchless and Vincent, to name just a few. And also Triumph was winning every race in sight. But after bad management and botched rescue attempts by successive governments Triumph went bankrupt in 1983. However, the marque is back, starring in films such as *Mission Impossible 2*. When Tom Cruise roared on to the screen on a sleek motorcycle it wasn't a Harley or a Honda but a Triumph, which is also featured in Arnold Schwarzenegger's 'Terminator 3'. It is established that the Triumph has captured approximately 75 per cent of the 'Hollywood' market, one of few US markets where Triumph is the market leader.

### Product segments in the motorcycle market

Motorcycles were often classified by engine capacity in three categories as follows:

- 1 lightweight (50 cc–250 cc);
- 2 middleweight (251 cc–650 cc);
- 3 heavyweight (651 cc and up).

Triumph's motorcycles are in the middleweight and heavyweight category only, competing mainly with companies such as Harley-Davidson, Ducati, BMW and of course the main Japanese motorcycle manufacturers.

Motorcycles were also classified by types of use, generally separated into four groups: standard, which emphasized simplicity and cost; performance, which focused on racing and speed; touring, which emphasized comfort and amenities for long-distance travel; and custom, which featured styling and individual owner customization. The standard models tended to have the smaller engines, while the performance motorcycles often had an engine capacity of more than 251 cc. The touring models typically had a comfortable seating position and their engines ranged from middleweight to super heavyweight types.

### History

The credit for Triumph's rebirth goes to John Bloor, a builder who bought the company's remains (the



Triumph brand name and the company's designs and tooling) for about \$200,000. He has invested £80 million on, among other things, a new plant in Leicestershire. The product has been completely revamped. New engines were crucial. Most have a distinctive three-cylinder layout, which makes them more powerful than the two-cylinder bikes made in Europe and the United States, and more relaxing than the high-revving four-cylinder bikes made in Japan.

Bloor was betting on the nostalgic power of the Triumph brand. Back in the 1950s and 1960s, Triumph and Harley-Davidson were fierce rivals. The original Triumphs offered lighter weight and better handling than Harley's machines, and sales of the British bikes were stronger in the United States than they were in their home market. The bikes are also part of US folklore. Despite what flag-waving Harley guys in bars may mistakenly claim, Steve McQueen in *The Great Escape* and Marlon Brando in *The Wild One* rode Triumphs. James Dean had one too. Legend and myth and the power of branding do not come any better.

Bloor's first act as a prospective motorcycle manufacturer was to hire three employees of the original Triumph company who had been involved in developing new models. Bloor realized that the engine is everything

in a motorcycle, and there is no way to make a bike with a dull motor feel red-hot to the customer. So while he outsourced other parts of the bike, he put his team of engineers and metalworkers to work designing new liquid-cooled, three- and four-cylinder engines that would save costs by sharing internal parts.

Bloor's decision to keep a three-cylinder engine from the original lineup turned out to be a great marketing move, and it has helped the company stand out from the crowd. Most other bikes use two- or four-cylinder engines. Triumph's soulful three-cylinder has won a place in the hearts of many bikers, who tend to be a discriminating bunch when it comes to how an engine feels and delivers power on the road. Three-cylinder engines are also perfect for the middle-aged men who are getting back into bikes.

### Today

Big-bike sales have doubled in Britain over the past five years, and the buyers are no longer youngsters needing cheap wheels but older people with the money to spend on expensive toys. Many of these born-again bikers have not touched a motorbike since their teens, and find Japanese offerings just a bit too fast and flash for their taste.

Triumph's sales have risen from 2,000 in 1991 to 37,500 in 2006 – tempting thoughts of the old Triumph's peak of 50,000 in the late 1960s. Most buyers now are aged between 35 and 55. US sales (which make up 25 per cent of the total) have increased since in 2001 Triumph introduced a retro-styled bike, called the Bonneville, and are now rising at an annual rate of 40 per cent. The Bonneville (a twin-cylinder, 800 cc machine, priced at \$7,000–8,000) is about 85 per cent faithful to the 650 cc Bonneville of yore, which was the machine to ride in the 1960s if you were not a Harley man. Further introduction of a Harley-style cruiser bike is being considered by the Triumph management team. Taking marketing cues from Harley-Davidson, Triumph also offers a line of clothing and accessories.

Growth should be consistent. Sales are rising by 15 per cent a year, putting Triumph within sight of European rivals such as BMW and Ducati. Triumph's Marketing Manager, believes there is plenty of scope for growth in the United States, where 550,000 big bikes are sold each year. Triumph currently accounts for around 2 per cent of that, compared with 12 per cent of the British market. To grab more, it needs to exploit not just its classic name but also its old race-winning reputation.

Total sales in 2005 were approximately £177 million; the number of employees was about 1,000; and net profit was approximately £10 million.

### The downturn of the Japanese manufacturers' market shares

In 1981 Japan's motorbike industry was in a state of blissful ignorance. Its manufacturers had managed to dominate the world in not much over a decade and annual production had hit 7.4 million units. Although they did not know it, this was to be their best year.

Two decades later and Japanese manufacturers are nowhere near as dominant. While they still loom large on the global motorbike market, 1981's record domestic production has declined to just 2.4 million. This serves as a stark reminder of a painful trend for all types of Japanese manufacturers as their domestic costs have risen, their markets have matured and their rivals have sharpened their game.

In 2001 two Japanese manufacturers – Suzuki and Kawasaki – joined forces to jointly produce and develop new bikes, marking the end of the 'big four' in Japan, where they ruled alongside much bigger rivals Honda and Yamaha.

The 'hollowing out' shift to overseas production through joint ventures and wholly owned plants has also cut into domestic production in Japan.

The Suzuki-Kawasaki tie-up also serves as a symbol for what has happened to Japan's motorbike industry in the last two decades. Once-lazy and inefficient rivals such as Ducati, BMW and Harley-Davidson have found a way of replying to the competitive threat from Japan and are clawing back market share. In Europe, for example, Japan's market share has fallen from 80 per cent to 50 per cent over five years, although numbers have risen. And in the vital US market its share has fallen by 10 per cent over the past decade.

The rise and rise of the Japanese motorbike manufacturers owed as much to luck as to design. Manufacturers were servicing a huge domestic market for many years, which generated the profits that financed the export drive. It also gave the Japanese a finely honed design and production machine that churned out faster, more reliable and better-looking bikes – and did so every year. The weak yen also made Japanese exports intensely competitive.

In addition, they were up against severely weakened domestic manufacturers in the West. Triumph, BSA and Norton in the United Kingdom, for example, were spent forces, and the country was in the middle of labour disputes that generated a lazy attitude towards design and technology, producing machines that looked old-fashioned in comparison to their Japanese rivals.

But the Japanese manufacturers, perhaps complacent in their success, failed to spot a key change in the motorbike buying world. They were too obsessed with technology and assembly quality and did not recognize that motorbikes had become consumer goods, which



had a brand value. Harley-Davidson led the way here with branded goods ranging from desk clocks to women's thongs, feeding hugely into profits.

Japanese manufacturers based their bikes on racing models. Undoubtedly Japanese bikes are lighter and faster, but it takes a lot of skill to ride them. Western manufacturers have been designing for people who like to ride normal bikes in a normal environment. As Japan's rivals have caught up with the technology they have also managed to inject something extra.

Ducati conveys on two wheels the kind of image its Italian counterpart, Ferrari, has on four. Triumph has capitalized on its Britishness and the appeal of the marque's previous incarnation with such models as the Bonneville. Harley-Davidson has built up an appeal for weekend rebels with \$70,000-plus salaries. BMW has combined engineering excellence with design flair.

But to talk of the demise of the Japanese motorbike industry would be unwise. Honda remains the largest manufacturer of motorbikes in the world. However, the Japanese are removing themselves from the big bike category. Honda, Yamaha and Suzuki are concentrating on 100–500 cc bikes for mass production in the developing countries of Asia. The bulk of Japanese-made bikes are small and service the growing economies of Asia, where having a 50 cc or 100 cc bike is the first step on a transportation ladder that eventually leads to a Toyota Corolla. India and China are huge and growing markets for the Japanese and Suzuki says it hopes its new link with its smaller rival will help its efforts in China.

The alliance between Suzuki and Kawasaki has more to do with these markets than the competition in the superbike league. It allows them to pare costs considerably by jointly procuring parts and joining forces on product design, development and production.

It also matches similar moves by Honda, which has reduced the number of its Japanese motorcycle production lines from five to two in recent years. While Japanese manufacturers may be facing competition at the top end of the market, motorbikes are a high-volume game – and in this game the Japanese are still the winners.

### The global competitive situation today

The competitive market situation in the three main regions of the world is shown in Table 1.

For the fiscal year ended 2005 total Harley-Davidson motorcycle shipments were 264,700 units.

### Market trends

In industrialized wealthy economies such as Japan, the United States and Europe motorcycles were often purchased for recreation in addition to basic transport. In developing economies and others with low income per capita, motorcycles or smaller two-wheelers were

**Table 1** The three main market areas for heavyweight motorcycles (651+ cc) number of registrations 2005

	North America	Europe	Asia/Pacific
Total industry (1,000s)	553.5	332.8	75.0
Market share	%	%	%
Harley-Davidson/Buell	47.8	8.9	19.6
Honda	16.6	13.0	22.4
Yamaha	9.3	15.8	19.0
Kawasaki	6.9	12.6	19.0
Suzuki	12.6	13.3	9.3
BMW	2.3	17.7	4.4
Ducati	–	5.2	3.2
Triumph	2.0	5.0	1.0
Others	2.5	8.5	2.1
Total	100.0	100.0	100.0

Source: adapted from Harley-Davidson Financial Report 2005, and other public sources.

purchased primarily for basic transport, and the market was distinctly different. Historically large touring bikes, cruisers and racers sold almost exclusively in the wealthy economies while motorcycles with small engine displacement and mopeds made up the vast majority of sales in the developing nations. Decreasing trends in the overall market in some nations were due in large part to replacement of two-wheeled vehicles by automobiles as the countries became more affluent.

### The challenge

A big problem for Triumph is still the relative low unit volume of motorcycles. Triumph sells about 15 per cent of the Harley-Davidson sales volume. Being so small makes it hard to develop new bikes or to buy good components at a decent price. To maintain quality Triumph makes about a third of its components in-house, and imports many from China and Japan. That clobbers profits. In 2003 Triumph also lost money. Bloor's building business, which is quite profitable, could cover those losses, but that is not a long-term solution.

As a consequence the strategy was set for increasing sale and market share in the area of large motorcycles. In 2003 Bloor hired a McKinsey consultant, first as an advisor and, later, as a commercial director (Tue Mantoni). Among other projects, Tue has worked with the introduction of the world's biggest motorcycle: Rocket III, which has a 2,294 cc motor. Now Tue has contacted you as an expert in the marketing field and you should answer the questions at the end of the case study. As Bloor thinks that Triumph's market share in North America is not satisfactory, and he considers the potential for Triumph in the United States is huge, he has collected the following information about US motorcycle consumers.



### The motorcycle market in the United States

The Hollywood myth of the young and wild motorcycle rider became less and less a reality in the 1990s, according to Motorcycle Industry Council statistics. The 1990s rider was more mainstream and less likely to be a part of some counterculture motorcycle gang. 'The end of the road for today's motorcyclist is just as likely to be a boardroom as a burger joint,' said Beverly St. Clair Baird, Managing Director of Discover Today's Motorcycling, a public awareness campaign of the Motorcycle Industry Council. The average motorcyclist in the 1990s was male, 32.5 years old, married, had attended college and earned \$33,000 – about 12 per cent more than the average US household.

The average income of the motorcyclist of the 1990s had almost doubled since 1980. In 1980 fewer than 2 per cent of riders made over \$50,000 per year. In 2005 more than 80 per cent of riders had attained that income level. Riders from the 1990s onwards were also much older. They used their bikes more for leisure and recreation than had the riders of the early 1980s. The typical rider was interested in the outdoors. In surveys about their other interests fishing and hunting topped the list. Motorcycle use for commuting purposes was down 14 per cent since 1980 to only 56 per cent. The demographic profile showed that motorcyclists came from all walks of life and a variety of occupational, educational and economic backgrounds.

Motorcycle accidents and fatalities dropped by more than half between 1985 and 1995. In addition to state helmet laws, this was attributed in part to an increasing trend for rider education and training programmes. Enrolment in these programmes, sponsored by individual manufacturers and industry groups such as the Motorcycle Industry Council, rose dramatically in the 1990s. Motorcyclists were likely to be more skilled and responsible than riders of the 1970s and 1980s.

### Women and motorcycling

Women, though not more than 10 per cent of the US riding population, are a growing segment of the industry. The AMA (American Motorcycle Association) has had women members since 1907. In the 1990s more than half a million women in the United States rode their own motorcycles. The average female rider was almost 48 years old compared to her 32-year-old male counterpart. Of the women riders 74 per cent were married, and 44 per cent attended college. The largest segment of women riders had professional/technical careers. They belonged to a riders club and were passengers for a few years before they purchased their first bike. Most women used their motorcycles for either long-distance touring (36 per cent of riding time) or for local street use (31 per cent). Only 10 per cent of their

riding time was spent commuting or running errands. More women's families positively supported their riding than the families of male riders (64 per cent vs 55 per cent); however, more men's friends than women's friends supported their riding.

**Table 2** Motorcycle owner profile in United States

	% of total owners		
	1990	1995	2000
<b>Age</b>			
<17	24.6	14.9	8.3
18–24	24.3	20.7	15.5
25–29	14.2	18.7	17.1
30–34	10.2	13.8	16.4
35–39	8.8	8.7	14.3
40–49	9.4	13.2	16.3
>50	5.7	8.1	10.1
Not stated	2.8	1.9	2.0
Median age	24.0	27.1	32.0
Mean age	26.9	28.5	33.1
<b>Marital status</b>			
Single	51.7	47.6	41.4
Married	44.3	50.3	56.6
Not stated	4.0	2.1	2.3
<b>Highest level of education</b>			
Grade school	13.5	7.5	5.9
Some high school	18.9	15.3	9.5
High school graduate	34.6	36.5	39.4
Some college	17.6	21.6	25.2
College graduate	9.2	12.2	12.4
Post graduate	3.1	5.2	5.2
Not stated	3.1	1.7	2.4
<b>Occupation of owner</b>			
Laborer/semi-skilled	20.7	23.2	24.1
Professional/technical	18.8	19.0	20.3
Mechanic/craftsman	23.3	15.1	13.1
Manager/proprietor	8.6	8.9	9.3
Clerical/sales	9.3	7.8	6.8
Service worker	7.1	6.4	6.6
Farmer/farm labourer	4.6	5.1	2.1
Military	1.9	1.6	1.5
Other	0.0	4.6	13.1
Not stated	5.7	8.3	3.1
<b>Household income for prior year</b>			
<\$14,999	9.1	10.9	3.4
\$15,000–\$29,999	13.0	9.3	4.4
\$30,000–\$39,999	13.9	11.6	7.8
\$40,000–\$49,999	12.9	8.4	10.8
\$50,000–\$59,999	5.5	18.3	21.4
\$60,000–\$69,999	5.9	14.4	19.6
>\$70,000	2.4	6.1	19.9
Don't know	30.3	21.0	12.7
Median	\$32,500	\$45,600	\$53,100

Source: Motorcycle Industry Council.

### Profile of the typical Harley-Davidson rider

As with the average, Harley-Davidson (H-D) has about 90 per cent male and 10 per cent female riders. However, the household average income is much higher than for the average rider, about \$80,000. The manufacturer has researched the 2001 purchases of H-D motorcycles. It shows that 41 per cent previously owned a H-D; 31 per cent were competitor motorcycles and the rest (28 per cent) were new to motorcycling. See also Table 2.

### Fashion trends

Motorcycling was a major fashion trend in the 1990s. The sales of motorcycles increased 50 per cent from 1991 to 2000, and motorcycle accessories, fashions and parts followed this upward trend. Owners were making personal statements by customizing their bikes with accessories, and more than 60 per cent of all owners purchased accessories in 2000 (compared to only 30 per cent in 1985). Many non-motorcycle riders or owners invested in motorcycle fashions. Men spent more on average on motorcycle fashions than women (\$127 per year for men vs \$117 for women). Overseas motorcyclists followed the trend as well. Motorcycle fashions and accessory sales rose in both Europe and Japan in the 1990s.

### The motorcycle market in general

Motorcycle registration requires compliance with state and federal Motor Vehicle Safety Standards. Over one-third of the nation's motorcycles were concentrated in just five states: California, Texas, New York, Florida and Ohio. Over 15 per cent of the motorcycles in the United States were in California alone. Overall, there were an average of 1.5 motorcycles per 100 people in the United States in 2000. Most motorcycles in the country were registered for on-highway use, and over half of these had engine displacements over 749 cc, and more than 80 per cent over 450 cc.

Sources: Stuart F. Brown (2002) 'A sweet Triumph' *Fortune Small Business*, 12(3/4), pp. 48–51, April; Kampert, P. (2003) 'British motorcycles "Triumphant" return – Triumph motorcycles are roaring back into the American market.' <http://money.cnn.com/2003/08/04/pf/autos/triumph/index.htm>.

### Questions

- 1 Design a global marketing programme for Triumph, including a suggestion for the priority of the 4Ps: product, price, place and promotion.
- 2 How should the marketing programme for the US market differ from your suggested marketing programme in question 1?
- 3 A member of Triumph's management team has proposed designing a special motorcycle for women. Do you think this is a good idea?