

# 19

# The Global Marketplace

**Chapter Preview** You've now learned the fundamentals of how companies develop competitive marketing strategies to create customer value and build lasting customer relationships. In this chapter, we extend these fundamentals to global marketing. Although we discussed global topics in each previous chapter—it's difficult to find an area of marketing that doesn't contain at least some international applications—here we'll focus on special considerations that companies face when they market their brands globally. Advances in communication, transportation, and other technologies have made the world a much smaller

place. Today, almost every firm, large or small, faces international marketing issues. In this chapter, we will examine six major decisions marketers make in going global.

To start our exploration of global marketing, let's look again at Google. Google is a truly global operation. It's accessible just about anywhere in the world and in hundreds of different languages. But just as international markets provide opportunities, they sometimes present daunting challenges. Here, we examine Google's odyssey into mainland China—and back out again.

## Google in China: Running the Global Marketing Gauntlet

**G**oogle's mission is "to organize the world's information and make it universally accessible and useful." Almost by definition, this suggests that Google needs to operate internationally. What's more, international markets are a key to Google's expansion, as growth slows in domestic search advertising, Google's strongest business.

True to its mission and growth model, Google has, in fact, gone global. International markets now make up more than one-half of the company's revenues. Whereas Google controls 60 percent of the U.S. Internet search market, it controls an even more impressive 80 percent of the European market. Google is available in hundreds of languages—from Korean to Arabic to Zulu—almost anywhere in the world. Anywhere, that is, except China. After a long-running feud with the Chinese government over censorship and other issues, Google has all but shut down—at least for now—its operations in mainland China and its Google.cn search engine.

Google's experiences in China vividly illustrate the prospects and perils of going global. The world's most populous country and third-largest economy, China represents a huge potential market for Google. Although only 23 percent of Chinese now use the Internet, the number of Internet users in China reached 330 million last year, more than the entire population of the United States. The Internet in China, especially for young people, offers an outlet for enormous pent-up demand for entertainment, amusement, and social interaction. More than 70 per-

cent of Chinese Internet users are under 30 years old. Moreover, online advertising in China generates an estimated \$3 billion in annual revenues.

To access all that potential, however, Google has had to run against a gauntlet of local competitors and government restrictions. Google began in early 2000 by building a Chinese language version of its search engine, one that mirrored the English language content on Google.com. In 2002, however, the Chinese government shut down Google's site in China, claiming that people were using it to access forbidden content. To the disappointment of many, Google revised the site to self-censor content deemed taboo by the Chinese government. It argued that it was blocking only a small proportion of the sites that Chinese users visit. Users still would be able to get uncensored information on most important topics.

By early 2006, Google had received Chinese government approval to launch Google.cn. The company wanted to locate its own servers in China—inside the so-called "Great Firewall of China," the government's system of censoring electronic information that enters or leaves the country. Although Chinese Internet users could access Google.com, having servers inside the country would help Google to compete more effectively with Chinese-owned market leader Baidu and with Yahoo and Microsoft's MSN, which had already established local Chinese operations.

Google was especially interested in providing services for the potentially lucrative Chinese mobile phone market. China

has more than 500 million mobile-phone users—more than the United States, Japan, Germany, and the United Kingdom combined. The Chinese use their phones to buy ringtones, pictures, and other content from Internet portals such as KongZhong and TOM Online. Although such downloads sell for only a few cents each, when multiplied by hundreds of millions, the revenues add up quickly. Mobile users also like to play online multiplayer games, providing substantial subscription and accessories revenues.

With Google.cn established, Google began a bruising competitive battle for the hearts, minds, and wallets of Chinese consumers. Its most formidable rival was Baidu, which successfully targeted less-educated, lower-income users, the fastest-growing Chinese subscriber segment. Baidu had a six-year head start on Google in China. And as a local company, Baidu had a better understanding of the nuances of the Chinese market and language. Mandarin Chinese is a character-based language in which characters can have multiple meanings. Google had to learn how to “talk” to users—how to interpret the correct meaning of characters in search requests. Still, by late 2009, Google’s share of the China search market had increased to 35.6 percent, while Baidu’s share had fallen to 58 percent.

Despite this success, however, Google was growing increasingly uncomfortable with China’s censorship restrictions. Chinese law banned the spread of “content subverting State power, undermining national unity, infringing upon national honor and interest, inciting ethnic hatred and secession,” or supporting pornography or terrorism. By 2010, the Chinese government was enforcing strict interpretations of these laws on foreign IT companies operating in China. But knuckling under to government censorship just didn’t fit well with Google’s culture of free and open expression. To top things off, while Google was struggling with self-censorship issues, it suffered what it called a “highly sophisticated” cyber attack by Chinese hackers who stole some proprietary code and infiltrated the Google e-mail accounts of Chinese human-rights activists.

In early 2010, Google had seen enough of what it saw as the Chinese government’s heavy-handed tactics. It announced that it would remove its technical operations from mainland China and route www.google.com.cn users to an uncensored version of its www.google.com.hk site in Hong Kong, which is not subject to the restrictions. Despite the Chinese government’s displeasure with Google’s evasive action, in mid-2010 it renewed Google’s operating license, allowing Google to continue serving



Chinese users with the uncensored Hong Kong service. Still, the cat-and-mouse game continued, and Google’s Chinese connection remained shaky.

In pulling its search operations out of mainland China, Google doesn’t lose all that much current business—analysts estimated that Google earned only 1–2 percent of its global revenue from China, between \$250 and \$300 million. And about 30–40 percent of that revenue comes from Chinese companies that place ads on Google sites outside China, which will likely continue. However, leaving mainland China cedes the country’s huge search advertising potential to competitors. It also threatens Google’s mobile phone business in China. Thus, many analysts think that Google will eventually resolve its feud with the Chinese government and once again enter this important market directly. By the time you read this, that might already have happened.

For now, however, Google’s mainland China pullout has won praise on moral grounds. Beyond its mission to make the world’s information universally accessible, Google was founded on a simple code of conduct: “Don’t be evil.” According to Google founders Larry Page and Sergey Brin, that means “we believe strongly that in the long term, we will be better served—as shareholders and in all other ways—by a company that does good things for the world, even if we forego some short term gains.” In the eyes of many Google fans—even those in China—the com-

pany’s strong stand against censorship is simply the right thing to do. Says one prominent Chinese blogger, it was “high time to change [Google’s policy in China] back to the right track.”<sup>1</sup>

**Just as international markets provide opportunities, they sometimes present challenges. Google’s odyssey into mainland China—and back out again—vividly illustrates the prospects and perils of going global.**

**The challenges of global marketing: After a long-running feud with the Chinese government over censorship, Google pulled out of mainland China.**

# Objective OUTLINE

## Objective 1

Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions.

**Global Marketing Today** (552–553)

**Looking at the Global Marketing Environment** (554–560)

**Deciding Whether to Go Global** (560–561)

**Deciding Which Markets to Enter** (561–562)

## Objective 2

Describe three key approaches to entering international markets.

**Deciding How to Enter the Market** (562–565)

## Objective 3

Explain how companies adapt their marketing mixes for international markets.

**Deciding on the Global Marketing Program** (565–573)

## Objective 4

Identify the three major forms of international marketing organization.

**Deciding on the Global Marketing Organization** (573–574)

**In the past**, U.S. companies paid little attention to international trade. If they could pick up some extra sales via exports, that was fine. But the big market was at home, and it teemed with opportunities. The home market was also much safer. Managers did not need to learn other languages, deal with strange and changing currencies, face political and legal uncertainties, or adapt their products to different customer needs and expectations. Today, however, the situation is much different. Organizations of all kinds, from Google, Coca-Cola, and HP to MTV and even the NBA, have gone global.

**Author Comment** | The rapidly changing global environment provides both opportunities and threats. It's difficult to find a marketer today that isn't affected in some way by global developments.

## Global Marketing Today (pp 552–553)

The world is shrinking rapidly with the advent of faster communication, transportation, and financial flows. Products developed in one country—Gucci purses, Sony electronics, McDonald's hamburgers, Japanese sushi, German BMWs—have found enthusiastic acceptance in other countries. It would not be surprising to hear about a German businessman wearing an Italian suit meeting an English friend at a Japanese restaurant who later returns home to drink Russian vodka and watch *Dancing with the Stars* on TV.

International trade has boomed over the past three decades. Since 1990, the number of multinational corporations in the world has grown from 30,000 to more than 63,000. Some of these multinationals are true giants. In fact, of the largest 150 "economies" in the world, only 81 are countries. The remaining 69 are multinational corporations. Walmart, the world's largest company, has annual revenues greater than the GDP of all but the world's 21 largest countries.<sup>2</sup>

Between 2000 and 2008, total world trade grew more than 7 percent per year, easily outstripping GDP output, which was about 3 percent. Despite a dip in world trade caused by the recent worldwide recession, the world trade of products and services last year was valued at more than \$12 trillion, about 17 percent of GDP worldwide.<sup>3</sup>

Many U.S. companies have long been successful at international marketing: McDonald's, Coca-Cola, Starbucks, GE, IBM, Colgate, Caterpillar, Boeing, and dozens of other American firms have made the world their market. In the United States, names such as Sony, Toyota, Nestlé, IKEA, Canon, and Nokia have become household words. Other products and services that appear to be American are, in fact, produced or owned by foreign companies, such





● Many American companies have now made the world their market.

as Bantam books, Baskin-Robbins ice cream, GE and RCA televisions, Carnation milk, Universal Studios, and Motel 6. Michelin, the oh-so-French tire manufacturer, now does 34 percent of its business in North America; J&J, the maker of quintessentially all-American products such as BAND-AIDs and Johnson’s Baby Shampoo, does 50 percent of its business abroad. And America’s own Caterpillar belongs more to the wider world, with 61 percent of its sales coming from outside the United States.<sup>4</sup>

But as global trade grows, global competition is also intensifying. Foreign firms are expanding aggressively into new international markets, and home markets are no longer as rich in opportunity. Few industries are now safe from foreign competition. If companies delay taking steps toward internationalizing, they risk being shut out of growing markets in western and eastern Europe, China and the Pacific Rim, Russia, India, and

elsewhere. Firms that stay at home to play it safe might not only lose their chances to enter other markets but also risk losing their home markets. Domestic companies that never thought about foreign competitors suddenly find these competitors in their own backyards.

Ironically, although the need for companies to go abroad is greater today than in the past, so are the risks. Companies that go global may face highly unstable governments and currencies, restrictive government policies and regulations, and high trade barriers. The recently dampened global economic environment has also created big global challenges. And corruption is an increasing problem; officials in several countries often award business not to the best bidder but to the highest briber.

A **global firm** is one that, by operating in more than one country, gains marketing, production, R&D, and financial advantages that are not available to purely domestic competitors. The global company sees the world as one market. It minimizes the importance of national boundaries and develops global brands. It raises capital, obtains materials and components, and manufactures and markets its goods wherever it can do the best job. For example, Otis Elevator, the world’s largest elevator maker, achieves 80 percent of its sales from outside the United States. It gets its elevator door systems from France, small geared parts from Spain, electronics from Germany, and special motor drives from Japan. It uses the United States only for systems integration.<sup>5</sup> Many of today’s global corporations—both large and small—have become truly borderless.

This does not mean that small- and medium-sized firms must operate in a dozen countries to succeed. These firms can practice global niching. But the world is becoming smaller, and every company operating in a global industry—whether large or small—must assess and establish its place in world markets.

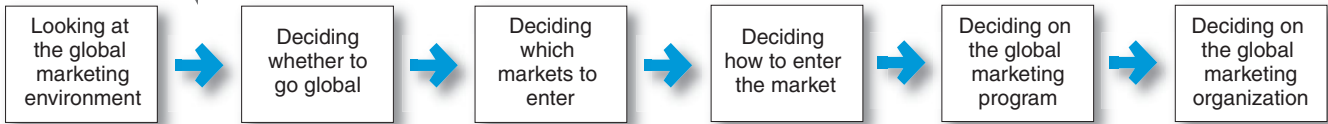
The rapid move toward globalization means that all companies will have to answer some basic questions: What market position should we try to establish in our country, in our economic region, and globally? Who will our global competitors be and what are their strategies and resources? Where should we produce or source our products? What strategic alliances should we form with other firms around the world?

As shown in ● **Figure 19.1**, a company faces six major decisions in international marketing. We discuss each decision in detail in this chapter.

**Global firm**

A firm that, by operating in more than one country, gains R&D, production, marketing, and financial advantages in its costs and reputation that are not available to purely domestic competitors.

It’s a big and beautiful but threatening world out there for marketers! Most large American firms have made the world their market. For example, once all-American McDonald’s now captures 65 percent of its sales from outside the United States.



● **FIGURE | 19.1**  
Major International Marketing Decisions

**Author Comment** | As if operating within a company's own borders wasn't difficult enough, going global adds many layers of complexities. For example, Coca-Cola markets its products in hundreds of countries around the globe. It must understand the varying trade, economic, cultural, and political environments in each market.

## Looking at the Global Marketing Environment (pp 554–560)

Before deciding whether to operate internationally, a company must understand the international marketing environment. That environment has changed a great deal in the past two decades, creating both new opportunities and new problems.

### The International Trade System

U.S. companies looking abroad must start by understanding the international *trade system*. When selling to another country, a firm may face restrictions on trade between nations. Governments may charge *tariffs*, taxes on certain imported products designed to raise revenue or protect domestic firms. Tariffs are often used to force favorable trade behaviors from other nations. ● For example, the United States recently threatened high tariffs on—of all things—Roquefort cheese in retaliation to a European Union (EU) ban on U.S. hormone-treated beef.<sup>6</sup>



● **Trade barriers:** In retaliation for a European Union ban on U.S. hormone-treated beef, the United States threatened high tariffs on—of all things—Roquefort cheese and other popular European food imports.

Roquefort cheese and some other popular European food imports could have disappeared from U.S. gourmet shops and fancy food departments thanks to a threatened 100–300 percent import tax. The imports were hostages in a long-running trans-Atlantic food fight over the EU's French-led refusal to import hormone-treated U.S. beef. By the tit-for-tat logic of playground and world trade disputes, if the EU didn't lift its 20-year beef ban, the United States would impose punishing World Trade Organization (WTO)-sanctioned tariffs on selected products that EU members sold in the United States. No one would have starved as a result, but the 300 percent duty on Roquefort would have driven its price into the unheard-of, demand-stifling range of \$60 a pound. Although Roquefort was the most harshly attacked, other U.S. tariffs would have doubled the retail prices of 34 items, ranging from Italian mineral water to Irish oatmeal, French chestnuts, and other regional foodie delights from 26 EU countries. In the end, it's was hard to tell who won this battle. The United States dropped the threatened tariff increases after the EU agreed to quadruple its U.S. non-hormone-treated beef imports over the next four years. But the EU still bans hormone-treated beef.

Countries may set *quotas*, limits on the amount of foreign imports that they will accept in certain product categories. The purpose of a quota is to conserve on foreign exchange and protect local industry and employment. Firms may also face *exchange controls*, which limit the amount of foreign exchange and the exchange rate against other currencies.

A company also may face *nontariff trade barriers*, such as biases against its bids, restrictive product standards, or excessive host-country regulations. For example, non-Chinese companies trying to crack the huge and fast-growing Chinese life insurance market have found the going tough. Domestic companies, such as China Life, Ping An, and others, enjoyed tremendous name recognition. But they also benefit from protectionist regulations. For instance, whereas domestic firms can obtain nationwide licenses, foreign firms need separate permissions for every new city or province in which they want to do business—a daunting hurdle. “There is clearly an uneven playing field,” says an American insurance executive.<sup>7</sup>

At the same time, certain other forces can *help* trade between nations. Examples include the General Agreement on Tariffs and Trade (GATT) and various regional free trade agreements.

### The World Trade Organization and GATT

GATT is a 62-year-old treaty designed to promote world trade by reducing tariffs and other international trade barriers. Since the treaty's inception in 1947, member nations (currently numbering 153) have met in eight rounds of GATT negotiations to reassess trade barriers and establish new rules for international trade. The first seven rounds of negotiations reduced the average worldwide tariffs on manufactured goods from 45 percent to just 5 percent.<sup>8</sup>

The most recently completed GATT negotiations, dubbed the Uruguay Round, dragged on for seven long years before concluding in 1994. The benefits of the Uruguay Round will be felt for many years as the accord promotes long-term global trade growth. It reduced the world's remaining merchandise tariffs by 30 percent. The agreement also extended GATT to cover trade in agriculture and a wide range of services, and it toughened the international protection of copyrights, patents, trademarks, and other intellectual prop-

erty. Although the financial impact of such an agreement is difficult to measure, research suggests that cutting agriculture, manufacturing, and services trade barriers by one-third would boost the world economy by \$613 billion, the equivalent of adding another Poland to the world economy.<sup>9</sup>

Beyond reducing trade barriers and setting global standards for trade, the Uruguay Round created the WTO to enforce GATT rules. In general, the WTO acts as an umbrella organization, overseeing GATT, mediating global disputes, helping developing countries build trade capacity, and imposing trade sanctions. The previous GATT organization never had such authorities. A new round of GATT negotiations, the Doha round, began in Doha, Qatar, in late 2001 and was set to conclude in 2005, but the discussions still continued through 2010.<sup>10</sup>



● The WTO and GATT: GATT promotes world trade by reducing tariffs and other international trade barriers. The WTO oversees GATT, imposes trade sanctions, and mediates global disputes.

### Economic community

A group of nations organized to work toward common goals in the regulation of international trade.

## Regional Free Trade Zones

Certain countries have formed *free trade zones* or **economic communities**. These are groups of nations organized to work toward common goals in the regulation of international trade. One such community is the *European Union (EU)*. Formed in 1957, the EU set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries and developing policies on trade with nonmember nations. ● Today, the EU represents one of the world's largest single markets. Currently, it has 27 member countries containing close to half a billion consumers and accounting for more than 20 percent of the world's exports.<sup>11</sup>

European unification offers tremendous trade opportunities for U.S. and other non-European firms. However, it also poses threats. As a result of increased unification, European companies have grown bigger and more competitive. Perhaps an even greater concern, however, is that lower barriers *inside* Europe will create only thicker *outside* walls. Some observers envision a "Fortress Europe" that heaps favors on firms from EU countries but hinders outsiders by imposing obstacles.

Progress toward European unification has been slow. In recent years, however, 16 member nations have taken a significant step toward unification by adopting the euro as a common currency. Many other countries are expected to follow within the next few years. Widespread adoption of the euro will decrease much of the currency risk associated with doing business in Europe, making member countries with previously weak currencies more attractive markets.<sup>12</sup>

However, even with the adoption of the euro, it is unlikely that the EU will ever go against 2,000 years of tradition and become the "United States of Europe." A community with more than two-dozen different languages and cultures will always have difficulty coming together and acting as a single entity. Still, with a combined annual GDP of more than \$16.1 trillion, the EU has become a potent economic force.<sup>13</sup>

In 1994, the *North American Free Trade Agreement (NAFTA)* established a free trade zone among the United States, Mexico, and Canada. The agreement created a single market of 452 million people who produce and consume almost \$17 trillion worth of goods and services annually. Over the past 15 years, NAFTA has eliminated trade barriers and investment restrictions among the three countries. According to the International Monetary Fund, total





● **Economic communities:** The European Union represents one of the world's single largest markets. Its current member countries contain more than half a billion consumers and account for 20 percent of the world's exports.

trade among the three countries has more than doubled from \$306 billion in 1993 to \$637 billion in 2009.<sup>14</sup>

Following the apparent success of NAFTA, in 2005 the Central American Free Trade Agreement (CAFTA-DR) established a free trade zone between the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. Other free trade areas have formed in Latin America and South America. For example, the Union of South American Nations (UNASUR), modeled after the EU, was formed in 2004 and formalized by a constitutional treaty in 2008. Consisting of 12 countries, UNASUR makes up the largest trading bloc after NAFTA and the EU, with a population of 361 million, a combined economy of more than \$973 billion, and exports worth \$181 billion. Similar to NAFTA and the EU, UNASUR aims to eliminate all tariffs between nations by 2019.<sup>15</sup>

Each nation has unique features that must be understood. A nation's readiness for different products and services and its attractiveness as a market to foreign firms depend on its economic, political-legal, and cultural environments.

## Economic Environment

The international marketer must study each country's economy. Two economic factors reflect the country's attractiveness as a market: its industrial structure and its income distribution.

The country's *industrial structure* shapes its product and service needs, income levels, and employment levels. The four types of industrial structures are as follows:

- *Subsistence economies:* In a subsistence economy, the vast majority of people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. They offer few market opportunities.
- *Raw material exporting economies:* These economies are rich in one or more natural resources but poor in other ways. Much of their revenue comes from exporting these resources. Some examples are Chile (tin and copper), the Democratic Republic of the Congo (copper, cobalt, and coffee), and Saudi Arabia (oil). These countries are good markets for large equipment, tools and supplies, and trucks. If there are many foreign residents and a wealthy upper class, they are also a market for luxury goods.
- *Emerging economies (industrializing economies):* In an emerging economy, fast growth in manufacturing results in rapid overall economic growth. Examples include the BRIC countries—Brazil, Russia, India, and China. As manufacturing increases, the country needs more imports of raw textile materials, steel, and heavy machinery, and fewer imports of finished textiles, paper products, and automobiles. Industrialization typically creates a new rich class and a small but growing middle class, both demanding new types of imported goods.
- *Industrial economies:* Industrial economies are major exporters of manufactured goods, services, and investment funds. They trade goods among themselves and also export them to other types of economies for raw materials and semifinished goods. The varied manufacturing activities of these industrial nations and their large middle class make them rich markets for all sorts of goods. Examples include the United States, Japan, and Norway.

The second economic factor is the country's *income distribution*. Industrialized nations may have low-, medium-, and high-income households. In contrast, countries with subsistence economies consist mostly of households with very low family incomes. Still other countries may have households with only either very low or very high incomes. Even poor or emerging economies may be attractive markets for all kinds of goods. These days, com-



● Economic environment: In India, Ford's \$7,700 Figo targets low- to middle-income consumers who want to move off their motorbikes.

panies in a wide range of industries—from cars to computers to candy—are increasingly targeting even low- and middle-income consumers in emerging economies. ● For example, in India, Ford recently introduced a new model targeted to consumers who are only now able to afford their first car:<sup>16</sup>

In an effort to boost its presence in Asia's third-largest auto market behind Japan and China, Ford introduced the Figo, a \$7,700 hatchback design for a hypothetical twenty-something Indian named Sandeep. He works in IT, finance, or another service industry and tools around on a motorcycle. But now that he's enjoying the first fruits of affluence, Sandeep wants four wheels. "There are huge numbers of people wanting to move off their motorbikes," says Ford's India general manager. Some 70 percent of cars sold in India are in the Figo's size and price range. In fact, GM beat

Ford to the punch by two months with its new \$7,600 Chevy Beat, which is so popular in India that there's now a two-month waiting list.

## Political-Legal Environment

Nations differ greatly in their political-legal environments. In considering whether to do business in a given country, a company should consider factors such as the country's attitudes toward international buying, government bureaucracy, political stability, and monetary regulations.

Some nations are very receptive to foreign firms; others are less accommodating. For example, India has tended to bother foreign businesses with import quotas, currency restrictions, and other limitations that make operating there a challenge. In contrast, neighboring Asian countries, such as Singapore and Thailand, court foreign investors and shower them with incentives and favorable operating conditions. Political and regulatory stability is another issue. For example, Venezuela's government is notoriously volatile—due to economic factors such as inflation and steep public spending—which increases the risk of doing business there. Although most international marketers still find the Venezuelan market attractive, the unstable political and regulatory situation will affect how they handle business and financial matters.<sup>17</sup>

Companies must also consider a country's monetary regulations. Sellers want to take their profits in a currency of value to them. Ideally, the buyer can pay in the seller's currency or in other world currencies. Short of this, sellers might accept a blocked currency—one whose removal from the country is restricted by the buyer's government—if they can buy other goods in that country that they need themselves or can sell elsewhere for a needed currency. In addition to currency limits, a changing exchange rate also creates high risks for the seller.

Most international trade involves cash transactions. Yet many nations have too little hard currency to pay for their purchases from other countries. They may want to pay with other items instead of cash. For example, *barter* involves the direct exchange of goods or services: China recently agreed to help the Democratic Republic of Congo develop \$6 billion of desperately needed infrastructure—2,400 miles of roads, 2,000 miles of railways, 32 hospitals, 145 health centers, and 2 universities—in exchange for natural resources needed to feed China's booming industries—10 million tons of copper and 400,000 tons of cobalt.<sup>18</sup>

## Cultural Environment

Each country has its own folkways, norms, and taboos. When designing global marketing strategies, companies must understand how culture affects consumer reactions in each of its world markets. In turn, they must also understand how their strategies affect local cultures.



## The Impact of Culture on Marketing Strategy

Sellers must understand the ways that consumers in different countries think about and use certain products before planning a marketing program. There are often surprises. For example, the average French man uses almost twice as many cosmetics and grooming aids as his wife. The Germans and the French eat more packaged, branded spaghetti than Italians do. Some 49 percent of Chinese eat on the way to work. Most American women let down their hair and take off makeup at bedtime, whereas 15 percent of Chinese women style their hair at bedtime and 11 percent put *on* makeup.<sup>19</sup>

Companies that ignore cultural norms and differences can make some very expensive and embarrassing mistakes. Here are two examples:

Nike inadvertently offended Chinese officials when it ran an ad featuring LeBron James crushing a number of culturally revered Chinese figures in a kung fu–themed television ad. The Chinese government found that the ad violated regulations to uphold national dignity and respect the “motherland’s culture” and yanked the multimillion-dollar campaign. With egg on its face, Nike released a formal apology.

Burger King made a similar mistake when it created in-store ads in Spain showing Hindu goddess Lakshmi atop a ham sandwich with the caption “a snack that is sacred.” Cultural and religious groups worldwide objected strenuously—Hindus are vegetarian. Burger King apologized and pulled the ads.<sup>20</sup>



Overlooking cultural differences can result in embarrassing mistakes. China imposed a nationwide ban on this “blasphemous” kung fu–themed television ad featuring LeBron James crushing a number of culturally revered Chinese figures.

Business norms and behavior also vary from country to country. For example, American executives like to get right down to business and engage in fast and tough face-to-face bargaining. However, Japanese and other Asian businesspeople often find this behavior offensive. They prefer to start with polite conversation, and they rarely say no in face-to-face conversations. As another example, South Americans like to sit or stand very close to each other when they talk business—in fact, almost nose-to-nose. An American business executive tends to keep backing away as the South American moves closer. Both may end up being offended. American business executives need to understand these kinds of cultural nuances before conducting business in another country.

By the same token, companies that understand cultural nuances can use them to their advantage when positioning products and preparing campaigns internationally. Consider LG Electronics, the \$22 billion South Korean electronics, telecommunications, and appliance powerhouse. LG now operates in more than 60 countries and captures 87 percent of its sales from markets outside its home country. LG’s global success rests on understanding and catering to the unique characteristics of each local market through in-country research, manufacturing, and marketing.<sup>21</sup>

If you’ve got kimchi in your fridge, it’s hard to keep it a secret. Made from fermented cabbage seasoned with garlic and chili, kimchi is served with most meals in Korea. But when it’s stored inside a normal refrigerator, its pungent odor taints nearby foods. That’s why, two decades ago, LG introduced the kimchi refrigerator, featuring a dedicated compartment that isolates smelly kimchi from other foods. Kimchi refrigerators have become a fixture in 65 percent of Korean homes, and LG is the country’s top-selling manufacturer.

LG’s mission is to make customers happy worldwide by creating products that fit perfectly into their lives, no matter where they live. In India, LG rolled out refrigerators with larger vegetable- and water-storage compartments, surge-resistant power supplies, and brightly colored finishes that reflect local preferences (red in the south,

green in Kashmir). Some of LG's Indian microwaves have dark-colored interiors to hide masala stains. In Iran, LG offers a microwave oven with a preset button for reheating shish kebabs—a favorite dish. In the Middle East, the company unveiled a gold-plated 71-inch flat-screen television that sells for \$80,000—a tribute to the region's famous affinity for gilded opulence. And in Russia, where many people entertain at home during the country's long winters, LG developed a karaoke phone that can be programmed with the top 100 Russian songs, whose lyrics scroll across the screen when they're played. The phone sold more than 220,000 handsets in the first year.

Thus, understanding cultural traditions, preferences, and behaviors can help companies not only avoid embarrassing mistakes but also take advantage of cross-cultural opportunities.

## The Impact of Marketing Strategy on Cultures

Whereas marketers worry about the impact of culture on their global marketing strategies, others may worry about the impact of marketing strategies on global cultures. For example, social critics contend that large American multinationals, such as McDonald's, Coca-Cola, Starbucks, Nike, Microsoft, Disney, and MTV, aren't just "globalizing" their brands; they are "Americanizing" the world's cultures.<sup>22</sup>

There are now as many people studying English in China (or playing basketball, for that matter) as there are people in the United States. Seven of the 10 most watched TV shows around the world are American, *Avatar* is the top-grossing film of all time in China, and the world is as fixated on U.S. brands as ever, which is why U.S. multinationals from McDonald's to Nike book more than half their revenues overseas. If you bring together teenagers from Nigeria, Sweden, South Korea, and Argentina—to pick a random foursome—what binds these kids together in some kind of community is American culture—the music, the Hollywood fare, the electronic games, Google, American consumer brands. The only thing they will likely have in common that doesn't revolve around the United States is an interest in soccer. The . . . rest of the world is becoming [evermore] like us—in ways good and bad.

"Today, globalization often wears Mickey Mouse ears, eats Big Macs, drinks Coke or Pepsi, and does its computing with Windows," says Thomas Friedman, in his book *The Lexus and the Olive Tree: Understanding Globalization*.<sup>23</sup> Critics worry that, under such "McDomination," countries around the globe are losing their individual cultural identities. Teens in India watch MTV and ask their parents for more westernized clothes and other symbols of American pop culture and values. Grandmothers in small European villas no longer spend each morning visiting local meat, bread, and produce markets to gather the ingredients for dinner. Instead, they now shop at Walmart Supercenters. Women in Saudi Arabia see American films and question their societal roles. In China, most people never drank coffee before Starbucks entered the market. Now Chinese consumers rush to Starbucks stores "because it's a symbol of a new kind of lifestyle." Similarly, in China, where McDonald's operates more than 80 restaurants in Beijing alone, nearly half of all children identify the chain as a domestic brand.

Such concerns have sometimes led to a backlash against American globalization. Well-known U.S. brands have become the targets of boycotts and protests in some international markets. As symbols of American capitalism, companies such as Coca-Cola, McDonald's, Nike, and KFC have been singled out by antiglobalization protestors in hot spots around the world, especially when anti-American sentiment peaks.

Despite such problems, defenders of globalization argue that concerns of "Americanization" and the potential damage to American brands are overblown. U.S. brands are doing very well internationally. In the most recent Millward Brown Optimor brand value survey of global consumer brands, 16 of the top 20 brands were American owned, including megabrands such as Google, IBM, Apple, Microsoft, Coca-Cola, McDonald's, GE, Amazon.com, and Walmart.<sup>24</sup> Many iconic American brands are prospering globally, even in some of the most unlikely places.<sup>25</sup>

It's lunchtime in Tehran's tiny northern suburbs, and around the crowded tables at Nayebe Restaurant, elegant Iranian women in Jackie O sunglasses and designer jeans



● Many iconic American brands are prospering globally, even in some of the most unlikely places. At this Tehran restaurant, American colas are the drink of choice. Coca-Cola and PepsiCo have grabbed about half the national soft drink sales in Iran.

let their table chatter glide effortlessly between French, English, and their native Farsi. The only visual clues that these lunching ladies aren't dining at some smart New York City eatery but in the heart of Washington's axis of evil are the expensive Hermès scarves covering their blonde-tipped hair in deference to the mullahs. And the drink of choice? This being revolutionary Iran, where alcohol is banned, the women are making do with Coca-Cola. Yes, Coca-Cola. It's a hard fact for some of Iran's theocrats to swallow. They want Iranians to shun "Great Satan" brands like Coke and Pepsi, and the Iranian government has recently pressured Iranian soft drink companies to clarify their "ties with the Zionist company Coca-Cola." Yet, Coke and Pepsi have grabbed about half the national soft drink sales in Iran, one of the Middle East's biggest drink markets. "I joke with customers not to buy this stuff because it's American," says a Tehran storekeeper, "but they don't care. That only makes them want to buy it more."

More fundamentally, the cultural exchange goes both ways: America gets as well as gives cultural influence. True, Hollywood dominates the global movie market, but British TV gives as much as it gets in dishing out competition to U.S. shows, spawning such hits as *The Office*, *American Idol*, and *Dancing with the Stars*. Although Chinese and Russian youth are donning NBA superstar jerseys, the increasing popularity of American soccer has deep international roots. Even American childhood has been increasingly influenced by European and Asian cultural imports. Most kids know all about imports such as Hello Kitty, the Bakugan Battle Brawler, or any of a host of Nintendo or Sega game characters. And J. K. Rowling's so-very-British Harry Potter books have shaped the thinking of a generation of American youngsters, not to mention the millions of American oldsters who've fallen under their spell as well. For the moment, English remains the dominant language of the Internet, and having Web access often means that third-world youth have greater exposure to American popular culture. Yet these same technologies let Eastern European students studying in the United States hear Webcast news and music from Poland, Romania, or Belarus.

Thus, globalization is a two-way street. If globalization has Mickey Mouse ears, it is also wearing a French beret, talking on a Nokia cell phone, buying furniture at IKEA, driving a Toyota Camry, and watching a Samsung plasma TV.

## Deciding Whether to Go Global (pp 560–561)

Not all companies need to venture into international markets to survive. For example, most local businesses need to market well only in their local marketplace. Operating domestically is easier and safer. Managers don't need to learn another country's language and laws. They don't have to deal with unstable currencies, face political and legal uncertainties, or redesign their products to suit different customer expectations. However, companies that operate in global industries, where their strategic positions in specific markets are affected strongly by their overall global positions, must compete on a regional or worldwide basis to succeed.

Any of several factors might draw a company into the international arena. Global competitors might attack the company's home market by offering better products or lower prices.





● Going global: Coca-Cola has emphasized international growth in recent years to offset stagnant or declining U.S. soft drink sales.

The company might want to counterattack these competitors in their home markets to tie up their resources. The company's customers might be expanding abroad and require international servicing. Or, most likely, international markets might simply provide better opportunities for growth. ● For example, Coca-Cola has emphasized international growth in recent years to offset stagnant or declining U.S. soft drink sales. "It's been apparent that Coke's signature cola can't grow much on its home turf anymore," states an industry analyst. Today, about 80 percent of Coke's profits come from outside North America.<sup>26</sup>

Before going abroad, the company must weigh several risks and answer many questions about its ability to operate globally. Can the company learn to understand the preferences and buyer behavior of consumers in other countries? Can it offer competitively attractive products? Will it be able to adapt to other countries' business cultures and deal effectively with foreign nationals? Do the company's managers have the necessary international experience? Has management considered the impact of regulations and the political environments of other countries?

## Deciding Which Markets to Enter (pp 561–562)

Before going abroad, the company should try to define its international *marketing objectives and policies*. It should decide what *volume* of foreign sales it wants. Most companies start small when they go abroad. Some plan to stay small, seeing international sales as a

small part of their business. Other companies have bigger plans, seeing international business as equal to or even more important than their domestic business.

The company also needs to choose in *how many* countries it wants to market. Companies must be careful not to spread themselves too thin or expand beyond their capabilities by operating in too many countries too soon. Next, the company needs to decide on the *types* of countries to enter. A country's attractiveness depends on the product, geographical factors, income and population, political climate, and other factors. The seller may prefer certain country groups or parts of the world. In recent years, many major new markets have emerged, offering both substantial opportunities and daunting challenges.

After listing possible international markets, the company must carefully evaluate each one. It must consider many factors. For example, P&G's decision to enter the Chinese toothpaste market with its Crest is a no-brainer: China's huge population makes it the world's largest toothpaste market. And given that only 20 percent of China's rural dwellers now brush daily, this already huge market can grow even larger. Yet P&G must still question whether market size *alone* is reason enough for investing heavily in China.

P&G should ask some important questions: Can Crest compete effectively with dozens of local competitors, Colgate, and a state-owned brand managed by Unilever? Will the Chinese government remain stable and supportive? Does China provide for the needed production and distribution technologies? Can the company master China's vastly different cultural and buying differences? Crest's current success in China suggests that it can answer yes to every question.<sup>27</sup>

"Just 10 years ago, P&G's Crest brand was unknown to China's population, most of whom seldom—if ever—brushed their teeth," says one analyst. "Now P&G . . . sells more tubes of toothpaste there than it does in America, where Crest has been on store shelves for 52 years." P&G achieved this by sending researchers to get a feel for what urban and rural Chinese were willing to spend and what flavors they preferred. These researchers

discovered that urban Chinese are happy to pay more than \$1 for tubes of Crest with exotic flavors such as Icy Mountain Spring and Morning Lotus Fragrance. But Chinese living in the countryside prefer the 50-cent Crest Salt White because many rural Chinese believe that salt whitens teeth. Armed with such insights, Crest now leads all competitors in China with a 25 percent market share. Some users even believe it's a Chinese brand. P&G hopes to find similar success in other emerging markets across its entire product mix. Such markets now account for 30 percent of the company's total sales.

Possible global markets should be ranked on several factors, including market size, market growth, the cost of doing business, competitive advantage, and risk level. The goal is to determine the potential of each market, using indicators such as those shown in **Table 19.1**. Then the marketer must decide which markets offer the greatest long-run return on investment.

**Author Comment** | A company has many options for entering an international market, from simply exporting its products to working jointly with foreign companies to holding its own foreign-based operations.

## Deciding How to Enter the Market (pp 562–565)

Once a company has decided to sell in a foreign country, it must determine the best mode of entry. Its choices are *exporting*, *joint venturing*, and *direct investment*. **Figure 19.2** shows three market entry strategies, along with the options each one offers. As the figure shows, each succeeding strategy involves more commitment and risk but also more control and potential profits.

### Exporting

Entering a foreign market by selling goods produced in the company's home country, often with little modification.

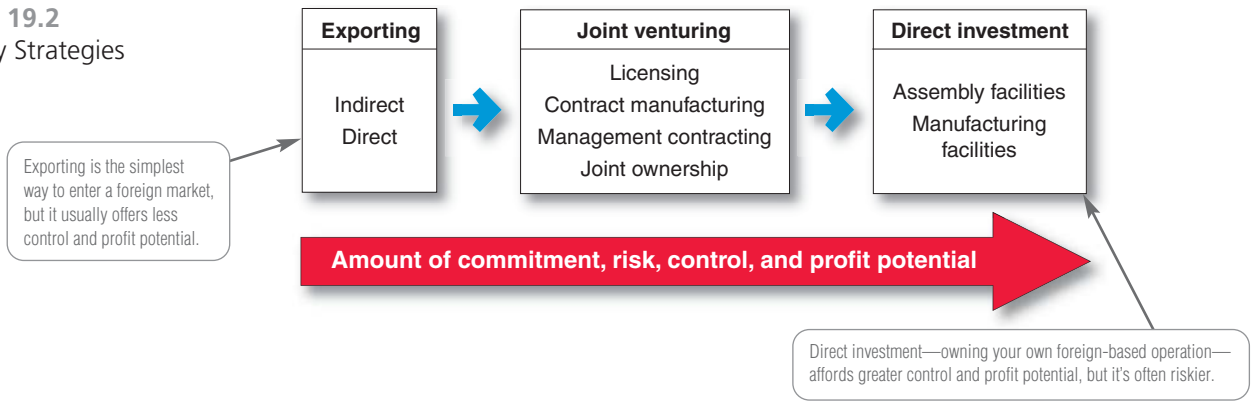
### Exporting

The simplest way to enter a foreign market is through **exporting**. The company may passively export its surpluses from time to time, or it may make an active commitment to expand exports to a particular market. In either case, the company produces all its

**TABLE | 19.1** Indicators of Market Potential

Demographic Characteristics	Sociocultural Factors
Education	Consumer lifestyles, beliefs, and values
Population size and growth	Business norms and approaches
Population age composition	Cultural and social norms
	Languages
Geographic Characteristics	Political and Legal Factors
Climate	National priorities
Country size	Political stability
Population density—urban, rural	Government attitudes toward global trade
Transportation structure and market accessibility	Government bureaucracy
	Monetary and trade regulations
Economic Factors	
GDP size and growth	
Income distribution	
Industrial infrastructure	
Natural resources	
Financial and human resources	

FIGURE | 19.2  
Market Entry Strategies



**Joint venturing**

Entering foreign markets by joining with foreign companies to produce or market a product or service.

**Licensing**

A method of entering a foreign market in which the company enters into an agreement with a licensee in the foreign market.

goods in its home country. It may or may not modify them for the export market. Exporting involves the least change in the company’s product lines, organization, investments, or mission.

Companies typically start with *indirect exporting*, working through independent international marketing intermediaries. Indirect exporting involves less investment because the firm does not require an overseas marketing organization or network. It also involves less risk. International marketing intermediaries bring know-how and services to the relationship, so the seller normally makes fewer mistakes. Sellers may eventually move into *direct exporting*, whereby they handle their own exports. The investment and risk are somewhat greater in this strategy, but so is the potential return.

**Joint Venturing**

A second method of entering a foreign market is by **joint venturing**—joining with foreign companies to produce or market products or services. Joint venturing differs from exporting in that the company joins with a host country partner to sell or market abroad. It differs from direct investment in that an association is formed with someone in the foreign country. There are four types of joint ventures: licensing, contract manufacturing, management contracting, and joint ownership.

**Licensing**

**Licensing** is a simple way for a manufacturer to enter international marketing. The company enters into an agreement with a licensee in the foreign market. For a fee or royalty payments, the licensee buys the right to use the company’s manufacturing process, trademark, patent, trade secret, or other item of value. The company thus gains entry into a foreign market at little risk; the licensee gains production expertise or a well-known product or name without having to start from scratch.

In Japan, Budweiser beer flows from Kirin breweries, and Moringa Milk Company produces Sunkist fruit juice, drinks, and dessert items. Coca-Cola markets internationally by licensing bottlers around the world and supplying them with the syrup needed to produce the product. Its global bottling partners range from the Coca-Cola Bottling Company of Saudi Arabia to Europe-based Coca-Cola Hellenic, which bottles and markets Coca-Cola products to 560 million people in 28 countries, from Italy and Greece to Nigeria and Russia.



Licensing: In Japan, the Moringa Milk Company produces Sunkist fruit juices, drinks, and dessert items.



Licensing has potential disadvantages, however. The firm has less control over the licensee than it would over its own operations. Furthermore, if the licensee is very successful, the firm has given up these profits, and if and when the contract ends, it may find it has created a competitor.

### Contract Manufacturing

Another option is **contract manufacturing**—the company contracts with manufacturers in the foreign market to produce its product or provide its service. Sears used this method in opening up department stores in Mexico and Spain, where it found qualified local manufacturers to produce many of the products it sells. The drawbacks of contract manufacturing are decreased control over the manufacturing process and loss of potential profits on manufacturing. The benefits are the chance to start faster, with less risk, and the later opportunity either to form a partnership with or buy out the local manufacturer.

### Management Contracting

Under **management contracting**, the domestic firm supplies management know-how to a foreign company that supplies the capital. The domestic firm exports management services rather than products. Hilton uses this arrangement in managing hotels around the world. For example, the hotel chain recently opened a Doubletree by Hilton in the United Arab Emirates. The property is locally owned, but Hilton manages the hotel with its world-renowned hospitality expertise.<sup>28</sup>

Management contracting is a low-risk method of getting into a foreign market, and it yields income from the beginning. The arrangement is even more attractive if the contracting firm has an option to buy some share in the managed company later on. The arrangement is not sensible, however, if the company can put its scarce management talent to better uses or if it can make greater profits by undertaking the whole venture. Management contracting also prevents the company from setting up its own operations for a period of time.

### Joint Ownership

**Joint ownership** ventures consist of one company joining forces with foreign investors to create a local business in which they share joint ownership and control. A company may buy an interest in a local firm, or the two parties may form a new business venture. Joint ownership may be needed for economic or political reasons. The firm may lack the financial, physical, or managerial resources to undertake the venture alone. Or a foreign government may require joint ownership as a condition for entry.

● Best Buy recently formed a 50/50 joint venture with UK-based Carphone Warehouse to open its first European Best Buy stores, starting in Britain.<sup>29</sup>

#### Contract manufacturing

A joint venture in which a company contracts with manufacturers in a foreign market to produce the product or provide its service.

#### Management contracting

A joint venture in which the domestic firm supplies the management know-how to a foreign company that supplies the capital; the domestic firm exports management services rather than products.

#### Joint ownership

A joint venture in which a company joins investors in a foreign market to create a local business in which the company shares joint ownership and control.



● **Joint ventures: Best Buy formed a joint venture with UK retailer Carphone Warehouse to jointly introduce Best Buy stores in Europe. Having “experience and connections in Europe is a huge, huge benefit.”**

A new Best Buy store in Britain is exactly like its American counterpart. Even the carpets and the fittings have been imported from the United States. But the management team and senior employees are from the United Kingdom. To learn the Best Buy way of retailing, the locals receive nine weeks of training at Best Buy’s “Blue Shirt Academy” in the United States. Best Buy is betting that this combination of its proven superstore concept with Carphone’s local market savvy will differentiate Best Buy from the largely price-driven UK competition. Whereas other U.S. retail chains, such as Walmart, have struggled in the United Kingdom, partnering with Carphone will help. “Best Buy has a much better chance of being

successful in Europe by partnering with Carphone than it would opening stores there all by itself,” says a retailing analyst. “Having a management team that already has experience and connections in Europe is a huge, huge benefit.”

Joint ownership has certain drawbacks, however. The partners may disagree over investment, marketing, or other policies. Whereas many U.S. firms like to reinvest earnings for growth, local firms often prefer to take out these earnings; whereas U.S. firms emphasize the role of marketing, local investors may rely on selling.

## Direct Investment

The biggest involvement in a foreign market comes through **direct investment**—the development of foreign-based assembly or manufacturing facilities. For example, HP has made direct investments in several major markets abroad, including India. It has opened two factories that make PCs for the Indian market, along with HP-owned retail outlets in 150 Indian cities. Thanks to such commitments, HP is a market leader in India and now controls more than 16 percent of the market in India.<sup>30</sup>

If a company has gained experience in exporting and if the foreign market is large enough, foreign production facilities offer many advantages. The firm may have lower costs in the form of cheaper labor or raw materials, foreign government investment incentives, and freight savings. The firm may improve its image in the host country because it creates jobs. Generally, a firm develops a deeper relationship with the government, customers, local suppliers, and distributors, allowing it to adapt its products to the local market better. Finally, the firm keeps full control over the investment and therefore can develop manufacturing and marketing policies that serve its long-term international objectives.

The main disadvantage of direct investment is that the firm faces many risks, such as restricted or devalued currencies, falling markets, or government changes. In some cases, a firm has no choice but to accept these risks if it wants to operate in the host country.

### Direct investment

Entering a foreign market by developing foreign-based assembly or manufacturing facilities.

**Author Comment** | The major global marketing decision usually boils down to this: How much, if at all, should a company adapt its marketing strategy and programs to local markets? How might the answer differ for Boeing versus McDonald’s?

## Deciding on the Global Marketing Program (pp 565–573)

Companies that operate in one or more foreign markets must decide how much, if at all, to adapt their marketing strategies and programs to local conditions. At one extreme are global companies that use **standardized global marketing**, essentially using the same marketing strategy approaches and marketing mix worldwide. At the other extreme is **adapted global marketing**. In this case, the producer adjusts the marketing strategy and mix elements to each target market, bearing more costs but hoping for a larger market share and return.

The question of whether to adapt or standardize the marketing strategy and program has been much debated over the years. On the one hand, some global marketers believe that technology is making the world a smaller place, and consumer needs around the world are becoming more similar. This paves the way for “global brands” and standardized global marketing. Global branding and standardization, in turn, result in greater brand power and reduced costs from economies of scale.

On the other hand, the marketing concept holds that marketing programs will be more effective if tailored to the unique needs of each targeted customer group. If this concept applies within a country, it should apply even more across international markets. Despite global convergence, consumers in different countries still have widely varied cultural backgrounds. They still differ significantly in their needs and wants, spending power, product preferences, and shopping patterns. Because these differences are hard to change, most marketers today adapt their products, prices, channels, and promotions to fit consumer desires in each country.

However, global standardization is not an all-or-nothing proposition. It’s a matter of degree. Most international marketers suggest that companies should “think globally but act locally”—that they should seek a balance between standardization and adaptation. The

### Standardized global marketing

An international marketing strategy that basically uses the same marketing strategy and mix in all of the company’s international markets.

### Adapted global marketing

An international marketing strategy that adjusts the marketing strategy and mix elements to each international target market, bearing more costs but hoping for a larger market share and return.

company’s overall strategy should provide global strategic direction. Then regional or local units should focus on adapting the strategy to specific local markets.

Collectively, local brands still account for the overwhelming majority of consumers’ purchases. “The vast majority of people still lead very local lives,” says a global analyst. “By all means go global, but the first thing you have to do is win on the ground. You have to go local.” Another analyst agrees: “You need to respect local culture and become part of it.” A global brand must “engage with consumers in a way that feels local to them.” Simon Clift, head of marketing for global consumer-goods giant Unilever, puts it this way: “We’re trying to strike a balance between being mindlessly global and hopelessly local.”<sup>31</sup>

McDonald’s operates this way: It uses the same basic fast-food look, layout, and operating model in its restaurants around the world but adapts its menu to local tastes. In Japan, it offers Ebi Filet-O-Shrimp burgers and fancy Salad Macs salad plates. In Korea it sells the Bulgogi Burger, a grilled pork patty on a bun with a garlicky soy sauce. In India, where cows are considered sacred, McDonald’s serves McChicken, Filet-O-Fish, McVeggie (a vegetable burger), Pizza McPuffs, McAloo Tikki (a spiced-potato burger), and the Maharaja Mac—two all-chicken patties, special sauce, lettuce, cheese, pickles, onions on a sesame-seed bun. In all, McDonald’s serves local markets with a global brand (see Real Marketing 19.1).

## Product

Five strategies allow for adapting product and marketing communication strategies to a global market (see **Figure 19.3**).<sup>32</sup> We first discuss the three product strategies and then turn to the two communication strategies.

**Straight product extension** means marketing a product in a foreign market without any change. Top management tells its marketing people, “Take the product as is and find customers for it.” The first step, however, should be to find out whether foreign consumers use that product and what form they prefer.

Straight extension has been successful in some cases and disastrous in others. Apple iPads, Gillette razors, Black & Decker tools, and even 7–11 Slurpees are all sold successfully in about the same form around the world. But when General Foods introduced its standard powdered JELL-O in the British market, it discovered that British consumers prefer a solid wafer or cake form. Likewise, Philips began to make a profit in Japan only after it reduced the size of its coffeemakers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands. Straight extension is tempting because it involves no additional product development costs, manufacturing changes, or new promotion. But it can be costly in the long run if products fail to satisfy consumers in specific global markets.

**Product adaptation** involves changing the product to meet local conditions or wants. For example, Finnish cell phone maker Nokia customizes its cell phones for every major market. To meet the needs of less-affluent consumers in large developing countries such as India, China, and Kenya, the company has created full-featured but rugged and low-cost phones especially designed for harsher living conditions. For instance, it developed dustproof keypads—crucial in dry, hot countries with many unpaved roads. Some phones have built-in radio antennas for areas where radio is the main source of entertainment. Thanks to such adaptation, Nokia commands a whopping 62.3 percent share of the market in Africa and the Middle East, 48.5 percent in Eastern Europe, and 41.8 percent in Asia.<sup>33</sup>

### Straight product extension

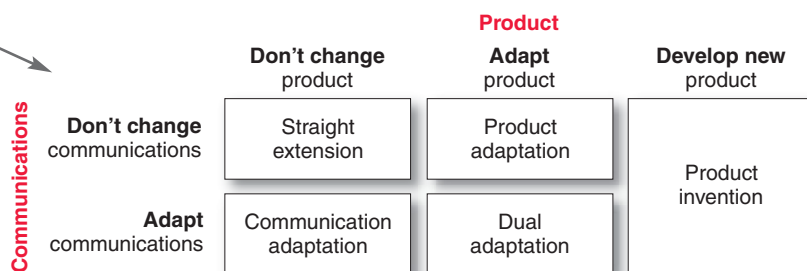
Marketing a product in a foreign market without any change.

### Product adaptation

Adapting a product to meet local conditions or wants in foreign markets.

The real question buried in this figure is this: How much should a company standardize or adapt its products and marketing across global markets?

**FIGURE | 19.3**  
Five Global Product and Communications Strategies





# Real Marketing 19.1

## McDonald's: Serving Local Markets with a Global Brand

Most Americans think of McDonald's as their very own. The first McDonald's stand popped up in California in 1954, and what could be more American than burger-and-fries fast food? But as it turns out, the quintessentially all-American company now sells more burgers and fries outside the country than within. Nearly 65 percent of McDonald's \$23 billion of sales last year came from outside the United States, and its international sales grew at close to twice the rate of domestic sales growth.

McDonald's today is a sprawling global enterprise. Its 32,000 restaurants serve more than 60 million people in more than 100 countries each day. Few firms have more international marketing experience than McDonald's. Its restaurants around the world employ a common global strategy—convenient food at affordable prices. And no matter where you go in the world—from Moscow to Montreal or Shanghai to Cheboygan, Michigan—you'll find those good old golden arches and a menu full of Quarter Pounders, Big Macs, fries, milkshakes, and other familiar items. But within that general strategic framework, McDonald's adapts to the subtleties of each local market.

Adapting its proven formula to local markets hasn't always been easy, and McDonald's has learned many important lessons in its journeys overseas. Consider its experiences in Russia, a market that's very different culturally, economically, and politically from our own.

McDonald's first set its sights on Russia (then a part of the Soviet Union) in 1976, when George Cohon, head of McDonald's in Canada, took a group of Soviet Olympics officials to a McDonald's while they were in town for the Montreal Olympic Games. Cohon was struck by how much the Soviets liked McDonald's hamburgers, fries, and other fare. Over the next 14 years, Cohon flew to Russia more than 100 times, first to get Soviet permission for McDonald's to provide food for the 1980 Moscow Olympics and later to be allowed to open McDonald's restaurants in the country. He quickly learned that no one in Russia had any idea what a McDonald's was. The Soviets turned Cohon down flat on both requests.

Finally in 1988, as Premier Mikhail Gorbachev began to open the Russian economy, Cohon forged a deal with the city of Moscow to launch the first Russian McDonald's in Moscow's Pushkin Square. But obtaining permission was only the first step. Actually opening the restaurant brought a fresh set of challenges. Thanks to Russia's large and bureaucratic government structure, McDonald's had to obtain some 200 separate signatures just to open the single location. It had difficulty finding reliable suppliers for even such basics as hamburgers and buns. So McDonald's forked over \$45 million to build a facility to produce these things itself. It even brought in technical experts from Canada with special strains of disease-resistant seed to teach Russian farmers how to grow Russet Burbank potatoes for french fries, and it built its own pasteurizing plant to ensure a plentiful supply of fresh milk.

When the Moscow McDonald's at Pushkin Square finally opened its doors in January 1990, it quickly won the hearts of Russian consumers. However, the company faced still

more hurdles. The Pushkin Square restaurant is huge—26 cash registers (more than you'll find in a typical Walmart supercenter) and 900 seats (compared with 40 to 50 seats in a typical U.S. McDonald's). The logistics of serving customers on such a scale was daunting, made even more difficult by the fact that few employees or customers understood the fast-food concept.

Although American consumers were well acquainted with McDonald's, the Russians were clueless. So, to meet its high standards for customer satisfaction in this new market, the U.S. fast feeder had to educate employees about the time-tested McDonald's way of doing things. It trained Russian managers at Hamburger University in Illinois and subjected each of 630 new employees (most of whom didn't know a chicken McNugget from an Egg McMuffin) to 16 to 20 hours of training on such essentials as cooking meat patties, assembling Filet-O-Fish sandwiches, and giving service with a smile. Back in those days, McDonald's even had to train consumers—most Muscovites had never seen a fast-food restaurant. Customers waiting in line were shown videos telling them everything—from how to order and pay at the counter, to how to put their coats over the backs of their seats, to how to handle a Big Mac.

However, the new Moscow McDonald's got off to a spectacular start. An incredible



McDonald's is a "global brand serving local markets." Its Pushkin Square location in Russia is the busiest McDonald's in the world.

50,000 customers swarmed the restaurant during its first day of business. And in its usual way, McDonald's began immediately to build community involvement. On opening day, it held a kickoff party for 700 Muscovite orphans and then donated all the opening-day proceeds to the Moscow Children's Fund.

Today, just over 20 years after opening its first restaurant there, McDonald's is thriving in Russia. The Pushkin Square location is now the busiest McDonald's in the world, and Russia is the crown jewel in McDonald's global empire. The company's 245 restaurants in Russia each serve an average of 900,000 diners a year—twice the per-store traffic of any of the other 122 countries in which McDonald's operates.

Despite the long lines of customers, McDonald's has been careful about how rapidly it expands in Russia. In recent years, it has reined in its rapid growth strategy and focused instead on improving product and service quality and profitability. The goal is to squeeze more business out of existing restaurants and grow slowly but profitably. One way to do that is to add new menu items to draw in consumers at different times of the day. So, as it did many years ago in the United States, McDonald's in Russia has now added breakfast items.

Although only about 5 percent of Russians eat breakfast outside the home, more commuters in the big cities are leaving home earlier to avoid heavy traffic. The company hopes that the breakfast menu will encourage commuters to stop off at McDonald's on their way to work. However, when the fast-food chain added breakfast items, it stopped offering its traditional hamburger fare during the morning hours. When many customers complained of "hamburger withdrawal," McDonald's introduced the Fresh McMuffin, an English muffin with a sausage patty topped with cheese, lettuce, tomato, and special sauce. The new sandwich became an instant hit.

To reduce the lines inside restaurants and attract motorists, McDonald's is also introducing Russian consumers to drive-thru windows. At first, many Russians didn't get the concept.

Instead, they treated the drive-thru window as just another line, purchasing their food there, parking, and going inside to eat. Also, Russian cars often don't have cup holders, so drive-thru customers bought fewer drinks. However, as more customers get used to the concept, McDonald's is putting drive-thru and walk-up windows in about half of its new stores.

As McDonald's has tweaked its formula in Russia, it also adjusts its marketing and operations to meet the special needs of local consumers in other major global markets. To be sure, McDonald's is a global brand. But to consumers around the world, McDonald's is rapidly becoming their very own. Says a McDonald's Europe executive, "Across Europe with 40 different markets, there are 40 sets of tastes. There are also differences within each market. We are a local market but a global brand."

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**Sources:** Quotes and other information from Janet Adamy, "Steady Diet: As Burgers Boom in Russia, McDonald's Touts Discipline," *Wall Street Journal*, October 16, 2007, p. A1; Fern Glazer, "NPD: QSR Chains Expanding Globally Must Also Act Locally," *Nation's Restaurant News*, October 22, 2007, p. 18; "McDonald's Eyes Russia with 40 New Stores," Reuters.com, February 27, 2009, <http://uk.reuters.com/article/idUKLQ86281720090226>; Nataliya Vasilveya, "McDonalds Fast-food Giant a Success Story in Russia with More Plans to Expand," *Associated Press*, February 2, 2010, [www.encyclopedia.com/doc/1G1-218074550.html](http://www.encyclopedia.com/doc/1G1-218074550.html); and information from [www.aboutmcdonalds.com/mcd](http://www.aboutmcdonalds.com/mcd), accessed November 2010.

Campbell found out the hard way that it couldn't just slap new labels on its products and peddle them abroad.<sup>34</sup>

In its first foray into China in the early 1990s, Campbell essentially slapped a Chinese label on its classic U.S. condensed soups. They sold well for a while, but when the novelty wore off, sales fell and Campbell withdrew. The company returned to China in 2007, but only after two years of thorough research with Chinese consumers. It found that in China, as well as Russia, there's a cultural disposition to cooking soup from scratch. In both countries, about 98 percent of soup is homemade. So, in both countries, Campbell has now introduced products that reduce the time to make homemade soup from 2.5 hours to about 45 minutes. Getting the product right is important. Consumers in each country typically eat soup four to five times per week, compared with once a week in the United States. Campbell estimates that if it could capture just 3 percent of the soup market in the two countries combined, it would create a business as big as the entire U.S. soup market.

### Product invention

Creating new products or services for foreign markets.

**Product invention** consists of creating something new to meet the needs of consumers in a given country. For example, companies ranging from computer and carmakers to candy producers have developed products that meet the special purchasing needs of low-income consumers in developing economies such as India and China. Ford developed the economical, low-priced Figo model especially for entry-level consumers in India. And Cadbury, long known for its premium chocolates, is now developing products for less affluent consumers in India and other developing economies:<sup>35</sup>

As more Indians begin to treat themselves to little luxuries, Cadbury hopes to capture millions of new customers with chocolates that sell for only a few pennies. The candy maker has been in India for more than 60 years and dominates the chocolate market

there with a 70 percent market share. For years, however, Cadbury was considered a luxury brand purchased only by the elite. But now Cadbury is taking aim at India's huge population of lower-income consumers by offering cheaper products. India constitutes a vast untapped market—less than half of India's 1.1 billion people have ever tasted chocolate. The premium candy maker's latest product for the low end of the Indian market is Cadbury Dairy Milk Shots—pea-sized chocolate balls sold for just two rupees, or about four U.S. cents, for a packet of two. Cadbury has also developed other small, low-cost candies, such as Eclair caramels, which cost about two cents each. Last year, emerging markets accounted for 35 percent of Cadbury's sales and about 60 percent of its sales growth.

## Promotion

Companies can either adopt the same communication strategy they use in the home market or change it for each local market. Consider advertising messages. Some global companies use a standardized advertising theme around the world. For example, Apple sold millions of iPods with a single global campaign featuring silhouetted figures dancing against a colorful background. And other than for language, the Apple Web site looks about the same for any of the more than 70 countries in which Apple markets its products, from Australia to Senegal to the Czech Republic.

Of course, even in highly standardized communications campaigns, some adjustments might be required for language and cultural differences. For example, in Western markets, Dove's high-impact Campaign for Real Beauty featured images of everyday women in their underwear. In the Middle East, however, where attitudes toward nudity are more conservative, the campaign was modified to simply reveal the face behind a woman's veil.<sup>36</sup>

Global companies often have difficulty crossing the language barrier, with results ranging from mild embarrassment to outright failure. Seemingly innocuous brand names and advertising phrases can take on unintended or hidden meanings when translated into other languages. For example, an Italian company's Traficante mineral water received an interesting reception in Spain, where the name translates as "drug dealer." And Motorola's Helomoto ring tone sounds like "Hello, Fatty" in India. (See Real Marketing 19.2 for more language blunders in international marketing.)

Other companies follow a strategy of **communication adaptation**, fully adapting their advertising messages to local markets. Kellogg ads in the United

States promote the taste and nutrition of Kellogg's cereals versus competitors' brands. In France, where consumers drink little milk and eat little for breakfast, Kellogg's ads must convince consumers that cereals are a tasty and healthful breakfast. In India, where many consumers eat heavy, fried breakfasts, Kellogg's advertising convinces buyers to switch to a lighter, more nutritious breakfast diet.

Similarly, Coca-Cola sells its low-calorie beverage as Diet Coke in North America, the United Kingdom, and the Middle and Far East but as Coke Light elsewhere. According to Diet Coke's global brand manager, in Spanish-speaking countries Coke Light ads "position the soft drink as an object of desire, rather than as a way to feel good about yourself, as Diet Coke is positioned in the United States." This "desire positioning" plays off research showing that "Coca-Cola Light is seen in other parts of the world as a vibrant brand that exudes a sexy confidence." (Check out this ad and others on YouTube: [www.youtube.com/watch?v=Tu5dku6YkHA](http://www.youtube.com/watch?v=Tu5dku6YkHA).)<sup>37</sup>



Even highly standardized global ad campaigns must be adapted to meet cultural differences. In Western markets, Dove's Campaign for Real Beauty featured images of everyday women in their underwear. But in the Middle East, where attitudes toward nudity are more conservative, the ads were modified to simply reveal the face behind a woman's veil.

### Communication adaptation

A global communication strategy of fully adapting advertising messages to local markets.



# Real Marketing 19.2

## Global Marketing: Watch Your Language!

Many global companies have had difficulty crossing the language barrier, with results ranging from mild embarrassment to outright failure. Seemingly innocuous brand names and advertising phrases can take on unintended or hidden meanings when translated into other languages. Careless translations can make a marketer look downright foolish to foreign consumers.

The classic language blunders involve standardized brand names that do not translate well. When Coca-Cola first marketed Coke in China in the 1920s, it developed a group of Chinese characters that, when pronounced, sounded like the product name. Unfortunately, the characters actually translated as “bite the wax tadpole.” Now the characters on Chinese Coke bottles translate as “happiness in the mouth.”

Several modern-day marketers have had similar problems when their brand names crashed into the language barrier. Chevy's Nova translated into Spanish as *no va*—“it doesn't go.” GM changed the name to Caribe (Spanish for Caribbean), and sales increased. Rolls-Royce avoided the name Silver Mist in German markets, where *mist* means “manure.” Sunbeam, however, entered the German market with its Mist Stick hair-curling iron. As should have been expected, the Germans had little use for a “manure wand.” IKEA marketed a children's workbench named FARTFULL (the word means “speedy” in Swedish); it soon discontinued the product.

Interbrand of London, the firm that created household names such as Prozac and Acura, recently developed a brand name “hall of shame” list, which contained these and other foreign brand names you're never likely to see inside the local Kroger supermarket: Krapp toilet paper (Denmark), Plopp chocolate (Scandinavia), Crapsy Fruit cereal (France), Poo curry powder (Argentina), and Pschitt lemonade (France).

Travelers often encounter well-intentioned advice from service firms that takes on meanings

very different from those intended. The menu in one Swiss restaurant proudly stated, “Our wines leave you nothing to hope for.” Signs in a Japanese hotel pronounced, “You are invited to take advantage of the chambermaid.” At a laundry in Rome, it was, “Ladies, leave your clothes here and spend the afternoon having a good time.”

Advertising themes often lose—or gain—something in the translation. The Coors beer slogan “get loose with Coors” in Spanish came out as “get the runs with Coors.” Coca-Cola's “Coke adds life” theme in Japanese translated into “Coke brings your ancestors back from the dead.” The milk industry learned too late that its American advertising question “Got Milk?” translated in Mexico as a more provocative “Are you lactating?” And in Chinese, the KFC slogan “finger-lickin' good” came out as “eat your fingers off.” And Motorola's Hellomoto ring tone sounds like “Hello, Fatty” in India. Even when the language is the same, word usage may differ from country to country. Thus, the classic British ad line for Electrolux vacuum cleaners—“Nothing sucks like an Electrolux”—would capture few customers in the United States.

So, crossing the language barrier involves much more than simply translating names and slogans into other languages. Beyond just word meanings and nuances, international marketers must also consider things such as phonetic appeal and even associations with historical figures, legends, and other factors. “You can't uproot a concept and just translate it and put it into another market,” says one translation

consultant. “It's not really about translating word for word, but actually adapting a certain meaning.” Says another, “If you fail to review what your brand is saying to a foreign market, you may wish you stayed home.”

**Sources:** Quotes, examples, and other information from Neil Payne, “Cross-Cultural Marketing Blunders,” July 28, 2008, accessed at [www.proz.com/translation-articles/articles/1909/1/Cross-Cultural-Marketing-Blunders-](http://www.proz.com/translation-articles/articles/1909/1/Cross-Cultural-Marketing-Blunders-); Randall Frost, “Lost in Translation,” *Brandchannel.com*, November 13, 2006, [www.brandchannel.com/features\\_effect.asp?pf\\_id=340](http://www.brandchannel.com/features_effect.asp?pf_id=340); David A. Ricks, “Perspectives: Translation Blunders in International Business,” *Journal of Language for International Business* 7, No. 2, 1996, pp. 50–55; Martin Croft, “Mind Your Language,” *Marketing*, June 19, 2003, pp. 35–39; Eric Pfanner, “Marketers Take a Fresh Look at the Language Barrier,” *New York Times*, July 22, 2007, [www.nytimes.com/2007/07/22/business/worldbusiness/22iht-ad23.1.6765550.html](http://www.nytimes.com/2007/07/22/business/worldbusiness/22iht-ad23.1.6765550.html); and Mark Young, “Don't Let Your Brand Get Lost in Translation,” *Brandweek*, February 8, 2010, p. 34.



**Global language barriers:** Some standardized names do not translate well globally. You won't likely find this French lemonade brand at your local Kroger.

Media also need to be adapted internationally because media availability and regulations vary from country to country. TV advertising time is very limited in Europe, for instance, ranging from four hours a day in France to none in Scandinavian countries. Advertisers must buy time months in advance, and they have little control over airtimes. However, cell phone ads are much more widely accepted in Europe and Asia than in the United States. Magazines also vary in effectiveness. For example, magazines are a major medium in Italy but a minor one in Austria. Newspapers are national in the United Kingdom but only local in Spain.<sup>38</sup>

## Price

Companies also face many considerations in setting their international prices. For example, how might Stanley Black & Decker price its tools globally? It could set a uniform price globally, but this amount would be too high a price in poor countries and not high enough in rich ones. It could charge what consumers in each country would bear, but this strategy ignores differences in the actual costs from country to country. Finally, the company could use a standard markup of its costs everywhere, but this approach might price Stanley Black & Decker out of the market in some countries where costs are high.

Regardless of how companies go about pricing their products, their foreign prices probably will be higher than their domestic prices for comparable products. An Apple iPad that sells for \$600 in the United States goes for \$750 in the United Kingdom. Why? Apple faces a *price escalation* problem. It must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Depending on these added costs, the product may have to sell for two to five times as much in another country to make the same profit.

To overcome this problem when selling to less-affluent consumers in developing countries, many companies make simpler or smaller versions of their products that can be sold at lower prices. For example, in China and other emerging markets, Dell sells its simplified Vostro PC for \$399, and Unilever and P&G sell consumer goods—everything from shampoo to toothpaste—in less costly formulations and smaller packages at more affordable prices.

Another problem involves setting a price for goods that a company ships to its foreign subsidiaries. If the company charges its foreign subsidiary too much, it may end up paying higher tariff duties even while paying lower income taxes in that country. If the company charges its subsidiary too little, it can be charged with *dumping*. Dumping occurs when a company either charges less than its costs or less than it charges in its home market.

For example, the United States has been slapping duties on a growing list of Chinese products—from tires to chickens—found to be unfairly priced. One such product is pipes used in oil and gas wells. It might not sound glamorous, but it's an \$11 billion market, with Chinese imports accounting for about 10 percent. When a group of American companies complained that Chinese firms were pricing these goods below market value, the U.S. Commerce Department agreed and imposed duties as high as 99 percent on oil field pipe imports from China.<sup>39</sup> Various governments are always watching for dumping abuses, and they often force companies to set the price charged by other competitors for the same or similar products.

Recent economic and technological forces have had an impact on global pricing. ● For example, the Internet is making global price differences more obvious. When firms sell their wares over the Internet, customers can see how much products sell for in different countries. They can even order a given product directly from the company location or dealer offering the lowest price. This is forcing companies toward more standardized international pricing.



● The Internet is making global price differences more obvious, forcing companies toward more standardized international pricing.

## Distribution Channels

### Whole-channel view

Designing international channels that take into account the entire global supply chain and marketing channel, forging an effective global value delivery network.

An international company must take a **whole-channel view** of the problem of distributing products to final consumers. **Figure 19.4** shows the two major links between the seller and the final buyer. The first link, *channels between nations*, moves company products from points of production to the borders of countries within which they are sold. The second link, *channels within nations*, moves products from their market entry points to the final consumers. The whole-channel view takes into account the entire global supply chain and marketing channel. It recognizes that to compete well internationally, the company must effectively design and manage an entire *global value delivery network*.

Channels of distribution within countries vary greatly from nation to nation. There are large differences in the numbers and types of intermediaries serving each country market and in the transportation infrastructure serving these intermediaries. For example, whereas large-scale retail chains dominate the U.S. scene, most of the retailing in other countries is done by small, independent retailers. In India, millions of retailers operate tiny shops or sell in open markets. Thus, in its efforts to sell those rugged, affordable phones discussed earlier to Indian consumers, Nokia has had to forge its own distribution structure.<sup>40</sup>



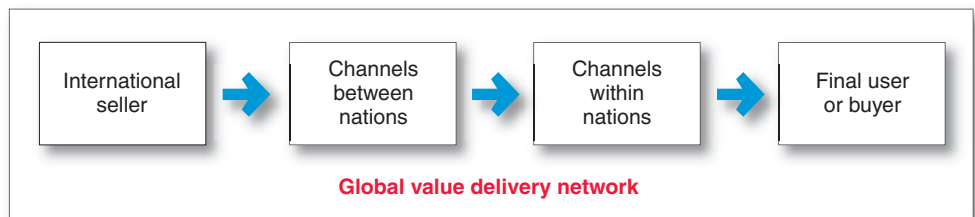
● Distribution channels vary greatly from nation to nation. In its efforts to sell rugged, affordable phones to Indian consumers, Nokia forged its own distribution structure, including a fleet of distinctive blue Nokia-branded vans that prowl rutted country roads to visit remote villages.

In India, Nokia has a presence in almost 90 percent of retail outlets selling mobile phones. It estimates there are 90,000 points-of-sale for its phones, ranging from modern stores to makeshift kiosks. That makes it difficult to control how products are displayed and pitched to consumers. “You have to understand where people live, what the shopping patterns are,” says a Nokia executive. “You have to work with local means to reach people—even bicycles or rickshaws.” ● To reach rural India, Nokia has outfitted its own fleet of distinctive blue Nokia-branded vans that prowl the rutted country roads. Staffers park these advertisements-on-wheels in villages, often on market or festival days. There, with crowds clustering around, Nokia reps explain the basics of how the phones work and how to buy them. Nokia has extended the concept to minivans, which can reach even more remote places. Thanks to smart product development and innovative channels, Nokia now owns an astounding 50 percent share of India’s mobile device market.

Similarly, Coca-Cola adapts its distribution methods to meet local challenges in global markets. For example, in Montevideo, Uruguay, where larger vehicles are challenged by traffic, parking, and pollution difficulties, Coca-Cola purchased 30 small, efficient three-wheeled ZAP alternative transportation trucks. The little trucks average about one-fifth the fuel consumption and scoot around congested city streets with greater ease. In rural areas, Coca-Cola uses a manual delivery process. In China, an army of more than 10,000 Coca-Cola sales reps

Distribution channels between and within nations can vary dramatically around the world. For example, in the United States, Nokia distributes phones through a network of sophisticated retailers. In rural India, it maintains a fleet of Nokia-branded vans that prowl the rutted country roads.

● **FIGURE | 19.4**  
Whole-Channel Concept for International Marketing





make regular visits to small retailers, often on foot or bicycle. To reach the most isolated spots, the company even relies on teams of delivery donkeys. In Tanzania, 93 percent of Coca-Cola's products are manually delivered via pushcarts and bicycles.<sup>41</sup>

**Author Comment** | Many large companies, regardless of their "home country," now think of themselves as truly *global* organizations. They view the entire world as a single borderless market. For example, although headquartered in Chicago, Boeing is as comfortable selling planes to Lufthansa or Air China as to American Airlines.

## Deciding on the Global Marketing Organization (pp 573–574)

Companies manage their international marketing activities in at least three different ways: Most companies first organize an export department, then create an international division, and finally become a global organization.

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company will establish an *export department* with a sales manager and a few assistants. As sales increase, the export department can expand to include various marketing services so that it can actively go after business. If the firm moves into joint ventures or direct investment, the export department will no longer be adequate.

Many companies get involved in several international markets and ventures. A company may export to one country, license to another, have a joint ownership venture in a third, and own a subsidiary in a fourth. Sooner or later it will create *international divisions* or subsidiaries to handle all its international activity.

International divisions are organized in a variety of ways. An international division's corporate staff consists of marketing, manufacturing, research, finance, planning, and personnel specialists. It plans for and provides services to various operating units, which can be organized in one of three ways. They can be *geographical organizations*, with country managers who are responsible for salespeople, sales branches, distributors, and licensees in their respective countries. Or the operating units can be *world product groups*, each responsible for worldwide sales of different product groups. Finally, operating units can be *international subsidiaries*, each responsible for their own sales and profits.

Many firms have passed beyond the international division stage and are truly *global organizations*. For example, consider Reckitt Benckiser (RB), an \$11 billion European producer of household, health, and personal care products and consumer goods with a stable full of familiar brands (Air Wick, Lysol, Woolite, Calgon, Mucinex, Clearasil, French's, and many others—see [www.rb.com](http://www.rb.com)):<sup>42</sup>

RB has operations in more than 60 countries. Its top 400 managers represent 53 different nationalities. Although headquartered in the United Kingdom, an Italian runs its UK business, an American runs the German business, and a Dutchman runs the U.S. business. An Indian runs the Chinese business, a Belgian the Brazilian business, a Frenchman the Russian business, an Argentine the Japanese business, a Brit the Middle East North Africa business and a Czech the South Africa business. "Most of our top managers . . . view themselves as global citizens rather than as citizens of any given nation," says RB's chief executive officer.

The company has spent the past decade building a culture of global mobility because it thinks that's one of the best ways to generate new ideas and create global entrepreneurs. And it has paid



European household, health, and personal and consumer goods producer Reckitt Benckiser has a truly global organization. "Most of our top managers . . . view themselves as global citizens rather than as citizens of any given nation."

off. Products launched in the past three years—all the result of global cross-fertilization—account for 35–40 percent of net revenue. Over the past few years, even during the economic downturn, the company has outperformed its rivals—P&G, Unilever, and Colgate—in growth.

Global organizations don't think of themselves as national marketers who sell abroad but as global marketers. The top corporate management and staff plan worldwide manufacturing facilities, marketing policies, financial flows, and logistical systems. The global operating units report directly to the chief executive or the executive committee of the organization, not to the head of an international division. Executives are trained in worldwide operations, not just domestic *or* international operations. Global companies recruit management from many countries, buy components and supplies where they cost the least, and invest where the expected returns are greatest.

Today, major companies must become more global if they hope to compete. As foreign companies successfully invade their domestic markets, companies must move more aggressively into foreign markets. They will have to change from companies that treat their international operations as secondary to companies that view the entire world as a single borderless market.

## REVIEWING Objectives AND KEY Terms

Companies today can no longer afford to pay attention only to their domestic market, regardless of its size. Many industries are global industries, and firms that operate globally achieve lower costs and higher brand awareness. At the same time, global marketing is risky because of variable exchange rates, unstable governments, protectionist tariffs and trade barriers, and several other factors. Given the potential gains and risks of international marketing, companies need a systematic way to make their global marketing decisions.

**Objective 1** Discuss how the international trade system and the economic, political-legal, and cultural environments affect a company's international marketing decisions. (pp 552–562)

A company must understand the *global marketing environment*, especially the international trade system. It must assess each foreign market's *economic, political-legal, and cultural characteristics*. The company must then decide whether it wants to go abroad and consider the potential risks and benefits. It must decide on the volume of international sales it wants, how many countries it wants to market in, and which specific markets it wants to enter. These decisions call for weighing the probable rate against the level of risk.

**Objective 2** Describe three key approaches to entering international markets. (pp 562–565)

The company must decide how to enter each chosen market—whether through *exporting, joint venturing, or direct investment*. Many companies start as exporters, move to joint ventures, and finally make a direct investment in foreign markets. In *exporting*, the company enters a foreign market by sending and selling products through international marketing intermediaries (indirect exporting) or the company's own department, branch, or sales representative or agents (direct exporting). When establishing a *joint venture*, a company enters foreign markets by joining with foreign companies to produce or market a product or service. In *licensing*, the company enters a foreign market by contracting with a licensee in the foreign market, offering the right to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty.

**Objective 3** Explain how companies adapt their marketing mixes for international markets. (pp 565–573)

Companies must also decide how much their products, promotion, price, and channels should be adapted for each foreign mar-

ket. At one extreme, global companies use *standardized global marketing* worldwide. Others use *adapted global marketing*, in which they adjust the marketing strategy and mix to each target market, bearing more costs but hoping for a larger market share and return. However, global standardization is not an all-or-nothing proposition. It's a matter of degree. Most international marketers suggest that companies should “think globally but act locally”—that they should seek a balance between globally standardized strategies and locally adapted marketing mix tactics.

### Objective 4 Identify the three major forms of international marketing organization. (pp 573–574)

The company must develop an effective organization for international marketing. Most firms start with an *export department* and graduate to an *international division*. A few become *global organizations*, with worldwide marketing planned and managed by the top officers of the company. Global organizations view the entire world as a single, borderless market.

## KEY Terms

### OBJECTIVE 1

Global firm (p 553)  
Economic community (p 555)

### OBJECTIVE 2

Exporting (p 563)  
Joint venturing (p 563)  
Licensing (p 563)

Contract manufacturing (p 564)  
Management contracting (p 564)  
Joint ownership (p 564)  
Direct investment (p 565)

### OBJECTIVE 3

Standardized global marketing (p 565)  
Adapted global marketing (p 565)

Straight product extension (p 566)  
Product adaptation (p 566)  
Product invention (p 568)  
Communication adaptation (p 569)  
Whole-channel view (p 572)



- Check your understanding of the concepts and key terms using the mypearsonmarketinglab study plan for this chapter.
- Apply the concepts in a business context using the simulation entitled **Global Marketing**.

## DISCUSSING & APPLYING THE Concepts

### Discussing the Concepts

1. Explain what is meant by the term *global firm* and list the six major decisions involved in international marketing. (AACSB: Communication)
2. Discuss the types of restrictions governments might impose on trade between nations. (AACSB: Communication)
3. Name and define the four types of country industrial structures. (AACSB: Communication)
4. What factors do companies consider when deciding on possible global markets to enter? (AACSB: Communication; Reflective Thinking)
5. Discuss the three ways to enter foreign markets. Which is the best? (AACSB: Communication; Reflective Thinking)
6. Discuss how global distribution channels differ from domestic channels. (AACSB: Communication)

### Applying the Concepts

1. Visit [www.transparency.org](http://www.transparency.org) and click on “corruption perception index.” What is the most recent Corruption

2. Perceptions Index (CPI) for the following countries: Denmark, Jamaica, Malaysia, Myanmar, New Zealand, Somali, and the United States? What are the implications of this index for U.S.-based companies doing business in these countries? (AACSB: Communication; Use of IT; Reflective Thinking)
2. The United States restricts trade with Cuba. Visit the U.S. Department of the Treasury Web site at [www.ustreas.gov/offices/enforcement/ofac](http://www.ustreas.gov/offices/enforcement/ofac) to learn more about economic and trade sanctions. Click on the “Cuba Sanctions” link to learn more about the trade restrictions on Cuba. Are these tariff, quota, or embargo restrictions? To what extent do these trade restrictions allow U.S. businesses to export their products to Cuba? (AACSB: Communication; Use of IT; Reflective Thinking)
3. Visit the Central Intelligence Agency’s World Factbook at [www.cia.gov/library/publications/the-world-factbook](http://www.cia.gov/library/publications/the-world-factbook). In a small group, select a country and describe the information provided about that country on this site. How is this information useful to marketers? (AACSB: Communication; Use of IT; Reflective Thinking)



## FOCUS ON Technology

“Reverse innovation,” “innovation blowback,” and “trickle-up innovation” are terms used to describe the process by which innovations developed to meet the needs of emerging markets make their way into developed markets. Traditionally, innovations are birthed in developed countries, with older models later offered in lower-income markets, such as India and China. Although many “bottom of the pyramid” emerging markets are low on the economic food chain, they are large in numbers, providing opportunities for businesses that meet growing needs at an affordable price. GE, the dominant maker of expensive electrocardiograph (ECG) machines sold to hospitals, developed a lower-priced, small, battery-powered ECG machine for use in India and China. GE then

marketed this product to primary care doctors, visiting nurses, and rural hospitals and clinics in the United States. Reverse innovation is not limited to technological products; it can apply to products as basic as yogurt.

1. Learn more about how GE used reverse innovation to capitalize on opportunities in the United States. Find two other examples of reverse innovation for technological products. (AACSB: Communication; Reflective Thinking)
2. Discuss two examples of reverse innovation for nontechnology products. (AACSB: Communication; Reflective Thinking)

## FOCUS ON Ethics

Imagine Ford building a passenger van in Turkey, shipping it to the United States, and then ripping out the back windows and seats to convert it into a delivery van. The fabric and foam from the seats are shredded and become landfill cover, while the steel and glass are recycled in other ways. Seems like a waste, doesn't it? Well, that's actually cheaper than paying the 25 percent tariff Ford would have to pay to import its own delivery vans. The windows and seats are there just to get around an ongoing trade spat with Europe, known as the “chicken tax.” In the 1960s, Europe imposed high tariffs on imported chicken due to increased U.S. poultry sales to West Germany. In retaliation, U.S. President Johnson imposed a tax on imports of foreign-made trucks and commercial vans—specifically targeting German-made Volkswagens. The chicken tax has long pestered automakers. Even U.S. automobile

companies such as Ford must pay the tariff, which is ironic because U.S. trade rules have protected the U.S. automakers' truck market for years. However, converting the vehicle into a delivery truck after reaching our shores represents costs of 2.5 percent, significantly lower than the 25 percent tariff if the vehicle came into the country that way.

1. Should U.S. companies be penalized for importing their own products from other countries? (AACSB: Communication; Ethical Reasoning)
2. Although Ford is complying “with the letter of the law,” are Ford's actions proper? (AACSB: Communication; Ethical Reasoning)

## MARKETING & THE Economy

### SPAM

For decades, SPAM (the Hormel canned meat product, not unwanted e-mail) has been the brunt of bad jokes. But it's all in good fun, as consumers all around the world gobble up hundreds of millions of dollars worth of the pork concoction every year. In the United Kingdom, deep-fried SPAM slices—known as SPAM fritters—adorn menus at fish and chips shops. In Japan, it's an ingredient in a popular stir-fry dish. South Koreans eat the meat with rice or wrap it up in sushi rolls. In Hawaii, even McDonald's and Burger King sell SPAM specialties.

But here's one of the most interesting things about SPAM: the “SPAM Index.” Over the years, SPAM sales have been very strongly and inversely correlated with economic indicators that some analysts consider the canned meat's revenues themselves as an index

of economic conditions. The Great Recession was no exception. SPAM experienced double-digit increases in sales after economists officially announced the beginning of the recession. Hormel responded by launching SPAM's first major advertising campaign in five years. Radio, TV, and print ads carry a “Break the Monotony” message, showing how SPAM can breathe new life into home-cooked meals. The Hormel Web site boasts 350 new SPAM recipes, including Cheesy Country SPAM Puff, SPAMaroni, and SPAM Lettuce Wraps. A little bit of SPAM goes a long way.

1. Why does SPAM have such universal appeal to global consumers?
2. What recommendations would you make to Hormel to keep SPAM sales high when the economy is once again strong?

## MARKETING BY THE Numbers

A country's import/export activity is revealed in its balance-of-payments statement. This statement includes three accounts: the current account, the capital account, and the reserves account. The current account is most relevant to marketing because it is a record of all merchandise exported from and imported into a country. The latter two accounts record financial transactions. The U.S. Department of Commerce's Bureau of Economic Analysis provides yearly and monthly figures on the country's trade in goods and services.

1. Visit [www.bea.gov](http://www.bea.gov) and find the U.S. international trade in goods and services for the most recent year available. What does that number mean? (AACSB: Communication; Use of IT; Reflective Thinking)
2. Search the Internet for China's balance of trade information for the same year. How does it compare to that of the United States? (AACSB: Communication; Use of IT; Reflective Thinking)

## VIDEO Case

### Monster

In 1994, Monster Worldwide pioneered job recruiting on the Internet with Monster.com. Today, it is the only online recruitment provider that can service job seekers and job posters on a truly global basis. With a presence in 50 countries around the world, Monster has unparalleled international reach. And although global economic woes have hindered the growth of corporations everywhere, Monster is investing heavily with plans to become even bigger worldwide. Most recently, Monster's international expansion has included the purchase of ChinaHR.com giving it a strong presence in the world's largest country. Monster already gets about 45 percent of its annual revenue of \$1.3 billion from outside the United States. But it expects to become even more

global in the coming years. To back that geographic expansion, Monster is also inventing heavily in search technologies and Web design in order to appeal to clients everywhere.

After viewing the video featuring Monster Worldwide, answer the following questions about the company and the global marketplace:

1. Which of the five strategies for adapting products and promotion for global markets does Monster employ?
2. Which factors in the global marketing environment have challenged Monster's global marketing activities most? How has Monster met those challenges?

## COMPANY Case

### Nokia: Envisioning a Connected World

What brand of cell phone do you own? If you're living in the United States, chances are it isn't a Nokia. But if you're living anywhere else in the world, it probably is. The Finnish electronics company grabs only a single-digit slice of the U.S. cell phone pie, but it dominates the global cell phone market with close to a 40 percent share. Few companies lead their industries the way that Nokia does. Half of the world's population holds an active cell phone, and more than one in three of those phones is a Nokia. That's over one billion people holding a cell phone with a Nokia logo. Perhaps even more amazing, the company sells half-again that many—about half a billion—phones every year. In fact, Nokia sells more cell phones each year than its three closest rivals—Samsung, Motorola, and Sony-Ericsson—combined!

You might think that Nokia has accomplished this feat by being the product leader, always introducing the latest cutting-edge gadget. But Nokia has actually been slow to take advantage of design trends, such as clamshell phones; "candy-bar" phones that slide open and closed; and ultrathin, blingy, multifunction phones. Rather, Nokia has risen to global dominance based on a simple, age-old strategy: sell basic products at low prices. Although Nokia markets a huge variety of cell phone models, it is best known for its trademarked easy-to-use block handset. Nokia mass produces this basic reliable hardware cheaply and ships it in huge volumes to all parts of the world.

### GAINING STRENGTH AS THE VOLUME LEADER

Based in Finland, Nokia's single most profit- and revenue-generating region is Europe. But the company's global strategy has been likened to that of Honda decades ago. Honda started by focusing on developing markets with small motorbikes. As the economies

of such countries emerged and people could afford cars, they were already loyal to Honda.

Nokia has followed that same model. It sells phones in more than 150 countries, and in most of those countries, it is the market leader. Nokia has a real knack for forging regional strategies based on the overall needs of its consumers. But Nokia has filled its coffers by understanding the growth dynamics of specific emerging markets. Soren Peterson, Nokia's senior vice president of mobile phones, understands that concept more than anyone. He spends a great deal of his time studying the needs of consumers in emerging markets. And for the most part, these consumers need cheap phones.

To that end, Petersen has led Nokia on a crusade to bring down costs and make its phones even less expensive. Petersen cites an example of one cost-cutting tactic that sparked a chain of events at Nokia. While on a visit to Kenya, he stopped by an "excessively rural storefront," where he noticed that all products were displayed in plastic bags. When he asked the merchant where the boxes and manuals had gone, the man replied, "Make good fire." Petersen quickly realized that packaging for many areas of the world barely needed to "last the journey." Packaging changes resulted in a savings of \$147 million a year.

Among other notable discoveries for emerging markets, Nokia developed an icon-based interface to replace text, a welcome innovation for many people in the world who don't know how to read. Nokia also added multiple phonebooks to its devices, based on the fact that many people in less-developed countries share their phones with up to a half-dozen other people. Nokia has even developed an inexpensive charging kit for bicycles with a dynamo that attaches to the wheel and a phone holder for the handlebars. At 7.5 miles per hour, it charges as fast as a traditional wall charger.

## CAPITALIZING ON MARKET LEADERSHIP

Just as Honda used strength gained from selling motorbikes in emerging countries to establish itself as a manufacturer of virtually every kind of passenger vehicle, Nokia aims to do the same in the mobile industry. Although Nokia remains committed to the entry-level market and emerging nations, it has developed a comprehensive global strategy. According to Nokia's vision statement, that strategy has three facets: growing the number of people using Nokia devices, transforming the devices people use, and building new businesses.

For the first part of this plan, Nokia projects that global cell phone usage will reach five billion users by 2015. That means Nokia can significantly increase the number of phones it sells, even if it doesn't increase its market share. In fact, if Nokia simply holds its current share of the market, that means that approximately 1.7 billion people will be holding Nokia phones, 67 percent more than today. That's good news for Nokia. According to one analyst, given the number of players in the global market, it will be almost impossible for Nokia to maintain a 40 percent share.

As for transforming the devices that people use, Nokia is aiming to become more than just an entry-level phone provider. Of its 123,000 employees, almost one-third work in R&D, and R&D expenses account for approximately 10 percent of net sales. Nokia invests heavily in developing more cutting-edge devices in hopes that as its customers in developing nations gain the resources, they will trade-up and stay with Nokia. Nokia may have an advantage here. Beyond selling lots of phones, Nokia is also one of the most trusted brands in the world. With a brand value of \$35 billion, it's the fifth-most-valuable brand in the world. "The trust is so high, it has less trouble than other brands getting a customer back who may have tried out a competing brand," says a branding expert.

Nokia also recognizes that the biggest trends in mobile devices are music, navigation, and gaming. Focusing on these activities, it is collaborating with the best minds in the business to find ways to add value for the consumer. Nokia appears poised to take advantage of the convergence of the Internet, media, and the cell phone. Last year, Nokia sold more than 200 million camera phones (far more cameras than Canon) and more than 140 million music phones (Apple only sold 52 million iPods). Thus, through its mobile handsets, Nokia can claim to sell more computers, portable music players, and cameras than any other company. However, it has yet to find a way to secure a steady income stream from its devices once they are in place.

This creates a logical transition to the third leg of Nokia's strategy, building new businesses. In an effort to gain income from existing devices, Nokia has opened its "Ovi Store." The goal is to accomplish something that has eluded many mobile network operators—building a profitable business in mobile services. The Ovi Store is a one-stop shop that connects consumers with content providers through their Nokia phones. Users can access apps, games, videos, widgets, podcasts, location-based services, and personalized content. Nokia customers all over the planet now download more than one million apps per day; that's not close to the 30 million apps downloaded from Apples iTunes store, but it's a start.

Nokia continues to develop a host of mobile services, including Point & Find (a service that lets users gain relevant Internet content by simply pointing a camera phone at a real-world object), Nokia Home Control Center (lets users interact with home appliances and devices), and various satellite location services. Not only has the cell phone giant invested a great deal of money in these projects, it has also lured executives from Yahoo!, Microsoft, eBay, and IBM and is collaborating with numerous other corporations to help build these business ventures.

## STORM ON THE HORIZON

Regardless of the fact that Nokia dominates the cell phone market, it seems that the latest wares from smaller competitors have been the darlings of the press. In an attempt to downplay the initial success of Apple's iPhone after it sold four million units its first year out, one Nokia vice president was heard to say, "We've done that since we've had dinner last Friday." That statement was meant to draw attention to the fact that Apple has only 4 percent of the global cell phone market. But given the shifting tides of consumer preference, it is now apparent that Nokia has a serious threat on its hands.

Growth in smartphones is fast outpacing the growth of the overall market. Although global sales of mobile handsets surged 17 percent in the first quarter of 2010, most of that was due to the increasing hunger for smartphones, which grew by a whopping 40 percent, the strongest annual increase for the category since 2006. Despite Nokia's R&D efforts to expand its portfolio of high-end devices, the company still lags in that area. Smartphones are the only phones that Apple makes, so it is poised to enjoy the lion's share of market growth. For example, Apple sold 83 percent more iPhones in 2009 than it did the year before, a bigger bump than any other company. In terms of market share, that translates to a jump from 3 percent of the global smartphone market to more than 13 percent.

Nokia still holds the title not only for the most phones sold but also for the most smartphones, with a 39 percent share. But Apple has hit another home run with its new iPhone4. On the first day of preorders, the company sold 600,000 units (a company record) despite the fact that higher than expected volume crashed the servers at both Apple's online store and AT&T. Close on the heels of Apple's new "must have," Samsung's Galaxy S and Sony Ericsson's



son's Xperia X10 will also be on the market. And Google's open-platform Android now boasts the fourth most widely used mobile-operating system.

Falling behind in this rapidly growing market segment is taking its toll on Nokia's financial performance. Halfway through 2010, the Finnish giant announced that its market share by volume would be flat for the year. Given that smartphones have higher prices and higher margins, this means that Nokia's share of the market by revenue would actually drop. Nokia dropped another bomb on investors by admitting that its profits would also be lower than previously forecasted.

But Nokia is determined to stay in the battle. Months following the release of the latest gadgets by its competitors, Nokia will launch its impressive new N8, complete with a 12-megapixel camera, high definition video, and streaming TV services. But given its competitors' head start, many analysts question just how much of a splash Nokia's top-end model will make.

### Questions for Discussion

1. Does Nokia have a truly global strategy or just a series of regional strategies? Explain.
2. Consider the different global marketing environments discussed in the text. How do these environments differ in developing versus developed countries?
3. Discuss Nokia's global strategy in terms of the five global product and communications strategies.
4. Can competitors easily replicate Nokia's global strategy? Why or why not?
5. Based on the most recent competitive threats, what do you predict for Nokia in the coming years?

**Sources:** Kit Eaton, "Nokia Profit Warning: It's Been Outmaneuvered by Apple," *Fast Company*, June 16, 2010, accessed at [www.fastcompany.com](http://www.fastcompany.com); Ruth Bender, "Apple, RIM Gain Ground in Handset Market," *Wall Street Journal*, May 20, 2010, accessed at <http://online.wsj.com>; Matt Kapko, "Nokia World: Strategies for the U.S., Emerging Markets," *RCR Wireless News*, December 17, 2007, p. 16; James Ashton, "Emerging Markets Help Nokia to Win Race for Mobile Supremacy," *Sunday Times (London)*, January 27, 2008, p. 11.