

The world is a stage, but the play
is badly cast.

OSCAR WILDE

The global marketplace

CHAPTER

SIX

Chapter objectives

After reading this chapter, you should be able to:

- Discuss how the international trade system, economic, political–legal and cultural environments affect a company’s international marketing decisions.
- Describe three key approaches to entering international markets.
- Explain how companies adapt their marketing mixes for international markets.
- Distinguish between the three major forms of international marketing organisation.

Mini Contents List

- Prelude case – Jägermeister: Schnapps goes to college
- Introduction
- Global marketing in the twenty-first century
- Looking at the global marketing environment
- Deciding whether to go international
- Deciding which markets to enter
- Marketing Insights 6.1 – Emerging markets: going east
- Deciding how to enter the market
- Deciding on the global marketing programme
- Marketing Insights 6.2 – McDonald’s French-style!
- Deciding on the global marketing organisation
- Summary
- Concluding concepts 6 – Making the global tippie: soil, climate, aspect and mystique

Prelude case Jägermeister: Schnapps goes to college



Hasso Kaempfe and his team at Jägermeister face the unenviable task of surviving as a medium-sized family-owned outfit, in a difficult economic environment, with the help of a single product that is hardly a 'must-have'. Yet Mr Kaempfe has no reason to regret his decision, five years ago, to leave his job on the board of Tchibo, the Hamburg-based coffee roasting empire, and head to the town of Wolfenbüttel to take on the task of managing Jägermeister, the liqueur maker. At the very least, the job has provided the pleasant challenge of selling a product whose image has traditionally been more closely associated with hunting and grandmothers' after-dinner tipples than the up-and-coming, free-spending group most beverages companies like to woo. Jägermeister, which is sold in chunky green bottles emblazoned with a stag, is made to a closely guarded recipe using 56 herbs and spices. Its tangy, herbal taste and brown colour are more reminiscent of cough syrup than the fashionable alcopops and flavoured vodkas currently in vogue in student bars and trendy restaurants across the world. Yet the Jägermeister name is now better known than ever before in the company's 125-year history.

Jägermeister's tangy, herbal taste and brown colour are more reminiscent of cough syrup than fashionable alcopops and flavoured vodkas.

Mr Kaempfe's approach has differed from that generally seen in the industry. Rather than trying to enforce a single, blanket image across all its geographical markets, the company has adapted the Jägermeister brand and marketing strategy for each country. Most companies try to market products with a single image that makes them instantly recognisable anywhere in the world. 'Becks, Campari, Sol, Corona, Jack Daniels, all have a single global image carefully nurtured and pushed by their respective owners. Country-specific advertising exists, but the overall image is the same', says Mr Kaempfe. This approach is not without merits, he says, but impractical for a niche company such as Jägermeister.

Rather than fearing that diversity could dilute brand recognition, Mr Kaempfe insists it is a vital factor in Jägermeister's success and future survival in the face of shifting tastes. 'We have slightly different images in our various key markets. This hedges the risk we have as a single-product company and means we see no need to diversify by buying in other brands', he says.

Fifty-eight per cent of sales now go abroad (up from 46 per cent in 1998), and group sales in 2002 have risen to €222 m (€153 m) last year from DM365 m (€182 m) in 1998. Nearly 30 per cent goes to the US, despite a name that hardly trips off the tongue and the fact that the US has little tradition of drinking schnapps. Jägermeister's initial success in the US is based on its positioning in bars in the late 1990s. Jägermeister managed to

build on its popularity via product promotions and sponsorship. As a result, any college student in the US is likely to know the drink as something they have got drunk on at least once in the past year. Jägermeister spends no money on media advertising in the US. Instead, 'Jägerettes' girls dispense samples with a touch of raunchiness and its garish orange banners and T-shirts are common at US music events. In this way, it has become a 'college dorm joy-juice' with Jack Daniels and José Cuervo as its main competitors.

Ironically, few Europeans are aware that Jägermeister has attained cult status among US students, because their image of the liqueur is very different. In Italy, Jägermeister's second biggest export market, the drink is considered an upmarket, elegant version of local digestivi (after-dinner drinks) such as Ramazzotti and Averna, rather than the stuff of wild college parties. In the UK, Jägermeister is slowly gaining a foothold by targeting young adults in their twenties. Germans, meanwhile, continue to see Jägermeister as a traditional schnapps, albeit one with an increasingly cool image. The company uses Jägerettes, promotion activities and give-aways in its home country but it focuses less on universities and music sponsorship. It can also afford classic media advertising. Backed by a cheeky campaign featuring two talking wall-mounted stags, Jägermeister has undergone one of the most successful brand rejuvenations ever seen in Germany.

Beyond that, Mr Kaempfe plans to promote the brand in central and eastern Europe, Spain and Finland and, longer term, in Australia and Brazil. Judging by the speed of its growth over the past five to six years, those countries may not have long to wait. 'But we can afford to be patient', says Mr Kaempfe. 'That is one of the advantages about being family-owned; we do not constantly have to produce rapid growth for each quarterly report.'¹

Questions

You should attempt these questions only after completing your reading of this chapter.

1. What are the key factors that Jägermeister should consider when deciding on which new country-markets to enter?
2. What modes of market entry might Jägermeister consider when expanding into new foreign markets? Assess their merits and disadvantages.
3. What constitutes an effective global marketing programme for a company such as Jägermeister?

SOURCE: Bettina Wassener, 'Schnapps goes to college', *Financial Times* (4 September 2003), p. 15.

Introduction

With faster communication, transportation and financial flows, the world is rapidly shrinking. Brands or products originating from one country – Gucci handbags, Mont Blanc pens, German BMWs, Japanese sushi, McDonald's hamburgers – are finding enthusiastic acceptance in others.

International trade is booming. Since 1969, the number of multinational corporations in the world's 14 richest countries has more than tripled from 7,000 to 24,000. These companies control one-third of all private-sector assets and enjoy world sales of \$6 trillion (€4.96 trillion). Imports of goods and services now account for 24 per cent of gross domestic product worldwide, double that of 40 years ago. World trade now accounts for 29 per cent of world GDP, a 10 per cent increase since 1990.² The US exported more than any other single country, with foreign sales of \$695 bn (€781 bn) or 12.4 per cent of world exports in 1999. However, the EU, with exports of nearly €800 bn in 1999, took a bigger share (18.9 per cent) of world trade.³ Increasingly, every firm, large or small, faces global marketing issues.

Because of its special importance, we will focus exclusively on this topic in this chapter. We will address the key decisions marketers make in going global: analysing the global environment; deciding whether or not to go international; deciding which markets to enter and how to enter; deciding the global marketing programme; and determining the global marketing organisation.

Global marketing in the twenty-first century

Companies pay little attention to international trade when the home market is big and teeming with opportunities. The home market is also much safer. Managers do 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 different. The business environment is changing and firms cannot afford to ignore international markets. Countries around the world increasingly rely on each other's goods and services. And companies once protected from foreign competition now have to adopt a more global outlook in their approach to business.

True, many companies have been carrying on international activities for decades. Across Europe and North America, names such as Toyota, Sony, Panasonic and Toshiba have become household words in the same way as Kodak, McDonald's, Gillette, Nestlé, Nokia, Mercedes and IKEA are familiar names to most consumers in Asian countries like Japan, Singapore and Thailand. But today global competition is intensifying. Foreign firms are expanding aggressively into new international markets and home markets are no longer as rich in opportunity. Local companies that never thought about foreign competitors suddenly find these competitors in their own backyards. The firm that stays at home to play it safe not only misses the opportunity to enter other markets, but also risks losing its home market.

Although some nations and companies would like to stem the tide of foreign imports through protectionism, in the long run this would only raise the cost of living and protect inefficient domestic firms. The better way for companies to compete is to improve their products continuously at home and expand into foreign markets.

Companies that delay taking steps towards internationalising risk being shut out of growing markets around the world. Firms that stay at home to play it safe may not only

lose their chances to enter other markets, but also risk losing their sales to companies from neighbouring countries who have invaded their home markets.

Ironically, although the need for companies to go abroad is greater today than in the past, so are the risks. Companies that go global confront several major problems. High debt, inflation and unemployment in many countries have resulted in highly unstable governments and currencies, which limit trade and expose foreign firms to many risks. Governments are placing more regulations on foreign firms, such as requiring joint ownership with local partners, mandating the hiring of foreign nationals, and limiting profits that can be taken from the country. Moreover, some governments often impose high tariffs or trade barriers in order to protect their own industries. Finally, corruption is an increasing problem – officials in several countries often award business not to the best bidder, but to the highest briber.

Still, companies selling in global industries have no choice but to internationalise their operations and strive to be a global firm. A **global industry** is one in which the strategic positions of competitors in given geographic or national markets are affected by their overall global positions. A **global firm** is one that, by operating in more than one country, gains research and development, production, marketing and financial advantages that are not available to purely domestic competitors. The global company sees the world as one market. It minimises the importance of national boundaries, and raises capital, obtains materials and components, and manufactures and markets its goods wherever it can do the best job. For example, Ford's 'world truck' sports a cab made in Europe and a chassis built in North America. It is assembled in Brazil and imported to the United States for sale. Thus global firms gain advantages by planning, operating and coordinating their activities on a worldwide basis. These gains are a key reason behind the recent global restructuring programmes undertaken by leading German car producers BMW and Mercedes-Benz. **Global marketing** is concerned with integrating or standardising marketing actions across a number of geographic markets. This does not rule out adaptation of the marketing mix to individual countries, but suggests that firms, where possible, ignore traditional market boundaries and capitalise on similarities between markets to build competitive advantage.

Because firms around the world are globalising at a rapid rate, domestic firms in global industries must act quickly before the window closes. This does not mean that small and medium-sized firms must operate in a dozen countries to succeed. These firms can practise global niching. In fact, companies marketing on the Internet may find themselves going global whether they intend it or not. In many cases, they may run up against unexpected problems, especially governmental or cultural restrictions. Even established Internet marketers are only beginning to discover the reality of global cyber marketing.

For example, in Germany, a vendor cannot accept payment via credit card until two weeks after an order has been sent. It is also illegal for credit card companies and direct-marketing firms to gather certain types of data on potential applicants. Such restrictions, sometimes combined with underdeveloped banking systems, have limited credit-card and direct-mail usage in many countries. Consider another example. Recently, two French anti-racism groups sued Yahoo! to remove collectibles such as swastika flags and Nazi uniforms from its American website, as it is illegal in France to display or sell objects that incite racial hatred. A French judge subsequently ruled that Yahoo!, the leading Web portal, must block French users from viewing and buying Nazi memorabilia on its American auction site, or else pay a fine. Although there was a remote chance that such a ruling will ever be enforced for technical as well as legal reasons, the decision sets a precedent for the way in which national governments might impose their own laws in an online world that has seemingly transcended country borders. Although some are quick to dismiss the ruling against Yahoo! as an amusing French attempt to defy commercial reality, many fear that the decision will incite other countries to try to impose laws on foreign Web services. This could mean costly reprogramming of sites to comply with many different jurisdictions.⁴

Global industry—An industry in which the strategic positions of competitors in given geographic or national markets are affected by their overall global positions.

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

Global marketing—Marketing that is concerned with integrating or standardising marketing actions across different geographic markets.

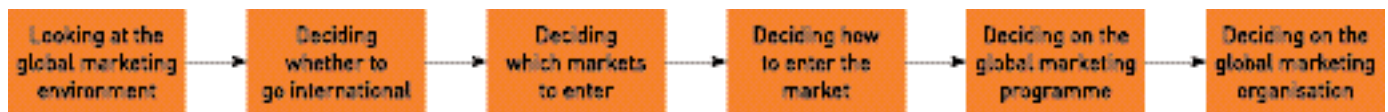


Figure 6.1 Major decisions in international marketing

Despite the barriers, however, global Internet enterprise is growing rapidly. For companies that wish to go or stay global, the Internet and online services can represent an easy way to get started, or to reinforce other marketing efforts. Moreover, the world is becoming smaller and every business operating in a global industry – whether large or small, online or offline – must assess and establish its place in world markets.

Increasing globalisation means that all companies have to answer some basic questions. What market position should we try to establish in our country, in our economic region (e.g. western Europe, eastern Europe, North America, Asia, Pacific Rim) 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 6.1, a company faces six major decisions in international marketing. Each decision will be discussed in detail.

Looking at the global marketing environment

Doing international business successfully requires firms to take a broad market perspective.

Understanding the global environment

Before deciding whether or not to sell abroad, a company must thoroughly understand the international marketing environment. That environment has changed a great deal in the last two decades, creating both new opportunities and new problems. The world economy has globalised. World trade and investment have grown rapidly, with many attractive markets opening up in western and eastern Europe, China, the Pacific Rim, Russia and elsewhere.⁵ There has been a growth of global brands in motor vehicles, food, clothing, cosmetics, electronics, computers and software and many other categories. The number of global companies has grown dramatically. The international financial system has become more complex and volatile. In some country markets, foreign companies face increasing trade barriers, erected to protect domestic markets against outside competition.

The international trade system

Companies looking abroad must develop an understanding of the international trade system. When selling to another country, the firm faces various trade restrictions. The most common is the **tariff**, which is a tax levied by a foreign government against certain imported products. The tariff may be designed either to raise revenue or to protect domestic firms: for example, those producing motor vehicles in Malaysia and whisky and rice in Japan. The exporter also may face a **quota**, which sets limits on the amount of goods the importing country will accept in certain product categories. The purpose of the quota is to conserve foreign exchange and to protect local industry and employment. An **embargo** or boycott, which totally bans some kinds of import, is the strongest form of quota.

Tariff—A tax levied by a government against certain imported products. Tariffs are designed to raise revenue or to protect domestic firms.

Quota—A limit on the amount of goods that an importing country will accept in certain product categories; it is designed to conserve on foreign exchange and to protect local industry and employment.

Embargo—A ban on the import of a certain product.



Many companies have made the world their market: opening megastores in Milan, London, Los Angeles, Vienna and Tokyo.

SOURCE: Virgin Cosmetics Company

Exchange controls—

Government limits on the amount of its country's foreign exchange with other countries and on its exchange rate against other currencies.

Non-tariff trade barriers—

Non-monetary barriers to foreign products, such as biases against a foreign company's bids or product standards that go against a foreign company's product features.

Firms may face exchange controls that limit the amount of foreign exchange and the exchange rate against other currencies. The company may also face non-tariff trade barriers, such as biases against company bids or restrictive product standards that favour or go against product features.⁶

At the same time, certain forces help trade between nations. Examples are the General Agreement on Tariffs and Trade and various regional free trade agreements.

The World Trade Organisation and GATT

The General Agreement on Tariffs and Trade (GATT) is a 56-year-old treaty designed to promote world trade by reducing tariffs and other international trade barriers. Since the treaty's inception in 1948, member nations (currently numbering 144) have met in eight rounds of GATT negotiations to reassess trade barriers and set new rules for international trade. The first seven rounds of negotiations reduced average worldwide tariffs on manufactured goods from 45 per cent to just 5 per cent.

The most recently completed GATT negotiations, called the Uruguay round, dragged on for seven long years before concluding in 1993. 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 manufactured goods tariffs by 30 per cent, boosting global merchandise trade by up to 10 per cent, or nearly €320 billion in 2002. The new round also extended GATT to cover trade in agriculture and a wide range of services, and it toughened international protection of copyrights, patents, trademarks and other intellectual property.⁷

Chapter 6 The global marketplace

Beyond reducing trade barriers and setting international standards for trade, the Uruguay Round established the World Trade Organisation (WTO) to enforce GATT rules. One of the WTO's first major tasks was to host negotiations on the General Agreement on Trade in Services, which deals with worldwide trade in banking, securities and insurance services. In general, the WTO acts as an umbrella organisation, overseeing GATT, the General Agreement on Trade in Services and a similar agreement governing intellectual property. In addition, the WTO mediates global disputes and imposes trade sanctions, authorities that the previous GATT organisation never possessed.⁸ Top decision makers from the WTO meet once every two years to discuss matters relating to all WTO agreements. A fresh round of talks began in Cancún, Mexico, in late 2003.⁹

Regional free-trade zones

Some countries have formed free-trade zones or economic communities – groups of nations organised to secure common goals in the regulation of international trade. One such community is the European Union, which seeks to create a single European market by reducing barriers to the free flow of products, services, finances and labour among member countries and developing policies on trade with non-member nations. Today, the European Union represents one of the world's single largest markets. Up until 2004, the 15 member countries in the EU contained more than 374 million consumers and accounted for some 20 per cent of the world's exports. With 10 new eastern and southern European countries – Cyprus, the Czech Republic, Estonia, Hungary, Lithuania, Latvia, Malta, Poland, Slovakia and Slovenia – joining the EU in 2004, and with more European nations gaining admission over the next decade, the EU could contain as many as 450 million people in over 25 countries.¹⁰

European unification offers tremendous trade opportunities for non-European firms. However, it also poses threats. As a result of increased unification, European companies will grow bigger and more competitive. Perhaps an even bigger concern, however, is that lower barriers *inside* Europe will only create thicker *outside* walls. Some observers envisage a 'Fortress Europe' that heaps favours on firms from EU countries but hinders outsiders by imposing obstacles such as stiffer import quotas, local content requirements and other non-tariff barriers.

Progress towards European unification, however, has been slow – many doubt that complete unification will ever be achieved. Nonetheless, on 1 January 1999, 11 of the 15 member nations (that is, all but the UK, Greece, Denmark and Sweden) took a significant step towards unification by adopting the euro as a common currency. These 11 nations represent 290 million people and a €7.7 trillion market. In January 2001, Greece became the twelfth member nation to adopt the euro. Currencies of the individual euro-zone countries were phased out gradually until 1 January 2002, when the euro became the only currency. 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. In addition, by removing currency conversion hurdles, the switch is likely to increase cross-border trade and highlight differences in pricing and marketing from country to country.¹¹

Even with the adoption of the euro as a standard currency, from a marketing viewpoint creating an economic community will not create a homogeneous market. As one international analyst suggests, 'Even though you have fiscal harmonisation, you can't go against 2,000 years of tradition.' With 15 different languages and distinctive national customs, it is unlikely that the EU will ever become the 'United States of Europe'.¹² Although economic and political boundaries may fall, social and cultural differences will remain, and companies marketing in Europe will face a daunting mass of local rules. Still, even if only partly successful, European unification will make a more efficient and competitive Europe a global force with which to reckon.¹³

In North America, the United States and Canada phased out trade barriers in 1989. In January 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 360 million people who produce and consume \$6.7 trillion (€5.53 trillion) worth of goods and services. As it is implemented over a 15-year period, NAFTA will eliminate all trade barriers and investment restrictions among the three countries. Prior to NAFTA, tariffs on American products entering Mexico averaged 13 per cent, whereas US tariffs on Mexican goods averaged 6 per cent.

Thus far, the agreement has allowed trade between the countries to flourish. Each day the United States exchanges more than \$1 billion (€0.83 billion) in goods and services with Canada, its largest trading partner. Since the agreement was signed in 1993, exports from the United States to Mexico have increased 170 per cent, while Mexican exports to the United States grew some 241 per cent. In 1998, Mexico passed Japan to become America's second largest trading partner. Given the apparent success of NAFTA, talks are now underway to investigate establishing a Free Trade Area of the Americas (FTAA). This mammoth free trade zone would include 34 countries stretching from the Bering Strait to Cape Horn, with a population of 800 million and a combined gross domestic product of more than \$11 trillion (€9.09 trillion).¹⁴

Other free trade areas have formed in Latin America and South America. For example, MERCOSUR now links six members: Argentina, Brazil, Paraguay, Uruguay, Bolivia and Chile. With a population of more than 200 million and a combined economy of more than \$1 trillion (€0.83 trillion) a year, these countries make up the largest trading bloc after NAFTA and the European Union. There is talk of a free trade agreement between the EU and MERCOSUR, and MERCOSUR's member countries are considering adopting a common currency, the *merco*.¹⁵

Other free-trade communities exist (see Figure 6.2). In fact, almost every member of the WTO is also a member of one or more such communities. And of the 100 or so free-trade arrangements listed by the WTO, over half came into being in the 1990s.

Each nation has unique features that must be understood. A country'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. We address these environmental influences next.

Economic environment

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

The country's industrial structure shapes its product and service needs, income levels and employment levels. Four types of industrial structure should be considered:

1. *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.
2. *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. Examples are Chile (tin and copper), The Democratic Republic of Congo (formerly Zaïre) (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.
3. *Industrialising economies*. In an industrialising economy, manufacturing accounts for 10–20 per cent of the country's economy. Examples include Egypt, the Philippines, India,

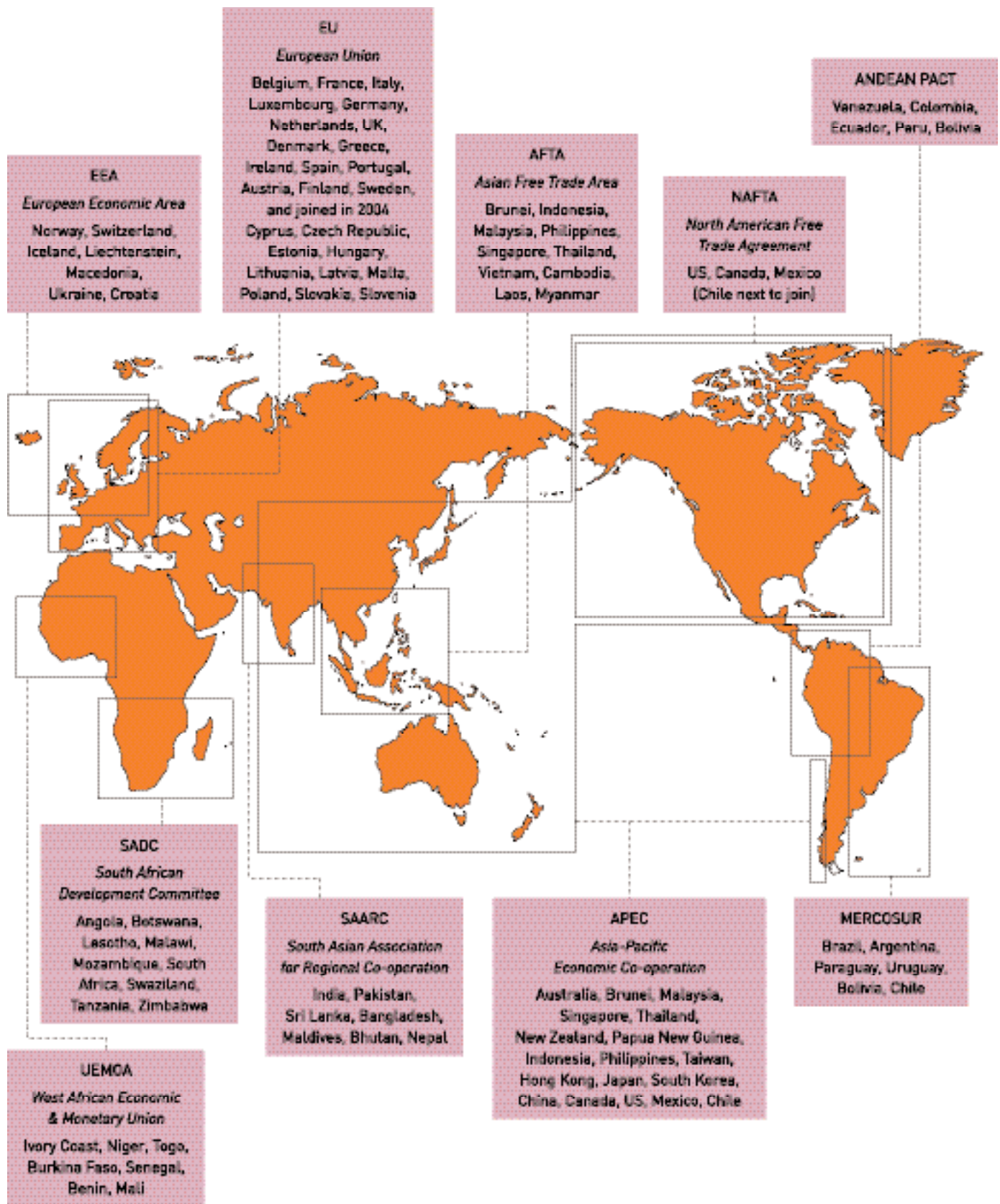


Figure 6.2 The main regional trade groups

China and Brazil. 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 motor vehicles. Industrialisation typically creates a new rich class and a small but growing middle class, both demanding new types of imported goods. In these countries, people with rising disposable income want to spend on items such as fashion, mobile phones, CD players and instant coffee.

4. *Industrial economies.* Industrial economies are large exporters of manufactured goods and investment funds. They trade goods among themselves and also export them to other types of economy for raw materials and semi-finished goods. The varied manufacturing activities of these industrial nations and their large middle class make them rich markets for all sorts of goods. Asia's newly industrialised economies, such as Taiwan, Singapore, South Korea and Malaysia, fall into this category.

The second economic factor is the country's income distribution. Countries with subsistence economies may consist mostly of households with very low family incomes. In contrast, industrialised economies may have low-, medium- and high-income households. Still other countries may have households with only either very low or very high incomes. However, in many cases, poorer countries may have small but wealthy segments of upper-income consumers. Also, even in low-income and developing countries, people may find ways to buy products that are important to them.

Thus, international marketers face many challenges in understanding how the economic environment will affect decisions about which global markets to enter and how.

Political–legal environment

Nations differ greatly in their political–legal environments. At least four political–legal factors should be considered in deciding whether to do business in a given country: attitudes towards international buying, government bureaucracy, political stability and monetary regulations. We will consider each of these in turn.

Attitudes towards international buying

Some nations are quite receptive to foreign firms, and others are quite hostile. Western firms have found newly industrialised countries in the Far East, such as Singapore, Thailand, Malaysia and the Philippines, attractive overseas investment locations. In contrast, others like India are bothersome with their import quotas, currency restrictions and limits on the percentage of the management team that can be non-nationals.

Government bureaucracy

This is the extent to which the host government runs an efficient system for helping foreign companies: efficient customs handling, good market information, and other factors that aid in doing business.

Political stability

Governments change hands, sometimes violently. Even without a change, a government may decide to respond to new popular feelings. The foreign company's property may be taken, its currency holdings may be blocked, or import quotas or new duties may be set. International marketers may find it profitable to do business in an unstable country, but the unsteady situation will affect how they handle business and financial matters.

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

Chapter 6 The global marketplace

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. Besides currency limits, a changing exchange rate, as mentioned earlier, 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, which has led to a growing practice called **countertrade**. Countertrade now accounts for an estimated 20 per cent of all world trade.¹⁶

Countertrade takes several forms. *Barter* involves the direct exchange of goods or services. For example, British coalmining equipment has been ‘sold’ for Indonesian plywood; Volkswagen cars were swapped for Bulgarian dried apricots; and Boeing 747s, fitted with Rolls-Royce engines, were exchanged for Saudi oil. Another form is *compensation* (or *buyback*), whereby the seller sells a plant, equipment or technology to another country and agrees to take payment in the resulting products. Thus, Goodyear provided China with materials and training for a printing plant in exchange for finished labels. Another form is *counterpurchase*. Here the seller receives full payment in cash, but agrees to spend some portion of the money in the other country within a stated time period. For example, Pepsi sells its syrup to Russia for roubles, and agrees to buy Russian vodka for reselling in the United States.

Countertrade deals can be very complex. For example, DaimlerChrysler recently agreed to sell 30 trucks to Romania in exchange for 150 Romanian jeeps, which it then sold to Ecuador for bananas, which were in turn sold to a German supermarket chain for German currency. Through this roundabout process, DaimlerChrysler finally obtained payment in German money.¹⁷

Cultural environment

Culture is defined simply as *the learned distinctive way of life of a society*. The dimensions of culture include the social organisation of society, religion, customs and rituals, values and attitudes towards domestic and international life, education provision and literacy levels, political system, aesthetic systems (e.g. folklore, music, arts, literature) and language. Each country has its own traditions, cultural norms and taboos. When designing global marketing strategies, companies must understand how culture affects consumer reactions in each of its international markets. In turn, they must also understand how their strategies affect culture.

How culture impacts marketing strategy

Companies must examine the ways consumers in different countries think about and use certain products or services before planning a marketing programme. There are often surprises.

For example, the average Frenchman uses almost twice as many cosmetics and beauty aids as does his female partner. The Germans and the French eat more packaged, branded spaghetti than do Italians. Italian children like to eat chocolate bars between slices of bread as a snack. In Belgium, don’t be surprised to find that clothes for baby girls are trimmed with blue and those for baby boys with pink.

Business norms and behaviour also vary from country to country. Business executives need to be briefed on these factors before conducting business in another country. Here are some examples of different global business behaviour:

- In face-to-face communications, Japanese business executives rarely say ‘no’ to the western business executive. Thus westerners tend to be frustrated and may not know where they stand. Where westerners come to the point quickly, Japanese business executives may find this behaviour offensive.

Countertrade—International trade involving the direct or indirect exchange of goods for other goods instead of cash. Forms include barter compensation (buyback) and counterpurchase.

Culture—The set of basic values, perceptions, wants and behaviours learned by a member of society from family and other important institutions.

- In France, wholesalers don't want to promote a product. They ask their retailers what they want and deliver it. If a foreign company builds its strategy around the French wholesaler's cooperation in promotions, it is likely to fail.
- When British executives exchange business cards, each usually gives the other's card a cursory glance and stuffs it in a pocket for later reference. In Japan, however, executives dutifully study each other's cards during a greeting, carefully noting company affiliation and rank. They hand their card to the most important person first.
- In the United Kingdom and the United States, business meals are common. In Germany, these are strictly social. Foreigners are rarely invited to dinner and such an invitation suggests a very advanced association. The opposite applies in Italy where entertaining is an essential part of business life (guests should offer to pay but, in the end, should defer to their Italian host). In France, watch out. There are two kinds of business lunch – one for building up relations, without expecting anything in return, and the other to discuss a deal in the making or to celebrate a deal afterwards. Deals, however, should be concluded in the office, never over a lunch table.
- Shaking hands on meeting and on parting is common in Germany, Belgium, France and Italy. Ignoring this custom, especially in France, causes offence. In France, it is advisable to shake hands with everyone in a crowded room.

By the same token, companies that understand cultural nuances can use them to advantage when positioning products internationally. For example, consider French cosmetics giant L'Oréal:

It's a sunny afternoon outside Parkson's department store in Shanghai, and a marketing battle is raging for the attention of Chinese women. Tall, pouty models in beige skirts and sheer tops pass out flyers promoting Revlon's new spring colours. But their effort is drowned out by L'Oréal's eye-catching show for its Maybelline brand. To a pulsing rhythm, two gangly models in shimmering lycra tops dance on a podium before a large backdrop depicting the New York City skyline. The music stops, and a makeup artist transforms a model's face while a Chinese saleswoman delivers the punch line. 'This brand comes from America. It's very trendy', she shouts into her microphone. 'If you want to be fashionable, just choose Maybelline'. Few of the women in the crowd realize that the trendy 'New York' Maybelline brand belongs to French cosmetics giant L'Oréal. . . .

Blink an eye and L'Oréal has just sold 85 products around the world, from Redken hair care and Ralph Lauren perfumes to Helena Rubinstein cosmetics. In the battle for global beauty markets, L'Oréal has developed a winning formula: . . . conveying the allure of different cultures through its many products. Whether it's selling Italian elegance, New York street smarts, or French beauty through its brands, L'Oréal is reaching out to a vast range of people across incomes and cultures.¹⁸

Thus, the key to success for the international marketer lies in assiduously researching and understanding a country's cultural traditions, preferences and behaviours. Building *cultural empathy* in this way helps companies to avoid embarrassing mistakes and to take advantage of cross-cultural opportunities.



Companies that understand cultural nuances can use them to advantage. L'Oréal's winning formula is to convey the allure of different cultures through its many products.

SOURCE: Fritz Hoffmann/The Image Works

The impact of marketing strategy on culture

While marketers worry about the impact of culture on their global marketing strategies, others may be concerned with the impact of marketing strategies on global cultures. In recent years, some critics argue that 'globalisation' is nothing more than 'Americanisation'. They worry that the more people around the world are exposed to the American culture and lifestyle in the food they eat, the stores in which they shop, and television shows and movies they watch, the more they will lose their individual cultural identities.

These critics contend that exposure to American values and products erodes other cultures and westernises the world. They point out that teenagers around the world watch MTV and ask their parents for more westernised clothes and other symbols of American pop culture and values. Grandmothers in small villas in northern Italy no longer spend each morning visiting local meat, bread and produce markets to gather the ingredients for dinner. Instead, they now shop at Wal-Mart Supercentres. 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 80 restaurants in Beijing alone, nearly half of all children identify the chain as a domestic brand.¹⁹

Recently, such concerns have led to a backlash against American globalisation. For example, as a symbol of American capitalism, McDonald's has been singled out by anti-globalisation protestors all over the world. Its restaurants are also targeted when anti-American sentiment peaks. For example, almost immediately after US armed forces unleashed their attack on Afghanistan following the 11 September 2001 terrorist attacks, McDonald's stores in Pakistan, India and elsewhere around the world came under attack. Local protestors burned American flags outside the restaurants and vandalised McDonald's storefronts.

Despite the concerns, most studies reveal that, although globalisation may bridge culture gaps, it does not eliminate them. Instead, the cultural exchange goes both ways. Western childhood has also increasingly been shaped by Asian cultural imports, ranging from the Power Rangers and Tamagotchi to Pokémon, Sega and Nintendo. Because English remains

the Web's dominant language, having Web access means that, by default, many youths around the world have greater exposure to western (often meaning American) pop culture. But these very technologies also enable students, say from the Balkans, who are studying abroad to listen to webcast news and music from their own mother country.²⁰

In the final analysis, companies doing global marketing have to learn that, to succeed abroad, they must adapt to local cultural values and traditions rather than trying to force their own.

Deciding whether to go international

Not all companies need to venture into international markets to survive. Many local businesses need to market well only in the local marketplace. Operating domestically is easier and safer. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and 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 worldwide basis if they are to succeed.

Several factors might draw a company into the international arena. Global competitors offering better products or lower prices might attack the company's domestic market. The company might want to counterattack these competitors in their home markets to tie up their resources. Or the company might discover foreign markets that present higher profit opportunities than the domestic market does. The company's domestic market might be stagnant or shrinking, or the company might need an enlarged customer base in order to achieve economies of scale. The company might want to reduce its dependence on any one market so as to reduce its risk. Finally, the company's customers might be expanding abroad and require international servicing.

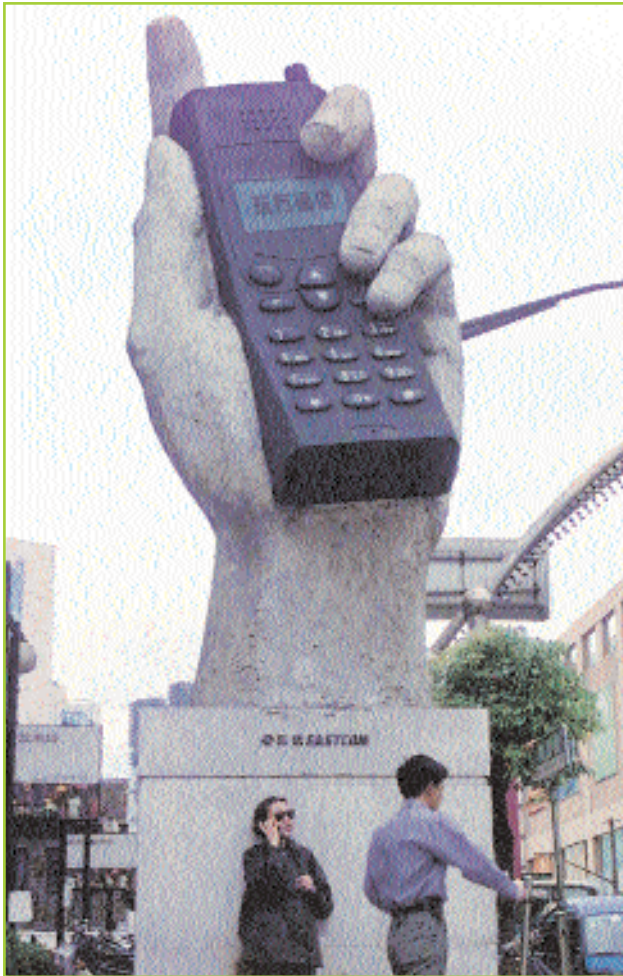
Before going abroad, the company must weigh several risks and answer many questions about its ability to operate globally. Can the company learn to understand the preferences and buyer behaviour of consumers in other countries? Can it offer competitively attractive products? Will it be able to adapt 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?

Because of the risks and difficulties of entering international markets, most companies do not act until some situation or event thrusts them into the global arena. Someone – a domestic exporter, a foreign importer, a foreign government – may ask the company to sell abroad. Or the company may be saddled with overcapacity and must find additional markets for its goods.

Deciding which markets to enter

Before going abroad, the company should 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 foreign sales as a small part of their business. Other companies have bigger plans, seeing foreign business as equal to or even more important than their domestic business.

The company must decide *how many* countries it wants to market in and *how fast* to expand. Generally, it makes better sense to operate in fewer countries with deeper penetration



Asia: a growing market. China's booming mobile telephone market has become the focus of intense competition among western telecommunications equipment companies such as Nokia, Ericsson and Motorola. SOURCE: Associated Press

in each. The company must also decide on the *types* of country 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 countries or parts of the world. In recent years, many major new markets have emerged, offering both substantial opportunities and daunting challenges. The latent needs of consumers in the developing world present huge potential markets for food, clothing, shelter, household appliances, consumer electronics and other goods. As such, many companies are now rushing into Eastern Europe, China and India with hopes of tapping the unmet needs of these consumers (see Marketing Insights 6.1).

After listing possible international markets, the company must screen and rank each one on several factors, including market size, market growth, cost of doing business, competitive advantage and risk level. The goal is to determine the potential of each market, using indicators like those shown in Table 6.1. Then the marketer must decide which markets offer the greatest long-run return on investment.

Making the 'go' or 'no-go' decision requires management to invest time and effort in researching the potential challenges and opportunities facing the company. Increasingly, a vast array of resources is available on the Internet. These resources offer managers a way to research prospective target markets and customers as well as gain critical information about doing business in unfamiliar countries and market environments. Market research, therefore, is key to understanding how the company may break into overseas markets or improve their existing international marketing practices and contacts.²¹

6.1 Emerging markets: going east

China and India each have over a billion consumers, presenting tempting prospects for international companies. The experience of international companies suggests that, despite the attractiveness of these emerging markets, their consumers remain an elusive target. Many dominant brands – from Unilever, Sony and Mercedes to Levi, Kellogg and Ford – have all struggled to deliver on the promise of the ‘billion-consumer’ markets.

A common fallacy lies in the thinking that there are huge margins to be gained from skimming the 3 or 5 per cent of affluent consumers in emerging markets who have global preferences for ‘luxury goods’ and purchasing power. In India, Coca-Cola came in at the top and tried to trickle down. It launched pricey 350 ml bottles instead of offering cheaper smaller ones. Rather than concentrating on the main towns, it went for the whole of India with a single size and price, using expensive and flawed distribution and advertising. Ford and other motor manufacturers also misjudged the Indian market. They started with medium-sized cars in a market dominated by small ones, and expected to compete with nearly 70 per cent overcapacity in medium-sized car manufacturing. Kellogg’s offered premium-priced cereals supported by expensive marketing. They soon learnt that, although market research showed that India was the largest cereal-eating nation on earth, consumers were choosing to buy Champion’s products costing a fifth the price of Kellogg’s. By contrast, Akai, the Japanese consumer electronics producer, stole a march on global giant Sony, by offering cheaper televisions and taking customers’ old sets in part-exchange.

Analysts argue that it is important to define the Indian market not by income alone, but by consumption. A disaggregation will yield a demographic pyramid of five layers: the destitute, climbers, aspirants, consumers and the rich – who are the 1 million households earning more than Rs 1 million (€25,600) a year. The 30m people normally identified as consumers have less disposable income than the groups below them, because they tend to spend more on education. The bottom of the pyramid, especially the aspirants, is more attractive because of rising incomes. Unilever’s Indian subsidiary, Hindustan Lever, designed products for each of the five tiers. It began moving goods by road instead of rail, building a network of 40,000 wholesalers and 500,000 retailers and supplying it with credit. Levi initially aggregated the 156m people aged 12 to 19, but 111m of these live in rural India. Targeting the top tier leaves a meagre 500,000 rich urban consumers, potentially yielding slim pickings.

The key to success lies in developing products for each or most of the five consumption segments, instead of targeting the ‘affluent global consumer’. But segmentation of this nature is costly and only justified if consumers are able and willing to pay for specialised products. The experience of SmithKline Beecham (SB)

in India points to the power of targeting local consumers. But fine segmentation does not have to come at a cost. Horlicks, its flagship product in India, has long been positioned as 'the great family nourisher'. It caught on because of milk shortages and poor health conditions and people saw a need for a nutritional supplement. SB built its own supply chain, worked hard at paring costs and pricing, and markets its drink as a nutrient for all seasons and all types. Its supply chain now reaches 375,000 outlets across India. Horlicks refill packages and Horlicks biscuits give consumers the same nutrition at a fraction of the cost of a jar. The Horlicks brand has also been launched into new areas, from Junior Horlicks and Mothers' Horlicks for pregnant or breast-feeding women, to Horlicks for sports, convalescence, the elderly or kids during the monsoon fever period.

Unilever's early, troubled decade and a half in China culminated in recent sweeping restructuring of its Chinese operations, and careful adaptation to the vagaries of operating in this populous market. Its 14 joint ventures with local companies in sectors ranging from detergents, food and wine to ice-creams, toothpaste and chemicals are now brought under three companies: home and personal care; ice-cream; and food and beverages. A crucial change has been to become more local. R&D is adapted to Chinese tastes and local remedies. Drawing from Hindustan Lever's considerable expertise on selling in rural India, Unilever now targets consumers well beyond China's largest cities and has been increasing the range of prices for its various brands, tapping particularly the lower end of the market. For example, Unilever sells pricier Omo laundry detergents to the wealthy, urban consumer who has a washing machine and is prepared to pay a premium for the detergent. To compete with low-priced mass market offerings from local upstarts, it also offers its cheaper Sunlight soap to consumers with more modest means.

Increasingly, multinational companies such as Unilever, Procter & Gamble, Nestlé and Coca-Cola are discovering that consumers in emerging markets such as India and China will remain hard to get unless they develop value propositions that appeal to the mass market. Products transplanted from affluent, developed nations tend to appeal to a relatively small élite. International companies have to delve deeper into the local consumer base in order to tap the potential of the 'billion-consumer' markets.

SOURCES: Gordon Redding, 'China: rough but ready for outsiders', *Financial Times*, *FT Summer School*, (26 August 2003), p. 11; Niraj Dawar and Amitava Chattopadhyay, 'The new language of emerging markets', *Financial Times*, *Mastering Management* (13 November 2000), pp. 6–7; David Gardner, 'Slim pickings for the international brand in India', *Financial Times* (10 October 2000), p. 19; 'How Horlicks won an empire', *Financial Times* (10 October 2000), p. 19; Rahul Jacob, 'A Chinese clean-up operation', *Financial Times* (18 May 2000), p. 18; Niraj Dawar and Tony Frost, 'Competing with giants: Survival strategies for emerging market companies', *Harvard Business Review* (March–April 1999), pp. 119–29.

Table 6.1 Indicators of market potential

<p>1. Demographic characteristics Size of population Rate of population growth Degree of urbanisation Population density Age structure and composition of the population</p> <p>2. Geographic characteristics Physical size of a country Topographical characteristics Climate conditions</p> <p>3. Economic factors GDP per capita Income distribution Rate of growth of GNP Ratio of investment to GNP</p>	<p>4. Technological factors Level of technological skills Existing production technology Existing consumption technology Education levels</p> <p>5. Sociocultural factors Dominant values Lifestyle patterns Ethnic groups Linguistic fragmentation</p> <p>6. National goals and plans Industry priorities Infrastructure investment plans</p>
---	---

SOURCE: Susan P. Douglas, C. Samuel Craig and Warren Keegan, 'Approaches to assessing international marketing opportunities for small and medium-sized businesses', *Columbia Journal of World Business* (Fall 1982), pp. 26–32. © 1982, 1999, *Columbia Journal of World Business*. Reprinted with permission. Also see Pankaj Ghemawat, 'Distance still matters', *Harvard Business Review* (September–October 2001), pp. 137–47.

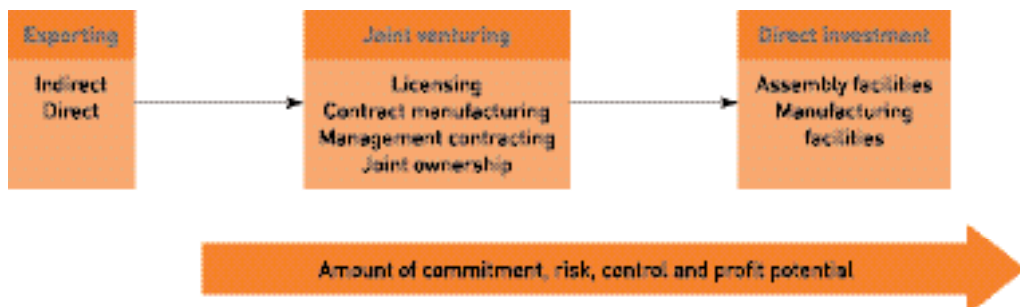
Deciding how to enter the market

Once a company has decided to market in a foreign country, it must determine the best mode of entry. Its choices are exporting, joint venturing and direct investment. Figure 6.3 shows these routes to servicing foreign markets, along with the options that each one offers. As we can see, each succeeding strategy involves more commitment and risk, but also more control and potential profits.

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 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, organisation, investments or mission.

Figure 6.3 Market entry strategies



Indirect exporting

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 sales force or set of contacts. It also involves less risk. International marketing intermediaries – home-based export merchants or agents, cooperative organisations, government export agencies and export-management companies – bring know-how and services to the relationship, so the seller normally makes fewer mistakes.

Direct exporting

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. A company can conduct direct exporting in several ways. It can set up a domestic export department that carries out export activities. Or it can set up an overseas sales branch that handles sales, distribution and perhaps promotion. The sales branch gives the seller more presence and programme control in the foreign market and often serves as a display centre and customer service centre. Or the company can send home-based salespeople abroad at certain times in order to find business. Finally, the company can do its exporting either through foreign-based distributors that buy and own the goods or through foreign-based agents that sell the goods on behalf of the company.

Today, electronic communication via the Internet enables companies, particularly small ones, to extend their reach to worldwide markets. No longer is it necessary for firms to attend overseas trade shows to exhibit their products to overseas buyers and distributors. The Internet has become an effective medium for attaining exporting information and guidelines, doing market research and enabling overseas customers to order and pay for goods.

Joint venturing

A second method of entering a foreign market is **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 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 venture: 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, 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 the market at little risk; the licensee gains production expertise or a well-known product or brand name without having to start from scratch.

East European brewers such as Czech Republic's Pilsner Urquell and the Budvar Company have sought to strengthen their international market positions through licensing the production of their beer brands in breweries abroad. Coca-Cola markets internationally by licensing bottlers around the world and supplying them with the syrup needed to produce the product. And in an effort to bring online retail investing to people abroad, online brokerage E*Trade has set up E*Trade-branded websites under licensing agreements in France, Norway, Denmark, Sweden, Germany, Canada, Australia, Hong Kong, Korea, Japan and South Africa.²²

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, offering the right to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty.

Licensing has potential disadvantages, however. The firm has less control over the licensee than it would over its own production facilities. 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

Contract manufacturing—A joint venture in which a company contracts with manufacturers in a foreign market to produce the product.

Another option is **contract manufacturing**. The company contracts with manufacturers in the foreign market to produce its product or provide its service. Many western firms have used this mode for entering Taiwanese and South Korean markets.

The drawbacks of contract manufacturing are the decreased control over the manufacturing process and the 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 to buy out the local manufacturer.

Management contracting

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.

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. 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 a 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—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-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. A foreign government may require joint ownership as a condition for entry. Or the firm may lack the financial, physical or managerial resources to undertake the venture alone.

Joint ownership has certain drawbacks. The partners may disagree over investment, marketing or other policies. To enjoy partnership benefits, collaborators must clarify their expectations and objectives and work hard to secure a win-win outcome for all parties concerned.

Direct investment

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

The biggest involvement in a foreign market comes through **direct investment** – the development of foreign-based assembly or manufacturing facilities. If a company has gained experience in exporting and if the foreign market is large enough or growing rapidly, foreign production makes economic sense. For example, Nokia, the Finnish mobile handset manufacturer, initially entered the Chinese market through joint ventures. In 2003, it sought to strengthen its position in China, the world's fastest growing mobile-phone market, by merging its joint venture operations and to start local production of CDMA handsets.²³

Foreign production facilities offer many advantages:

1. The firm may have lower costs in the form of cheaper labour or raw materials, foreign government investment incentives and freight savings.

2. The firm may improve its image in the host country because it creates jobs.
3. Generally, a firm develops a deeper relationship with government, customers, local suppliers and distributors, allowing it to adapt its products better to the local market.
4. 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, devalued or sharply rising currencies, worsening markets or government takeovers. For example, early investors in Hungary's automotive industry, such as Opel, the German subsidiary of General Motors, had to make substantial adjustments to their business plans as the economic conditions in the country proved much worse than originally anticipated. More recently, the strengthening of the Hungarian currency, the forint, has pushed labour costs up while reducing productivity growth. In response, foreign direct investors such as Philips of The Netherlands has reduced its workforce in Hungary, while others, like IBM, have closed their factories altogether.²⁴ In some cases, a firm has no choice but to accept these risks if it wants to operate in the host country.

There are therefore direct and indirect ways of entering a foreign market. Firms seeking to market goods and services in a foreign market should evaluate the alternative modes of entry and decide upon the most cost-effective path that would ensure long-term performance in that market.

Firms typically move through four stages of internationalisation: no regular exporting activity, exporting through independent agents, setting up one or more sales subsidiaries and establishing production facilities abroad.²⁵ The first step is to move from stage 1 to stage 2. Having had some experience of exporting via an independent agent in a nearby or familiar country, the firm then engages more agents to enter additional countries. It then sets up an export department to manage its agent relationships. Later, it may replace these agents with its own sales subsidiary(ies) in its largest export market(s). Eventually, the firm establishes an international department to manage its overseas subsidiaries. If sales are large and stable, or if the host country requires local production, the firm takes the next step of establishing production facilities in these markets. By this stage, the firm has become internationalised, engaging in coordinating worldwide sourcing, financing, production and marketing.²⁶

Deciding on the global marketing programme

The marketing programme for each foreign market must be carefully planned. Managers must first decide on the precise customer target or targets to be served. Then managers have to decide how, if at all, to adapt the firm's marketing mix to local conditions. To do this requires a good understanding of country market conditions as well as cultural characteristics of customers in that market. We have already addressed the need for cultural sensitivity. This section will discuss reasons for standardisation versus adaptation for the global market before highlighting specific international marketing mix decisions.

Standardisation or adaptation for international markets?

At one extreme are companies that use a **standardised marketing mix** worldwide, selling largely the same products and using the same marketing approaches worldwide. At the other extreme is an **adapted marketing mix**. In this case, the producer adjusts the marketing mix elements to each target, bearing more costs but hoping for a larger market share and return.

Standardised marketing mix—An international marketing strategy for using basically the same product, advertising, distribution channels and other elements of the marketing mix in all the company's international markets.

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

The question of whether to adapt or standardise the marketing mix has been much debated in recent years. The marketing concept holds that marketing programmes 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 in international markets. Consumers in different countries have widely varied cultural backgrounds, needs and wants, spending power, product preferences and shopping patterns. Because these differences are hard to change, most marketers adapt their products, prices, channels and promotions to fit consumer desires in each country.

However, some global marketers are bothered by what they see as too much adaptation, which raises costs and dilutes global brand power. As a result, many companies have created so-called world brands – more or less the same product sold the same way to all consumers worldwide. Marketers at these companies believe that advances in communication, transportation and travel are turning the world into a common marketplace. These marketers claim that people around the world want basically the same products and lifestyles. Despite what consumers say they want, all consumers want good products at lower prices.

Moreover, the development of the Internet, the rapid spread of cable and satellite TV around the world, and the creation of telecommunications networks linking previously remote places have all made the world a smaller place. For instance, the disproportionately American programming beamed into homes in the developing nations has sparked a convergence of consumer appetites, particularly among youth. Fashion trends spread almost instantly, propelled by TV and Internet chat groups. Around the world, news and comment on almost any topic or product is available at the click of a mouse or twist of a dial. The resulting convergence of needs and wants has created global markets for standardised products, particularly among the young middle class.

Proponents of global standardisation claim that international marketers should adapt products and marketing programmes only when local wants cannot be changed or avoided. Standardisation results in lower production, distribution, marketing and management costs, and thus lets the company offer consumers higher quality and more reliable products at lower prices. In fact, some companies have successfully marketed global products – for example, Starbucks coffee, Philips razors and Sony Walkmans.

However, even for these ‘global’ brands, companies make some adaptations. Moreover, the assertion that global standardisation will lead to lower costs and prices, causing more goods to be snapped up by price-sensitive consumers, is debatable. Consider, for example, MTV.

Pummelled by dozens of local music channels in Europe, such as Germany’s *Viva*, Holland’s *The Music Factory*, and Scandinavia’s *ZTV*, MTV Europe dropped its pan-European programming. Rather than featuring a large amount of American and British pop along with local European favourites, the division created regional channels broadcast by four separate MTV stations – MTV: UK & Ireland; MTV: Northern Europe; MTV: Central Europe; and MTV: Southern Europe. Each of the four channels shows programmes tailored to music tastes of its local market, along with more traditional pan-European pop selections. Within each region, MTV further subdivides its programming. For example, within the United Kingdom, MTV offers sister stations M2 and VH-1, along with three new digital channels: MTV Extra, MTV Base and VH-1 Classic. Says the head of MTV Europe, ‘We hope to offer every MTV fan something he or she will like to watch any time of the day.’²⁷

Chapter 6 The global marketplace

In these cases, incremental revenues from adapting products far exceeded the incremental costs.

Clearly, global standardisation is not an all-or-nothing proposition but rather a matter of degree. Companies should look for more standardisation to help keep down costs and prices and to build greater global brand power. But they must not replace long-run marketing thinking with short-run financial thinking. Although standardisation saves money, marketers must make certain that they offer what consumers in each country want.²⁸

Many possibilities exist between the extremes of standardisation and complete adaptation. For example, although Philips dishwashers, clothes washers and other major appliances share the same interiors worldwide, their outer styling and features are designed to meet the preferences of consumers in different countries.

Similarly, global companies such as McDonald's have adapted to local cultural values and traditions rather than trying to implement a standard approach across the world. The company uses the same basic operating formula in its restaurants around the world but adapts its menu to local tastes (see Marketing Insights 6.2). CEO Jack Greenberg notes that McDonald's is 'a decentralized entrepreneurial network of locally owned stores that is very flexible and adapts very well to local conditions. We offer an opportunity to entrepreneurs to run a local business with local people supplied by a local infrastructure.' This concept is echoed on the McDonald's website and throughout its corporate culture. Not just in France, as intimated in Marketing Insights 6.2, the company encourages franchisees in other countries to introduce menu items that reflect local tastes, including 'McCafés' in Vienna, which offer coffee blended to local tastes, the Maharaja Mac (made of mutton) in India, the Tatsuta Burger in Japan, the McPork Burger with Thai Basil in Thailand and the McTempeh Burger (made from fermented soybeans) in Indonesia. In fact, McDonald's restaurants in Bombay and Delhi feature a menu that is more than 75 per cent locally developed.²⁹



In France, McDonald's do as the French do!

SOURCE: McDonald's Europe Limited. Photo © Didier Delmas.

6.2 McDonald's French-style!

Given the state of Franco-US relations, it may come as a surprise that McDonald's, an American icon, should be borrowing ideas from France as it tries to revitalise its brand.

It is, after all, only four years since José Bové, the moustachioed farmer, became a French folk hero after leading an assault that demolished a partially built McDonald's restaurant in a protest against punitive US tariffs on Roquefort cheese.

But France is McDonald's best-performing European subsidiary in terms of operating income per outlet and is in the global vanguard in redesigning restaurants and launching products. In 2003, the country will account for 10 per cent of McDonald's reduced worldwide restaurant openings programme.

French management attributes some of its success to the autonomy it has from US headquarters. French executives also say that working in a difficult environment has forced them to adapt to local tastes and habits.

'We have certainly tried hard to build trust and give the image of a real French company and not an entity that gets its orders from Chicago', says Jean-Pierre Petit, deputy managing director for France.

Denis Hennequin, chief executive of McDonald's France, says the chain tends to get used in France more as a restaurant than a 'snacking place', earning 80 per cent of daily revenues in four hours, around lunch and dinner time. The company has spent €1,200-€1,500 (\$1,452-\$1,815) a square metre transforming and upgrading many outlets into what it calls 'casual restaurants', using a team of French architects and interior designers. The aim has been to make the seating space more comfortable and improve the décor – notably by using stone, wood and leather. There are lounge chairs in place of hard, fixed, plastic seats. Some restaurants have Apple iPod digital music players installed around the walls, so diners can don headphones and listen to music of their choice.

McDonald's France was also a pioneer in adapting its offering to local tastes by including a range of salads and fresh fruit, as well as some dairy products and Evian mineral water supplied by Danone, the French food group. Following a recent promotional campaign, a quarter of customer visits included the purchase of a Croque McDo, McDonald's version of the croque monsieur, the classic French grilled sandwich.

'The French market is very fragmented and has an atypical structure, which has led us to make some different choices from what McDonald's has done elsewhere', says Mr Hennequin.

Charlie Bell, McDonald's chief executive officer, who previously headed the European division, says he admired and learnt from the French management's

'holistic' approach. 'The French team did a particularly good job. They had a focus on the modernity of McDonald's', he says. 'We're getting rid of the NIH factor – Not Invented Here. We're going to take good ideas, wherever they came from, and scale them up fast.'

However, Mr Hennequin says Franco-American tensions will continue to affect McDonald's in France. 'The French will always have a love-hate relationship with Americans because they come from two cultures that both believe they have a predominant role to play in the shaping of the world', he says.

Still, he cannot resist a final dig at those who claim to be France's flag-bearers in the fight against American invaders. 'José Bové drives a John Deere tractor and wears Levi's [jeans]', he notes.

SOURCE: Adapted from Raphael Minder, 'Croques, leather and headphones put France in the vanguard', *Financial Times* (29 August 2003), p. 15.

The decision about which aspects of the marketing mix to standardise and which to adapt should be taken on the basis of target market conditions. Firms are often unwilling to modify their product offering for foreign markets because of 'cultural arrogance'. German and American machine-tool manufacturers, for example, saw their world market shares dive over the 1980s due, in part, to their reluctance to adapt products and marketing approaches in the face of changing customer needs in their home and foreign markets. 'What's good for Germany is good enough for the world market' was the view typifying a large proportion of German machine-tool producers which formed the focus of a study into international marketing strategies in the UK market. This cultural arrogance has been termed the 'self-reference criterion' and has been a significant factor in accounting for poor export performance.³⁰

Some international marketers suggest that companies should 'think globally but act locally'. They advocate a 'glocal' strategy in which the firm standardises certain core marketing elements and localises others. The corporate level gives strategic direction; local units focus on the individual consumer differences. They conclude: global marketing, yes; global standardisation, not necessarily.

Let us now examine marketing mix decisions with regard to global marketing planning.

Product

Five strategies allow for adapting product and promotion to a foreign market (see Figure 6.4).³¹ We first discuss the three product strategies and then turn to the two promotion strategies.

Straight product extension means marketing a product in a foreign market without any change. Straight extension has been successful in some cases. Philips shavers, Kellogg cereals, Heineken beer, Coca-Cola and Black & Decker tools are all sold successfully in about the same form around the world. 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 foreign consumers.

Straight product extension—
Marketing a product in a foreign market without any change.

Operating in 79 countries and regions across the world, HSBC advocates the importance of 'thinking globally, but acting locally'.

SOURCE: HSBC Holdings Plc.

Agency: Lowe Worldwide.

Photographer: Richard Pullar.


CHINA
Delicacy

NETHERLANDS
Delicacy

FRANCE
Delicacy

Never underestimate the importance of local knowledge.

Real, authentic, local cuisine? It's something you don't know when you're from a particular area. At HSBC, we have banks in more countries than anyone else. And each one is staffed by local people. We have offices in 79 countries and territories: Europe, Asia-Pacific, the Americas, the Middle East, and Africa. Being local enables them to offer insights into financial opportunities and create service initiatives that would never occur to an outsider. It means our customers get the kind of local knowledge and personal service that you'd expect of a local bank. And a level of global knowledge and widely varied expertise that you wouldn't.

HSBC 
The world's local bank

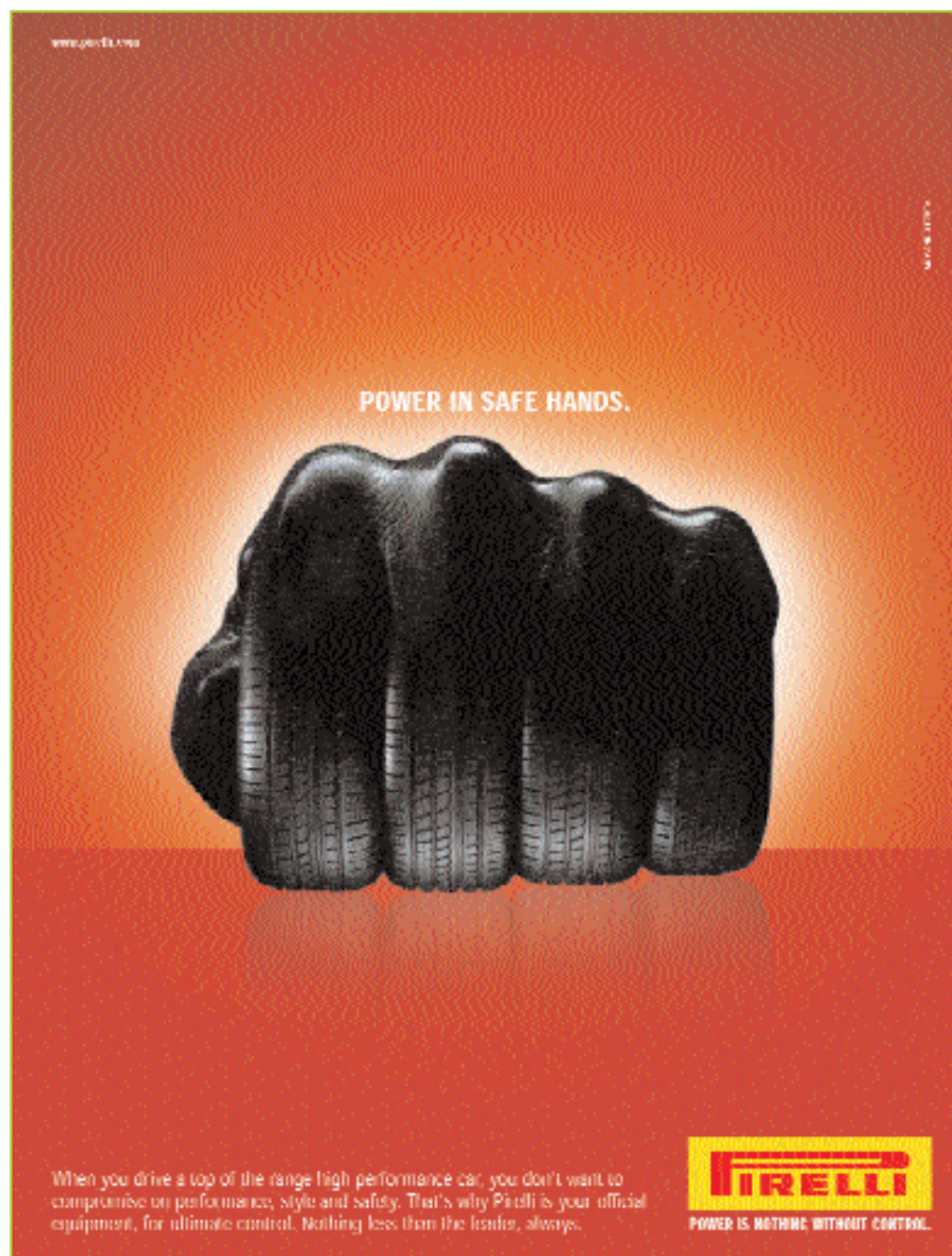
Product adaptation—

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

Product adaptation involves changing the product to meet local conditions or wants. For example, Philips began to make a profit in Japan only after it reduced the size of its coffee makers to fit into smaller Japanese kitchens and its shavers to fit smaller Japanese hands. Komatsu, the Japanese construction machinery maker, had to alter the design of the door handles of earthmovers sold in Finland: drivers wearing thick gloves in winter found it impossible to grasp the door handles, which were too small (obviously designed to fit the fingers of the average Japanese, but not the double-cladged ones of larger European users!). And Nokia customised its 6100 series mobile phone for every major market. It built in rudimentary voice recognition for Asia where keyboards are a problem and raised the ring volume so the phone could be heard on crowded Asian streets.³²

	Don't change product	Product Adapt product	Develop new product
Promotion Don't change promotion	1. Straight extension	3. Product adaptation	5. Product invention
Promotion Adapt promotion	2. Communication adaptation	4. Dual adaptation	

Figure 6.4 Five international product and promotion strategies



The Italian execution of a Pirelli campaign shows the global application of many of today's ads.
SOURCE: Pirelli & C. SpA.

Product invention—Creating new products or services for foreign markets.

Product invention consists of creating something new for the foreign market. This strategy can take two forms. It might mean reintroducing earlier product forms that happen to be well adapted to the needs of a given country. Or a company might create a new product to meet a need in another country. For example, an enormous need exists for low-cost, high-protein foods in less developed countries. Companies such as Quaker Oats, Swift and Monsanto are researching the nutrition needs of these countries, creating new foods, and developing advertising campaigns to gain product trial and acceptance. Product invention can be costly, but the pay-offs are worthwhile.

Promotion

Companies can either adopt the same promotion strategy in different countries or change it for each local market.

Consider advertising messages. Some global companies use a standardised advertising theme around the world. For example, IBM Global Services runs virtually identical ‘People Who Think. People Who Do. People Who Get It.’ ads in dozens of countries around the world.

Sometimes the copy is varied in minor ways to adjust for language differences. Colours may also be changed to avoid taboos in other countries. For example, in Spain, packaging that uses red and yellow, the colours of the Spanish flag, may be seen as an offence to Spanish patriotism. In Greece, purple should be avoided as it has funeral associations. Black is an unlucky colour for the Chinese, white is a mourning colour in Japan, and green is associated with jungle sickness in Malaysia.

Indeed, 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 in international marketing involve standardised brand names that do not translate well. In Sweden, Helene Curtis changed the name of its ‘Every Night Shampoo’ to ‘Every Day’ because Swedish consumers usually wash their hair in the morning. 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 to mean ‘bite the wax tadpole’. Now, the characters on Chinese Coke bottles translate as ‘happiness in the mouth’.

Car-maker 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’. A similar fate awaited Colgate when it introduced a toothpaste in France called Cue, the name of a notorious porno magazine. One well-intentioned firm sold its shampoo in Brazil under the name Evitol. It soon realised it was claiming to sell a ‘dandruff contraceptive’.

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 that are unlikely to cross the English language barrier: Krapp toilet paper (Denmark), Crapsy Fruit cereal (France), Happy End toilet paper (Germany), Mukk yogurt (Italy), Zit lemonade (Germany), Poo curry powder (Argentina) and Pschitt lemonade (France).

Travellers 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,

Chapter 6 The global marketplace

leave your clothes here and spend the afternoon having a good time.’ The brochure at a Tokyo car rental offered this sage advice: ‘When passenger of foot heave in sight, tootle the horn. Trumpet him melodiously at first, but if he still obstacles your passage, tootle him with vigour.’ And a Chinese grocery retailer in Kuala Lumpur offers to sell all sorts of sundry goods, although foreign visitors may be somewhat wary about stepping into the store. Why? Because it is called ‘Sin Tit’.

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’. In Chinese, the KFC slogan ‘finger-lickin’ good’ came out as ‘eat your fingers off’. Even when the language is the same, word usage may differ from country to country. Thus, the British ad line for Electrolux vacuum cleaners – ‘Nothing sucks like an Electrolux’ – would capture few customers in the United States.³³

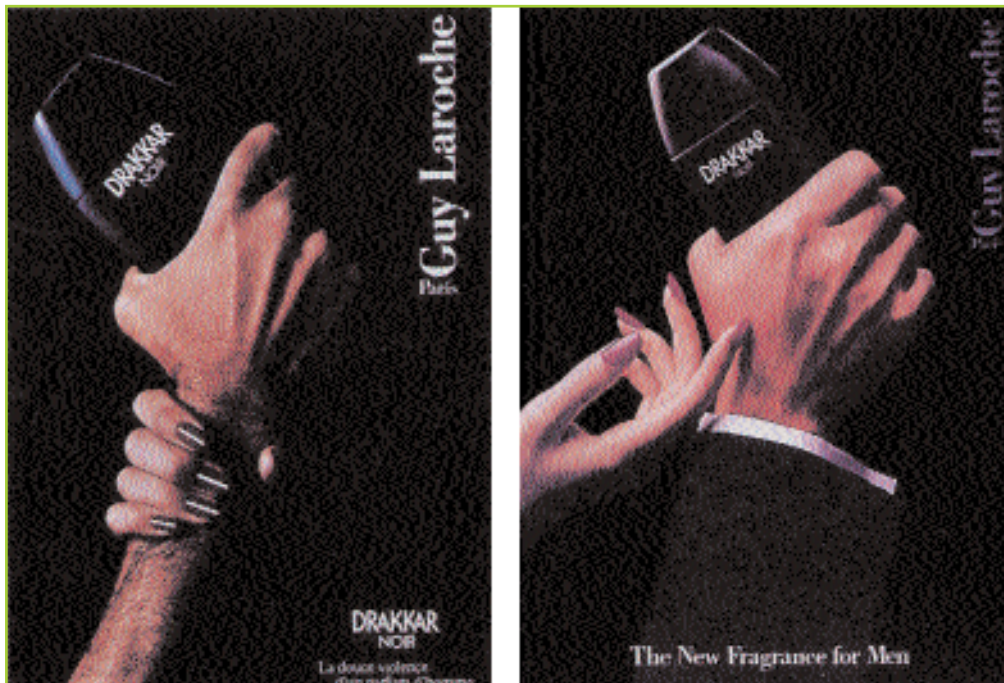
Other companies follow a strategy of **communication adaptation**, fully adapting their advertising messages or techniques to local markets. Mass media communications are less effective in emerging markets such as China or India. Their vast rural population is dispersed and has limited access to broadcast media. Unilever used video vans that toured the villages screening films in the local language, interspersed with advertising for Unilever products.

Media also need to be adapted internationally because media use and media availability vary from country to country. For example, Austria and Italy regulate TV advertising to children. In Saudi Arabia, advertisers have to refrain from using women in ads. TV advertising time varies across Europe, for instance, ranging from four hours a day in France to none in Scandinavian countries, where print advertising is preferred to TV ads. Advertisers must buy time months in advance, and they have little control over air times. The types of print media also vary in effectiveness. For example, magazines are a popular medium in Italy and a minor one in Austria. Newspapers are national in the United Kingdom, but are only local in Spain.³⁴

Companies adopt a dual adaptation strategy when both the product and communication messages have to be modified to meet the needs and expectations of target customers in different country markets.

Communication adaptation—

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



Some companies standardise their advertising around the world, adapting only to meet cultural differences. Guy LaRoche uses similar ads in Europe (left) and Arab countries (right), but tones down the sensuality in the Arab version – the man is clothed and the woman barely touches him. SOURCE: Courtesy of Bernard Matussiere.

For example, the French food multinational, Danone, not only had to bring its products closer to consumer tastes, but also adapted advertising messages to suit different European market expectations. In France, yoghurt is typically sold as a plain yoghurt, a symbol of good health. Fruit and flavourings come later. Advertising emphasises the health logic. In the UK, the product is associated with pleasure, of a sort enjoyed by adults. Fruits add to the pleasure of eating yoghurt. Plain, flavoured yoghurt (without the fruit) is considered a lesser yoghurt, one without the pleasure. In Spain or Portugal, where fruit is abundant, consumers prefer plain yoghurt, eaten as much by children as by adults. In Italy, consumers prefer blended yoghurt, while flavoured varieties are positioned for very young children. Advertising messages are therefore adjusted accordingly to reflect these preferences. ”

Even sales promotion techniques have to be adapted to different countries. For example, in Germany, companies cannot advertise money-back guarantees and laws limit price discounts to 3 per cent of price. Several European countries also have regulations preventing or restricting the use of sales promotion tools such as rebates, coupons, premiums and games of chance.

Price

Companies also face several problems when setting their international prices.

Companies selling their products abroad may face a *price escalation* problem due to the need to add the cost of transportation, tariffs, importer margin, wholesaler margin and retailer margin to their factory price. For example, a Gucci handbag may sell for €150 in Italy and the equivalent of €350 in Singapore. 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.

Another problem involves setting a *transfer price* – that is, the price that a company charges for goods that it ships to its foreign subsidiaries. If the company charges a foreign subsidiary too much, it may end up paying higher tariff duties even while paying lower income taxes in the foreign country. If the company charges its subsidiary too little, it can be charged with *dumping* – that is, pricing exports at levels less than their costs or less than the prices charged in its home market. For example, the EU imposed anti-dumping duties of as much as 96.0 per cent on imports of broadcasting cameras made by some Japanese companies after an investigation by the European Commission found that Japanese exporters had, through unfair pricing, increased their share of the EU studio video camera market in the early 1990s.³⁵

Recent economic and technological forces have had an impact on global pricing. For example, in the euro-zone, the adoption of a single currency is reducing the amount of price differentiation. As consumers recognise price differentiation by country, companies are being forced to harmonise prices throughout the countries that have adopted the single currency. Companies and marketers that offer the most unique or necessary products or services will be least affected by such ‘price transparency’.

The Internet will also make 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 might even be able to order a given product directly from the company location or dealer offering the lowest price. This will force companies towards more standardised international pricing.³⁶

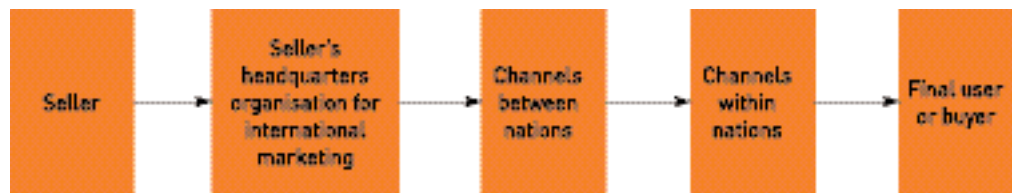


Figure 6.5 Whole-channel concept for international marketing

Distribution channels

The international company must take a *whole-channel* view of the problem of distributing products to final consumers. Figure 6.5 shows the three main links between the *seller* and the *final buyer*. The first link, the *seller's headquarters organisation*, supervises the channels and is part of the channel itself. The second link, *channels between nations*, moves the products to the borders of the foreign nations. The third link, *channels within nations*, moves the products from their foreign entry point to the final consumers. Some manufacturers may think their job is done once the product leaves their hands, but they would do well to pay more attention to its handling within foreign countries.

Channels of distribution within countries vary greatly from nation to nation. First, there are the large differences in the *numbers and types of intermediaries* serving each foreign market.

For example, a European company marketing in China must operate through a frustrating maze of state-controlled wholesalers and retailers. Chinese distributors often carry competitors' products and frequently refuse to share even basic sales and marketing information with their suppliers. Hustling for sales is an alien concept to Chinese distributors, who are used to selling all they can obtain. Working with or getting around this system sometimes requires substantial time and investment.³⁷ When Coke first entered China, for example, customers bicycled up to bottling plants to get their soft drinks. Many shopkeepers still don't have enough electricity to run soft-drink coolers. Now, Coca-Cola sets up direct-distribution channels, investing heavily in refrigerators and trucks, and upgrading wiring so that more retailers can install coolers.³⁸

Another difference lies in the size and character of retail units abroad. Whereas large-scale retail chains dominate the British and US scene, most retailing in the rest of Europe and other countries, such as Japan and India, is done by many small independent retailers. Getting to grips with a foreign country's distribution structure is often crucial to achieving effective market access. The international firm must therefore invest in acquiring knowledge about each foreign market's channel features and decide on how best to break into complex or entrenched distribution systems. In addition, when first entering a foreign market, the company must select the most appropriate distributors, working with them to determine and agree on mutually beneficial distribution targets and performance goals.³⁹

Deciding on the global marketing organisation

The key to success in any marketing strategy is the firm's ability to implement the chosen strategy. Because of the firm's distance from its foreign markets, international marketing strategy implementation is particularly difficult. The firm must have an organisation structure that fits with the international environment.

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

Export department—A form of international marketing organisation that comprises a sales manager and a few assistants whose job is to organise the shipping out of the company's goods to foreign markets.

International division—A form of international marketing organisation in which the division handles all of the firm's international activities. Marketing, manufacturing, research, planning and specialist staff are organised into operating units according to geography or product groups, or as an international subsidiary responsible for its own sales and profitability.

Global organisation—A form of international organisation whereby top corporate management and staff plan worldwide manufacturing or operational facilities, marketing policies, financial flows and logistical systems. The global operating unit reports directly to the chief executive, not to an international divisional head.

Export department

A firm normally gets into international marketing by simply shipping out its goods. If its international sales expand, the company organises an **export department** with a sales manager and a few assistants. As sales increase, the export department can then 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.

International division

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 an **international division** or subsidiary to handle all its international activities.

The international division's corporate staff consists of marketing, manufacturing, research, finance, planning and personnel specialists. They plan for and provide services to various operating units. Operating units may be organised in one of three ways. They may be *geographical* organisations, with country managers who are responsible for salespeople, sales branches, distributors and licensees in their respective countries. Or the operating units may be *world product groups*, each responsible for worldwide sales of different product groups. Finally, operating units may be *international subsidiaries*, each responsible for its own sales and profits.

Global organisation

Several firms have passed beyond the international division stage and become truly **global organisations**. They stop thinking of themselves as national marketers that sell abroad and start thinking of themselves 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 executive committee of the organisation, not to the head of an international division. Executives are trained in worldwide operations, not just domestic or international. The company recruits management from many countries, buys components and supplies where they cost the least, and invests where the expected returns are greatest.

In the twenty-first century, major companies must become more global if they hope to compete. As foreign companies successfully invade the domestic market, domestic companies must move more aggressively into foreign markets. They will have to change from companies that treat their foreign operations as secondary concerns, to companies that view the entire world as a single borderless market.⁴⁰

Summary

In this chapter, we looked at why companies today can no longer afford to pay attention only to their domestic market, regardless of its size. Many industries are global industries, and those 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 to adopt a systematic approach to making international marketing decisions. Here, we review the major global marketing concepts covered in this chapter.

Managers must understand the *global marketing environment*, especially the *international trade system*. The company must assess each foreign market's *economic, political-legal* and *cultural characteristics*. It must then decide whether to go international based on a consideration of the potential risks and benefits. Next, the company must decide on the volume of international sales it wants, how many countries it wants to market in, and which specific *country markets* it *wants to enter*. This decision calls for weighing the probable rate of return on investment against the level of risk.

The company has to *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. Increasingly, however, firms – domestic or international – use joint ventures and even direct investments to enter a new country market for the first time. 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. In *direct investment*, the company enters a foreign market by developing foreign-based assembly or production facilities.

When selling goods or services abroad, the company must decide on its global marketing programme. Managers must decide on the level of *adaptation* or *standardisation* of their *product, promotion, price* and *distribution channels* for each foreign market. At one extreme, global companies use a *standardised marketing mix* worldwide. Others use an *adapted marketing mix*, in which they adjust the marketing mix to each target market, bearing more costs but hoping for a larger market share and return.

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

Discussing the issues

1. The world is shrinking rapidly with the advent of faster communication, transportation and financial flows. The terms *global industry* and *global firm* are becoming more common. Define these terms and provide an example of each. Explain your examples.
2. When exporting goods to a foreign country, a marketer may be faced with various trade restrictions. Discuss the effects these restrictions might have on an exporter's marketing mix: (a) tariffs, (b) quotas and (c) embargoes.
3. With all the problems facing companies that 'go global', why are so many companies choosing to expand internationally? What are the advantages of expanding beyond the domestic market?
4. Imported products are usually more expensive, but not always: a Nikon camera is cheaper in London than in Tokyo. Why are foreign prices sometimes higher and sometimes lower than domestic prices for exports?
5. Before going abroad, a company should try to define its international marketing objectives, policies and modes of entry. Assume that you are a product manager for Dyson, a manufacturer of domestic vacuum cleaners and washing machines. Outline a plan for expanding your operations and marketing efforts into the United States.
6. Which type of international marketing organisation would you suggest for the following companies: (a) Adidas selling a wide range of sports and athletic clothing and footwear across the globe; (b) DaimlerChrysler's expansion into China; and (c) Ericsson selling its full line of products in the Far East? Explain.

Applying the concepts

1. It used to be that free trade and globalisation talks involved mostly discussions about tariffs and quotas. Now the two equate with culture, sovereignty and power. Trade talks were once held in smoke-filled rooms by diplomats. Today, they are conducted via television and the World Wide Web, with anti-globalisation protesters often dominating the scenes. These protesters argue that globalisation is about exploitation and environmental destruction. They feel that it will result in the assimilation of people, markets and cultures into a more generic whole. For more information, visit the following websites: the International Trade Association (www.ita.doc.gov), the 2003 *World Fact Book*, a CIA publication (www.odic.gov/cia/publications/factbook/index.html), The World Bank (www.worldbank.org) and the World Trade Organisation (www.wto.org); also visit www.paris21.org/betterworld, for more information on 'A better world for all', a report prepared jointly by the UN, World Bank, IMF and OECD.
 - What is the World Trade Organisation? Who are the member nations?
 - What have you learned about the anti-globalisation movement and their protests against globalisation at previous WTO conferences? How should the WTO proceed in the face of such protests?
 - Write a short position paper either defending or rejecting globalisation.
 - What are the implications for multinational companies seeking to protect and defend their position in the face of anti-globalisation sentiments?

2. Nowhere is international competition more apparent than in the digital camera market. Overnight, the advent of digital cameras has changed the way many photographers view their equipment. Digital cameras offer opportunities for reproduction and Internet viewing unrivalled by more traditional products. However, the market is also uncharted, chaotic, and increasingly crowded, with more than 20 manufacturers worldwide. The latest entrant is film giant Fuji (www.fujifilm.com). As the world's number-two producer, Fuji now plans to meet or beat Kodak (www.kodak.com), Sony (www.sony.com), Olympus (www.olympus.com), and Konica (www.konica.com) in digital camera products. Fuji introduced its first digital cameras in its own backyard – Japan, which is also a Sony stronghold. One factor motivating the move into digital cameras was its inability to erode Kodak's worldwide share of the film market. If the wave of the future turns out to be digital, Fuji plans to ride the wave's crest for as long as it can.
- Analyse Fuji's strategy of entering the digital camera market. What challenges is Fuji most likely to face in the digital camera market? How might Fuji's traditional strengths in film aid its efforts in the new digital camera market?
 - What world markets should Fuji consider after Japan? Explain.
 - If you were the marketing manager of Fuji, what advertising strategy would you suggest for Fuji's new product venture in Europe? What distribution strategy would you use?
 - What actions will Kodak, Olympus, Konica and Sony probably take to counter Fuji's entry?

References

1. This case is a reproduction of Bettina Wassener, 'Schnapps goes to college', *Financial Times* (4 September 2003), p. 15; article accessed at FT.com site, 3 September 2003.
2. International Trade Statistics 2001, GTO, p. 1, accessed online at www.wto.org/english/res_e/statis_e/its02_toc_e.htm, September 2002.
3. 'Financial indicators. Top exporters', *The Economist* (15 April 2000), p. 145.
4. Anna Chalmers, 'Feelings run high on Nazi issue', *Financial Times IT Review* (6 December 2000), p. xxiii; 'The Internet: Vive la liberté', *The Economist* (25 November 2000), pp. 120, 125; Shannon Oberndorf, 'Europe jumps online', *Catalog Age* (June 1999), p. 10; and Bill Spindle, 'E-commerce (a special report)', *Wall Street Journal* (12 July 1999), p. R22; 'First America, then the world', *The Economist. E-Commerce Survey* (26 February 2000), pp. 35–6, 41.
5. 'WTO predicts global trade to rise 6.5%', *Financial Times* (14 April 2000), p. 12.
6. For more on non-tariff and other barriers, see Carla Rapoport, 'The big split', *Fortune* (6 May 1991), pp. 38–48; Mark Maremont, 'Protectionism is king of the road', *Business Week* (13 May 1991), pp. 57–8.
7. Douglas Harbrecht and Owen Ullmann, 'Finally GATT may fly', *Business Week* (29 December 1993), pp. 36–7; Jon Marks, 'New kids on the Eurotrading bloc', *Financial Times, FT Exporter*, 11 (Spring 1996), p. 7; 'Special article: World trade: Fifty years on', *The Economist* (16 May 1998), pp. 21–3; and Helene Cooper, 'The millennium – Trade & commerce: Trading blocks', *Wall Street Journal* (11 January 1999), p. R50; Michael Finger and Julio J. Nogues, 'The unbalanced Uruguay outcome: the new areas in future WTO negotiations', *The World Economy* (March 2002), pp. 321–40; and *WTO Annual Report 2002*, accessed online at www.wto.org.
8. Supachai Panitchpakdi, 'Cancún must keep Doha on track', *Financial Times* (5 September 2003), p. 21; Martin Wolf, 'Welcoming China to the world', *Financial Times* (17 May 2000), p. 23; James Kyngé, 'Rising giant "enters the world"', *Financial Times Survey* (13 November 2000), p. 1; 'Fifty years on', *The Economist* (16 May 1998), pp. 21–5; 'School's brief: trade winds', *The Economist* (8 November 1997), pp. 124–5; 'All free traders now', *The Economist* (7 December 1996), pp. 25–7.

9. Guy de Jonquières, 'Modest goals in Cancún: Trying to achieve liberalisation in a group of 146 countries is well-nigh impossible', *Financial Times* (4 September 2003), p. 19; see also 'Economic focus: Weighing up the WTO', *The Economist* (23 November 2002), p. 96.
10. Information about the European Union from *The European Union at a Glance*, accessed online at <http://europa.eu.int>, August 2003; For more information about EU enlargement, see *EU Enlargement Survey* (22 November 2003), accessed online at www.Economist.com/surveys.
11. Stanley Reed, 'We have lift off! The strong launch of the euro is hailed around the world', *Business Week* (18 January 1999), pp. 34–7; Quentin Peel, 'Mapping Europe's future', *Financial Times* (19 June 2000), p. 26; 'Finance and economics: Up for adoption; Central Europe and the euro', *The Economist* (1 June 2002), pp. 69–70.
12. James Welsh, 'Enter the euro', *World Trade* (January 1999), pp. 34–8.
13. See 'Around Europe in 40 years', *The Economist* (31 May 1999), p. S4; Colin Egan and Peter McKiernan, *Inside Fortress Europe: Strategies for the single market*, the EIU series (Wokingham, Berks: Addison-Wesley, 1994); Brian Rothery, *What Maastricht Means for Business* (Aldershot: Gower, 1993).
14. Charles J. Whalen, 'NAFTA's scorecard: so far, so good', *Business Week* (9 July 2001), pp. 54–6; Geri Smith, 'Betting on free trade: will the Americas be one big market?', *Business Week* (23 April 2001), pp. 60–2; Ernesto Zedillo, 'Commentary: free trade is the best diplomacy', *Forbes* (23 July 2001), p. 49; and Fay Hansen, 'World trade update', *Business Finance* (March 2002), pp. 9–11.
15. Larry Rohter, 'Latin America and Europe to talk trade', *New York Times* (26 June 1999), p. 2; and Bernard Malamud and Wayne A. Label, 'The mercos: a common currency for Mercosur and Latin America', *American Business Review* (June 2002), pp. 132–9.
16. Dan West, 'Countertrade', *Business Credit* (April 2001), pp. 64–7; Dan West, 'Countertrade', *Business Credit* (April 2002), pp. 48–51.
17. See Louis Kraar, 'How to sell to cashless buyers', *Fortune* (7 November 1988), pp. 147–54; 'Pepsi to get ships, vodka in \$3 billion deal', *Durham Morning Herald* (10 May 1990), p. B5; Cyndee Miller, 'Worldwide money crunch fuels more international barter', *Marketing News* (2 March 1992), p. 5; Darren McDermott and S. Karen Witcher, 'Bartering gains currency', *Wall Street Journal* (6 April 1998), p. A10; Anne Millen Porter, 'Global economic meltdown boosts barter business', *Purchasing* (11 February 1999), pp. 21–5; S. Jayasankaran, 'Fire-fighting', *Far Eastern Economic Review* (31 May 2001), p. 52; and Dalia Marin and Monika Schnitzer, 'The economic institution of international barter', *The Economic Journal* (April 2002), pp. 293–316.
18. Gail Edmondson, 'The beauty of global branding', *Business Week* (28 June 1999), pp. 70–5.
19. Elisabeth Rosenthal, 'Buicks, Starbucks and fried chicken. Still China?', *New York Times* (25 February 2002), p. A4.
20. Henry Jenkins, 'Culture goes global', *Technology Review* (July–August 2001), p. 89.
21. Websites such as these may be of use to exporters and international marketers seeking market information about exporting. Some are officially sanctioned by government agencies; others are commercial in nature, offering research material and contact opportunities on a subscription basis. The British Chambers of Commerce (www.britishchambers.org.uk/exportzone), British Trade International (www.brittrade.com/emic), Trade UK (www.tradeuk.com), The United States–Asia Environmental Partnership (www.usaep.org/export/index.htm/), Asia Market Research Dot Com (www.asiamarketresearch.com), and Cyberatlas (<http://cyberatlas.internet.com>) give a global overview of the state of the online marketplace.
22. Robert Neff, 'In brief: e-trade licensing deal gives it an Israeli link', *American Banker* (11 May 1998); www.etrade.com.
23. Christopher Brown-Humes, 'Nokia plans to launch new Chinese venture', *Financial Times* (1 April 2003), p. 27.
24. Robert Wright, 'Fresh investors sought', *Financial Times, Special Report Hungary* (27 May 2003), p. VI.
25. Jan Johanson and Finn Wiedersheim-Paul, 'The internationalization of the firm', *Journal of Management Studies* (October 1975), pp. 305–22.
26. Somkid Jatusripitak, *The Exporting Behavior of Manufacturing Firms*, Ann Arbor: University of Michigan Press, 1986.

27. Sally Beatty and Carol Hymowitz 'Boss Talk: How MTV stays tuned into teens', *Wall Street Journal* (21 March 2000), p. 81; Kerry Capell, 'MTV's World: Mando-Pop. Mexican Hip Hop. Russian Rap. It's all fueling the global channel', *Business Week* (18 February 2002), pp. 81–84. For more discussion on the advantages of a global strategy and potential pitfalls, see Kevin Lane and Sanjay Sood, 'The ten commandments of global branding', *Asian Journal of Marketing* (Volume 8, No. 2, 2001), pp. 72–84.
28. See Theodore Levitt, 'The globalization of markets', *Harvard Business Review* (May–June 1983), pp. 92–102; David M. Szymanski, Sundar G. Bharadwaj and Rajan Varadarajan, 'Standardization versus adaptation of international marketing strategy: An empirical investigation', *Journal of Marketing* (October 1993), pp. 1–17; Ashish Banerjee, 'Global campaigns don't work; multinationals do', *Advertising Age* (18 April 1994), p. 23; Jeryl Whitelock and Carole Pimblett, 'The standardization debate in international marketing', *Journal of Global Marketing* (1997), p. 22; and David A. Aaker and Ericj Joachimsthaler, 'The lure of global branding', *Harvard Business Review* (November–December 1999), pp. 137–44.
29. Moises Naim, 'McAtlas shrugged', *Foreign Policy* (May–June 2001), pp. 26–37; and Suh-Kyung Yoon, 'Look who's going native', *Far Eastern Economic Review* (1 February 2001), pp. 68–9.
30. See George S. Yip, 'Global strategy . . . in a world of nations?', *Sloan Management Review* (Fall 1989), pp. 29–41; Kamran Kashani, 'Beware the pitfalls of global marketing', *Harvard Business Review* (September–October 1989), pp. 91–8; Saeed Saminee and Kendall Roth, 'The influence of global marketing standardization on performance', *Journal of Marketing* (April 1992), pp. 1–17.
31. See Warren J. Keegan, *Global Marketing Management*, 7th edition, Upper Saddle River, NJ: Prentice Hall, 2002, pp. 346–51. See also Warren J. Keegan and Bodo B. Schlegelmilch, *Global Marketing Management: A European Perspective*, Harlow, Essex: FT/Prentice Hall, 2001; Peter G. P. Walters and Brian Toyne, 'Product modification and standardization in international markets: strategic options and facilitating policies', *Columbia Journal of World Business* (Winter 1989), pp. 37–44.
32. See Andrew Kupfer, 'How to be a global manager', *Fortune* (14 March 1988), pp. 52–8; Jack Neff, 'Test it in Paris, France, launch it in Paris, Texas', *Advertising Age* (31 May 1999), p. 28.
33. See Matt Forney, Dimon Fluendy and Emily Thornton, 'A matter of wording', *Far Eastern Economic Review* (10 October 1996), pp. 72–3; David A. Ricks, 'Perspectives: Translation blunders in international business', *Journal of Language for International Business*, 7, 2 (1996), pp. 50–5; Ken Friedenreich, 'The lingua too Franca', *World Trade* (April 1998), p. 98; and Richard P. Carpenter, 'What they meant to say was . . .', *Boston Globe* (2 August 1998), p. M6; Lara L. Sowinski, 'Übersetzung, traduzione, or traducción', *World Trade* (February 2002), pp. 48–9.
34. Alicia Clegg, 'One ad one world', *Marketing Week* (20 June 2002), pp. 51–2.
35. See Guy de Jonquières, 'High duties against Japan', *Financial Times* (4 May 1994), p. 7.
36. Ram Charan, 'The rules have changed', *Fortune* (16 March 1998), pp. 159–62.
37. See Maria Shao, 'Laying the foundation for the great mall of China', *Business Week* (25 January 1988), pp. 68–9; and Mark L. Clifford and Nicole Harris, 'Coke pours into China', *Business Week* (28 October 1996), p. 73.
38. Richard Tomlinson, 'The China card', *Fortune* (25 May 1998), p. 82; and Paul Mooney, 'Deals on wheels', *Far East Economic Review* (20 May 1999), p. 53.
39. David Arnold, 'Seven rules of international distribution', *Harvard Business Review* (November–December 2000), pp. 131–7.
40. See Kenichi Ohmae, 'Managing in a borderless world', *Harvard Business Review* (May–June 1989), pp. 152–61; William J. Holstein, 'The stateless corporation', *Business Week* (14 May 1990), pp. 98–105; John A. Byrne and Kathleen Kerwin, 'Borderless management', *Business Week* (23 May 1994), pp. 24–6; see also Christopher A. Bartlett and Sumantra Ghosal, *Managing Across Borders*, Cambridge, MA: Harvard Business School Press, 1989.



WEB RESOURCES

For additional classic case studies and Internet exercises, visit www.pearsoned.co.uk/kotler

Concluding concepts 6

Making the global tippie: soil, climate, aspect and mystique



'A few decades ago it was not difficult to know about wine', explained Ivor Trink, one of Australia's new breed of flash, flying wine makers. 'There was claret, burgundy, champagne, port, sherry and loads of gut rot.' Dr Trink had been invited, and paid a fat fee, to talk to a gathering of some of Bordeaux's 12,000 wine producers. He continued, 'You are the guardians of the *terrier*, that combination of soil, climate and aspect shaped by two millennia of expertise that signal a wine's excellence. Australian wine producers are resigned to French producers continuing to dominate the great heights of wine making, trophy wines selling for hundreds of euros a bottle.' 'Of course', heckled one distinguished wine grower, 'but we don't need you to tell us that.'

Undeterred, Dr Trink continued and started to win over his sceptical audience. He projected a chart (Exhibit 6.1) that showed how the main European suppliers, which he called the 'old world', are still forecast to dominate the world's wine production. 'You have the advantage', he continued, 'as your own Baroness Philippine de Rothschild told me, "Winemaking is easy. Only the first 200 years are difficult."' And you certainly have experience. The museum at Château Mouton Rothschild traces wine making back to Roman times and has a cellar

devoted to mid-nineteenth-century vintages. The whole place reeks as much of history as wine.

'In a market that is very fragmented, the world market leader – France's luxury goods giant LVMH – has less than 1 per cent of the world market, and the number of "old world" winemakers swamp those from the new world. Italy alone has 1 million winemakers and this region, Bordeaux, makes more wine than the whole of Australia.

'You have the mystique beloved of wine enthusiasts. As the author and wine guru Hugh Johnson proclaims: "Why is wine so fascinating? Because there are so many different kinds, and every single one is different." The prices of the world's most costly wines show France's dominance. While Château d'Yquem (1811) sauternes has

Exhibit 6.1 Forecast regional share of world production (2006)

Region	% share
Main European exporters: France, Italy, Portugal and Spain	51
Second-tier European producers (Germany, Portugal, Romania)	9
Other major southern hemisphere exporters: Argentina, Chile, New Zealand and South Africa	10
Australia	5
US	8
Rest of world	17

sold for \$26,500 (€30,000), Moët & Chandon Esprit de Siècle champagne for \$10,000 and Château Mouton Rothschild (1945) for \$4,200, the best that the rest of the world can manage is \$1,400 for Australian Grange (1955) and \$1,000 for Californian Screaming Eagle (1995).

'In addition you have the *appellation contrôlée* that protects your wine's identity through a plethora of rigidly enforced regulations covering the grapes that can be used in a region's blend, the way they are picked, the way the wines are planted, their irrigation, the wine's alcoholic content, the labelling and much more. Your "brands", if you will excuse my use of the word, are the most protected in the world.

'You also have amazingly loyal customers. For example, France is one of the world's greatest consumers of wine and yet imports account for less than 5 per cent of sales. As Françoise Brugière, of the Office National Interprofessionnel des Vins, explained to me, "It's no accident that Chauvin was a Frenchman." And the French are not alone in their loyalty. Italian and Spanish wine drinkers are just as loyal to wine made in their own country. Even in Australia over 90 per cent of the wine consumed is home grown.

'Your position in the wine world is pre-eminent. Through your combined strength you have already given bloody noses to the big conglomerates moving into your

"Winemaking is easy. Only the first 200 years are difficult."

markets. Remember the fanfare when Coca-Cola introduced their new beverage category, wine, in 1976. It took them four years of losses to learn that Coke is no Grand Cru and make an ignominious exit in 1980. Having not learned from your victory over Coca-Cola, Nestlé, Philip Morris and RJR Nabisco all entered the wine trade, lost their shirts and quit the wine trade in the 1980s. True, some global companies are still dabbling in wine but they are finding it tough. Seagram has just sold off its champagne brands. Only Diageo is hanging on but they are dismissive of the role of wine in their overall strategy. As one manager joked: "Two millennia ago a miracle changes water into wine. We're still waiting for the second miracle: turning wine into profits!"

The audience was getting to like Dr Tittle but their mood was about to change. 'Yes, you are confidently on top of the pile now but, unless you shape up, Bordeaux will be as much a wine-making joke as Britain. For too long you have ignored customers. You think you are so special, custodians of a grand heritage that defines your nation. You are wrong. You are mostly outdated business, yes business, who for generations have operated more for your own convenience than that of the customers.

'You may have 95 per cent of the French market but the market is, literally, dying on you and you are losing ground elsewhere. Over the past 30 years France's wine consumption has halved and the average age of the regular wine consumer, who drinks at least a glass a day, has risen from 35 to 55. You have lost touch with the youth market. Go to Paris and you will find the bars full of young people drinking. Drinking, yes, but not French wine or wine from any other country. Their drink is foreign beer or whisky.

'The situation in your traditional export markets is equally dire. In the late 1980s, France and Europe's other three big exporters accounted for 85 per cent of the world's exports. They are now down to about 70 per cent. The British market is a good example of what is happening outside the wine-producing countries. Only six years ago, French, German and Italian wines accounted for two-thirds of the wine the Brits consumed. Their combined share is now less than 50 per cent and declining. In 2003 Australia overtook France as Britain's largest wine supplier.

'France, Italy and Spain may be holding onto their share of their declining markets but, elsewhere, new-world wines are driving out the old. And it is in these non-wine-growing areas that wine consumption is growing. While the share of world exports, excluding intra-EU trade, of the main European exporters has slipped from 75 per cent to 55 per cent over the last 10 years, sales of new-world

Exhibit 6.2 Forecast change in wine production (2001–2006)

Region	% point change in share
Chile	+24
Australia	+20
Spain	+14
US	+11
France	+6
Italy	-4

exporters have soared. This table (Exhibit 6.2) shows how percentage points in world production is forecast to change.

'Your political parties are now competing in thinking of ways of bolstering up your flagging industry. The Socialists have proposed classing wine as an agricultural product so that it avoids the ban on advertising on alcoholic beverages. Your agriculture minister is also proposing to rationalise the numerous national and regional committees that control wine research. This government assistance may help but it is you, the wine makers, who have to change or wither on the vine with your unwanted grapes.

'You may claim that the new world's gains have been made because of their heavy advertising but that is only part of the story. New-world wine producers are producing brands but a large part of their success is because they understand what brands are. For a brand to succeed consumers have got to recognise and enjoy what they are getting. For a long time, that has not been true of old-world wines. The quality of old-world wines can be outstanding but often it is not. One old-world wine buff was close to the truth when he joked: "It costs £20 (€33) for a good bottle of burgundy, but to enjoy a great bottle of burgundy it cost £200 plus £1800 for the other nine bottles that were not."

'The old world are still trying to use the old SCAM of Soil, Climate, Aspect and Mystique but are losing out to the new world's appliance of science and professionalism. That is what accounted for the "Judgement of Paris" as long ago as 1976. On that occasion the Paris-based wine merchant Steven Spurrier brought together 15 of the most influential French wine critics to compare Californian and French wines in a blind test. These critics were shocked and there was a national outcry when, without the benefit of labels and bottles to guide them, the critics chose the Californian wine over the French. After cries that the test was rigged it was rerun two years later and, once again, gave the same results!

'It seems that your great wine heritage now accounts for little, according to the world's leading wine critics. Australia's Grange, first produced in 1950, "has replaced Bordeaux's Pétrus as the world's most exotic and concentrated wine" and it is argued that New Zealand sauvignon blanc, first produced in 1970, is "arguably, the best in the world". Price comparisons in the UK market show how consumers are voting. Besides gaining sales, new-world wines carry higher prices than European producers: the average price paid for a bottle of New Zealand wine is over £5, for Australian and US wines over £4 a bottle, the average French bottle is about £3.50 and the average German bottle a little over £2.50.

'How has the new world achieved this success? The answer is the appliance of science in wine making and marketing. As John Worontschak, a fellow Australian who lives in Bordeaux, so eloquently explains: "It's because we're open to new ideas, and we're not full of pretentious bullshit." Australia, California and New Zealand do not strive to uphold wine-making traditions supported by state subsidies, but strive to make good, consistent, keenly priced wines, carefully crafted to fit consumers' tastes and expectations. An indication of their scientific endeavour is the production of scientific papers on wine making. Although Australia and New Zealand have only a fraction of the world market they already produce 20 per cent of the scientific papers on wine making. That investment has made them good but also means they are getting better.

'The new world's more enlightened regulations enable them to make both consistent and excellent wines in a way that your *appellation contrôlée* blocks. Their wines are consistent because they can use different irrigation methods and take grapes from different areas to make the taste right. If in one year the conditions are perfect to produce an excellent strong vintage, they will do it and win international prizes for their efforts; your *appellation contrôlée* would prevent you making the superb wines above the regulated strength. If the vintage needs it, they will put oak chips in a barrel to bring out the flavour while you would have to hope for the vagaries of the oak barrel and your variable climate. Yes, your love of the old ways, cottage industries and *appellation contrôlée* are great gifts to the new world.

'Our final great advantage is marketing, but that is more than big budgets. It is finding out what people want and respecting their views. For instance we know that, once people have decided not to buy the cheapest wine, their choice is influenced by four main factors: past experience of wines, the country of origin of the wine, the variety of grape and brand. Too often the wine labels in the

old world are designed to look grand and regulate, rather than elucidate. As Hugh Johnson comments on German wine labels: "... laws have introduced ambiguities which only the most dogged use of a reference book can elucidate. Whether there was a publisher on the committee that framed them I don't know. But there can't have been a customer."

'In pandering to customers, not custom, new-world growers understand the importance of consistency and rewarding customers with a taste they like. You may find it amazing but many potential customers are attracted to the sophistication of wine drinking but don't like the taste. Rather than rejecting these lost causes, Californians have invested in wine coolers (a mixture of wine and fruit juices) and fruit-flavoured wines. It is consistently giving customers what they want that allows inexpensively produced new-world wines to sell at a higher price than old-world bottles.

'It is also important to recognise the importance of country of origin. Many of the new-world wines come from young countries with a youthful, fun-loving image. There are also linguistic and historic links with the new world. To English-speaking people, Screaming Eagle is a lot easier to remember and sounds more fun than Veuve Clicquot-Ponsardin or Regierungsbezirk. These links really do matter in the wine trade. For example, the historical links are helping South African wines in the Netherlands while "brand Australia" is struggling in Germany. Eventually Australia will have to do in Germany what they did for the UK market, use focus groups to come up with attractive Australian-sounding names – like Barramundi – that appeal to the local consumer.

'Certainly some French producers have responded with English-sounding names, but are they the right names to build an attack against the young competition? Names like Fat Bastard, Old Git and Old Tart are certainly Anglo-Saxon and memorable, but they sound to me more like an expression of disdain for modern wine consumers than names that will build loyalty and prestige.

'Californians started putting grape varieties on their wine to help give consumers a clue to taste. It is a trick that has since been adopted from New Zealand's superb sauvignon blanc to Chile's merlot. The grape variety constrains the taste that can be constructed but is a useful shorthand valued by mid-range consumers. South Africa is even marketing a Goats do Roam but I believe your Institut National des Appellations d'Origine is trying to ban it since it sounds too similar to Côtes du Rhône!

'Branding is the real spirit of new-world wines. It demands the simple labelling, consistency and quality

that new-world wines give. In using these marketing techniques, the scale of new-world wine makers gives them an advantage. Although globally no single winegrower has the dominance of Diageo in the spirits market or Coca-Cola in soft drinks, new-world producers are huge compared with Europe's fragmented industry. In Australia four companies have 80 per cent of wine production and in the huge US market the five biggest producers account for 62 per cent of the market. Like it or not, the big brands are coming. Yes, wine is special to the producers and drinkers, but no more special than globally marketed Highland Park malt whisky or Guinness beer. As the wine journalist Andrew Jefford complained, Australian brands, like Jacob's Creek and Nottage Hill, are "becoming the equivalent of cans of lager; standardised, consistent, reliable, risk-free, challenge-free". Why does he complain? What's wrong with that? The longer you and he fight the march of progress, the sooner you'll die.'

Questions

1. What accounts for the new world's recent success over the old world's wine producers?

The remaining questions for this case ask you to evaluate alternative courses of action suggested in a discussion by the Bordeaux winemakers following Dr Tipple's presentation.

2. Stick to what we have always been doing and build upon our unique *terrier*. Great wines are beyond the marketing babble of the multinationals. We have defeated Coca-Cola, Nestlé and the like, and will defeat this new challenge from much smaller new-world wine makers who are a fraction of the

size of those we have already beaten. After all, the world's wine critics, wine enthusiasts the world over and our local customers remain discerning and are loyal to our wines.

3. Adopt Australian methods of wine production and branding for international markets, like several local wine-makers have done. We must be humble and learn from British Diageo in developing an accessible French brand, such as their Le Piat d'Or, or American Australian Southcorp with Vichon.
4. Follow the lead taken by France's LVHM and Pernod Ricard and buy into the new-world wines' positioning and expertise. LVHM own Australian Green Point and Californian Domaine Chandon while Pernod Ricard owns Australian Jacob's Creek and South African Long Mountain.
5. Seek the disestablishment of *appellation contrôlée* for many of our wine-growing areas so that we can develop the global French brands we need.
6. Follow the lead shown by our farming colleagues to protect our consumers from practices that undermine our European heritage. We have fought against hormones in American beef, genetically modified soya beans and bananas from the Windward Islands. We need to use our political clout in the EU as well as our own parliament.

SOURCES: 'The globe in a glass', *The Economist* (18 December 1999), pp. 107–23; John Apthorp, 'Lord of the wines', *EuroBusiness* (August 2000), pp. 76–7; Giles MacDonogh, 'French take to terrier in battle with brands', *Financial Times Survey: World Wine Industry* (15 December 2000), p. I; Stephen Brook, 'The long road from Hirondelle to here', *Financial Times Survey: World Wine Industry* (15 December 2000), p. IV; Adam Jones, 'Rivalries bubble out in the world of wine', *Financial Times* (19 August 2003), p. 24; *La Tribune*, 'French socialists propose wine-advertising rescue' (19 February 2004); *La Tribune*, 'French wine sector: New World challenge' (24 November 2003).