

The Global Marketplace

Previewing the Concepts

You've now learned the fundamentals of how companies develop competitive marketing strategies to create customer value and to build lasting customer relationships. In this chapter, we extend these fundamentals to global marketing. We've visited global topics in each previous chapter—it's difficult to find an area of marketing that doesn't contain at least some international issues. Here, however, we'll focus on special considerations that companies face when they market their brands globally. Advances in communication, transportation, and other technologies have made the world a much smaller place. Today, almost every firm, large or small, faces international marketing issues. In this chapter, we will examine six major decisions marketers make in going global.

Before moving into the chapter, let's look first at one of today's hottest global brands—the National Basketball Association. Yes, the NBA! Just like most other large businesses, the once quintessentially American NBA is now seeking growth opportunities beyond its own national borders. And when it comes to global marketing, the NBA is jamming down one slam dunk after another. Read on and see how.

What could be more American than basketball? The sport was invented in the United States, and each year tens of millions of excited fans crowd their local gyms or huddle around their television sets to cheer on their favorite rec league, high school, college, or pro teams. But basketball is rapidly becoming a worldwide craze. Although soccer remains the number-one sport in most of the world, basketball—that's right, basketball—is a solid number two.

Lots of companies are going global these days, but few organizations are doing it better than the National Basketball Association (NBA). During the past two decades, under the leadership of Commissioner David Stern, the NBA has become a truly global marketing enterprise. Nowhere was this more apparent than in last year's NBA finals, which were televised to more than 205 countries in 39 languages, from Armenian, Belorussian, Lithuanian, and Norwegian to Arabic, Cantonese, and Macedonian. In fact, as much as 20 percent of the NBA's \$900 million in annual TV revenues now comes from international markets. More than half the hits on NBA.com, which now features nine country sites in seven languages, originate outside the United States. And 25 percent of all NBA-licensed basketballs, jerseys, backboards, and other merchandise is sold internationally.

The NBA has become a powerful worldwide brand. A *Fortune* article summarizes:

Deployed by global sponsors such as Coca-Cola, Reebok, and McDonald's, well-paid [NBA superstars] hawk soda, sneakers, burgers, and basketball to legions of mostly young fans [worldwide]. That they are recognized from Santiago to Seoul says a lot about the soaring worldwide appeal of hoops—and about the marketing juggernaut known as the NBA. After watching their favorite stars swoop in and slam-dunk on their local TV stations, fans of the league now cheer the *mate* in Latin America, the *trofski* in Iceland, and the *smash* in France.

Like many other businesses, the NBA's primary motive for going global is growth. The league now sells out most of its games, and domestic licensing revenues have flattened in recent years. "Globalization is a huge opportunity for us," says Commissioner Stern, who recently called basketball a "universal language about to bloom on a global basis." Stern sees huge worldwide potential for the NBA. "If you watch over the years what percentage of profit Coca-Cola makes from overseas, or how Wal-Mart and others are expanding in Europe and China, you'll understand," he says.



Most experts expect slam dunk after slam dunk for the NBA as it extends its international reach. Adding to the league's global appeal is the growing presence of foreign-born players. Some 82 players (more than 20 percent of all NBA pros) hail from outside the United States, and almost every NBA team boasts at least one non-U.S. star. To name just a few, the list includes Yao Ming from China, Dirk Nowitzki from Germany, Tony Kukoc from Croatia, Pau Gasol from Spain, Manu Ginobili from Argentina, and Peja Stojakovic from Serbia. Such players attract large followings in their home countries. German tennis star Boris Becker credits Dirk Nowitzki for the increase in NBA ratings in his homeland. "Thanks to Dirk, basketball has become very, very popular" in Germany.

And many American basketball superstars have developed their own hoards of fanatical fans abroad. For example, according to one report, "Two years ago in Beijing, police were forced to cancel Michael Jordan's first public appearance in the city on his Asian tour after fans trampled flower beds, blocked sidewalks, damaged a car, and ripped down several billboards while angling so they could get a good view of the retired NBA legend. When police pulled the plug on the event at Dongdan Sports Center before Jordan even arrived, the fans became angry, many shouting Jordan's name in unison. Some had [waited] outside the stadium for hours, waving Jordan posters."

Objectives

After studying this chapter, you will be able to:

1. discuss how the international trade system and the economic, political, legal, and cultural environments affect a company's international marketing decisions
2. describe three key approaches to entering international markets
3. explain how companies adapt their marketing mixes for international markets
4. identify the three major forms of international marketing organization

Stern is not content to just sit back and let international things happen. He's investing heavily to build the NBA's popularity and business abroad. The NBA now has nine offices in major world cities, including Paris, Tokyo, and Hong Kong. Its international staff numbers more than 100 people, nearly double the number who ran the entire league just two decades ago. The NBA even has an Hispanic marketing office in Miami, where eight people focus on Latin America and the Hispanic media in other parts of the world.

For Heidi Ueberroth, head of the NBA's international business operations, the U.S. summer off-season is the start of the international marketing season. During the 2006 summer off-season, the league sponsored 132 international events, with 198 players representing all 30 NBA teams appearing in 87 cities on five continents. It also started what might be its most ambitious global expansion effort yet—called NBA Europe Live. This program took off-season training for four teams—the Suns, Clippers, Sixers, and Spurs—to European cities. Each team was chosen because it has major foreign-born players with international appeal.

NBA Europe Live does much more than simply showcase team training. Each team competes in exhibition games against host teams from Euroleague basketball. According to Stern, "At the culmination of the exhibition games, there will be a four-team tournament featuring the champion of the Euroleague and the runner-up of Euroleague basketball going against two NBA teams." Given that the bulk of the NBA's international fan base is in Europe, NBA Europe Live makes good business sense. Some even see NBA Europe Live as a significant step toward landing an NBA team overseas. "I think somewhere down the road, a European Division or European Conference is certainly a possibility," says an analyst.

If things look good for the NBA in Europe, the league is positively drooling over its prospects in China, with its more than 1.3 billion people and 300 million basketball fans. According to Ueberroth, basketball in China "is the number one sport for youth 30 and under." It helps that in recent years China's three biggest stars, Yao Ming, Wang ZhiZhi, and Mengke Bateer, left the Chinese Basketball Association to take a shot at NBA careers. The NBA is reaping the benefits. NBA.com's Mandarin language Web site accounts for 20 percent of all the league's Internet traffic, and 20,000 Chinese retail outlets now sell NBA merchandise. "We have seven games a week on 24 different [Chinese] stations," Ueberroth states, underscoring the NBA's current heavy focus on China. The league even deploys its Jam Van, complete with hoops and interactive NBA video games, to tour China's provinces.

Despite the dazzling prospects, many challenges remain. "Winning the loyalty of [more than a] billion Chinese won't be a *kou qui*—a slam dunk," suggests one international sports analyst, "but Stern is, well, bullish. . . . Can Ping-Pong survive an NBA invasion? Stay tuned [and see how the ball bounces]."¹

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

Global Marketing Today

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



McDonald's and many other American companies have made the world their market.

International trade is booming. Since 1969, the number of multinational corporations in the world has grown from 7,000 to more than 70,000. Some of these multinationals are true giants. In fact, of the largest 100 "economies" in the world, only 53 are countries. The remaining 47 are multinational corporations. Exxon Mobil, the world's largest company, has annual revenues greater than the gross domestic product of all but the world's 21 largest-GDP countries.²

Since 2003, total world trade has been growing at 6 to 10 percent annually, while global gross domestic product has grown at only 2.5 to 4 percent annually. World trade of products and services was valued at over 12.4 trillion dollars in 2005, which accounted for about 28 percent of gross domestic product worldwide. This trade growth is most visible in developing countries, such as China, which saw their share in world exports rise sharply to 24 percent in 2005.³

Many U.S. companies have long been successful at international marketing: Coca-Cola, GE, IBM, Colgate, Caterpillar, Ford, Boeing, McDonald's, and dozens of other American firms have made the world their market. And in the United States, names such as Sony, Toyota, BP, IKEA, Nestlé, Nokia, and Prudential have become household words. Other products and services that appear to be American are in fact produced or owned by foreign companies: Bantam books, Baskin-Robbins ice cream, GE and RCA televisions, Carnation milk, Pillsbury food products, Universal Studios, and Motel 6, to name just a few. Michelin, the oh-so-French tire manufacturer, now does 36 percent of its business in North America; Johnson & Johnson, the maker of quint-essentially all-American products such as Band-Aids and Johnson's Baby Shampoo, does 44 percent of its business abroad.⁴

But while global trade is growing, global competition is intensifying. Foreign firms are expanding aggressively into new international markets, and home markets are no longer as rich in opportunity. Few industries are now safe from foreign competition. If companies delay taking steps toward internationalizing,

they risk being shut out of growing markets in Western and Eastern Europe, China and the Pacific Rim, Russia, and elsewhere. Firms that stay at home to play it safe not only might lose their chances to enter other markets but also risk losing their home markets. Domestic companies that never thought about foreign competitors suddenly find these competitors in their own backyards.

Ironically, although the need for companies to go abroad is greater today than in the past, so are the risks. Companies that go global may face highly unstable governments and currencies, restrictive government policies and regulations, and high trade barriers. Corruption is also an increasing problem—officials in several countries often award business not to the best bidder but to the highest briber.

A **global firm** is one that, by operating in more than one country, gains marketing, production, R&D, and financial advantages that are not available to purely domestic competitors. The global company sees the world as one market. It minimizes the importance of national boundaries and develops "transnational" brands. It raises capital, obtains materials and components, and manufactures and markets its goods wherever it can do the best job. For example, Otis Elevator gets its elevators' door systems from France, small geared parts from Spain, electronics from Germany, and special motor drives from Japan. It uses the United States only for systems integration. "Borders are so 20th century," says one global marketing expert. "Transnationals take 'stateless' to the next level."⁵

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

The rapid move toward globalization means that all companies will have to answer some basic questions: What market position should we try to establish in our country, in our economic region, and globally? Who will our global competitors be, and what are their strategies

Global firm

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

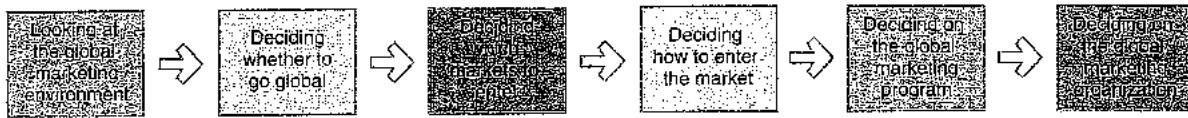


FIGURE 19.1 Major international marketing decisions

and resources? Where should we produce or source our products? What strategic alliances should we form with other firms around the world?

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

Looking at the Global Marketing Environment

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

The International Trade System

U.S. companies looking abroad must start by understanding the international *trade system*. When selling to another country, a firm may face restrictions on trade between nations. Foreign governments may charge *tariffs*, taxes on certain imported products designed to raise revenue or to protect domestic firms. Or they may set *quotas*, limits on the amount of foreign imports that they will accept in certain product categories. The purpose of a quota is to conserve on foreign exchange and to protect local industry and employment. American firms may also face *exchange controls*, which limit the amount of foreign exchange and the exchange rate against other currencies.

The company also may face *nontariff trade barriers*, such as biases against U.S. company bids or restrictive product standards that go against American product features:

For years, Japan has successfully devised nontariff trade barriers to shut foreign products out of its domestic markets. One of the cleverest ways the Japanese have found to keep foreign manufacturers out is to plead "uniqueness." Japanese skin is different, the government argues, so foreign cosmetics companies must test their products in Japan before selling there. The Japanese say their stomachs are small and have room for only the *mikan*, the local tangerine, so imports of U.S. oranges are limited. Now the Japanese have come up with what may be the flakiest argument yet: Their snow is different, so ski equipment should be too.⁶

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

The World Trade Organization and GATT

The General Agreement on Tariffs and Trade (GATT) is a 59-year-old treaty designed to promote world trade by reducing tariffs and other international trade barriers. Since the treaty's inception in 1947, member nations (currently numbering 149) 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 the average worldwide tariffs on manufactured goods from 45 percent to just 5 percent.⁷

The most recently completed GATT negotiations, dubbed 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 merchandise tariffs by 30 percent. The agreement 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. Although the financial impact of such an agreement is difficult to measure, research suggests that



WORLD TRADE ORGANIZATION



☞ The WTO and GATT: The General Agreement on Tariffs and Trade (GATT) promotes world trade by reducing tariffs in other international trade barriers. The WTO oversees GATT, imposes trade sanctions, and mediates global disputes.

Economic community

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

companies have grown bigger and more competitive. Perhaps an even greater concern, however, is that lower barriers *inside* Europe will create only thicker *outside* walls. Some observers envision a "Fortress Europe" that heaps favors on firms from EU countries but hinders outsiders by imposing obstacles.

Progress toward European unification has been slow—many doubt that complete unification will ever be achieved. In recent years, 12 member nations have taken a significant step toward unification by adopting the euro as a common currency. Many other countries are expected to follow within the next few years. Widespread adoption of the euro will decrease much of the currency risk associated with doing business in Europe, making member countries with previously weak currencies more attractive markets.¹¹

However, even with the adoption of the euro, it is unlikely that the EU will ever go against 2,000 years of tradition and become the "United States of Europe." A community with two dozen different languages and cultures will always have difficulty coming together and acting as a single entity. For example, efforts to forge a single European constitution appear to have failed following French and Dutch "no" votes in mid-2005. And economic disputes between member nations have stalled long-term budget negotiations. Still, although only partly successful so far, unification has made Europe a global force with which to reckon, with a combined annual GDP of more than \$12.1 trillion.¹²

In 1994, the *North American Free Trade Agreement (NAFTA)* established a free trade zone among the United States, Mexico, and Canada. The agreement created a single market of 435 million people who produce and consume over \$14.4 trillion worth of goods and services annually. As it is implemented over a 15-year period, NAFTA will eliminate all trade barriers and investment restrictions among the three countries. Thus far, the agreement has allowed

cutting agriculture, manufacturing, and services trade barriers by one-third would boost the world economy by \$613 billion, the equivalent of adding another Australia to the world economy.⁸

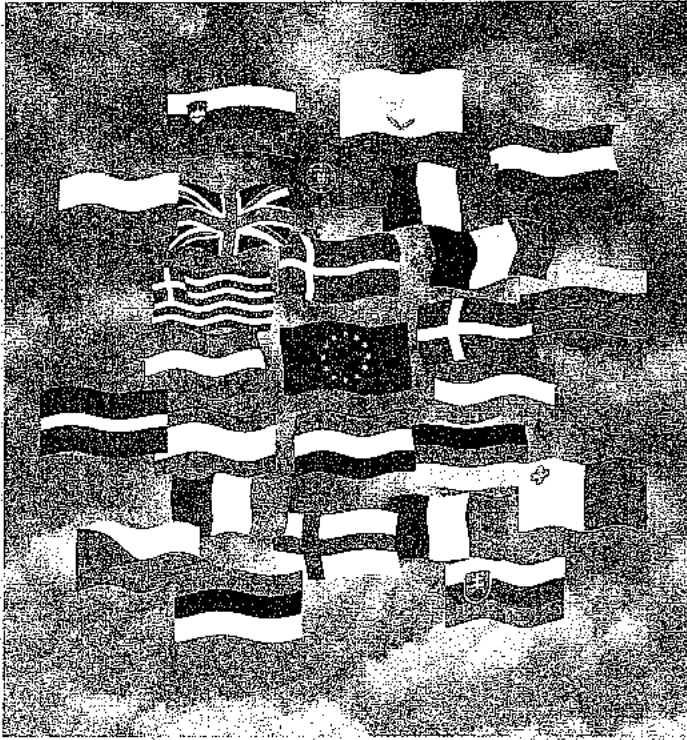
Beyond reducing trade barriers and setting global standards for trade, the Uruguay Round set up the *World Trade Organization (WTO)* to enforce GATT rules. In general, the WTO acts as an umbrella organization, overseeing GATT, mediating global disputes, and imposing trade sanctions. The previous GATT organization never possessed such authorities. A new round of GATT negotiations, the *Doha Round*, began in Doha, Qatar, in late 2001 and was set to conclude in 2005, but the discussions continue.⁹

Regional Free Trade Zones

Certain countries have formed *free trade zones* or *economic communities*. These are groups of nations organized to work toward common goals in the regulation of international trade. One such community is the *European Union (EU)*. Formed in 1957, the European Union set out to create a single European market by reducing barriers to the free flow of products, services, finances, and labor among member countries and developing policies on trade with nonmember nations. Today, the European Union represents one of the world's single largest markets. By 2007 it will have 27 member countries containing close to half a billion consumers and accounting for more than 20 percent of the world's exports.¹⁰

European unification offers tremendous trade opportunities for U.S. and other non-European firms. However, it also poses threats.

As a result of increased unification, European



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

trade between the countries to flourish. In the dozen years following its establishment, trade among the NAFTA nations has risen 173 percent. U.S. merchandise exports to NAFTA partners grew 133 percent, compared with exports to the rest of the world at 77 percent. Canada and Mexico are now the nation's first and second largest trading partners.¹³

Following the apparent success of NAFTA, in 2005 the Central American Free Trade Agreement (CAFTA) established a free trade zone between the United States and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. And talks have been underway since 1994 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 about \$17 trillion.¹⁴

Other free trade areas have formed in Latin America and South America. For example, MERCOSUR links ten Latin America and South America countries, and the Andean Community (CAN, for its Spanish initials) links five more. In late 2004, MERCOSUR and CAN agreed to unite, creating the South American Community of Nations (CSN), which will be modeled after the European Union. Complete integration between the two trade blocs is expected by 2007 and all tariffs between the nations are to be eliminated by 2019. With a

population of more than 370 million, a combined economy of more than \$2.8 trillion a year, and exports worth \$181 billion, the CSN will make up the largest trading bloc after NAFTA and the European Union.¹⁵

Although the recent trend toward free trade zones has caused great excitement and new market opportunities, some see it as a mixed blessing. For example, in the United States, unions fear that NAFTA will lead to an exodus of manufacturing jobs to Mexico, where wage rates are much lower. Environmentalists worry that companies that are unwilling to play by the strict rules of the U.S. Environmental Protection Agency will relocate in Mexico, where pollution regulation has been lax.¹⁶

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

Economic Environment

The international marketer must study each country's economy. Two economic factors reflect the country's attractiveness as a market: 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. The four types of industrial structures are as follows:

- **Subsistence economies:** In a subsistence economy, the vast majority of people engage in simple agriculture. They consume most of their output and barter the rest for simple goods and services. They offer few market opportunities.
- **Raw material exporting economies:** These economies are rich in one or more natural resources but poor in other ways. Much of their revenue comes from exporting these resources. Examples are Chile (tin and copper), Democratic Republic of Congo (copper, cobalt, and coffee), and Saudi Arabia (oil). These countries are good markets for large

equipment, tools and supplies, and trucks. If there are many foreign residents and a wealthy upper class, they are also a market for luxury goods.

- *Industrializing economies:* in an industrializing economy, manufacturing accounts for 10 to 20 percent of the country's economy. Examples include Egypt, India, 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 automobiles. Industrialization typically creates a new rich class and a small but growing middle class, both demanding new types of imported goods.
- *Industrial economies:* Industrial economies are major exporters of manufactured goods, services, and investment funds. They trade goods among themselves and also export them to other types of economies for raw materials and semifinished goods. The varied manufacturing activities of these industrial nations and their large middle class make them rich markets for all sorts of goods.

The second economic factor is the country's *income distribution*. Industrialized nations may have low-, medium-, and high-income households. In contrast, countries with subsistence economies may consist mostly of households with very low family incomes. Still other countries may have households with only either very low or very high incomes. However, even poor or developing economies may be attractive markets for all kinds of goods, including luxuries. For example, many luxury brand marketers are rushing to take advantage of China's rapidly developing consumer markets:¹⁷

More than half of China's 1.3 billion consumers can barely afford rice, let alone luxuries. According to The World Bank, more than 400 million Chinese live on less than \$2 a day. Yet posh brands—from Gucci and Cartier to BMW and Bentley—are descending on China in force. How can purveyors of \$2,000 handbags, \$20,000 watches, and \$1 million limousines thrive in a developing economy? Easy, says a Cartier executive. "Remember, even medium-sized cities in China . . . have populations larger than Switzerland's. So it doesn't matter if the percentage of people in those cities who can afford our products is very small." Thus, even though China has only 0.2 millionaires per 1,000 residents (compared with 8.4 per 1,000 in the United States), it trails only the U.S., Germany, and the United Kingdom in the total number of millionaires.



■ Economic environment: Many luxury brand marketers are rushing to take advantage of China's rapidly developing consumer markets.

Dazzled by the pace at which China's booming economy is minting millionaires and swelling the ranks of the middle class, luxury brands are rushing to stake out shop space, tout their wares, and lay the foundations of a market they hope will eventually include as many as 100 million conspicuous consumers. "The Chinese are a natural audience for luxury goods," notes one analyst. After decades of socialism and poverty, China's elite are suddenly "keen to show off their newfound wealth."

Europe's fashion houses are happy to assist. Giorgio Armani recently hosted a star-studded fashion show to celebrate the opening of his 12,000-square-foot flagship store on Shanghai's waterfront; Armani promises 30 stores in China before the 2008 Beijing Olympics. Gucci recently opened stores in Hangzhou and Chengdu, bringing its China total to six. And it's not just clothes. Cartier, with nine stores in China and seven on the drawing board, has seen its

China sales double for the past several years. Carmakers, too, are racing in. BMW recently cut the ribbon on a new Chinese factory that has the capacity to produce 50,000 BMWs a year. Audi's sleek A6 has emerged as the car of choice for the Communist Party's senior ranks, despite its \$230,000 price tag. Bentley, which sold

70 cars in China in 2003—including 19 limousines priced at more than \$1 million each—boasts three dealerships in China, as does Rolls-Royce.

Thus, country and regional economic environments will affect an international marketer's decisions about which global markets to enter and how.

Political-Legal Environment

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

Some nations are very receptive to foreign firms; others are less accommodating. For example, India has tended to bother foreign businesses with import quotas, currency restrictions, and other limitations that make operating there a challenge. In contrast, neighboring Asian countries such as Singapore and Thailand court foreign investors and shower them with incentives and favorable operating conditions. Political stability is another issue. For example, India's government is notoriously unstable—the country has elected 10 new governments in the past 20 years—increasing the risk of doing business there. Although most international marketers still find India's huge market attractive, the unstable political situation will affect how they handle business and financial matters.¹⁸

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

Most international trade involves cash transactions. Yet many nations have too little hard currency to pay for their purchases from other countries. They may want to pay with other items instead of cash, which has led to a growing practice called *countertrade*. Countertrade takes several forms: *Barter* involves the direct exchange of goods or services, as when Azerbaijan imported wheat from Romania in exchange for crude oil, and Vietnam exchanged rice for Philippine fertilizer and coconuts. 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, Japan's Fukusuke Corporation sold knitting machines and raw textile materials to Shanghai clothing manufacturer Chinatex in exchange for finished textiles produced on the machines. The most common form of countertrade is *counterpurchase*, in which the seller receives full payment in cash but agrees to spend some of the money in the other country. For example, Boeing sells aircraft to India and agrees to buy Indian coffee, rice, castor oil, and other goods and sell them elsewhere.¹⁹

Countertrade deals can be very complex. For example, a few years back, DaimlerChrysler 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.

Cultural Environment

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

The Impact of Culture on Marketing Strategy

The seller must examine the ways consumers in different countries think about and use certain products before planning a marketing program. There are often surprises. For example, the average French man uses almost twice as many cosmetics and grooming aids as his wife. The Germans and the French eat more packaged, branded spaghetti than do Italians. Italian children like to eat chocolate bars between slices of bread as a snack. Women in Tanzania will not give their children eggs for fear of making them bald or impotent.

Countertrade

International trade involving the direct or indirect exchange of goods for other goods instead of cash.



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

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

Nike inadvertently offended Chinese officials when it ran an advertisement featuring LeBron James crushing a number of culturally revered Chinese figures in a kung-fu-themed ad campaign. The Chinese government found that the ad violated regulations to uphold national dignity and respect of the culture and yanked the multi-million-dollar campaign. With egg on its face, Nike released a formal apology. Nike faced a similar situation in Arab countries when Muslims objected to a stylized “Air” logo on its shoes, which resembled “Allah” in Arabic script. Nike apologized for that mistake as well and pulled the shoes from distribution.²⁰

Business norms and behavior also vary from country to country. For example, American executives like to get right down to business and engage in fast and tough face-to-face bargaining. However, Japanese and other Asian businesspeople often find this behavior offensive. They prefer to start with polite conversation, and they rarely say no in face-to-face conversations. As another example, South Americans like to sit or stand very close to each other when they talk business—in fact, almost nose-to-nose. The American business executive tends to keep backing away as the South American moves closer. Both may end up being offended. American business executives need to be briefed on these kinds of factors before conducting business in another country.²¹

By the same token, companies that understand cultural nuances can use them to their advantage when positioning products internationally. Consider the following example:

A television ad running these days in India shows a mother lapsing into a daydream: Her young daughter is in a beauty contest dressed as Snow White, dancing on a stage. Her flowing gown is an immaculate white. The garments of other contestants, who dance in the background, are a tad gray. Snow White, no surprise, wins the blue ribbon. The mother awakes to the laughter of her adoring family—and glances proudly at her Whirlpool White Magic washing machine. The TV spot is the product of 14 months of research by Whirlpool into the psyche of the Indian consumer. Among other things, [Whirlpool] learned that Indian homemakers prize hygiene and purity, which they associate with white. The trouble is, white garments often get discolored after frequent machine washing in local water. Besides appealing to this love of purity in its ads, Whirlpool custom-designed machines that are especially good with white fabrics. Whirlpool now is the leading brand in India’s fast-growing market for fully automatic washing machines.²²

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

The Impact of Marketing Strategy on Cultures

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

Down in the mall, between the fast-food joint and the bagel shop, a group of young people huddles in a flurry of baggy combat pants, skateboards, and slang. They

size up a woman teetering past wearing DKNY, carrying *Time* magazine in one hand and a latte in the other. She brushes past a guy in a Yankees baseball cap who is talking on his Motorola cell phone about the Martin Scorsese film he saw last night.

It's a standard American scene—only this isn't America, it's Britain. U.S. culture is so pervasive, the scene could be played out in any one of dozens of cities. Budapest or Berlin, if not Bogota or Bordeaux. Even Manila or Moscow. As the unrivaled global superpower, America exports its culture on an unprecedented scale. . . . Sometimes, U.S. ideals get transmitted—such as individual rights, freedom of speech, and respect for women—and local cultures are enriched. At other times, materialism or worse becomes the message and local traditions get crushed.²³

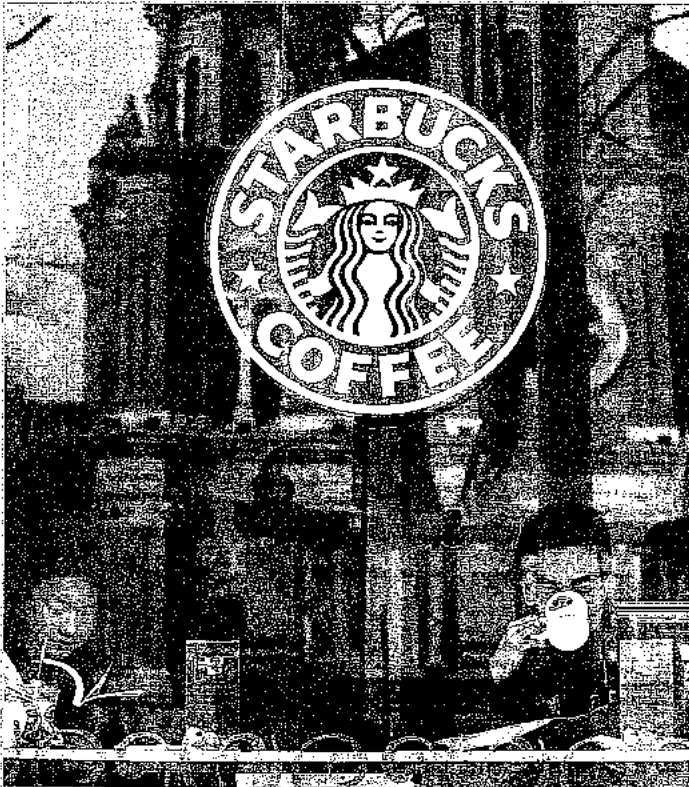
"Today, globalization often wears Mickey Mouse ears, eats Big Macs, drinks Coke or Pepsi, and does its computing with [Microsoft] Windows [software]," says Thomas Friedman, in his book *The Lexus and the Olive Tree*.²⁴ Critics worry that, under such "McDomination," countries around the globe are losing their individual cultural identities. Teens in India watch MTV and ask their parents for more westernized clothes and other symbols of American pop culture and values. Grandmothers in small European villas no longer spend each morning visiting local meat, bread, and produce markets to gather the ingredients for dinner. Instead, they now shop at Wal-Mart Supercenters. Women in Saudi Arabia see American films and question their societal roles. In China, most people never drank coffee before Starbucks entered the market. Now Chinese consumers rush to Starbucks stores "because it's a symbol of a new kind of lifestyle." Similarly, in China, where McDonald's operates 80 restaurants in Beijing alone, nearly half of all children identify the chain as a domestic brand.

Such concerns have sometimes led to a backlash against American globalization. Well-known U.S. brands have become the targets of boycotts and protests in some international markets.

As symbols of American capitalism, companies such as Coca-Cola, McDonald's, Nike, and KFC have been singled out by antiglobalization protestors in hot spots all around the world, especially when anti-American sentiment peaks.

Despite such problems, defenders of globalization argue that concerns of "Americanization" and the potential damage to American brands are overblown. U.S. brands are doing very well internationally. In the most recent *BusinessWeek/Interbrand* survey of global brands, 12 of the top 15 brands were American owned. And based on a recent study of 3,300 consumers in 41 countries, researchers concluded that consumers did not appear to translate anti-American sentiment into anti-brand sentiment.²⁵

We found that it simply didn't matter to consumers whether the global brands they bought were American. To be sure, many people *said* they cared. A French panelist called American brands "imperialistic threats that undermine French culture." A German told us that Americans "want to impose their way on everybody." But the [talk] belied the reality. When we measured the extent to which consumers' purchase decisions were influenced by products' American roots, we discovered that the impact was negligible.



☐ Americanization: Social critics contend that large American multinationals aren't just "globalizing" their brands, they are "Americanizing" the world's cultures. In China, most people never drank coffee before Starbucks entered the market.

More fundamentally, most studies reveal that the cultural exchange goes both ways—America gets as well as gives cultural influence.²⁶

Hollywood dominates the global movie market—capturing 90 percent of audiences in some European markets. However, British TV is giving as much as it gets in serving up competition to U.S. shows, spawning such hits as “Who Wants to Be a Millionaire” and “American Idol.” And while West Indian sports fans are now watching more basketball than cricket, and some Chinese young people are daubing the names of NBA superstars on their jerseys, the increasing popularity of American soccer has deep international roots. Even American childhood has increasingly been influenced by Asian and European cultural imports. Most kids know all about the Power Rangers, Tamagotchi and Pokemon, Sega and Nintendo. And J. K. Rowling’s so-very-British Harry Potter books are shaping the thinking of a generation of American youngsters, not to mention the millions of American oldsters who’ve fallen under their spell as well. For the moment, English remains cyberspace’s dominant language, and having Web access often means that Third World youth have greater exposure to American popular culture. Yet these same technologies enable Balkan students studying in the United States to hear Webcast news and music from Serbia or Bosnia. Thanks to broadband communication, foreign media producers will distribute films and television programs directly to American consumers without having to pass by U.S. gatekeepers.

American companies have also learned that to succeed abroad they must adapt to local cultural values and traditions rather than trying to force their own. Disneyland Paris flopped at first because it failed to take local cultural values and behaviors into account. According to a Euro Disney executive, “When we first launched, there was the belief that it was enough to be Disney. Now we realize that our guests need to be welcomed on the basis of their own culture and travel habits.”²⁷ That realization has made Disneyland Paris the number one tourist attraction in Europe—even more popular than the Eiffel Tower. The newest attraction there is The Walt Disney Studios Park, a movie-themed park that blends Disney entertainment and attractions with the history and culture of European film. A show celebrating the history of animation features Disney characters speaking six different languages. Rides are narrated by foreign-born stars speaking in their native tongues.

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

Deciding Whether to Go Global

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

Any of several factors might draw a company into the international arena. Global competitors might attack the company’s home market by offering better products or lower prices. The company might want to counterattack these competitors in their home markets to tie up their resources. Or the company’s home market might be stagnant or shrinking, and foreign markets may present higher sales and profit opportunities. Or 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 behavior of consumers in other countries? Can it offer competitively attractive products? Will it be able to adapt to other countries’ business cultures and deal effectively with foreign nationals? Do the company’s managers have the necessary international experience? Has management considered the impact of regulations and the political environments of other countries?

Because of the 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 need to find additional markets for its goods.

Deciding Which Markets to Enter

Before going abroad, the company should try to define its international *marketing objectives and policies*. It should decide what *volume* of foreign sales it wants. Most companies start small when they go abroad. Some plan to stay small, seeing international sales as a small part of their business. Other companies have bigger plans, seeing international business as equal to or even more important than their domestic business.

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

After listing possible international markets, the company must carefully evaluate each one. It must consider many factors. For example, Colgate's decision to enter the Chinese market seems fairly straightforward: China's huge population makes it the world's largest toothpaste market. And given that only 20 percent of China's rural dwellers now brush daily, this already huge market can grow even larger. Yet Colgate must still question whether market size *alone* is reason enough for investing heavily in China.

Colgate should ask some important questions: Will it be able to overcome cultural barriers and convince Chinese consumers to brush their teeth regularly? Does China provide for the

needed production and distribution technologies? Can Colgate compete effectively with dozens of local competitors, a state-owned brand managed by Unilever, and P&C's Crest? Will the Chinese government remain stable and supportive? Colgate's current success in China suggests that it could answer yes to all of these questions. By expanding its product line and aggressively pursuing promotional and educational programs—from massive ad campaigns to visits to local schools to sponsoring oral care research—Colgate has expanded its market share from 7 percent in 1995 to more than 35 percent today.²⁸

Possible global markets should be ranked 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 such as those shown in Table 19.1. Then the marketer must decide which markets offer the greatest long-run return on investment.



Colgate's decision to enter the huge Chinese market seems fairly straightforward. Using aggressive promotional and education programs, Colgate has expanded its market share from 7 percent in 1995 to more than 35 percent today.

Deciding How to Enter the Market

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

Exporting

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

Exporting

The simplest way to enter a foreign market is through **exporting**. The company may passively export its surpluses from time to time, or it may make an active commitment to expand

TABLE 19.1
Indicators of Market Potential

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

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, organization, investments, or mission.

Companies typically start with *indirect exporting*, working through independent international marketing intermediaries. Indirect exporting involves less investment because the firm does not require an overseas marketing organization or network. It also involves less risk. International marketing intermediaries bring know-how and services to the relationship, so the seller normally makes fewer mistakes.

Sellers may eventually move into *direct exporting*, whereby they handle their own exports. The investment and risk are somewhat greater in this strategy, but so is the potential return. A company can conduct direct exporting in several ways: It can set up a domestic export department that carries out export activities. It can set up an overseas sales branch that handles sales, distribution, and perhaps promotion. The sales branch gives the seller more presence and program control in the foreign market and often serves as a display center and customer service center. The company can also 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 who buy and own the goods or through foreign-based agents who sell the goods on behalf of the company.

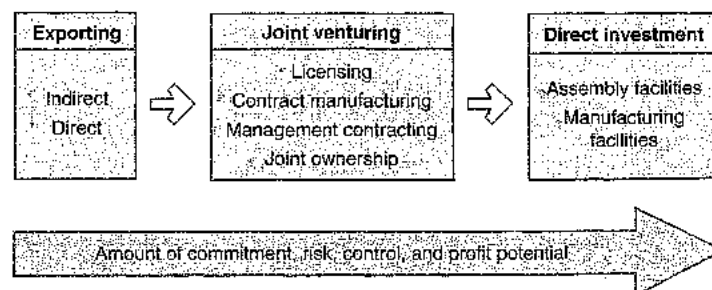
Joint venturing

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

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 host country partner to sell or market abroad. It differs from direct

FIGURE 19.2
Market entry strategies





☒ Licensing: Tokyo Disneyland Resort is owned and operated by the Oriental Land Co. Ltd. (a Japanese development company), under license from The Walt Disney Company.

Licensing

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

Contract manufacturing

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

Management contracting

A joint venture in which the domestic firm supplies the management know-how to a foreign company that supplies the capital.

investment in that an association is formed with someone in the foreign country. There are four types of joint ventures: licensing, contract manufacturing, management contracting, and joint ownership.²⁹

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 name without having to start from scratch.

Coca-Cola markets internationally by licensing bottlers around the world and supplying them with the syrup needed to produce the product. In Japan, Budweiser beer flows from Kirin breweries and Marlboro cigarettes roll off production lines at Japan Tobacco, Inc. Tokyo Disneyland Resort is owned and operated by Oriental Land Company under license from The Walt Disney Company.

Saks recently announced that it will enter the Chinese market through licensing. By licensing its name, Saks will become the first foreign luxury department store in this fast-growing market, but without having to operate the store itself. "Clearly, this minimizes the risk for the company," says Saks' CEO. Licensing also allows Saks to take advantage of global opportunities without diverting its focus from U.S. operations. "Our focus is 99 percent on the U.S. market," says the CEO.³⁰

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

Contract Manufacturing

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

Management Contracting

Under **management contracting**, the domestic firm supplies management know-how to a foreign company that supplies the capital. The domestic firm exports management services rather than products. Hilton uses this arrangement in managing hotels around the world.

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

Joint Ownership

Joint ownership ventures consist of one company joining forces with foreign investors to create a local business in which they share joint ownership and control. A company may buy an interest in a local firm, or the two parties may form a new business venture. Joint

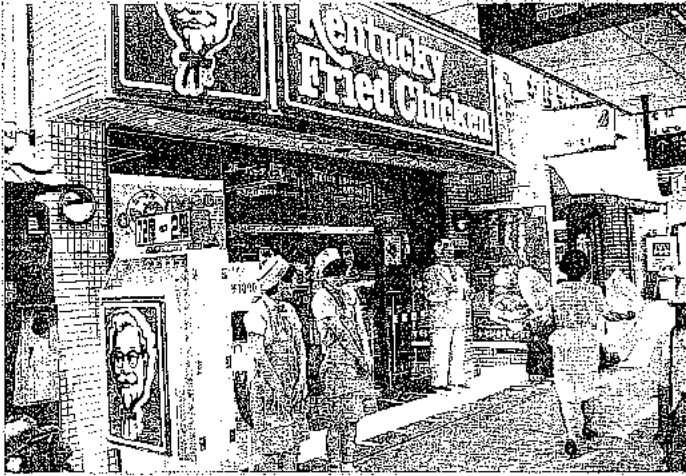
Joint ownership

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.

ownership may be needed for economic or political reasons. The firm may lack the financial, physical, or managerial resources to undertake the venture alone. Or a foreign government may require joint ownership as a condition for entry.

KFC entered Japan through a joint ownership venture with Japanese conglomerate Mitsubishi. KFC sought a good way to enter the large but difficult Japanese fast-food market. In turn, Mitsubishi, one of Japan's largest poultry producers, understood the Japanese culture and had money to invest. Together, they helped KFC succeed in the semiclosed Japanese market. Surprisingly, with Mitsubishi's guidance, KFC developed decidedly un-Japanese positioning for its Japanese restaurants:

When KFC first entered Japan, the Japanese were uncomfortable with the idea of fast food and franchising. They saw fast food as artificial and unhealthy. To build trust, KFC Japan created ads depicting the most authentic version of Colonel Sanders' beginnings possible. The ads featured the quintessential southern mother and highlighted the KFC philosophy—the southern hospitality, old American tradition, and authentic home cooking. With “My Old Kentucky Home” by Stephen Foster playing in the background, the commercial showed Colonel Sanders' mother making and feeding her grandchildren KFC chicken made with 11 secret spices. It conjured up scenes of good home cookin' from the American South, positioning KFC as wholesome, aristocratic food. The campaign was hugely successful—in the end, the Japanese people could not get enough of this special American chicken. Most Japanese grew to know “My Old Kentucky Home” by heart. There are now more than 1,100 KFC locations in the country.³¹



Joint ownership: KFC entered Japan through a joint ownership venture with Japanese conglomerate Mitsubishi.

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

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

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

Standardized marketing mix

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

Deciding on the Global Marketing Program

Companies that operate in one or more foreign markets must decide how much, if at all, to adapt their marketing strategies and programs to local conditions. At one extreme are global companies that use a **standardized marketing mix**, selling largely the same products and

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.

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 market, bearing more costs but hoping for a larger market share and return.

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

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

However, global standardization is not an all-or-nothing proposition but rather a matter of degree. Most international marketers suggest that companies should “think globally but act locally”—that they should seek a balance between standardization and adaptation. The corporate level gives global strategic direction; regional or local units focus on individual consumer differences across global markets. “It’s often a mistake to set out to create a worldwide strategy,” says one expert. “Better results come from strong regional [or local] strategies brought together into a global whole.”

Simon Clift, head of marketing for global consumer-goods giant Unilever, puts it this way: “We’re trying to strike a balance between being mindlessly global and hopelessly local.”³²

McDonald’s operates this way. It uses the same basic fast-food operating model in its restaurants around the world but adapts its menu to local tastes. In Korea it sells the Bulgogi Burger, a grilled pork patty on a bun with a garlicky soy sauce. In India, where cows are considered sacred, McDonald’s serves McChicken, Filet-O-Fish, McVeggie (a vegetable burger), Pizza McPuffs, McAloo Tikki (a spiced-potato burger), and the Maharaja Mac—two all-chicken patties, special sauce, lettuce, cheese, pickles, onions on a sesame-seed bun. Similarly, South Korean electronics and appliance powerhouse LG Electronics makes and markets its brands globally but carefully localizes its products to the needs of specific country markets. By acting locally, it succeeds globally (see Real Marketing 19.1).

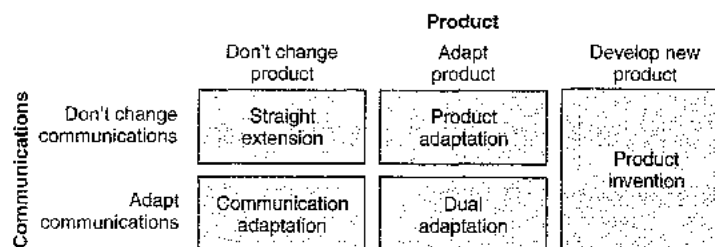


Marketing mix adaptation: In India, McDonald’s serves chicken, fish, and vegetable burgers, and the Maharaja Mac—two all-chicken patties, special sauce, lettuce, cheese, pickles, onions, on a sesame seed bun.

Product

Five strategies allow for adapting product and marketing communication strategies to a global market (see Figure 19.3).³³ We first discuss the three product strategies and then turn to the two communication strategies.

FIGURE 19.3
Five global product and communications strategies



Real Marketing

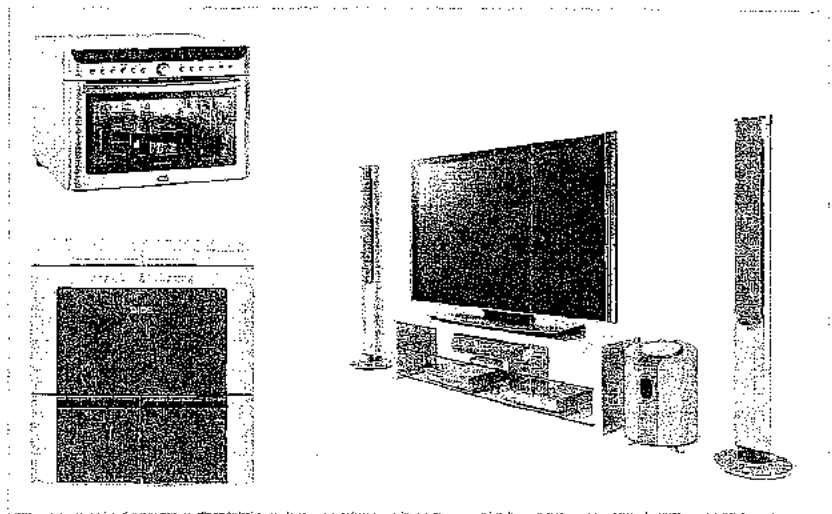
If you've got kimchi in your fridge, it's hard to keep it a secret. Made from fermented cabbage seasoned with garlic and chili, kimchi is served with most meals in Korea. But when it's stored inside a normal refrigerator, its pungent odor taints nearby foods. That's why, two decades ago, South Korean appliance manufacturer LG Electronics introduced the kimchi refrigerator, a product specifically designed to address the odor problem. Featuring a dedicated compartment that isolates smelly kimchi from other foods, the fridge gradually became a must-have in Korean homes, inspiring rivals such as Samsung to offer similar models. Kimchi refrigerators have become a fixture in 65 percent of Korean homes, and after facing down the competition, LG is the country's top-selling manufacturer.

The kimchi fridge has become a model for the approach that LG uses to expand into new global markets—a passionate focus on in-depth localization. LG insists on understanding and catering to the idiosyncrasies of local markets through in-country research, manufacturing, and marketing. Localization has been a key element of LG's successful global expansion. "Gone are the days where you could just roll out one product for the global market," explains LG's Middle East marketing director. "We speak to consumers individually."

LG certainly has been successful globally. The \$47 billion electronics, telecommunications, and appliance powerhouse now operates in more than 39 countries, and 86 percent of its sales come from markets outside its home country. It's the world's top producer of air conditioners and one of the top three global players in washing machines, microwaves, and refrigerators. And LG is surging into high-tech digital markets—it's now the world's fourth-largest producer of mobile handsets and the second-largest mobile phone maker in the United States. Its mission is to "make customers happy" worldwide by creating products that change their lives, no matter where they live.

Nowhere is the success of LG's localization approach more evident than in India, where the company is now the clear leader in virtually every appliance and electronics category—from microwaves to televisions—despite having entered the market in 1997, two years after Samsung. With a population of more than 1 billion that spans several religions and languages, India functions like dozens of smaller regional markets. LG initially differentiated itself by introducing a line of health-oriented products, such as televisions that reduced eyestrain. By 1999, however, it had set up local research and design facilities, manufacturing plants, and a network of service centers.

To meet the needs of Indian consumers, LG rolled out refrigerators with larger vegetable- and water-storage compartments, surge-resistant power supplies, and brightly colored finishes that reflect local preferences (red in the south, green in Kashmir). Some of LG's



By thinking locally, LG Electronics is succeeding globally. It makes a kimchi fridge for the Korean market, a shish kebab microwave for the Iranians, karaoke phones for the Russians, and gold-plated 71-inch flat-screen televisions for Middle Easterners with a taste for gilded opulence.

Indian microwaves have dark-colored interiors to hide masala stains. In 1999, LG introduced a television for cricket fans that came with a built-in cricket video game. After research showed that many Indians use their TVs to listen to music as well, the company offered its Ballad television with extraloud sound. Over time, these efforts have paid off. LG dominates in India, with sales that are projected to reach \$1.8 billion this year. In some categories, such as washing machines, LG's market share is more than twice that of its nearest competitor.

Localization helps LG gain traction in emerging markets, where consumers have few preexisting brand loyalties. In Iran, LG offers a microwave oven with a preset button for reheating shish kebabs—a favorite dish. LG now claims to command roughly 40 percent of the Iranian microwave market. Meanwhile, LG's Persian refrigerator includes a special compartment for storing dates, a Middle Eastern staple fruit that spoils easily.

Although not always huge sellers, LG's localized products clearly generate buzz. The company recently made headlines throughout the Middle East by unveiling a gold-plated 71-inch flat-screen television that sells for \$80,000—a tribute to the region's famous affinity for gilded opulence. In Russia, LG's research revealed that many people entertain at home during the country's long winters, prompting the company to develop a karaoke phone that can be programmed with the top 100 Russian songs, whose lyrics scroll across the screen when they're played. Introduced in late 2004, the phone has been a hit, selling more than 220,000 handsets.

All this experience will be put to the test as LG moves to make its presence felt in China, the world's biggest consumer market, where major international brands must compete against domestic rivals such as Haier. Just as it did in India, LG is establishing extensive in-country facilities in China—from research to manufacturing to product marketing. LG opened research and development operations in Beijing in 2002 and has since ramped up its staff to more than

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1,500. The company also reached out to local consumers by creating an "LG village," a high-profile initiative that transformed a decrepit agricultural community into a showcase for LG technologies. The efforts seem to be paying off. With help from such simple touches as making the exteriors of products red—a lucky color in China—LG raked in sales of \$8 billion on the mainland last year.

Thus, from Korean kimchi to Indian cricket mania to Russian karaoke, LG's unrelenting commitment to localization is winning the

company waves of new customers around the globe. By thinking locally, LG is succeeding globally.

Source: Adapted from Elizabeth Esfahani, "Thinking Locally, Succeeding Globally," *Business 2.0*, December 2005, pp. 96–98. Also see Evan Ramstas, "LG Electronics' Net Surges 91 Percent As Cell Phone Margins Improve," *Wall Street Journal*, January 25, 2006, p. B2; and information from www.lge.com, December 2006.

Straight product extension

Marketing a product in a foreign market without any change.

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

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

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, Finnish cell phone maker Nokia customizes its cell phones for every major market. Developers build in rudimentary voice recognition for Asia where keyboards are a problem and raise the ring volume so phones can be heard on crowded Asian streets. And Procter & Gamble adapts its CoverGirl cosmetics brand for the Chinese market.³⁴

CoverGirl in China bears little resemblance to its American cousin. CoverGirl products, altered to reflect Chinese skin tone and fashion trends, are sold at a handful of snazzy retail counters in major Beijing department stores. The counters are staffed by beauty consultants. The products are sold in small, snappy containers that resemble pieces of colorful candy, and the packaging is more silvery, giving it a premium edge. Why has P&G spruced up but downsized the Chinese CoverGirl brand? In China, CoverGirl targets urban women aged 20 to 35 who earn \$250 per month. Chinese women are relatively new users of cosmetics and most do not buy them before entering the workforce. Thus, the on-site beauty consultants are very important. Also, according to Daisy Ching, an executive with CoverGirl's Chinese ad agency, these buyers want upscale products, and they "like cute packaging, like to try out new things and change the colors with the seasons." But they can't afford prestige brands in full-size packages. CoverGirl's smaller sizes lets them sample a variety of premium products at a price many can afford. "You can't just import cosmetics here," concludes Ching. "Companies have to understand what beauty means to Chinese women and what they look for, and product offerings and communication have to be adjusted accordingly."

Product invention

Creating new products or services for foreign markets.

Product invention consists of creating something new for a specific country market. This strategy can take two forms. It might mean maintaining or 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 a given country. For example, Sony added the "U" model to its VAIO personal computer line to meet the unique needs of Japanese consumers. It found that Japanese commuters had difficulty using standard laptops on crowded rush-hour trains—standing commuters have no laps. So it created the U as a "standing computer." The U is lightweight and small: only seven inches wide with a five-inch diagonal screen. And it includes an on-screen touch keyboard that can be used while standing or on the move. Although the model is popular in Japan, response to similar Sony ultra-portable models in the United States has been lukewarm. Far more Americans touch-type than do Japanese (a few Japanese characters convey a lot), and touch typists are likely to resist on-screen keyboards.³⁵

Promotion

Companies can either adopt the same communication strategy they used in the home market or change it for each local market. Consider advertising messages. Some global companies use a standardized advertising theme around the world. Of course, even in highly standardized communications campaigns, some small changes might be required to adjust for language and minor cultural differences. For example, Guy Laroche uses virtually the same ads for its Drakkar Noir fragrances in Europe as in Arab countries. However, it subtly tones down the Arab versions to meet cultural differences in attitudes toward sensuality.

Colors also are changed sometimes to avoid taboos in other countries. Purple is associated with death in most of Latin America, white is a mourning color in Japan, and green is associated with jungle sickness in Malaysia.³⁶ Even names must be changed. Kellogg had to rename Bran Buds cereal in Sweden, where the name roughly translates as “burned farmer.” And in the Americas, Mitsubishi changed the Japanese name of its Pajero SUV to Montero—it seems that *pajero* in Spanish is a slang term for sexual self-gratification. (See Real Marketing 19.2 for more on language blunders in international marketing.)³⁷

Other companies follow a strategy of **communication adaptation**, fully adapting their advertising messages to local markets. Kellogg ads in the United States promote the taste and nutrition of Kellogg's cereals versus competitors' brands. In France, where consumers drink little milk and eat little for breakfast, Kellogg's ads must convince consumers that cereals are a tasty and healthful breakfast. In India, where many consumers eat heavy, fried breakfasts, Kellogg's advertising convinces buyers to switch to a lighter, more nutritious breakfast diet.

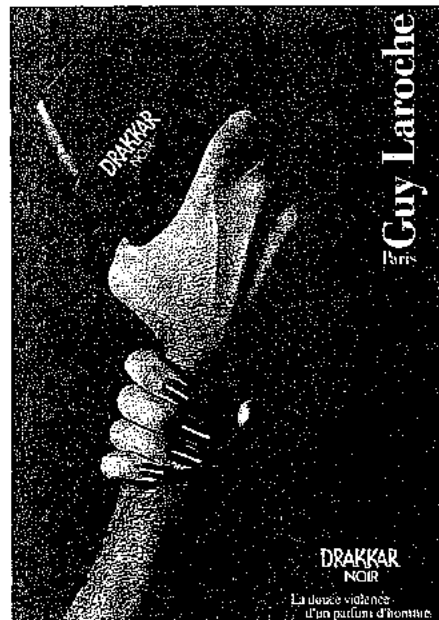
Similarly, Coca-Cola sells its low-calorie beverage as Diet Coke in North America, the United Kingdom, and the Middle and Far East but as Light elsewhere. According to Diet Coke's global brand manager, in Spanish-speaking countries Coke Light ads “position the soft drink as an object of desire, rather than as a way to feel good about yourself, as Diet Coke is positioned in the United States.” This “desire positioning” plays off research showing that “Coca-Cola Light is seen in other parts of world as a vibrant brand that exudes a sexy confidence.”³⁸

Media also need to be adapted internationally because media availability varies from country to country. TV advertising time is very limited in Europe, for instance, ranging from four hours a day in France to none in Scandinavian countries. Advertisers must buy time months in advance, and they have little control over airtimes. Magazines also vary in effectiveness. For example, magazines are a major medium in Italy but a minor one in Austria. Newspapers are national in the United Kingdom but are only local in Spain.³⁹

Communication adaptation

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

Some companies standardize 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.



Real Marketing

1992 Many global companies have had difficulty crossing the language barrier, with results ranging from mild embarrassment to outright failure. Seemingly innocuous brand names and advertising phrases can take on unintended or hidden meanings when translated into other languages. Careless translations can make a marketer look downright foolish to foreign consumers.

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

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

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

Travelers often encounter well-intentioned advice from service firms that takes on meanings very different from those intended. The menu in one Swiss restaurant proudly stated, "Our wines leave you nothing to hope for." Signs in a Japanese hotel pronounced, "You are invited to take advantage of the chambermaid." At a laundry in Rome, it was, "Ladies, leave your clothes here and spend the afternoon having a good time."

Advertising themes often lose—or gain—something in the translation. The Coors beer slogan "get loose with Coors" in Spanish came out as "get the runs with Coors." Coca-Cola's "Coke adds life" theme in Japanese translated into "Coke brings your ancestors back from the dead." The milk industry learned too late that its American advertising question "Got Milk?" translated in Mexico as a more provocative "Are you lactating?" In Chinese, the KFC slogan "finger-lickin' good" came out as "eat your fingers off." And Frank Perdue's classic line, "It takes a tough man to make a tender chicken," took on added meaning in Spanish: "It takes an aroused man to make a chicken affectionate." Even when the language is the same, word usage may differ from country to country. Thus, the British ad line for Electrolux

IKEA UNITED STATES
affordable solutions for better living

IKEA near you | IKEA help center | customer service | home shopping | products A-Z | search

Home > Children's IKEA > Children's furniture > FARTFULL work bench

my profile | join our email list

Work bench
FARTFULL
\$109.00/ pieces
(price reflects selected options)
webSite prices may vary from store prices.

tips & ideas
 ▶ lighting your child's room
 ▶ living with kids
 ▶ living with kids

- ▶ Storage space for games and accessories under the seat
- ▶ FUTURE part both for right-handed and for left-handed people
- ▶ Seat pad with handles, mounted to be easy to move about
- ▶ The metal stand doubles as a magnetic board.

designer: Lisa Woldner

Storage space

Global language barriers: Some standardized brand names do not translate well globally.

vacuum cleaners—"Nothing sucks like an Electrolux"—would capture few customers in the United States.

So, what can a company do to avoid such mistakes? One answer is to call in the experts. Brand consultancy Lexicon Branding has been dreaming up brand names for more than 20 years, including names like Dasani, Swiffer, and Blackberry. David Placek, Lexicon's founder and president acknowledges that "coming up with catchy product names is a lot harder than [you] might imagine, especially in this Global Age, when a word that might inspire admiration in one country can just as easily inspire red faces or unintended guffaws in another."

Lexicon maintains a global network of high-quality linguists from around the world that it calls GlobalTalk—"so we can call on them to evaluate words for language and cultural cues and miscues." Beyond screening out the bad names, the GlobalTalk network can also help find good ones. "We created the brand name Zima for Coors with help from the GlobalTalk network," says Placek. "I put out a message saying that we were looking for a name for a light alcoholic drink that would be cold, crisp, and refreshing. I got a fax in quickly from our Russian linguist saying that *zima* meant "winter" in Russian. I circled the word because I thought it was beautiful and unusual, and the client loved it. We sent it around the world to make sure that it didn't have a negative connotation anywhere, and it didn't."

Sources: Lexicon example and quotes from "Naming Products Is No Game," *BusinessWeek Online*, April 9, 2004, accessed at www.businessweekonline.com. For the above and other examples, see David A. Ricks, "Perspectives: Translation Blunders in International Business," *Journal of Language for International Business*, 7:2, 1996, pp. 50-55; Sam Solley, "Developing a Name to Work Worldwide," *Marketing*, December 21, 2000, p. 27; Thomas T. Sermon, "Cutting Corners in Language Risky Business," *Marketing News*, April 23, 2001, p. 9; Martin Croft, "Mind Your Language," *Marketing*, June 19, 2003, pp. 35-39; Mark Lasswell, "Lost in Translation," *Business 2.0*, August 2004, pp. 68-70; "Lost in Translation," *Hispanic*, May 2005, p. 12; and "Striking a Chord in Tamil," *Businessline*, January 19, 2006, p. 1.

Price

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

Regardless of how companies go about pricing their products, their foreign prices probably will be higher than their domestic prices for comparable products. A Gucci handbag may sell for \$60 in Italy and \$240 in the United States. Why? Gucci faces a *price escalation* problem. It must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Depending on these added costs, the product may need to sell for two to five times as much in another country to make the same profit. For example, a pair of Levi's jeans that sells for \$30 in the United States typically fetches \$63 in Tokyo and \$88 in Paris. A computer that sells for \$1,000 in New York may cost £1,000 in the United Kingdom. A Ford automobile priced at \$20,000 in the United States might sell for more than \$80,000 in South Korea.

Another problem involves setting a price for goods that a company 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 that country. If the company charges its subsidiary too little, it can be charged with *dumping*. Dumping occurs when a company either charges less than its costs or less than it charges in its home market. For example, the U.S. Southern Shrimp Alliance, which represents thousands of small shrimp operations in the southeast United States, recently complained that six countries (China, Thailand, Vietnam, Ecuador, India, and Brazil) have been dumping excess supplies of farmed shrimp on the U.S. market. The U.S. International Trade Commission agreed and the Commerce Department imposed duties as high as 112.81 percent on shrimp imports from the offending countries.⁴⁰ Various governments are always watching for dumping abuses, and they often force companies to set the price charged by other competitors for the same or similar products.

Recent economic and technological forces have had an impact on global pricing. For example, in the European Union, the transition to the euro is reducing the amount of price differentiation. As consumers recognize price differentiation by country, companies are being forced to harmonize 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."

For Marie-Claude Lang, a 72-year-old retired Belgian postal worker, the euro is the best thing since bottled water—or French country sausage. Always on the prowl for bargains, Ms. Lang is now stalking the wide aisles of an Auchan hypermarket in Roncq, France, a 15-minute drive from her Wervick home. . . . Ms. Lang has been coming to France every other week for years to stock up on bottled water, milk, and yogurt. But the launch of the euro. . . has opened her eyes to many more products that she now sees cost less across the border. Today she sees that "saucisse de campagne," is cheaper "by about five euro cents," a savings she didn't notice when she had to calculate the difference between Belgian and French francs. At Europe's borders, the euro is turning into the coupon clipper's delight. Sure, price-conscious Europeans have long crossed into foreign territory to find everything from cheaper television sets to bargain bottles of Coca-Cola. But the new transparency is making comparisons a whole lot easier.⁴¹



International pricing: Twelve European Union countries have adopted the euro as a common currency creating "pricing transparency" and forcing companies to harmonize their prices throughout Europe.

The Internet will also make global price differences more obvious. When firms sell their wares

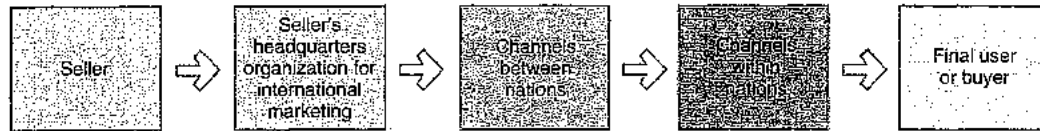


FIGURE 19.4 Whole-channel concept for international marketing

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 toward more standardized international pricing.

Distribution Channels

Whole-channel view

Designing international channels that take into account all the necessary links in distributing the seller's products to final buyers, including the seller's headquarters organization, channels among nations, and channels within nations.

The international company must take a **whole-channel view** of the problem of distributing products to final consumers. Figure 19.4 shows the three major links between the seller and the final buyer. The first link, the *seller's headquarters organization*, 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 U.S. 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 U.S. 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 much time and investment.

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 has set up direct-distribution channels, investing heavily in refrigerators and trucks, and upgrading wiring so that more retailers can install coolers. The company has also built an army of more than 10,000 sales representatives that makes regular visits on resellers, often on foot or bicycle, to check on stocks and record sales. "Coke and its bottlers have been trying to map every supermarket, restaurant, barbershop, or market stall where a can of soda might be consumed," notes an industry observer. "Those data help Coke get closer to its customers, whether they are in large hypermarkets, Spartan noodle shops, or schools." Still, to reach the most isolated spots in the country, Coca-Cola relies on some pretty unlikely business partners—teams of delivery donkeys. "Massive advertising budgets can drum up demand," says another observer, "but if the distribution network doesn't exist properly or doesn't work, the potential of China's vast market cannot be realized."⁴²

Another difference lies in the *size and character of retail units* abroad. Whereas large-scale retail chains dominate the U.S. scene, much retailing in other countries is done by many small, independent retailers. In India, millions of retailers operate tiny shops or sell in open markets. Their markups are high, but the actual price is lowered through haggling. Supermarkets could offer lower prices, but supermarkets are difficult to build and open because of many economic and cultural barriers. Incomes are low, and people prefer to shop daily for small amounts rather than weekly for large amounts. They also lack storage and refrigeration to keep food for several days. Packaging is not well developed because it would add too much to the cost. These factors have kept large-scale retailing from spreading rapidly in developing countries.



■ Distribution channels vary greatly from nation to nation, as suggested by this picture of a "delivery donkey" delivering Coca-Cola in Morocco.

Deciding on the Global Marketing Organization

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

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

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

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

Many firms have passed beyond the international division stage and become truly *global organizations*. They stop thinking of themselves as national marketers who 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 organization, 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.

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

Reviewing the Concepts

In the past, U.S. companies paid little attention to international trade. If they could pick up some extra sales through exporting, that was fine. But the big market was at home, and it teemed with opportunities. Companies today can no longer afford to pay attention only to their domestic market, regardless of its size. Many industries are global industries, and firms that operate globally achieve lower costs and higher brand awareness. At the same time, *global marketing* is risky because of variable exchange rates, unstable governments, protectionist tariffs and trade barriers, and several other factors. Given the potential gains and risks of international marketing, companies need a systematic way to make their global marketing decisions.

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

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

2. Describe three key approaches to entering international markets.

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

3. Explain how companies adapt their marketing mixes for international markets.

Companies must also decide how much their products, promotion, price, and channels should be adapted for each foreign market. At one extreme, global companies use a *standardized 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.

4. **Identify the three major forms of international marketing organization.**
The company must develop an effective organization for international marketing. Most firms start with an *export department* and graduate to an

international division. A few become *global organizations*, with worldwide marketing planned and managed by the top officers of the company. *Global organizations* view the entire world as a single, borderless market.

Reviewing the Key Terms

Adapted marketing mix	556	Direct investment	555	Joint venturing	553	Standardized marketing	
Communication		Economic community	545	Licensing	554	mix	555
adaptation	559	Exporting	552	Management contracting	554	Straight product extension	558
Contract manufacturing	554	Global firm	543	Product adaptation	558	Whole-channel view	562
Countertrade	548	Joint ownership	555	Product invention	558		

Discussing the Concepts

1. What factors are contributing to the intensity of today's global competition?
2. Netflix, the world's largest online DVD movie rental service, currently operates only in the United States. What must Netflix consider when it decides whether to expand globally?
3. Red Bull markets its energy drink in about 75 countries. What must Red Bull consider when selecting which countries to enter?
4. Discuss the advantages and disadvantages of direct investment in a foreign market. Name two foreign markets in which a household appliance manufacturer would be interested in investing, and two foreign markets in which it would have no interest in investing. Discuss.
5. Assume your boss has asked you how your company should enter the Japanese, South Korean, and Vietnamese markets with a new line of women's athletic shoes. Would you recommend that the company standardize or adapt its marketing mix? Explain.
6. Figure 19.4 shows a "whole-channel view" of international distribution. Would a company require the full range of international channel intermediaries discussed in the chapter?

Applying the Concepts

1. Visit the Web site of the Brazilian Embassy in Washington, D.C. at www.brasilemb.org. Discuss doing business in Brazil.
2. The United States restricts trade with Cuba. Visit the U.S. Department of the Treasury Web site at www.ustreas.gov/offices/enforcement/ofac to learn more about economic and trade sanctions. Click on the "Cuba Sanctions" link to learn more about the trade restrictions on Cuba. Is this restriction a tariff, quota, or embargo? To what extent does this trade restriction allow U.S. businesses to export their products to Cuba?
3. Form teams of four students and discuss how the following products might adapt their marketing mixes when entering the Chinese market.
 - Oreo cookies
 - Herbal Essences Conditioner
 - Ben and Jerry's ice cream
 - Hummer H3 SUVs

Focus on Technology

GMI (Global Market Insight) is a leader in global market research. It offers an online global panel of more than five million members in 200 countries. Panelists speak more than 37 different languages and are available in the Americas, Europe, the Pacific Rim, and the Middle East. In addition to consumer markets, GMI provides access to hard-to-reach business consumers, including B2B specialty medical markets of physicians, nurses, and patients with a variety of chronic illnesses. GMI differentiates itself from competitors with claims that it has the highest standards of panel integrity. In addition to survey panelists, GMI assists with international mystery shoppers. Mystery shoppers, common in the retail and financial services industries, are individuals who are paid to visit retailers and pose as regular shoppers. After they visit, the mystery shoppers file reports on a variety of topics, which might include the

politeness of the service representative, the appearance of the location, or customer waiting time.

1. What questions might a U.S. manufacturer of blood diagnostic equipment ask the members of the GMI medical panel when considering entry into a new country?
2. How might McDonald's use GMI's global mystery shoppers? Why would it prefer to use local shoppers rather than sending mystery shoppers from McDonald's U.S. home office?
3. Sign up to be a survey respondent at www.globaltestmarket.com. After going through the registration process, do you think that GMI has a rigid standard for its survey respondents?

Focus on Ethics

Annual global revenue from online gambling is about \$15 billion, with the United States accounting for almost 25 percent of these dollars. This is an interesting statistic when you realize that most online gambling is illegal in the United States and that online gambling companies are located outside the United States in more than 2,000 offshore locations, including Costa Rica, Antigua, and Bermuda. A variety of old federal and state laws ban online gambling, but because there is little law enforcement, hundreds of these sites flourish. Some advocacy groups assert that it is the responsibility of banks and credit card companies to stop processing payments to these sites. Other groups argue that online gambling should just be legalized so that the U.S. government can stop losing tax dollars on revenue from U.S. citizens in the United States. In July 2006, a bill was

presented to Congress that would outlaw online gambling and make it illegal for banks and credit card companies to make payments to online gambling sites. The bill did not pass due in large part to strong opposition from casinos and financial institutions.

1. Should U.S. citizens be allowed to gamble on sites hosted by companies in other countries where gambling is legal? Why or why not?
2. If gambling is illegal, should banks and credit card companies be held responsible for stopping these transactions?
3. Has anyone you know used online gambling? Were they aware that it was illegal?

Video Case

Nivea

In 1911, Nivea introduced a revolutionary product, Nivea Crème, in a simple blue tin. Still in its signature blue tin, today the Crème is the centerpiece of a wide range of personal care products Nivea markets, including everything from soap, shampoo, and shaving products to baby care products, deodorant, and sunscreen. And despite its small beginnings, today the company's products are sold in more than 150 countries worldwide.

Most Nivea consumers believe that the products they buy are produced and marketed locally. Why? Although Nivea looks for commonalities between consumers around the globe, the company's marketers also recognize the differences between consumers in different markets. So Nivea adapts its marketing mix to reach local consumers while keeping its message consistent everywhere products are sold. This globally consist-

ent, locally customized marketing strategy has sold more than 11 billion tins of the traditional Nivea Crème.

After viewing the video featuring Nivea, answer the following questions about the company and the global marketplace.

1. Which of the five strategies for adapting products and promotion for the global market does Nivea employ?
2. Visit Nivea's Web site, www.nivea.com, and tour the sites for several different countries. How does Nivea market its products differently in different countries? How does the company maintain the consistency of its brand?

Company Case

Wal-Mart Takes On the World

Wal-Mart is the world's largest retailer. It has more than 6,500 stores worldwide, employs 1.8 million people, and has annual sales of \$316 billion. The next-largest global retailer, Carrefour (a French discount retailer), has sales of \$94.5 billion, and Wal-Mart's nearest U.S. competitor in the general merchandise category, Target, has only \$52.6 billion in sales. More than 70 percent of Wal-Mart's merchandise comes from China. If Wal-Mart were a country, it would be China's eighth-largest trading partner, ahead of Russia and Great Britain.

Although the bulk of Wal-Mart's sales come from the United States, its international division is currently growing at over 11 percent annually. Roughly one-third of its stores are located in 14 markets outside the United States and account for about 20 percent of sales. In order to appeal to consumers of differing levels of affluence and sophistication in various countries, one might expect that Wal-Mart would have to change its strategy. But that is not the case. The giant retailer's strategy is the same everywhere in the world—Everyday Low Prices (EDLP) and Everyday Low Costs (EDLC). It carries this strategy out to near perfection through its own version of global sourcing and distribution that has other retailers clamoring to mimic.

WAL-MART'S INTERNATIONAL GROWTH

Wal-Mart operates in North and South America, Europe, and Asia and has used multiple entry strategies in various countries.

North and South America

Canada Wal-Mart's first international venture was Canada—a market similar to the United States. Wal-Mart bought 122 Canadian Woolco stores, and by 2000 it had more than 200 Canadian stores.

Mexico In Mexico, Wal-Mart used an acquisition strategy (buying Suburbia stores that sell clothing to young women, VIPS restaurants, Superama supermarkets, and 62 percent of Cifra, Mexico's largest retailer). It also established its own Wal-Mart stores and Sam's Clubs. Mexico has been a big success for Wal-Mart, largely because of Cifra's thorough understanding of the Mexican consumer. Wal-Mart is now the largest retailer in Mexico with more than 600 outlets and sales of more than \$12.5 billion with a 4.5 percent net

(case continues)

(case continued)

margin—better than the 3.5 percent overall Wal-Mart margin.

Puerto Rico Puerto Rico is another big success for Wal-Mart. It established its own stores and bought the Supermercados Amigo—Puerto-Rico's second-largest grocery retailer.

Brazil and Argentina Wal-Mart entered Brazil and Argentina in the mid-1990s with disappointing results. The economic situation in both countries was miserable—inflation spiraling out of control, devaluation of currencies, and defaults on loans, plus a political maelstrom in which Argentina's presidency seemed to be a revolving door. To this day, Wal-Mart has opened only 11 stores in Argentina.

But despite the economic situation and considerable competitive woes, Wal-Mart has fared much better in Brazil. Carrefour entered Brazil in 1975 and was well entrenched as the number one retailer. Upon Wal-Mart's entry, Carrefour started a price war and located hypermarkets next to Wal-Mart stores. In retaliation, Wal-Mart opened smaller-format stores called "Todo Dia," which sell mostly groceries and a little general merchandise. These smaller stores give Wal-Mart a presence in crowded Brazilian neighborhoods and enable it to sell to lower-income consumers who buy daily.

In early 2004, Wal-Mart bolstered its market share from sixth to third by buying the 118-unit Bompreco supermarket chain. In late 2005, it bought an additional 140 hypermarkets, supermarkets, and wholesale outlets from Portuguese conglomerate Sonae. Increased market share will generate lower costs and lower prices, making Wal-Mart more competitive with Carrefour and with Companhia Brasileira de Distribuicao (CBD), the largest grocery retailer in Brazil. Wal-Mart's acquisitions have raised its presence in Brazil to more than 290 stores, including 17 supercenters, 12 Sam's Clubs, and 2 Neighborhood Markets.

Europe

Germany In 1998, Wal-Mart bought the 21-unit Wertkauf chain in Germany, and a year later it purchased the 74-unit Interspar hypermarkets. As the third-largest retail market in the world (behind the United States and Japan), Germany initially looked very attractive. But from the start, it has been a nightmare. First, there were real estate issues: strict zoning laws, scarcity of land, and high real estate prices. Then there were well-entrenched unions, which were unlikely to allow their members to gather in the morning to respond to Wal-Mart's "Give me a W . . . Give me an A . . ." rallying cheer.

In addition, competition in Germany was much greater—five of the world's top-25 global retailers are German, with two of them in the top ten. Finally, German consumers are among the most demanding in the world. They are extremely quality conscious and are less price conscious. On top of all that, Wal-Mart

had purchased two chains with declining sales, poor locations, and dirty stores.

Wal-Mart executives admit in hindsight that they moved too fast in Germany and failed to take advantage of the managerial expertise in their acquisitions. Although Wal-Mart has not given up on Germany, it has had to close stores there because of poor performance.

United Kingdom Although Wal-Mart struggled in Germany, it scored a homerun when it purchased the UK's ASDA chain. These UK outlets are the biggest contributor to the profits of Wal-Mart's International Division. Why? ASDA had for years modeled itself on the Wal-Mart format—right down to the rah-rah philosophy and low prices. It was not a struggling chain; instead it is a top-notch retailer that "knows food retailing" and shares that knowledge throughout Wal-Mart's other global operations. With Wal-Mart's backing, ASDA cut prices (undercutting rivals), added general merchandise, and took advantage of Wal-Mart's inventory prowess. ASDA has been so successful that its sales per square foot go as high as \$2,000, four times higher than a Sam's Club. For the Christmas season in 2003, nine of the ten top-selling Wal-Mart stores worldwide were in the UK. This does not mean a lack of competition; two other UK retailers, Tesco and Sainsbury's, are also in the top-25 global retailers. Wal-Mart's store count in the UK is now at over 280 and growing.

Asia

Hong Kong, Thailand, and Indonesia Wal-Mart's first stop in Southeast Asia was Hong Kong, where it entered a joint venture with Ek Chor Distribution System Co. Ltd. to establish Value Clubs. Because Ek Chor is actually owned by C. P. Pokphand of Bangkok, Wal-Mart was able to locate in Thailand and then Indonesia.

Peoples Republic of China Wal-Mart began operations in China in 1995. Since then, growth has been slow. Today, there are still only 51 stores in China. But Wal-Mart is not taking its eye off this market. And why would it? As the largest market in the world, with more than 1.3 billion people and 170 cities with populations above 1 million, the potential in China is huge. Currently, Wal-Mart is building 20 new stores.

Given its size, China would appear to be one of the only other countries in the world that could sustain a scale similar to that of the U.S. Wal-Mart operation. Chinese consumers couldn't be happier, having embraced the large retailer. But Chinese operations will take awhile to develop. Like Germany, there is a shortage of land and stores tend to be smaller. One of the first Wal-Marts was in a subway station, located to cater to busy commuters. Competition is also a factor. Carrefour and a handful of Chinese supermarket chains are expanding much more rapidly.

But these problems are magnified by a bigger problem: the government. In an effort to limit competition, the government designated territories within which

each retailer must locate, and Wal-Mart was confined mostly to southern China. For some time, this meant no stores in Shanghai, the fastest-growing, most-western, highest-income market in China. However, the government is starting to relax these restrictions, and Wal-Mart will open its first supercenters in Shanghai and Beijing by 2007.

To prepare for this growth, Wal-Mart China, Ltd. and CITIC Ltd. (China International Trust and Investment Company) founded the Wal-Mart South China Department Store Co., Ltd. in October 2003. And Gazeley, a Wal-Mart-owned industrial developer, is currently investing \$95 million in speculative ventures with Chinese partners.

Japan Wal-Mart entered Japan in 2002 by buying a 38 percent stake in Seiyu Ltd., Japan's fifth-largest supermarket chain. Although Seiyu had 400 stores with good locations, the stores were shabby and the company had declining sales. Anxious not to repeat the German mistake in a land of demanding consumers, Wal-Mart is moving slowly to remodel Seiyu's stores. Unfortunately, this gives Japanese retailers such as Aeon time to get a jump on Wal-Mart.

There are many of the same problems in Japan as in China and Germany, such as pricey real estate and few locations. Until recently, laws restricted store size and opening hours in an effort to protect smaller Japanese retailers, who make up 58 percent of the Japanese retailing system. In addition, there are complicated and sometimes convoluted distribution systems in which retailers go through layers of middlemen with long-standing relationships instead of buying directly from suppliers. As a result, goods may pass through three or more hands before reaching a retailer.

And then there are the Japanese consumers, not only considered to be among the world's quirkiest but also among the most demanding. They want fresher foods, the most orderly and clean stores, short checkout lines, and an abundance of clerks. And they don't understand the EDLP strategy. Trained by Japanese retailers in the past to hunt through newspapers for discounts, consumers still expect discounts and they want to find these in newspaper ads, which must be in color. Shoppers also don't understand jargon such as "roll-back," so Wal-Mart must translate terms that it considers standard in the rest of the world. Worse, Japanese consumers think very low prices indicate poor quality. Thus, a strategy of ever-lower prices could hurt sales.

Despite Wal-Mart's elaborate planning, results in Japan have been disappointing. Seiyu has lost money and blames the sluggish economy and unusual weather—not to mention the competition. Wal-Mart has yet to articulate a clear strategy with the struggling chain.

WHAT'S NEXT?

For some time, Wal-Mart's next big move appeared to be Russia. Based on various factors such as market saturation,

political risk, economic growth, and consumer demographics, Russia is currently considered the second most attractive global retail destination. Wal-Mart's developer arm, Gazeley, has been involved in speculative ventures in and around Moscow. But in recent times, Wal-Mart has not shown any concrete signs of opening stores in this large country.

But although Russia may be the second most attractive global retail destination, India is number one, and Wal-Mart is taking serious notice. India has nearly 1.1 billion people and is growing fast. In one year, India's population will grow by over 400,000 people, far outpacing China's growth. India's \$350 billion retail market is expected to grow by 13 percent annually. Moreover, India boasts a fast-expanding middle class, one of the fastest-growing economies in the world, and a retail sector that is dominated by small, family-run stores.

Wal-Mart already has 80 employees in India to oversee purchasing of the \$600 million worth of goods that it buys each year. But Wal-Mart has also opened an office in India for market research. John Menzer, CEO of Wal-Mart International, has called India a "huge organic growth opportunity." Although no decisions have been made just yet as to how Wal-Mart will enter India or Russia, these two markets alone provide incredible potential for growth. It is also certain that Wal-Mart has plenty of moves up its sleeve for the global market in the future. Stay tuned!

Questions for Discussion

1. In what countries has Wal-Mart done well? Can you identify any common consumer, market, retailer, or entry strategy traits across these countries that might account for Wal-Mart's success?
2. In what countries has Wal-Mart done poorly? Can you identify any common consumer, market, retailer, or entry strategy traits across these countries that might account for Wal-Mart's lack of success?
3. In your opinion, will Wal-Mart be successful in Japan? In Germany? Why or why not?
4. In your opinion, should Wal-Mart enter India? If so, how should it go about this?
5. Beyond India, what countries do you think Wal-Mart should consider entering? What factors are important in making this decision? Be prepared to defend the countries that you chose.

Sources: "India Remains the Most Attractive Destination for Global Retailers," *A.F.X.COM*, April 30, 2006; Alan Clendenning, "Wal-Mart Buys Brazil Stores for Expansion," *Associated Press*, December 14, 2005; Jon Neale, "Gazeley Targets Russia and China," *Estates Gazette*, December 10, 2005, p. 31; Clay Chandler, "The Great Wal-Mart of China," *Fortune*, July 25, 2005, accessed online at www.fortune.com; Wal-Mart 2005 Annual Report; Laura Holler, "Latin Market Never Looked So Bueno," *DSN Retailing Today*, June 10, 2002, p. 125; Laura Heller, "Southern Hemisphere Woes Persist," *DSN Retailing Today*, June 10, 2002, p. 126; "Germany: Wal-Mart Closings," *New York Times*, July 11, 2002; and www.walmartstores.com, November 2006.