part IV

DESIGNING THE GLOBAL MARKETING PROGRAMME

Introduction to Part IV

Once the firm has decided how it will enter the international market(s) (see Part III), the next issue is how to design the global marketing mix.

Part IV is mainly based on the traditional 4P marketing mix:

- Chapter 14: Product
- Chapter 15: Price
- Chapter 16: Place (Distribution)
- Chapter 17: Promotion.

The original 4P marketing mix was primarily derived from research on manufacturing B2C companies, where the the essence of the marketing mix concept is the idea of a set of controllable variables or a 'tool kit' (the 4Ps) at the disposal of marketing management which can be used to influence customers. However, especially in B2B marketing, the marketing mix is also influenced by the interaction process itself between buyer and seller, so that the influence process is negotiation and not persuasion as implied by the traditional 4P mix. Furthermore there has been concern that the classic 4Ps do not incorporate the characteristics of services – namely inherent intangibility, perishability, heterogeneity (variability), inseparability and ownership.

The most influential of the alternative frameworks is, however, Booms and Bitner's (1981) **7Ps mix** where they suggest that the traditional 4Ps need to be extended also to include an additional three Ps: **participants**, **physical evidence** and **process**. Their framework is discussed below.

Participants

Any person coming into contact with customers can have an impact on overall satisfaction. Participants are all human actors who play a part in service delivery, namely the firm's personnel and other customers. Because of the simultaneity of production and consumption, the firm's personnel occupy a key position in influencing customer perceptions of product quality. That is especially the case in "high-contact" services, such as restaurants, airlines and professional consulting services. In fact, the firm employees are part of the product and hence product quality is inseparable from the quality of the service provider. It is important, therefore, to pay particular attention to the quality of employees and to monitor their performance. This is especially important in services because employees tend to be variable in their performance, which can lead to variable quality.

The participants' concept also includes the customer who buys the service and other customers in the service environment. Marketing managers therefore need to manage not only the service provider–customer interface but also the actions of other customers. For example, the number, type and behaviour of people will partly determine the enjoyment of a meal at a restaurant.

Process

This is the process involved in providing a service to the customers. It is procedures, mechanisms and flow of activities by which the service is acquired and delivered. The process of obtaining a meal at a self-service, fast-food outlet such as McDonalds, is clearly different from that at a full-service restaurant. Furthermore, in a service situation customers are likely to have to queue before they can be served and the service delivery itself is likely to take a certain length of time. Marketers have to ensure that customers understand the process of acquiring a service and that the queuing and delivery times are acceptable to customers.

Physical evidence

Unlike a product, a service cannot be experienced before it is delivered, which makes it intangible. This therefore means that potential customers perceive greater risk when deciding whether or not to use a service. To reduce the feeling of risk, thus improving success, it is often vital to offer customers some tangible clues to assess the quality of the service provided. This is done by providing physical evidence, such as case studies or testimonials. The physical environment itself (i.e. the buildings, furnishings, layout, etc.) is instrumental in customers' assessment of the quality and level of service they can expect, for example in restaurants, hotels, retailing and many other services. In fact, the physical environment is part of the product itself.

It can be argued that there is no need to amend or extend the 4Ps, as the extensions suggested by Booms and Bitner can be incorporated into the existing framework. The argument is that consumers experience a bundle of satisfactions and dissatisfactions that derive from all dimensions of the product whether tangible or intangible. The process can be incorporated in the distribution. Buttle (1989), for example, argues that the product and/or promotion elements may incorporate participants (in the Booms and Bitner framework) and that physical evidence and processes may be thought of as being part of the product. In fact, Booms and Bitner (1981) themselves argue that product decisions should involve the three extended elements in their proposed mix.

Therefore Part IV of this text still uses the structure of the 4Ps, but at the same time the three extended Ps will be incorporated in Chapters 15 to 18.

Globalization

Since the beginning of the 1980s the term 'globalization' has increasingly become a matter of debate. In *The globalization of markets* (1983) Levitt provoked much controversy concerning the most appropriate way for companies to become international. Levitt's support of the globalization strategy received both support and criticism. Essentially the two sides of this debate represented local marketing versus global marketing and focused on the central question of whether a standardized, global marketing approach or a country-specific, differentiated marketing approach has the most merits. In Part IV we learn that there are different forces in the international environment that may favour either 'increasing globalization' or 'increasing adaptation' of a firm. The starting point is illustrated by the existing balance point on the scale illustrated in Figure 1. Which force will win not only depends on the environmental forces but also on the specific international marketing strategy that the firm might favour. Figure 2 shows the extremes of these two strategies.

Figure 1 Environmental factors influencing the balance between standardization and adaptation

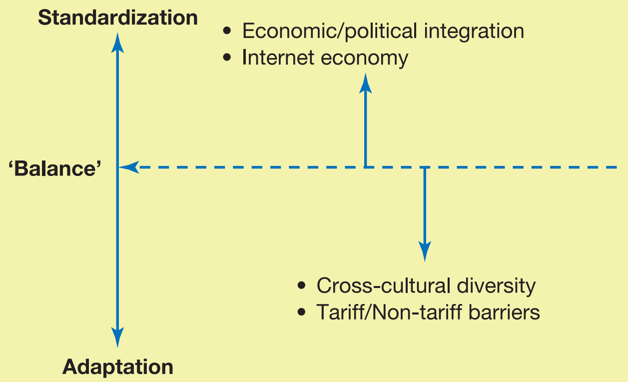
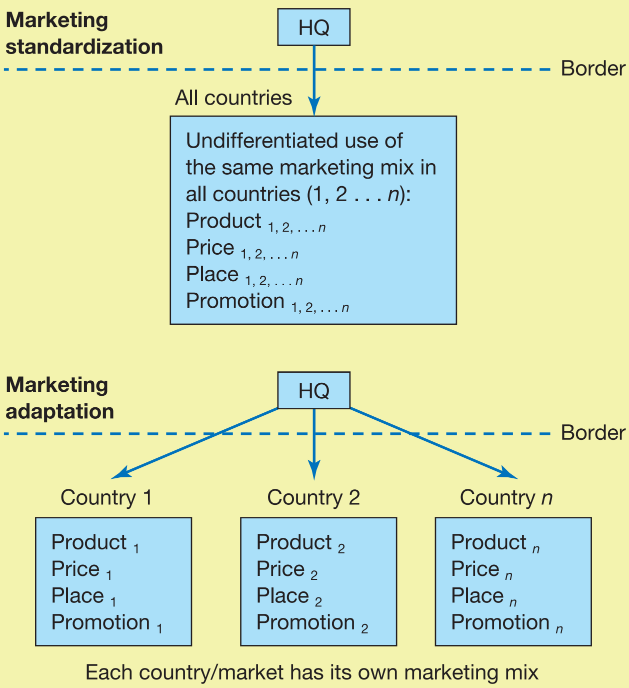


Figure 2 Standardization and adaptation of the international marketing mix



Hence, a fundamental decision that managers have to make regarding their global marketing strategy is the degree to which they should standardize or adapt their global marketing mix. The following three factors provide vast opportunities for marketing standardization (Meffert and Bolz, 1993):

1 *Globalization of markets*. Customers are increasingly operating on a worldwide basis and are characterized by an intensively coordinated and centralized purchasing process. As a countermeasure, manufacturers establish a global key account management in order to avoid individual country subsidiaries being played off against each other in separate negotiations with, for example, global retailers.
2 *Globalization of industries*. Many firms can no longer depend on home markets for sufficient scale economies and experience curve effects. Many industries, such as computers, pharmaceuticals and automobiles, are characterized by high R&D costs that can be recouped only via worldwide, high-volume sales.
3 *Globalization of competition*. As a consequence of the worldwide homogenization of demand, the different markets are interrelated. Therefore firms can plan their activities on a worldwide scale and attempt to establish a superior profile vis-à-vis other global competitors. Hence, country subsidiaries no longer operate as profit centres, but are viewed as parts of a global portfolio.

The standardized marketing concept can be characterized by two features:

1 Standardization of marketing processes is mainly concerned with a standardized decision-making process for cross-country marketing planning. By standardizing the launch of new products, controlling activities, etc., rationalization of the general marketing process is sought.
2 Standardization of marketing programmes and the marketing mix is concerned with the extent to which individual elements of the 4Ps can be unified into a common approach for different national markets.

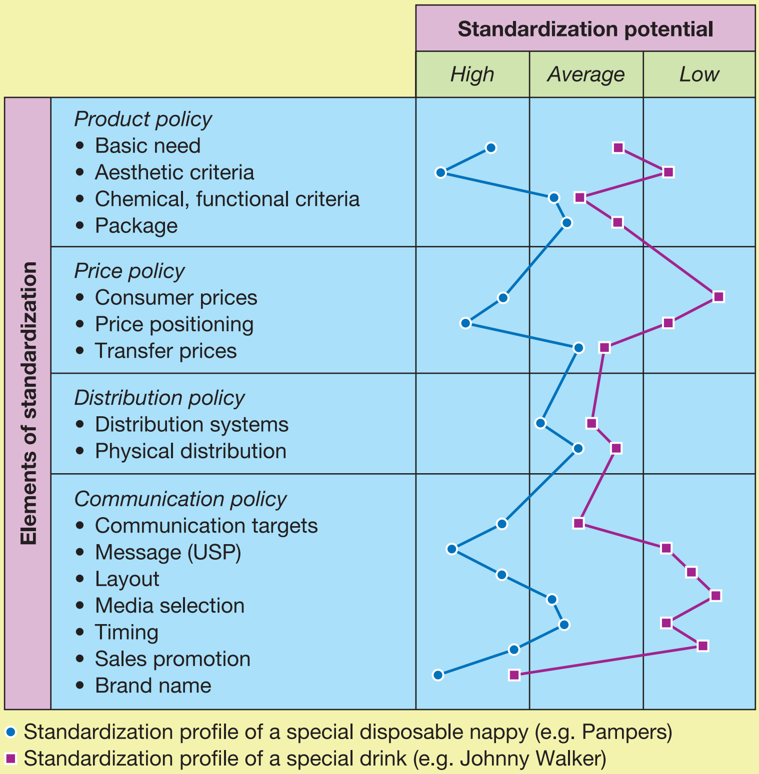
These two characteristics of standardization are often interrelated: for many strategic business units process-oriented standardization is the precondition for the implementation of standardized marketing programmes.

Many writers discuss standardization and adaptation as two distinct options. The commercial reality, however, is that few marketing mixes are totally standardized or adapted. Instead it is more relevant to discuss *degrees* of standardization. Therefore Figure 3 shows a standardization-potential profile for two different products by the same company (Procter & Gamble).

The results indicate that there are different ways of realizing a standardized concept within the marketing mix. In the case of both products it is possible to standardize the package at least on an average level. Difficulties arise as far as the price policy is concerned. Here it is possible to reach a standardized price positioning only for disposable nappies. So Procter & Gamble selects only those markets that possess the necessary purchasing power to pay a price within the target price range. In the case of alcoholic drinks it is nearly impossible to gain a standardized price positioning due to legal constraints. In Denmark, for example, consumers have to pay twice as much for the same Johnny Walker whisky as they do in Germany because of tax regulations. In many cases it is possible to use one brand name on a worldwide basis. There are negative effects connected with particular names in only a few cases; you have to change brand names to avoid these unintentional images.

We end this introduction to Part IV by listing in Table 1 the main factors favouring standardization versus adaptation of the global marketing programme.

Figure 3 Analysis of a company's standardization potential



Source: adapted from Kreutzer, 1988. Reproduced with kind permission from Emerald Group Publishing Ltd.

Table 1 Main factors favouring standardization versus adaptation

Factors favouring standardization	Factors favouring adaptation
● Economies of scale in R&D, production and marketing (experience curve effects)	● Local environment-induced adaptation: government and regulatory influences (no experience curve effects)
● Global competition	● Local competition
● Convergence of tastes and consumer needs (consumer preferences are homogeneous)	● Variation in consumer needs (consumer needs are heterogeneous because of cultural differences)
● Centralized management of international operations (possible to transfer experience across borders)	● Fragmented and decentralized management with independent country subsidiaries
● A standardized concept is used by competitors	● An adapted concept is used by competitors
● Easier communication, planning and control (through Internet and mobile technology)	● Legal issues – differences in technical standards
● Stock cost reduction	

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Further reading

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14

Product decisions

Contents

Case studies

Learning objectives

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

- Discuss the influences that lead a firm to standardize or adapt its products.
- Explore how international service strategies are developed.
- Distinguish between the product life cycle and the international product life cycle.
- Discuss the challenge of developing new products for foreign markets.
- Explain and illustrate the alternatives in the product communication mix.
- Define and explain the different branding alternatives.
- Discuss brand piracy and the possible anti-counterfeiting strategies.
- Explain what is meant by a 'green' product.
- Discuss alternative environmental management strategies.

14.1 Introduction

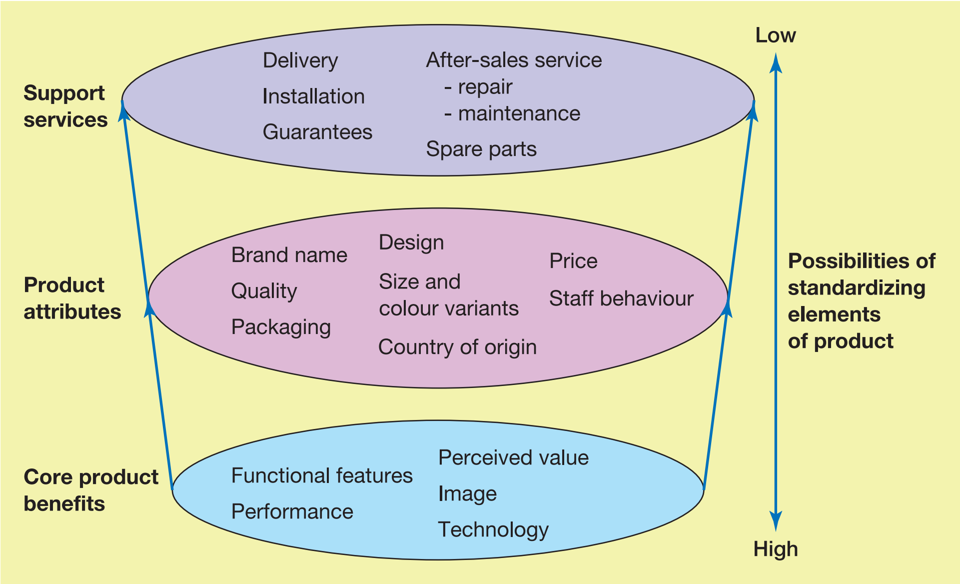
The product decision is among the first decisions that a marketing manager makes in order to develop a global marketing mix. This chapter examines product-related issues and suggests conceptual approaches for handling them. Also discussed are international brand (labelling) strategies and service policies.

14.2 The dimensions of the international product offer

In creating an acceptable product offer for international markets it is necessary to examine first what contributes to the 'total' product offer. Kotler (1997) suggests five levels of the product offer that should be considered by marketers in order to make the product attractive to international markets. In the product dimensions of Figure 14.1 we include not just the core physical properties, but also additional elements such as packaging, branding and after-sales service that make up the total package for the purchaser.

We can also see from Figure 14.1 that it is much easier to standardize the core product benefits (functional features, performance, etc.) than it is to standardize the support services, which often have to be tailored to the business culture and sometimes to individual customers.

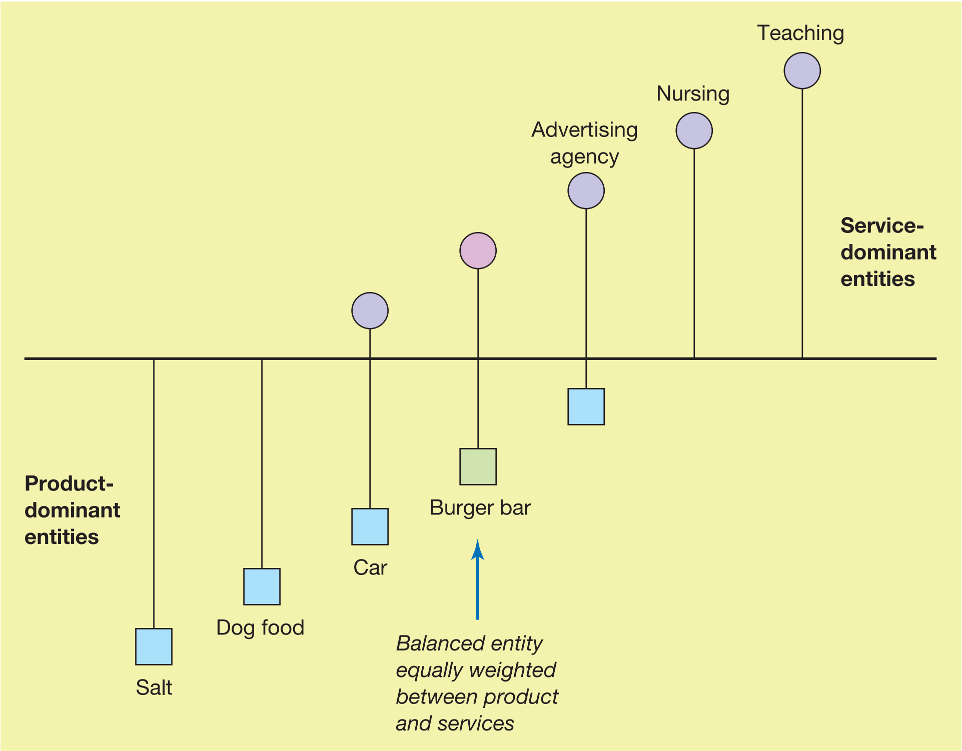
Figure 14.1 The three levels of a product



14.3 Developing international service strategies

We have seen from the definition of a product that services often accompany products, but products are also an increasingly important part of our international economy in

Figure 14.2 Scale of elemental dominance



Source: Czinkota and Ronkainen, 1995, p. 526.

their own right. As Figure 14.2 shows, the mix of product and service elements may vary substantially.

Characteristics of services

Before considering possible international service strategies it is important to consider the special nature of global service marketing. Services are characterized by the following features:

- *Intangibility*. As services such as air transport or education cannot be touched or tested, the buyers of services cannot claim ownership or anything tangible in the traditional sense. Payment is for use or performance. Tangible elements of the service, such as food or drink on airlines, are used as part of the service in order to confirm the benefit provided and to enhance its perceived value.
- *Perishability*. Services cannot be stored for future use – for example, unfilled airline seats are lost once the aircraft takes off. This characteristic causes considerable problems in planning and promotion in order to match supply and demand. To maintain service capacity constantly at levels necessary to satisfy peak demand will be very expensive. The marketer must therefore attempt to estimate demand levels in order to optimize the use of capacity.
- *Heterogeneity*. Services are rarely the same because they involve interactions between people. Furthermore, there is high customer involvement in the production of services. This can cause problems of maintaining quality, particularly in international markets where there are quite different attitudes towards customer service.

- *Inseparability*. The time of production is very close to or even simultaneous with the time of consumption. The service is provided at the point of sale. This means that economies of scale and experience curve benefits are difficult to achieve, and supplying the service to scattered markets can be expensive, particularly in the initial setting-up phase.

Global marketing of services

There are some specific problems in marketing services internationally. There are particular difficulties in achieving uniformity of the different marketing parameters in remote locations where exerting control can be especially problematic. Pricing, too, can be extremely difficult, because fixed costs can be a very significant part of the total service costs. Consumers' ability to buy and their perceptions of the service they receive may vary considerably between markets, resulting in significantly different prices being set and profits generated. Moreover, preserving customer loyalty in order to obtain repeat business may prove difficult because of the need to provide personalized services.

Categories of service

All products, both goods and services, consist of a core element that is surrounded by a variety of optional supplementary elements. If we look first at the core service products we can assign them to one of three broad categories depending on their tangibility and the extent to which customers need to be physically present during service production. These categories are presented in Table 14.1.

Table 14.1 Three categories of service

Categories of service	Characteristics	Examples (service provider)	Possibilities of worldwide standardization (hence utilizing economies of scale, experience effects, lower costs)
People processing	Customers become part of the production process. The service firm needs to maintain local geographic presence.	Education (schools, universities). Passenger transport (airlines, car rental). Health care (hospitals). Food service (fast-food, restaurants). Lodging service (hotel).	No good possibilities: because of 'customer involvement in production' many local sites will be needed, making this type of service very difficult to operate globally.
Possession processing	Involves tangible actions to physical objects to improve their value to customers. The object needs to be involved in the production process, but the owner of the object (the customer) does not. A local geographic presence is required.	Car repair (garages). Freight transport (forwarding agent). Equipment installation (e.g. electrician). Laundry service (launderette).	Better possibilities: compared to people-processing services, this involves a lower degree of contact between the customer and the service personnel. This type of service is not so culture sensitive.
Information-based services	Collecting, manipulating, interpreting and transmitting data to create value. Minimal tangibility. Minimal customer involvement in the production process.	Telecommunication services (telephone companies). Banking. News. Market analysis. Internet services (producers of homepages on the WWW, database providers).	Very good possibilities: of worldwide standardization from one central location (single sourcing) because of the 'virtual' nature of these services.

Categories of supplementary service

The core service provider, whether a bed for the night or a bank account, is typically accompanied by a variety of supplementary elements, which can be grouped into eight categories (Lovelock and Yip, 1996):

- *Information*. To obtain full value from any good or service, customers need relevant information about it, ranging from schedules to operating instructions, and from user warnings to prices. Globalization affects the nature of that information (including the languages and format in which it is provided). New customers and prospects are especially information hungry and may need training in how to use an unfamiliar service.
- *Consultation and advice*. Consultation and advice involve a dialogue to probe customer requirements and then develop a tailored solution. Customers' need for advice may vary widely around the world, reflecting such factors as level of economic development, nature of the local infrastructure, topography and climate, technical standards and educational levels.
- *Order taking*. Once customers are ready to buy suppliers need to make it easy for them to place orders or reservations in the language of their choice, through telecommunications and other channels, at times and in locations that are convenient to them.
- *Hospitality: taking care of the customer*. Well-managed businesses try, at least in small ways, to treat customers as guests when they have to visit the supplier's facilities (especially when, as is true for many people-processing operations, the period extends over several hours or more). Cultural definitions of appropriate hospitality may differ widely from one country to another, such as the tolerable length of waiting time (much longer in Brazil than in Germany) and the degree of personal service expected (not much in Scandinavia, but lavish in Indonesia).
- *Safekeeping: looking after the customer's possessions*. When visiting a service site customers often want assistance with their personal possessions, ranging from car parking to packaging and delivery of new purchases. Expectations may vary by country, reflecting culture and levels of affluence.
- *Exceptions*. Exceptions fall outside the routine of normal service delivery. They include special requests, problem solving, handling of complaints/suggestions/compliments, and restitution (compensating customers for performance failures). Special requests are particularly common in people-processing services, such as in the travel and lodging industries, and may be complicated by differing cultural norms. International airlines, for example, find it necessary to respond to an array of medical and dietary needs, sometimes reflecting religious and cultural values. Problem solving is often more difficult for people who are travelling overseas than it would be in the familiar environment of their native country.
- *Billing*. Customers need clear, timely bills that explain how charges are computed. With abolition of currency exchange restrictions in many countries bills can be converted to the customer's home currency. Hence currencies and conversion rates need to be clarified on billing statements. In some instances prices may be displayed in several currencies, even though this policy may require frequent adjustments in the light of currency fluctuations.
- *Payment*. Ease and convenience of payment (including credit) are increasingly expected by customers when purchasing a broad array of services. Major credit cards and travellers cheques solve the problem of paying in foreign funds for many retail purchases, but corporate purchasers may prefer to use electronic fund transfers in the currency of their choice.

Not every core service is surrounded by all eight supplementary elements. In practice the nature of the product, customer requirements and competitive pressures help to determine which supplementary service must be offered. In many cases the provider of the supplementary services can be located in one part of the world and the services delivered electronically to another. For example, order taking/reservations and payment can be handled through telecommunication channels, ranging from voice telephone to the Web. As long as appropriate languages are available many such service elements could be delivered from almost anywhere.

In summary, the information-based services offer the best opportunities of global standardization. The two other types of service (people processing and possession processing) both suffer from their inability to transfer competitive advantages across borders. For example, when Euro Disneyland in Paris opened Disney suffered from not being able to transfer the highly motivated staff of its US parks to Europe.

The accelerating development within information technology (the Internet/the Web) has resulted in the appearance of new types of information service (e.g. information on international flight schedules), which offer great opportunities for standardization.

Service in the business-to-business market

Business-to-business markets differ from customer markets in many ways:

- fewer and larger buyers, often geographically concentrated;
- a derived, fluctuating and relatively inelastic demand;
- many participants in the buying process;
- professional buyers;
- a closer relationship;
- absence of intermediaries;
- technological links.

For services in consumer markets an alternative for dissatisfied consumers is always to exit from the supplier–consumer relationship, as the number of firms offering the same kind of products is usually high. Therefore it is easy to switch between products and firms.

In the business-to-business market, however, bonds between the buyer and seller make the firms more unwilling to break the relationship. Of course the exit opportunity also exists to some extent in the business-to-business market, but the loss of investment in bonds and commitment tends to create exit barriers, because the costs of changing supplier are high. Furthermore, it can be difficult to find a new supplier.

Professional service firms, such as consulting engineering firms, have similarities with typical business-to-business service firms, but they involve a high degree of customization and have a strong component of face-to-face interaction. The service frequently takes the form of a hundred-million-dollar project and is characterized by the development of long-term relationships between firms, but also the management of day-to-day relationships during the project. When a professional service firm (whether it be an accountant, architect, engineer or management consultant) sells to its clients it is less the services of the firm than the services of specific individuals that it is selling. As a consequence professional service firms require highly skilled individuals.

Filiatrault and Lapierre (1997) made a study of the cultural differences in consulting engineering projects between Europe (France) and North America (Canada). In North America the consulting engineering firms are generally smaller and they work in an economic environment closer (than in Europe) to pure competition. The contracts in Europe are very large and often awarded by governments. The French consultants recognize that there is more flexibility in managing in North America than in Europe. Subcontracting also appears to be more popular in North America.

14.4 The product life cycle

PLC
Product life cycle concerns the life of a product in the market with respect to business/commercial costs and sales measures. Simply explained, it is a theory in which products or brands follow a sequence of stages including: introduction, growth, maturity and sales decline.

The concept of the product life cycle (**PLC**) provides useful inputs into making product decisions and formulating product strategies.

Products, like individuals, pass through a series of stages. Each stage is identified by its sales performance and characterized by different levels of profitability, various degrees of competition and distinctive marketing programmes. The four stages of the PLC are introduction, growth, maturity and decline. The basic model of the PLC is shown in Figure 14.3.

The PLC emphasizes the need to review marketing objectives and strategies as products pass through various stages. It is helpful to think of marketing decisions during the lifetime of a product, but managers need to be aware of the limitations of the PLC so they are not misled by its prescriptions.

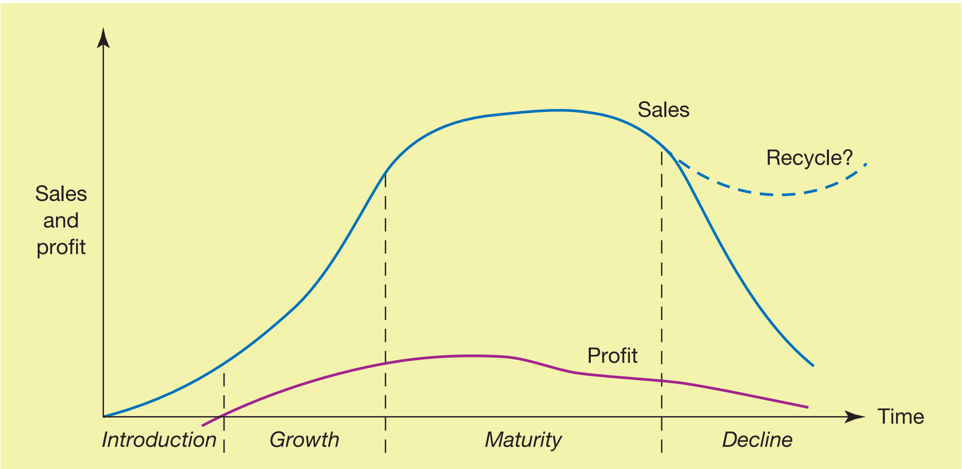
Limitations of the product life cycle

Misleading strategy prescriptions

The PLC is a dependent variable that is determined by the marketing mix; it is not an independent variable to which firms should adapt their marketing programmes (Dhalla and Yuspeh, 1976). If a product's sale is declining management should not conclude that the brand is in the decline stage. If management withdraws marketing resources from the brand it will create a self-fulfilling prophecy and the brand's sales will continue to decline. Instead management might increase marketing support in order to create a recycle (see Figure 14.3). This could be realised by the use of one or more of the following measures:

- product improvements (e.g. new product packaging).
- reposition perception of the product;
- reach new users of the product (via new distribution outlets);
- promote more frequent use of the product (fulfilling same need);
- promote new uses of the product (fulfilling new needs).

Figure 14.3 **The product life cycle**



Fads

Not all products follow the classic PLC curve. Fads are fashions that are adopted very quickly by the public, peak early and decline very fast. It is difficult to predict whether something will be only a fad, or how long it will last. The amount of mass-media attention together with other factors will influence the fad's duration.

Unpredictability

The duration of the PLC stages is unpredictable. Critics charge that markets can seldom tell what stage the product is in. A product may appear to be mature when actually it has only reached a temporary plateau prior to another upsurge.

Levels of product life cycle

The PLC concept can be examined at various levels, from the life cycle of a whole industry or product form (the technological life cycle or TLC) (Popper and Buskirk, 1992) to the life cycle of a single model of a specific product. It is probably most useful to think in terms of the life cycle of a product form such as photocopiers or video cassette recorders (see Exhibit 14.1). Life cycles for product forms include definable groups of direct and close competitors and a core technology. These characteristics make life cycles for product forms easier to identify and analyse, and would seem to have more stable and general implications. In Figure 14.4 an example of different PLC levels is shown.

Figure 14.4 Comparisons of PLCs for product forms (technological life cycles, TLCs) and a single product model: example with different VCR systems

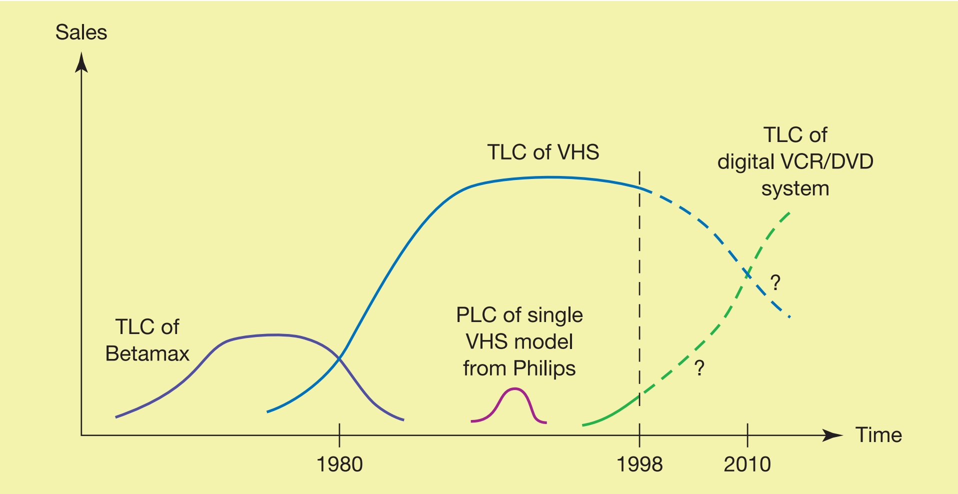


Exhibit 14.1 The global VHS/Betamax contest in the VCR business

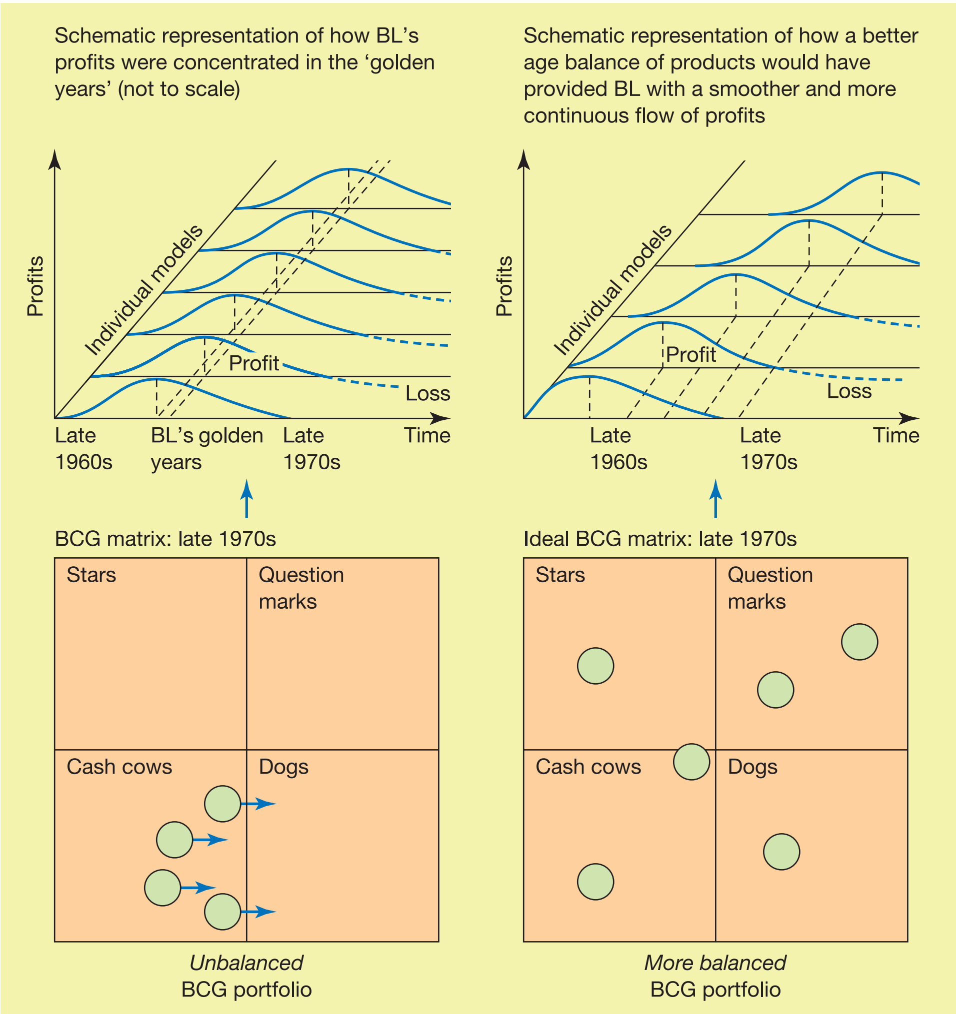
Figure 14.4 shows that the Betamax format introduced by Sony lost ground when the VHS standard (introduced by JVC) was adopted worldwide as the VCR diffused into global markets. The VHS/Betamax contest was a fight to the death by two virtually equal but incompatible formats. Market forces decided that there was room for only one successful format. Product performance was apparently not the crucial factor in the outcome, as an independent test found little difference between Betamax and VHS in, for example, picture and sound quality. However JVC was quicker than Sony to add features that consumers could immediately see the value of, such as longer recording and extended delay times. In promoting Betamax Sony evidently created an awareness of VCRs from which VHS subsequently benefited. The fierce competition between the formats (resulting in lower prices) accelerated total VCR sales. Today the VHS system is in the late maturity stage and the new digital DVD recorder is now (early 2007) in the growth stage.

Another example of a TLC shift happened when the compact disc (CD) format was introduced as a result of a joint development between Philips and Sony. A key factor in the success of the CD format displacing the old LP record format was the ownership by Sony of CBS in the United States, and by Philips of Polygram in Europe, two of the biggest music software companies in the world. This contributed to the new CD format establishing itself as the industry standard. However, there were also a number of barriers to the adoption of the new format. The potential users had already invested in LP record collections and the prices of discs and players were relatively high at the beginning of the TLC.

Product life cycles for different products of the firm

So far in this chapter we have treated products as separate, distinct entities. However, many firms are multiproduct, serving multimarkets. Some of these products are 'young' and some are 'older'. Young products will require investment to finance their growth, others will generate more cash than they need. Somehow firms have to decide how to spread their limited resources among the competing needs of products so as to achieve the best performance of the firm as a whole. Figure 14.5 shows an example of

Figure 14.5 Situation of British Leyland in the late 1970s



Source: Partly reprinted from *Long Range Planning*, 17(3), McNamee, P. (1984) 'Competitive analysis using matrix displays', pp. 98–114, Copyright 1984, with permission from Elsevier.

a company (British Leyland) that did not succeed in achieving a balanced product portfolio (note that the PLC curves are represented by profit and not sales).

Product life cycles for different countries

When expanding the concept of the PLC to international markets two different approaches appear:

1 international product life cycle (IPLC) – a macroeconomic approach;
2 PLCs across countries – a microeconomic approach.

The international product life cycle

The IPLC theory (originally Vernon, 1966) describes the diffusion process of an innovation across national boundaries (Figure 14.6). For each curve net export results when the curve is above the horizontal line; if the curve is below the horizontal line net import results for a particular country.

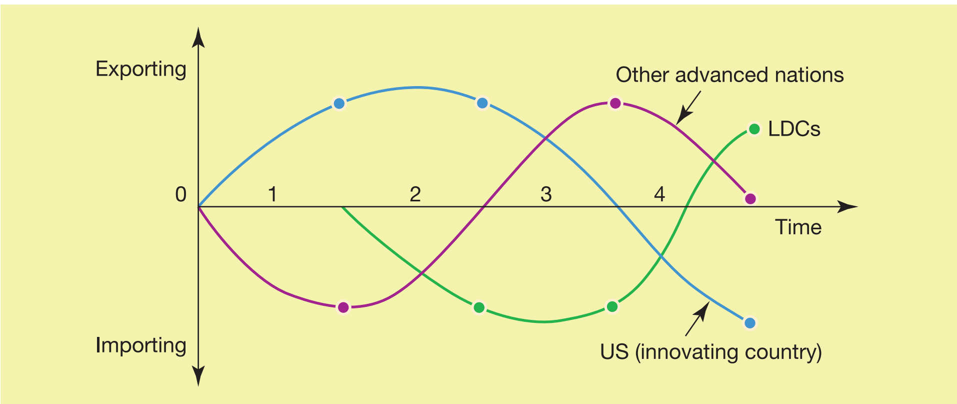
Typically, demand first grows in the innovating country (here the United States). In the beginning excess production in the innovating country (greater than domestic demand) will be exported to other advanced countries where demand also grows. Only later does demand begin in less developed countries. Production, consequently, takes place first in the innovating country. As the product matures and technology is diffused production occurs in other industrialized countries and then in less developed countries. Efficiency/comparative advantages shift from developed countries to developing countries. Finally, advanced countries, no longer cost effective, import products from their former customers.

Examples of typical IPLCs can be found in the textile industry and the computer/software industry. For example, many software programs today are made in Bangalore, India.

Product life cycles across countries: a microeconomic approach

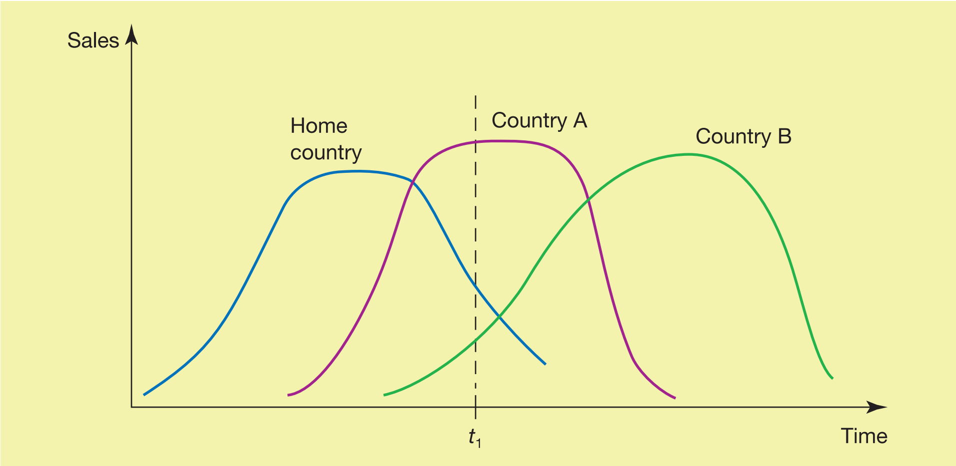
In foreign markets the time span for a product to pass through a stage may vary from market to market. In addition, due to different economic levels in different countries, a specific product can be in different PLC stages in different countries. Figure 14.7 shows that the product (at a certain time, t_1) is in the decline stage in the home

Figure 14.6 IPLC curves



Source: Onkvisit and Shaw, 1993, p. 483.

Figure 14.7 PLCs of different countries for a specific product



market, while it is in the maturity stage for country A and in the introduction stage for country B (Majaro, 1982).

14.5 New products for the international market

Customer needs are the starting point for product development, whether for domestic or global markets. In addition to customer needs conditions of use and ability to buy the product form a framework for decisions on new product development for international markets.

Developing new products/cutting the time to market

As a consequence of increasing international competition, time is becoming a key success factor for an increasing number of companies that manufacture technologically sophisticated products. This time competition and the level of technological development mean that product life cycles are getting shorter and shorter.

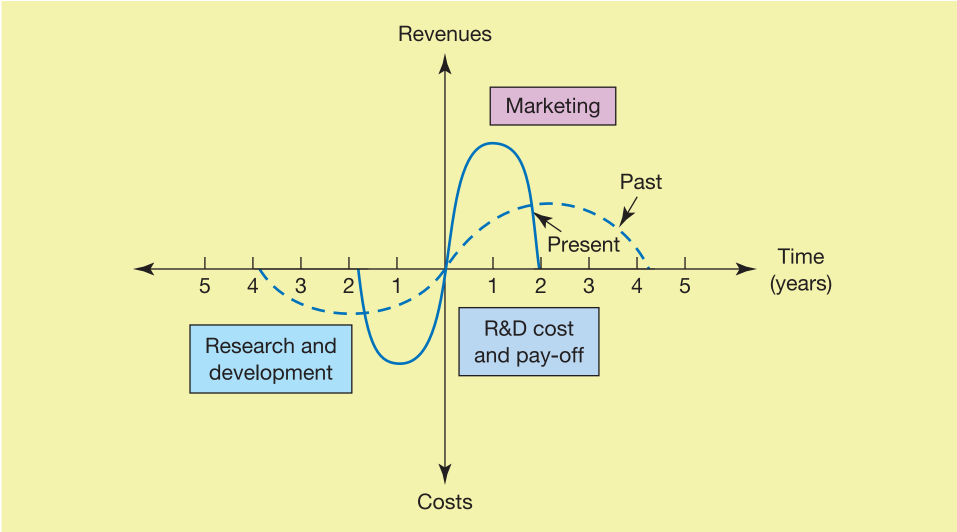
In parallel to shorter PLCs, the product development times for new products are being greatly reduced. This applies not only to technical products in the field of office communication equipment, but also to cars and consumer electronics. In some cases there have been reductions in development times of more than half.

Similarly, the time for marketing/selling, and hence also for R&D cost to pay off, has gone down from about four years to only two years. This new situation is illustrated in Figure 14.8.

For all types of technological product it holds true that the manufactured product must have as good a quality as required by the customer (i.e. as good as necessary), but not as good as technically feasible. Too frequently technological products are over-optimized and therefore too expensive from the customer's point of view (a good analysis of 'quality' is to be found in Guiltinan *et al.*, 1997).

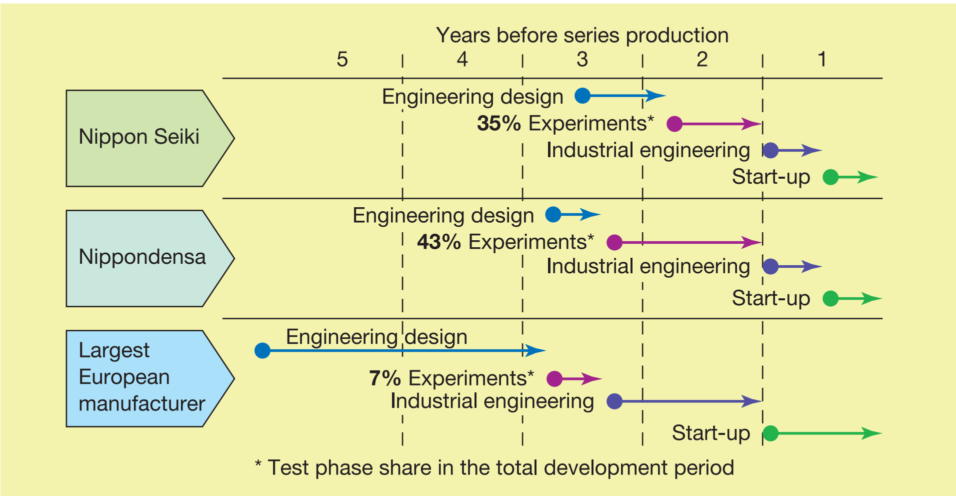
As we have indicated in earlier chapters, Japanese and European suppliers to the car industry have different approaches to the product development process. Figure 14.9 shows an example with suppliers of dashboard instruments for cars. The two Japanese manufacturers start the engineering design phase two years later than the European

Figure 14.8 Compression of R&D cycles and product life cycles



Source: Reprinted from *Long Range Planning*, 28(2), Töpfer, A. (1995) 'New products: cutting the time to market', p. 64, Copyright 1995, with permission from Elsevier.

Figure 14.9 Development and test periods for suppliers to the car industry



Source: Reprinted from *Long Range Planning*, 28(2), Töpfer, A. (1995) 'New products: cutting the time to market', p. 72, Copyright 1995, with permission from Elsevier.

manufacturer. This enables the Japanese fully to develop a product in a shorter time using the newest technology and to launch it almost simultaneously with their competitors.

The reason for the better time competition of the Japanese manufacturers is the intensive use of the following measures:

- early integration of customers and suppliers;
- multiskilled project teams;
- interlinking of R&D, production and marketing activities;
- total quality management;
- parallel planning of new products and the required production facilities (simultaneous engineering);
- high degree of outsourcing (reduction of internal manufacturing content).

Today product quality is not enough to reach and to satisfy the customer. Quality of design and appearance play an increasingly important role. A highly qualified product support and customer service is also required.

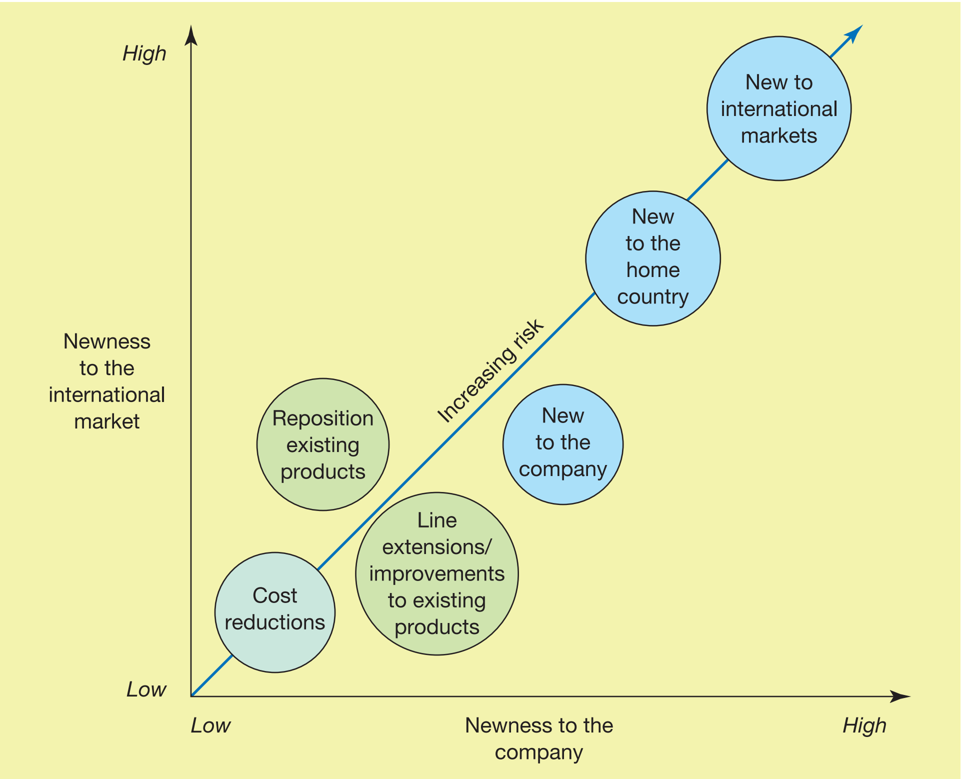
Quality deployment function (QDF)

QDF is considered a main tool for 'listen to the voice of the customer' in the new product development process. It may be used to identify opportunities for product improvement or differentiation. QDF is a useful technique for translating customer needs into new product attributes and for responding to requirements of the successful development process. It encourages communication between engineering, production and marketing. Besides the involvement of customer requirements in the new product development process QDF permits the reduction of design time and design cost while maintaining or enhancing the quality of the design. QDF originated in 1972 at Mitsubishi's Kobe shipyard and is used widely both in Japan and the United States. It has reduced design time and cost at Toyota by 40 per cent. The time and cost reducing effect arises because more effort is allocated in the early stages of the product innovation process.

Degrees of product newness

A new product can have several degrees of newness. A product may be an entirely new invention (new to the world) or it may be a slight modification of an existing product. In Figure 14.10 newness has two dimensions: newness to the market (consumers, channels and public policy) and newness to the company. The risk of market failure also increases with the newness of the product. Hence the greater the newness of the

Figure 14.10 **Different degrees of product newness**



product, the greater the need for a thorough internal company and external environment analysis, in order to reduce the risk involved.

The product communication mix

Having decided upon the optimum standardization/adaptation route and the newness of the product, the next most important (and culturally sensitive) factor to be considered is that of international promotion.

Product and promotion go hand in hand in foreign markets and together are able to create or destroy markets in very short order. We have considered above the factors that may drive an organization to standardize or adapt its product range for foreign markets. Equally important are the promotion or the performance promises that the organization makes for its product or service in the target market. As with product decisions, promotion can be either standardized or adapted for foreign markets.

Keegan (1995) has highlighted the key aspects of marketing strategy as a combination of standardization or adaptation of the product and promotion of elements of the mix, and offers five alternative and more specific approaches to product policy. These approaches are shown in Figure 14.11.

Figure 14.11 Product/communication mode

		Product		
		Standard	*Adapt*	*New*
Promotion	*Standard*	Straight extension	Product adaptation	Product invention
	Adapt	Promotion adaptation	Dual adaptation	

Source: adapted from Keegan, 1995.

Straight extension

This involves introducing a standardized product with the same promotion strategy throughout the world market (one product, one message worldwide). By applying this strategy successfully major savings can be made on market research and product development. Since the 1920s Coca-Cola has adopted a global approach, which has allowed the company to make enormous cost savings and benefits from continual reinforcement of the same message. While a number of writers have argued that this will be the strategy adopted for many products in the future, in practice only a handful of products might claim to have achieved this already. A number of firms have tried and failed. Campbell's soups, for example, found that consumers' taste in soup was by no means international.

An example of successful extension is Unilever's worldwide introduction of Organics Shampoo, which was first launched in Thailand in late 1993 after joint development work by Unilever's Hair Innovation Centres in Bangkok and Paris. By 1995 the brand was sold in over 40 countries, generating sales of £170 million. You

'Straight extension' of Organics Shampoo to Argentina

can see above a two-page advertisement from a magazine, used during the product's introduction into Argentina. The basic advertising concept all over the world (including Argentina) has been 'Organics – the first ever root-nourishing shampoo'.

Promotion adaptation

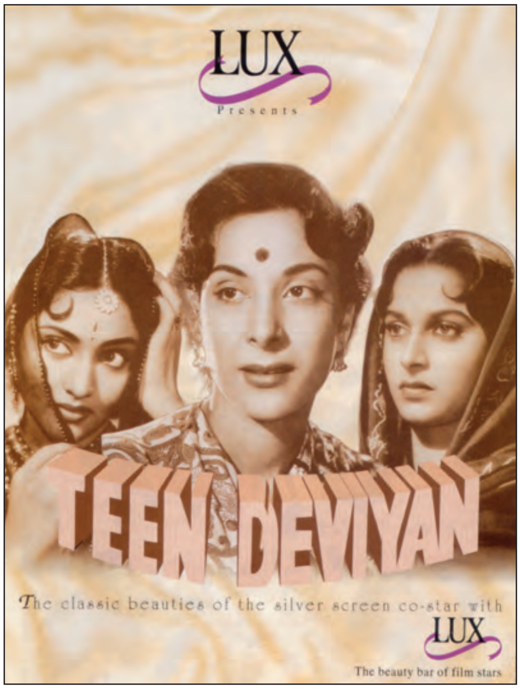
Use of this strategy involves leaving a product unchanged but fine-tuning promotional activity to take into account cultural differences between markets. It is a relatively cost-effective strategy as changing promotion messages is not as expensive as adapting products. An example of this strategy is illustrated in the following Lux example.

Motorola's 'promotion adaption' for the Korean market

LUX soap (Unilever): the United Kingdom versus India

The UK version of the LUX advertisement is based on the classic transborder advertising campaign, 'the beauty soap of film stars', which has been standardized to a high degree. In India the LUX campaign has been given a special local touch.

The Indian version is one of three advertisements that trace LUX's association with film stars from the past era to the current stars of today and the potential film stars of tomorrow. The advertisement focuses on three past legendary beauties of Indian cinema who have endorsed the brand. The creative statement is in a cinema poster style, keeping the brand image in mind, and in a sepia colour tone to give it a nostalgic feel.



Advertisements for Lux in UK and India

Product adaptation

By modifying only the product a manufacturer intends to maintain the core product function in the different markets. For example, electrical appliances have to be modified to cope with different electrical voltages in different countries. A product can also be adapted to function under different physical environmental conditions. Exxon changed the chemical composition of petrol to cope with the extremes of climate, but still used the 'Put a tiger in your tank' campaign unchanged around the world.

Dual adaptation

By adapting both product and promotion for each market the firm is adopting a totally differentiated approach. This strategy is often adopted by firms when one of the previous three strategies has failed, but particularly if the firm is not in a leadership position and is therefore reacting to the market or following competitors. It applies to the majority of products in the world market. The modification of both product and promotion is an expensive but often necessary strategy.

An example of dual adaptation is shown opposite, with the launch of Kellogg's Basmati Flakes in the nascent breakfast cereal market in India. This product was specially created to suit Indian tastes, India being a large rice-eating country. The advertising campaign was a locally adapted concept based on international positioning. Note that the product is available only in the Bombay area.

Product invention

Product invention is adopted by firms usually from advanced nations that are supplying products to less developed countries. Products are specifically developed to meet the needs of the individual markets. Existing products may be too technologically sophisticated to operate in less developed countries, where power supplies may be intermittent and local skills limited. Keegan (1995) uses a hand-powered washing machine as a product example.

Kellogg's dual adaption for the Indian market

14.6 Product positioning

Product positioning is a key element in the successful marketing of any organization in any market. The product or company that does not have a clear position in the customer's mind consequently stands for nothing and is rarely able to command more than a simple commodity or utility price. Premium pricing and competitive advantage are largely dependent upon the customer's perception that the product or service on offer is markedly different in some way from competitive offers. How can we achieve a credible market position in international markets?

Since it is the buyer/user perception of benefit-generating attributes that is important, product positioning is the activity by which a desirable 'position' in the mind of the customer is created for the product. Positioning a product for international markets begins with describing specific products as comprising different attributes that are capable of generating a flow of benefits to buyers and users.

The global marketing planner puts these attributes into bundles so that the benefits generated match the special requirements of specific market segments. This product design problem involves not only the basic product components (physical, package, service and country of origin) but also brand name, styling and similar features.

Viewed in a multidimensional space (commonly denoted as 'perceptual mapping'), a product can be graphically represented at a point specified by its attributes. The location of a product's point in perceptual space is its 'position'. Competitors' products are similarly located (see also Johansson and Thorelli, 1985). If points representing other products are close to the point of the prototype then these other products are close competitors of the prototype. If the prototype is positioned away from its closest competitors in some international markets and its positioning implies important features for customers, then it is likely to have a significant competitive advantage.

Country-of-origin effects

The country of origin of a product, typically communicated by the phrase 'made in [country]', has a considerable influence on the quality perception of that product. Some countries have a good reputation and others have a poor reputation for certain products. For example, Japan and Germany have good reputations for producing cars. The country-of-origin effects are especially critical among eastern European consumers. A study (Ettensén, 1993) examined the brand decision for televisions among Russian, Polish and Hungarian consumers. These consumers evaluated domestically produced television products much lower than western-made products, regardless of brand name. There was a general preference for televisions manufactured in Japan, Germany and the United States.

The country of origin is more important than the brand name and can be viewed as good news for western firms that are attempting to penetrate the eastern European region with imports whose brand name is not yet familiar. Another study (Johansson *et al.*, 1994) showed that some products from eastern Europe have done well in the West, despite negative country-of-origin perceptions. For example, Belarus tractors have sold well in Europe and the United States not only because of their reasonable price but also because of their ruggedness. Only the lack of an effective distribution network has hindered the firm's ability to penetrate western markets to a greater degree.

When considering the implications of product positioning it is important to realize that positioning can vary from market to market, because the target customers for the product differ from country to country. In confirming the positioning of a product or service in a specific market or region it is therefore necessary to establish in the consumer's perception exactly what the product stands for and how it differs from existing and potential competition. In developing a market-specific product positioning the firm can focus upon one or more elements of the total product offer, so the differentiation might be based upon price and quality, one or more attributes, a specific application, a target consumer or direct comparison with one competitor.

Exhibit 14.2 Madame Tussauds – a brand which brings people closer to celebrities on a global basis

The attraction's history is a rich and fascinating one with roots dating back to the Paris of 1770. It was here that Madame Tussaud learnt to model wax likenesses under the tutelage of her mentor, Dr Philippe Curtius. Her skills were put to the test during the French Revolution when she was forced to prove her allegiance making the death masks of executed aristocrats. It was in the early 19th century that she came to Britain, bringing with her a travelling exhibition of revolutionary relics and effigies of public heroes and rogues.

The Tussauds Group strategy is to develop an international entertainment business of successful visitor attractions that are special, imaginative and offer exceptional visitor value.

With over 13 million guests a year, the Tussauds Group is today Europe's largest operator and developer of visitor attractions and is sixth largest in the world. In 1998 the Group was acquired by Charterhouse Development Capital after 20 years of ownership by Pearson plc.

In March 2005 the Tussauds Group, that owns Madame Tussauds, was sold to Dubai International Capital, a private equity firm backed by the Dubai government and the Crown Prince of Dubai. They paid £800 million to take control.

Brand experience

The future for brands is about building memorable consumer experiences. Experience-oriented companies like Madame Tussauds need to have something that goes beyond the product. Madame Tussauds' selling point is not about waxworks, it is about bringing people closer to celebrities and what they do in life.

Robbie Williams (London) and the local Chinese popstars (Twins) (Shanghai)

Sources: Madame Tussauds London (left) and Madame Tussauds Shanghai (right).

Choice of new location

The choice of a new location is based on many different criteria. Madame Tussauds has a product development team that investigates how many tourists visit a city, whether they fit the profile of the attraction's visitors and whether there's enough space. Detailed research is vital to take a concept into a new market. After opening in Hong Kong Madame Tussauds recently opened its second Asian branch in Shanghai. As China's largest and wealthiest city with over 13 million residents and nearly 40 million tourists a year, Shanghai represents a good opportunity for Madame Tussauds.

Interactivity with the waxwork figures

The new Shanghai branch has the most interactivity of all the attractions, with fewer waxwork figures and more to do around them. The Tiger Woods exhibit allows visitors to putt on the green and see their scores come up. The latest guest to have a hole-in-one is recorded on the leaderboard. Visitors can also go into a karaoke booth with models of some famous Chinese popstars, called Twins (see the photo), sing with them and view themselves on video. People can also dress up like Charlie Chaplin and see themselves on a movie screen in black and white.

Balancing local and global branding

The research of Madame Tussauds shows a 98 per cent brand recognition in the UK maket. However, in Asia, the term 'madame' sometimes implies a bar or club to many consumers, and saying that the brand is a 'wax attraction' does not mean anything in the Asian market as there is no tradition of that type of museum there.

For Madame Tussauds it is important to make sure the brand maintains a good mix of local and global content. This is a delicate balance: too much local content does not fit with the idea of a global brand, while too little emphasis on global figures can disappoint international customers. The new Chinese venue overwhelmingly features local faces, such as actor Ge You, kung fu king Jackie Chan, the pop-group Twins and basketball superstar Yao Ming; it also has global figures such as David Beckham, Michael Jackson and Brad Pitt. The London attraction has a wide range of global figures such as Angelina Jolie, Beyonce Knowles and Robbie Williams (see the photo), but international tourists also love Margaret Thatcher, Princess Diana, Winston Churchill and the Queen. The photo illustrates the Madame Tussauds mixture of global content (like Robbie Willams) and local content (like the Twins).

Expanding the Madame Tussauds brand on a global scale is a challenge, but when it comes down to the essentials, Madame Tussauds is not about waxworks – it is about consumer experiences and bringing people into interaction with the celebrities.

Sources: With kind permission from Madame Tussauds Group, especially Global Marketing Director Nicky Marsh from London (www.madame-tussauds.com) and Cathy Wong, External Affairs Consultant from Shanghai (www.madame-tussauds.com.cn); Marsh, N. (2006) 'Translating experiences across the world', *Brand Strategy*, June, p. 11; Macalister, T. (2005) 'Madame Tussauds to open in Shanghai', *The Guardian* (London), 19 September, p. 20.

14.7 Brand equity

A study by Citibank and Interbrand in 1997 found that companies basing their business on brands had outperformed the stock market for 15 years. The same study does, however, note the risky tendency of some brand owners to have reduced investments in brands in the mid-1990s with negative impacts on their performance (Hooley *et al.*, 1998, p. 120).

The following two examples show that brands add value for customers:

- The classic example is that in blind test 51 per cent of consumers prefer Pepsi to Coca-Cola, but in open tests 65 per cent prefer Coca-Cola to Pepsi: soft drink preferences are based on brand image, not taste (Hooley *et al.*, 1998, p. 119).
- Skoda cars have been best known in the United Kingdom as the butt of bad jokes, reflecting a widespread belief that the cars are of very low quality. In 1995 Skoda was preparing to launch a new model in the United Kingdom, and did 'blind and seen' tests of the consumers' judgement of the vehicle. The vehicle was rated as better designed and worth more by those who did not know the make. With the Skoda name revealed perceptions of the design were less favourable and estimated value was substantially lower. This leads us from the reputation of the company to branding (Hooley *et al.*, 1998, p. 117).

Definitions of 'brand equity'

Brand equity
A set of brand assets and liabilities, which can be clustered into five categories: brand loyalty, brand awareness, perceived quality, brand associations and other proprietary brand assets. Brand equity is the premium a customer/consumer would pay for the branded product or service compared to an identical unbranded version of the same product/service.

Although the definition of **brand equity** is often debated, the term deals with the brand value, beyond the physical assets associated with it manufacture.

David Aaker of the University of California at Berkeley, one of the leading authorities on brand equity, has defined the term as 'a set of *brand assets and liabilities* linked to the brand, its name and symbol, that add to or subtract from the value provided by a product or service to a firm or to the firm's customers (Aaker, 1991, p. 15).

Aaker has clustered those assets and liabilities into five categories:

1. *Brand loyalty*. Encourages customers to buy a particular brand time after time and remain insensitive as competitors' offerings.
2. *Brand awareness*. Brand names attract attention and convey images of familarity. May be translated to: how big a percentage of the customers know the brand name.
3. *Perceived quality*. 'Perceived' means that the customers decide upon the level of quality, not the company.
4. *Brand associations*. The values and the personality linked to the brand.
5. *Other proprietary brand assets*. Include trademarks, patents and marketing channel relationships.

Brand equity can be thought of as the additional cash flow achieved by associating a brand with the underlying values of the product or service. In this connection it is useful (although incomplete) to think of a brand's equity as *the premium a customer/consumer would pay for the branded product or service compared to an identical unbranded version of the same product/service.*

Hence brand equity refers to the strength, depth and character of the consumer–brand relationship. A strong equity implies a positive force that keeps the consumer and the brand together, in the face of resistance and tension. The strength, depth and character of the customer–brand relationship is referred to as the *brand relationship quality* (Marketing Science Institute, 1995).

14.8 Branding decisions

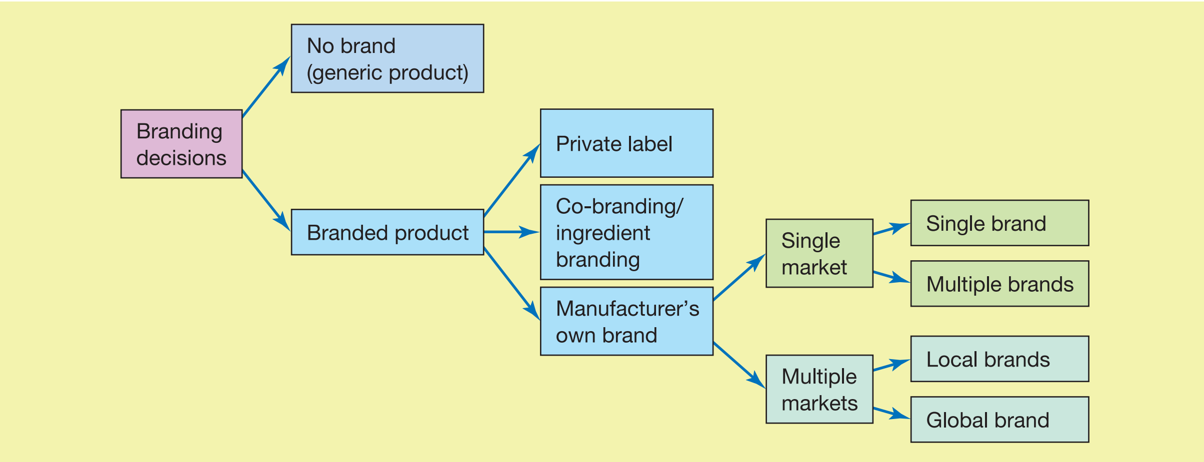
Closely linked to product positioning is the question of branding. The basic purposes of branding are the same everywhere in the world. In general, the functions of branding are as follows:

- to distinguish a company's offering and differentiate one particular product from its competitors;
- to create identification and brand awareness;
- to guarantee a certain level of quality and satisfaction;
- to help with promotion of the product.

All of these purposes have the same ultimate goals: to create new sales (market shares taken from competitors) or induce repeat sales (keep customers loyal).

As seen from Figure 14.12 there are four levels of branding decisions. Each

Figure 14.12 Branding decisions



Source: adapted from Onkvisit and Shaw, 1993, p. 534.

Exhibit 14.3 Unilever's Snuggle fabric softener – an example of local brands in multiple markets

An effective example of promotion adaptation is illustrated by Unilever's Snuggle Fabric softener. The product was initially launched in Germany as an economy brand in a category dominated by Procter and Gamble. In order to counteract the negative quality inferences associated with low price, Unilever emphasized softness as the product's key point of difference. The softness association was communicated through the name, 'Kuschelweich', which means 'enfolded in softness', and this was illustrated through a picture of a teddy bear on the package. When the product was launched in France, Unilever kept the brand positioning of economy and softness but changed the name to 'Cajoline', meaning softness in French. In addition, the teddy bear that had been inactive in Germany now took the centre stage in the French advertising as the brand symbol for softness and quality. Success in France led to global expansion and in each case the brand name was changed to connote softness in the local language while the advertising featuring the teddy bear remained virtually identical across global markets. By the 1990s, Unilever marketed the fabric softener around the globe with over a dozen brand names, all with the same product positioning and advertising support. More importantly, the fabric softener was generally number 1 or number 2 brand in each market.

Source: Adapted from Keller and Sood (2001).

Table 14.3 Advantages and disadvantages of branding alternatives

	Advantages	Disadvantages
No brand	Lower production cost. Lower marketing cost. Lower legal cost. Flexible quality control.	Severe price competition. Lack of market identity.
Branding	Better identification and awareness. Better chance for production differentiation. Possible brand loyalty. Possible premium pricing.	Higher production cost. Higher marketing cost. Higher legal cost.
Private label	Possibility of larger market share. No promotional problems.	Severe price competition. Lack of market identity.
Co-branding/ ingredient branding	Adds more value to the brand. Sharing of production and promotion costs Increases manufacturer's power in gaining access to retailers' shelves. Can develop into long-lasting relationships based on mutual commitment.	Consumers may become confused. Ingredient supplier is very dependent on the success of the final product. Promotion cost for ingredient supplier.
Manufacturer's own brand	Better price due to higher price inelasticity. Retention of brand loyalty. Better bargaining power. Better control of distribution.	Difficult for small manufacturer with unknown brand. Requires brand promotion.
Single market, single brand	Marketing efficiency. Permits more focused marketing. Eliminates brand confusion. Good for product with good reputation (halo effect).	Assumes market homogeneity. Existing brand's image harmed when trading up/down. Limited shelf space.
Single market, multiple brands	Market segmented for varying needs. Creates competitive spirit. Avoids negative connotation of existing brand. Gains more retail shelf space. Does not harm existing brand's image.	Higher marketing cost. Higher inventory cost. Loss of economies of scale.
Multiple markets, local brands (see also Exhibit 14.4)	Meaningful names. Local identification. Avoidance of taxation on international brand. Allows variations of quantity and quality across markets.	Higher marketing cost. Higher inventory cost. Loss of economies of scale. Diffused image.
Multiple markets, global brand	Maximum marketing efficiency. Reduction of advertising costs. Elimination of brand confusion. Good for culture-free product. Good for prestigious product. Easy identification/recognition for international travellers. Uniform worldwide image.	Assumes market homogeneity. Problems with black and grey markets. Possibility of negative connotation. Requires quality and quantity consistency. LDCs' opposition and resentment. Legal complications.

Source: Adapted from Onkvisit and Shaw 1989. Published with permission from Emerald Publishing Ltd. www.emeraldinsight.com alternative at the four levels has a number of advantages and disadvantages, which are presented in Table 14.3. We will discuss these options in more detail below.

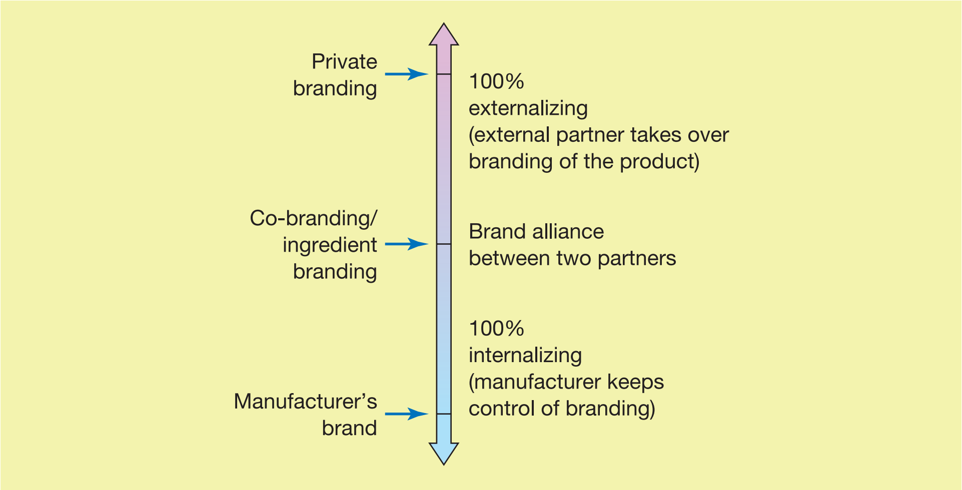
Brand versus no brand

Branding is associated with added costs in the form of marketing, labelling, packaging and promotion. Commodities are 'unbranded' or undifferentiated products. Examples of products with no brand are cement, metals, salt, beef and other agricultural products.

Private label versus co-branding versus manufacturer's own brand

These three options can be graded as shown in Figure 14.13.

Figure 14.13 The three brand options



The question of consumers having brand loyalty or shop loyalty is a crucial one. The competitive struggle between the manufacturer and the retailer actualizes the need for a better understanding of shopping behaviour. Both actors need to be aware of determinants of shop choice, shopping frequency and in-store behaviour. Where manufacturers pay little attention to the shopping behaviour of their consumers, this helps to anticipate the increasing power of certain retail chains.

Private label

Private label
Retailers own brand, e.g. Marks & Spencer's St Michael.

Private labelling is most developed in the United Kingdom, where Marks & Spencer, for instance, only sell own-label (**private label**) products. At Sainsbury's own labels account for 60 per cent of the sales. Compared with the high share of private labelling in northern Europe, the share in southern Europe (e.g. Spain and Portugal) is no higher than 10 per cent.

The retailer's perspective

For the retailer there are two main advantages connected with own-label business:

1 *Own labels provide better profit margins*. The cost of goods typically makes up 70–85 per cent of a retailer's total cost (*The Economist*, 4 March 1995, p. 10). So if the retailer can buy a quality product from the manufacturer at a lower price this will provide a better profit margin for the retailer. In fact private labels have helped UK food retailers to achieve profit margins averaging 8 per cent of sales, which is high by international standards. The typical figure in France and the United States is 1–2 per cent.

2 *Own labels strengthen the retailer's image with its customers*. Many retail chains try to establish loyalty to their particular chain of shops by offering their own quality products. In fact premium private-label products (e.g. Marks & Spencer's St Michael) that compete in quality with manufacturers' top brands have seen a growth in market share, whereas the share of cheap generics is tiny and declining.

The manufacturer's perspective

Although private brands are normally regarded as threats for manufacturers there may be situations where private branding is a preferable option:

- Since there are no promotional expenses associated with private branding for the producer, the strategy is especially suitable for SMEs with limited financial resources and limited competences in the downstream functions.
- The private brand manufacturer gains access to the shelves of the retail chains. With increasing internationalization of the big retail chains this may also result in export business for the SME that has never been in international markets.

There are also a number of reasons why private branding is bad for the manufacturer:

- By not having its own identity, the manufacturer must compete mainly on price, because the retail chain can always switch supplier.
- The manufacturer loses control over how its products should be promoted. This may become critical if the retailer does not do a good job in pushing the product to the consumer.
- If the manufacturer is producing both its own brands and private brands there is a danger that the private brands will cannibalise the manufacturer's brand-name products.

Exhibit 14.4 shows an example with Kellogg, which has moved from a brand strategy to a private brand strategy.

Exhibit 14.4 Kellogg is under pressure to produce under Aldi's own label

In February 2000 Kellogg (the cereal giant) made an own-label deal with German supermarket chain Aldi. It is the first time that Kellogg has supplied own label.

A slogan on Kellogg's cereal packets claims: 'If you don't see Kellogg's on the box . . . it isn't Kellogg's in the box.' But now Kellogg has negotiated a deal with Aldi to supply products in Germany bearing a different brand name. Reports in Germany say that the deal was made after Aldi announced it would no longer pay brand suppliers' prices and threatened to cut top brands from its shelves.

Source: adapted from various public media.

Quelch and Harding (1996) argue that many manufacturers have over reacted to the threat of private brands. Increasing numbers of manufacturers are beginning to make private-label products to take up excess production capacity. According to Quelch and Harding (1996), more than 50 per cent of US manufacturers of branded consumer packaged goods already make private-label goods as well.

Managers typically examine private-label production opportunities on an incremental marginal cost basis. The fixed overhead costs associated with the excess capacity used to make the private-label products would be incurred anyway. But if private-label manufacturing were evaluated on a full-cost basis rather than on an incremental basis it would, in many cases, appear much less profitable. The more private-label production grows as a percentage of total production, the more an analysis based on full costs becomes relevant (Quelch and Harding, 1996).

Manufacturer's own brand

From the Second World War until the 1960s brand manufacturers managed to build a bridge over the heads of the retailers to the consumers. They created consumer loyalty for their particular brand by using sophisticated advertising (culminating in TV advertising) and other promotional techniques.

Since the 1960s various sociological changes (notably the car) have encouraged the rise of large, efficient retailers. Nowadays the distribution system is being turned upside down. The traditional supply chain, powered by manufacturer 'push', is becoming a demand chain, driven by consumer 'pull'. Retailers have won control over distribution not just because they decide the price at which goods are sold, but also because both individual shops and retail companies have become much bigger and more efficient. They are able to buy in bulk and to reap economies of scale, mainly due to advances in transport and, more recently, in information technology. Most retail chains have not only set up computer links between each store and distribution warehouses, they are also hooked up with the computers of the firm's main suppliers, through an (electronic data interchange) system.

After some decades of absence private labels reappeared in the 1970s as generic products pioneered by Carrefour in France but were soon adopted by UK and US retailers. Ten years ago there was a distinct gap in the level of quality between private-label and brand-name products. Today the gap has narrowed: private-label quality levels are much higher than ever before, and they are more consistent, especially in categories historically characterized by little product innovation.

Co-branding/ingredient branding

Despite the similarities between co-branding and ingredient branding there is also an important difference, as we shall see below.

Co-branding

Co-branding
Form of cooperation between two or more brands, which can create synergies that create value for both participants, above the value they would expect to generate on their own.

Co-branding is a form of cooperation between two or more brands with significant customer recognition, in which all the participants' brand names are retained. It is of medium to long-term duration and its net value creation potential is too small to justify setting up a new brand and/or legal joint venture. The motive for co-branding is the expectation of synergies that create value for both participants, above the value they would expect to generate on their own (Bengtsson and Servais, 2005).

In the case of co-branding, the products are often complementary, in the way that one product can be used or consumed independently of the other (e.g. Bacardi Rum and Coca-Cola). Hence co-branding may be an efficient alternative to traditional brand extension strategies (Figure 14.14).

Figure 14.14 Illustration of co-branding and ingredient branding

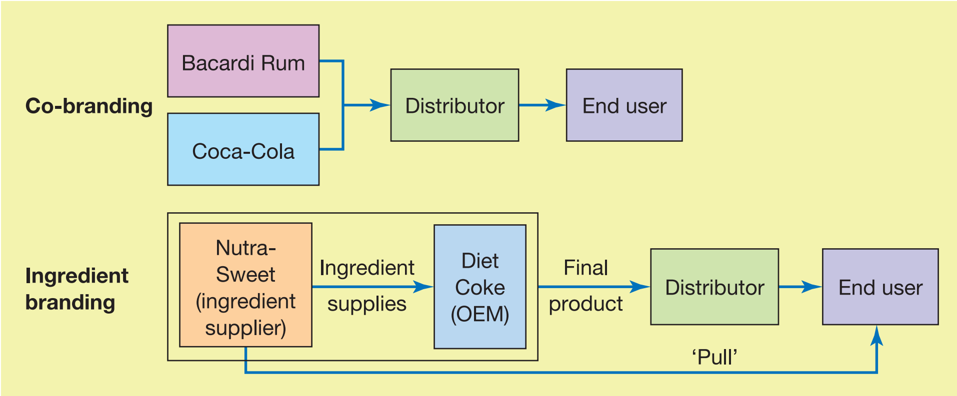


Exhibit 14.5 Shell's co-branding with Ferrari and Lego

In 1999–2000 Shell ran a £50 million co-branding campaign with Ferrari and LEGO. Some people might have thought that this was an attempt to persuade people, mainly in the West, that Shell's controversial attempt to dump the Brent Spar oil platform in the North Sea was not a true reflection of the company.

However, it may be more accurate to say that Shell was seeking a 'brand image transfer'. In the petrol retailer market traditionally driven by price and more price promotions, Shell wanted both Ferrari's sexy, sporty image and the family values of LEGO. Furthermore Shell was and is no longer only in the petroleum and oils business, where price promotions are the main focus of marketing activity. The company is also involved in food retailing, where loyalty programmes are important.

What were the benefits for Ferrari and LEGO? Ferrari gained sponsorship and royalty income from model car sales, while LEGO got improved global distribution. The co-branding strategy involved the use of ten exclusive small boxed toys and a big Ferrari LEGO car carrying a Shell logo. Shell wanted to sell between 20 and 40 million units of LEGO globally. It made Shell one of the world's largest toy distributors.

Source: adapted from various public media.

Ingredient branding

Normally the marketer of the final product (OEM) creates all of the value in the consumer's eyes. But in the case of Intel and NutraSweet the ingredient supplier is seeking to build value in its products by branding and promoting the key component of an end product. When promotion ('pull' strategy: see Figure 14.14) of the key component brand is initiated by the ingredient supplier the goal is to build awareness and preference among consumers for that ingredient brand. Simultaneously, it may be the manufacturer (OEM) that seeks to benefit from a recognized ingredient brand. Some computer manufacturers are benefiting from the quality image of using an Intel chip.

Ingredient branding
The supplier delivers an important key component to the final OEM-product, e.g. Intel delivers its processor to the major PC-manufacturers.

However, **ingredient branding** is not suitable for every supplier of components. An ingredient supplier should fulfil the following requirements:

- The ingredient supplier should be offering a product that has a substantial advantage over existing products. DuPont's Teflon, NutraSweet, Intel chips and the Dolby noise reduction system are all examples of major technological innovations, the result of large investments in R&D.
- The ingredient should be critical to the success of the final product. NutraSweet is not only a low-calorie sweetener, but has a taste that is nearly identical to that of sugar.

Single brand versus multiple brands (single market)

A single brand or family brand (for a number of products) may be helpful in convincing consumers that each product is of the same quality or meets certain standards. In other words, when a single brand in a single market is marketed by the manufacturer, the brand is assured of receiving full attention for maximum impact.

The company may also choose to market several (multiple) brands in a single market. This is based on the assumption that the market is heterogeneous and consists of several segments.

Local brands versus a global brand (multiple markets)

A company has the option of using the same brand in most or all of its foreign markets or of using individual, local brands. A single, global brand is also known as an international or universal brand. A Eurobrand is a slight modification of this approach, as it is a single product for a single market of 15 or more European countries, with an emphasis on the search for intermarket similarities rather than differences.

A global brand is an appropriate approach when a product has a good reputation or is known for quality. In such a case a company would be wise to extend the brand name to other products in the product line. Examples of global brands are Coca-Cola, Shell and the Visa credit card. Although it is possible to find examples of global brands, local brands are probably more common among big multinational companies than people realize. Boze and Patton (1995) have studied the branding practices in 67 countries all over the world of six multinational companies:

1 Colgate-Palmolive – headquartered in the United States.
2 Kraft General Foods (now part of Philip Morris) – headquartered in the United States.
3 Nestlé – headquartered in Switzerland.
4 Procter & Gamble – headquartered in the United States.
5 Quaker Oats – headquartered in the United States.
6 Unilever – headquartered in the United Kingdom and the Netherlands.

The findings of the research are summarized in Table 14.4. Of the 1,792 brands found in the 67 countries, 44 per cent were only marketed in one country. Only 68 brands (4 per cent) could be found in more than half of the countries. Of these 68 brands, only the following six were found in all 67 countries: Colgate, Lipton, Lux, Maggi, Nescafé and Palmolive. Hence these were the only true world brands.

Surprisingly, each of the six multinationl corporations (MNCs) seems to follow the practice of multiple brands in a single market. No official explanation was offered for

Table 14.4 Brands of six multinational companies in 67 countries

		Brands found in 50% or more countries		Brands in only one country	
Company	Total no. of brands	Number	% of total	Number	% of total
Colgate	163	6	4	59	36
Kraft GF	238	6	3	104	44
Nestlé	560	19	4	250	45
P & G	217	18	8	80	37
Quaker	143	2	1	55	38
Unilever	471	17	4	236	50
Total	1,792	68	4	784	44

Source: Boze and Patton, 1995, p. 22. Reproduced with kind permission from the *Journal of Consumer Marketing*, Emerald Group Publishing Ltd.

this strategy, but a Nestlé manager explained 'that he believed it is a very important marketing advantage to provide a brand name not found in any other country, especially those adjacent to the nation or bigger than it' (Boze and Patton, 1995, p. 24).

The use of umbrella brands varies a lot among the MNCs examined. Of the six MNCs Colgate is the most intensive user of its two company names:

1 *Colgate*. Mostly dental products: toothpaste, tooth powder, toothbrushes, dental floss, mouthwash, and shaving cream.
2 *Palmolive*. Hair products, shaving products, hand lotion, talc, deodorant, sun screen, toilet soap, bath products, liquid detergent (dishes and fine fabrics) and automatic dishwasher detergent.

It should be emphasised that the big MNCs prefer to acquire some local brands instead of using a global brand.

14.9 Sensory branding

Branding is essentially about building emotional ties between consumer and product. Nearly all the brand communication we experience encompasses just two senses – sight and hearing (print advertising, TV commercials, etc.). Yet the way in which we engage with the world around us uses all five senses: sight, sound, smell, touch, and taste. Almost our entire understanding of the world is experienced through our senses. Our senses are our link to memory and can tap right into emotion. In the following the aspects of **sensory branding** are explained by some examples.

Sensory branding
Normally brand communication involves just two senses – sight and hearing. Sensory branding involves all five senses: sight, hearing (sound), smell, touch and taste.

Sight

In some sectors the revolution in sight is already underway. Drinks companies have become expert at using colour to revitalize ageing brands and catch the interest of younger consumers. Gordon's Gin is a classic example. In 2004, the company took its Sloe Gin out of its trademark emerald green bottle (still used for the Original Gin) and repackaged it in clear glass to reveal the rich sloe purple of its ingredients. The move was followed by high-profile advertising, focusing on the 'colourful flavours' and aromas imparted by the herbs in Gordon's three different formulations (Original, Distiller's Cut and Sloe), and positioning the brand as the 'Colorful Gin'.

Drinks companies (perhaps with an eye to the day when alcohol advertising might eventually be banned) are also adept at building sensory cues into brand communications. For an example look no further than Smirnoff Ice, which builds TV, web-based, and experiential marketing campaigns (featuring public snowball fights) around Uri – a fictitious Smirnoff Ice drinker who lives in the frozen wastes of eastern Europe – aimed, one might guess, at forging a mental link between Smirnoff's fantasy world of ice and the generic pleasure of drinking ice-cold spirits.

Sound

In the automotive industry, for example, advances in acoustic design enable manufacturers to engineer, with great precision, how a door will sound as it closes.

Mercedes-Benz has 12 engineers dedicated to the sound of opening and closing doors. The sound is artificially generated and even the vibrations in the door generated by electric impulses. The neglected sound details have even become powerful tools. Take the simple ring of a Nokia mobile phone. The Nokia tune has created awareness similar to the 'Intel Inside' tune.

Kellogg's trademarked crunchy sound and feel of eating cornflakes was created in sound labs and patented in the same way that the company owns its recipe and logo.

Smell

Incorporating smell into branding has already begun. As far back as 1973 Singapore Airlines broke through the barriers of traditional branding with their Singapore girl, a move which proved to be successful. Since then Singapore Airlines has focused on the emotional experience of air travel which includes a high sensory element (see Exhibit 14.6).

When Rolls Royce started getting complaints about its new models not quite living up to the predecessors, it found out that the only difference was the smell. The interiors of older Rolls Royce smelt of natural substances like wood, leather, hessian and wool. Modern safety regulations mean that most of these materials are no longer used, and have been replaced by foams and plastics. Using a 1965 Silver Cloud as a reference the Rolles Royce team spent a considerable amount of time recreating the 'original' smell of Rolls Royce. Today, before each new Rolls Royce leave the factory, the unique smell of Rolls Royce is added to the underside of the car's seats to recreate the 'classic' Rolls Royce.

Early in 2000 Crayone needed to protect its brand from the many unauthorized competitors in Asia. It is difficult to protect a colour pen which draws generic colours. It is even harder to differentiate the product when the logo is barely recognizable. Crayone decided to leverage the smell. By analysing the scent of the original pen, Crayone artificially manufactured the smell and patented it, making it impossible to imitate. Today the smell of Crayone colour pens take adults back to their childhood. The very characteristic smell is an essential component of the Crayone product with the aim of stimulating the memory of generations of kids in years to come.

Touch

One brand that epitomizes sensory stimulation is Lush, the handmade cosmetics company. Pass the entrance of a Lush store and you are hit by a rush of fragrance. Lush co-founder Mark Constantine says: 'Packaging is so boring. Smelling and touching is just more fun for the senses.' What is more, he adds, 'If you don't use packaging you can use higher quality ingredients (Lindstrom, 2004).'

Taste

Orgasmic Chocolates (**www.orgasmicchocolates.com**), founded by two UK entrepreneurs in 2005, has created the ultimate chocolate experience by allowing people to enjoy the sensory elements associated with eating premium chocolate, as well as the benefits of the specially selected wildcrafted herbs. It is also suitable for vegetarians. Orgasmic Chocolates plans a line of brand extensions in the future, which will all continue the company's commitment to using the best quality products available and are also kind to the planet. Orgasmic

Exhibit 14.6 Sensory branding at SIA (Singapore Airlines)

By the end of the 1990s a new set of brand tools were invented at SIA. With a brand platform that emphasizes smoothness and relaxation, the strategy was to move away from portraying itself as merely an airline and opted to present itself as an entertainment company.

In short, SIA is not just a means of transport; it provides access to a world of experiences. The aircraft cabin provides the ambience lighting, in-flight entertainment system, movies, music, newspapers, amenities and other mechanical provisions, but the 'Singapore Girl' is the human being who mediates between the airline and its passengers. She answers the needs of the passengers by being able to communicate in the language the passenger speaks even if it is not English, she brings the food, water, blankets and answers questions as to how to use the in-flight systems. She is a personification of the airline.

SIA synergizes appeals to the senses of sight, smell and sound to strongly link each 'sensory touch point' to the other. As explained below, each sensory channel is optimized to consistently reflect and communicate the brand's core values:

- **Sight:** The cabin crew uniforms are based on colours and patterns that decorate the cabin interior. Each stewardess is assessed as either *cool* or *warm*, Those assessed *cool* wear blue eye shadow and rosy blush; those assessed *warm* wear brown eye shadows and peach blush. In addition, as the details on their training procedures reveal, the stewardess not only has to look the brand, she has to act the brand.
- **Smell** is another aspect of the sensory experience that SIA has leveraged with a consistency that equals that of the colour scheme used in matching make up and uniforms. In the late 1990s, SIA introduced Stefan Floridian Waters, an aroma which has been specifically designed as part of the company. Stefan Floridian Waters formed the scent in the flight attendants' perfume, was blended into the hot towels served before take off and generally permeated the entire fleet of the company's planes. The patented aroma has since become a unique and very distinct positioning of SIA.
- **Sound:** The same Asian style music is played on commercials, in the airport lounges as well as in the cabin prior to take-off. Although not well documented, the Singapore Girl also has her own *Singapore Girl* jingle that used to be played in TV commercials. The primary message in the ad '*Singapore Airlines – A Great Way to Fly*' is consistently conveyed in exclusive print media and voiced in TV-commercials featuring the Singapore Girl in different themes and settings. These repeated communications through song, word and music are engrained in memory and call to attention the core aspirations that shape the SIA brand.

SIA has built into its leverage of sight, smell and sound its unique Asian heritage, symbolized and personified by the Singapore Girl.

Source: Adapted from Lindstrom (2004) and Heracleous *et al.* (2004); www.brandchannel.com, 6 March 2006.

Chocolates – which claims to induce feelings of 'well-being, relaxation, and euphoria' in those who indulge – stretches to the extreme the fashion for enveloping consumers in 'a sensory experience' (Stiff, 2005).

In summary, the general rule of thumb is that the more senses a brand appeals to, the stronger the message will be perceived. Interestingly, stronger bonding directly translates to higher prices that consumers will be prepared to pay.

14.10 Celebrity branding

Celebrity branding
Type of advertising in which a celebrity uses his/her status in the society to promote a product, service or charity/cause.

Celebrity branding is a type of advertising in which celebrities uses their status in society to promote a product, service or charity. Celebrity branding can take several different forms, from a celebrity simply appearing in advertisements for a product, service or charity, to a celebrity attending PR events, creating their own line of products or services, and/or using their name as a brand. The most popular forms of celebrity brand lines are for clothing and perfume. Most singers, models and film stars now have at least one licensed product or service which bears their name.

The power of a celebrity to draw consumers' attention to their products is not a new phenomenon. However, the number of ways celebrities can now reach consumers (for a vast array of products and services) explains the growth of celebrity licensing. The practice of name-dropping by using celebrities to advertise or market a product appears to have increased markedly in the past few years in many industries. Accordingly, if your product appeals to a specific target group, a celebrity can help people in that target group immediately identify with the licensed product. For example, several celebrity brands in the fragrance industry have become top selling products in what has otherwise been described in the industry as a 'dismal market'.

A cornerstone of many recent celebrity brands has been a fashion line, which offers another opportunity for an artist to convey an image and a message to the consumer (and profit economically from the relationship).

The phenomenon started slowly, with Michael Jordan's Air Jordan Nikes taking the nation by storm in 1985. The previous year, the Babe Ruth estate (he was an American baseball player and a national icon) became one of the first to trademark a deceased celebrity's name and litigate against its misuse, clearing the way for other (living and dead) public figures to protect their names and likenesses as intellectual property. Since then, building deceased-celebrity brands such as those of Marilyn Monroe, Elvis Presley, James Dean and Albert Einstein has become a business in itself.

During recent years, the line between person and brand has blurred, and celebrities have begun applying techniques from the corporate world to their careers: marketing and protecting a brand identity, trademarking and licensing their names, launching their own product lines and embracing product endorsements to boost their perceived value to consumers.

But the marriage of branding and celebrity can have its problems. If not positioned correctly, a successful brand can become a boomerang. If an endorsement does not fit a star's perceived identity, then it can work against the star.

Implementing a celebrity branding strategy

When it comes to adding to brand recognition, using a celebrity could be a tremendous asset. However, it is no surprise that such licensing decisions must be weighed carefully. Aligning a product with a licensed property does not necessarily mean that the product (or the licensed property) will assist each other from a marketing or branding perspective. It is clear that many companies have found a suitable balance between the risks of licensing and the rewards of licensing.

In the entertainment industry, the term 'Q score' is used to rate a celebrity's overall fame or popularity. The higher the Q score, the more well known a celebrity is. The celebrity branding that makes sense involves a celebrity who has built a brand himself or herself that can continue to be leveraged through additional products and services. The actual value of a celebrity license will depend on four things:

1 How famous the celebrity is (the Q score).
2 What product the celebrity is promoting.
3 What the quality of the licensed product is.
4 The amount of design input the celebrity has in either the marketing or the product itself.

Treating the celebrity as part of a brand means setting up and positioning the license for when the brand will be marketed. While this timing is not necessarily essential for celebrities who have been around for years (think Paul Newman and Elizabeth Taylor), it may be very important for a celebrity who is competing with several others for recognition. Of course, if a celebrity is a trendsetter (think David Beckham and Oprah Winfrey), the affiliation itself may add instant credibility to the licensing of the name without respect to any other timing.

As important as the timing, is the product itself, and the quality of the product. These factors are also essential to ensure the success (and continued success) of a brand. A consumer may purchase a product initially because of a celebrity name, but the consumer will only continue to purchase the product if it is perceived as quality.

The final consideration is the involvement of the celebrity with the brand. Generally, celebrities today are very involved in the products, their design and their marketing. This involvement will lend credibility to the product and further improve the chances of a successful license.

Steps involved with international celebrity licensing

Celebrity licensing involves a grant to a licensee that permits the use of the name, signature, voice, image, likeness or other identifiable attribute of a celebrity under certain circumstances. For the most part, celebrity licensing is very similar to other licensing situations, and a licence can be as broad or as narrow as the parties mutually desire. The three basic elements to negotiate in a celebrity license are (Hoosear, 2006):

1 identifying and clearing the rights involved;
2 negotiating the terms and scope of the licence;
3 determining the payment and other terms of the licence.

1 Identify the rights involved

The most important component in celebrity licensing is to state precisely the scope of the grant the licensee is receiving. Celebrities possess a variety of identifiable, and therefore licensable, elements. For example, Elvis Presley as a celebrity would have a variety of licensable elements, from his name or signature alone to his distinctive clothes and music, and the multitude of images and photographs from his numerous movies and TV shows. Likewise, not all of these elements may be owned by the celebrity herself. For example, the affiliated television or movie producers, or studios, would clearly have rights in the films and recordings. Accordingly, the licensor may need to clear certain rights with other entities besides the celebrity.

Celebrity licensing can involve many intellectual property rights: the right of publicity, trade mark rights and copyrights. Therefore, it is essential to the successful negotiation of the licence to understand the differences between these rights and how they are licensed. While trade mark and copyright law are not exclusive to celebrity licensing, the right of publicity – a state law right – primarily pertains only to celebrity licensing. Accordingly, a celebrity will probably rely on a combination of trade marks, copyrights and the right of publicity to protect and promote his or her persona in licensing, whether it be for an advertising company, for a product or for the actual branding of a product itself.

2 Negotiating the terms and scope of the licence

In the context of a licence for the use of a celebrity's name, image, likeness or other attribute such as voice, there are several criteria that are determinants in the licence terms.

Another material criterion in a licence for the use of a celebrity is the duration of the advertising or merchandising campaign. A campaign that has a one-year term will be more expensive than a campaign that lasts one month. In addition, the how, when and where of the campaign using the celebrity is important. For example, in advertising campaigns, the medium used will determine the cost. A use restricted to radio will not be as expensive as a use involving television. It must also be determined whether the use is to be single run or in a prime time slot, and whether the campaign is of a local, regional, national or international nature.

3 Determining the payment and other terms of the licence

On the most basic level, there is a difference between a licence for a merchandise campaign as compared to a licence for an advertising campaign. An advertising use may involve a flat fee for promoting a product, whereas a merchandising use would involve some type of royalty payment based on a relationship between the product and the celebrity. The celebrity would often get a guaranteed royalty as well. This effectively ensures that the celebrity is not sharing all the risk with the licensee, generally a proper division given that it is the licensee's duty to know its market and the risks associated with the introduction of the product. Finally, a licensee should expect to pay a premium for exclusive use of the celebrity in either a certain product category or for exclusive use of the celebrity for a certain period of time.

It is of course the celebrity's right to decide initially whether they will be involved in a licence. As such, the celebrity may set the terms and royalty for participation in the licence, and the licensee has the right to negotiate those terms or find a different celebrity (if one fits the needed requirements) to use if the celebrity's terms are more than the licensee can afford.

There are clearly risks involved with celebrity licensing, which a licensee must consider in selecting a celebrity to advertise or label its product. The criminal trial of, for example, Martha Stewart in the United States, is a clear indication to the risks that can come from a celebrity spokesperson. An interesting alternative is licences using deceased celebrities. A deceased celebrity offers certain advantages in that they generally cannot act in a manner that would embarrass or hurt the image of the licensor's product.

A growth industry

Celebrity licensing is an emerging growth industry. As licensees continue to realize the effectiveness of celebrity association with their products, the trend will continue to broaden to include all types of celebrities (living and deceased). Despite potential risks, there can be no question that the connection between a product and a celebrity creates an image in the consumer's mind that translates into product recognition (and finally sales). This connection should be attractive to licensees seeking to distance their products from the competition. A carefully chosen celebrity can therefore bring additional success to an advertising or merchandising campaign.

14.11 Implications of the Internet for collaboration with customers on product decisions

Firms are realizing the importance of collaboration for creating and sustaining competitive advantage. Collaboration with partners and even competitors has become a strategic imperative for firms in the networked world of business. More recently, scholars in strategy and marketing have focused on collaboration with customers to cocreate value (Prahalad and Ramaswamy, 2004).

The Internet is an open, cost-effective and ubiquitous network. These attributes make it a global medium with unprecedented reach, contributing to reduce constraints of geography and distance. The Internet enhances the ability of firms to engage customers in collaborative innovation in several ways. It allows firms to transform episodic and one-way customer interactions into a persistent dialogue with customers. Internet-based virtual environments allow the firm to engage in interaction with a much larger number of customers without significant compromises on the richness of the interaction (Evans and Wuster, 2000).

Customization and closer relationships

The new business platform recognizes the increased importance of customization of products and services. Increased commoditization of standard features can only be countered through customization, which is most powerful when backed up by sophisticated analysis of customer data.

Mass-marketing experts such as Nike are experimenting with ways of using digital technology to enable customization. Websites that can display three-dimensional images, for example, will certainly boost the attractiveness of custom tailoring.

The challenge is clear: to use IT to get closer to customers. There are already many examples of this. Dell is building a closer relationship with its end customer by letting them design their own PCs on the Internet. Customers who have ordered their computers from Dell can then follow their computers along the various stages of the

Exhibit 14.7 Business models of Dell and HP

In the personal computer industry Dell and HP (now together with Compaq) are worldwide market leaders. However, the business models of the two companies differ a lot, as the following table demonstrates.

HP has business systems of the type traditionally associated with branded products. It has high R&D expenditure, low-cost, low-variety, large-run manufacturing systems and a one-month finished products inventory.

	Dell	**HP**
Target customer	Knowledgeable customer buying multiple units	Multiple customer segments with varied needs
Value proposition	Customized PC at competitive price	'Brand' with quality image
Value capture	Through pushing latest components upgrades and low-cost distribution system	Through premium for the 'brand' and reseller push
Buiness system		
R&D	Limited	Considerable
Manufacturing	Flexible assembly, cost advantage	High-speed, low-variety, low-cost manufacturing system
Supply chain	Made to order; inventory: one week, mainly component	Made to stock; delivery; inventory: one-month finished product
Marketing	Moderate advertising	Expensive brand advertising
Sales and distribution	Primarily through sales force, telemarketing and the Internet	Primarily through third-party resellers

Dell primarily targets corporate accounts but with built-to-order, customized PCs at reasonable prices. Dell has minimal R&D expenditure, a made-to-order, flexible manufacturing system (which puts Dell at a slight disadvantage compared to Compaq), one-week parts inventory and an efficient distribution system. Dell has been a pioneer in PC sales through the Internet.

Source: adapted from Kumar, 1999.

production process in real time on their personalized website. Such experimentation is advisable because the success of 'build-to-order' models such as Dell's represents a challenge to current 'build-to-stock' business platforms, which Compaq generally uses. In Exhibit 14.7 there is a comparison of the business models of Dell and Compaq. Dell's basic business principle is the close relationship between the PC manufacturer and the end customer, without further intermediaries in the distribution channel. This allows Dell to individualize the computers to customers' specific needs.

Computers can also be remotely diagnosed and fixed over the network today; this may soon be true of many other appliances. Airlines now communicate special fares to preferred customers through e-mails and special websites. Cars will soon have Internet protocol addresses, which will make possible a range of personal, in-vehicle information services.

Customers can also be involved in the early stages of product development so that their inputs can shape product features and functionality. Pharmaceutical companies are experimenting with the possibility of analysing patients' genes to determine precisely what drugs should be administered in what dosages.

The transformation in the business platform can be seen in university textbook publishing. This industry – which has seen little innovation since the advent of the printing press – is now in the midst of major changes. Publishers are creating supplementary website links to provide additional ways for students and lecturers to be connected during courses (e.g. **www.pearsoneduc.com** and **www.wiley.com**). The publisher's role, which traditionally was selling textbooks at the beginning of term, is becoming that of an educational consultant or value-adding partner throughout the term.

Exhibit 14.8 Ducati motorcycles – product development through web communities

Founded in 1926, Italian Ducati builds racing-inspired motorcycles characterized by unique engine features, innovative design, advanced engineering and overall technical excellence. The company produces motorcycles in six market segments which vary in their technical and design features and intended customers: Superbike, Supersport, Monster, Sport Touring, Multistrada and the new SportClassic. The company's motorcycles are sold in more than 60 countries worldwide, with a primary focus in western European, Japanese and North American markets. Ducati has won 13 of the last 15 World Superbike Championship titles and more individual victories than the competition put together.

Ducati was quick to realize the potential of using the Internet to engage customers in its new product development efforts. The company set up a web division and a dedicated website, **www.ducati.com**, in early 2000, inspired by the internet sales of the MH900 evolution, a limited-production motorcycle. Within 30 minutes, the entire year's production was sold out, making Ducati a leading international e-commerce player. Since then, Ducati has evolved its site to create a robust virtual customer community that had 160,000 registered users as of July 2004. Community management has become so central at Ducati that management has replaced the words 'marketing' and 'customer' with the words 'community' and 'fan'. Ducati considers the community of fans to be a major asset of the company and it strives to use the Internet to enhance the 'fan experience'. Ducati involves its fans on a systematic basis to reinforce the places, the events and the people that express the Ducati life style and Ducati's desired brand image. The community function is tightly connected with the product development and the fan involvement in the community directly influences product development.

Exhibit 14.8 continued

Virtual communities play a key role in helping Ducati to explore new product concepts. Ducati has promoted and managed ad hoc online forums and chat rooms for over three years to harness a strong sense of community among Ducati fans.

Ducati also realized that a significant number of its fans spend their leisure time not only riding their bikes, but also maintaining and personalizing them. As a result, Ducati fans have deep technical knowledge that they are eager to share with other fans. To support such knowledge sharing, the company has created the 'Tech Café', a forum for exchanging technical knowledge. In this virtual environment, fans can share their projects for customizing motorcycles, provide suggestions to improve Ducati's next generation products, and even post their own mechanical and technical designs, with suggestions for innovations in aesthetic attributes as well as mechanical functions.

While not all fans participate in the online forums, those who do participate provide rich inputs for exploring new product concepts and technical solutions. These forums also help Ducati to enhance customer loyalty, because its fans are more motivated to buy products they helped to create.

Ducati managers also monitor vertical portals created for bikers, including Motorcyclist.com and Motoride.com; and Ducati monitors other virtual communities that have lifestyle associations with the Ducati brand. For instance, Ducati has entered into a partnership with the fashion company DKNY to tap into its community and interact with its members.

To validate its insights, Ducati uses online customer surveys to test product concepts and to quantify customer preferences. As a testimony to the ability of Ducati to create an ongoing customer dialogue and create a sense of engagement with its fans, Ducati gets extraordinary response rates, often in excess of 25 per cent when it surveys its customers. Ducati uses customer feedback for activities that go beyond product development.

Ducati also pursues Internet-based customer collaboration at the back end of its NPD process. Virtual communities play an important role at the product design and market testing stages. For instance, in early 2001, the community managers of Ducati.com identified a group of customers on its website that had particularly strong relationships with the company. They decided to transform such customers into active partners, involving them in virtual teams that cooperate with Ducati professionals from R&D, Product Management and Design. These virtual teams of customers work with the company's engineers to define attributes and technical features for the 'next bike'.

Within the virtual community, current and future Ducati bike owners discuss and review proposed product modifications that can be tested online in the form of virtual prototypes. They can even vote to reject proposed modifications, personalize products to their preferences, and can ask Ducati technicians for suggestions on personalizing their bikes to individual taste.

Source: adapted from www.ducati.com and Sawhney *et al.* (2005).

Dynamic customisation of product and services

The second stage of the customer interaction vector focuses on the opportunities and challenges in dynamically customizing products and services. Competitive markets are rapidly eroding margins due to price-based competition, and companies are seeking to enhance margins through customized offerings. Dynamic customization is based on three principles: modularity, intelligence, and organization.

1 *Modularity*: An approach for organizing complex products and processes efficiently. Product or service modularity requires the partitioning of a task into independent modules that function as a whole within overall architecture.
2 *Intelligence*: Continuous information exchange with consumers allows companies to create products and processes using the best possible modules. Website operators

can match buyer and seller profiles and make recommendations based on their shared interests. The result is intelligent sites that learn their visitors' (potential buyers') tastes and deliver dynamic, personalised information about products and services.

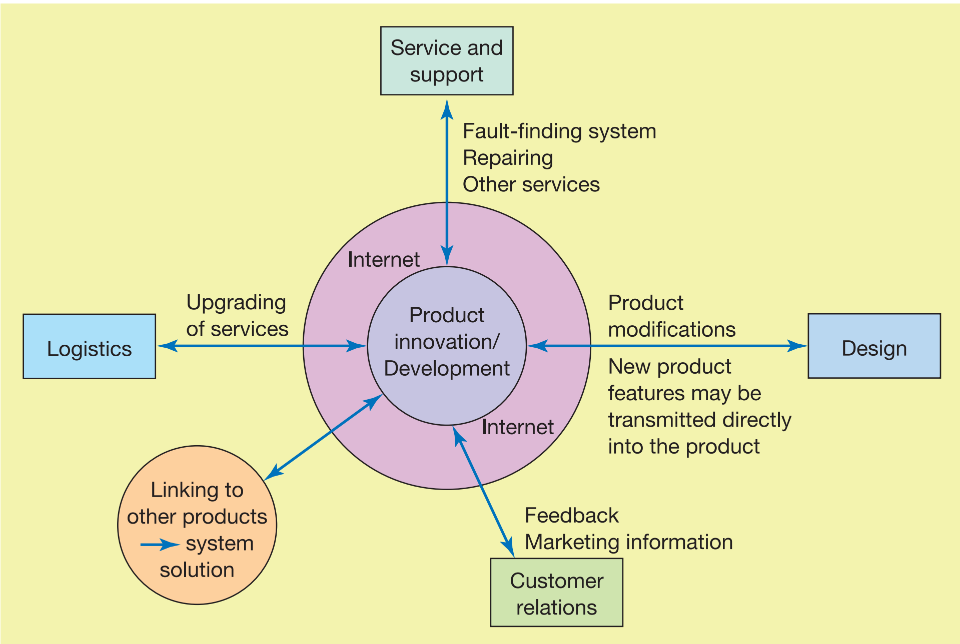
3 *Organization*: Dynamic customisation of products and services requires a customer-oriented and flexible approach that is fundamentally committed to operating in this new way.

How can the Internet be integrated in the future product innovation?

Figure 14.15 shows some of the implications of the Internet on future product innovation. The Internet is seen as the medium through which each 'box' communicates with the R&D function in the company.

- *Design*. Data is gathered directly from the product and is part of designing and developing the product. New product features (such as new versions of software programs) may be built into the product directly from the Internet.
- *Service and support*. The service department can perform troubleshooting and correction directly through the Internet set-up. For example a Mercedes car driving on the highway may be directly connected to the Mercedes service department. It will monitor the main functions of the car and if necessary make online repairs of, for example, the software of the car.
- *Customer relations*. Data gathered from the product may form part of statistics, comparisons between customers, etc. In this way the customer can compare the performance of their product (e.g. a car) with other customers' product (a kind of benchmarking). This may also strengthen an existing customer relationship.
- *Logistics*. Concurrently with increasing demands for just-in-time deliveries, the Internet will automatically find the distribution and transport that will take the

Figure 14.15 **Product innovation through the Internet**



goods from the subsupplier to the producer and then to the customers in the cheapest and most efficient way (and on time).

A fundamental shift in thinking is to replace the term 'supply chain' with 'demand chain'. The critical difference is that demand-chain thinking starts with the customers and works backwards. This breaks away from parochial approaches that focus solely on reducing transport costs. It supports a 'mass customization' viewpoint, in which bundles of goods and services are offered in ways that support customers' individual objectives.

This does not necessarily imply product differentiation. In fact the service aspects often require differentiation. For example, a company such as Unilever will provide the same margarine to both Tesco and Sainsbury's. However, the ways in which the product is delivered, transactions are processed and other parts of the relationship are managed, can and should be different, since these two competing supermarket chains each have their own ways of evaluating performance. The information systems required to coordinate companies along the demand chain require a new and different approach to that required within individual companies. Some managers believe that if they and their suppliers choose the same standard software package, such as SAP, they will be able to integrate their information systems.

- *Link to other products*. Sometimes a product is used as a subcomponent in other products. Through links in the Internet such subcomponents may be essential inputs for more complex product solutions. The car industry is an example of an industry that already makes a targeted effort in this direction. New 'stylish' cars are linked together by the Internet. In the wake of this development a new industry is created, the purpose of which is to provide integrated transport. In this new industry developing and producing cars is only one of several important services. Instead systems are to be developed that can diagnose cars (and correct the error) while the car is running, systems for regulation of traffic, interactive systems that enable drivers to have the desired transport at their disposal when and where they want it without tiresome rental agreements, etc.

The music industry is also undergoing a change. Today you can buy portable 'players' that can download music from the Internet using the MP3 format, and subsequently play the music that is stored in the 'player'. The CD is skipped – and so is the whole distribution facility. The music industry will become completely altered through the different economic conditions. The struggle will be about creating the best portal to the Internet, where the consumer can find the best information on music and the largest selection of music. The problems regarding rights are, however, still being discussed, and the lawyers and politicians have to find a final solution before the market can increase significantly.

Thus innovative product development of the future demands that a company possesses the following characteristics:

- *Innovative product development and strategic thinking*. Product development will contain much technology and demand an interdisciplinary, strategic overview and knowledge in order to find out what new services are worth aiming at.
- *Management of alliances*. Few companies have all the necessary qualifications themselves – innovative product development and the resulting services demand that companies enter into alliances very dynamically and yet in a structured way.
- *New customer relations*. The above-mentioned car industry example clearly shows that the customers are not car buyers any longer but *buyers of transport services*, and that is quite another matter. This means that companies have to focus on understanding the customers' needs in a quite different way.

Developing brands on the Internet

Clearly consumer product companies such as Procter & Gamble, Colgate, Kraft Foods, and consumer durables and business-to-business companies such as General Motors, General Electric, Allied Signal and Caterpillar have crafted their business strategies by leveraging physical assets and developing powerful global brands supported by mass advertising and mass distribution. But remote links with customers apply equally well to these companies. Remote and continuous links with customers become critical as the concepts of brand identity and brand equity are redefined by the Internet.

Kraft Interactive Kitchen (**www.kraftfoods.com**) is an example of a consumer products company keeping in touch with its consumers by providing information-based services such as meal planners, recipes, tips and cooking techniques. Kraft's intention is to have remote connections and interactions with consumers in new ways.

However, some companies find it difficult to translate a strong offline brand (such as Nike and Levi's) to the Internet, because many of the well-known brands are based on an extensive 'physical' retail distribution system, and many of the retailers are reluctant to support online brands because of the fear of disintermediation (see section 14.6 for more discussion of this issue).

In fact many sites that are run by top brands register minimal online traffic, according to a report by Forrester Research. Forrester studied brand awareness and web surfing behaviour among 16–22-year-olds, whom advertisers consider to be strongly brand conscious.

Companies are taking a broad approach to branding, integrating it with an overall advertising and marketing strategy. On the net branding is more than logos and colour schemes; it is about creating experiences and understanding customers. Consequently web brand building is not cheap. Building a brand requires a persistent online presence. For some brands that entails a mass-appeal site; for others brand building requires a combination of initiatives, from banner ads to sponsorships.

14.12 Green marketing strategies

As understanding grows about the impact of human activity on the earth's ecosystems, consumer concern about the environment and its links to health and safety will intensify. At the same time, humankind's passion for consumption will persist. The challenge for companies will be to devise business practices and products that are friendly to the environment while also meeting the needs of consumers.

Environmentalists were once considered the only people concerned about the depletion of natural resources, waste accumulation and pollution. Environmentalists around the world are now becoming global in their scope and scale of operations. Their aim is to increase people's awareness of the importance of environmental preservation on a global scale and how the lack of it will have a harmful effect on our planet.

Because ecological grassroot campaigns gain widespread recognition and support, and global media networks such as CNN continue to report on environmental issues and disasters, today's consumer is becoming more environmentally conscious. Various polls and surveys reveal that many consumers are taking environmental issues into consideration as they buy, consume and dispose of products. Consequently there is a direct connection between a company's ability to attract and keep consumers and its ability to develop and execute environmentally sound strategies.

As consumer preferences and government policies increasingly favour a balanced business approach to the environment, managers are paying more attention to the strategic importance of their environmental decisions. Irresponsible behaviour by some firms has led to consumer boycotts, lengthy lawsuits and large fines. Such actions may have harmed firms in less direct ways, such as negative public relations, diversion of management attention and difficulty in hiring top employees.

In Europe particularly the green consumer movement is large and growing, and certain countries can be considered leaders and standard setters in green awareness. Of German consumers, for instance, 80 per cent are willing to pay premiums for household goods that are recycled, recyclable and non-damaging to the environment; in France 50 per cent of consumers will pay more at the supermarket for products they perceive as being environmentally friendly. This trend is growing elsewhere too: according to a European study, consumers throughout the OECD area are willing to pay more for green goods (Vandermerwe and Oliff, 1991).

Green marketing
Integrating business practices and products that are friendly to the environment while also meeting the needs of the consumers.

Several retailers have also committed themselves to marketing green products (**green marketing**). Clearly, failing to consider the environmental impact of strategic decisions may affect the financial stability of the firm and the ability of that firm to compete with others in the industry.

Strategic options

Businesses realize that they must be prepared to provide their customers with information on the environmental impact of their products and manufacturing processes.

Figure 14.16 presents four strategic options that are available for the firm with environmental concerns. The choice of strategic environmental posture will depend on how an organization wants to create value for its green customers and how change oriented its approach is.

As can be seen from Figure 14.16, if a firm is more oriented to cost reduction than to benefit enhancement for customers, pollution prevention strategies (options 3 and 4) would probably be chosen in preference to the development of green products: for example by using natural or recycled materials. If a firm is more proactive than accommodative, it tends to be more innovative than otherwise (options 1 and 3).

Although going beyond compliance (i.e. doing more than required according to environmental legislation) is generally perceived as highly desirable, SMEs may not

Figure 14.16 Types of environmental strategic posture

		Value creation approach	
		Benefit enhancement for customers	*Cost reduction*
Change orientation	*Proactive*	Green product Innovation (major modification) 1	3 Pollution prevention Beyond compliance
	Accommodative	2 Green product Differentiation (minor modification)	4 Pollution prevention Compliance

Source: adapted from Starik *et al.*, 1996, p. 17.

have the resources to act proactively, and hence need to focus on compliance and minor product modification (options 2 and 4).

Environmental management in the value chain perspective

Management cannot afford to be myopic in looking at the finished product without considering the manufacturing and R&D phases as they relate to consumers' perceptions of what constitutes a green product. Nor can a company use traditional marketing principles to gain product acceptance. Put differently, both the input and output activities associated with the design, manufacture and delivery of products must be considered, and each step within the value-creating process must be assessed in the light of its overall environmental impact and consequences.

Figure 14.17 illustrates the resource conversion and pollutant generation relationships. As resources are used to create desired utilities, pollutants are implicitly produced as byproducts during each step of the integrated supply chain process. For example, packaging is used to protect the products from damage and is an undesired item once they are consumed. Proper management and awareness of the environmental implications of logistical activities can significantly reduce their negative impact.

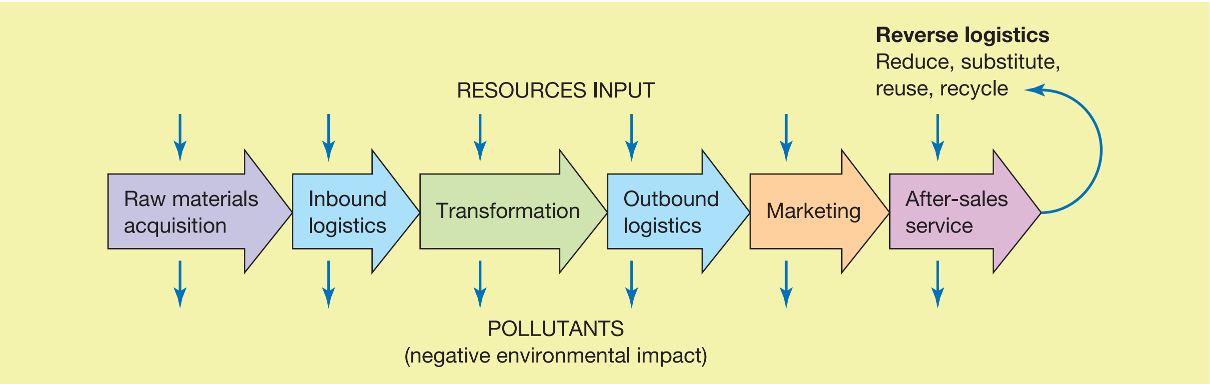
Integrative environmental management means that every element in the corporate value chain is involved in the minimization of the firm's total environmental impact from start to finish of the supply chain, and also from beginning to end of the product life cycle.

Reverse logistics in Figure 14.17 results in the shipment of packaging waste, recyclable packages and consumer returns in the logistics system.

Germany and other European countries state that consumers have the right to leave packaging materials at retail stores and that stores must dispose of them properly. Denmark has for many years also required beer bottles to be reusable. The shipment of these packaging materials back to original sites creates demand for logistical capacity and adds no direct value to the goods.

Management has to consider how to reduce the reverse flows. In relation to Figure 14.17, reverse logistics emphasises source reduction and substitution over reuse and recycling. Source reduction refers to doing the same things with less resources. The practice reduces total waste in the system. Substitution means using more environmentally friendly materials instead of regular ones that end up as pollutants. Reuse is employing the same item many times in its original form so that little is discarded. Recycling gives discarded materials a new life after some chemical or physical processes.

Figure 14.17 Value-adding logistics and the environmental interface



Source: adapted from Wu and Dunn, 1995, p. 23 with permission from *International Journal of Physical Distribution and Logistics Management*, Emerald Group Publishing Ltd.

Consumer preferences and competitive green marketing

A precondition for a successful external green marketing strategy is that managers internally should cultivate the corporate culture. The organization and its people must support a truly green marketing strategy in order for it to succeed. Managers should encourage the increased participation of all employees in order to generate ideas and increase enthusiasm. They should also keep in mind that most customers and employees get satisfaction from being part of an organization that is committed to operating in a socially responsible manner.

It is also important to educate consumers. Labels and displays can play an important role in making an environmental statement about a brand. More than half of all Americans say they have purchased a product because the advertising or label indicated that it was environmentally safe or biodegradable. Explaining how or why a product is environmentally sound can also make a big difference. Product packaging or in-store displays can be a major source of information about environmental action. Point-of-sale demonstrations and knowledgeable salespeople can help to educate consumers. Giving out free samples might be a good way to ease customers' initial reluctance to try a new product.

Another key element of green marketing strategy is credibility. Having a good reputation to begin with can go a long way in helping to ease customer scepticism. Companies with socially responsible corporate values will appear more credible to target audiences, but it is critical that they also back up environmental claims. Customers are still worried about the 'greenwashing', that is, false or misleading environmental claims that were prevalent in the 1980s and early 1990s. Now new standards and certifications allow customers to identify green products easily. By following those guidelines, marketers can avoid overstating environmental claims. The use of ecolabels such as 'Blue Angel' in Germany and 'Energy Star' in the United States can help assure customers that the products they are purchasing are in fact green.

In addition to studying consumer responsiveness, it is also crucial to gain an understanding of how competitors are perceived by consumers on greenness as compared with the company's brand. At the same time, gathering information about the reality of how competitors are performing on greenness is also necessary. A critical eye must also be focused on the company's own green processes and its upper management commitment to greenness. It must be determined whether consumers perceive the greenness of the company and its competitors accurately or whether misperceptions are creating differentiation in the markets. If a marketer feels that it is possible to truly differentiate a brand in a way that will be honest, credible and long-lasting, then a proactive green strategy will be viable. But if competitors are really better and are capable of maintaining this edge – or if the cost of becoming greener than competitors does not seem worth the effort, given the prospects for additional revenue – then a more passive strategy will make more sense.

Finally, because consumers buy products and services primarily to fulfil individual needs and wants, companies should continue to highlight the direct benefits of their products. They should not forget to emphasize the traditional product attributes of price, quality, convenience and availability and make only a secondary appeal to consumers on the basis of environmental attributes (Ginsberg and Bloom, 2004).

Green alliances between business and environmental organizations

Strategic alliances with environmental groups (e.g. Greenpeace) can provide five benefits to marketers of consumer goods (Mendleson and Polonsky, 1995):

1 *They increase consumer confidence in green products and their claims*. It can be assumed that, if an environmental group supports a firm, product or service, consumers are more likely to believe the product's environmental claims.
2 *They provide firms with access to environmental information*. It is in their role as an information clearing house that environmental groups may be of immense benefit to organizations with which they form strategic alliances. Manufacturers facing environmental problems may turn to their strategic partners for advice and information. In some cases environmental partners may actually have technical staff who can be used to assist in solving organizational problems or implementing existing solutions.
3 *They give the marketer access to new markets*. Most environmental groups have an extensive support base, which in many cases receives newsletters or other group mailings. Their members receive catalogues marketing a variety of licensed products, all of which are less environmentally harmful than other commercial alternatives. Environmental group members represent a potential market that can be utilized by producers, even if these groups do not produce specialized catalogues. An environmental group's newsletter may discuss how a firm has formed a strategic alliance with the group, as well as the firm's less environmentally harmful products. Inclusion of this information in a newsletter is a useful form of publicity.
4 *They provide positive publicity and reduce public criticism*. Forming strategic alliances with environmental groups may also stimulate increased publicity. When the Sydney Olympic Bid Committee announced that Greenpeace was the successful designer for the year 2000 Olympic Village the story appeared in all major newspapers and on the national news. It is highly unlikely that this publicity would have been generated if a more conventional architect had been named as the designer of the village. Once again the publicity associated with the alliance was positive and credible.
5 *They educate consumers about key environmental issues for the firm and its product(s)*. Environmental groups are valuable sources of educational information and materials. They educate consumers and the general public about environmental problems and also inform them about potential solutions. In many cases the public views these groups as credible sources of information, without a vested interest. Marketers can also play an important role as providers of environmental information through their marketing activities. In doing so they create environmental awareness of specific issues, their products and their organizations. For example, Kelloggs in Norway educated consumers and promoted its environmental concern by placing environmental information on the packaging of its cereals relating to various regional environmental problems (World Wide Fund for Nature, 1993).

Choosing the correct alliance partner is not a simple task, as environmental groups have different objectives and images. Some groups may be willing to form exclusive alliances, where they partner only one product in a given product category. Other groups may be willing to form alliances with all products that comply with their specific criteria.

The marketer must determine what capabilities and characteristics an alliance partner can bring to the alliance. As with any symbiotic relationship, each partner must contribute to the success of the activity. Poor definition of these characteristics may result in the firm searching out the wrong partner.

McDonald's offers an example of a company that gained credibility through collaboration. The company's collaboration with EDF (Environmental Defense Fund) in the early 1990s over its decision to move from Styrofoam to paper packaging similarly allowed the company to increase its credibility on environmental issues with consumers (Argenti, 2004).

14.13 Brand piracy and anti-counterfeiting strategies

Until the 1980s, counterfeiting was a relatively small-scale business, restricted mainly to copying luxury fashion items, such as watches and leather goods, in limited quantities. But since the 1990s it has been transformed into a much bigger, broader industry, with large-scale production and distribution of false versions of different brands. See also Exhibit 14.9.

The firm, which is exposed to brand piracy has a number of strategic options. These strategic actions range from identifying and punishing retail outlets and destroying the production facilities of the pirates. The brand manufacturer can also try to convert the pirates into legitimate business.

However, piracy is not only connected to negative issues for the brand manufacturer, if the fake brand and the original brand can be distinguished from each other. In fact, decisions to purchase counterfeits usually reaffirm the brand's values because the recipient buys the product to project the very image that the company tries to portray through its advertising and promotions. Brand piracy can be seen as a positive element for a brand's value as it is a good indicator of a brand's strengths. If the company's product is copied, it is doing the right thing. Some brands embrace the counterfeit market rather than seeing it as a threat. When Georgio Armani was on a trip to Shanghai in 2004, he purchased a fake Armani watch for $22 instead of the $710 price tag on his authentic watches. He said: 'It was an identical copy of an Emporio Armani watch . . . it is flattering to be copied. If you are copied, you are doing the thing right' (Whitwell, 2006). Although this was a publicity stunt, it does highlight the fact that consumers of fake brands are opposites to consumers of the authentic product and so pose no significant threat to the brand owner.

Another element of counterfeiting is that is closes off the competition, as the competitors are 'stuck-in-the-middle'. High-priced branded goods encourage the competition to enter the market at a slightly lower price point. Counterfeiters produce branded goods and sell significantly below the cost of competition. This means the competition is squeezed out as it has nowhere to go: it is priced out of the top market by the original brand and cannot compete with the counterfeit whose prices are too low.

Exhibit 14.9 Next stage in pirating: faking an entire company, NEC

After two years' investigation NEC, in 2006, discovered a piracy network in China, where the pirates were faking the entire company – the Japanese NEC. The counterfeiters had set up a parallel NEC brand with links to a network of more than 50 electronics factories in China, Hong Hong and Taiwan. In the name of NEC, the pirates copied NEC products and went as far as developing their own range of consumer electronic products – everything from home entertainment centres to MP3 players. They even coordinated manufacturing in the way that they required factories to pay royalties for 'licensed' products and issued official-looking warranty and service documents. The products were shipped and packaged in authentic looking boxes and display cases.

The investigation records showed that the counterfeiters even carried NEC business cards, commissioned product research and development in the company's name and signed production and supply orders.

Many multinational companies (like NEC) are now facing similar challenges as piracy expands and becomes better organized.

Source: adapted from 'Next step in Pirating: Faking a company – For NEC an identity crisis in China', *Herald Tribune*, 28 April 2006.

14.14 Summary

In deciding the product policy abroad, it is important to decide what parts (product levels) should be standardized and what parts should be adapted to the local environment. This chapter has discussed the variety of factors that are relevant to this decision.

A very important issue is the question of branding. Different branding alternatives have been discussed. For example, because large (often transnational) retail chains have won control over distribution, they try to develop their own labels. For the retailer, private labels provide better profit margins and strengthen the retailer's image with its customers. Because of the power shift to the retailers the percentage of retail grocery sales derived from private brands has increased in recent years.

This chapter has also discussed issues that are experiencing increasing interest: green marketing strategies, including the need for product adaptation in a 'green' direction. Consumers, shareholders and society at large all stand to benefit when a company integrates environmental friendliness into its marketing strategy. If properly implemented, green marketing can help to increase the emotional connection between consumers and brands. Being branded a green company can generate a more positive public image, which can, in turn, enhance sales and increase stock prices. A green image may also lead consumers to have increased affinity for a company or a specific product, causing brand loyalty to grow.

CASE STUDY 14.1

Danish Klassic: Launch of a cream cheese in Saudi Arabia

In the spring of 1987 the product manager of Danish Cheese Overseas, KA, was pleased to note that after some decline (e.g. in Iran) feta sales were improving in the Middle East. However, the company was a little concerned that the feta, according to several expert opinions, could lose ground to the cream cheese that was apparently becoming more and more popular among Arabs in both the cities and provincial areas.

Saudi Arabia in general

Because of its immense income from oil, Saudi Arabia has developed fantastically over the past 30 years. With the Islamic tradition as its basis, the country has become more modern.

In 1987 the population was 11.5 million, more than 50 per cent of whom were under 15 years of age, which makes Saudi Arabia a 'young' nation. According to the Saudi Arabian Ministry of Agriculture, the population was forecast to rise to 19 million in 2000. The expected development in population in the three biggest cities is shown in Table 1.

Table 1 Development in population in the three biggest cities in Saudi Arabia

	Population (million) 1974	Population (million) 2000
Riyadh	0.7	2.4
Jeddah	0.6	2.1
Dammam	0.2	0.8

Source: *Demographic Yearbook 1985*, p. 270, and prognosis from the Saudi Arabian Ministry of Agriculture.

The cheese market in Saudi Arabia

Traditionally Danish Cheese Overseas has had a strong position in Saudi Arabia, having been the market leader for several years, especially as regards feta and some other types of cheese. However, Danish Cheese Overseas has had some difficulties in the cream cheese market. The market has risen, but to date two globally large exporters of cheese have dominated the market – that is France and Australia.

Table 2 Total import of cheese in 1986 (tons)

	Total import
Processed cheese (including cream cheese)	29,500
Feta	18,400
Other types of cheese	2,400
Total	50,300

Source: Saudi Arabian import statistic.

The total import of cheese into Saudi Arabia (there is very little local production) is shown in Table 2. So far the share of cheese from Denmark has been about 25 per cent (£10 million). On the basis of this Danish Cheese decided to develop a new cream cheese in order to compete with the big exporters of cheese within the cream/processed segment. The product was to be targeted at the Middle East, where Saudi Arabia is the main market, but was also to form the basis for an international brand: Danish Klassic.

In order to plan the specific details of the product parameter Danish Cheese contacted an international market research bureau that specialised in the Middle East. The objective was to analyse the cream cheese consumption among typical Middle East families living in cities. The final result showed that between 85 and 100 per cent of all family members eat cream cheese on a regular basis (mostly in the middle of the day), and that consumption is especially high among children. Thus the company could set forth on product development of the new cheese. Different product concepts were tested among typical families, with the final result being a 200 g cream cheese in brick cartons. This is a new type of packaging – until then cream cheese had mostly been sold in glass packaging.

Marketing plan for Danish Klassic

The following describes the launch actually made by Danish Cheese Overseas in 1987.

An introduction was held in October 1987, in the form of three trade seminars in the three big cities – Riyadh, Jeddah and Dammam. Here the product concept and the advertising campaign were presented to a large number of distributors and wholesalers (see photos (a)–(e)).

(a) product information

(b) TV advertising information

(c) print advertising information

(d) point-of-sale equipment

(e) packaging system

TV commercials

In Saudi Arabia television is considered the most effective medium for mass communication. It therefore became the foundation of the company's marketing. In total, 128 commercial spots were planned for the first year (photo (b)).

Print advertisements

- *consumer oriented*: the most popular newspapers and family magazines in the big cities, especially directed at women as the decisive buyer unit; (photo (c));
- *distributor oriented*: trade magazines.
- *in-store promotion*: displays, taste sample demonstrations etc. (photo (d)).

The campaign material was introduced in both Arabic and English.

The campaign was influenced by a high degree of pull strategy (consumer influence). In this way distributors were induced to build up stocks in order to meet the expected end-user demand. The risk the distributors would face when buying large quantities was limited because the cheese could be kept for a year without being refrigerated.

Photo (a) can be translated as follows:

Product information:

- Danish Klassic – cream cheese spread for the whole family.
- Created from fresh cow's milk from the vigorous fields of Denmark.

Product facts:

- It takes 1.5 litres of fresh cow's milk to produce a single box of 200 g cheese.
- Danish Klassic is packed in a practical, unbreakable box.
- This cream cheese spread will remain healthy and delicious for a whole year after production – even if not kept under refrigeration.
- Danish Klassic, a combination of high nutrition value and a delicious taste.

This enclosure was also used as an advertisement for many consumer-oriented newspapers and magazines.

Photo (d) can be translated as follows:

Shop demonstrations:

- To let your customers know Danish Klassic is in town we plan shop demonstrations in a number of supermarkets all over the country.
- The selected shops will be decorated with giant Danish Klassic boxes.
  - Your customers are bound to notice this cream cheese.
  - Samples will be distributed.
  - Taste it. It's delicious. It's healthy, and full of energy.

What happened to Danish Klassic?

About six months after the introduction in Saudi Arabia, the following was part of an article in *Jyllands-Posten* the 'Jutland Post', a Danish newspaper (24 October 1988):

> So far MD Foods has shipped 700–800 tons of the new, long-life cheese from the harbour of Esbjerg, but sales are expected to rise to 5,000 tons per year during the next few years . . . According to the plan, 'Danish Klassic' is to be marketed in Denmark and in other parts of the world such as South America, where it has scored top marks in recent taste tests.
>
> The new long-life cheese that comes in completely sealed 200 g packages is marketed massively through TV spots, the company's own sales representatives, shop promotions and print advertisements. About half of the total investment of DKr30–35 million is allocated to marketing. In this way MD Foods is challenging the multinational food concern, Kraft Food, which, through its various types of cheese in glass packaging, controls the majority of the markets in the Middle East.

However, at the beginning of 1993 MD Foods realised that Danish Klassic could not meet the international sales budgets and therefore, later in 1993, MD Foods withdrew the product from the market.

Today MD Foods sells cheese to the Middle East through its sales company, Chesco Cheese Ltd. The cream cheese and other types of cheese are now sold under the brand 'Puck' (photo (e)) in glass packaging (the 140 g and 240 g round containers). Its market share of cream cheese is increasing again and today the total sales are very close to those of the market leader Kraft Food.

Questions

1 What could be the reasons for Danish Klassic not being able to meet expectations? Comment on the following:

(a) the change of packaging – from glass to plastic brick carton;

(b) the consumer-oriented advertisement (photo (a)) – is it targeted at the Saudi Arabian market?

2 What do you think of the brand name Danish Klassic?

Postscript

On 30 September 2005, the *Jyllands-Posten* published an article titled 'Muhammeds ansigt' ('The face of Muhammad'). The article consisted of 12 cartoons of which only some depicted Muhammad.

In late 2005, the Muhammad cartoons controversy received only minor media attention outside of Denmark. Six of the cartoons were reprinted in the Egyptian newspaper *El Fagr* in October 2005, along with a highly-critical article, but publication was not considered noteworthy. January 2006 saw some of the pictures reprinted in Scandinavia, then in major newspapers of Denmark's southern neighbours Germany, Belgium and France. Very soon after, as protests grew, there were republications around the globe, but mostly in continental Europe. Several editors in Middle East were fired for their decision, or even their intention, to republish the cartoons. Critics of the cartoons argue that they are blasphemous to people of the Muslim faith.

Organized boycotts of Danish goods began in several Islamic countries. In Saudi Arabia people called for a boycott on Danish products on 20 January

Source: Hassan Ammour/AFP/Getty Images.

2006 and carried it out from 26 January. The boycott primarily targeted dairy products produced by Arla Foods, but has also hit other products such as Bang & Olufsen and LEGO. The Foreign Minister of Denmark, Per Stig Møller, stated that the boycott has not been initiated by the Saudi Arabian government. The dairy company Arla Foods launched a massive ad campaign in Saudi Arabia, trying to improve its reputation and stop the boycott. This happened after sales in Saudi Arabia almost came to a complete stop. The text for the ads was written by the Danish ambassador in Saudi Arabia, Hans Klingenberg, and includes passages from the Prime Minister of Denmark's New Year's speech. Arla exports account for almost €380 million a year. Arla halted production in the Saudi capital Riyadh and sent home 170 employees. Denmark was concerned about the potential loss of 11,000 jobs resulting from boycotts against Danish products in the Islamic world. In February, the French international supermarket chain Carrefour took all Danish products off the shelves in Muslim countries. Posters with the Carrefour logo proclaiming a boycott of Denmark, result in a boycott of Carrefour in Brussels.

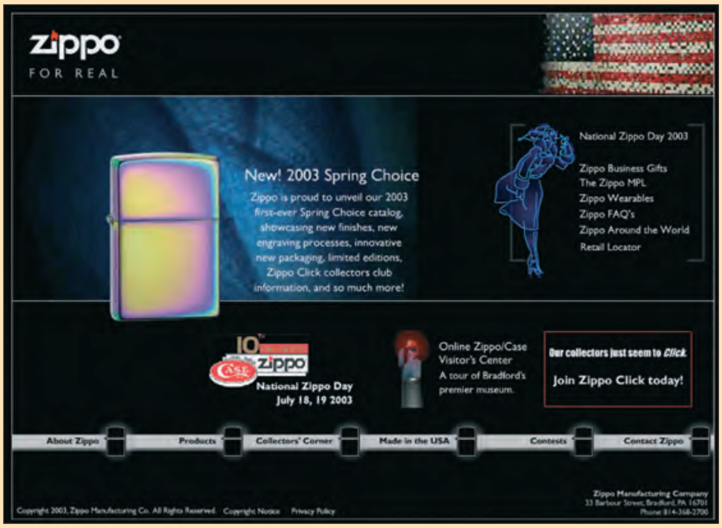
Source: Adapted from Simmons, J. (2006), 'A war of ideas', 10 February, www.BaghdadMuseum.org.

CASE STUDY 14.2

Zippo Manufacturing Company: Has product diversification beyond the lighter gone too far?

History

Zippo (**www.zippo.com**) was founded in Bradford, Pennsylvania in 1932 when George G. Blaisdell decided to create a lighter that would look good and be easy to use. Blaisdell obtained the rights for an Austrian windproof lighter with a removable top, and redesigned it to his own requirements. He made the case rectangular and attached the lid to the bottom with a welded hinge, and surrounded the wick with a windhood. Fascinated by the sound of the name of another recent invention, the zipper, Blaisdell called his new lighter 'Zippo', and backed it with a Lifetime Guarantee.



Source: zippo.com.

The 70-year old brand's fame took off during the Second World War, when Zippo's entire production was distributed through commercial outlets run by the US military.

Today

Zippo has produced over 375 million windproof lighters since its founding in 1932. Except for improvements in the flint wheel and modifications in case finishes, Blaisdell's original design remains virtually unchanged. The Lifetime Guarantee that accompanies every Zippo lighter still guarantees that 'It works or we fix it free™'.

Although the windproof lighter is the most popular Zippo product, Zippo has been hurt by the anti-smoking campaigns. Its business is fundamentally tied to smokers, and it has suffered from US tobacco regulations. Cigarette makers order thousands of Zippos to promote their brands, distributing them to smokers in exchange for coupons. One of the company's recent advertising campaigns suggested 101 ways to use your Zippo. Warming your hands and de-icing car locks were on the list; lighting a cigarette was not.

The success of this product led Zippo to expand the line to its current product family of tape measures, pocket knives, money clips, writing instruments, key holders and its newest product, the Multi-Purpose Lighter. All of these items can be imprinted with company logos or trademarks.

In 1993 Zippo licensed its name to Itochu Fashion System Co., a large clothing manufacturer in Japan. Zippo leather jackets, Zippo jeans and Zippo gloves are now available in Tokyo, and Zippo may license clothes in the United States too. Today Japan is still the biggest export market for Zippo.

Zippo has expanded its sales operations nationally and internationally through a wide network of sales representatives. In more than 120 countries throughout the world Zippo is synonymous with US-made quality and craftsmanship.

Zippo windproof lighters enjoy a widespread and enviable reputation as valuable collectibles. The company produces the *Zippo Lighter Collectors' Guide*, containing illustrations of the lighters and descriptions of the series, as well as an explanation of the date code found on the bottom of every Zippo lighter. Clubs for lighter collectors have been organized in the United Kingdom, Italy, Switzerland, Germany, Japan and the United States. Zippo also sponsors it own collectors club, Zippo Click.

Questions

1. What are the pros and cons of the product diversification strategy that Zippo has been following recently?
2. On **http://www.sramarketing.com/experience/outdoor/case_studies/zippo_casestudy.cfm** you will find a case story, where Zippo in the late 1990s was repositioned as an essential tool for avid outdoorsmen. However the outdoor market was entirely new to the Zippo salesforce, who were accustomed to calling on tobacconists and convenience stores. How would you use the PLC concept for this case story?
3. What obstacles would Zippo Manufacturing Company face if it repeated the outdoor campaign in other countries?

VIDEO CASE STUDY 14.3

download from www.pearsoned.co.uk/hollensen

Swiss Army

Swiss Army Brands, Inc. (**www.swissarmy.com**) (SABI) is the only marketer in the US, Canada, and the Caribbean of the world-famous Victorinox Original Swiss Army Knife. Swiss Army Inc. is an example of a company that has grown by basing its product expansion on established brand equity. Leveraging the success of the knife, the company expanded into watches, sunglasses, apparel, travel gear, and other product categories. The launch of the Swiss watch was an overnight success, and today one out of five watches under $500 in the United States is Swiss. The company enjoyed similar success with its travel gear and expects to do the same with apparel.

Questions

1 Which factors are attributable to the strong global brand equity of Swiss Army?

2 What are the main motives behind the product line extension from Swiss Army Knives into other product areas?

3 Are there any problems for channels of distribution associated with the prospect of Swiss Army stores?

4 How might Swiss Army use 'non-traditional advertising' to promote its brands and new products?

For further exercises and cases, see this book's website at www.pearsoned.co.uk/hollensen

Questions for discussion

1 How would you distinguish between services and products? What are the main implications of this difference for the global marketing of services?

2 What implications does the product life cycle theory have for international product development strategy?

3 To what degree should international markets be offered standardized service and warranty policies that do not differ significantly from market to market?

4 Why is the international product policy likely to be given higher priority in most firms than other elements of the global marketing mix?

5 Describe briefly the IPLC theory and its marketing implications.

6 What are the requirements that must be met so that a commodity can effectively be transformed into a branded product?

7 Discuss the factors that need to be taken into account when making packaging decisions for international product lines.

8 When is it appropriate to use multiple brands in (a) a single market and (b) several markets/countries?

9 What is the importance of 'country of origin' in international product marketing?

10 What are the distinguishing characteristics of services? Explain why these characteristics make it difficult to sell services in foreign markets.

11 Identify the major barriers to developing international brands.

12 Discuss the decision to add or drop products to or from the product line in international markets.

13 Why should customer-service levels differ internationally? Is it, for example, ethical to offer a lower customer-service level in developing countries than in industrialized countries?

14 What are the characteristics of a good international brand name?

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