The detergent division of the German company Henkel has long been committed to a strategy of strong local brands. In Europe Henkel varies its laundry detergent strategy to address regional variations in laundry practices. Southern Europeans traditionally washed their clothes with lower temperatures than their northern counterparts. They prefer less powerful detergents, often used in combination with bleach. Northern Europeans favor powerful detergents and mostly dislike bleach in their laundry. Packaging preferences also differ. People in Northern Europe like compact products, while Southern consumers favor large boxes. To cope with all these variations, Henkel customizes its brand portfolio, positioning, and the product formulations. Henkel’s flagship brand is Persil. However, Henkel did not own the Persil brand name in France; it offered a similar product under the brand name Le Chat ("The Cat"). The positioning was also tweaked in different countries. For instance, Persil’s whiteness positioning in Germany was replicated for Le Chat in France. In the Netherlands, Persil was positioned as an eco-friendly product. In Italy and Spain, Henkel had not introduced Persil for historical reasons. In Italy, consumers had a strong preference for blue detergents with a stain-fighting capability. This did not fit Persil’s core value proposition ("whiteness with care"). Instead, Henkel entered Italy with Dixan, a performance brand. Henkel also entered Spain, another performance-oriented market, by acquiring Wipp, a strong local brand.² Global Perspective 11-1 discusses further how Henkel deals with the challenges in the global market place.

¹In France the Persil brand name is owned by Unilever.
The challenges that Henkel addressed—global brand and product line management—are the focal issues in this chapter. Companies that brand their products have various options when they sell their goods in multiple countries. More and more companies see global (or at least regional) branding as a must. Nevertheless, quite a few firms still stick to local branding strategies. In between these two extreme alternatives, there are numerous variations. This chapter will consider and assess different branding approaches. Next, we shift our attention to the managing of an international product line. Multinational product line management entails issues such as: What product assortment should the company launch when it first enters a new market? How should the firm expand its multinational product line over time? What product lines should be added or dropped?

Another concern that global marketers face is the issue of product piracy. In this chapter we will suggest several approaches that can be employed to tackle counterfeiting. A lot of research has investigated the impact of country-of-origin effects on consumer attitudes towards a product. We will explore the major findings of this research stream and examine different strategies that firms can use to handle negative country-of-origin stereotypes. The balance of this chapter covers the unique problems of marketing services internationally. Services differ from tangible products in many respects. What these differences imply in terms of market opportunities, challenges and marketing strategies will be discussed in the last section.

GLOBAL PERSPECTIVE 11-1
HENKEL: SQURING LOCAL TASTES WITH GLOBAL ECONOMIES OF SCALE

Henkel, headquartered in Düsseldorf, Germany, is a leading German multinational with a presence in 125 countries. Its 2007 sales revenue was around €13 billion (±$17 billion). The company operates in three business areas: Laundry & home care (brands such as Persil, Dixan, Purex), cosmetics/toiletries (Dial, Fa, Schwarzkopf), and adhesives (Pritt, Loctite). In an interview with the Financial Times, Mr. Ulrich Lehner, Henkel’s former chief executive, says that it would be nice to have one factory that could make a single global product, a central marketing department that could sell it everywhere using one brand name, packaging, and advertising campaign: “Realising economies of scale is every businessman’s ambition.” Still, truly global products are rare. The only Henkel brand that comes close is the Loctite glue. Usually, Henkel has to adapt the name or formulation of its products to local tastes.

A typical example is deodorants. In spring 2006 Henkel bought the Right Guard and other deodorant brands from Procter & Gamble for $275 million to gain a foothold in the U.S. market. Americans tend to prefer to suppress transpiration whereas continental Europeans like to conceal any odor without blocking sweating. Henkel’s launch of its Fa personal care brand in 2000 in the United States was a failure. Similarly, there are also major differences in the laundry detergent market: U.S. washing machines tend to use more water at lower temperatures than European ones. As a result, Persil, Henkel’s core detergent brand, would not have been suitable for the U.S. market. Instead of trying to roll out Persil in the United States, Henkel bought the Dial Group in 2003 to acquire Purex, the U.S. detergent brand. Mr. Lehner notes: “Abroad, we’ve grown more through acquisition than through the introduction of existing brands. Some of our competitors prefer to roll out their brands to other countries. You can, of course, try to push brands in a market if you have a lot of money.”

Henkel’s challenge is to balance between local insight and centralized economies of scale. Its answer is to bundle brands and products as “platforms” that ensure a degree of cost efficiency through scale in the sales or manufacturing area or even both. Henkel’s strategy in eastern and central Europe illustrates this approach. The company bought up a range of local washing powders after the fall of the Berlin Wall. Henkel soon began standardizing the various powders and then steadily harmonized the packaging to lower costs and to reinforce the brand. As a result, Henkel brands such as Losk in Russia and Tursil in Turkey have similar product formulations and their brand names all tilt in bright red letters across the packet. Like other global marketers, Henkel tries to transfer lessons learned in one market to other markets as it did with Purex, its U.S. washing powder: “It was the first time we did a value-for-money washing powder. We took elements of the Purex washing powders for emerging markets like China and Russia.”

GLOBAL BRANDING STRATEGIES

For many firms the brands they own are their most valuable assets. A brand can be defined as “a name, term, sign, symbol, or combination of them which is intended to identify the goods and services of one seller or group of sellers and to differentiate them from those of competitors.” Linked to a brand name is a collection of assets and liabilities—the brand equity tied to the brand name. These include brand-name awareness, perceived quality, and any other associations invoked by the brand name in the customer's mind. The concerns that are to be addressed when building up and managing brand equity in a multinational setting include:

- How do we strike the balance between a global brand that shuns cultural barriers and one that allows for local requirements?
- What aspects of the brand policy can be adapted to global use? Which ones should remain flexible?
- Which brands are destined to become “global” mega-brands? Which ones should be kept as “local” brands?
- How do you condense a multitude of local brands (like in the case of Sara Lee) into a smaller, more manageable number of global (or regional) brands?
- How do you execute the changeover from a local to a global brand?
- How do you build up a portfolio of global mega-brands?

Suffice it to say, there are no simple answers to these questions. In what follows, we will touch on the major issues regarding international branding.

Global Branding

Reflect on your most recent trip overseas and some of the shopping expeditions that you undertook. Several of the brand names that you saw there probably sounded quite familiar: McDonald’s, Coca-Cola, Levi Strauss, Canon, Rolex. On the other hand, there were most likely some products that carried brand names that you had never heard of before or that were slight (or even drastic) variations of brand names with a more familiar ring. A key strategic issue that appears on international marketers’ agenda is whether or not there should be a global brand. What conditions favor launching a product with a single brand name worldwide? The same logo? And perhaps even the same slogan? When is it more appropriate to keep brand names local? Between these two extremes are several other options. For instance, some companies use local brand names but at the same time put a corporate banner brand name on their products (e.g., Findus by Nestlé).

Exhibit 11-1 shows two listings of the most valuable brands in the world (in 2008); one put together by Interbrand and one by Milward Brown. The two research companies use somewhat different brand valuation methodologies, hence the sometimes dramatic differences between the two rankings. Interbrand, for instance, assesses the profit stream likely to be generated by products carrying the brand name. Note that both lists are heavily dominated by American brands. This is not too surprising since companies based in the United States have had much more experience with brand management than firms from other countries. It also reflects on the strength of the U.S. domestic market as a springboard for companies with global aspirations.

A truly global brand is one that has a consistent identity with consumers across the world. This means the same product formulation, the same core benefits and value

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5For instance, Google is worth $86 million according to Millward Brown as opposed to just $25.6 million based on Interbrand’s method.
6You may notice that some major brands like Levi’s and Lego appear to be missing. The reason is that Interbrand’s calculation method relies on publicly available financial data. Privately-owned companies like Levi Strauss or Lego do not offer sufficient financial information.
proposition, the same positioning. Very few brands meet these strict criteria. Even a global marketing juggernaut like Procter & Gamble has only a few brands in its portfolio that can be described as truly global (e.g., Pringles, Pantene, Duracell, Gillette). Legal constraints often force the company to market a particular product under two or even more brand names. Lynx/Axe, Unilever’s line of male grooming products, is a case in point. The Axe brand was launched in the early 1980s in France by Fabergé, a company bought by Unilever in 1989. In most countries the product is sold under the Axe brand name. However, in several countries such as the United Kingdom and Australia it is named Lynx as the Axe trademark belonged to another firm in these countries. For a similar reason, the Burger King fast food giant was forced to rename itself in Australia “Hungry Jack’s” as the BK trademark was already registered by a take-away food shop in Adelaide.

What is the case for global branding? One advantage of having a global brand name is obvious: economies of scale. First and foremost, the development costs for products launched under the global brand name can be spread over large volumes. This is especially a bonus in high-tech industries (e.g., pharmaceuticals, computing, chemicals, automobiles) where multi-billion dollar R&D projects are the norm. Scale economies also arise in manufacturing, distribution (warehousing and shipping), and, possibly, promotion of a single-brand product. As we noted in the last chapter, computerized design and manufacturing processes allow companies to harvest the scale benefits of mass production while customizing the product to the needs of the local market. Even then, substantial scale advantages on the distribution and marketing front often strongly favor global branding.

Scale advantage is only one of the reasons for using a global brand name.8 Part of the task of brand managers is building up brand awareness. By its very nature, a global brand

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has much more visibility than a local brand. Prospective customers who travel around may be exposed to the brand both in their home country and in many of the countries they visit. Therefore, it is typically far easier to build up brand awareness for a global brand than for a local brand. A global brand can also capitalize on the extensive media overlap that exists in many regions. Cable TV subscribers in Europe and many Asian countries have access to scores of channels from neighboring countries. Having a global brand that is being advertised on one (or more) of these channels can mean more bang for the bucks.

A further benefit is the prestige factor. Simply stated, the fact of being global adds to the allure of a brand: It signals that you have the resources to compete globally and the willpower and commitment to support the brand worldwide. The prestige image of being global was also one of the motivations behind Lenovo’s decision to develop a global brand: recognition as a global brand would boost the PC maker’s image in China, its home market, and thereby create positive spillovers. Those global brands that can claim worldwide leadership in their product category have even more clout: Colgate, Intel, Marlboro, Coca-Cola, and Nike, to mention just a few.

In some cases global brands are also able to leverage the country association for the product: McDonald’s is U.S. fast food, L’Oréal is French cosmetics, Swatch is a Swiss watch, Nissin Cup is Japanese noodles, and so on. Brown-Forman, the U.S. distiller, pitches Jack Daniel’s, its flagship brand, as a U.S. label. In Romania, Brown-Forman set up a company-sponsored event in September 2004 to celebrate the birthday of Jack Daniel. Romanian actors entertained a crowd by dressing up as the Tennessee backwoodsman. A desire to reflect its U.S. roots motivated Disney to change the name for its Paris theme park from Euro Disney to Disneyland Paris. Of course, such positioning loses some of its appeal when your competition has the same heritage. For instance, Marlboro is a U.S. cigarette brand, but so are Camel and Salem. Further, strong ties between the brand and the home country could hurt the brand when relationships between the home and host country become strained. Anti-China protests in Paris during the 2008 Olympic torch relay enraged many Chinese people and triggered a widespread boycott of Carrefour stores in China.

French retailer Carrefour faced China boycott after pro-Tibet protests during the 2008 Olympic torch relay in Paris.

One important question here is also how consumers value global brands. A 2002 study on this issue identified three key dimensions:\(^\text{12}\)

1. **Quality signal.** Consumers perceive global brands as being high in quality. A company’s global stature signals whether it excels on quality. Consumers often believe that global brands connot better quality and offer higher prestige.\(^\text{13}\)

2. **Global myth.** Consumers look at global brands as cultural ideals. The global brand gives its customer a sense of belonging, of being part of something bigger.

3. **Social responsibility.** Consumers also expect global brands to have a special duty to address social issues, to act as good citizens. The playing field is not level. Global players such as Nike and Shell are often held up to higher standards than their smaller counterparts in terms of how they conduct business.\(^\text{14}\)

The arguments for global branding listed so far sound very powerful. Note though that, like many other aspects of global marketing, the value of a brand, its *brand equity*, usually varies a great deal from country to country. A large-scale brand assessment study done by the advertising agency DDB Needham in Europe illustrates this point;\(^\text{15}\) brand equity scores for Kodak ranged from 104 in Spain to 130 in the United Kingdom and Italy.\(^\text{16}\) Cross-country gaps in brand equity may be due to any of the following factors:

1. **History.** By necessity, brands that have been around for a long time tend to have much more familiarity among consumers than latecomers. Usually, early entrants also will have a much more solid brand image if they have used a consistent positioning strategy over the years.

2. **Competitive climate.** The battlefield varies from country to country. In some countries the brand faces only a few competitors. In others the brand constantly has to break through the clutter and combat scores of competing brands that nibble away at its market share.

3. **Marketing support.** Especially in decentralized organizations, the communication strategy used to back up the brand can vary a great deal. Some country affiliates favor push strategies, using trade promotions and other incentives targeted toward distributors. Others might prefer a pull strategy and thus focus on the end consumers. It is not uncommon for the positioning theme used in the advertising messages to vary from country to country (see Chapter 7).

4. **Cultural receptivity to brands.** Another factor is the cultural receptivity towards brands. Brand receptivity is largely driven by risk aversion. Within Europe, countries such as Spain and Italy are much more receptive toward brand names than Germany or France.\(^\text{17}\) One recent study looked at the role of brands as signals using survey and experimental data collected in seven countries on purchase behavior for orange juice and personal computers.\(^\text{18}\) The study found that the impact of a brand’s credibility as a signal of quality on consumers’ brand choice is larger in high uncertainty avoidance and high-collectivist\(^\text{19}\) cultures.\(^\text{20}\)

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\(^{16}\)The scores were derived via a multiplication formula: Brand Awareness X Brand Liking X Brand Perception.

\(^{17}\)Jeri Moore, “Building brands across markets: cultural differences in brand relationships within the European Community.”

\(^{18}\)Brazil, Germany, India, Japan, Spain, Turkey, and the United States.

\(^{19}\)Note though that the effect of collectivism was only found for orange juice.

5. **Product category penetration.** A final factor is the salience of the product category in which the brand competes. Because of lifestyle differences, a given category will be established much more solidly in some countries than in others. In general, brand equity and product salience go together: The higher the product usage, the more solid will be the brand equity.

**Local Branding**

Coca-Cola has four core brands in its brand portfolio (Coke, Sprite, Diet Coke, and Fanta). At the same time, it also owns numerous regional and local brands worldwide. In India, its biggest-selling cola is not Coke but Thums Up, a local brand that Coca-Cola acquired in 1993. In Japan, where carbonated soft drinks are less popular than most other countries, the ready-to-drink coffee brand Georgia is one of Coca-Cola's best-selling brands. Maytag Corp., the U.S. appliance maker, decided to sell its Chinese appliances using a local name, Rongshida, which comes from its Chinese partner, Hefei Rongshida. The Maytag name is virtually unknown in China. Furthermore, consumer research showed that American appliances were perceived as bulky and big by Chinese consumers. Therefore, rather than selling under the Maytag badge, the company preferred to leverage the image of a long-standing Chinese brand, even though it had come to be seen as somewhat dated. 21 Although the advantages of a global brand name are numerous, there could also be substantial benefits of using a local brand.

In some cases, a local brand becomes necessary because the name or a very similar name is already used within the country in another (or even the same) product category. Use of a global brand name may also be limited because someone already owns the right for the trademark in the foreign market. Going back to the example we introduced in this chapter, Henkel owns the Persil trademark in most European countries. However, the Persil trademark belongs to Unilever, Henkel's archrival, in the United Kingdom, France, and Ireland.

Cultural barriers also often justify local branding. Without localizing the brand name, the name might be hard to pronounce or may have undesirable associations in the local language. Pocari Sweat, a Japanese sport drink, which is promoted as an “Ion supply drink,” never became popular in Ireland despite its strong appeal in Japan and several Asian countries. Its peculiar brand name could have been one explanation. Associations linked to the brand name often lose their relevance in the foreign market. 22 Brand names like Snuggle, Healthy Choice, Weight Watchers, or I Can't Believe It's Not Butter don’t mean much in non-English-speaking foreign markets.

A local linkage can also prove helpful in countries where patriotism and buy-local attitudes matter. Under such circumstances, the local brand name offers a cue that the company cares about local sensitivities. A case in point is the beer industry. Karel Vuursteen, a former chairman of Heineken, said: “There is strong local heritage in the [beer] industry. People identify with their local brewery, which makes beer different from detergents or electronic products.” 23 In many emerging markets, once the novelty and curiosity value of Western brands wears off, consumers switch back to local brands. This is partly a matter of affordability. A can of Coca-Cola or a McDonald’s Happy Meal is an expensive luxury in most developing countries.

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When choosing between the local and foreign product, consumers may also prefer the local alternative because of animosity toward the foreign country. Ariel, P&G’s laundry detergent, fell prey to boycott campaigns in the Middle East because of its alleged ties with Ariel Sharon, Israel’s prime minister. Mecca Cola is a new soft drink that was launched by a French entrepreneur to cash in on anti-American sentiments in Europe and the Middle East. Its bottles bear the none-too subtle slogan “No more drinking stupid, drink with commitment.”

If the local brand name stems from an acquisition, keeping the local brand can be preferable to changing it into a global brand name. The brand equity built up over the years for the local brand can often be a tremendous asset. Thus, one motive for sticking with the local brand name is that the potential pay-offs from transforming it into a global brand name do not outweigh the equity that would have to be sacrificed. This reasoning lies behind Danone’s branding strategy in China. The French food conglomerate expands in China by acquiring stakes in Chinese companies and continuing to sell their products under the local brand names. For instance, after acquiring a controlling stake in Wahaha, Danone used the Wahaha brand and distribution network to enter the bottled water market. In 2002, Chinese brands accounted for 80 percent of Danone’s sales in China. Another motive for keeping the local brand name could be the firm’s strategic positioning goals: MNCs may aspire to cover the entire market by having brands positioned at all price points. Often the local brands are positioned at the bottom or medium end while the global brands cover the upper end of the market. Heinz, for example, sells two ketchup brands in Poland: the premium-priced Heinz core brand and Pudliszki, a Polish brand that Heinz acquired after the fall of the Berlin Wall.

Philip Morris International (PMI) top-selling brand is Marlboro, which outsells its closest competitors by almost three times. It ranked 18th in the 2008 Interbrand global brand list with an estimated brand value of $21,300 million (see Exhibit 11-1). Apart from the core Marlboro brand, PMI has many other brands in its portfolio: 150 distinct brands and over 1,900 variants. Exhibit 11-2 shows some of these brands. As you can see, PMI has a mixture of global and local brands. Besides PMI, many other major multinationals have a portfolio of local, regional, and global brands. By now you probably realize that there are no simple answers to the global-versus-local brand dilemma. The brand structure or brand portfolio of a global marketer is the firm’s current set of brands across countries, businesses, and product-markets. There are basically four main types of branding approaches:

- **Solo branding.** Each brand stands on its own, with a product or brand manager running it (e.g., Unilever, Procter & Gamble).
- **Hallmark branding.** The firm tags one brand, usually the corporate one, to all products and services, and does not use any sub-brands (e.g., most banks).
- **Family (umbrella) branding.** This is a hierarchy of brands that uses the corporate brand as an authority symbol and then has a number of sub-brands under the corporate badge (e.g., Sony PlayStation).

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27 In fact, the Pudliszki brand is so popular in Poland that Heinz now also sells it in countries such as the United Kingdom with a large Polish community.
EXHIBIT 11-2
A SAMPLE OF PHILIP MORRIS INTERNATIONAL BRANDS

Global brands:
- Marlboro
- L&M
- Philip Morris
- Chesterfield
- Parliament
- Virginia Slims

Local brands:
- Indonesia
  - A Hijou
  - A Mild
  - Dji Sam Soe
- Russia
  - Appollo-Soyuz
  - Optima
- Italy
  - Diana
- Pakistan
  - Morven Gold
- Colombia
  - Boston
- Serbia
  - Best
  - Classic
- Mexico
  - Delicados
- Greece
  - Assos
- Czech Republic, Slovakia
  - Petra


- Extension branding. The idea is to start with one product and then stretch the brand to other categories, as far as possible (e.g., luxury and fashion industries).

A firm’s global brand structure is shaped by three types of factors: firm-based drivers, product-market drivers, and market dynamics.31

Firm-Based drivers. The firm’s administrative heritage, in particular its organizational structure is one key factor. Centralized firms are more likely to have global brands. Decentralized companies where country managers have a large degree of autonomy will have a mish-mash of local and global brands. Another important driver is the company’s expansion strategy: does the firm mainly expand via acquisitions or via organic (that is, internal) growth? Ahold, a Dutch retailer, operates under 25 names worldwide (e.g., Superdiplo in Spain, Stop & Shop and Giant in the United States, and ICA in Sweden).32 The company started expanding internationally in 1973 by buying established brands. Its policy ever since has been to maintain the local brands, governed by the mantra: “Everything the customer sees, we localize. Everything they don’t see, we globalize.”33 Each chain has its own positioning and the store names and logos vary enormously across countries. This local branding strategy is driven by the belief that all retailing is local as shoppers develop a store loyalty to brands they have known for decades. Obviously, the importance of the firm’s corporate identity also plays a major role. Lastly, product diversity is another important factor. For instance, Unilever’s product range is far more diverse than Nokia’s.

Product-Market Drivers. The second set of brand portfolio drivers relate to product-market characteristics. Three drivers can be singled out here. The first driver is the nature and scope of the target market: how homogeneous are the segments? Are segments global, regional, or localized? The second factor is the degree of cultural embeddedness. Products with strong local preferences (e.g., many foods and beverages) are more likely to succeed as local brands. A final factor is the competitive market structure: Are the key players local, regional, or global competitors?

Market Dynamics. The firm’s brand structure is also shaped by the underlying market dynamics. The level of economic integration is the first important driver here. Economic integration typically leads to harmonization of regulations. It also often entails fewer barriers to trade and business transactions within the region. The second factor is the market infrastructure in terms of media and distribution channels (e.g., retailing). Finally, consumer mobility (e.g., travel) also plays an important role. With increased mobility, global brands stand to benefit from enhanced visibility.

Apart from the brand structure, the brand architecture is another important cornerstone of the firm’s international branding strategy. The brand architecture guides the dynamics of the firm’s brand portfolio. It spells out how brand names ought to be used at each level of the organization. In particular, the brand architecture establishes how new brands will be treated; to what extent umbrella brands are used to endorse product-level brands; to what degree strong brands will be extended to other product categories (brand extensions) and across country borders. This architecture has three key dimensions (see Exhibit 11-3): the level in the organization at which the brand is used, the geographic scope of the brand, and the product scope. Electrolux, the leading maker of kitchen, cleaning, and outdoor appliances, settled on the following guidelines:34

- Use the Electrolux brand name as the family brand standing for quality, leadership, and trust.
- Reduce the number of brands. Create bigger, stronger ones.

31Douglas, Craig, and Nijssen, pp. 100–105.
34“Electrolux Case Study,” p. 30.
• Converge to worldwide, consistently positioned brands; both geographically and across product lines.

• Leave to the local manager the burden of proving that his or her local situation should be an exception to the worldwide strategy.

Nestlé provides another example of a company with a well-defined brand architecture. The Swiss food multinational owns nearly 8,000 different brands worldwide. Exhibit 11-4 shows Nestlé’s brand architecture. As you can see, Nestlé’s brands are organized in a branding tree. At the root are ten worldwide corporate brands—brands like Carnation, Nestlé, and Perrier. The next level consists of 45 strategic brands that are managed at the strategic business unit level. Examples include KitKat, After Eight, and Smarties. Climbing further, you can spot the regional strategic brands, managed at the regional level. For instance, in the frozen food category, Nestlé markets the Stouffer’s brand in America and Asia and the Findus brand in Europe. At the very top of the tree is a multitude of local brands (about 7,000) that are the responsibility of the local subsidiaries.

Although companies often feel driven to build up global brands, there are solid reasons to make an in-depth analysis before converting local brands into regional or global ones. In fact, local brands sometimes can have much more appeal among consumers than their global competing brands. This is especially true when there is not much benefit from being global.

David Aaker, an expert on branding, offers the following checklist for analyzing globalization propositions:

1. What is the cost of creating and maintaining awareness and associations for a local brand versus a global one?

2. Are there significant economies of scale in the creation and running of a communication program globally (including advertising, public relations, sponsorships)?

3. Is there value to associations of a global brand or of a brand associated with the source country?


EXHIBIT 11-4
NESTLÉ BRANDING TREE

7,500 Local brands
Responsibility of local markets
Examples
Texicana
Brigadeiro
Rocky
Solis

140 Regional strategic brands
Responsibility of strategic business unit and regional management
Mackintosh
Vittel
Contadina
Stouffer's
Herta
Alpo
Findus

45 Worldwide strategic brands
Responsibility of general management at strategic business unit level
KitKat
Polo
Cerelac
Baci
Mighty Dog
Smarties
After Eight
Coffee-Mate

10 Worldwide corporate brands
Nestlé
Carnation
Buitoni
Maggi
Perrier

4. What local associations will be generated by the global name? symbol? slogan? imagery?

5. Is it culturally and legally do-able to use the brand name, symbol, and slogan across the different countries?

6. What is the value of the awareness and associations that a regional brand might create?

One of P&G’s most popular brands in Germany was a liquid dishwashing detergent named Fairy. Early 2000, the brand had a market share of nearly 12 percent. In the middle of 2000, P&G rechristened the brand using the Dawn global brand name. There was no change in the product formulation. The renamed brand’s market share crashed. One year later, Dawn’s share stood at 4.7 percent. While Fairy represented a trusted and well-known brand to German consumers, Dawn meant nothing. This bond of trust had been broken with the renaming. It was estimated that P&G sustained a loss in turnover of $8 million. In the end, P&G decided to go back to the old Fairy name. P&G made the same kind of mistake in Austria when it replaced Bold with Dash. Changing the brand name from a local to a global (or regional) brand name is not a trivial matter. Attachments to the existing brand name can be very deep and emotional.

When the case for a transition from a local to a global brand name is made, the firm needs to decide on how to implement the changeover in practice. Four broad strategic options exist: (1) fade-in/fade-out, (2) combine brands via co-branding or under one umbrella brand, (3) transparent forewarning, and (4) summary axing.

With fade-in/fade-out, the new global brand name is somehow tied with the existing local brand name. After a transition period, the old name is dropped. A typical example is the brand name change that Disney implemented for its Paris theme park. It first shrunk the Euro part in Euro Disney and added the word land. In October 1994 the word Euro was dropped altogether and the theme park is now branded as Disneyland Paris.

The second route combines the “old” local brand and the global or regional brand in some manner. One tactic that is sometimes employed is to have the global brand as an umbrella or endorser brand. For example, Pedigree was launched in the late 1980s in France as “Pedigree by Pal.” Another possibility is dual branding (co-branding). During a transition period, the local and global brand names are kept so that consumers and the trade have sufficient time to absorb the new brand name. When Whirlpool acquired the white goods division of Philips, the company initially employed a dual branding strategy—Philips and Whirlpool. After a transition period, the Philips brand name was dropped. Likewise, Danone used co-branding in South Africa shortly after it bought a stake in the Clover company, South Africa’s leading fresh dairy producer. Although Danone is a global brand, at the time the brand name was virtually unknown in South Africa. By using co-branding, Danone was able to leverage the huge brand equity that Clover had in South Africa as well as Clover’s strong association with dairy products in the local consumer’s mind.

The third approach, transparent forewarning, alerts the customers about the brand name change. The forewarning is typically done via the communication program, in-store displays, and product packaging. A good example is the transition made by Mars in continental Europe for one of its best-selling candy bars. Up to 1991 the candy bar known

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as Twix in the USA was sold under the Raider brand name in most of Europe. For various strategic reasons (e.g., economies of scale) Mars decided to drop the Raider name and replace it with the Twix brand name. Given that Raider had very strong brand equity in continental Europe (the second most popular candy bar after Mars), the changeover was not a trivial matter. Mars left no stone unturned in the countries affected by the change: Mars aired a high-impact television ad campaign starring David Bowie with strong emphasis on Twix pack-shots, it ran print-ads to signal the change (see Exhibit 11-5), it used in-store promotions to maximize visibility and awareness, and it also indicated the changeover on the Raider’s wrappings with the words “known globally as Twix” during the transition period.41

Far less common is the fourth practice, summary axing, where the company simply drops the old brand name almost overnight and immediately replaces it with the global name. This is only appropriate when competitors are rapidly gaining global clout by building up global brands.

To manage the transition effectively, several rules should be respected.42 First, it is critical to conduct consumer research prior to the brand name changeover to understand consumers’ perceptions and gauge their response to any modifications (e.g., packaging, logo, brand name). When the brand name is changed gradually, one of the key concerns is the proper length for the transition period. When IBM sold its personal computer division to Lenovo, part of the deal was that Lenovo would have access to the IBM brand name up to five years. The IBM logo could only be used on Think-family products. When the IBM logo was shown in Lenovo ads, it could only be displayed on the product within the ad. However, ownership of the Think sub-brand (i.e., ThinkPad and ThinkCentre) would be permanent. The timeline agreed between Lenovo and IBM for usage of the IBM name had three phases:43

- **Phase 1 (first 18 months).** Current IBM branding to remain unchanged.
- **Phase 2 (second 40 months).** The IBM brand name must be less prominent and separate from the Think sub-brand.
- **Phase 3 (remaining 2 months).** IBM is more like an ingredient or endorsement brand.

In principle, the firm should allow sufficient time for the customers to absorb the name change. How long this process will take depends on the product and the strength of the image associated with the old brand name. For some product categories, the purchase cycle matters too. Sometimes the phase-out can be completed sooner than scheduled. Lenovo, for example, dropped the IBM name two years ahead of schedule.

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41For further details and other examples, see The New Strategic Brand Management, London: Kogan Page, 2008.
It is also important that consumers who are exposed to the changeover messages associate the new brand name with the old one. One of the primary goals of Whirlpool’s advertising campaign was to maintain awareness of the Philips brand name while building up association with Whirlpool.44

To avoid negative spillovers on the global brand name, companies should also ensure that the local products are up to standard before attaching the global brand name to them. Otherwise, the goodwill of the global brand name could be irreparably damaged. As a result, other products launched under the global brand name might be viewed with skepticism by consumers in the foreign market. Part of Whirlpool’s geographic expansion in China involved a joint venture that makes air conditioners based on Japanese designs. The air conditioners, sold under a local brand name, Raybo, initially had about half the life expectancy of U.S.-made Whirlpool models. Whirlpool’s president declared that his company would not put the Whirlpool name on the product until Raybo’s quality problems were fixed.45

Finally, companies should monitor the marketplace’s response to the brand name change with marketing research. Such tracking studies enable the firm to ensure that the changeover runs smoothly. They also assist firms in determining how long promotional programs that announce the name change should last. Whirlpool tracked brand recognition and buying preference of consumers on a weekly basis during the brand-change period. Global Perspective 11-2 describes the efforts made by British oil company BP to implement a global corporate makeover.

GLOBAL PERSPECTIVE 11-2
BEYOND PETROLEUM—BP AMOCO’S CORPORATE MAKEOVER

In July 2000, BP Amoco unveiled a global corporate makeover that included a new brand identity and revamped, high-technology service stations. BP spent $7 million of research and design funds to develop the global corporate makeover. The new “exploding sunflower” motif was named the Helios mark after the sun god of ancient Greece. The company ditched the shield logo, which BP had used for 70 years. BP declared: “Our new mark resembles a dynamic burst of energy; bright white at the core with radiant beams of yellow and green light. Our mark’s interlocking parts represent the diversity of our people, products and services. Its radiance is a daily reminder of our aspirations and purpose... In a hundred countries across the globe, BP employees bring the world energy in the forms of light, warmth, and mobility.”

Although the revamp happened worldwide, the impetus for the change came from BP’s U.S. operations. The U.S. market is home to about one-third of BP’s 28,000 retail outlets worldwide. After its merger with Amoco and a major acquisition spree, BP owned four separate brands: BP, Amoco, ARCO, and Castrol. BP Amoco recognized the need for a new, unifying image. However, Arco’s service station network on the West coast of the United States was not affected by the rebranding exercise as ARCO’s existing business has a strong brand identity there.

One reason for the consolidation was the sense to bond BP employees around the world following the merger and acquisitions. However, another key factor was BP’s desire to alter the public’s perception of BP from a traditional “old economy” British oil company to a global “new economy” energy services group, taking BP into the “Beyond Petroleum” era.

Besides introducing a new logo, BP also upgraded its service stations. New high-tech service stations were rolled out with brightly lit fueling and parking areas. Some of stations are solar-powered and provide internet access to customers. BP spent $7 million on research and design.


MANAGEMENT OF MULTINATIONAL PRODUCT LINES

Most companies sell a wide assortment of products. The product assortment is usually described on two dimensions: the width and the length of the product mix. The first dimension—width—refers to the collection of different product lines marketed by the firm. For most companies, these product lines are closely related. Some companies, especially major multinationals, market a very broad array of product lines. Besides bakery products, Sara Lee also offers products in the following categories: beverages, meats, body care, air care, detergents, insecticides, and shoe care. The second dimension—length—refers to the number of different items that the company sells within a given product line. Thus, the product mix for a particular multinational could vary along the width and/or length dimension across the different countries where the firm operates.

When comparing the product mix in the company’s host and home markets, there are four possible scenarios. The product mix in the host country could be (1) an extension of the domestic line, (2) a subset of the home market’s product line, (3) a mixture of local and non-local product lines, or (4) a completely localized product line.

Small firms with a narrow product assortment usually simply extend their domestic product line. Blistex, a small family-run U.S. company that makes primarily lip-care products, has a very limited range of product lines marketed in all of its foreign markets. On the other hand, larger companies that enter new markets carefully select a subset of their product mix. When Coca-Cola goes into a new market, the focus is obviously first on Coca-Cola. Once the flagship brand is well established, the next introduction is typically Fanta, the flavor line. Fanta is followed by Sprite and Diet Coke (or Coke Light). Once the infrastructure is in place, other product lines—including local ones—are added over a period of time. Most MNCs have a product mix that is partly global (or regional) and partly local.

Several drivers impact the composition of a firm’s international product line. We briefly discuss the key factors:

Customer Preferences. In many product categories, consumer preferences vary from country to country. Especially for consumer-packaged goods, preferences are still very localized. To cater to distinctive customer needs, marketers may add certain items to the individual country’s or region product line or fine-tune the line. A good example is Procter & Gamble’s change of strategy for Pantene shampoo in the Asia-Pacific region. Based on consumer research in key markets, P&G revamped the Pantene brand and created new monikers such as Smooth & Sleek, Hydrating Curls, and Vibrant Colors. However, for the Asia-Pacific region, P&G had to fine-tune this new global approach. “Curls” are not relevant for Asian consumers; few Asians understood the meaning of “sheer volume”; few were interested in changing their hair color. Therefore, P&G created new varieties of Pantene for the region such as Smooth & Silky, Volume & Fullness, and a Classic Clean range (Balance Clean, Lively Clean, and Anti-Dandruff) (see Exhibit 11-6). Following the revamp, Pantene’s market share in Southeast Asia grew from 14 to 16 percent.

Exhibit 11-7 lists some of the sandwiches that McDonald’s introduced on its menu to cater toward local tastes. Japanese consumers’ notorious desire for innovation forces consumer goods marketers in Japan to constantly come out with new product variants. As a result the product variety of many multinational consumer goods company in Japan is much broader than that in other countries. A good example is Nestlé’s KitKat brand, which has become very popular in Japan, largely due to the similarity of the

48“Pantene Shampoo is Reborn,” Ad Age Global (May 2002), pp. 18–19.
brand’s name to the phrase *kitto katsu* (“you will surely win!”). To cater to its Japanese consumers yearning for novelty, Nestlé has launched an incredible range of flavors (many for a limited time only) including some rather unusual ones such as kiwi, maple syrup, strawberry, banana, green tea, cherry blossom, and cookies & milk (see Exhibit 11-8).

**EXHIBIT 11-7**

**HOW MCDONALD'S CUSTOMIZES ITS MENU**

<table>
<thead>
<tr>
<th>Country</th>
<th>Sandwich</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>Croque McDo</td>
<td>A grilled ham and cheese sandwich on toast</td>
</tr>
<tr>
<td>India</td>
<td>Maharaja Mac</td>
<td>Two grilled chicken patties with smoke-flavored mayonnaise, onions, tomatoes and cheddar cheese</td>
</tr>
<tr>
<td>Taiwan</td>
<td>Rice Burger</td>
<td>Shredded beef between two rice patties</td>
</tr>
<tr>
<td>Japan</td>
<td>Teriyaki Burger</td>
<td>A chicken cutlet patty marinated in teriyaki sauce</td>
</tr>
<tr>
<td>Middle East</td>
<td>McArabia Sandwich</td>
<td>A marinated grilled chicken sandwich in flatbread</td>
</tr>
<tr>
<td>New Zealand</td>
<td>Kiwi Burger</td>
<td>A hamburger with a fried egg and a slice of pickled beet</td>
</tr>
<tr>
<td>Poland</td>
<td>McKielbasa</td>
<td>Kielbasa (Polish sausage) patty topped with ketchup, mustard, and onion.</td>
</tr>
<tr>
<td>Pakistan</td>
<td>Spicy McChicken</td>
<td>A chicken sandwich with chutney</td>
</tr>
<tr>
<td>Thailand</td>
<td>Samurai Pork Burger</td>
<td>A pork burger flavored with teriyaki sauce</td>
</tr>
<tr>
<td>South Korea</td>
<td>Bulgogi Burger</td>
<td>Pork patty marinated in soy-based sauce</td>
</tr>
<tr>
<td>Netherlands</td>
<td>McKroket</td>
<td>A deep fried roll containing beef ragout and potato</td>
</tr>
<tr>
<td>Greece</td>
<td>Greek Mac</td>
<td>A pita bread sandwich with two beef patties and some yoghurt</td>
</tr>
<tr>
<td>Israel</td>
<td>McShawarma</td>
<td>Shawarma served in flatbread</td>
</tr>
</tbody>
</table>

Source: [http://en.wikipedia.org/wiki/McDonald%27s_menu_items#Regional_dishes](http://en.wikipedia.org/wiki/McDonald%27s_menu_items#Regional_dishes) and “Big Mac’s Local Flavor,” *Fortune*, May 5, 2008, p. 85.

Price Spectrum. In emerging markets, companies often compete across the price spectrum by offering premium and budget products. The upscale products are targeted toward wealthy consumers. Budget products are offered as entry-level or value products for other consumers. These low-end products often come in smaller sizes, more economical packaging, and/or cheaper formulations. Nestlé, for instance, launched 29 new ice cream brands in China in March 2005. Many of these were low- and mid-range priced value-for-money products selling for as little as 12¢.

Competitive Climate. Differences in the competitive environment often explain why a company offers certain product lines in some countries but not in others. A telling example is the canned soup industry. In the United States, the wet soup category is basically owned by Campbell Soup: the company has a nearly 70 percent share of the wet soup market. Given the clout of the Campbell brand name, it is virtually impossible to penetrate the U.S. canned soup market. The picture is quite different in the United Kingdom where Campbell was a relative latecomer. In the United Kingdom, the Heinz soup range owns a 56 percent market share. Coca-Cola’s product line strategy in Japan is also driven to a large degree by the local rivalry in the Japanese beverage market. One of the pillars of Coke’s Japan-marketing strategy is to improve on its rivals’ products. As a result, Coke sells an incredible variety of beverages in Japan that are not available anywhere else (see Exhibit 11-9).

Organizational Structure. Especially in MNCs that are organized on a country-by-country basis, product lines may evolve to a large degree independently in the different countries. The scope of the country manager’s responsibility is increasingly being limited in many MNCs (see Chapter 17). Nevertheless, country managers still have a great deal of decision-making autonomy in many functional areas, including product policy.

50“Nestlé Hits Mainland with Cheap Ice Cream,” Advertising Age (March 7, 2005): 12.
EXHIBIT 11-9
COCA-COLA LOCAL BRANDS IN JAPAN

<table>
<thead>
<tr>
<th>Brand</th>
<th>Launch Year</th>
<th>Product Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambasa</td>
<td>1981</td>
<td>Noncarbonated, lactic soft drink with familiar smooth taste for everyday use.</td>
</tr>
<tr>
<td>Calo</td>
<td>1997</td>
<td>“Functional” soft drink with cocoa taste; helps build healthy bones.</td>
</tr>
<tr>
<td>Georgia</td>
<td>1975</td>
<td>Authentic, real coffee drink with variety of flavors sourced from around the world.</td>
</tr>
<tr>
<td>Ko Cha Ka Den</td>
<td>1992</td>
<td>Line of blended teas.</td>
</tr>
<tr>
<td>Lactia</td>
<td>1996</td>
<td>Lactic, noncarbonated soft drink; offers healthy digestion and quick refreshment.</td>
</tr>
<tr>
<td>Perfect Water</td>
<td>1997</td>
<td>Mineral-balanced water; helps restore balance to daily life.</td>
</tr>
<tr>
<td>Real Gold</td>
<td>1981</td>
<td>Carbonated, herb-mix flavored drink; provides quick energy.</td>
</tr>
<tr>
<td>Saryusaisai</td>
<td>1993</td>
<td>Nonsugar Oolong tea drink.</td>
</tr>
<tr>
<td>Seiryusabo</td>
<td>1994</td>
<td>Green and barley tea drinks.</td>
</tr>
<tr>
<td>Shpla</td>
<td>1996</td>
<td>Citrus-flavored soft drink; helps overcome mental stress and dullness.</td>
</tr>
<tr>
<td>Vegitabeta</td>
<td>1991</td>
<td>Peach-flavored soft drink; helps maintain healthy balance.</td>
</tr>
</tbody>
</table>

**History.** Product lines often become part of an MNC’s local product mix following geographic expansion efforts. Companies like Procter & Gamble, Heinz, and Sara Lee penetrate new and existing markets via acquisitions. Some of these acquisitions include product lines that are not outside the MNC’s core business. Rather than divesting these non-core businesses, a company often decides to keep them. As part of its growth strategy in Central Europe, Heinz acquired Keckemeti Konzervgyar, a Hungarian canned food company. The company makes a broad range of food products, including baby food, ketchup, pickles—staple items for Heinz—but also products like jams and canned vegetables—items that are not really part of Heinz’s core business lines.

Apart from the drivers mentioned above, there could be other idiosyncratic reasons that determine a firm’s product line outside the home market. A case in point is Danone’s cola business in China. When the Chinese government wanted to have a local cola to compete with the likes of Coca-Cola and Pepsi, Beijing approached Wahaha, a Chinese company controlled by Danone. As a result, Danone now owns Future Cola, which has become the No. 3 cola brand in China, marketed as *the Chinese people’s own cola*. China is also the only market where Danone sells soft drinks.

Global marketers need to decide for each market of interest which product lines should be offered and which ones are to be dropped. When markets are entered for the first time, market research can be very helpful for designing the initial product assortment. Market research is less useful for radically new products (e.g., frozen yogurt, electric vehicles) or newly emerging markets. In such situations, the company should consider using a “probing-and-learning” approach. Such a procedure has the following steps:

1. Start with a product line that has a minimum level of product variety.
2. Gradually adjust the amount of product variety over time by adding new items and dropping existing ones.
3. Analyze the incoming actual sales data and other market feedback.
4. Make the appropriate inferences.
5. If necessary, adjust the product line further.  

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The gist of this procedure is to use the product line as a listening post for the new market to see what product items work best.

By and large, add/drop decisions should be driven by profit considerations. In the global marketing arena, it is crucial not just to look at profit ramifications within an individual country. Ideally, the profitability analysis should be done on a regional or even global basis. A good start is to analyze each individual country’s product portfolio on a sales turnover basis. Product lines can be categorized as (1) core products, (2) niche items, (3) seasonal products, or (4) filler products. Core products are the items that represent the bulk of the subsidiary’s sales volume. Niche products appeal to small segments of the population, which might grow. Seasonal products have most of their sales during limited times of the year. Finally, filler products are items that account for only a small portion of the subsidiary’s overall sales. These might include “dead-weight” items whose sales were always lackluster or prospective up-and-coming products. From a global perspective, a comparison of the product mix make-up across the various countries provides valuable insights. Such an analysis might provide answers to questions like:

- Could some of our “seasonal” products in country A be turned into “core” items in country B?
- Given our track record in country A, which ones of our filler products should be considered as up-and-coming in country B and which ones should be written off as dead-weight products?
- Is there a way to streamline our product assortment in country A by dropping some of the items and consolidating others, given our experience in country B?

PRODUCT PIRACY

At the 2009 Shanghai auto show, one of the biggest events was the debut of the Geely Excellence (GE) made by Geely, one of China’s leading carmakers. With its winged mascot and huge radiator grill, the GE has a close resemblance to the Rolls Royce Phantom (see Exhibit 11-10). However, while a purchaser of the Phantom may have to fork out at least $1 million, the GE clone would set her back only about $60,000. Geely denies any copycatting, but Rolls-Royce may consider legal action. Product piracy is one of the downsides that marketers with popular global brand names face. The World Customs Organization estimated that 7 percent of world merchandise trade (or $512 billion) in 2004 might have been bogus products. Any aspect of the product is vulnerable to piracy, including: the brand name, the logo, the design, and the packaging. The impact on the victimized company’s profits is twofold. Obviously, there are the losses stemming from lost sales revenues. The monetary losses due to piracy can be staggering. In China, Procter & Gamble estimates that 15 percent of the soaps and detergent goods carrying P&G brand names are fake, costing $150 million a year in foregone sales. Yamaha estimates that five out of six motorbikes and scooters in China bearing its brand name are fake. Rampant piracy in countries such as China is for many companies also a reason not to enter these markets. Blockbuster, the world’s largest video rental chain, scrapped plans to expand into China due to piracy issues. A newly worrying trend is the increased export of fake products made in China. Counterfeitors also depress the MNC’s profits indirectly. In many markets, MNCs often are forced to lower their prices in order to defend their market share against their counterfeit competitors.

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Even more worrisome than the monetary losses is the damage that pirated products could inflict to the brand name. Pirated products tend to be of poor quality. As a result, the piracy scourge often jeopardizes the brand’s reputation built over the years. Such risks are especially big in emerging markets where consumers have only recently been exposed to premium branded products and counterfeits often outnumber the real thing by a significant factor. In some categories, counterfeits can also turn out to be downright dangerous to consumers. The World Health Organization estimates that 5 to

7 percent of medicines sold are copycat—with too few active ingredients, too many impurities, or labels that cover up expiration dates. Dodgy counterfeit aircraft or car parts can have fatal consequences. According to one study, 10 percent of car spare parts being sold in the EU were reckoned to be counterfeit. Forged aviation parts were the suspected cause of a 2001 American Airlines crash.

Several factors lie behind the rise of piracy in countries such as China. The spread of advanced technology (e.g., color copying machines, know-how stolen from multinationals by local partners) is one catalyst. Global supply chains also play a key role. Traders often use the web and unauthorized distributors to sell fakes around the world. China’s weak rule of law and poor enforcement of existing legislation also contributes to the piracy spread. Finally, profits that can be made from piracy are huge. For instance, profit margins on fake Chinese-made car parts such as shock absorbers can reach 80 percent versus 15 percent for the genuine thing.\(^{62}\)

MNCs have several strategic options at their disposal to combat counterfeiters. Exhibit 11-11 lists some guidelines to protect intellectual property (IP) in China, which is the source of most of the world’s counterfeit goods. Other major weapons at the disposal of MNCs are as follows:

**Lobbying Activities.** Lobbying governments is one of the most common courses of action that firms use to protect themselves against counterfeiting. Lobbyists pursue different types of objectives. One goal is to toughen legislation and enforce existing laws in the foreign market. However, improved intellectual property rights (IPR) protection is more likely to become reality if one can draw support from local stakeholders. For instance, Chinese technology developers increasingly favor a tighter IPR system.\(^{63}\) Another route is to lobby the home government to impose sanctions against countries that tolerate product piracy. Lastly, MNCs might also lobby their government to negotiate for better trademark protection in international treaties such as the WTO or bilateral trade agreements.

**Legal Action.** Prosecuting counterfeiters is another alternative that companies can employ to fight product piracy. In China, two big foreign brands, Starbucks and Ferrero Rocher—recently won highly publicized IPR court cases. In the case of Starbucks,
Shanghai company Xingbake Café was using a logo and a name that when translated was similar to that of the global coffee giant. The court ordered Xingbake to pay Rmb500,000 (about $62,000) in damages to Starbucks. Similarly, the British drinks group Diageo successfully sued a local Chinese company that had copied the bottle design and packaging of Johnnie Walker Black Label whiskey. In order to sue infringers, companies need to track them down first. In countries like China foreign firms can hire private agencies to help them with investigations of suspected infringers. Legal action has numerous downsides, though. A positive outcome in court is seldom guaranteed. The whole process is time-consuming and costly. Chinese courts and administrative bodies cope with more than 100,000 IP infringement cases per year. The percentage of judgments that are enforced is very low and for most companies winning a case in itself is a victory. Court action can also generate negative publicity. Microsoft’s experience in China illustrates this point. When the company sued Yadu Group, a local humidifier maker, for pirating Microsoft products, the Chinese press had a field day bashing Microsoft for going after a local company. The case was dismissed because of a legal technicality. The only party that gained (apart from the lawyers involved) was the defendant whose brand awareness increased enormously because of all the publicity surrounding the case.

**Customs.** Firms can also ask customs for assistance by conducting seizures of infringing goods. In countries with huge trade flows like China, customs can only monitor a small proportion of traded goods for IP compliance. Customs officers will most likely attach low priority to items such as Beanie Babies or Hello Kitty dolls. However, courtesy calls can be very effective. IP owners could also pinpoint broader concerns to the customs officials such as risks to consumers of fake goods or to the reputation of the host country.

**Product Policy Options.** The third set of measures to cope with product piracy covers product policy actions. For instance, software manufacturers often protect their products by putting holograms on the product to discourage counterfeities. Holograms are only effective when they are hard to copy. Microsoft learned that lesson the hard way when it found out that counterfeiters simply sold MS-DOS 5.0 knockoffs using counterfeit holograms. In 2008 Microsoft initiated a highly controversial initiative to combat software piracy in markets such as China. The firm sent out a security measure through a software update to millions of users of the Windows XP operating system. The update could turn the users’ desktop wallpaper black if they were using pirated software. LVMH, the owner of a wide variety of upscale liquor brands, redesigned its bottles to make it harder for copycaters to re-use LVMH bottles for their own brews. Yamaha decided to combat China’s counterfeities by launching new motorcycle models at a similar price as the fake products.

**Distribution.** Changes in the distribution strategy can offer partial solutions to piracy. When launching Windows XP in China, Microsoft struck a deal with four of China’s leading PC makers to bundle the operating system into their computers. Pirated versions of Windows XP were on sale in China for less than $5 shortly after the product was launched in the United States.

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71 See also http://www.youtube.com/watch?v=xRsFvmo72_A.
72Mr. Joel Tiphonnet, former Vice-President LVMH Asia Pacific, personal communication.
Pricing. Marketers can also fight counterfeiters on the price front. Microsoft China, for example, cut the price for its software drastically in October 2008 partly to outmaneuver software piracy competitors: the price for the home and student version of Microsoft Office was lowered from $102 to $30.74

Communication Options. Companies also use their communication strategy to counter rip-offs. Through advertising or public relations campaigns, companies warn their target audience about the consequences of accepting counterfeit merchandise. In Japan, LVMH distributed a million leaflets at three airports. The goal of this campaign was to warn Japanese tourists that the importation of counterfeit products is against the law.75 Anti-counterfeiting advertising campaigns that target end-consumers could also try to appeal to people’s ethical judgments: a “good citizen” does not buy counterfeit goods.76. The target of warning campaigns is not always the end-customer. Converse, the U.S. athletic shoemaker, ran a campaign in trade journals throughout Europe alerting retailers to the legal consequences of selling counterfeits.77

COUNTRY-OF-ORIGIN (COO) EFFECTS

Two of the biggest cosmetics companies in the world are Japanese: Kao and Shiseido. While successful in Japan and other Asian countries, Kao and Shiseido have had a hard time penetrating the European and American markets. Apparently, part of the problem is that they are Japanese. In China, however, Shiseido has built up a loyal following. One senior marketing executive of the company observed that: “China and Japan are from the same Asian background, so people think Shiseido is a specialist in Asian skin treatment. They may think it is more suitable for them than Western products.”78

Exhibit 11-12 shows some of the results of a survey that was done in six cities around the world by the Japanese advertising agency Hakuhodo. The figures show the percentage of respondents in each city who rated a product high quality given its origins. Clearly, Japanese products boast a high-quality image whereas Chinese products, and to a lesser extent Korean, possess a rather poor image. Consumers often rely on a product’s country-of-origin (COO) as an important cue to assess its quality. This phenomenon

<table>
<thead>
<tr>
<th></th>
<th>Hong Kong</th>
<th>Taipei</th>
<th>Seoul</th>
<th>Bangkok</th>
<th>Shanghai</th>
<th>Moscow</th>
<th>Frankfurt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japanese</td>
<td>(86.4%)</td>
<td>Japanese</td>
<td>(94.3%)</td>
<td>Japanese</td>
<td>(29.6%)</td>
<td>Japanese</td>
<td>(54.3%)</td>
</tr>
<tr>
<td>European</td>
<td>(74.1%)</td>
<td>European</td>
<td>(78.3%)</td>
<td>Korean</td>
<td>(28.9%)</td>
<td>U.S.</td>
<td>(45.8%)</td>
</tr>
<tr>
<td>U.S.</td>
<td>(60.5%)</td>
<td>U.S.</td>
<td>(61.0%)</td>
<td>European</td>
<td>(19.3%)</td>
<td>Chinese</td>
<td>(34.4%)</td>
</tr>
<tr>
<td>Korean</td>
<td>(38.0%)</td>
<td>Korean</td>
<td>(28.3%)</td>
<td>European</td>
<td>(11.8%)</td>
<td>Korean</td>
<td>(26.9%)</td>
</tr>
<tr>
<td>Chinese</td>
<td>(6.0%)</td>
<td>Chinese</td>
<td>(2.1%)</td>
<td>Chinese</td>
<td>(2.5%)</td>
<td>Chinese</td>
<td>(11.6%)</td>
</tr>
</tbody>
</table>


74“Microsoft Stirs Up Pirates.”
77“Converse jumps on counterfeit culprits with ad;” Marketing, October 21, 1993, p. 11.
can be defined as “the overall perception consumers form of products from such a country, based on their prior perceptions of the country’s production and marketing strengths and weaknesses.” In this section we explore country-of-origin effects and strategies to cope with them.

In most product categories, the country-of-origin has a major impact on consumer decision-making. Most of us prefer a bottle of French wine or champagne to a Chinese-made bottle, despite the huge price gap. Consumers hold cultural stereotypes about countries that will influence their product assessments. Academic research studies of COO-effects clearly show that the phenomenon is complex. Some of the key research findings follow:

- **Stability over time.** COO-effects are not stable; perceptions change over time. Country images will change when consumer become more familiar with the country, the marketing practices behind the product improve over time, or when the product’s actual quality improves. A classic example is Japanese-made cars where COO-effects took a 180 degree turn during the last couple of decades, from a very negative to a very positive country image.

- **Design versus manufacturing.** Research also shows that both the country of design and the country of manufacturing/assembly play a role. Foreign companies can target patriotic consumers by becoming a local player in the host market. For instance, they might set up an assembly base in the country. At the same time, they can capitalize on their country-image to attract those customers who recognize the country’s design image. For instance, Toyota pitched its Camry model as “The best car built in America.”

- **Consumer demographics.** Demographics make a difference. COO influences are particularly strong among the elderly, less educated, and politically conservative consumers. Consumer expertise also makes a difference: novices tend to use COO as a cue in evaluating a product under any circumstances, experts only rely upon COO stereotypes when product attribute information is ambiguous.

- **Emotions.** One recent study indicates that emotions consumer experience prior to their product evaluations also play a role: angry consumers are more likely to use COO information in their product evaluations than sad consumers.

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• **Culture.** Cultural orientations play a role. One study contrasted COO influences between members of an individualist (United States) and a collectivist culture (Japan). 88 The study’s findings showed that individualists evaluated the home country product more favorably only when it was superior to the competition. Collectivists, however, rated the home country product higher regardless of product superiority. 89

• **Brand name familiarity.** Consumers are likely to use the origin of a product as a cue when they are unfamiliar with the brand name carried by the product. 90

• **Product category.** Finally, COO-effects depend upon the product category. 91 A 2008 study in fourteen cities 92 that surveyed consumers’ opinions about Japanese products recorded high “good quality” scores for digital cameras (28.6%), white goods (28.5%), flat-screen TVs (25.8%), and cars (25.4%). 93 Scores were low for cosmetics (13.6%), skincare products (12.1%), facial cleanser (12.0%), and instant foods (9.7%). 94 As shown in **Exhibit 11-13**, there are four possible outcomes depending on (1) whether

**EXHIBIT 11-13**  
**PRODUCT-COUNTRY MATCHES AND MISMATCHES: EXAMPLES AND STRATEGIC IMPLICATIONS**

<table>
<thead>
<tr>
<th>Country Image Dimensions</th>
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<tbody>
<tr>
<td><strong>Positive</strong></td>
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<tr>
<td>I Favorable Match</td>
</tr>
<tr>
<td>Examples:</td>
</tr>
<tr>
<td>• Japanese auto</td>
</tr>
<tr>
<td>• German watch</td>
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<tr>
<td>Strategic Implications:</td>
</tr>
<tr>
<td>• Brand name reflects COO</td>
</tr>
<tr>
<td>• Packaging includes COO information</td>
</tr>
<tr>
<td>• Promote brand’s COO</td>
</tr>
<tr>
<td>• Attractive potential manufacturing site</td>
</tr>
<tr>
<td>III Favorable Mismatch</td>
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<tr>
<td>Example:</td>
</tr>
<tr>
<td>• Japanese beer</td>
</tr>
<tr>
<td>Strategic Implications:</td>
</tr>
<tr>
<td>• Alter importance of product category image dimensions</td>
</tr>
<tr>
<td>• Promote COO as secondary benefit if compensatory choice process</td>
</tr>
</tbody>
</table>


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92 Shanghai, Beijing, Hong Kong, Taipei, Seoul, Singapore, Bangkok, Jakarta, Kuala Lumpur, Manila, Ho Chi Minh City, Delhi, Mumbai, and Moscow.
94 The scores refer to the percentage of respondents in the survey who agreed with the statement, “Japanese products are of good quality.”
there is a match between the product and country and (2) whether or not the (mis-)match is favorable. For each combination, the exhibit also lists some of the strategic implications.

Before exploring strategic options to deal with COO, firms should conduct market research to investigate the extent and the impact of COO stereotypes for their particular product. Such studies would reveal whether the country-of-origin really matters to consumers and to what degree COO hurts or helps the product’s evaluation. One useful technique makes use of a dollar preference scale. Participants are asked to indicate how much they are willing to pay for particular brand/country combinations.95

Country image stereotypes can either benefit or hurt a company’s product. Evidently, when there is a favorable match between the country image and the desired product features, a firm could leverage this match by touting the origin of its product, provided its main competitors do not have the same (or better) origin. Our focus below is on strategies that can be used to counter negative COO stereotypes. The overview is organized along the four marketing mix elements:

**Product Policy.** A common practice to cope with COO is to select a brand name that disguises the country-of-origin or even invokes a favorable COO.96 It is probably no coincidence that two of the more successful apparel retailers based in Hong Kong have Italian-sounding names (Giordano and Bossini). Print ads for Finlandia vodka in the U.S. magazines highlight the linkage between the vodka’s origin (Vodka of Finland) and its ingredients (Made from pure glacial spring water, untouched, unainted, and unspoiled). Another branding option to downplay negative COO feelings is to use private-label branding. One study that looked at COO influences on prices in the Philippines shows that marketers can overcome negative COO effects by developing brand equity.97 Sheer innovation and a drive for superior quality will usually help firms to overcome COO biases in the long run. Skoda, the Czech carmaker, exemplifies this approach.98 Car brands from Central and Eastern Europe such as Skoda used to be the butt of countless jokes.99 However, Skoda managed to overcome its shoddy image with a relentless focus on quality. The brand ranks very highly now in quality surveys across Europe. Skoda’s chief executive commented: “To fix brand image we needed to go for top quality. We can’t allow failure, or the old image might come back.”100

**Pricing.** Selling the product at a relatively low price will attract value-conscious customers who are not very concerned about the brand’s country-of-origin. Obviously, this strategy is only doable when the firm enjoys a cost advantage. At the other end of the pricing spectrum, firms could set a premium price to combat COO biases. This is especially effective for product categories in which price plays a role as a signal of quality (e.g., wines, cosmetics, clothing).

**Distribution.** Alternatively, companies could influence consumer attitudes by using highly respected distribution channels. In the United Kingdom, Hungarian and Chilean wines are becoming increasingly popular. One reason for their success is the fact that they are sold in prestigious supermarket chains in Britain like Tesco.101
Communication. Lastly, the firm’s communication strategy can be used to alter consumer’s attitudes toward the product. Such strategies could pursue either of two broad objectives: (1) improve the country image or (2) bolster the brand image. The first goal, changing the country image, is less appealing since it could lead to “free-rider” problems. Efforts carried out by your company to change the country image would also benefit your competitors from the same country of manufacture, even though they don’t spend a penny on the country-image campaign. For that reason, country-image-type campaigns are done mostly by industry associations or government agencies. For instance, in the United States, Chilean wines were promoted with wine tastings and a print advertising campaign with the tag line: “It’s not just a wine. It’s a country.” The $2-3 million campaign was sponsored by ProChile, Chile’s Ministry of Foreign Affairs’ trade group.102 Seagram UK, on the other hand, developed a strategy to build up the Paul Masson brand image when the California wine was first launched in the United Kingdom.103

GLOBAL MARKETING OF SERVICES

Most of the discussion in this chapter so far has focused on the marketing of so-called tangible goods. However, as countries grow richer, services tend to become the dominant sector of their economy. In this section we will first focus on the challenges and opportunities that exist in the global service market. We will then offer a set of managerial guidelines that might prove fruitful to service marketers who plan to expand overseas.

Challenges in Marketing Services Internationally

Compared to marketers of tangible goods, service marketers face several unique hurdles on the road to international expansion. The major challenges include:

Protectionism. Trade barriers to service marketers tend to be much more cumbersome than for their physical goods counterparts. Many parts of the world are littered with service trade barriers coming under many different guises. Most cumbersome are the non-tariff trade barriers, where the creative juices of government regulators know no boundaries. In the past, the service sector has been treated very stepmotherly in trade agreements. The rules of the GATT system, for instance, only applied to visible trade. Its successor, the World Trade Organization (WTO), now expands at least some of the GATT rules to the service sector.104

Need for Geographic Proximity with Service Transactions. The human aspect in service delivery is much more critical than for the marketing of tangible goods. Services are performed. This performance feature of services has several consequences in the international domain. Most services cannot are difficult to trade internationally and require a physical presence of the service provider. Given the intrinsic need for people-to-people contact, cultural barriers in the global marketplace are much more prominent for service marketers than in other industries. Being in tune with the cultural values and norms of the local market is essential to be successful in most service industries. As a result, services are typically standardized far less than are tangible products.105 At the same time, service companies usually aspire to provide a consistent quality image worldwide. Careful screening and training of personnel to assure consistent quality is extremely vital for international service firms. To foster the

102 “Non-traditional nations pour into wine market,” Advertising Age International.
transfer of know-how between branches, many service companies set up communication channels such as regional councils.

The need for direct customer interface also means that service providers often need to have a local presence. This is especially the case with support services such as advertising, insurance, accounting, law firms, or overnight package delivery. In order not to lose MNC customer accounts, many support service companies are often obliged to follow in their clients’ footsteps.

**Difficulties in Measuring Customer Satisfaction Overseas.** Given the human element in services, monitoring consumer satisfaction is an absolute must for successful service marketing. The job of doing customer satisfaction studies in an international context is often frustrating. The hindrances to conducting market research surveys also apply here. In many countries, consumers are not used to sharing their opinions or suggestions. Instead of expressing their true opinions about the service, foreign respondents may simply state what they believe the company wants to hear (the “courtesy” bias).106

Despite the challenges described above, many international service industries offer enormous opportunities to savvy service marketers. The major ones are given here:

**Deregulation of Service Industries.** While protectionism is still rampant in many service industries, there is a steady improvement for international service providers in terms of deregulation. Some of the GATT rules that only applied to tangible goods are now extended to the international service trade under the new WTO regime. In scores of countries, government authorities have privatized services such as utilities (e.g., water, electricity), telecommunications, and mail delivery. The underlying thinking is that private firms can run these services more efficiently and have the resources to upgrade the infrastructure. Further, by shifting these services to the private sector, governments can allocate their resources to other areas (e.g., education, social welfare). Several individual countries are taking steps to lift restrictions targeting foreign service firms. Even sectors that were traditionally off-limits to foreigners are opening up now in scores of countries. India and the Philippines, for example, opened up their telephone industry to foreign companies.107

**Increasing Demand for Premium Services.** Demand for premium quality services expands with increases in consumers’ buying power. International service providers that are able to deliver a premium product often have an edge over their local competitors. There are two major factors behind this competitive advantage. One of the legacies of years of protectionism is that local service firms are typically unprepared for the hard laws of the marketplace. Notions such as customer orientation, consumer satisfaction, and service quality are marketing concepts that are especially hard to digest for local service firms that, until recently, did not face any serious competition. For example, local funeral companies in France invested very little in funeral homes. Prior to the de-monopolization of the industry, funeral business in France was basically a utility: firms bid for the right to offer funeral services to a municipality at fixed prices. Service Corp. International, a leading American funeral company, now plans to gain a foothold in France by selling premium products and upgraded facilities.108 Despite Malaysia’s highly protectionist banking laws, Citibank Malaysia has become one of the country’s biggest mortgage lenders through a combination of savvy marketing, an assertive sales force, and a strong customer service orientation.109

Global service firms can also leverage their “global know-how” base. A major strength for the likes of Federal Express, Wal-Mart, and AT&T is that they have a worldwide knowledge base into which they can tap instantly.

**Increased Value Consciousness.** As customers worldwide have more alternatives to choose from and have become more sophisticated; they have also grown increasingly value conscious. Service companies that compete internationally also have clout on this front versus local service providers, since global service firms usually benefit from scale economies. Such savings can be passed through to their customers. McDonald’s apparently saved around $2 million by centralizing the purchase of sesame seeds. In Thailand, Makro, a large Dutch retailer, uses computerized inventory controls and bulk selling to undercut its local rivals. Given the size of its business, Toys ‘R’ Us, the U.S. discount toy retailer, was able to set up its own direct import company in Japan, allowing the firm to deliver merchandise straight from the docks to its warehouses, thereby bypassing distributors’ margins.

To compete in foreign markets, service firms resort to a plethora of different strategies.

**Capitalize on Cultural Forces in the Host Market.** To bridge cultural gaps between the home and host market, service companies often customize the product to the local market. Successful service firms grab market share by spotting cultural opportunities and setting up a service product around these cultural forces.

**Standardize and Customize.** As noted in the last chapter, one of the major challenges in global product design is striking the right balance between standardization and customization. By their very nature (service delivery at the point of consumption) most services do not need to wrestle with that issue. Both standardization and adaptation are doable. The core service product can easily be augmented with localized support service features that cater to local market conditions.

**Central Role of Information Technologies (IT).** Information technology forms a key pillar of global service strategies. Service firms add value for their customers by employing technology such as computers, intelligent terminals, and state-of-the-art telecommunications. Many service firms have established internet access to communicate with their customers and suppliers. IT is especially valued in markets that have a fairly underdeveloped infrastructure. Companies should also recognize the potential of realizing scale economies by centralizing their IT functions via “information hubs.” A case in point is HSBC, a leading British bank. HSBC relies on 400 low-cost employees in Hyderabad, India, and Guangzhou, China, to industrialize its simple back-room operations on a global scale, freeing up its UK backrooms for more complicated tasks.

**Add Value by Differentiation.** Services differ from tangible products by the fact that it is usually far easier to find differentiation possibilities. Service firms can appeal to their customers by offering benefits not provided by their competitors and/or lowering costs. Apart from monetary expenses, cost items include psychic costs (hassles), time costs (waiting time), and physical efforts. Especially in markets where the service industry is still developing, multinational service firms can add value.

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114 Ibid.
by providing premium products. AIG allows its customers in China to settle their bills by bank transfers. Local insurance companies required their customers to wait in line to pay the premiums in cash.

**Establish Global Service Networks.** Service firms with a global customer base face the challenge of setting up a seamless global service network. One of the key questions is whether the company should set up the network on its own, or use outside partners. Given the huge investments required to develop a worldwide network, more and more companies are choosing the latter route. Trends of firms grouping together to establish global network can be observed service industries like airline travel (e.g., the Star Alliance, One World) and advertising.

**SUMMARY**

Mission statements in annual reports reflect the aspiration of countless companies to sell their products to consumers worldwide. This push toward global expansion raises many tricky questions on the product policy front. Mastering these global product issues will yield success and possibly even worldwide leadership.

Companies need to decide what branding strategies they plan to pursue to develop their overseas business. There is plenty of ammunition to build a case for global brands. At the same time, there are also many arguments that can be put forward in favor of other branding strategies. Developing a global branding strategy involves tackling questions such as:

* Which of the brands in our brand portfolio have the potential to be globalized?

* What is the best route towards globalizing our brands? Should we start by acquiring local brands, develop them into regional brands, and, ultimately, if the potential is there, into a “truly” global brand?

* What is the best way to implement the changeover from a local to a global (or regional) brand?

* How do we foster and sustain the consistency of our global brand image?

* What organizational mechanisms should we as a company use to coordinate our branding strategies across markets? Should coordination happen at the regional or global level?

The ultimate reward of mastering these issues successfully is regional, sometimes even worldwide, leadership in the marketplace.

**KEY TERMS**

<table>
<thead>
<tr>
<th>Brand architecture</th>
<th>Country-of-origin stereotype</th>
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<tbody>
<tr>
<td>Brand structure</td>
<td>Dual branding</td>
</tr>
<tr>
<td>Co-branding</td>
<td>Fade-in/fade-out</td>
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<tr>
<td>Global brand</td>
<td>Product piracy</td>
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<tr>
<td>Transparent forewarning</td>
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<tr>
<td>Umbrella branding</td>
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**REVIEW QUESTIONS**

1. For what types of product/service categories would you expect global brand names? For which ones would you anticipate localized names?
2. Why is the market share of private labels much higher in Europe than in Asia?
3. Explain why the strength of a global brand may vary enormously from country to country.
4. What factors should MNCs consider when implementing a brand-name facelift in their foreign markets?
5. Describe the key success factors behind private labels in Europe.
6. What strategies can MNCs adopt to cope with product piracy?
7. How does the marketing of global services differ from marketing tangible goods worldwide?

**DISCUSSION QUESTIONS**

1. Altoids, the “curiously strong” peppermint, has evoked its British heritage since its introduction in the United States in 1918. The mint’s original recipe dates back to the reign of King George III. Wrigley (now part of Mars) bought the brand for $1.46 billion in 2004. In the U.S. market, Altoids’ market share had slumped from 24.3 percent in 2003 to 20.6 percent in
November 2005. In late 2005, Wrigley announced plans to shut down the Altoids factory in Wales and shift production to Tennessee. Some observers worried that the move could be risky since a similar initiative damaged the image of the Löwenbräu beer brand in the 1970s. Wrigley disputed that this would also happen to Altoids. Do you agree? Is this a wise move? Why or why not?

2. Dr. Hans-Willi Schroiff, vice-president of market research at Henkel, a German company, made the following observation about P&G’s multinational marketing strategy: “A strict globalization strategy like P&G’s [will not be] successful if ‘meaningful’ local brands are corpses on the battlefield. It caused severe share losses for P&G here in Europe. Consumers do not switch to the global brand, but to another brand that looks more like ‘home’ to them.” Comment on this statement. Do you agree or disagree (and why)?

3. In September 1999, Unilever announced that it would trim over one thousand brands. The company wants to focus on 400 of its current 1,600 brands, with a core group of so-called power brands that are known globally or region-wide (e.g., Magnum ice cream, Lipton tea, Vaseline skin cream). These 400 brands accounted for 90 percent of Unilever’s 1998 sales revenues. The brands outside the core group will gradually lose marketing support, then ultimately sold, withdrawn, or consolidated into bigger brands. Discuss Unilever’s decision. What do you as possible advantages? Disadvantages?

4. Software piracy in China is a huge problem for Microsoft. In 2008 Microsoft went on the offensive by sending a software update that could turn the desktop wallpaper black when a pirated Windows XP operating system was being used (http://www.youtube.com/watch?v=xRsFvmo72_A). Not surprisingly, this move stirred much controversy in China. Is this the right approach to combat piracy? What are the possible risks? Are there better ways to fight the problem, if so, how?

5. Most of the luxury watches have a Swiss-made label. Discuss strategies that a “Made in India” watch, aiming to target the premium segment in the Western world, might want to consider.

6. Nestlé, the Swiss food conglomerate, has created a Nestlé Seal of Guarantee that it puts on the back of some of its products (e.g., Maggi sauces). The Seal of Guarantee is not used for many of its other products like pet food and mineral water. What might be Nestlé’s motivations for adding or dropping its Nestlé Seal of Guarantee stamp to the brand name?

7. The Rover Mini is a squat, boxy car that was designed in the late 1950s when the Suez Canal crisis prompted gas rationing in Europe (if you are not familiar with the car, check out its website: www.mini.co.uk). These days, the brand is owned by BMW. The Mini sells for between 1.8 million yen and 2.4 million yen. A Japanese model of the same size costs about half that. Yet the Mini has many takers. Rover rarely does TV ads; instead it relies on word of mouth. Despite the price tag and little advertising, Rover sells more Minis in Japan than anywhere else in the world. The car has been far more successful in Japan than most other imported car makes like GM’s Saturn or DaimlerChrysler’s Neon. What factors do you think explain the Rover Mini’s success in Japan?
CASE 11-1
WHAT TO DO WHEN YOUR OWN SUPPLIER MAKES KNOCKOFFS?

China’s cheap labor and high-quality manufacturing are two major reasons why scores of global brands have decided to source their products from China-based suppliers. Unfortunately, many firms are finding out that they sometimes pay a steep price for doing so. It is not uncommon that the China-based supplier starts selling knockoffs under your brand name. New Balance, the U.S. athletic-shoemaker, learned this the hard way. About 70 percent (meaning 35 million pairs a year) of New Balance’s global output is made in China. One of the firm’s key suppliers was a company headed by Mr. Chang, a Taiwanese businessman, whose factories made shoes for New Balance initially in Taiwan and later also in China. In 1995, New Balance made him the official sales and distribution partner for China. After a slow take-off, sales improved when Mr. Chang convinced New Balance to push lower-price, lower-tech classic-style shoe models for China. In 1998, sales in China were 57,000 pairs. However, New Balance became uneasy when, following a sales conference meeting, Mr. Chang made a pitch to sell 250,000 pairs. The reason for top management’s worry was that selling so many classic-style shoes might tarnish its image as a maker of premium quality athletic shoes. Instead of getting a pat on the back, Mr. Chang was told to scale back the sales of classic shoes.

Shortly after the meeting, New Balance learned that Mr. Chang had bought materials to make 460,000 pairs. He also planned to make styles and colors that the company had never approved. Shortly after, New Balance was informed by its Japanese distributor that a Japanese discount retailer was selling the classic models for as little as $20 a pair. New Balance immediately severed its distribution agreement with Mr. Chang. Still, throughout China, the retail outlets that Mr. Chang operated still bore the New Balance logo and carried New Balance shoes. Shoes made by his factories also started showing up in stores in Switzerland, Italy, Spain, and Taiwan.

New Balance then approached China’s State Administration for Industry and Commerce (AIC), the trademark and intellectual-property enforcement agency. This agency raided some of Mr. Chang’s warehouses and confiscated 100,000 pairs. Besides New Balance shoes, they also found shoes branded Henkee, whose style and logo had a striking similarity with those of New Balance. However, a court in Shenzhen ruled against the company on the basis of a document in which New Balance had guaranteed that Mr. Chang’s company could make its shoes until 2003. The company appealed but a favorable ruling is unlikely. As a result of this whole experience, New Balance cut down the number of factories in China to six and now monitors them more closely. It also started using more high-tech labels to better keep control of its own production. Still, the whole episode could easily happen again with any other suppliers, anywhere in the world.

DISCUSSION QUESTIONS
1. How did New Balance’s problem arise?
2. What strategic options can New Balance pursue to protect itself against episodes such as the one described in the case?


CASE 11-2
MATSUSHITA ELECTRIC TO CHANGE NAME TO PANASONIC CORPORATION

On January 10, 2008 Japanese electronics manufacturer Matsushita unveiled a radical re-branding initiative: it announced that the company would change its company name to Panasonic Corporation effective October 2008. The company would also unify its corporate brands to the Panasonic brand around the world. The National and Technics brands were to be dropped and replaced by the Panasonic brand, the highest profile brand marque. As the re-branded Panasonic, the company aspired to increase its revenue to 10 trillion yen ($101 billion) by 2010.

With the branding overhaul, the new Panasonic hopes to boost its brand image. In the 2008 Interbrand/Business Week Global Brand ranking, Panasonic ranked 78 (worth $4.3 billion), far behind Samsung (ranked 21, valued at $17.7 million) and Sony (ranked 25 at $13.6 million). In 2008, half of the company’s sales came from Japan. Panasonic hopes that the re-branding will also help the firm to expand in India and China.

It is also targeting Europe where it plans to introduce its three main appliance products—air conditioners, refrigerators, and washing machines. At present, Panasonic is primarily known as a TV manufacturer in its non-Asian markets.

By focusing on a single brand, marketing investments could be reduced, as only one brand needs to be promoted. Gregory Birge, a marketing consultant cautioned against the move: the phase-out of the National brand, which is recognized for its budget products in the U.S. market and Japan, risks weakening Panasonic’s brand equity. In an interview with Media he states: “People who see National as cheap may come to see Panasonic as a cheap brand. If the company wants to switch it to Panasonic, it will need to change the product. But it’s easier to lower the cost of a very expensive product.”

DISCUSSION QUESTIONS
1. What was the motivation behind the Panasonic brand overhaul?
2. Is the overhaul justified? What are the possible risks?
3. What does Panasonic need to do to make the changeover successful?

CASE 11-3
TATA MOTORS ACQUIRES THE JAGUAR ICON

On March 26, 2008 India’s Tata Motors finalized a deal to acquire the Jaguar and Land Rover luxury brands from Ford for $2.3 billion. Tata Motors has built vehicles for more than 50 years, though mainly trucks. Earlier in 2008 Tata Motors had revealed plans to launch the Tata Nano, a budget $2,500 (one lakh rupee) compact city car. Tata Motors is part of the Tata Group, one of India’s biggest conglomerates. Some of Tata’s other businesses include luxury hotels (Taj Mahal in Mumbai, Pierre in New York), tea (Tetley), steel (Corus), insurance, and mobile phone service. The company is highly respected in India.

Not surprisingly, many people were very skeptical about the merits of the deal and questioned whether an Indian company was really the best steward for a luxury marque like Jaguar. Some speculated that the deal was motivated by Tata’s desire to acquire iconic brands, almost like former colonials acquiring the trappings of the former empire. Jaguar had lost Ford $15 billion during Ford’s 18-year ownership of the brand, and Jaguar’s sales were in a steady decline. Jaguar sold 60,485 cars in 2007, a huge drop from 130,334 in 2002. Some industry analysts struggled to see what value Tata could add that had eluded Ford, and what synergies could arise between the selling of the $2,500 Nano and the prestigious Jaguar brand icon.

Some experts say that Ford never really understood how to fit the Jaguar brand in its portfolio and how to market it better. Ford’s biggest blunder may have been undermining Jaguar’s brand heritage with the launch of low-end models, the mid-range S-Type in 1998 and the compact executive X-Type in 2001. Ford discontinued both models in 2008.

Tata has experience taking over global brands (e.g., Tetley Tea, Corus Steel). Its strategy has been to let each business run its own entity, with modest input from the home office. The purchase of Daewoo, the South Korean truck manufacturer, illustrates this strategy. After Tata bought the firm in 2004, Daewoo still operates mostly as a Korean business. Tata Motors has promised not to shift production from Jaguar’s British factories. A key element of the deal is that Ford will continue to supply Jaguar with engines and components, as well as provide access to Ford’s hybrid and low-emission power-train technology. The new owner plans to return the Jaguar marque to its premium heritage, eschewing volume models such as the X-Type. Ravi Kant, the chairman of Tata Motors said: “At this moment, our focus is on making sure we strengthen our position in the segments we are already and seeing that Jaguar and Land Rover go on to become not just a very cherished brand but a very profitable brand.” (USA Today, May 27, 2008). The first step will be an update of the XJ-Type, Jaguar’s flagship saloon. Tata also ponders the launch of a successor to the E-Type sports car of the 1960s. Tata hopes that the Jaguar’s footprint will enable it to penetrate into Europe and the United States, markets where it is completely unknown at present.

DISCUSSION QUESTIONS
1. Will the acquisition of the Jaguar marque be a smooth ride for Tata? Does the Tata/Jaguar deal make any sense? What are Tata’s underlying motives for the acquisition?
2. What cultural issues do you think will crop up between Tata Motors and the new acquisition? How should Tata cope with these?
3. What are the marketing challenges that Tata will face? How do you think these should be tackled?

L’Oreal China—Nursing Mininurse Back to Health

When L’Oréal bought Mininurse, a Chinese mass skincare brand, from Shenzhen firm Raystar Cosmetics in December 2003, the move was seen as a major coup for L’Oréal. Lindsay Owen-Jones, L’Oréal’s CEO, commented: “This acquisition is an outstanding opportunity to speed up our growth in the Chinese market. It is a major step forward in L’Oréal’s development in a market which is strategically important for the company.” Paolo Gasparrini, president of L’Oréal China, added: “Aimed at women with a natural style, Mininurse complements our brand portfolio perfectly and enables us to move more quickly into the Chinese consumer skincare market.” At the time of the deal, which took four years to negotiate, Mininurse was one of China’s top-three skincare brands with a 5 percent market share. The Chinese cosmetics market is clearly booming. A little more than a decade ago, hardly any women used cosmetics. These days, the beauty industry in China is exploding. It was worth $7.25bn in 2004 and is expected to grow to $9.6bn by 2009. Some 90 million urban women spend at least 10 percent of their income on beauty products. Skincare products are now a major rage. They account for 40 percent of the market and are growing rapidly at an annual rate of 20 percent. L’Oréal’s 2004 sales revenues were $350m, up 58 percent over the previous year. The firm markets 17 skincare and hair-care brands, mostly imports except for Mininurse and Yue-Sai, a skincare and make-up brand bought shortly after the Mininurse deal.

Mininurse, first launched in 1992, is one of China’s best-known skincare brands with a 90 percent brand recognition. Recognition was even higher among Mininurse’s target group of younger women: 96 percent. The brand had built up a solid distribution network of 280,000 outlets. With the deal, L’Oreal got access to the brand, its marketing network, and a manufacturing facility in Hubei province.

Soon after the deal, L’Oreal decided to co-brand Mininurse with Garnier, L’Oreal’s global mass-market brand. Through Garnier R&D endorsement, L’Oreal essentially dressed Mininurse in international clothes. The Garnier name would bring international technology credentials and bolster Mininurse’s brand equity. The firm ran an ad campaign to re-launch Mininurse. According to Publicis China, the ad agency behind the ad campaign, the goal was “to project to the consumer that Mininurse has the experience and backing of Laboratory Garnier.” The face for the campaign was Tong Sun Jie, a Chinese actress. The re-launch was also communicated through Mininurse’s website: www.mininursegarnier.com. It was believed that L’Oreal saw Mininurse as a platform to further develop its mass market Garnier range in China. Until the re-launch, Garnier’s presence in China was mainly in the haircare segment.

However, Mininurse has been struggling lately. Market data showed that the brand’s market share tumbled from 5.1 percent in October 2003, shortly before the deal, to 3.5 percent 2 years later (see Table). Was Mininurse worth the four-year wait? Can L’Oréal nurse the brand back to health? And, if so, what would be the proper health regime?

<table>
<thead>
<tr>
<th>Brand</th>
<th>October 2003</th>
<th>October 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Da Bao</td>
<td>12.1%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Long Li Qi</td>
<td>3.9%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Mininurse</td>
<td>5.1%</td>
<td>3.5%</td>
</tr>
<tr>
<td>Tjoy</td>
<td>2.1%</td>
<td>4.1%</td>
</tr>
</tbody>
</table>

Source: ACNielsen.

DISCUSSION QUESTIONS

1. Was the Mininurse acquisition really worth the wait and the effort for L’Oréal?
2. What might have been the drivers behind Mininurse’s market share drop? Was the Mininurse-Garnier co-branding a strategic mistake?
3. What is your prescription to revitalize Mininurse? Should L’Oréal discard the Garnier endorsement? Should the brand be repositioned?


