
GLOBAL MARKETING AND THE INTERNET



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Although the obituaries of numerous dot-com companies were written during the 2001 tech-bust, the internet remains a technological marvel for global marketers. The internet has reshaped the global marketplace for international marketers both on the demand- and the supply-side. The web clearly provides a unique distribution and communication channel to marketers across the globe. It is the ultimate marketplace to buy and to sell goods and services. The challenge for many global multinationals is to wring out the benefits that the web offers. For scores of internet startups that initially focused on their home market, going global can provide an avenue for further growth. Amazon foresees that Europe could ultimately prove to be a better place for doing e-commerce than the United States for two reasons: with Europe's high population density (1) delivery is faster and (2) real estate prices are high in high traffic city areas, leading to a cost advantage to virtual retailers over their brick-and-mortar competitors.¹ EBay has already planted its foot in thirty countries across the globe. Other web firms are following suit. Small and medium sized enterprises (SMEs) also participate in

¹“Jeff Bezos’ Amazon Adventure,” *Ad Age Global* (February 2002), pp. 16–17.

EXHIBIT 19-1
TOP 15 COUNTRIES IN INTERNET USAGE

Country	Internet Users (in millions)	% of World Users	Penetration (as % of country's population)	User Growth (2000-2008)
1. China	253.0	17.3	19.0	1,024.4
2. United States	220.1	15.0	72.5	130.9
3. Japan	94.0	6.4	73.8	99.7
4. India	60.0	4.1	5.2	1,100.0
5. Germany	52.5	3.6	63.8	118.9
6. Brazil	50.0	3.4	26.1	900.0
7. United Kingdom	41.8	2.9	68.6	171.5
8. France	36.1	2.5	58.1	325.3
9. South Korea	34.8	2.4	70.7	82.9
10. Italy	34.7	2.4	59.7	162.9
11. Russia	32.7	2.2	23.2	954.8
12. Canada	28.0	1.9	84.3	120.5
13. Turkey	26.5	1.8	36.9	1,225.0
14. Spain	25.6	1.8	63.3	375.6
15. Indonesia	25.0	1.7	10.5	1,150.0
Worldwide Total	1,463.6	100.0	21.9	305.5

Source: <http://www.internetworldstats.com/top20.htm>, accessed on March 9, 2009.

the flurry. In fact, for many SMEs, the internet has proven to be a welcome opportunity for overseas expansion.

Although the internet originated in the United States, it has rapidly morphed into a global phenomenon. The worldwide internet population surpassed the 1 billion milestone in 2005—up from only 45 million users 10 years earlier and 420 million in 2000. The total number of users was nearly 1.5 billion in mid-2008. Exhibit 19-1 presents a geographic breakdown of internet usage worldwide. As you can see, the internet population in China is larger now than the number of U.S. internet users. Another notable fact is the rapid increase of the internet population, with growth rates of around 1,000 percent for each of the four BRIC countries (see last column of **Exhibit 19-1**).²

Until the early 1990s, the internet was primarily the preserve of the military and academic researchers. However, the development of new software (e.g., Java, Netscape) during the early 1990s has turned the internet into a commercial medium that has transformed businesses worldwide. In the advent of the forces unleashed by this new technology, this final chapter focuses on the role of the internet in global marketing. We first highlight the main challenges that international marketing managers face with the internet. The remainder of the chapter explores the impact of the web on global marketing strategies.

BARRIERS TO GLOBAL INTERNET MARKETING



Although most forecasts about the future of global e-commerce are rosy, there are several structural barriers that might slow down its expansion. In particular, the following hurdles might interfere: (1) language barriers, (2) cultural barriers, (3) infrastructure (e.g., penetration of personal computers, broadband, or 3G), (4) knowledge barriers, (5) access charges, and (6) government regulations. Let us look at each one of these in turn.

When Avis Europe PLC set up its global car-rental website in 1997, clients could rent a car almost anywhere in the world, as long as they spoke English. Avis soon found out

Language Barriers

²Brazil, Russia, India, and China.

that its English-only website was not enticing to non-English speakers. To win customers, it rolled out localized sites in the client's language.³ The multilingual sites were also customized in other ways. For instance, the German site targets the business segment whereas the Spanish site focuses on leisure bookings. Given the internet's origins in the United States, it is not surprising that much of the content is U.S.-focused and that the English language has dominated the web so far. According to the latest data, English still prevails as the leading language on the internet (450 million users), followed by Chinese (321.3 million) and Spanish (122 million).⁴

One survey of 186 U.S. online merchants found that 74 percent use only English on their sites and 79 percent present prices in U.S. dollars only.⁵ However, more than 70 percent of the world's internet population now lives outside English-speaking countries.⁶ A study by Forrester research found that business users on the web are three times more likely to purchase when the website "speaks" their native language.⁷ Hence, a company that plans to become a global e-business player may need to localize its websites in order to communicate with target customers in their native tongue. In some cases, companies can stick to English, especially if they operate in an industry that is primarily Anglo-Saxon (e.g., aerospace). However, in most cases translation becomes necessary if the firm wants to sell to non-English speakers. As Willy Brandt, a former German Chancellor, once put it: "If I'm selling to you, I speak your language. If I'm buying, *dann müssen Sie Deutsch sprechen*"—then you must speak German.

Companies that want to localize their websites by translating the content into other languages have several options. One approach is to hire a third party to do the translation job. One example is Translation Services USA (<http://www.translation-services-usa.com/>), which is a company that specializes in website translation. The company, whose clients range from small businesses to Fortune 500 companies, translates websites into 150 languages including dialects such as Creole, Corsican, Basque, and Greenlandic. A second option is to use an online translation tool such as Yahoo! Babel Fish (<http://babelfish.yahoo.com/>), which can translate blocks of text and also an entire webpage. These tools are usually free but their results can be very inaccurate. Their range of languages is also very limited. Another alternative is to use specialized software to do the translation. A market leader in this area is SYSTRAN, a company headquartered in Paris. SYSTRAN develops software products that enable instantaneous translation of web pages, internet portals into and from 52 language pairs. Several major internet portals such as Yahoo!, Google, and AltaVista also use SYSTRAN's translation technology.⁸

Cultural Barriers

Cultural norms and traditions can also hinder the spread of the internet. In Confucian-based cultures (most East Asian nations), business is routinely conducted on a personal basis. Networking and personal relationships play a major role in business transactions. Nonetheless, Dell was able to gain a foothold in markets like China and Hong Kong with its Dell Online business concept. One major impediment in numerous markets is the lack of a credit card culture and security concerns. In many countries outside North America, credit card penetration is still very low. In countries like Egypt, only the upper-class people use a credit card to buy goods.⁹ Companies that use the internet as a distribution channel in such countries are usually forced to offer a range of payment options such as cash on delivery, wire transfers, and e-money. China has about 50 online payment systems now. The leader is AliPay, a service developed by China's top auction site, Taobao. With the AliPay system, the seller gets the money only after the buyer

³"Learning Local Languages Pays Off for Online Sellers," *Asian Wall Street Journal* (November 24–6, 2000), p. 12.

⁴<http://www.internetworldstats.com/stats7.htm>, accessed on March 15, 2009.

⁵www.imediaconnection.com/global/5728.asp?ref=http://www.imediaconnection.com/content/6090.asp.

⁶<http://www.internetworldstats.com/stats7.htm>, accessed on March 15, 2009.

⁷www.internetindicators.com/global.html

⁸www.systransoft.com, accessed on March 15, 2009.

⁹Ibrahim Elbeltagi, "E-commerce and Globalization: An Exploratory Study of Egypt," *Cross Cultural Management: An International Journal*, 14(3, 2007), pp. 196–201.

obtains the goods.¹⁰ Even where credit card penetration is high, online shoppers who are worried about credit card fraud are reluctant to release their credit card number and other personal data online. Instead, internet users end up giving the information through fax or over the phone to the online merchant. Advances in encryption- and smart card-technology should provide a solution on this front. However, even with all the enhanced security features, many internet users still prefer to pay for their transactions offline.

Culture sensitivity also matters in website design.¹¹ Websites must include content and have a structure that conforms to the cultural values, symbols, and heroes of the site's visitors.¹² On the U.S. site of Amazon.com, book delivery is promised with "Usually ships within 24 hours." On the British site the wording is "Usually dispatched within 24 hours." Books chosen go into a "shopping cart" on Amazon.com's U.S. site and into a "shopping basket" on the British site. These are subtle distinctions but they can be very important if a global web marketer wants to lure foreign customers. By failing to respect the local cultural norms, companies run the risk of antagonizing the customers they are trying to attract. For instance, in the male-dominated Arab world, websites should avoid portraying women in roles of authority. In countries with strong individualism (e.g., the United States), the website should show how the product can improve the individual's life; in countries with a strong group-sense (e.g., many East Asian countries), a sales pitch may need to reveal how the product can benefit the group as a whole. Attitudes toward privacy vary widely, with Americans far less concerned than most Europeans and the Japanese.

Patriotism is another important consideration. In China, several websites have triggered public fury by, for instance, listing Taiwan and Hong Kong/Macao as "countries" instead of as a province or territories, respectively. Being sensitive to national identity could imply having a country-specific website for each country instead of bundling smaller countries with larger ones (e.g., New Zealand with Australia, Ireland with the United Kingdom). IBM, for instance, has a huge menu of country sites including for tiny countries such as Montserrat and Bermuda. These are essentially the same but they show that IBM is being sensitive to smaller markets.¹³

Symbols very familiar in the home market do not necessarily have a universal meaning or may even offend foreign customers. A thumbs-up icon would indicate something good to U.S. consumers but would be insulting in Italy. Website colors also convey different meanings. In Japan, soft pastels are effective, whereas in the United States bold and sharp tones work better in connecting with consumers.

One concern is that managers may overlook the need for cultural alertness when setting up a global online business operation. Traditionally, managers would scout local markets and communicate with local partners to become familiar with the local culture. With a virtual business, face-to-face contacts are minimal, especially for small and medium-sized enterprises (SMEs). One suggestion here is for managers to join internet discussion groups and bulletin boards to gain knowledge about cultural norms and values in the foreign market.¹⁴ **Global Perspective 19-1** discusses how Dell surmounted cultural sensitivity issues for its websites.

In many countries, the local information technology (IT) infrastructure imposes constraints on e-commerce market opportunities. One measure of interest here is the Economist Intelligence Unit's annual ranking of e-readiness.¹⁵ A country's e-readiness measures the extent of internet connectivity and technology (ICT) infrastructure in the

Infrastructure

¹⁰"China's E-tail Awakening," *Business Week International*, November 19, 2007, p. 44.

¹¹"Global website Design: It's All in the Translation," *International Herald Tribune* (March 22, 2001), p. 17.

¹²David Luna, Laura A. Peracchio, and Maria D. de Juan, "Cross-Cultural and Cognitive Aspects of Web Site Navigation," *Journal of the Academy of Marketing Science*, 30(4), pp. 397-410.

¹³"Looking Local Can Make a Big Difference on the Web," *Financial Times*, February 11, 2008, p. 2.

¹⁴John Q. Quelch and Lisa R. Klein, "The internet and International Marketing," *Sloan Management Review* (Spring 1996), pp. 60-75.

¹⁵http://graphics.eiu.com/files/ad_pdfs/2005Ereadiness_Ranking_WP.pdf



GLOBAL PERSPECTIVE 19-1

LESSONS FROM DELL'S WEB GLOBALIZATION PROJECT

In October 2003, Dell Inc (www.dell.com) launched an enhanced global e-commerce site, followed by an upgraded service and support site in July 2004. The project had taken 3 years to complete and involved the joint efforts of 30 business teams. A key challenge of the web globalization project was the creation of a global online brand communication. To implement this task, Dell formed a core team, Global Brand Management (GBM), in spring 2002 with participants from the Americas, Asia, and Europe/Middle East. The main goal of their assignment was to develop a coherent visual interface design (VID) standard for Dell's websites balanced with local adaptations if necessary. The key issues in this endeavor centered around five VID components: corporate logotype and brand tagline; country names; national flags and country selection menu; language selection.

CORPORATE LOGOTYPE AND TAGLINE

The first VID issue dealt with the degree of localization of Dell's corporate icon. For regions not using Latin alphabets, westernized corporate names are typically phonetically transcribed for legal registration and to ease customer pronunciation. For some languages, choosing a proper phonetic equivalent is rarely easy. For instance, picking Chinese characters purely based on phonetics might lead to meaningless or even bizarre combinations. For the Dell brand name, the following character groupings all have a similar *dai er* sound: 怠饵 (*idle pastry*), 歹儿 (*evil child*), and 呆二 (*imbecile two*). In the case of Dell China, the corporate name in local script was rendered by 戴尔 *dai er* (*honor thus*), which projects a positive corporate image.

Although localizing the corporate icon could have benefits, it violates the spirit of a coherent imagery in terms of geometric dimensions, color schema, and typeface. A well-recognized and valued logotype can communicate a range of positive marketing messages (e.g., trust, product quality, prestige). For that reason, local Dell websites incorporate the blue corporate logotype with an angled E character even in regions not using Latin alphabets.

Another important brand element is the brand tagline. In October 2001, Dell had introduced the *Easy as Dell* slogan. For the homepages of many countries, Dell simply settled on the

English tagline. However, for some countries, Dell opted to create an equivalent localized tagline. This was not always an easy task. For example, for the Japanese tagline, Dell's team came up with a pool of 60 candidates. In the end, the localized tagline became シンプルをあなたにデル *Sinpuru Anata ni Deru* (*Simple for you, Dell*).

COUNTRY NAMES

Choosing the right country name for Dell's websites was far less trivial than it sounds. Part of the discussion centered on using a country's official name or its short-form equivalent. The short form was chosen as the standard (e.g., *México* instead of *Estados Unidos Mexicanos*). For some regions, Dell also needed to navigate around delicate political issues. For instance, to avoid controversy with Mainland China, Dell chose for Taiwan the provincial name 台灣 *tai wan* was written in traditional Chinese characters, not the simplified script used in Mainland China.

FLAG IDENTIFIERS AND COUNTRY SELECTOR MENU

Another delicate issue is the usage of flag identifiers. Flags carry many meanings. While for most countries flag identifiers are not controversial, Greater China poses obstacles. Focus group research showed that Mainland Chinese might lodge objections over the display of the Taiwanese flag. As a result, no flag identifier is used for the Taiwan website. Likewise, the Korean website does not display any flag. A similar issue arose with the design of the country selector menu. For markets like Taiwan or Canada, the team inserted the phrase "Choose a country/region" to take a neutral stance. For other regions, it kept the original "Choose a country" phrase.

LANGUAGE SELECTION

Countries with multiple languages also needed a language toggle. Toggle options were decided for the respective regions based on socioeconomic factors. For instance, the Dell-Canada website displays the "English/Français" toggle, the Dell-Belgium website contains a "Nederlands/Français" toggle. Given the significance of English as a language of commerce, websites for markets such as Hong Kong, Taiwan, and Switzerland also include "English" as an option for the language toggle.

Sources: Leon Z. Lee, "Creating Worldwide Brand Recognition," *Multilingual Computing & Technology* 16 (1): 41–46; and Leon Z. Lee, "Virtual Teams: Formation, Flexibility, and Foresight in the Global Realm," *The Globalization Insider*, www.localization.org, accessed on April 16, 2005.

country. Obviously, a key component of the measure relates to the hardware infrastructure: number of Wi-Fi hotspots, broadband penetration, security of internet connections, and mobile phones in the country. The index also captures other elements such as citizens' ability to utilize technology skillfully, the transparency of the country's business and legal environment, the extent to which the government encourages the

EXHIBIT 19-2**EIU E-READINESS RANKINGS BY COUNTRY, 2008**

Country	2008 e-readiness rank	2005 e-readiness rank	2008 e-readiness score (max. = 10)
USA	1	2	8.95
Hong Kong	2	6	8.91
Sweden	3	3	8.85
Australia	4	10	8.83
Denmark	4 (tie)	1	8.83
Singapore	6	11	8.74
Netherlands	6 (tie)	8	8.74
United Kingdom	8	5	8.68
Switzerland	9	4	8.67
Austria	10	14	8.63
Norway	11	9	8.60
Canada	12	12	8.49
Finland	13	6	8.42
Germany	14	12	8.39
South Korea	15	18	8.34
New Zealand	16	16	8.28
Bermuda	17	NA	8.22
Japan	18	21	8.08
Taiwan	19	22	8.05
Belgium	20	17	8.04

Source: Economist Intelligence Unit, 2008.

use of digital technologies.¹⁶ **Exhibit 19-2** shows the e-readiness rankings and scores for 2008.

Not surprisingly, the leading countries in this ranking have high per capita incomes. Most emerging markets rank very low in terms of e-readiness. For instance, all four BRIC countries' e-readiness rank very lowly: Brazil comes 42nd, Russia 57th, India 54th, and China 56th. The bottom spots in the ranking are taken by Algeria, Indonesia, Azerbaijan, and Iran. This split between rich and poor countries is often referred to as the **digital divide** between rich and poor nations.¹⁷

A critical component for international internet marketing is the digital literacy level of the host country. Digital literacy is defined as the ability to locate, understand and create information using digital information.¹⁸ Digital literacy matters both on the demand and supply side. On the demand side, low computer literacy could limit consumers' willingness to engage in e-commerce transactions. On the supply side, setting up an e-business often requires recruiting people with high computer literacy skills that in many countries are often in short supply. Especially in emerging markets, scarcity of proper talent and skills can restrain the development of a digital economy.

Governments around the world do recognize the crucial importance of having digitally savvy human resources to compete in the global marketplace. Several governments have launched initiatives to improve digital literacy within their society. The Philippine government, for instance, launched an ambitious project in 2008 to improve the digital literacy skills of more than 100,000 teachers. The project is carried out with the assistance of Intel, Microsoft, and the USAID, the U.S. government's foreign aid organization.¹⁹ Several non-profit organizations also help out in bridging the digital divide between developed and developing countries. One example is Silicon

Knowledge Barrier

¹⁶The scoring criteria and weights are: connectivity and technology infrastructure (20%), business environment (15%), cultural environment (15%), legal environment (10%), government policy (15%), and consumer/business adoption (25%).

¹⁷<http://news.bbc.co.uk/2/hi/technology/4296919.stm>

¹⁸http://en.wikipedia.org/wiki/Digital_literacy, accessed on March 16, 2009.

¹⁹www.pia.gov.ph, accessed on March 16, 2009.

Valley-based Inveneo, a non-profit social enterprise that helps to provide access to information communications technology (ICT) to underprivileged communities, primarily in sub-Saharan Africa.²⁰

Access Charges

Early in 1999, the Campaign for Unmetered Telecommunications (CUT) organized a web boycott in several European countries. Internet users in Belgium, France, Italy, Poland, Portugal, Spain, and Switzerland were asked to go offline for 24 hours in protest of high access charges. In October 1998, Italian internet users repeatedly downloaded information from the website of Telecom Italia, thereby blocking access to the site for other users. The move was organized to protest an increase in local telephone rates. Similar campaigns have occurred in other countries as a means to protest against high telecommunication charges.

In numerous countries, high internet access charges are a sore point. Until March 1999, the cost to Chinese internet users was 30 times higher than in the United States. The cost of surfing the web typically consists of two parts: internet subscription rates and telephone charges. While internet subscription fees are often low or free of charge, telephone charges can be prohibitive. In markets with excessive access charges, comparison-shopping becomes very costly. For instance, while eBay's U.S. customers may spend hours browsing the auction site, this is less likely in Europe where most people pay per-minute phone charges for internet access.²¹ Furthermore, shoppers are less likely to complete a purchase transaction.

Government deregulation, increased competition, and new access alternatives (e.g., through cable TV) should put downward pressure on the cost of going online. Internet users in Germany used to pay between \$6 and \$28 per month to their local Internet Service Providers (ISPs), and then pay Deutsche Telekom 4 cents for each minute on the phone to their ISP. Even for moderate users, these charges easily led to bills of over \$50 per month. New competitors now offer internet access at much lower rates. Access to the web in Japan used to be dominated by NTT, which charged sky-high fees. However, as new rivals entered the web access market in Japan, access rates have been falling rapidly.²²

Legal Environment and Government Regulations

The host country's legal environment is another critical factor that affects international internet marketing. Most governments are very enthusiastic about the internet and the opportunities that the digital industry offers. Yet, red tape and government regulations typically stifle the industry in dozens of countries. Regulations differ on issues such as data protection, customs, acceptance of the use of digital signatures and e-mailed contracts as legally binding.

E-commerce is global; the law, on the other hand, is mostly local. Hence, one of the fundamental issues is the question of jurisdiction: Whose contract and consumer laws apply? These issues remain largely unsolved. Problems related to national laws are compounded by a shortage of legal precedents and experts who can interpret existing legislation. In general, companies have two alternatives to handle legal concerns. They can either set up separate websites that comply with local laws or one mega-site that copes with every conceivable local legal requirement.²³

To see how fragmented government regulations and laws affect e-commerce, consider the experience in Europe of Gateway, the U.S.-based PC maker.²⁴ When Gateway wanted to sell computers in Europe online, it initially planned to set up a single electronic storefront with different views for each separate market listing a different price. However, differences in value added tax rates, currencies, and culture in

²⁰<http://www.inveneo.org/>

²¹"EBay Steams Into Europe," *Business Week (Asian Edition)* (October 16, 2000), p. 32.

²²"Finally, Japan's Netizens May Be Able to Afford the Net," *Business Week* (November 22, 1999).

²³"Global E-commerce Law Comes Under the Spotlight," *Financial Times* (December 23, 1999), p. 4. Gateway pulled out of Europe in the late 1990s.

²⁴Gateway was acquired in October 2007 by Acer, the Taiwanese computer company.

the end forced Gateway to create separate websites for each individual European market.²⁵

Several governments have been trying to come to terms with global e-commerce issues by enacting legislation that covers the various areas of concern. Legal conflicts also arise about domain names. AOL, for example, was engaged in a lengthy legal battle over the use of the “aol.com.br” domain name in Brazil with Curitiba America, a small local internet concern.²⁶ One attempt to resolve such domain disputes was the establishment of ICANN.²⁷ This non-governmental body handles such disputes through a process of mandatory arbitration.²⁸

Although government over-regulation can discourage the digital industry, some amount of regulation is clearly necessary, especially to defend intellectual property rights (IPR) and to stamp out cybercrime. Some countries have gone the extra mile to defend IPR: Denmark, for instance, made history when a court ruled that local ISPs must block access to The Pirate Bay website, a Sweden-based website that facilitates illegal downloading.²⁹

Apart from the barriers we discussed above, there are others. Geographical distances can be a major constraint when goods need to be stocked and shipped. Shipping costs easily become a major hurdle for many e-shoppers, especially for bulky items. Delivery delays also increase with distance. Getting paid is another complicating factor. Credit card fraud and lack of trust in general is another challenge. Several e-tailers have a blacklist of countries to which they refuse to ship because of past fraud problems.

COMPETITIVE ADVANTAGE AND CYBERSPACE



The internet offers two major benefits to companies that use the tool as a gateway to global marketing: cost/efficiency savings and accessibility (“connectivity”). Compared to traditional communication tools (e.g., media advertising, catalogs) and distribution channels, the costs of the internet as a delivery channel are far lower. The internet also offers access to customers around the world. As a result, the value of some of the pre-internet sources of competitive advantage has been deflated. One of these potential sources is scale. Some observers have argued that one of the major consequences of the internet is that small and large firms are on an equal footing now as far as global competition is concerned. Barriers to entry due to size have been dismantled. The advantages of size will disappear.³⁰ Barriers due to geographical space and time zones are no longer relevant.³¹

Although size-related advantages will probably lessen, claims that the internet provides a level playing field to small and large global players alike are somewhat overblown. Large multinationals will still maintain an edge in most industries over their smaller competitors, especially in the global arena. Large firms still enjoy a substantial competitive advantage because of larger resources and more visibility among prospective customers worldwide. Deep pockets allow them to hire the best talent and buy the latest technologies in the area. Large multinationals can also tap into their global expertise to cope with the countless challenges that going international poses: the logistics of getting tangible goods to the customers, differing payment methods and currencies, a maze of rules and regulations, coping with customs, and so forth. It is also

²⁵“Net Marketers Face Hurdles Abroad,” *Advertising Age International* (June 1999), p. 42.

²⁶“AOL Waltzes Into Brazil, Unprepared for the Samba,” *The New York Times* (December 11, 1999), p. B2.

²⁷Internet Corporation for Assigned Names and Numbers (www.icann.org).

²⁸“Global E-commerce,” p. 4.

²⁹“Pirate Bay to Remain Blocked in Denmark,” <http://www.macworld.co.uk/digitallifestyle/news/index.cfm?RSS&NewsID=23799>.

³⁰“The internet and International Marketing,” p. 71.

³¹“The Integration of internet Marketing,” p. 13–14.

consultation, or personally addressing the visitor. Especially website visitors living in more individualistic countries put high weight on customization.

2. The effect of privacy/security protection on perceived value is strongest for people living countries high on individualism and where the rule of law is weak.
3. Not surprisingly, websites should be adapted to the local context for countries where consumers take pride in their country's symbols, culture, and language.³⁶

GLOBAL PERSPECTIVE 19-2

EBAY—A GLOBAL FLEA MARKET



A *New Yorker* cartoon shows a woman driving a huge tractor into her living room to show it to friends. Its caption: “I got it from eBay.” An *eBay* search on the magazine’s cartoon-bank produces five other cartoons. Clearly, eBay has become part of the cultural landscape. eBay, the online auction group, was founded in the mid-1990s by Pierre Omidyar, a young French computer programmer. To most venture capitalists, the idea of an online flea market was not exactly captivating. And yet, eBay managed to do something that very few other dot-coms were able to: it has always made a profit. Its business model is basically very simple: match individual buyers and sellers online and take a cut of the transaction. What is behind eBay’s profit potential? A mixture of no cost of goods, no inventories, low marketing costs, and no huge capital investments. eBay has turned into one of the world’s most successful internet enterprises with 84 million active users. Meg Whitman, eBay’s former CEO, managed to turn the firm from a purely domestic company with auctions in 300 categories into a global empire spanning 21 countries and 16,000 categories. Categories now include computers, used cars, time-share holidays. eBay has truly become a global trading platform.

eBay’s biggest strength has been its willingness to its customers incessantly. Early on, it introduced buyer and seller feedback ratings and showed pictures of the goods being sold. When the firm launched Billpoint, many customers resented the new payment service. eBay quickly redesigned the site and explained that Billpoint was optional. eBay also constantly scans the site to see whether any new opportunities arise in the

miscellaneous category. eBay users also have an emotional attachment to the site; a community sense which translates into strong site loyalty. As one eBay customer explained: “There a lot of people who are afraid to take the chance of leaving eBay because they have built up thousands of positive recommendations from buyers which they cannot transfer to a competitor.” The company bills itself as “a community by nature, not by design.” It imposes very few restrictions on the merchandise being traded. For instance, it stopped the auction of a human kidney and has banned the sales of guns, alcohol, and tobacco.

eBay has patched together a global empire via a string of acquisitions (e.g., Alando in Germany, France) and start-ups from scratch (e.g., Japan, the U.K.). It dominates most of its markets. Not all overseas forays have been successful. In Japan Yahoo! has pre-empted eBay and now claims leadership. eBay made two mistakes in Japan: it came in late (5 months after Yahoo! Japan launched its auction site) and it charged a commission for every transaction (Yahoo! Japan didn’t). The company claims that as a whole its international business is profitable. In France eBay was ordered by a court to pay a \$61 million fine for selling fake luxury goods from Louis Vuitton and Dior on its site.

China is the auction house’s big ambition. In March 2002, the firm took a cautious first step by investing \$30 million for a one-third stake in EachNet, a Shanghai-based online auction company. eBay acquired the company fully in June 2003. Unfortunately, eBay failed to gain traction in China, particularly against local incumbent Taobao, which is part of the Alibaba group. In December 2006, eBay folded EachNet into a new joint venture it set up with China-based Tom Online. The move gave eBay access to Tom Online’s user base of 75 million along with its local market expertise. eBay hoped that the new partnership would enable it to crack the Chinese market. The firm imposed strict restrictions on sellers to stamp out sales of counterfeit goods. It also launched creative campaigns to build up its image in China. One campaign, Jigsaw Puzzle, consisted of a virtual puzzle where users were invited to upload puzzle pieces to eBay’s local website. For each piece submitted, eBay donated Rmb 1 (about 15 cents) to a local charity that builds libraries.

Sources: “eBay, the flea market that spanned the globe,” *Financial Times* (January 11, 2002), p. 18; “The community that listens to customers,” *Financial Times* (January 11, 2002), p. 18; “Success depends on rapid growth abroad,” *Financial Times* (January 11, 2002), p. 18; “eBay Bids for a Piece of China,” *Asian Wall Street Journal* (March 18, 2002), p. A12; “Auction Brawl,” *Business Week (Asian edition)* (June 4, 2001), pp. 18-19; <http://www.ecommerce-guide.com/essentials/eBay/article.php/3578921>; “How to Find Focus Online,” *Media*, October 20, 2006, p. 27; “eBay Shifts China Strategy,” http://www.washingtonpost.com/wp-dyn/content/article/2006/12/20/AR2006122000234_pf.html; and “eBay Returning to China,” <http://www.iht.com/articles/2007/06/21/technology/eBay.php>.

³⁶Jan-Benedict E. M. Steenkamp and Inge Geyskens, “How Country Characteristics Affect the Perceived Value of Web Sites,” *Journal of Marketing*, 70 (July 2006), pp. 136–50.



GLOBAL PERSPECTIVE 19-3

PLANET GOOGLE?

Google, the Silicon Valley-based internet juggernaut, dominates the search engine market in most Western countries. However, there are still several major markets where Google has made little headway against well-entrenched local search companies. In China, which comprises the world’s largest internet population, Baidu, a NASDAQ-listed Chinese internet firm, handles more than 60 percent of all internet searches compared to only 11 percent for Google China. Other countries where Google lags behind include the Czech Republic, Russia, Japan, and South Korea (see Table A). In these markets, Google has been kept at bay by local firms who have capitalized their first-mover advantage. These local players have been able to consolidate their lead by building up a strong brand reputation and combining search with a range of other portal-like services. In Russia and the Czech Republic, Google did not initially match the locals in the quality of local language search results. Also, initially with few local language web documents available, Google’s computer algorithm technology proved to be less of a competitive advantage in those markets.

Source: “The Plucky Local Groups Who Dare to Defy Planet Google,” *Financial Times*, September 17, 2008, p. 18.

TABLE A
Google’s Share in the Non-Google World

Country	Number 1	Number 2	Number 3
Czech Republic	Seznam: 62.5%	Google: 24.8%	Centrum: 4.8%
China	Baidu: 66.5%	Google: 11.3%	Alibaba: 7.4%
Russia	Yandex: 45.9%	Google: 33%	Rambler Media: 8.8%
South Korea	Naver: 57.7%	Lycos: 18.4%	Google: 8.5%
Japan	Yahoo! Japan: 51.0%	Google: 39.5%	Rakuten: 2.0%

Sources: ComScore; e-3internet

Google counts on its ability to invest more in technology to get an edge over the competition. The firm expects that as the number of web documents in local languages explodes, its local rivals will find it harder to keep up. Google is also willing to change its game plan to reflect local preferences. Several local firms such as Naver in South Korea and Seznam in the Czech Republic have created a very successful service where users answer questions posed by others, similar to the service offered by Yahoo! Answers. Google has copycatted this service in several of its emerging markets, including Thailand and China. Google also launched an Arabic version (and the first non-English version) of Knol, a site that posts user-written articles on a range of topics.



GLOBALLY INTEGRATED VERSUS LOCALLY RESPONSIVE INTERNET MARKETING STRATEGIES



At the core of any global web marketing strategy is the conflict between local responsiveness and global integration. By being in tune with the local market’s demands, the multinational can do a better job in satisfying its overseas customers. Research shows that consumers have a higher purchase intention and better attitude toward highly adapted websites compared to sites that are medium or low on cultural adaptation.³⁷ **Global Perspective 19-3** discusses some of the initiatives that Google took to make its service more locally responsive. However, localization comes at a price. By global or regional integration, the global web marketer can achieve operational efficiencies—in terms of setup, learning, and maintenance costs. Multinationals can leverage these efficiencies to gain a competitive edge over local players or global rivals that use a different business model. These cost savings can be passed on to the distributors and end-customers in the form of lower prices. Just as with global ad campaigns, an integrated web marketing strategy can also ensure cross-country consistency in building up a global brand image.

Exhibit 19-3 provides a useful framework for deciding on the most suitable global internet marketing strategy. The schema is based on two dimensions: global integration and local responsiveness. By combining these two dimensions, four possible types of internet marketing strategies become possible: (1) a nationally differentiated strategies, (2) pure local adaptation, (3) global cost leadership, and (4) transnational cost adaptation strategies. Which of these four strategies is most suitable depends on the nature of the product or service. The first class of goods covers “look and feel” products. These are products where no gains can be made from global integration (e.g., because the local markets are large enough to get economies of scale). Multinationals pursue a strategy of national differentiation for this class of products (Cell 1). Adapting to unique characteristics of each individual country can help develop a competitive edge. Adaptations may be in terms of website design, language, shipping policies, assortment, and so forth. Given that such strategy can easily become expensive, MNCs should carefully deliberate whether market presence is really justified. The second class covers goods where neither local sensitivity nor global integration offers a competitive edge. A typical example is commodity-like products that are very local in nature because of perishability or bulkiness. Cell 3 involves goods where there is no need for localization but there are

EXHIBIT 19-3
GLOBAL INTERNET STRATEGIES ACCORDING TO NATURE OF GOOD OR SERVICE BEING SOLD

Local Responsiveness	High	Cultural or Regulated Goods and Services (Transitional cost-adaptive strategy) Examples: Wines, financial products, information 4 1	Look and Feel Goods and Services (Nationally differentiated strategy) Examples: Clothing, used cars, collectible art, auctions
	Low	Global Commodities (Global low-cost strategy) Examples: Books, CDs, videos, used records, industrial goods and components 3 2	Local commodities (Pure local adaptation strategy) Examples: Produce, Internet access
		High	Low
		Global Integration	

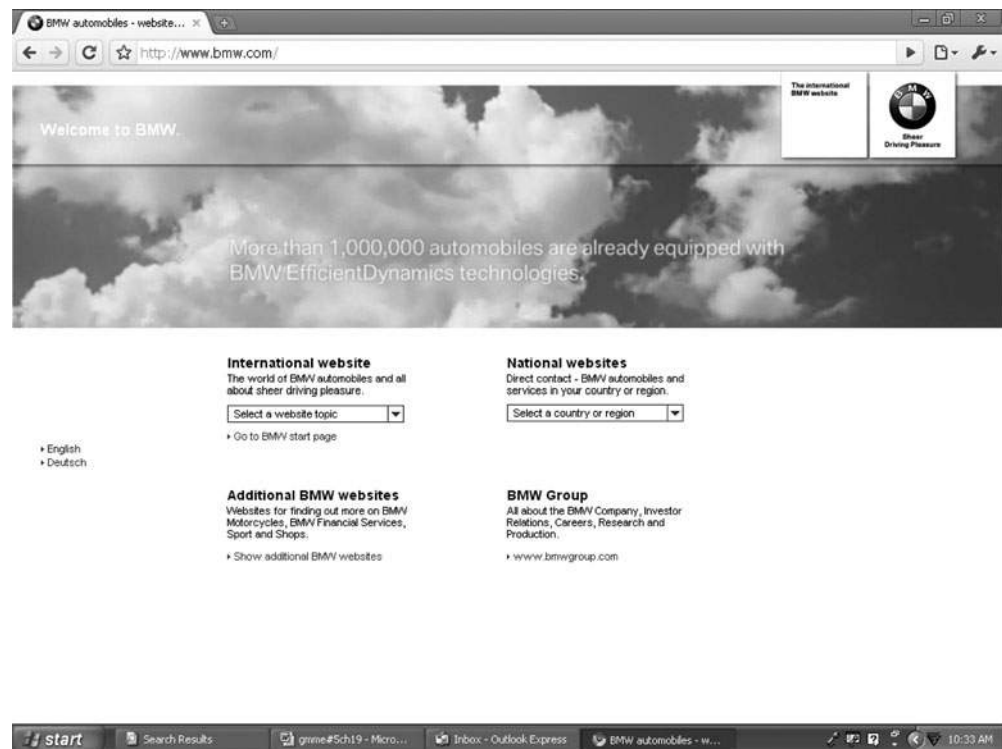
Source: Reprinted with permission from *Business Horizons*, May–June 2002. Copyright (2002) by the Trustees at Indiana University, Kelley School of Business.

³⁷Nitish Singh, Olivier Furrer, and Massimiliano Ostinelli, “To Localize or to Standardize on the Web: Empirical Evidence from Italy, India, Netherlands, Spain, and Switzerland,” *The Multinational Business Review*, 12 (Spring 2004), pp. 69–87.

opportunities for global integration. As with the previous case, these are mostly commodity-like products. However, here a competitive advantage is achievable via global scale efficiencies. The last category involves products or services that require both global integration and local sensitivity. A global web marketing strategy for these goods demands a balancing act that allows the company to achieve scale economies while coping with local peculiarities. On the product side, a transnational strategy could be accomplished via mass-customization.³⁸

What do companies do in practice? One study looked at 206 websites to explore how American brands standardize their websites in four European countries (the UK, France, Germany, and Spain).³⁹ Most U.S. MNCs tailored the specific content of their country websites, especially textual information and visual images. However, a minimum level of standardization was found for logos, colors, and layouts. Further, the amount of web standardization was larger for durable goods than for non-durables. As with global new product development, firms can strike a balance between globalization and localization of their website using a core-product like strategy: create a global portal for the brand's (or company's) website that channels website visitors to nationally tailored sites.⁴⁰ The BMW website is a good illustration of this approach: the BMW portal—www.bmw.com—offers two broad choices: an “international website” available in English and German with various topics covering the different BMW models and other information, and highly customized country sites (see **Exhibit 19-4**). Another good example is the website for Nivea, the German skincare brand (see **Exhibit 19-5**). The Nivea portal gives visitors access to around 60 country, territory, and

EXHIBIT 19-4 INTERNATIONAL WEBSITE OF THE BMW BRAND



Source: www.bmw.com

³⁸Mauro F. Guillèn, “What is the Best Global Strategy for the Internet?” *Business Horizons*, 45(3), pp. 39–46.

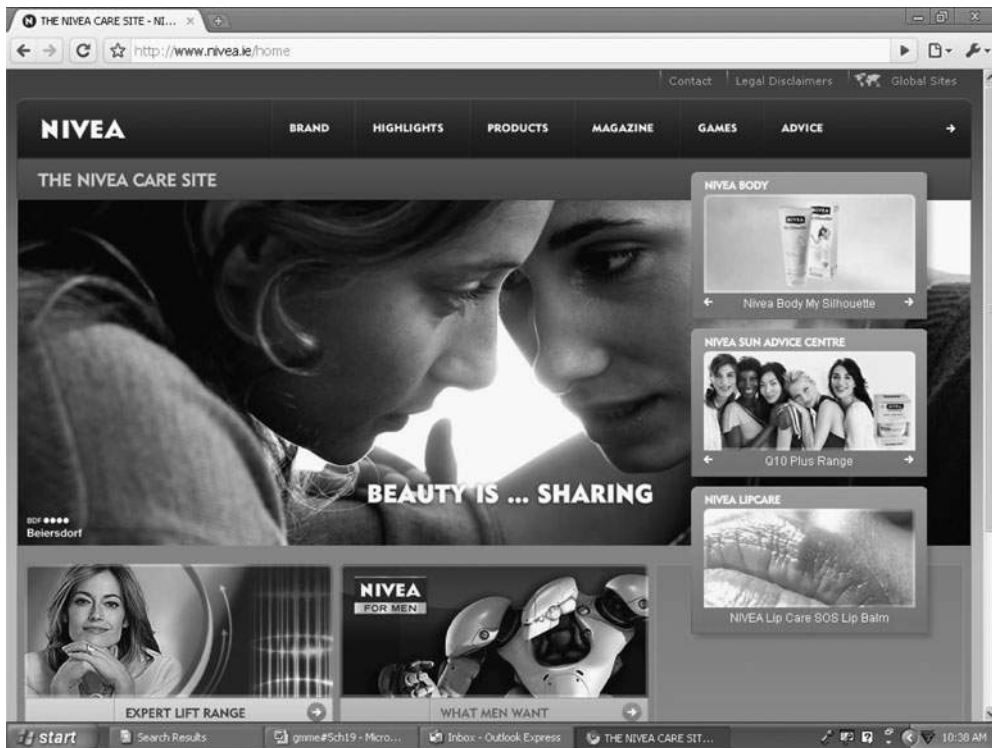
³⁹Shintaro Okazaki, “Searching the Web for Global Brands: How American Brands Standardise Their Web Sites in Europe,” *European Journal of Marketing* 39, 1/2(2005): 87–109.

⁴⁰“How Country Characteristics Affect the Perceived Value of Web Sites,” pp. 146–47.

EXHIBIT 19-5
WEBSITES OF THE NIVEA BRAND



Source: www.nivea.com (Nivea international portal)

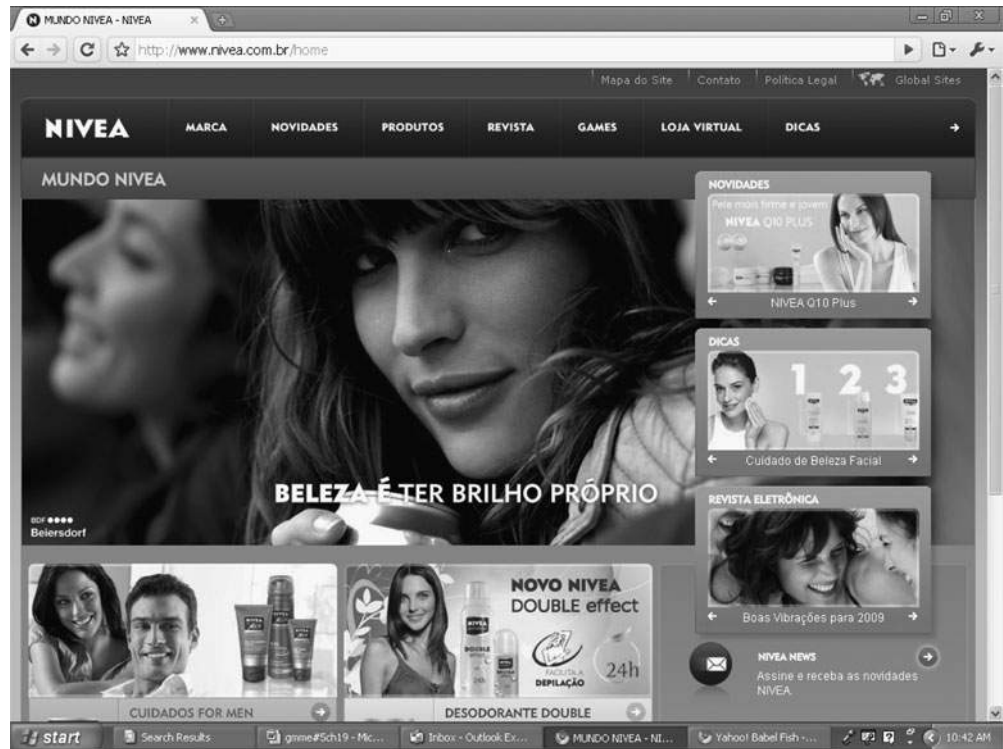


Source: www.nivea.ie (Nivea Ireland website)

(Continued)

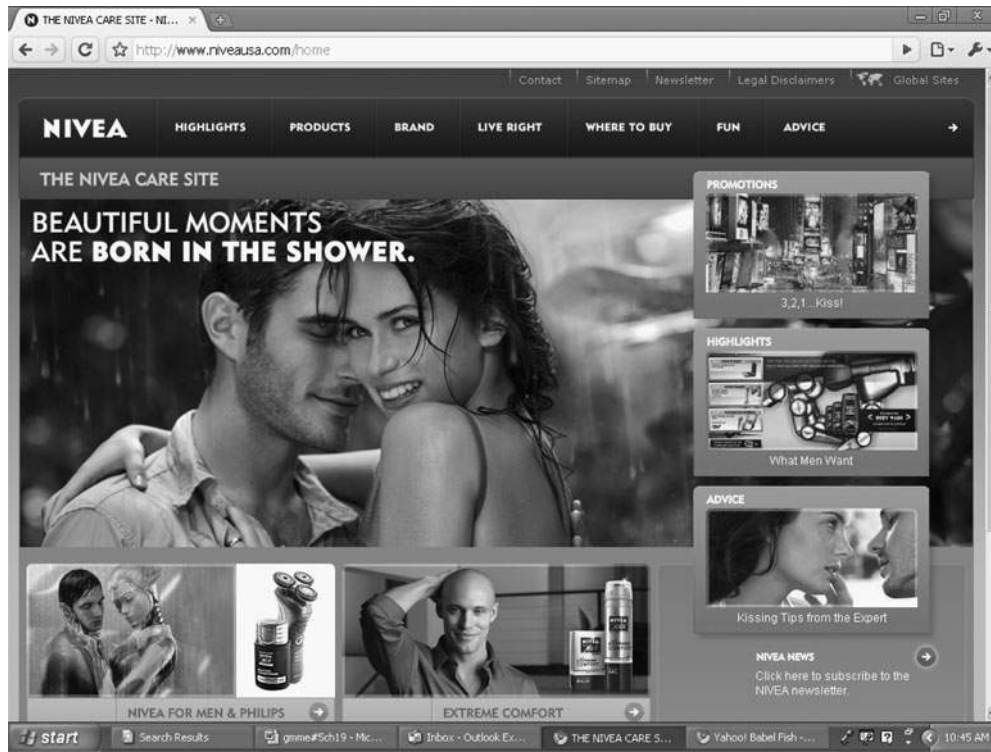


Source: www.nivea.co.th (Nivea Thailand website)



Source: www.nivea.com.br (Nivea Brasil website)

(Continued)



Source: www.niveausa.com (Nivea U.S.A. website)

regional sites. Each country site has Nivea's signature blue with the same visuals and imagery and similar features (e.g., Highlights, Brand, Advice). The sites are localized in several respects: the models used in the images, language (several country sites have multiple language choices), the products displayed. Some features are also unique to or relabeled on a particular country site (e.g., the "Games" feature on European sites is called "Fun" on Nivea's U.S. site).

THE INTERNET AND GLOBAL PRODUCT POLICY



From a product policy perspective, the internet offers tremendous opportunities. Given the intrinsic nature of the internet, the medium can be used to foster global brand building. The internet can also be leveraged as a platform for global new product development. Furthermore, the internet can also be a major driver in the diffusion of new products or services. Below we elaborate more the role of the internet in global product policy.

Management of global brands on the web is one of the challenges that global internet marketers face.⁴¹ Many MNCs allow their local subsidiaries to set up their own websites. Cultural fragmentation is often the main driver behind customization. Yahoo! deliberately puts its country managers in charge of the local website's content.⁴² Yahoo! portals around the world carry the Yahoo! logo on top and offer standard services (e.g., Answers, Movies, Finance, Maps), but differences do exist. In India, online auctions and online shopping are not offered as few people have credit cards. On the other hand, the

Global Branding and the Internet

⁴¹"The internet and International Marketing," p. 70.

⁴²"Yahoo Uses Local Road In Drive to Expand Its Brand Across Asia," *Asian Wall Street Journal* (March 1, 2001), p. N1.

India Yahoo! portal includes topics that most other countries do not provide such as astrology and cricket. Other Yahoo! country sites also offer very distinctive features such as online courses in Australia and topics on gourmet, clothing/beauty, and real estate in Japan. By granting autonomy to its country managers, Yahoo! hopes to capitalize on its technology and global brand while catering to local customers.

Often, however, websites lack coordination and oversight. As a result, they can become a collage projecting different images, visuals, content, and messages for the brand and/or company. Consequently, consumers who visit sites associated with the brand or the company may get confused. With global cult brands (e.g., Land Rover, Harley Davidson), the issue of multiple sites becomes further compounded as individual distributors and brand enthusiasts set up their own websites featuring the brand. This problem becomes especially thorny when the company tries to broadcast a single brand or corporate image. Therefore, just as with more traditional communication media such as advertising, some amount of coordination of the content and tone of websites under the MNC's control is a must when a consistent brand or company image is desirable. Unfortunately, consumer-generated websites related to the brand are beyond the firm's control.

Web-based Global New Product Development

Companies increasingly use the web to support the different stages of the new product development (NPD) process.⁴³ The internet plays a role in the area of global product innovation on at least three fronts: global product design, generating new product ideas through consumer *co-creation*, and new product diffusion. First of all, companies increasingly rely on geographically distributed innovation centers for their new product development efforts. Dell, for example, has established product design centers in four locations around the world: Austin, Singapore, Bangalore, and Shanghai. By using the web as a platform, multinationals like Dell and Lenovo can streamline their product development management, lower overall global development costs, and shorten the time to market. Advances in computer-aided design (CAD) software have turned web-based global NPD more efficient. One example is the PTC Windchill[®] suite⁴⁴ of web-based software products that has been used by firms like Dell to facilitate NPD in a global environment. This software uses a single repository for all product-data and enables engineers and managers alike to access product data from anywhere in the world through a simple web-based interface.⁴⁵

The internet is also a driving force behind the rise of **consumer co-creation** which refers to innovation processes where consumers co-create value with the company. Instead of the consumers simply being passive and only giving feedback on new product concepts (e.g., via focus groups), they actively become involved in the NPD process. The internet makes this process more powerful by offering a massive, worldwide pool of people to tap into and by providing information access to those people. Co-creation has been applied by numerous companies including Dell (“IdeaStorm” — see **Exhibit 19-6**), Nike, Diageo, and Starbucks. P&G, for instance, aims to have one-third of its innovations being spurred through co-creation with customers or former employees. Jacques Bughin, a McKinsey partner, provides the following five tips to make co-creation effective:

1. *Signal credibility to potential contributors.* This can be done by signaling the reputation of the brand or the presence of third-party funding.
2. *Create incentives to participate.* Such incentives could be monetary (cash, revenue sharing) but also non-monetary (e.g., public acknowledgements). Dell's IdeaStorm website includes a listing of the top-20 idea contributors.

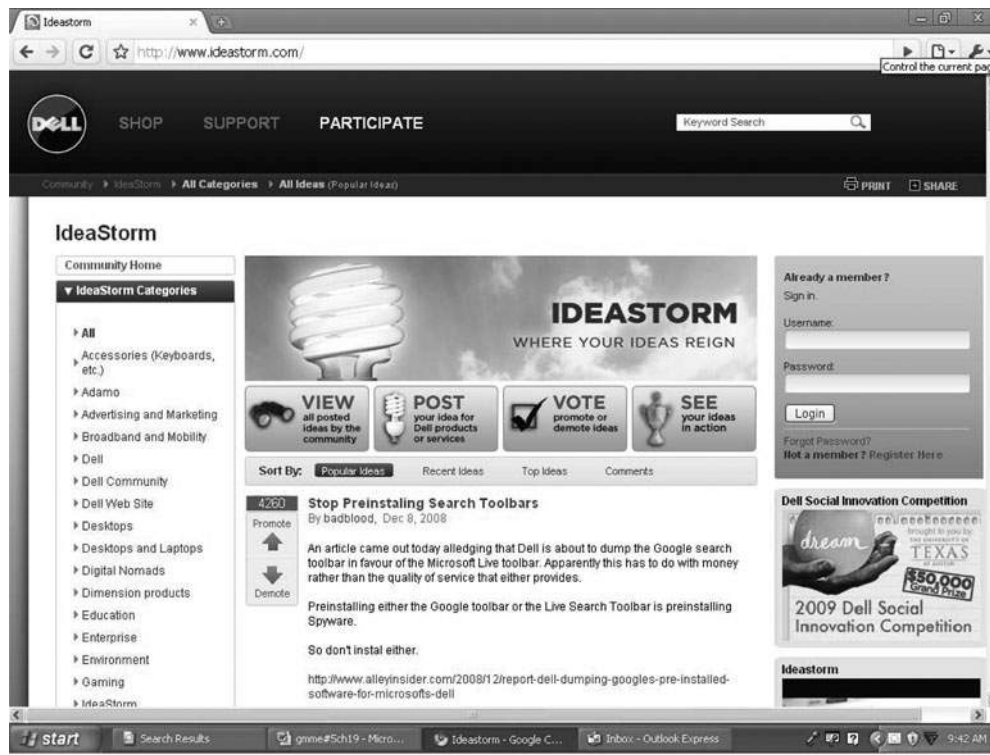
⁴³Muammer Ozer, “Using the Internet in New Product Development,” *Research Technology Management* 46, 1 (Jan/Feb 2003): 10–16.

⁴⁴<http://www.ptc.com/products/windchill/>

⁴⁵“How Dell Accelerates Product Development Worldwide,” www.dell.com/powersolutions, accessed on March 18, 2009.

EXHIBIT 19-6

EXAMPLE OF CONSUMER CO-CREATION—DELL'S IDEASTORM



Source: www.ideastorm.com

3. *Establish a clear model of leadership in co-creation networks.* Decide who is in charge of the co-creation network and how to manage it.
4. *Get the brand right before engaging in co-creation.* People need to trust the brand before they are willing to engage in consumer co-creation.⁴⁶

Finally, the internet can also play a critical role in the diffusion of new products within and across countries.⁴⁷ Companies can use the web to inform potential adopters of new products or planned launches around the world. Online hype or buzz can also stoke interest about the innovation, even long before the product is released in a particular market, as demonstrated by recent high-profile new product launches such as Apple's iPhone, Amazon's Kindle e-book reader, and Sony's PSP. On the other hand, negative online chatter from consumers where the new product has already been introduced can hamper the adoption of the innovation in later markets.

The internet heralds changes in the marketing of international services. Services differ from goods in four respects: (1) intangibility, (2) simultaneity, (3) heterogeneity, and (4) perishability. *Intangibility* means that services cannot be stored, protected through patents or displayed. *Simultaneity* refers to the fact that services are typically produced and consumed at the same time. Service delivery is also *heterogeneous*, meaning that it depends on many uncontrollable factors. There is no guarantee that the service delivered will match the service that was promised. The final characteristic, *perishability*, refers to the fact that services usually cannot be saved, stored, resold, or returned. In

Web-based Marketing of Services

⁴⁶"Innovation and Co-Creation," *MSI Conference Summary*, June 16–18, 2008.

⁴⁷Venkatesh Shankar and Jeffrey Meyer, "The Internet and International Marketing," in *The Sage Handbook of International Marketing*, Masaaki Kotabe and Kristiaan Helsen (eds.), London: Sage, 2009.

loyal to a particular brand, consumers become more and more deal-prone, buying the cheapest brand available within their consideration set of acceptable brands. Finally, price transparency may also raise questions among consumers about price unfairness. Because of various restrictions, customers in one country may not be able to order via the internet the same product at a lower price from another country. However, when they realize that the product is much cheaper outside their country, consumers in high-price markets may feel that they are being taken for a ride, unless the price gaps can be fully justified. Some of these issues are illustrated by Apple's experience with the pricing of iTunes downloads in Europe. Until early 2008, Apple charged much more for iTunes downloads in the United Kingdom than in euro-zone countries: whereas iTunes customers in Britain had to pay 79p to download a song, those in Germany and France had to fork out 68p (€0.99). In early 2008, following public outcry in the United Kingdom, Apple decided to lower its U.K. prices by almost 10 percent to bring them in line with the rest of Europe.⁵¹

To cope with price transparency due to the internet, companies can pursue various routes. First, as we discussed in Chapter 12, firms can align their prices by, for instance, cutting prices in high-price countries and/or raising them in low-price markets. This was the route taken by Apple for iTunes downloads in the United Kingdom: the company narrowed the price gap between the U.K. and the euro-zone. Second, companies can also “localize” their products so that they differ across countries and comparison-shopping becomes less feasible. In some industries (e.g., pharmaceuticals, consumer electronics), manufacturers can also alert buyers about the adverse consequences of buying from low-price overseas suppliers. Risks that consumers might run into include limited or no warranty coverage, lack of service support, buying products that are not suitable (e.g., wrong technology standard) or that turn out to be counterfeit. Finally, outright refusal to handle orders from overseas buyers is another tactic. For instance, some country websites (e.g., iTunes) only allow payment for shipping orders through credit cards registered in that particular country.

GLOBAL DISTRIBUTION STRATEGIES AND THE INTERNET



The internet has also brought momentous changes for international distribution strategies. Firms that plan to make the internet an integral part of their international distribution channel, need to reflect on questions such as these: Should internet distribution complement or replace our existing channels? Will the role of our current distributors change as a result of having the internet as an additional channel medium? Should we allow our distributors to set up their own internet channels? Global retailers, facing the onslaught of online sellers, need to decide whether they should remain a brick-and-mortar business or transform themselves into a click-and-mortar business by setting up a web presence.

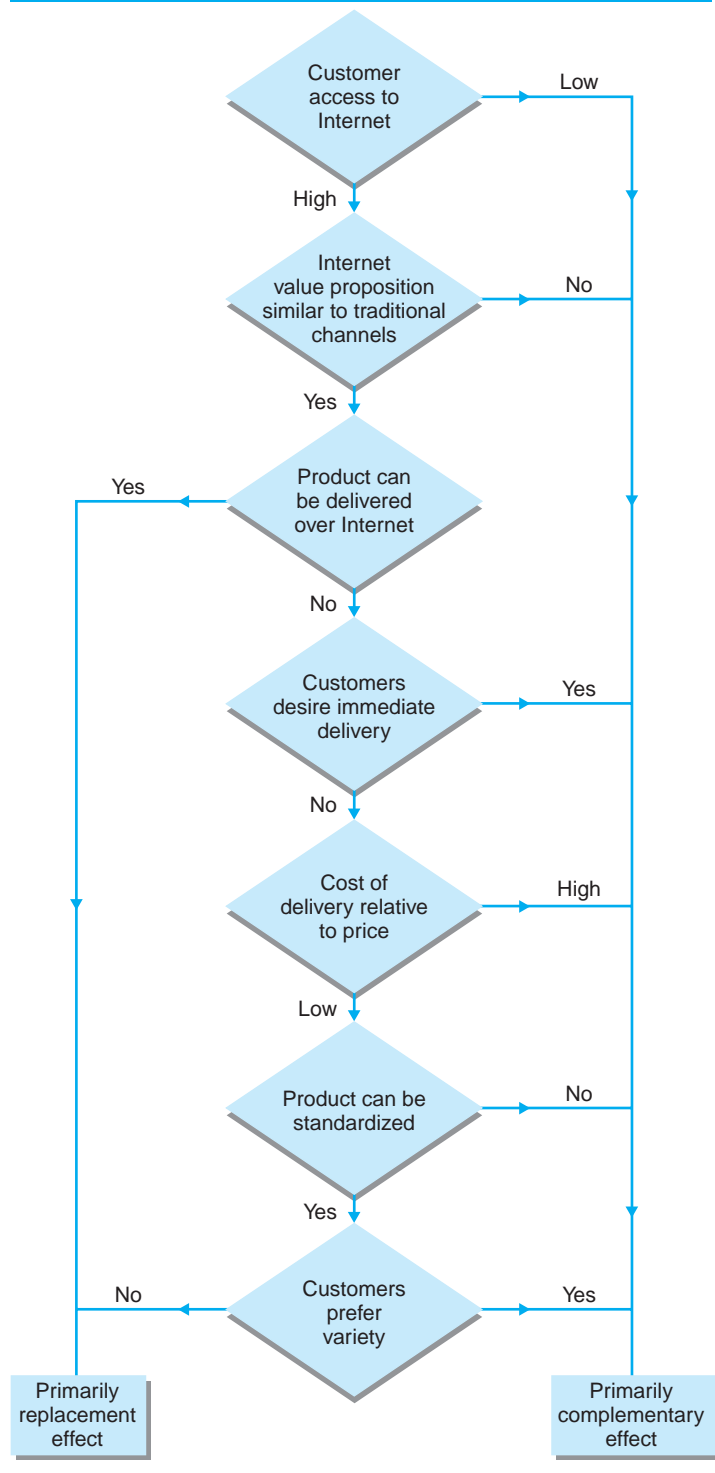
Connectivity means that in many industries buyers can now hook up directly through the internet with manufacturers, thereby bypassing existing channels. Some observers have gone so far as to claim that the internet heralds the end of the middleman. Especially in Japan, where there are sometimes up to seven layers of distribution between the manufacturer and the end user, the internet has the potential to cut out scores of middlemen.

Although the internet could diminish the role of intermediaries in certain businesses, in most industries distributors can still play a vital role. Manufacturers that plan to add the internet to their existing international channels need to ponder the effects of this new medium on the incumbent channels. In general, there are two possibilities: a **replacement effect** or a **complementary effect**. With the former, the internet primarily cannibalizes existing distribution channels. With the latter, on the other hand, the internet expands the overall business by offering a more attractive value proposition to

Role of Existing Channels

⁵¹“Apple to Cut UK Prices for iTunes Tracks,” www.guardian.co.uk, accessed on March 6, 2009.

EXHIBIT 19-7
 COMPLEMENTARY VERSUS REPLACEMENT EFFECT OF
 THE INTERNET



Source: Courtesy of Professor Nirmayal Kumar, London Business School.

prospective buyers. The extent to which the internet has mostly a replacement or complementary impact will depend on the nature of the industry (see **Exhibit 19-7**).⁵²

⁵²“Internet Distribution Strategies: Dilemmas for the Incumbent,” *Mastering Information Management. Part Seven—Electronic Commerce*. Supplement to the *Financial Times* (March 15, 1999), pp. 6–7.

Most likely, the effects will also depend on the country. Manufacturers may have different distribution channels in place in the various countries where they operate. Also, when the product life cycle stage varies across markets, the effect of the internet on incumbent channels will probably differ.

The most successful distributors will be those that are able to build up new competences that leverage the internet. The reason for having a distribution channel in the first place is the value-added that the middleman offers. Traditionally, sources of value-added might have been scale, inventory, assortment, and so forth. With the rise of the internet, distributors will need to look into novel ways to build competences. For instance, one potential downside of the internet is “information overload.” Intermediaries can add value for their customers by collecting, interpreting, and disseminating information.⁵³

Manufacturers who decide to incorporate the web in their international distribution strategy also need to ponder what approach to adopt.⁵⁴ One choice is not to use the internet for purchase transactions and also forbid distributors from using the internet as a sales medium. In that case, websites accessible to outsiders would merely function as a product information and/or communication tool. A second approach consists of allowing middlemen to sell goods over the internet. However, the manufacturer itself would not sell directly via the internet. One downside with this strategy is that sales from middlemen via the internet may impinge on existing pricing policies and territorial restrictions. In the worst-case scenario, internet sales might spur gray market activity. The third strategy is the complete opposite of the previous one. Here, internet sales are restricted to the manufacturer. A major risk here is that sales thus generated simply cannibalize incumbent resellers, thereby leading to channel conflicts. One way to counter such a risk is by selling different product lines through the various channels. However, resellers may dislike such differentiation strategy if it turns out that the product lines sold directly over the internet are more popular than the ones allocated to them. Finally, companies can also pursue a free-for-all strategy where goods are sold direct through the internet and manufacturers allow their resellers to sell online. It is then up to the market to settle on the ultimate winning combination.

Some people see the battle between conventional bricks-and-mortar retailers and internet retailers as a beauty contest with the cards stacked in favor of the latter. Consumers enjoy the convenience, the broad product assortment, and the product information provided by shopping websites. There are three e-tailing business models. First, there is the manufacturer’s direct website where the manufacturer sells directly to the end-customer. Second, there are the pure web-only retailers. Pure web retailers often have a price advantage over traditional retailers because they have lower property and warehousing costs. The third possibility is the hybrid **click-and-mortar retailing model** in which the online presence becomes an extension of the traditional channel. Dozens of large retail chains have been trying to meet the challenge posed by pure web retailers by setting up a website presence. By going online, these chains are able to combine the advantages of having a website presence with those of a physical presence.⁵⁵ Click-and-mortar retailers can cross-market between their website and their store outlets, thereby adding value for their clients. Customers have the advantage of being able to touch the goods or even try them out before buying them online. They can pick up the goods ordered online at the local retail outlet to save shipping costs. Click-and-mortar retailers also often enjoy substantial brand equity whereas most pure web retailers still need to invest a lot to build up a brand. As a result, their customer acquisition costs are generally much higher than for their click-and-mortar competitors. Most hybrid retailers also have a financial advantage. Whereas retailers such as Wal-Mart, FNAC or Bertelsmann have plenty of cash available, many pure cyber-retailers often have had huge losses or minuscule profits so far. One final benefit is that local chains

E-Tailing Landscape

⁵³“The internet and International Marketing,” p. 66.

⁵⁴“Internet Distribution Strategies: Dilemmas for the Incumbent,” p. 7.

⁵⁵“The Real internet Revolution,” *The Economist* (August 21, 1999), pp. 53–54.

often have a better feel of the local culture. Most of the well-known brands in pure web retailing (e.g., E-trade, Amazon.com) still have rather limited international expertise.

A good example of the clash between click-and-mortar and pure internet retailers was the rivalry in France between FNAC, a leading French music and bookstore chain, and CDNOW, a U.S.-based online music vendor.⁵⁶ When CDNOW entered France and Germany it added local language “gateways” to its U.S. website. For instance, French shoppers could place orders in French and pay in their local currency. FNAC launched a pre-emptive strike by setting up a music website to compete with CDNOW. CDNOW enjoyed several competitive advantages. Sony and AOL Time Warner, two leading music content companies, had a major stake in CDNOW (37 percent each). This enabled CDNOW to offer international internet shoppers the latest releases at bargain prices. As one of the pioneers in online retailing, CDNOW also enjoyed a technology advantage over FNAC. FNAC, on the other hand, also had several competitive advantages. It was able to use its website as an extension of its store network and vice versa. Furthermore, in France and other European countries, the FNAC brand name is a trusted brand with much more familiarity among consumers than the CDNOW brand name.⁵⁷

Whether the e-tailing business model will succeed in a particular country, depends on a wide range of factors:⁵⁸

- *Consumer behavior.* Will consumers value a website component? Does it add value (e.g., customization, information, bigger selection, price)? Are there any valuable benefits of being part of an online community (e.g., eBay)? Are there concerns about releasing personal data or paying via a credit card online?
- *Cost structure.* Are the costs of distribution (shipping, logistics) and marketing acceptable?
- *Government policies.* What are the tax rules for buying online? Are they likely to change? Are there (or will there be) any restrictive privacy legislation or customs policies?

◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ ◆ THE ROLE OF THE INTERNET FOR GLOBAL COMMUNICATION STRATEGIES

From a communication perspective, global marketers can leverage the internet in two ways. The first role is as a pure advertising medium. This can be done via banner ads, search engine advertising, or more sophisticated forms of online advertising. The second—and probably far more crucial—role is as a communication medium that enables the company to build customer ties. **Global Perspective 19-4** discusses a recent digital pan-Asian marketing campaign launched by Unilever for its Yellow Label Lipton tea brand.

Online Advertising

One use of the web is as an advertising tool. In that function, internet advertising would complement other forms of promotion such as TV, radio, outdoor. Online advertising spending, although still marginal, is growing rapidly. By 2009, JupiterResearch forecasts that advertising spending will grow to about \$16.1 billion in the US and \$3.9 billion in Europe.⁵⁹ Overall, in almost all countries internet advertising still is a very tiny slice of the global advertising pie, even in the developed world.

As a global, interactive broadcast medium, the internet offers several advantages to international advertisers. One potent quality is the internet’s global reach. Online

⁵⁶“Storming a CD Bastille,” *Business Week* (November 15, 1999), pp. 46–47.

⁵⁷CDNOW was ultimately absorbed by Amazon.

⁵⁸Diane D. Wilson, “The Future of internet Retailing: Bigger than Catalogs? Bigger than Bricks and Mortar?” in *The World According to E: E-Commerce and E-Customers*, MSI Report No. 00-102, pp. 5–8.

⁵⁹<http://news.bbc.co.uk/2/hi/business/4203805.stm>



GLOBAL PERSPECTIVE 19-4

LIPTON HIRAMEKI—MAKING TEA TRENDY AMONG YOUNG OFFICE WORKERS IN ASIA

In early 2007, Unilever launched a major regional digital campaign dubbed “Hirameki Park” in Asia with the aim to persuade young office workers to switch their drink of choice from coffee to Unilever’s Yellow Label Lipton tea brand. The initial campaign was developed in Japan. The campaign’s concept refers to the Japanese word *hirameki*, which roughly translates to “I’ve got an idea” in English. More specifically, the *hirameki* campaign tries to make tea trendy among young office workers: “The strategy was about inspiring a new generation of tea drinkers, so it doesn’t seem old-fashioned, but rather a healthy alternative to energy drinks like Red Bull or coffee” (adage.com). To woo the target consumers, the campaign touts the benefits of tea. One of ad agency executives behind the campaign explained its basis as follows:

Sources: “Lipton Ads to Go Regional,” *Media*, March 23, 2007, p. 5 and “Lipton Hirameki Launch Hits China,” adage.com, accessed on March 23, 2009.

“Asians know there is goodness in tea. What is not commonly known is tea contains theanine, and this has been found to create a relaxed but alert mental state . . . The idea is that Hirameki brightens my day with new perspectives and inspirational moments.” (*Media*, March 23, 2007).

The campaign included TV commercials but also had a major digital element. Unilever’s ad agency created a regional website—*hiramekipark.com*—as well as customized country sites for 11 countries. The sites have a range of activities that encourage consumer interaction around an inspiration theme, including blogs, downloads, quizzes, and videos. For instance, one application would ask the consumer every day at a designated time what type of break they would like to have among three categories: inspiration, flash of mind, or new perspective. After the consumer picks a choice, the site would then stream content from the internet based on the chosen selection. Unilever also ran online banner ads on MSN Messenger as part of the campaign.

advertising is not restricted by geographic boundaries or time zones. In principle, customers anywhere around the world can be targeted via web advertisements. Online advertising is also far less expensive than more traditional forms of advertising, even though its rates are rising rapidly. The internet also allows precision as online marketers can get very precise information about website visitors based on visitor feedback, browsing behavior, and historical buying patterns. Advertising messages can be customized to individual prospects. Advertisers can save money by sending the right message to the right people.⁶⁰ As a result, the relevance of an online ad can be much higher than for ads using traditional media tools. One more useful characteristic that sets the internet apart from conventional advertising media is the fact that advertisers can instantly assess whether or not a particular advertisement is working. Online advertisers can experiment with different creative messages. Based on the experimental findings, they can replace overnight one message with another one.

Internet advertising uses a wide spectrum of techniques. One form that is still very popular is banner advertising. By clicking on the **banner ad**, users are taken to the advertiser’s website where they can obtain more product information. Unfortunately, banner advertising is one of the least effective online advertising techniques. One form of online advertising which is gaining increasing popularity is **search engine advertising**—either based on keyword search or website context. Keyword search advertising allows the company to have a link to its website when people are looking for product-related information. Advertisers only pay a fee to the search engine provider when users click on the link or place an order. Website publishers can also earn advertising money by allowing the search engine company to display targeted advertising on their website related to the content of the website. Other internet advertising forms include e-mail ads, video ads that precede a video clip being downloaded, wallpaper ads, and Google map ads.

A very effective form of online campaigns is the microsite that marketers often create to promote a particular brand. Such campaigns are often integrated with other communication tools. Dockers India created a new microsite (www.dockersindia.com)

⁶⁰“Advertising that Clicks,” *The Economist* (October 9, 1999), pp. 75–81.

to promote a new line of Never-Iron 100-percent cotton pants in India. The site targeted 25 to 35-year-old urban males. To drive visitors to the site, Dockers did online advertising on websites such as Yahoo! India, Rediff.com, and tech-oriented Zdne-tindia.com. The campaign also had a viral marketing element by encouraging visitors via a lucky drawing to spread word-of-mouth about the site to their friends.⁶¹

Despite the appeal of internet advertising as a medium, many advertisers are still quite wary about its potential as a global promotion tool. For one thing, there is the annoyance factor: Most people find online ads pretty irritating. Audience measurement is still a major issue. To monitor the effectiveness of an online campaign, what should be the right metric? Should it be the number of views of the page that contains the ad or should it be the *click-through rate*, that is, the number of times that surfers click on the ad?⁶² Too often, advertisers simply look at the click through rate to determine whether an online ad campaign is working. What metric to use, will depend on the purpose of the campaign.⁶³ If the goal is to sell or to gather a database, then click-through rates, cost per acquisition, or cost per sale could be possible metrics. However, if the campaign's purpose is to build the brand, then gross impressions will be more appropriate.

Several forms of online advertising take a long time to download. This can be irritating to users in countries where access and/or phone charges are high, especially in places where internet access is slow. In many countries, access to the internet and especially broadband is still quite limited. Therefore, the scope of internet advertising may be restricted to a very narrow segment of the target population. Also, the agency talent to create attractive internet advertisements is lacking in many countries. Finally, international marketers that plan to use the web as an advertising tool should familiarize themselves with advertising regulations and restrictions that apply in the foreign markets.⁶⁴ The ultimate success of an online campaign hinges on three factors:

- **The nature of the product.** For some product, online advertising is much more suitable than for other categories. For example, online campaigns would work for high involvement goods where buyers engage in product research and price comparisons (e.g., mortgages, travel).
- **The targeting.** Whether or not a campaign will work also depends on how well the target markets have been chosen. For mass-market campaigns, the web is usually not the right medium.
- **Choice of site.** Picking the right sites is also vital. Ads on low-traffic niche sites are often more effective than ads on high-traffic general portals (e.g., Yahoo!).
- **Execution of the ad.** The quality of the production is also an important variable. No matter how many sites the banner ads appears on, if the banner is boring, it will fail to grab viewers' attention or build strong brand impressions.⁶⁵

Non-Traditional (NT) Web-based Communication

Apart from online advertising, global online marketers can also use the web for non-traditional communication campaigns to build up their brand image. A good example is an internet contest that Coca-Cola organized for its Coke Zero line in China in November 2008. In the campaign, called "Be Bond for a Day" visitors of Xiaonei.com, a local social networking site, were asked why they deserved to be the next James Bond. Winners received a "Day of James Bond," including a ride in a helicopter and in Bond's signature Aston Martin car.⁶⁶ Several marketers have created web-based global NT marketing campaigns. An excellent example is the Olympic-themed "The Lost Ring" campaign (www.thelostring.com) that McDonald's released in March 2008. The

⁶¹"Dockers Goes Online to Hit Target," *Media* (August 12, 2005): 16.

⁶²"Caught in a tangled "web of confusion," *Financial Times* (January 21, 2000).

⁶³"Clients Must Look at Available Tools for Better Online Results," *Media* (August 9, 2002), p. 9.

⁶⁴Richard C. Balough, "Websites Shouldn't Advertise Trouble," *Marketing News* (August 16, 1999), p. 15.

⁶⁵"Netting Gains As Hype Dies Down," *Media* (August 23, 2002), pp. 16–17.

⁶⁶"Slump May Help China's Online-Ad Market," *The Wall Street Journal Asia*, December 11, 2008, p. 18.

campaign centered on an Olympic-themed online game. Players searched for clues to uncover a secret tied to the Games. Ten characters provided clues via channels such as YouTube, blogs, and Twitter updates. Gradually the puzzle revealed that McDonald's was behind the game. The game, which was available in seven languages, attracted more than 150,000 players, with 70 percent of the traffic coming from outside the United States.⁶⁷ **Global Perspective 19-5** discusses how Hewlett-Packard leverages the web in China to build up HP's brand image.



GLOBAL PERSPECTIVE 19-5

“MY COMPUTER. MY STAGE” – HEWLETT-PACKARD TRIES TO CEMENT ITSELF AS THE COMPUTER BRAND OF CHOICE IN CHINA

In 2008, Hewlett-Packard (HP) ran a major digital campaign in China in its drive to become the computer brand of choice among Chinese youth. HP had become China's second most popular computer brand, behind Lenovo. The first phase of the campaign, called “My computer. My stage” involved an art competition that attracted 36,000 entries. HP relied on partners such as Mingshen Bank, which offered customers the option to create their personalized credit card using a design submitted for the competition.

For the second phase, which ran until the end of 2008, HP launched a user-generated campaign around hip-hop music. HP's ad agency in China created a website, called hpmystage.com, to invite aspiring Chinese rappers to create their own hip-hop tracks using an online studio and design avatars to perform them. Somewhat surprisingly maybe, hip-hop culture is big among Chinese youngsters. The campaign was inspired by a Chinese movie titled *Kungfu Hip-Hop*, which prominently featured a strategic HP laptop product placement. HP's target audience was the 18- to 25-year-old Chinese. Other elements of the campaign included dance competitions at universities and malls.

Source: “HP Seeks Online Rappers in User-generated Drive,” *Media*, July 10, 2008, p. 8



Source: www.hpmystage.com

⁶⁷“An Online Game So Mysterious Its Famous Sponsor Is Hidden,” *www.nytimes.com*, accessed on March 19, 2009.

Besides company-generated content, the internet also enables user-generated communication. Several cult brands have spawned global or local online brand communities of loyal customers. Through these forums, customers can discuss the various aspects of the brand or the company. A recent example of branded social networks is the launch by BMW of the MyBMWClub.cn site in China in April 2009. The goal of the site is to foster brand loyalty among China's BMW drivers. Users of the site create profiles, share tips and owner-experiences, and upload videos.⁶⁸ The rise of YouTube has created a forum for user-generated ads. Several companies have used YouTube as a platform for ad-creation contests. Unfortunately, the downside of user-generated content is lack of control. Netizens can denigrate the brand or spread false rumors. Several people have also used their creative juices to develop online ads that spoof or mock the brand. A case in point is the "funny terrorist" Volkswagen hoax spot⁶⁹ that spread like wildfire on the internet. The spoof ad opens with a suicide bomber jumping into his VW Polo and then parking in front of a busy London restaurant to detonate his bomb. The bomb goes off but the blast is contained within the car. The ad ends with the punch line: "Polo. Small but tough."⁷⁰

Online Monitoring

International marketers who rely on the internet need have access to high-quality data to make informed decisions for their web-based communication strategies. Data is needed on areas such as website visitor traffic, visitor demographics, competitor's online ad spending. Two companies currently dominate the internet audience tracking industry: Nielsen Online and comScore. Although both firms are U.S.-based, they are rapidly expanding overseas. In October 2008 Nielsen formed a joint venture, called CR-Nielsen, with a local company to track internet use in China. One issue with online measurement is that standard yardsticks are in short supply. The most popular measure still is the page view metric, which counts the number of times an entire page is loaded. However, this metric has limited use for media-rich portals such as YouTube. Reliable online portal auditing is also missing for many developing countries. For these markets, online advertisers need to trust claims made by the portal on metrics such as visitor traffic.⁷¹

While numbers are useful, the real challenge is to measure sentiment ("buzz"), including items such as what was said, the authority of the contributor, where the website links to, and the number of links. Several tools exist such as Nielsen Buzzmetrics and CRMMetrix. One difficulty is that the relevant types of sites depend on the market. For instance, in the Asia-Pacific region Chinese consumers love bulletin boards, Koreans embrace social networks, Singaporeans crave blogs, Thais build online communities, Japanese social media are built around the mobile phone.⁷²

⁶⁸"BMW China Launches Social Network," www.brandrepublic.asia, accessed on April 20, 2009.

⁶⁹See <http://www.youtube.com/watch?v=u1irD0c9K34&feature=related>.

⁷⁰"Spoof Suicide Bomber Ad Sparks Global Row," guardian.co.uk, accessed on March 19, 2009.

⁷¹"Online Measurement," *Media*, August 10, 2007, p. 13.

⁷²"Tools that Track Buzz," *Media*, April 20, 2007, p. 6.

SUMMARY

The internet offers international marketers a platter full of promises. It can be leveraged to save costs and time and to generate revenues. Customers previously outside the marketer's reach now become easily accessible. The medium can be used to build up brand equity or to showcase new products or services. For scores of business around the world, it has proven to be a cost-efficient distribution channel. The internet also

offers great potential as a global interactive advertising channel. One-to-one marketing to customers anywhere in the world is no longer a pipe dream.

In spite of all these goodies, marketers should not overlook the challenges that international internet marketing poses. Some of those barriers are structural and may be difficult to overcome: government regulations, cultural barriers, lack of

internet/broadband access, the knowledge barrier, and so forth. Other challenges are strategic. Companies who want to embrace the internet have to think about the implications of this medium for their global marketing strategy. Building a website does not automatically mean that consumers worldwide will beat a path to your door. Customers need to be lured to the site. Also, the site should be continuously updated and refreshed to entice first-time visitors to come back. Global marketers also need to balance off the advantages of customized content versus the rewards of having a consistent worldwide image.

The internet has brought profound changes for businesses around the world. It has created a new business paradigm: e-commerce. In a cover article in *The Atlantic* magazine, the late Peter Drucker wrote: “In the mental geography of e-commerce,

distance has been eliminated. There is only one economy and only one market . . . every business must be globally competitive . . . the competition is not local anymore—in fact, it knows no boundaries.”⁷³ For marketers, probably the biggest consequence of the web is indeed that competition is no longer local. Any firm can set up a global business on the internet from day one. Having an internet presence has become for scores of companies a matter of survival. Suppliers who are reluctant to go online risk losing out to those who are not. Companies that do not develop a website presence soon risk having their customers browsing their competitors’ sites for information.

⁷³Peter Drucker, “Beyond the Information Revolution,” *The Atlantic* (October 1999), pp. 47–57.

KEY TERMS

Banner ad

Click-and-Mortar retailer

Complementary effect

Cost transparency

Digital divide

E-commerce

Knowledge barrier

Online survey

Replacement effect

Search engine advertising

REVIEW QUESTIONS

1. What structural barriers impact the use of the internet as an international marketing medium?
2. What advantages do click-and-mortar retailers have over pure web retailers? What are the disadvantages?
3. Explain the notion of price transparency in the context of the internet. What are the possible solutions that marketers can have to cope with the problem?
4. In many countries, the internet infrastructure is far less sophisticated than in the United States. Phone lines are of poor quality. Transmission rates are slow. What does poor infrastructure imply for “internationalizing” e-commerce?
5. For international web marketers, one major dilemma is to what degree they should localize their websites. What forces favor centralization? Which factors might tilt the balance toward localization?

DISCUSSION QUESTIONS

1. Some observers claim that the internet revolutionizes the way small and medium-sized companies (SMEs) can compete in the global market place. In essence, the internet has created a level playing field for SMEs. Where before SMEs had a hard time to internationalize, now any mom-and-pop outfit can open an electronic storefront with a global reach. Do you agree? What downsides do small e-businesses face vis-à-vis large companies?
2. Dozens of internet research firms such as Forrester Research and International Data Corp. issue projections and studies about the future of e-commerce and the internet market in general. The figures usually vary wildly. For instance, when forecasts were made for the number of internet users worldwide during 2000, predictions ranged from a low of 157 million (Morgan Stanley) to a high of 327 million users (internet Industry Almanac). What explains this huge data disparity?
3. While numerous brands have created pages on existing social networking sites such as Facebook and MySpace, a handful of brands (e.g., BMW, Mercedes-Benz, MTV) have taken the idea a step further and created their own networking domains from scratch. One example is the MyClubBMW.cn site that BMW launched in April 2009 in China. The goal of such sites is to strengthen brand loyalty among brand users. Is setting up a branded social site instead of using an existing mainstream networking site something other brands should consider? What are the key advantages? What are possible downsides? For what kind of brands and in what type of countries would branded social networks be a worthwhile strategy?
4. Select a global brand (e.g., Ray-Ban, SK-II, Lenovo). Visit the brand’s international portal and then visit 4 to 5 country sites, preferably from distinct continents. If necessary, you can

translate the site into English using babelfish.yahoo.com. How is the global portal organized? What are the differences and similarities among the individual country sites? Do they tend to be very localized or globalized? What could be the reasons for either outcome?

5. Web companies that rely on advertising are booming in developing countries. YouTube's audience nearly doubled in India and Brazil. This sounds like good news. Unfortunately, many of these big web players with huge global audiences and

renowned brands are struggling to make even tiny profits in that part of the world. Operating costs to deliver images and videos to users are high in countries where bandwidth is limited, especially for sites that have a lot of user-generated content. At the same time, advertising rates are low. One extreme approach would be to "shut off" all those countries. Few internet companies have taken that option. What other ways would you suggest to raise revenue and/or lower costs for internet companies in developing countries?

SHORT CASES

ASE 19-1

YAHOO! AND ALIBABA: SEEKING DOMINANCE IN CHINESE CYBERSPACE



People who thought that the internet craze had died during the dot-com bust of the late 1990s may have had groundhog-day feelings in the summer of 2005. Early August 2005, shares of Baidu, a search engine company heralded as China's answer to Google, went up some 350 percent on the day of its US\$4bn IPO. Then, on August 11, 2005, Yahoo!, the U.S. portal, announced it would pay \$1bn for a 40 percent stake in Alibaba, a Chinese B2B portal, owned by Jack Ma. With 15 million registered users, Alibaba clearly offers great reach. Its two B2B websites generated around \$5bn worth of transactions in 2005. However, the portal had revenues of only \$46m in 2004. Taobao, its online auction website, rapidly became China's number 2 consumer auction website, behind EachNet, the auction site owned by eBay. The quick market share increase, though, was partly due to Taobao's free services.

Jack Ma once compared local e-commerce companies such as Alibaba to crocodiles in the Yangtze River. He claimed that foreign "sharks" who swim up from the sea would have a hard time fighting the local crocodiles lurking in the river as "the smell of the water is different." Such logic must have resonated with Yahoo!. So far, foreign internet players have had little success with their standalone operations. Most of the top players in China's internet market are homegrown: Sina is the top portal; Baidu dominates the search engine market; Shanda Interactive is the largest gaming company.

Jerry Yang, Yahoo!'s co-founder, said: "We are playing for the long term. We believe the prize is huge." No doubt, the Chinese internet sector offers great promise. The value of all e-commerce transactions is expected to rise to around \$217.5bn by 2007. Online advertising is predicted to go up from \$208m in 2004 to \$1bn by 2009. And China's online auction market could rise from \$425m in 2004 to \$2.7bn in 2007. However, riches are not guaranteed. Credit card usage, though on the rise, is still very limited. Foreign companies also need to cope with the challenges of cultural and linguistic differences. Also, the Beijing government exercises

Sources: "Yahoo Search Is Complete: Alibaba Finds a Way to Reap the Riches of Online China," *Financial Times* (August 12, 2005): 9; "Crocodile Amid the Pebbles," *Financial Times* (August 12, 2005): 9; *China Hand*, Chapter 12 (December 1, 2005); "Seeking to Dominate Chinese Cyberspace," *Media* (December 2, 2005): 20.

strict control over the internet. Policy or regulatory changes are a constant hazard for China's internet companies. For instance, Communist party officials recently expressed unease over the spread of multiplayer role-playing games.

The Alibaba/Yahoo! deal closely resembles the cooperation model that Yahoo! used in Japan and which worked out very well in that market. According to the deal, Alibaba would take control of Yahoo's assets in China. The diversity of Alibaba's business might prove a clear strength. The company commands a strong position in B2B e-commerce. Other assets include Alipay, an online payment facility similar to eBay's Paypal, and Taobao, an eBay-like auction site. The assets thrown in by Yahoo! included its internet portal, its email service, a search engine (3721), and an online auction site (1Pai). The new operation covers almost all major internet areas, except for online gaming.

Skeptics view the diversity as a lack of focus. Some analysts also suggested that Yahoo! overpaid for its 40 percent share of Alibaba. Rival eBay's aspirations for China most likely triggered the deal. Meg Whitman, eBay's CEO, declared that China is a "must win" for the company. Rumor had it that eBay was courting Jack Ma.

There are immediate branding considerations on the horizon for the newly formed entity. The combination owns a mishmash of brands. Whether the Sino-U.S. marriage will be a success remains to be seen. Yahoo! offered a huge pile of cash and its Chinese brand portfolio. Alibaba already has a critical mass of 15 million registered users. The task for Jack Ma is to turn those eyeballs into profits.

DISCUSSION QUESTIONS

1. Was Yahoo! right to outsource its future in China to Alibaba.
2. The case points out that the Alibaba/Yahoo! combination led to a mishmash of internet brands. How should Alibaba manage this mix of brands?
3. What other marketing actions would you prescribe for the Alibaba/Yahoo! combination to succeed?
4. Do you agree with some of the critics that the new entity lacks focus? What might be some of the advantages that diversity offers to internet players in China?

ASE 19-2

VW POLO—HOAX AD SPREADS LIKE A WILDFIRE



In January 2005, Volkswagen was at the center of a big controversy after a spoof advert featuring a suicide bomber spread across the world on the internet. The spoof ad opens

with the suicide bomber leaving his home and hopping into his VW Polo. The driver wears the signature scarf made famous by the late Palestinian leader Yasser Arafat. He parks his car in

front of a busy London restaurant and then detonates his bomb. The blast is contained within the car, saving the diners. The ad ends with the slogan: “Polo. Small but tough.” The clip became the most watched viral ad of 2005, with over 2.3 million downloads.⁷⁴

The hoax created quite a stir as the ad flashed around the world on the internet. Many people were confused and thought the ad was for real given its high production values showing the VW logo. An investigation by the British newspaper *The Guardian* revealed that the hoax was created by a duo of maverick advertisers, Lee and Dan (leeanddan.com). The ad was shot on 35mm film and a shoestring budget of £40,000 (around \$65,000). In an interview with *The Guardian*, a British newspaper, Lee said that “We made the advert for Volkswagen. We never really intended it for public consumption. It was principally something we made to show people in the industry but it got out somehow . . . The ad’s a comment on what’s

Sources: “Suicide Bomber Sells VW Polo—Hoax Ad Takes Internet by Storm,” guardian.co.uk; “Spoof Suicide Bomber Ad Sparks Global Row,” guardian.co.uk, and “Infectious Humor,” guardian.co.uk, all accessed on March 15, 2009.

⁷⁴See <http://www.youtube.com/watch?v=HnL-7x4n4d8> for a clip.

happening at the moment. People see this on the news every day . . . the car comes out as a hero” as it stops the blast. Viral ads are often produced by creative talent looking for work. Apparently the duo had sent the spoof to DDB, Volkswagen’s ad agency.

Volkswagen was not amused. A company spokesperson said that “We were horrified. This is not something we would consider using: it is incredibly bad taste to depict suicide bombers.” He added that VW was considering legal action and blamed the advert on “two young creatives who are trying to make a name for themselves.”

This was not the first time that a spoof ad wreaked havoc for a famous car brand. A year earlier, Ford had to distance itself from a viral e-mail showing a cat’s head being cut off by a Ford car’s sunroof.

DISCUSSION QUESTIONS

1. What could be the impact of the viral “suicide bomber” ad for Volkswagen? Is the company right to be concerned about the hoax?
2. What should VW do? Should they indeed take legal action and sue the makers of the ad? Or is there a better course of action?



MYSPACE IN CHINA

When News Corporation brought MySpace to China in April 2007, the launch seemed to make perfect sense: the world’s leading social networking site (SNS) in the world’s fastest growing internet market. Although MySpace was a relative latecomer, News Corp. was betting that it could overcome that handicap through heavy investment and by competing unconventionally as a start-up in China. News Corp. entered China’s SNS scene by setting up a joint venture with a venture capital firm and a local Chinese investment firm. News Corp. was aware that China had been a hard nut to crack for international internet brands. Examples of famous foreign web brands that failed miserably in China include Amazon, Yahoo!, and eBay.

Upfront, News Corp. decided to set up the Chinese MySpace venture as a wholly localized entity. Luo Chan, a former Microsoft executive who used to run the MSN portal, was hired to become the CEO. He and his local team would have total control of the site’s operations, and, being native Chinese, would understand how to build up the site in the local environment. William Bao, a partner at Softbank China & India, explained: “By putting a local manager in, they give the company a fighting chance. This is a very crowded area, with at least 100 companies competing in the same space that MySpace entered.”

Sources: “MySpace China Struggles for a Niche,” Media, October 2, 2008; “Murdoch Is Taking MySpace to China,” www.nytimes.com, accessed on March 6, 2009; and “MySpace China Looks for Answers after Setback,” www.businessweek.com, accessed on March 6, 2009.

MySpace’s competition is indeed very diverse. One competitor, Xiaonei, started out as a campus-based site. It is often referred to as the ‘Chinese Facebook’ given the very similar interface. Xiaonei’s owner received \$430 million funding in May 2008. Another SNS operator with campus roots is 51.com. Kaixin001 is popular among white-collar workers in China because of its microblogging platform, its gigabyte storage space, and popular applications such as Friends for Sale and Parking Wars. Probably MySpace’s most formidable competitor is Qzone, an instant messaging service (“QQ”) developed by Shenzhen-based Tencent. Although not a Western-style social network site, Qzone shares many features and is highly popular among adolescents and online gamers.

About a year after its entry, MySpace.cn had not much to show for its effort and heavy investments. By 2008, the site claimed around 5 million members. Also, less than 18 months after entering the market, its CEO left. Chinese reports speculated that Luo Chan left because News Corp. had not given him the autonomy he had hoped for. Rumor has it that News Corp. targeted 50 million users by 2010. If this were indeed the case, MySpace could face an uphill struggle. Market leader Qzone already has 105 million registered users and 51.com has 95 million.

The Western-style social networking format was slow to take off in China partly because of the need to use one’s real name. Bulletin boards, which allow anonymity, are much more popular among Chinese netizens. These typically focus on specific topics of interest.





Source: www.MySpace.cn

Some observers doubt whether MySpace's business model will ever succeed in China. Brad Greenspan, chairman of BroadWebAsia, said: "Everybody knows it's a U.S. brand. If you want to spend time on a site that's about you, it's harder to pull that off with a U.S. brand. It just doesn't feel authentic." (www.businessweek.com) Others concur and argue that SNS is an entirely local game in China. Furthermore, Chinese users may be reluctant to switch to a newcomer. Many young Chinese students may also have trouble simply spelling the name MySpace.

One observer of the industry commented that: "Given the brand name, amount of money behind it, and team it has put together, MySpace China has no choice but to go after the massive mainstream social networking market to reach critical volume. However, in the long run, I don't think that Chinese online habits or preferences will support general social networking sites." (Media, October 2, 2008) Others suggest that

MySpace China needs to differentiate itself from its wide range of competitors and come up with a niche and unique services. Another challenge, which MySpace also faces in other countries, is how to monetize the site.

DISCUSSION QUESTIONS

1. Is there a market opportunity for MySpace in China? Why or why not?
2. Why is MySpace.cn struggling? Is News Corp. overambitious with its 50 million users goal?
3. What should be the business model for MySpace China? Should the site indeed go for a niche? If so which one? How to "monetize" (generate revenue) the site?
4. Why do you think well-known global website brands find it hard to crack China's internet market?

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