CASES

CASES OUTLINE

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CASE 1

CARREFOUR: ENTRY INTO INDIA*

Carrefour is a French international hypermarket chain that has grown to become one of the world's leading retail groups over the past 40 years. It is the world's second-largest retailer in terms of revenue after Wal-Mart and the largest in Europe. The reasons for its phenomenal success throughout the world include the facilities it offers at its hypermarkets, such as one-stop shopping, low prices, self-service, and free parking. After mixed success in Asia, the company is now on the brink of expanding into India and its Managing Director, Herve Clech, is worried about the best way to make this move.

WHY INDIA?

The company's marketing research team has underscored the huge potential in conducting retail business in India. Retail is India's largest industry, accounting for over 10 percent of the country's GDP and around 8 percent of employment. This industry is expected to grow at an annual rate 25 percent driven by strong income growth, changing lifestyles, and favorable demographic patterns. About 50 percent of population in India is under 25 and is more welcoming of large and modern shopping malls than the country's traditional small stores.

Traditionally, India has had a very unorganized retail sector consisting of small shops housing a store in the front and the owner's house at the back. More than 99 percent of retailers function in less than 500 ft^2 (46.5 m^2) of shopping space. The Indian retail sector is estimated at around Rs 900,000 crore[1] (US $174 billion) of which the organized sector accounts for a mere 2 percent, indicating a huge potential market opportunity for the consumer-savvy organized retailer. With this, India's retail sector is witnessing rejuvenation as traditional markets make way for new formats such as department stores, hypermarkets, supermarkets and specialty stores and local retailers as well as global competitors have already reorganized themselves to take advantage of this. However, due to the policies of only 51 percent foreign direct investment (FDI) allowance for one-brand stores but 0 percent FDI for multi-brand retail stores, global giant retailers are either waiting to determine the best time to enter or searching for potential reliable business partners. The country's huge market potential as well as stiff competition has forced Clech to ponder the best strategic plans for Carrefour's entry in India. The company's marketing research team has underscored the importance of evaluating Carrefour's performance in the existing Asian market. Specifically, the lessons Carrefour should have learned from its two major markets in Asia: China and Japan.

*This case was prepared by Clare Downer, Masahiro Shono, Yi "Helen" Ye and Xuan Zhang of the Fox School of Business and Management at Temple University under the supervision of Professor Masaaki Kotabe for class discussion rather than to illustrate either effective or ineffective management of a situation described (2009).

[1] A **crore** is a unit in the numbering system used in India and other countries. An Indian crore is equal to 10 million.

CARREFOUR'S HISTORY

Carrefour was founded by the Fournier and Defforey families, opening its first supermarket in 1959 in Annecy, Haute-Savoie, France. The group initiated the new store concept of "hypermarket," stressing the need for mass-sales, low delivery costs and everyday discounts to achieve high sales turnover. The first hypermarket was opened in 1963 in Sainte-Geneviève-des-Bois, offering food and nonfood items with a floor area of 2,500 m^2. Well-established in France, Carrefour started its expansion in 1969, setting up the first hypermarket in Belgium. Then in 1970 Carrefour became a publicly traded company listed on the Paris Stock Exchange. In the following decades, Carrefour entered South America and Asia with its first stores in Brazil and Taiwan.

CARREFOUR TODAY

The Carrefour group currently operates four main grocery store formats: hypermarkets, supermarkets, hard discount, and convenience stores (see **Case Exhibit 1-1**). It currently has over 15,000 company-operated or franchise stores. Examples of slogans for store formats are: Hypermarkets: *The appeal of the new*; Supermarkets: *Making life easier*; Hard Discount Stores: *Grocery products at low, low prices.* Besides these traditional modes, e-commerce in the form of Ooshop and CarrefourOnline.com (*Everything you need in non-food, online)* was created in 1999 and 2005, benefiting from Carrefour's hypermarket expertise and offering the broadest selection available in the marketplace with over one million listings.

CASE EXHIBIT 1-1
SALES BY FORMAT (DECEMBER 31, 2007)

	Hypermarkets	*Supermarkets*	*Hard Discount*	*Others*
Number of stores	1,163	2,708	6,166	4,954
Sales (in millions of euros)	60,573	24,071	9,948	7,850
% of group sales	59.1%	23.5%	9.7%	7.7%

Source: Carrefour Group/2007 Financial Report.

A pioneer in countries such as Brazil (1975) and China (1995), Carrefour currently operates in three major markets: Europe, Latin America, and Asia (see **Case Exhibit 1-2**) and with a presence in 30 countries, over 54 percent of group turnover is derived from outside of France. The group sees strong potential for further international growth in the future, particularly in such large national markets as India, China, Brazil, Indonesia, Poland, and Turkey.

Case Exhibit 1-2
Breakdown by Geographic Region (December 31, 2007)

(In %)	*2007*	*Number of Stores (All Formats)*
France	45.8%	5,515
Europe (excluding France)	37.5%	7,860
Latin America	10.0%	1,096
Asia	6.7%	520
Total	**100.0%**	**14,991**

Source: Carrefour Group/2007 Financial Report

During the late 1980s, the economies of several Asian countries such as Taiwan, Singapore, and South Korea were rapidly growing and Carrefour decided to expand its presence in the Asia Pacific Region to compete head-on with Wal-Mart and other Western and Asian mass retailers. Although sales in the Asian market account for only 6.7 percent of Carrefour's global sales, this market shows great potential, accounting for 17.3 percent of growth in sales in 2007 (see **Case Exhibit 1-3**).

Case Exhibit 1-3
Growth Rate in Net Sales by Geographic Region

(in millions of euros)	*2007*	*2006*	*2007/2006 Rate*	*2007/2006 at Constant % Var. exchange*
France	37,621	37,212	1.1%	1.1%
Europe (excluding France)	30,837	28,835	6.9%	6.6%
Latin America	8,211	5,928	38.5%	38.0%
Asia	5,480	4,911	11.6%	17.3%
Total	**82,148**	**76,887**	**6.8%**	**7.0%**

Source: Carrefour Group/2007 Financial Report

CARREFOUR'S SUCCESS IN CHINA

Carrefour entered the Chinese market in 1995 when the Government had partially opened up the retail sector. By the end of 2007, the company had grown from less than 5 retail stores in 1995 to 109 stores across 39 cities (mainly hypermarkets with some supermarkets and convenience stores). Carrefour has been the largest foreign retailer in China since 2003 and its success has been attributed to its localization policy and government marketing.

The Chinese version of "Carrefour" is "家乐福" (Jia Le Fu), which was derived from the translation of its English pronunciation and three commonly used Chinese characters, which show the company's respect for local culture. "Jia" is "Family," "Le" is "Happiness," and "Fu" is "Good fortune." The combination implies that this supermarket can provide happiness and pleasure, which is Carrefour's mission. In contrast, the translation of "Wal-Mart"—"沃尔玛" (Wo Er Ma), following the pronunciation principle, has no substantial meaning in Chinese. Carrefour knows that in this region, what people want most are familiarity, friendliness, and satisfaction of local tastes.

Carrefour has always been committed to localization wherever it exists. To this end it entered China as a large supermarket with its low-cost discounts being the most important offering to the price conscious consumers. Also, the company offers its merchandise in a traditional Chinese fashion. For example, customers can pull their own seafood from tanks or select fresh produce from bins. Carrefour has employed a large number of locals, and has created greater local career-development opportunities. Furthermore, the stores rely on locally purchased goods in order to ensure product freshness.

Carrefour's strong bargaining power with suppliers helps guarantee its price advantage. Besides strict price control, a supplier-to-be is required to pay a number of fees, including shop entry fee, bar code fee, on-shelves fee, promotion fee, festival fee, and information systems use fee. However, those suppliers are still willing to cooperate with the company, because Carrefour holds a significant position in the retail market. In brief, the price advantage ensures rapid turnover in goods, reducing the cost of capital.

Carrefour's success in China, especially its amazing new store-opening rate, to a great extent is due to "government marketing." Since reforms and the opening-up of China in the late 1970s, the Chinese government has offered preferential tax rates to attract overseas investment. The idea of Super National Treatment of the foreign investment has been prevalent in Chinese top down society. Thus, once Carrefour expressed interest in a particular area, the local government and the media would generate publicity. Besides, the local government would provide protection for the enterprise especially aimed at adverse regulation. Carrefour for its part, would try to establish good relationships with the governments by leading economic development and increasing employment.

However, behind Carrefour's glorious story in China, potential problems exist. For example, Carrefour has recently been involved in some issues, such as its violation of current commercial rules in opening new stores, unjustifiable charges forced on suppliers, as well as trademark issues. To some extent, government's overprotection may have negative consequences in the long term for a short-term gain. Also, due to over-valuing market penetration, Carrefour has yet to establish a distribution system in China, and its computer system development has also fallen behind its rivals for several years.

Despite its successes, Carrefour is currently facing stiff competition in the Chinese retail market. Global giant, Wal-Mart, is expanding in provincial capitals and small cities delivering local favorites alongside foreign brands. Britain's largest retailer, Tesco, is undergoing a period of aggressive growth after purchasing a 50 percent stake in the local hypermarket giant, Ting Hsin. Smaller local retailers are now realizing that changes need to be made in the way they do business in order to remain relevant to their customers and retailers such as Lianhua and Jiayou have recently merged to try to stave off the threat of companies such as Carrefour.

FAILURE IN JAPAN

Despite the successes, high on the mind of Clech is the company's dismal entry into Japan a few years earlier. Despite being among the giants of global retailers, it is estimated that total sales for its 8 Japanese stores for the fiscal year ending March 2004 had resulted in a loss of 32.3 billion yen (235.9 million euros). The three main reasons for Carrefour's failure to conquer the Japanese market are its ignorance of Japanese retail culture, its inability to expand its business, and the lack of consumer trust.

First, Carrefour failed to meet the needs of Japanese consumers with its existing competencies. In Western business practices, (e.g. Wal-Mart), growth is accelerated mainly by mass marketing the products across all stores and using high volume purchasing savings to create "Every Day Low Prices." In contrast, Japanese consumers are very "trend sensitive," and due to lack of storage space prefer to purchase smaller amounts more frequently. Aside from the fact that sales trends typically do not last long, Carrefour also had to deal with the regional differences in Japan and their effects on local culture.

Second, Carrefour failed to expand its business in Japan because it did not choose a local partner. Other competitors, such as Wal-Mart and Tesco, are competing in Japan through joint ventures with local players, receiving assistance in launching operations at existing stores, as well as in purchasing store properties. However, since Carrefour decided to invest without a partner, it faced several problems including finding real estate with enough space to build its huge stores.

Third, trust became an issue in 2004, when the company got caught mislabeling substandard Japanese pork as higher-quality American produce. Several months later, to make the situation worse, Carrefour was again charged with selling ham products with expired dates. After this incident, it was discovered that check sheets, used to confirm labeling information, had not been filled out properly—a shortcoming that was supposed to have been addressed after the earlier deceptive labeling incident. The result was a drop in consumers' trust of the Carrefour store brand.

Added to these factors was the drop in popularity in Japan of the General Merchandise Store (GMS) format. **Case Exhibit 1-4** shows that GMS sales have been declining, and specialty supermarkets and e-commerce retailing are growing rapidly in Japan. Carrefour's major competitors have also been feeling the pinch in Japan's changing retail landscape. Dwindling revenues indicate that Wal-Mart's "Everyday Low Prices" slogan does not have the same appeal in Japan as it does in the US and its local unit Seiyu, Ltd will be closing at least 20 unprofitable stores and re-organizing its workforce in order to stay in business.

Case Exhibit 1-4

5–Year Growth by Retail Segment in Japan

1997–2003

Retail Segment	2002 sales (Yen 100K)	Growth Rate (5 years to 2002)
CVS	67,137	20
Specialty Supermarkets	261,254	17
Mid-level retailers	261,920	Δ8
GMS	85,151	Δ15
Dept. Stores	84,269	Δ22
Specialty Shops	524,147	Δ24

(Yen 100K)	1998	1999	2000	2001	2002	2003	Y/Y
B2C/Electronic Commerce	645	3,360	8,240	14,840	26,850	44,240	164.8%

Source: METI, research on Electronic Commerce Transactions

CARREFOUR'S FORMULA FOR VICTORY

By comparing Carrefour's performances in both China and Japan, Clech has come to understand his company's own pattern of success. Countries in which Carrefour has been successful include Taiwan, China, Brazil, Argentina, Italy, and Belgium, where Carrefour became a top retailer by displacing local retailers. Although these countries had many local department stores and small-scale supermarkets, there were no large-scale chain stores or large-scale discount shops selling electrical household appliances or clothing. Therefore, the common attributes of these countries were (1) the fact that small-scale retail has not progressed and the absence of large scale retail, (2) the absence of potential competitors that carry specialty items, (3) inexpensive retail space, and (4) "developer-friendly" government laws and regulations. Japan does not fall into any of the above criteria and based on the changing trends in consumer needs (e.g., the decline in popularity of GMS) Carrefour had to admit defeat after just a few years of operation.

So, what makes India the next step in the region? Clech's strategic marketing team has been keeping an eye on India's economy and social trends for the past several years and feels that now is the time to make a move. India's market size and current growth trends make it one of the best retail opportunities in the world. Nevertheless, gaining entry to India's retail industry will not be easy and Clech needs to consider its many cultural, political, economic, and financial characteristics in order to find out whether it fits into Carrefour's success pattern.

INDIA'S CULTURAL ENVIRONMENT—CUSTOMER BEHAVIOR

Recent research from the McKinsey Global Institute indicates that India will be a nation of upwardly mobile middle class households within the next generation and will eventually pass Germany as the world's fifth largest consumer market. According to NCAER (National Council for Applied Economic Research), the term "middle class" applies to those earning between US$4,000 and 21,000 (US$20,000–120,000 at PPP). However, this definition suits only about 60 million of India's population. In considering simple consumer-based criterion for ownership of a telephone, a vehicle, or a color TV, the middle class makes up nearly 200 million persons—the size of a country. Middle class upward movement has forced brands like Mercedes Benz and Louis Vuitton to stake their claim early in the country anticipating a boom in the consumption of high value products and brands.

According to Nielsen's Retail Track, the Consumer Packaged Goods market (branded, packaged groceries, food and toiletries market) in India stood at US$21.25 billion for the year 2007 with a growth of 16 percent over the previous year (see **Case Exhibit 1-5**). The increase in disposable income as well as the country's booming economy has caused Indian households to gradually increase consumption of durable goods, and the growth in ownership of mobile phones is remarkable compared to any other product category.

CASE EXHIBIT 1-5
INCREASE IN DURABLE GOODS PENETRATION ACROSS THE COUNTRY

Product	*2005 (%)*	*2006 (%)*
Color TV	27.3	29.5
Black & White TV	24.1	21.9
Two Wheelers	17.4	16.2
Four Wheelers	2.4	3.6
Refrigerator	13.9	14.4
Washing Machine	4.2	4.7
Air Cooler/Conditioner	7.8	7.3
Telephone	12.3	15.0
Mobile Phone	3.1	12.5

Source: Spring 2006 India Retail Digest

The Nielsen's Annual Shopper Trends Study in 2006 indicates several interesting points. First, traditional stores continue to account for a dominant share (nearly 75%) of all food and grocery purchases; however, they are in decline. Second, recent usage of hypermarkets/supermarkets has increased and consumers tend to welcome these kinds of modern shopping stores. Third, Indian shoppers value large formats, a wide selection, efficient loyalty programs, pricing and visual merchandising, store accessibility, and quality products. Fourth, awareness of private labels increased from 63 percent in 2005 to 75 percent in 2006. Also, women dominate as main shoppers and influencers in household purchases and primarily belong to the age range of 25 to 40 years. The favorable consumer buying patterns are positive for Carrefour's entry into Indian market.

INDIA'S POLITICAL ENVIRONMENT

Carrefour needs to consider several issues related to India's political system when considering investing there, including government structure, political activism, and security issues. Weighing these issues will help the company determine whether or not India's political system is stable enough to risk heavy investment as decades of political uncertainty have earned the country an unfavorable reputation.

India, with a population of 1 billion, is the second most populous country in the world and has the distinction of being the world's largest democracy. However, its varied ethnic groups, languages, and religions have created a somewhat unstable political system with ramifications for potential foreign investors. Aside from the 28 states and 7 union territories, the government currently recognizes 18 languages, although the official language is Hindi (English is also widely spoken). One result of its diverse cultures is a political system made up of the majority India National Congress as well as four other parties called the United Progressive Alliance. Also included in the mix are several communist parties known as the "Left Bloc"; and with such a mix of political ideologies and a heavily bureaucratic government, the country continues to suffer from corruption and stalled political initiatives. This has in the past been a stumbling block to major foreign companies but the current government has been trying to encourage foreign direct investment (FDI) projects by initiating political and social reforms.

Terrorist attacks in India have traditionally been blamed on the country's long-standing dispute with Pakistan but recent events have shown that some attacks have also been fueled by poverty. The U.S. Department of State has called India one of the "world's most terror afflicted countries" with over 2,000 persons being killed in the first quarter of 2008 alone. This is an issue that companies like Carrefour need to take into account when deciding whether to invest.

THE INDIA'S ECONOMIC ENVIRONMENT

According to the Global Insight Country Risk Summary, by the end of 2007 India's economy had grown to about US$ 1.1 trillion and was the third largest in Asia after Japan and China. Overall, India is the world's twelfth largest economy. The country's nominal GDP per capita is steadily growing and is currently at US $1,096 and this is projected to keep growing through 2012. In the past, India suffered from high inflation but this has been brought somewhat under control during the recent years by tight monetary measures. However, confronted with the huge recession this year, a surge in inflation of 11.03 percent hit the 13-year high above 11 percent, with Reliance Industries, telecoms and banks bearing the brunt of investor despair.

Although the country's average per capita income is low, India's middle and upper classes have been steadily growing. Private consumption grew 8.3 percent in the fourth quarter of fiscal year 2007 and it is projected to grow over the next few years due mainly to income growth. Although Indians have been benefiting from this rise in prosperity, wealth distribution is very uneven and 25 percent of the population still lives below the poverty line with the country's unemployment rate currently at 9.8 percent. With this in mind, the majority of the population still mostly patronizes the 15 million small "mom-and-pop" stores but this custom is expected to change eventually as the country sees an increase in larger big box stores and foreign investment.

According to statistical data released by the World Bank, India has had a high constant fiscal deficit for the past four decades and there is no sign that the gulf between imports and exports is narrowing. The cash deficit has also remained for the past 20 years, ranging mainly from 2 percent to 4 percent of its GPD. Among most Asian countries, India has a low ratio of exports to GDP, which implies that it may have a lower interdependent ratio. However, due to insufficient confidence and increased anxiety from investors, the short-term vibration on economic environment is still inevitable. After hitting a record high rate of 39.285 against the US dollar in January 2008, the rupee has depreciated by 27.3 percent in less than one year accompanied by the global financial crunch.

THE INDIAN FINANCIAL MARKET

The Indian financial market is more complete and mature than those of many other developing countries. Its stock market is over 100 years old and there are currently 27 stock markets regulated by the Securities and Exchange Board of India. The stock market has shown considerable vitality and its growth performance has ranked in the top 5 worldwide during the past years. India's financial services sector plays a major role in the country's economic and social development. Between 1969 and 1976, almost all the Indian commercial banks were nationalized, which greatly facilitated central control and effective management. Meanwhile, the nationalized banks also have a high level of marketization. Over the past 10 years, India has continued to reduce the state's intervention in interest-rate structure, and now the interest rate is mainly determined by the market.

Since the beginning of the 1990s, the Indian financial market has carried out a series of reform measures in order to encourage investors. In 1992, the Indian Government instituted the FII (Foreign Institutional Investors) system, which allowed Indian companies to issue equity securities to foreign investors through convertible bonds so that they could invest directly in India's corporate securities.

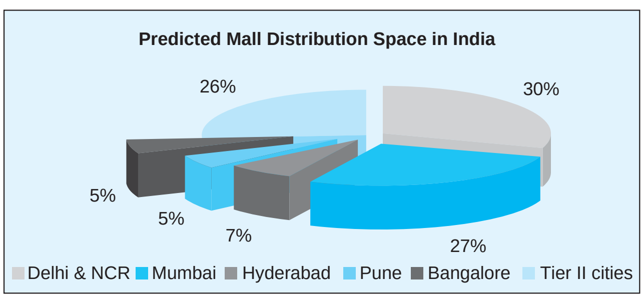
Nowadays, the relationship between India and the global financial liquidity is pretty closed. This is mainly because on one hand, India's rapid economic development requires private and public financing, but India's domestic capital supply falls far short of its urgent needs, making it highly dependent on the global financial liquidity. On the other hand, as India's financial market has a high level of liberalization, marketization and openness, global capital is willing to invest in India's market financially when the economic situation allows. One consideration Carrefour should take into account is the welcoming and openness of Indian market recently.

INDIA—RETAIL INDUSTRY OVERVIEW

Retail has become one of the most dynamic and fast-paced industries with several players entering the market. But all of them have not yet tasted success because of the heavy initial investing that is required in order to compete with existing companies. However, the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations.

The retailing configuration in India is developing quickly, as shopping malls are increasingly becoming familiar in large cities. When it comes to development of retail space such as malls, the country's Tier II cities are growing in importance. Furthermore, the governments of several states are encouraging the use of land for commercial development (see **Case Exhibit 1-6**).

CASE EXHIBIT 1-6
PREDICTED MALL DISTRIBUTION SPACE IN INDIA



Source: M. Dhanabhakyam and A. Shanthi, "Indian Retail Industry—Its Growth, Challenges and Opportunities," www.fibre2fashion.com, accessed December 20, 2008.

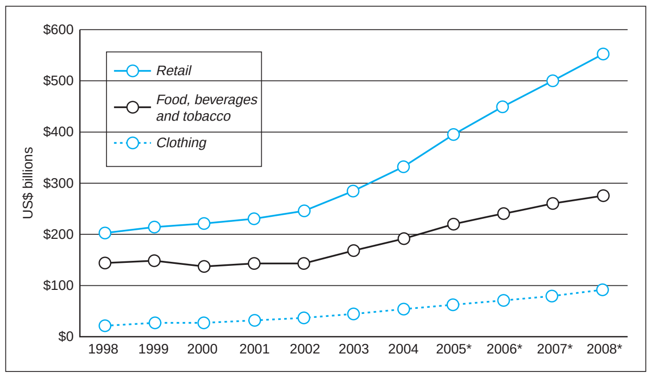
ORGANIZED RETAIL SECTOR IN INDIA

Retailing in India is currently (2008) estimated to be a US$ 312 billion industry, of which organized retailing makes up only 3 percent, or US$ 9.4 billion, though it is expected to reach US$ 23 billion by 2010. It is expected that by 2016 modern retail industry in India will be worth US$ 175–200 billion. Most of the organized retailing is recent and concentrated in metropolitan cities such as Mumbai, Delhi, Bangaluru, and Kolkata.

Factors driving the growth of India's organized retail sector include the booming economy, the rise in the relatively young working population, growing salaries, more nuclear families in urban areas, the rising number of working women, Western influences, and growth in expenditure on luxury items. In addition, the Indian government in 2005 allowed foreign direct investment (FDI) in single brand retail to 51 percent, which has opened up many opportunities for foreign investors.

Food is the most dominant sector in the Indian retail industry, growing at a rate of 9 percent annually and since 60 percent of the Indian grocery shopping consists of non-branded items, the branded food industry is trying to convert Indian consumers to branded products. The Food Retail Industry in India is dominant and food and beverage sales account for the largest percentage increase in retail sales every year (see **Case Exhibit 1-7**).

CASE EXHIBIT 1-7
RETAIL SALES IN INDIA



Source: Economist Intelligence Unit and A. T. Kearney analysis

*Data for 2005–2008 is based on estimates

CHALLENGES FACING AN INDIAN ORGANIZED RETAIL SECTOR

The biggest challenges facing the Indian organized retail sector include the lack of retail space and rising real estate prices due to increased demand. Trained manpower shortage is also a challenge as it is still difficult and expensive to find and retain well-educated persons. The allowance of only one-brand stores does not allow FDI in multi-brand retail and this has made the entry of global retail giants into the Indian organized retail sector challenging. The country, however, allows multi-brand retailers to enter the market through franchise agreements and so 51 percent FDI in single-brand retail, 100 percent in cash and carry, and 0 percent in multi-brand retail is currently allowed.

Due to the potential lucrative benefits for players in the Indian Retail Market, Carrefour will face several competitors. Local Indian competitors include Reliance Industries Ltd., which plans to invest US$6 billion in opening 1,000 hypermarkets and 1,500 supermarkets, Pantaloons, which plans to increase its retail space to 30 million ft^2 with a US$1 billion investment and Bharti Telecoms, which is in talks with British global giant Tesco for a $750 million joint venture. Also, other international competitors such as Wal-Mart and Metro AG are also undergoing discussions to set up shop in India and since the allowance of only one-brand stores has made the entry of global retail giants difficult, Wal-Mart and Metro AG are trying to enter this sector indirectly through franchise agreements and cash-and-carry wholesale trading.

The growth of the retail sector is heavily dependent on the role of supply chain and as such, the Indian Supply Chain Council has been formed to explore the challenges faced by retailers and to find possible solutions. The role of the supply chain in the organized retail sector should be a shelf-centric partnership between the retailer and the manufacturer, as this will create operations that are loss free. The infrastructure in India in terms of road, rail, and air transportation is presently in bad shape and so warehousing will play a major role in supply chain operations. To overcome these problems, the Indian retailer is trying to reduce transportation costs and is investing in logistics directly or through partnerships. Overall, as the Indian organized retail sector grows the role of supply chain is becoming all the more important.

CARREFOUR'S DECISION TO DATE

Carrefour is still struggling to finalize an Indian partner after six years of persistent search. After two years of market evaluation, Carrefour decided to postpone its plans due to the country's lack of clarity and direction on foreign direct investment. However, in 2007, the company rekindled its Indian retail plans and resumed looking for a local partner. Carrefour now plans to enter the Indian retail market through the franchise route by 2009, and three potential local partners are being considered. The company has now formed Carrefour WC&C India and Carrefour India Master Franchise Company to begin both Cash-and-Carry and front-end retailing in India, and up until now, talks are still ongoing with Bharti Enterprises, the Wadia Group, and Delhi-based realty companies such as Parsvnath and DLF to finalize plans.

DISCUSSION QUESTIONS

1. What lessons should Carrefour India learn from the Japanese and Chinese markets?
2. Is it the right time to enter the Indian retail market? If so, what is the best entry mode?
3. Due to the cultural diversity in India, how should Carrefour segment the market and cater to customer needs?
4. How can Crrefour improve and make use of the current infrastructure in India?

CASE 2

WAL-MART'S RISING SUN? A CASE ON WAL-MART'S ENTRY INTO JAPAN[*]

Ed Kolodzeiski stares across Tokyo's northern suburb of Akabane from his office at the Seiyu headquarters wondering what to do with Seiyu, the struggling, wholly-owned Japanese subsidiary of Wal-Mart. Mounting pressures of competition, supply chain inefficiencies, and the inability to offer Wal-Mart's trademark everyday low prices have resulted in perennial losses for the retailer in the world's second largest economy—and the outlook is not improving.

Following in the footsteps of retail giants including Carrefour, Costco, and Metro, Wal-Mart, the world's largest retailer, entered Japan in 2002. Wal-Mart replicated its usual foreign entry strategy and purchased a 6.1 percent stake in the floundering Japanese retailer Seiyu. Seiyu is now the fifth largest retail store by revenue in Japan. Wal-Mart gradually took control of the Japanese giant away from its previous owner, Saison Group—one of Japan's most successful conglomerates—and purchased all remaining Seiyu shares in 2008.

Kolodzeiski knows he has made a few mistakes, he knows the retailing market is stagnating and that Japanese consumers are not and never were who he thought they were. With rampant criticism and scalding inquiry on both sides of the Pacific, Kolodzieski must deliver a change. Yet Wal-Mart's time-honored success has usually stemmed from a focus on core competencies and a precise business model. For Kolodzieski, the question is what to change and how?

WAL-MART AS AN ORGANIZATION

In 1962, Sam Walton founded Wal-Mart on the premise of getting deals from suppliers, passing the savings to his customers, and earning profits through volume. If there was one competitive element that differentiated Wal-Mart from its competitors it was EDLP, or *everyday low pricing*. To successfully execute EDLP, Wal-Mart ran a "best price, no deal" business: no markdowns, no allowances, and no promotional money. This meant no promotion-driven inventory holding and no need to change store layout. The company spent under one percent of sales on advertising—dramatically less than its main competitors who spent up to six or seven percent. It is savings like these that Wal-Mart was able to pass on to its customers through low prices.

Although Wal-Mart bargained hard with its suppliers, it also built partnerships. One key initiative was the sharing of electronic information. Wal-Mart has used electronic data interchange since the 1980s to communicate with suppliers. At roughly the same time, Wal-Mart developed Retail Link, a state-of-the-art retail and supply chain distribution system. Retail Link reportedly cost Wal-Mart $4 billion to develop and perfect; suppliers had to make substantial investments to

[*]This case was prepared by Colin England, Mitika Khera, Benjamin Presseisen, and Bhuvan Wadhwa of the Fox School of Business and Management at Temple University under the supervision of Professor Masaaki Kotabe for class discussion, rather than to illustrate either effective or ineffective management of a situation described (2009).

implement the new system as well. Wal-Mart's technology-driven transformation of retailing shrank inventory lags from months in the 1950s to weeks in the 1970s and close to real time by the 1990s. By 2002, it took less than 10 minutes for information captured by point-of-sale scanners in the stores to move into the data warehouses. By reducing theS of goods sold, Retail Link allowed Wal-Mart to raise margins and still under-price the competition.

Wal-Mart also innovated in their use of retail formats. Wal-Mart started out with a traditional 60,000–80,000 square foot discount department store format—a model that was nearing maturity in the 1980s. Then in the early 1990s, Wal-Mart rolled out the supercenter format, combining groceries with other departments and as a result, became the largest grocery retailer in the world. Wal-Mart's store managers, charged with monitoring local competitors, had the authority to roll back prices if another retailer was selling at a discount.

All of these factors—Retail Link, the pricing policies, the supplier relationships, and the inventory management systems—provided Wal-Mart with extremely high productivity rates. The company was not only growing the number of stores, it was also growing its sales per store.

WAL-MART'S INTERNATIONAL EXPANSION

Wal-Mart's global expansion activity began in the early 1990s, and has been met with enthusiasm, protest, and outright rejection across foreign markets (see **Case Exhibit 2-1** for a timeline of Wal-Mart's international expansion). Below, the selected foreign market reports provide a framework for a better understanding of its Japanese retailing efforts. These countries were chosen to give an unbiased view of the company's international operations by exploring two markets in which it is successful (Mexico and Canada), two markets in which it failed (Indonesia and Germany), and a market where it is similarly struggling (the UK). In addition to these, Wal-Mart had operations in China, Nicaragua, El Salvador, Guatemala, Honduras, Brazil, Argentina, and India, and had exited South Korea by the time of the case. Further data showed Wal-Mart examining a potential move into Russia.

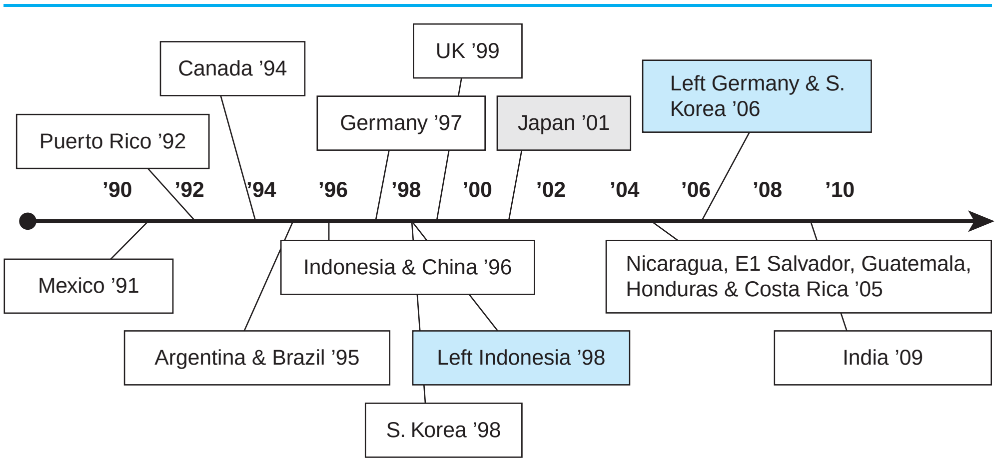
Successful Expansions: Mexico and Canada

Mexico. Wal-Mart's international expansion efforts began in Mexico in November of 1991 when it opened Club Aurrera (like a scaled-down Sam's Club) in a joint venture with Mexico's biggest retailer, Cifra, in the suburbs of Mexico City. The company first attempted its now-trademark international strategy—partnering with, and ultimately taking control of, local retailers to assimilate them to the Wal-Mart model.

In 2000, Wal-Mart purchased the controlling interest in Cifra, resulting in a new conglomerate, Wal-Mart de Mexico, or Walmex. This tactic was successful. In fact, Walmex was hailed as the company's biggest international victory by growing organically and placing more and more Mexicans into gainful employment. Most recently, Walmex's first quarter 2008 earnings posted an 11 percent increase from that of 2007 and the company operated 1,033 locations across the country. Walmex, however, was sharply criticized for undermining local economies, especially agriculture. The retailer sold 50 percent of the country's produce, and imposed quality standards that farmers often found impossible to meet. Other issues Walmex faced included unreliable supplier relationships, legislative and political issues, and accusations of unfair wages. Despite the criticism, Walmex continued to collect record annual revenues and touted plans for 30 new locations in 2009.

Canada. Wal-Mart entered Canada in 1994 through acquisition of Woolco, the Canadian remainder of the Ohio-based F.W. Woolworth Company's discount retail chain. The resulting company, Wal-Mart Canada, was consistently successful in this market, having operated a growing network of 310 retail outlets in multiple formats. Wal-Mart Canada, which employed 77,500 by 2008, also encountered its share of challenges in this market – primarily relating to unions. In April 2005, the company closed one of its locations and terminated 200 jobs when union contract arbitration began. Wal-Mart also closed a Quebec Tire and Lube Express in October 2008, citing that the union contract "did not fit with the company's business model." Wal-Mart Canada, though condemned for its behavior towards unionization, remained one of the top two retailers in this market.

CASE EXHIBIT 2-1
WAL-MART'S INTERNATIONAL EXPANSION TIMELINE



Failed Markets: Indonesia and Germany

Indonesia. Wal-Mart entered Indonesia in August 1996 through a partnership with Multipolar, a subsidiary of Lippo, a powerful Indonesian conglomerate. Wal-Mart's licensing deal resulted in two new Jakarta Supercenter franchises by January of 1997. The entry was met with some indifference, but gave Wal-Mart its first experience with dense and complicated Asian supply chains. In 1998, however, Wal-Mart left Indonesia following the Asian financial crisis and a vicious legal dispute with Lippo. This was the first instance of a Wal-Mart departure from an overseas market.

Germany. Wal-Mart entered Germany in December of 1997 through an acquisition of the 21-store Wertkauf hypermarket chain. The following year, Wal-Mart increased its German footprint to 95 units through acquisition of the 74-store Interspar hypermarket chain. Wal-Mart's aggressive price-cutting efforts in this market resulted in $200M in losses for the company in 1999. Subsequent struggles in this highly regulated and unionized country included strikes, fines, and consequent PR challenges. With a poor reputation and embarrassing 2 percent market share in Germany, Wal-Mart was downtrodden. Further, it devastated employee morale when it issued a staff handbook that banned workplace romance, required workers to smile in a non-smiling culture, and instituted the ''Wal-Mart chant'' every morning before store openings. Critics assert that Wal-Mart never understood German culture, neither from a consumer nor human resources perspective. Wal-Mart sold off all of its 85 German units in 2006 to competitor Metro at a steep discount and exited the market at an estimated cost of $1 billion.

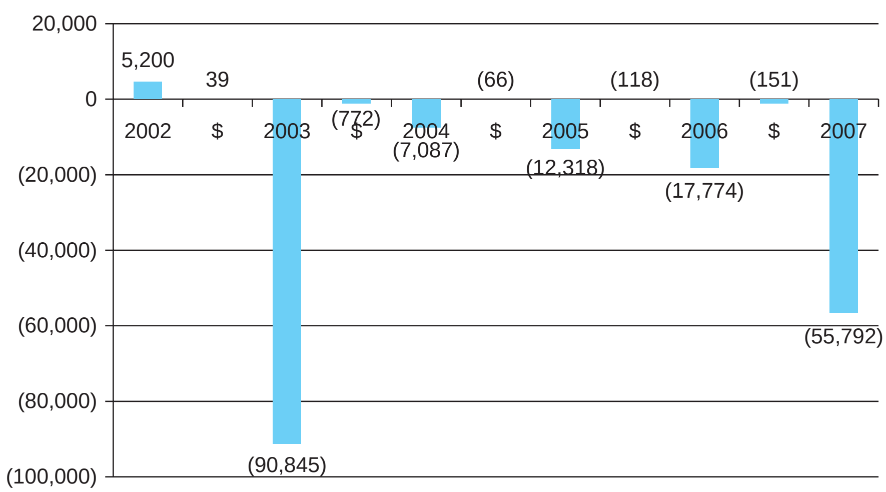
Continued Market Struggle: Great Britain. In 1999 Wal-Mart acquired the 300-unit British supermarket chain Asda, the second largest retailer in this market next to Tesco. As Wal-Mart's largest non-U.S. subsidiary, revenues from Asda made up nearly half of the company's international sales. Asda accomplished a 16 percent market share in grocery spending but had still not been able to overtake Tesco. Industry specialists pointed to Tesco's variety of store formats compared to Asda's rather monotonous hypermarket chain. The primary inhibitor that prevented Wal-Mart's trademark growth strategy from taking root in British soil, however, was one particularly inconvenient piece of legislation called Planning Policy Statement 6 (PPS6), which limited retail development to town centers rather than outskirts. Wal-Mart's continued lobbying to amend this law invariably failed. Asda also saw two lawsuits in the mid-2000s, millions in related fines, and strikes at its distribution centers by workers citing poor working conditions. At the time of the case, Asda operated 356 stores across the UK and employed 160,000.

WAL-MART IN JAPAN

In May 2002, Wal-Mart purchased a 6.1 percent stake in Japanese retailer Seiyu, which operated more than 400 retail units across Japan, the world's second-largest economy. Seiyu, which focused on the apparel and grocery verticals, became a wholly owned subsidiary of Wal-Mart in 2008 after a six-year gradual stock acquisition process. Wal-Mart continued to operate in Japan under the Seiyu brand name. By the time of the case, Wal-Mart had invested over $3 billion in Seiyu's chain stores. Below is a chronology of Wal-Mart's involvement with Seiyu in Japan from 2003 to 2008. **Case Exhibit 2.2** shows the financial struggles of Seiyu in this same time period.

In early 2003, Seiyu began reorganizing its structure and implemented point-of-sale and SMART inventory tracking systems across 53 stores in Japan. These platforms increased store efficiencies by capturing consumer trends. In the same year, Wal-Mart acquired a 34 percent stake and became Seiyu's biggest shareholder. By the end of 2003, its net income fell to its lowest level in the 2002–2007 timeframe, a loss of ¥91B ($772M), even though 9 new stores opened that year.

CASE EXHIBIT 2-2
SEIYU'S NET INCOME 2002–2007



Euromonitor International

In April 2004, Seiyu opened its first pilot superstore in Japan. During the course of the year, Seiyu installed Wal-Mart's computer systems (Retail Link) in more than half of its 400 stores to enhance their inventory management and distribution. In this year, Seiyu managed to cut costs 6.1 percent by trimming payrolls, distribution expenses and advertising. Wal-Mart simultaneously saw the need to reduce headcounts in its Japanese operations, and persuaded Seiyu management to lay off 25 percent of headquarters staff, including 1,500 employees and managers. This resulted in negative publicity for the company. In spite of these efforts to cut costs and improve efficiency, Seiyu reported an annual loss of ¥7B ($66M), more than triple its projections for that year. Seiyu's management blamed unseasonable weather, stiff competition from rivals, and difficulties with Retail Link for lack of sales. By the end of 2004, Wal-Mart owned a 38 percent controlling stake in the company.

In 2005, Seiyu announced a loss of over ¥12B ($118M) even though it expected to break even by year-end. Masao Kiuchi, Seiyu's CEO, resigned after taking responsibility for the company's poor performance and Wal-Mart increased its ownership to 42 percent this year.

In August 2006, Wal-Mart built and opened a U.S.-style distribution center in Misato to improve its distribution. This year was the first time in 15 years that individual store sales of Seiyu turned positive. In spite of this, by the end of the year 2006, Seiyu reported a ¥18B loss ($151M) in net income as Wal-Mart boosted its share again to 54 percent of Seiyu.

By 2007, Wal-Mart had implemented the SMART system in more than three quarters of its 392 stores in Japan to capture consumer demands and better meet consumer needs. This helped Seiyu enhance its product assortments to increase sales. But by year-end, Seiyu announced a loss of ¥56B ($469M).

The relationship between Seiyu and Wal-Mart grew rapidly between 2002 and 2007, as Wal-Mart integrated more of its policies and systems into the subsidiary, took more and more control of the company, but was still unable to turn a profit from its operations. This begs a deeper question: What were the underlying causes for Wal-Mart's perennial failures in Japan? The following sections explore pre-existing attributes that had a direct effect on Wal-Mart's performance in Japan, including Seiyu before Wal-Mart's acquisition, the competitive environment of Japanese retailing, and the unique consumer culture in this market. This investigation will provide a deeper understanding of what Wal-Mart was up against in this market, as well as how it should proceed if it seeks to become profitable in Japan.

Seiyu Before Wal-Mart. Seiyu was founded in 1956 as the supermarket arm of the privately owned Seibu Distribution Companies, later renamed the Saison Group. As Tokyo and its suburbs grew swiftly throughout the 1960s, so did Seiyu. The company became a chainstore business, developed the retail strategy of self-service department stores, and offered household and food items at a discount. Store sizes ranged between 900 and 3,000 square meters depending on the site.

Seiyu, with more than 80 units in greater Tokyo, diversified its operations and went public with a listing on the Tokyo Stock Exchange in the 1970s. By 1978, Seiyu had established the highly successful Family Mart Company that became the third largest convenience store chain in Japan.

By the 1980s, the Japanese economy was booming and consumer tastes ascended to higher quality goods and services. Seiyu's low-price, low-quality store brands were no longer acceptable. To respond to this shift in consumer preference, Seiyu improved the quality of its supermarket brands and private label foodstuffs. During this same period, Seiyu pursued overseas expansion and investments in non-retailing ventures.

The 1990s were a decade marked by sustained economic sluggishness after Japan's economic bubble burst in 1991. Seiyu felt the effects of these difficulties and closed 13 stores in 1997 and another six the following year. Seiyu remained a troubled firm at the dawn of the millennium, burdened by a debt in excess of ¥911.5 billion ($7.46 billion), a figure equivalent to 52 times the total shareholders' equity of ¥17.28 billion ($144 million). The company also could not expect any assistance from the Saison Group, as Saison was facing its own financial crisis. This forced Seiyu to look for outside financing, and in April 2000 the company raised ¥15.62 billion through the sale of additional shares. Sumitomo purchased about half of this offering, giving the trading company a 12 percent stake in Seiyu. Still a struggling operation, Seiyu was well poised and enthusiastic for rescue by the world's largest retailer when talks with Wal-Mart began in 1999.

Competition in Japan. The competitive landscape of retailers in Japan was characterized by several international and domestic players with multiple outlets spanning the country. Among the domestic contenders in the market, 7-Eleven Japan Co. Ltd., Aeon Co. Ltd., and Ito-Yokado Co. Ltd. were the top challengers to Seiyu. **Case Exhibit 2-3** provides the market shares of the retailers in Japan from 2004 to 2007 (% retail value).

CASE EXHIBIT 2-3
RETAIL MARKET SHARES BY STORE, 2004–207

Company	*2004*	*2005*	*2006*	*2007*
7-Eleven Japan Co Ltd	2.1	2.2	2.2	2.2
Edion Corp	1.6	1.8	1.8	2
AEON Co Ltd	1.5	1.6	1.6	1.6
Ito-Yokado Co Ltd	1.2	1.3	1.3	1.3
Yamada. Denki Co Ltd	0.9	1	1.2	1.3
Lawson Inc	1.2	1.2	1.2	1.2
Family Mart Co Ltd	0.9	0.9	0.9	0.9
Mitsukoshi Ltd	0.8	0.8	0.7	0.9
Daiei Inc. The	1.3	1.1	0.9	0.8
Circle K Sunkus Co Ltd	0.8	0.8	0.8	0.8
Takashimaya Co Ltd	0.8	0.7	0.8	0.8
Yodobashi Camera. Co Ltd	0.5	0.6	0.6	0.6
Uny Co Ltd	0.6	0.6	0.6	0.6
Seiyu. Ltd. The	0.6	0.6	0.6	0.6
Others	85.2	84.8	84.2	84.2
Total	**100**	**100**	**100**	**100**

Source: Euromonitor International estimates

Seven-Eleven Japan Co. Ltd. (7-Eleven). 7-Eleven Japan Co. Ltd. became a subsidiary of Seven & I Holdings Co. Ltd. In September 2005. By the time of this case, it operated over 11,500 stores in Japan and accounted for 21.7 percent of all convenience store sales. Its convenience-based product offerings consisted mainly of grocery items, which included packaged food, fast food, beverages, and daily necessities. In addition to regular convenience store services, the company also offered value-added services including door-to-door delivery requests and photocopiers in its stores.

7-Eleven's philosophy was to integrate its convenience stores and differentiated products into consumers' daily lives. 7-Eleven targeted the mass segment, and aimed at serving certain subtargets such as health-conscious consumers and working professionals. 7-Eleven sought to generate a consumer pull-factor toward its stores, competing on price with national brands. **Case Exhibit 2-4** provides a summary of 7-Eleven performance from 2006 to 2007.

CASE EXHIBIT 2-4
2006–2007 PERFORMANCE SUMMARY: 7-ELEVEN JAPAN

	2006	*2007*
Year end February		
Net sales (¥ billion)	2,533.5	2,574.3
Operating profit (¥ billion)	172.7	168.2
Outlets	11,735	12,034
Selling area ('000 sq m)	1,364.0	1,383.3
Number of employees	n/a	5,294
Sales of grocery (%)	80.2	79.9

Source: Euromonitor estimates

AEON Co. Ltd. (AEON). AEON operated in a vast number of retail channels: mass merchandisers, hypermarkets, supermarkets, convenience stores, and clothing and footwear stores. Almost 90 percent of AEON's revenue was generated in Japan, the remainder from operations in China, Hong Kong, Malaysia, Taiwan, Thailand, and the United States.

The company was the third largest retailer in Japan in 2007. Its ability to adapt to changing market conditions was enhanced by a strong presence across a wide range of retailing categories. Over the years, AEON has made significant efforts to improve the efficiency of its operations, including acquiring stakes in other Japanese retailers in order to develop synergies and economies of scale. AEON is quickly adapting to changes in Japan's market dynamics of low birth rate, aging population and deflation through its organic and acquisition-based growth strategies. As a result of its scale of operations, AEON leveraged significant purchasing power in negotiations with suppliers. **Case Exhibit 2-5** presents its performance from 2006 to 2007.

CASE EXHIBIT 2-5
2006–2007 PERFORMANCE SUMMARY: AEON CO. LTD.

	2006	*2007*
Year end February		
Net sales (¥ billion)	4,430	4,824
Operating profit (¥ billion)	166	189
Outlets	4,407	4,212
Selling area('000 sq m)	3,100.0	3,110.4
Number of employees	71,171	76,318
Sales of grocery (%)	82.2	79.5

Source: Euromonitor International estimates

Ito-Yokado Co. Ltd. (Ito-Yokado). Ito-Yokado, established in 1920, focused on mass merchandising outlets, convenience stores, restaurants, and financial services until Seven & I Holdings Co. Ltd. acquired it in September 2005 through stock transfers. It sold apparel, grocery, and household items. Ito-Yokado was major player in mass merchandising with the fourth largest market value share of 19 percent in 2007 behind AEON Co. Ltd. (23%). Ito-Yokado focused on a regional store management strategy rather than a national method in order to meet the diverse customer needs from region to region. Each store also actively collaborated with local farmers to provide the freshest produce and express its product value to customers. **Case Exhibit 2-6** summarizes Ito-Yokado's 2006–2007 performance.

CASE EXHIBIT 2-6
PERFORMANCE SUMMARY: ITO-YOKADO CO. LTD.

	2006	*2007*
Year end February		
Net sales (¥ billion)	1,487.5	1,464.1
Operating profit (¥ billion)	18.3	17.1
Outlets	174	176
Selling area ('000 sq m)	1,733.41	1,751.61
Number of employees	44,299	43,137
Sales of grocery (%)	45.2	45.8

Source: Euromonitor International estimates

Beyond the domestic companies, Wal-Mart's primary competitors in Japan were international entrants, including Carrefour from France and Tesco from the United Kingdom.

Carrefour. Carrefour, the world's second-largest retailer, entered Japan in 2000 without a partner, unlike Wal-Mart and Tesco who entered joint ventures to begin business in this market. The French company opened its first hypermarket in Tokyo and its footprint grew sluggishly to seven stores across the country by 2003. It had expected nearly twice that number of locations by the three-year mark, and cited difficulties in securing suitable real estate as the cause of expansion impediments.

The retailer also struggled to effectively market to Japanese consumers. Industry critics claim the retailer's poor returns in Japan were due to cultural misunderstanding and the inability to provide the variety of new, novel, and high-quality products Japanese consumers demanded. To further complicate efforts for success, in 2004 the Ministry of Agriculture charged Carrefour with mislabeling meat products and selling expired ham. These events devastated Carrefour's brand equity among Japanese shoppers. The company was simultaneously struck with an increasing decline in its European sales; it decided to trim its unprofitable and unnecessary operations in Japan and Mexico to free up capital for investment in its domestic market and its successful Chinese operations. Carrefour sold all eight of its stores to AEON and departed the Japanese market indefinitely with losses of $264 million.

Tesco. Tesco entered Japan through a strategic $340 million acquisition of C Two-Network in 2003, which operated 78 discount supermarkets in greater Tokyo. Tesco has been able to sustain its success in Japan, and many attribute this success to the company's thorough understanding of Japanese consumer culture. Tesco continued to grow in the years following market entry, acquiring 25 Fre'c stores in August of 2004 and 8 Tanekin stores in 2005. Tesco has banked on small-format stores, stocking the freshest of produce and prepared foods, as well as a sufficient selection of consumers' daily needs, in a space small enough for the ultra-urban environs of congested Tokyo, Osaka, Kyoto, and other cities. The British retailer spent millions in market research and is proceeding cautiously but optimistically in the famously complicated Japanese retail market. Tesco has 109 stores and employs 3,300 in Japan.

The Retail and Consumer Environment in Japan.

Japan is the world's second-largest economy, with a population of 127 million and has one of the highest per-capita incomes in the world, making it a highly attractive market for retailers. However, Japanese retail culture is very different from that of other developed nations. Japan is a country with strong and close-knit supplier webs that are extremely difficult for foreign companies to penetrate. As a result of this, it was difficult for retailers like Wal-Mart to cut costs enough to pass on discounts to customers. One major roadblock to cutting costs was the fact that Japanese consumers buy more fresh produce than shoppers elsewhere. That made lowering costs difficult since most farms and fisheries in Japan are small, family-run operations that frequently offer better deals on smaller orders rather than on larger ones. This increased the number of small suppliers that a company needed to deal with frequently, making it difficult for large companies to cut costs and increase efficiencies.

Another aspect of the Japanese market was the need for local customization since what sells well in Hokkaido is often eschewed in Kyushu, creating logistical headaches for large retailers that cut into profits. In order to successfully customize merchandise offerings to suit the varying needs of Japanese customers in different regions, companies needed to establish relationships with several small local suppliers in each region, making the distribution network complex for international companies with limited experience in this area of operation.

Some of the popular types of retail stores in Japan include department stores, general supermarkets, specialty supermarkets, convenience stores, drug stores, and other specialty stores. The highest sales growth among these had been in the specialty stores category. Supermarkets as well as specialty supermarkets are very popular shopping destinations for day-to-day products among the Japanese consumers. There has been a rising trend towards consolidation in this segment. AEON Co. Ltd. and 7-Eleven Japan Co. Ltd. have been among the most popular supermarkets in Japan. These supermarkets are typically approximately 108 square meters in size, located in every neighborhood across cities and towns in Japan. The concept of larger retail stores located in the suburbs was new to the Japanese population and had been introduced in recent years by international retail chains such as IKEA, Wal-Mart, Carrefour, and Toys 'R'Us.

Japanese consumers are very different in their tastes and preferences for retail products as compared with consumers in other parts of Asia, as well as other developed countries. They have an affinity for luxury products as they consider a high price to be synonymous with high quality products. Japanese consumers are willing to pay premium prices for quality products. They are also known to be the most stringent in terms of quality standards. Japanese supermarkets imposed strict quality checks on all incoming grocery products since consumers would not buy food products that had marks or stains on them. Japanese food products are individually packed, as appearance plays an important role in the purchasing decision of the consumers.

Similarly, Japanese consumers are willing to pay huge sums of money to purchase brands such as Louis Vuitton, Gucci, Fendi, and the like. Japanese consumers purchased 40 percent of the world's luxury goods annually. They consider high-end branded products to be status symbols and refrain from purchasing unbranded or private label products. As a result of this, when Japanese consumers read "Everyday Low Prices," they refrain from buying those products since they consider them to be of poor quality.

Another aspect of Japanese consumers that differentiated them from those of the rest of the world is the fact that Japanese consumers tend to buy small quantities of products. This is due to the limited space in many Japanese homes. Additionally, Japanese consumers prefer purchasing fresh groceries and small quantities of household products at regular intervals rather than purchasing large quantities and stocking up for long periods of time.

This exploration of Seiyu's history, the competitive landscape and the consumer culture in Japan shows the dynamics of the Japanese retailing sector, and should provide a better familiarity of Wal-Mart's challenges in this market. Explained below are the current states and future plans for Wal-Mart and Seiyu's Japanese operations.

Wal-Mart Takes Over. On April 25, 2008, Wal-Mart raised its stake in Seiyu to 100 percent despite the fact that the company had yet to turn an annual profit. Wal-Mart acquired the remaining stake in Seiyu Ltd. for approximately $875 million and made the company a full-fledged subsidiary. In turn, Wal-Mart operated Seiyu with greater flexibility in a range of activities, including merchandising, distribution and logistics. Many analysts believed that AEON's purchase of eight Japanese stores from Carrefour, which prevented Wal-Mart from taking control of Daiei, another struggling supermarket chain, was the reason behind Wal-Mart's further investment in Seiyu. So far, Wal-Mart has invested over $3 billion in the Seiyu venture.

Because of the continuous losses it has realized since its initial investment in the company, Wal-Mart decided to close almost 20 outlets and cut 6 percent of its workforce to trim its losses in 2008. Seiyu is now the fifth largest retail store in Japan in terms of revenue. The company currently operates out of Kita-Ku, Tokyo, and has approximately 393 stores under its flagship. Wal-Mart enjoyed a dominant market position and strong financial results in the United States and other countries between 2002 and 2007, but its investment in Japan proved that the company's formula for success was ill equipped for survival in this market.

FINAL THOUGHTS WITH THE CEO

Ed Kolodzeiski considers the future of Seiyu. He wonders if Japan will be another Germany for the world's number-one retailer, or if he can revitalize the venture and make it something like Canada for Wal-Mart. Regardless of his decision, and the path of Seiyu going forward, the last seven years have been an utter disappointment, and big decisions are still on the table for the struggling Japanese subsidiary.

DISCUSSION QUESTIONS

1. Was Seiyu the best partner for Wal-Mart?
2. What were Wal-Mart's cultural oversights and how could they more effectively adapt to meet the needs of Japanese consumers?
3. Given the competitive landscape in the Japanese Market, do you think Wal-Mart should consider converting to/adopting the convenience store format?
4. Should Wal-Mart leave Japan? If so, what would be the implications on Wal-Mart as a corporation and a brand? If not, how can Wal-Mart remain competitive and become profitable?

CASE 3

ARLA FOODS AND THE MOHAMMED CARTOON CONTROVERSY*

COMPANY BACKGROUND

Founded in 1881, Arla Foods is one of the world's largest Dairy producers based in Århus, Denmark. The company is a cooperative that is owned by approximately 10,600 dairy farmers in Denmark and Sweden. In 2007, Arla had approximately US $8.4 billion in revenues, turned a profit of US$164 million and had a workforce of 16,559 employees.

Arla Foods has achieved its immense size through a series of mergers and acquisitions. In 2000, the Danish dairy company MD Foods and the Swedish dairy company Arla merged and formed the company Arla Foods. The fusion of two dairy giants allowed the resulting company to view the Nordic countries as a single large market as opposed to four distinctly separate entities. In 2003, Arla Foods again decided to join forces with another dairy producing juggernaut, the British owned Express Dairies. Arla Foods was now the leading supplier of dairy products in the United Kingdom.

Today, Arla Foods is the largest dairy company in Europe and considers Denmark, Sweden, Finland, and the UK its home markets. The corporation exports to more than 100 countries throughout Europe, the United States, Canada, and the Middle East and aims "to provide modern consumers with milk-based products that create inspiration, confidence and well-being."

Arla Foods has a robust portfolio of brands that touches most parts of the dairy market (**Case Exhibit 3-1**). Some of its more well-known brands include Anchor Dairy Cream, Denmark's Finest Cheese, Cravendale Milk, and Lurpak Butter. Lurpak butter has twice won the award for "Best tasting butter in the world" at the world championships for dairy products. For many products, such as cheese, Arla has multiple brands to address different segments of the market. In addition to its consumer-targeted brands, Arla also manufactures milk-based ingredients for businesses in the food industry. These products include whey protein and cheese powder. Arla is also known to be on the cutting edge of new dairy technology development, as well as leading the push towards organic products.

CASE EXHIBIT 3-1
ARLA'S BRANDS

Nulman Group/ARLA FOODS

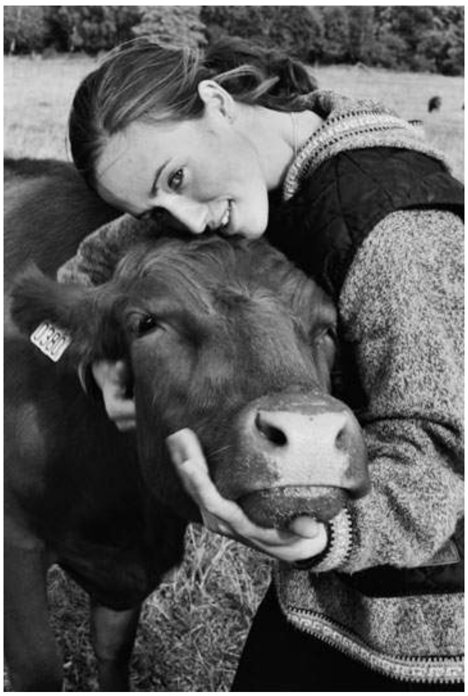
For years, Arla had branded itself as a grass-roots Danish company. Correspondingly, the advertising strategy the company employed highlighted its Danish cooperative origins (**Case Exhibit 3-2**). Arla so vehemently believed in creating a strong Danish association with its brands that it sponsored the Danish National Football team.

Arla's organizational structure is split into four main businesses: Consumer Nordic, Consumer International, Consumer UK, and Global Ingredients. In addition, there is a Corporate Center whose main goal is to integrate the four businesses effectively. Each division is responsible for virtually all the

*This case was prepared by Stine Ludvig Bech, Bartosz Fratczak, Jonathan Lane, and Nadine Oei at the Hong Kong University of Science and Technology under the supervision of Professor Kristiaan Helsen for class discussion, rather than to illustrate either effective or ineffective management of a situation described (2009).

CASE EXHIBIT 3-2
ARLA'S PRINT ADVERTISEMENTS

(A)



(B)

Consumer Nordic/ARLA FOODS

day-to-day activities in its region. By supervising all activities from production, to marketing, to sales, Arla hopes to deliver a consistent product to the end consumer.

ARLA IN THE MIDDLE EAST

In Arla's mind, Middle Eastern markets represented an area of particular interest. The high per-capita dairy consumption and large population of the region made it a prime suitor for Arla's diverse mix of dairy products. For over 40 years Arla had been targeting this area, and by 2004 the Middle East had evolved into a US$480 million market, accounting for 6–8 percent of the company's gross profits. The company viewed the Middle East as "one market with similar customs regulations, language and cultural background." Finn Hansen, Executive Director of Arla Foods' Overseas Division, stated, "for many years, Arla has traded, and enjoyed good relations with consumers in the Middle East. In fact, we have more Muslim than Danish consumers." Arla had established itself as the sixth largest dairy firm in the region.

Arla's expansion strategy in the Middle East involved forming various joint ventures with local partners. According to Mr. Hansen, a "joint venture provides us with full control of the distribution of our own products which means that we'll be able to take charge of the company's future development in the Middle East." In the early stages of 2005, the company decided to make a direct investment of approximately US$64 million into the region. The plan was to double the size of the local workforce from 1,000 to 2,000, and to increase production at its state-of-the-art cheese spread plant in Saudi Arabia.

The Mohammed Cartoons. Up until the end of 2005 Arla's prospects in the region looked bright. Sales were strong and the company was perceived as a high-quality dairy producer. On September 30, 2005, however, Arla's Middle Eastern fortunes would take a turn for the worse for reasons out of the company's control. On that day, the Danish newspaper Jyllands-Posten published a series of 12 editorial cartoons depicting the Islamic prophet Mohammed. Each caricature was meant to be an artist's representation of what Mohammed meant to them. Many of the depictions were viewed as controversial, but in one of the more inflammatory drawings, Mohammed was shown hiding a bomb underneath his turban.

The resulting maelstrom was well beyond anything that Jyllands-Posten could have possibly anticipated. Many Muslims called for the Danish government to apologize to the Islamic community over the cartoons, but high-ranking Danish officials refused, claiming that an apology would tarnish their citizens' right to freedom of expression (**Case Exhibit 3-3**).

Incensed by the cartoons, the Muslim world responded with great conviction. Some more moderate Muslim leaders, like the Afghan President Hamid Karzai, simply denounced the cartoons. He stated that "any insult to the Holy Prophet is an insult to more than 1 billion Muslims and an act like this must never be allowed to be repeated." Some reactions, however, were far more extreme. In Pakistan, a protest of 70,000 irate Muslims resulted in serious violence. The mêlée lead to cars, shops, and offices being burned. Globally, approximately 20 people were killed during protests. The situation became so dire that Danish Prime Minister Anders Fogh Rasmussen described the controversy as "Denmark's worst international crisis since World War II."

Danish Industry Crippled. In addition to the protests, many throughout the Muslim world decided to boycott all Danish goods. Although Danish exporters had nothing to do with the publishing of the inflammatory cartoons, many Muslims viewed the rejection of Danish products to be the best way to express their disapproval. According to Data from the Danish National Statistical Office, between February and June of 2006, exports to Saudi Arabia and Iran fell by 40 percent and 47 percent respectively. On an online blog, a

CASE EXHIBIT 3-3
DANISH GOVERNMENT'S RESPONSE TO THE CONTROVERSY

Royal Danish Embassy
Riyadh

THE DANISH GOVERNMENT RESPECTS ISLAM

Ambassador Hans Klingenberg, Ambassador of Denmark to the Kingdom of Saudi Arabia, announces that the Danish Prime Minister. Mr. Anders Fogh Rasmussen, in a televised speech on the occasion of the New Year condemned any expression, action or indication that attempts to demonise groups of people on basis of their religion or ethnic background.

These comments were a reaction to a heated debate about freedom of expression and limits to freedom of expression following the publication of 12 caricature drawings of The Prophet Mohammed in one Danish newspaper, Jyllands Posten. This paper is a private and independent newspaper that is neither owned by, nor affiliated to, the Government or any political party in Denmark.

In some contexts the issue has unfortunately been portrayed as if the drawings were part and parcel of a smearing campaign against Muslims in Denmark. This is certainly not the case. The Danish Government respects Islam as one of the world's major religions.

In letters of January 6th 2006 addressed to the Secretary General of the Arab League, H.E. Amr Moussa, and to the Secretary General of the Organisation of The Islamic Conference, H.E. Professor Ekmeleddin Ihsanoglu, the Danish Minister for Foreign Affairs, H.E Per Stig Moller, expressed that the Danish Government understood that Muslim circles had felt hurt and offended by the Danish Newspapeis' drawings. The Danish Minister for Foreign Affairs has personally in an Op Ed on January 4th in a Danish national newspaper warned against disrespect among religions. It was, however, also underlined that freedom of expression is a vital and indispensable element of Danish society and that the Danish Government cannot influence what an independent newspaper chooses to bring.

The Prime Minister's speech has been transmitted to all concerned authorities namely the Ministry of Foreign Affairs of the Kingdom of Saudi Arabia, the Organisation of Islamic Conference and to the Arab League.

The speech as well as the Foreign Minister's letters of January 6, 2006 is available on the Embassy website www.ambriyadh.um.dk

Embassy of Denmark; Riyadh, January 28, 2006

Muslim woman from Kabul stated, "If one wants to show outrage, boycotting seems to be the most logical way to go rather than issuing fatwas and burning down buildings." Dr. Ahmad Abdul Aziz al Haddad, Department of Islamic Affairs and Charitable Works, stated, "this is the power of the Islamic people, the power to boycott." The boycott manifested itself differently throughout the Middle East. Some retailers placed yellow tape that read "Danish Products" around all Danish goods that they offered to consumers. Other stores removed Danish goods altogether and posted signs saying, "Danish products were here." To make matters worse, the boycotts were not limited to individuals. Some governments, like that of Qatar, suspended their country's trade missions to Denmark.

As one may expect, the boycott of Danish goods had a much more lasting and meaningful effect on Danish companies than did the protests and violence. The scope of the sanctions became so large that even *non-Danish* multinational corporations were forced to respond. For example, the French retailing giant Carrefour proactively removed all Danish products from the shelves of its Middle Eastern stores. Similarly, the Swiss multinational Nestlé was forced to respond to a rumor that two of its products were of Danish origin. To combat the false claim, Nestlé printed an advertisement in a Saudi Arabian newspaper reassuring consumers that their products are not Danish-made. According to a Nestlé spokesperson, "we noticed that after a day or so the situation normalized." The effectiveness of this "non-Danish" clarification is a testament to the staunch anti-Danish sentiments that were pervasive throughout Saudi Arabia and the rest of the Middle East.

The Effect on Arla Foods. Predictably, Arla was not immune to the backlash against all things Danish. According to data from the Danish National Statistical Office, the country's dairy exports fell by 85 percent in February 2006, and top Arla executives estimated that the company would lose about US$75 million due to the boycotts. Finn Hansen, a divisional director at Arla, summarized the situation when he said, "this has been a tough time for everyone at Arla Foods involved in our Middle East business." According to a press release issued by Arla Foods, "All Arla's customers in the region have cancelled their orders and sales have come to a standstill in almost all markets. Arla's warehouses are full." The company later conceded that the approximately US$2 million per day loss would force them to re-consider its previously announced investment into the region.

The situation became so serious that it even forced Arla to scale back its operations outside of the Middle East. According to Jacob Mikkelsen, an Arla manager, the situation "not only affects us in the market here—it affects our employees, it affects our partners." He went on to say, "we've had to lay off employees in the production sites in Denmark right now because, obviously, we cannot send any products [to the Middle East]—as we don't have any sales."

The anti-Arla sentiment reached such a fevered pitch that the company even decided to suspend its sponsorship agreement with the Danish National Football Team. Arla spokeswoman Astrid Gade-Nielsen said: "We would like to maintain the focus on football, so we will hold off with putting on the Arla logo."

Clearly, Arla was in an unenviable predicament. Entirely due to external factors, one of the company's main businesses had shut down. Despite the fact that Arla had nothing to do with creating the situation, the company had no choice but to try and fix it. Arla had sunk far too much company time, money, and employee time into establishing itself as a premier dairy company in the Middle Eastern market to allow this controversy to ruin one of its prized businesses. At this point, Arla's directors were faced with some tough decisions. They could attempt to completely disassociate the company from its Danish roots and project Arla Foods as a global corporation, or they could staunchly support the right of the Danish citizens to express themselves freely. No matter what course of action they take, however, Arla's future in the Middle East was about to dramatically change course.

DISCUSSION QUESTIONS

1. How do you anticipate the incident will affect Arla's brand image? Specifically, in Islamic countries versus the Western world?
2. Should Arla Foods restructure the existing promotional strategy globally? Only in Muslim countries?
3. What are the advantages and disadvantages of being a multinational company in such a situation?
4. How should Arla respond to the boycott in the Middle East?
5. What lesson can be learned from these events?

CASE 4

CLUB MED: GOING UPSCALE*

Club Mediterranée (Club Med), a corporation in the all-inclusive resort market, manages over 100 resort villages in Mediterranean, snow, inland, and tropical locales in over 40 countries. Its resorts do business under the Club Med, Valtur, Club Med Affaires (for business travelers), and Club Aquarius brand names. Club Med also operates tours and 2 cruise liners: Club Med 1 cruises the Caribbean and the Mediterranean and Club Med 2 sails the Pacific. The company also arranges specialized sports facilities. Club Mediterranee's clientele is about one-third French, with the rest being mainly from North America and Japan.

Club Med found that its all-inclusive price is not as widely accepted as it has been in the past. The firm has found that consumers' preferences have changed. Vacationers are not willing to spend large amounts of money for vacations that

*This case was prepared by Karen Bartoletti, Alexandra Doiranlis, Steven Kustin, and Sharon Salamon of New York University's Stern School of Business and further updated by Dan Zhang of Temple University under the supervision of Professor Masaaki Kotabe for class discussion, rather than to illustrate either effective or ineffective management of a situation described (2008).

include many activities the vacationers are not using as much as they had in the past. This change in preference poses a problem for the company because Club Med's competition has been able to customize travel packages for each consumer at prices that vacationers feel more comfortable with.

Though it appears easy for Club Med to also customize travel packages, the company is at a disadvantage compared to its competition. Most of the competitors are found in a small number of locations, while Club Med has resorts scattered all over the world. Currency devaluation and political boycotts are some of the situations that Club Med faces worldwide on an ongoing basis. These external factors are reducing the company's ability to increase sales and gain new customers.

BACKGROUND AND HISTORY

Club Mediterranée, otherwise known as "Club Med," was originally founded by a group of travelers, headed by Gerald Blitz, in 1950. However, through the years, as this group was increasing in size, it became increasingly more difficult to manage. Therefore, in 1954 Blitz took the opportunity to turn this "association" into a business, with the aid of Gilbert Trigano. Trigano sought to establish this organization and by 1985 Club Mediterranée S.A. was transformed into a publicly traded company on the Paris Stock Exchange. Club Med Inc. became the U.S.-based subsidiary of Club Mediterranée, headed by Trigano's son Serge. Today, Club Med encompasses over 80 villages, on five continents, with its GOs (Club Med staff are called "GOs," or Gentils Organisateurs, i.e., Guest Officers) representing around a hundred nationalities speaking over 30 languages (see **Case Exhibit 4-1**). In addition, Club Med has two cruise ships.

The Club Med style can be best described by the sense of closeness found among the managers. All managers are former village chiefs and are therefore knowledgeable of the company's everyday operations. This immediately reflects on the "friendly" relationships that the GO's (Club Med speak for assistants or gracious organizers) and GM's (Club Med speak for guests or gracious members) have with each other making every vacationer's experience a memorable one. A distinguishing feature of a Club Med resort is the living area, which is much simpler than that of a typical hotel chain. Rooms are sparsely decorated (i.e., no phones, televisions, etc.). Unlike typical hotel chains, Club Med measures its capacity in each resort by the number of beds, not the number of rooms, since singles have roommates. This simpler approach has made Club Med very successful. Another key to success was Club Med's image as a place to go when you want to escape. However, in the year 2004, after years of trying to make higher profits, the company altered

CASE EXHIBIT 4-1
THE CLUB MEDITERRANÉE GROUP VILLAGES WORLDWIDE

its strategy hoping to make a comeback. The new strategy aimed at giving consumers a differentiated product that was more upscale and luxurious, especially in the Americas.

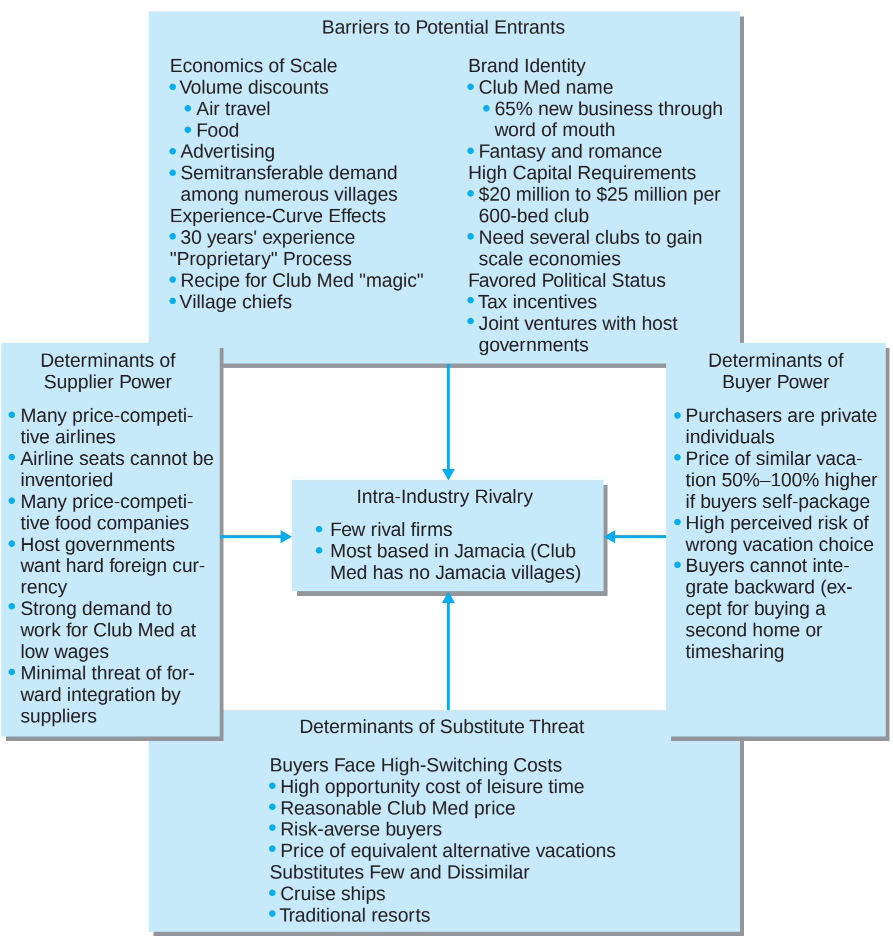
INDUSTRY STRUCTURE

Until 1986, Club Med had a very strong position in the all-inclusive resort market. The corporation's level of bargaining power with buyers, suppliers, and labor was high (see **Case Exhibit 4-2**). During that time period a client interested in duplicating "the Club Med experience" would have had to pay an additional 50 to 100 percent to have an identical experience at other resorts (see **Case Exhibit 4-3**). With regard to suppliers, companies that provided vacation-related services, such as airlines, were willing to give Club Med significant discounts in exchange for mass bookings. In keeping with the advance in information technology and the value of the web, Club Med launched a website www.clubmed.com at the end of 2003. The internet now accounts for around 20 percent of its sales. This proved to be a huge boon to travel agents who could check availability, prices, airfares, and even make bookings online. The website also allows travel agents to block reservations rather than book and confirm them for up to 48 hours. In 2004, Club Med developed a specialist program for travel agents.

CASE EXHIBIT 4-3
COST COMPARISON

Average Costing of a 7-day holiday in Don Miguel	*Normal Marbella Prices*	*Typical Club Med Holiday*
Return airfare London/Málaga	£199	Included
Coach transfer to resort	£20	Included
U.K. government departure taxes	£5	Included
Hotel (3-star equivalent) & breakfast	£300	Included
Seven three-course lunches (@ £15)	£105	Included
Wine with lunch and dinner (7 bottles @ £5)	£35	Included
Seven three-course dinners (@ £17)	£119	Included
Cycling (6 days @ £5/hr)	£30	Included
Tennis lessons (6 days @ £8/hr)	£48	Included
Night club entrance (6 × £5)	£30	Included
Tips to staff (7 × £2)	£14	Included
Child care facilities (6 × 4hrs @£5/hr)	£120	Included
Total	£1,025	From £569

CASE EXHIBIT 4-2
USE FORCES DRIVING INDUSTRY COMPETITION



Under the program, the company certified 12,000 travel agents and apparently the certification has enabled travel agents to increase bookings significantly. Finding labor was not a problem for this resort chain because thousands of people were interested in working at such a pleasurable location.

COMPETITION

As of 1986, Club Med began facing competition. This company was no longer the only all-inclusive resort. Many of the firm's competitors were realizing similar success. In 1986, most of the all-inclusive competitors had adopted Club Med's style of recreational activities with staff members acting as directors of these organized games. By then, the only major difference that Club Med maintained was the fact that their price did not include drinks. At the start of the year 2004, after several years of listening to agents complain that vacationers were skeptical about booking Club Med resorts due to its exclusive prices, Club Med reverted to an all inclusive deal and launched its ''Total'' All-Inclusive package in most of its villages. In the first part of the 2005, the company declared the Alps area, in which it operates 22 villages, a ''cash-free zone,'' meaning that it was an all-inclusive package with snacks and drinks available round the clock. That area of the world being a major ski locale, it attracts thousands of people every year. Therefore, Club Med has also launched ski programs for its members at its resorts around the Alps.

One competitor, Jack Tar Village, the Jamaica-based company, operates resorts located mostly in the Caribbean. Jack Tar positions the resorts as more glamorous and modern than those of Club Med. This can be seen in advertisements where the company implicitly criticizes the spartan rooms and methods of Club Med. Jack Tar's claim to fame in relation to Club Med is its open bar policy.

Another competitor that the firm must consider is the SuperClubs Organization, which operates four resorts in Jamaica. These resorts have reputations for being the most uninhibited and sexually oriented resorts. SuperClubs also follow a system of having drinks included in their price, but the other distinction from Club Med is the vacation's packaging and distribution. Club Med bundles the ground transportation with the rest of their packages while air transportation was to be distributed directly to consumers or travel agencies. SuperClubs, on the other hand, bundled ground transportation packages to be sold through large tour wholesalers, who in turn grouped these packages to be sold to the travel agencies.

Activities that Club Med and their competition offer are similar, but the way they are offered is somewhat different. Club med's competitors offer the same activities but do not include them in the initial price of the vacation. A few of the included SuperClubs activities were tennis, basketball, exercise rooms, and the like, but jet skiing and parasailing were available for an additional fee. This allowed Club Med's competitors to offer lower prices and take away potential clients from Club Med. This concept has worked for the competition because consumers find that they are not using all the activities offered. Therefore, there is no reason to pay an all-inclusive price. Club Med, on the other hand, suffers from ecological, economic, and political constraints that prevent the firm from using this individual pricing method, which could lead to customized packages for vacationers.

THE SERVICE CONCEPT

Club Med has a worldwide presence in the resort vacation business that has allowed the firm to grow and dominate this industry. The original mission statement includes the idea that the company's goal is to take a group of strangers away from their everyday lives and bring them together in a relaxing and fun atmosphere in different parts of the world. This feeling can be expected in any of the more than 100 resorts. This mission is the key to Club Med's competitive advantage. Consumers anywhere in the world know they will get the same preferential treatment while they are in the Club Med villages.

The company's strategy for assuring that guests come back is carried out by having their guests join a club as members by paying an initiation fee as well as annual dues. With the membership, they receive newsletters, catalogs featuring their resorts, and discounts on future Club Med vacations. This makes people feel more like a part of Club Med and creates strong brand loyalty. In fact, an average Club Med vacationer revisits four times after their initial stay at one of its resorts.

All Club Med villages are similar in their setup regardless of what part of the world they are in. The resort sites are carefully chosen by taking into consideration the natural beauty (i.e., scenic views, beachfront, woodland, no swampland, etc.), good weather, and recreational potential. Each resort has approximately 40 acres to accommodate all the planned activities: windsurfing, sailing, basketball, volleyball, tennis, and so on. The resorts' secluded atmosphere is further exemplified by the lack of daily ''conveniences'' such as TV, clocks, radios, even writing paper. This is done to separate individuals from civilization so they can relax as much as possible. However, under the new luxury experience model, Club Med is in fact adding room facilities in some of its resorts.

Club Med organizes everything in a manner that encourages social interaction between guests. The rooms are built around core facilities such as the pool. Meals are done buffet style and the tables seat six to eight people so guests can sit and meet with many different people at every meal.

All activities and meals are included in the fee paid before the vacation begins. The only exceptions are bar drinks and items purchased in the small shops; those items are put on a tab and paid for at the end of the vacation as guests check out. The goal behind this all-inclusive price is to limit the amount of financial decisions made by the guests so, once again, they do not have to think of the pressures of the ''real world.''

Each day the guests have a choice of participating in a variety of activities. As evening sets in there are choices for after dinner activities like dancing and shows. All activities are designed to encourage guests to join in. Even the shows allow for audience participation.

PROBLEMS

Until 1996, Club Mediterranée was predicted to have strong sales growth due to successful market penetration in other countries. However, the same expansion that helped the firm become famous may be the cause of the firm's disadvantage in relation to its competitors. Club Med did not have as great of an increase in sales as it had anticipated. This is due to economic and ecological disasters in countries where Club Med resorts are located. This makes it difficult for Club Med to maintain its beautiful resorts in countries that suffer from such disasters.

With this knowledge taken into consideration, contracts are drawn up between Club Med and the government of the corresponding country. The key clause in these contracts states that if Club Med is allowed to enter the country, the firm will increase tourism in the area. In turn, the government will provide financial aid to help pay for the costs of maintaining the new resort facilities.

Joint ventures with host governments have proven to be not as profitable as expected. An example of such a disappointment is when the Mexican government agreed to maintain Club Med's facilities if the corporation would increase Mexico's tourism level. However, unexpected occurrences, such as depreciation in the country's currency, limited the amount of capital the Mexican government could allocate to maintain the resort's facilities. This put Club Med in a difficult situation, as the firm had to suddenly maintain its facilities with less government funding than expected. Though Club Med's resorts are very profitable in Mexico, the devaluation of the peso has caused Club Med's maintenance costs to rise dramatically. This in turn prevents Club Med from reducing its prices and offering customized packages to its vacationers.

A second example of how international resorts reduce the firm's ability to compete effectively is Club Med's penetration into France. The resorts in the area had been doing well until March 1996. At that time, it became known that France had been conducting nuclear tests in the South Pacific. This caused Club Mediterranée to receive fewer bookings than expected in its Tahiti-based resorts. These resorts were avoided by tourists because of riots among residents who were concerned about the testing; this resulted in negative publicity in this part of the world. The riots, which occurred often in airports, deterred potential tourists from flying into this region.

Another significant event in the history of Club Med was the September 11 attacks in the United States that caused a considerable reduction in travel the world over. For Club Med, however, it was followed by the closure of 15 of its villages. Since then, it has reopened 6 and opened 4 new villages.

The hurricanes in the Caribbean in 2004 also caused some serious damage to Club Med's resorts in those regions. The company had to rebuild its Punta Cana village and at the time, it gave out Hurricane Protection Certificates that allowed guests who had lost out on vacation days due to a category 1 hurricane. Guests can exchange those certificates for travel to that destination sometime in the future.

Worse still, the terrible tsunami disaster in Southeast Asia devoured most of its coastline and Club Med's properties in Malaysia, Phuket, and the Maldives. Furthermore, the region has experienced a huge reduction in tourism.

The effects in one area where Club Med is based, often indirectly affects other Club Med resorts as well. With a lower clientele in its Tahiti-based resorts and surrounding territories, Club Med experiences lower revenue and therefore acquires less money to maintain these resorts. As a result, the firm compensates for such losses by using the profits from other resorts that have not suffered from similar disasters. Problems such as these prevent Club Med from reducing prices by implementing a customized travel package, which would enable the firm to compete more effectively in the vacation resort market.

WHAT LIES AHEAD?

Club Med fell on hard financial times through much of the 1990s, a result of rundown properties, a reputation for mediocre food and amenities, the aging of the baby boomers, a backlash against the sexual revolution and an inconsistent message that was filtered through eight advertising agencies in different countries.

In 1998, Philippe Bourguignon, who is credited with turning around Euro Disney, was brought in as new chairman to stem the decline. He immediately instigated a $500-million, three-year rescue program. Unprofitable villages and some sales offices were closed, and older resorts are being refurbished. Thanks to the new chairman's leadership, Club Med is making a comeback. Attendance is rising, the company turned a modest profit last year and 74 of its villages have undergone a $350 million restructuring. In April 1999, after the growth strategy was put into action, the stock bounced back from a 12-month low of $63.67 to close at $84.17. Occupancy rose to 72.3 percent last year, up from 69.1 percent in the 1997 fiscal year and 66.9 percent in the 1996 fiscal year to 73.7 percent in 2000. In fiscal 1998, attendance at Club Med rose 5 percent, to almost 1.6 million, although it is still well below the record 1.8 million set in 1989. Equally important, after huge losses in both 1997 ($215 million) and 1996 ($130 million), the company earned $30 million in revenue of $1.5 billion in sales. In 2001, revenues were up 5.1 percent, to 1.985 billion euros. While there are still many problems confronting the resort club, such as a 10 percent loss of room space due to renovations, Club Med appeared to be back on track to success. The company finally reported a net profit of 3 million euros for the six months ended April 2005 compared with a loss of 4 million euros the previous year, its first time in four years, in spite of calamities such as the devastating tsunami in the Indian Ocean and the continuous storms in the Caribbean, which caused a drop of 4.3 percent in sales. The company also attributed this positive profitability to a slight change in its strategy away from "two-trident" properties to a more upscale position. Boosted by these results, the company aimed at an operating profit of 100 million in the year 2006. However, unfortunately, Club Med posted a net loss of 8 million euros for 2006-07, compared with a 5 million euro profit in the previous year.

After serious losses and cash problems in 2002, former chairman Bourguignon resigned and Henri Giscard d'Estaing was appointed as the new chairman. With this new appointment, the company started looking toward a change in strategy and a brighter future. Current management is well aware of the strong brand recognition that Club Med holds. It is synonymous with the pursuit of pleasure. However, management would like to alter this perception. It would like to eliminate the perception of Club Med as a "swingers" paradise. Even if Club Med wanted it to be such a resort, it would be virtually impossible to compete with resorts that have sprung up in Europe, Asia, and the Caribbean in recent years catering exclusively to hedonistic life styles. But Club Med has not just been renovating properties. A big change is the decision to concentrate its sales and marketing efforts on France, the United States, Canada, Belgium, Japan, Italy, Germany and Switzerland. These countries account for 74 percent of visitors. Club Med also plans to enter the Chinese market once again. It tried to enter China a few times before but the effort was largely unsuccessful. Therefore, this time it will not open a resort until it has developed brand familiarity in China by opening a sales office first. The company intends to follow this similar strategy it adopted while entering the South Korean market, which has been growing every year. In January 2005, the company announced that it was opening its first report in Albania. The company's next step is opening villages in Italy and Brazil.

The United States is Club Med's No. 1 target. To increase U.S. visitors, Club Med is considering opening three new resorts around the United States, one of them being a resort for couples in the Dominican Republic, another being a family report in the Yucatan Peninsula near Mexico, and the third being a family resort in Brazil. It has invested over $350 million from 1998 to 2004 in advertising to rejuvenate their strong brand name in the United States, which has been misunderstood because of poor advertising campaigns. Each village is now ranked with two, three or four tridents, based on amenities and comfort level, with the result that the 13 budget Club Aquarius villages are being folded into the two-trident category. A major expansion is under way around the Pacific Rim, including new resorts in Indonesia, China, the Philippines, and Vietnam. As part of its agenda to promote itself and leverage occupancy, Club Med has started entering strategic alliances with firms all over the world. In November 2002, it signed a deal with match.com, an online dating company and a part of USA Interactive, to offer vacation packages for singles to "casually" meet people in a different setting. This was part of its focus on the American customer.

In the year 2004, Club Med executed its new upmarket strategy, rebranding itself as upscale and family-oriented. Prior to that, French hospitality group Accor had acquired a 28.9 percent stake in Club Med, becoming the largest shareholder. Although it sold most of its stake in 2006, announcing that it wished to refocus on its core businesses, Accor's affiliation once provided Club Med with the much needed financial assistance and association with a powerful ally. To start with, it changed its brand identity and logo with a makeover expenditure of more than 500 million euros. The company believed that with consumers' changing preferences, there were looking for a different vacation experience and it launched its "New Luxury" product. This included major renovations at its U.S. locations, namely Club Med Columbus Isle, Club Med Buccaneer's Creek, and Club Med Turkoise. Club Med Columbus Isle went through a $5 million upgrade to include more luxury features including king-sized beds, flat screen TVs, and well-stocked mini fridges, among many other such facilities. Add to that three new dining options and a poolside with eclectic music, daybeds, and lounges and it hopes to offer an experience like none other. The company also spent $50 million on refurbishing its resorts at Buccaneer's Creek and $6 million on the one at Turkoise.

Among the new experiences that Club Med is trying to bring to its members are the unique gym facilities in some of its resorts and the "Seven Senses of Summer Program" offering a different activity every day of the week (including art classes, movie nights, dancing, and meditation). In early 2005, the company launched its first flagship store in London, UK, known as the "The Travel Boutique."

With its sights set on providing guests with nothing less than the best, Club Med continues to move its resorts further upscale. Renovations and remodeling efforts across our properties have added a new level of luxury, while innovative programs have made each location even more enjoyable than before. In 2006 and 2007, Club Med and its partners dedicated a total of $530 million to renovate and revamp the group's portfolio of offerings. 2006 saw Club Med close five of its more rudimentary resorts and upgrade seven others (Club Med Cancun Yucatan, Mexico; Club Med Caravelle, Guadeloupe; Club Med La Plagne, French Alps; Club Med Opio in Provence, France; and soon Club Med Albion, Mauritius; Club Med Ixtapa Pacific, Mexico; and Club Med Buzios, Brazil). For the future, Club Med is scanning for new properties in the Americas that it can convert into boutique style luxury properties like the one on Columbus Isle.

DISCUSSION QUESTIONS

1. Given Club Med's current problems, do you feel the company could have avoided its pricing scheme problems through different expansion plans?
2. Why is Club Med unable to offer competitive prices?
3. Given Club Med's current problems, do you think that "the Club" will be able to survive by keeping its current pricing strategy or do you think a new strategy should be implemented?
4. How can Club Med continue to differentiate itself in order to sustain its competitive advantage against its competitors who seem to be imitating its service concepts?
5. Club Med has changed its strategy recently to a more luxury driven one. By the end of 2008, the company hopes to have most of its villas operating as luxurious boutiques. Spending $50 million a villa to refurbish it, how does that affect costs and eventually profits? In other words, what is the justification for these high expenditures?

CASE 5

HONDA IN EUROPE*

INTRODUCTION

The Honda Motor Company first entered the European market in the early 1960s through the sale of its motorcycles. The company's motor vehicles were introduced into Europe at a much later date. Honda's motor vehicle sales in Europe have been relatively poor, especially in the previous five years. Despite its huge success in the North American market, Honda is struggling to gain a significant foothold in the European market. Honda executives wonder why their global strategy is sputtering. Is global strategy just a pipe-dream, or is something wrong with Honda's European strategy?

*This case was prepared by Jong Won Ko, Peter Wirtz, Mike Rhee, and Vincent Chan of the University of Hawaii at Manoa and further updated by Dan Zhang of Temple University under the supervision of Professor Masaaki Kotabe for class discussion, rather than to illustrate either effective or ineffective management of a situation described (2008).

HISTORY OF HONDA

In 1946 Souichiro Honda founded the Honda Technology Institute. The company started as a motorcycle producer and by the 1950s had become extremely successful in Japan. In 1956, Honda entered the U.S. market and was able to position itself effectively, selling small sized motorcycles. In the early 1960s, the company commenced automobile manufacturing and participated in Formula-1 racing (F-1) to assist its technology development. Thanks mainly to its F-1 efforts, Honda became recognized as a technologically savvy company, not only in Japan but in the rest of the world as well.

Until the early 1990s the company experienced serious organizational mismanagement resulting from tension between the technology side and the marketing-sales side. The situation became so dire that the technology biased president and founder, Souichiro Honda, was forced out, as a result of his neglect in important marketing decisions. After Souichiro Honda's departure, the company became more marketing-technology balanced, and by 1999 it was second in sales only to Toyota in the Japanese market. The company's underlying success is best summarized in its mission statement, "pleasure in buying, selling and producing," and "Beat GM, not Toyota." Honda currently has 25 separate factories in the world, and its operations cover automobiles, motorcycles, financial services, power products, and power tools. In fiscal 2008, 83 percent of Honda's revenues came from its automobile sector, as outlined in **Case Exhibit 5-1**.

CASE EXHIBIT 5-1
HONDA'S BUSINESS PORTFOLIO (IN MILLION YEN)

Motor Cycle	1,558,696
Automobile	**9,489,391**
Others	421,194
TOTAL	**11,469,281**

AUTOMOBILE INDUSTRY

The automobile industry worldwide is in the mature stage of its life cycle. By the 1990s, an oversupply of motor vehicles became such a problem to the industry that a number of mergers and acquisitions (M&A) and alliances took place. In the late 1990s, industry experts stated that only six or seven companies would remain global players, while other companies would be forced to sell in niche markets. In the last decade, DaimlerChrysler acquired a major share of Mitsubishi, GM became the controlling shareholder of Fiat and Saab, Ford acquired Volvo, Jaguar, and a major share of Mazda, and Renault became the controlling shareholder of Nissan. Global scale production and sales became important as a way to cut cost through developing a common platform or engines as well as global procurement. Unlike their European and American counterparts, Japanese automobile companies, including Honda, did not adopt the M&A strategy for expansion. To remain a global competitor, Honda instead expanded its operations by setting up plants in regional markets. **Case Exhibit 5-2** shows that Honda is currently ranked sixth in the world.

CASE EXHIBIT 5-2
THE WORLD'S TOP 10 AUTOMOBILE MAKERS IN SALES IN THE FIRST HALF OF 2008

Ranking	*Name*	*Sales (in million units)*
1	Toyota	4.818
2	General Motors	4.540
3	Volkswagen	3.266
4	Ford	3.217
5	Hyundai	2.187
6	**Honda**	**2.022**
7	Nissan	2.014
8	PSA Peugeot Citroen	1.697
9	Renault	1.326
10	Suzuki	1.283

Honda in Europe. Currently, Honda has five regional operations: North America, South America, Japan, Asia-Oceania, and Europe. The European operation covers Europe, the Middle East, and Africa. Honda entered the European market in 1961 as a motorcycle manufacturer, with its automobile operations following several years later. In 1986, Honda started engine production in the UK, and six years later it launched its European production at Swindon in Somerset, UK. Honda opened production facilities in Turkey in 1999 to target the Middle East and Eastern European markets. The European operation accounts for a small portion of Honda's global operation, as shown in **Case Exhibit 5-3**.

CASE EXHIBIT 5-3
HONDA'S GLOBAL SALES BY REGION

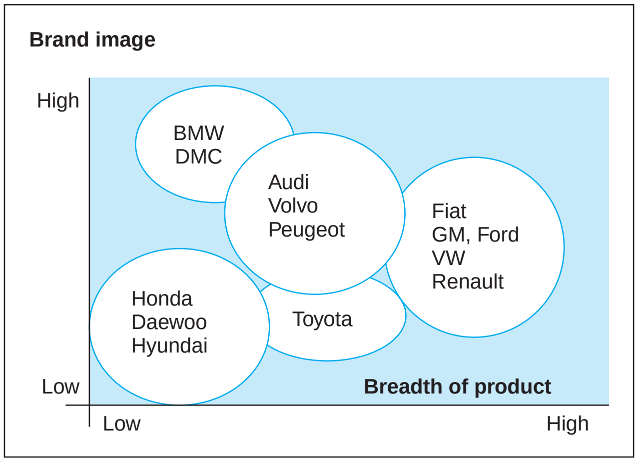
Net Sales (in billion yen)	*Year 2007*	*Year 2008*	*Unit Sales (in thousands)*	*Year 2007*	*Year 2008*
North America	5,179	5,209	North America	1,788	1,850
Japan	1,413	1,321	Japan	672	615
Europe	**917**	**1,183**	**Europe**	**324**	**391**
Asia (excl. Japan)	862	1,048	Asia (excl. Japan)	620	755
Other	518	728	Other	248	314

There are a number of reasons for the low sales in Europe. Honda entered the European market rather late, and its first production facility in the region was built in 1992, at a time when Honda was still only a minor player in the Japanese market. Prior to 1992, Honda Europe was forced to import its vehicles from the United States, making it impossible for the company to aggressively attack the European market. One of the most important reasons for the lack of success was that the European market was highly saturated with locally owned car manufacturers. Companies such as Saab, Volvo, BMW, Audi, Volkswagen, DM, Opel, Renault, Peugeot, and Fiat have been dominating the European market for a considerable number of years. In addition, other foreign companies, such as Toyota, Nissan, Ford, and Hyundai make the European market extremely competitive.

In 2001, Volkswagen was ranked number one in Europe with 17.6 percent of the market and Peugeot number 2 with

15.8 percent. Renault, Ford, Fiat, and GM had approximately 10 percent of the market each, and Toyota, BMW, and Audi had a market share in the region of 5 percent. Honda captured only 2.4 percent of the European market. The competitive industry map (**Case Exhibit 5-4**) shows Honda's current position in the European automobile market.

CASE EXHIBIT 5-4
BRAND IMAGE IN EUROPE



The Honda brand image in Europe is relatively weak and the product line is narrow compared to the other major players in the market. The company needs to expand its sales and production in order to survive in global scale competition.

Honda's European Marketing. The four largest markets within the European market are those of Germany, the UK, Italy, and France.

Product. Honda's European manufacturing plant is located in the UK and as a result the country has more Honda models than any other country in Europe, with a total of 20. Germany, the country with the highest number of vehicle registrations, has the next largest number of models, 16. Italy and France, both similar in size to the UK, have 11 and 9 models, respectively. The products found in Italy and France are also found in Germany and the UK. The UK has a number of automobiles that cannot be found in the other three countries, including diesel-powered cars.

Price. The prices of Honda's vehicles in Europe are comparable to those of similar cars produced by local manufacturers. **Case Exhibit 5-5** compares the price in euros of Honda's new 1.4-liter Jazz, with similar cars offered in the European market.

CASE EXHIBIT 5-5
AUTOMOBILE PRICES

Vehicle	Honda Jazz	Peugeot 307	VW Polo	Renault Clio	Opel Astra	Fiat Stilo
Price (euro)	13,800	13,250	13,930	13,650	13,400	13,500

The exhibit clearly implies that Honda is attempting to price its product at a similar level to that of the competition.

Distribution. The image of Honda's vehicles and motorcycles in Europe is aligned together. Consequently, Honda vehicles throughout Europe are distributed at the same locations that their motorcycles are. Vehicles produced in the UK and Turkey are distributed throughout Europe, the Middle East, and Africa. Recently, because of the depreciating euro vis-à-vis the U.S. dollar, cars manufactured in the UK have also been exported to the United States.

Promotion. The promotion of Honda's motor vehicles is essentially the same throughout Europe, whether in France, Germany, Italy, or the UK. The company spends very little time and money in promotion, however. It believes that its success in Formula-1 racing, together with its ability to produce high-mileage, fuel-efficient products that exhibit great engineering, is enough to make it a popular in the European market. It relies on word of mouth by its customers to potential customers and, to a lesser extent, on the internet and the company's various websites.

In the recent 2002 launch of the Jazz (known as the Fit in Japan), the company relied heavily on word of mouth and on a website created especially for the occasion. The website, using the same design for all European countries, promoted the car as suitable for young working women. The website attempted to give the car a cool, young image by associating it with Feng Shui, Yoga, and other relatively hip activities. A sense of fun was also attached to the website in an attempt to draw in young women. Once inside the Jazz website, the user could easily find the nearest dealership to purchase the vehicle.

European Sales. **Case Exhibit 5-6** shows the sales figures for Honda's eight most popular motor vehicles from 1996 to

CASE EXHIBIT 5-6
HONDA'S UNIT SALES IN EUROPE: 1996–2002

Year	*Civic*	*Accord*	*Shuttle*	*CR-V*	*HR-V*	*Logo*	*S2000*	*Stream*	*Total*
1996	150,783	44,248	3,255	11					203,276
1997	160,530	39,410	3,278	16,502					232,242
1998	151,270	31,536	4,670	41,886	88				240,489
1999	99,156	48,835	4,261	35,923	26,257	12,856	1,179		234,942
2000	74,653	46,579	2,956	29,751	28,537	10,593	3,948		201,284
2001	83,024	28,822	320	24,381	17,726	4,145	2,195	7,283	169,922

2001 (detailed sales by automobile model are not available thereafter). During this period, Honda's most successful year was in 1998; since then, however, sales had declined dramatically for a number of years. However, despite the stagnant markets in Western Europe, the growth of the markets in Central and Eastern European countries as well as Russia, since around 2005, has helped Honda increase its total sales to 391 thousand units by 2008. Factors accounting for this performance were: the expansion in sales of diesel-powered cars; favorable sales for the new model *CR-V*, which was introduced in January 2007; the three-door Type S as well as Type R models in the *Civic* series; and strong sales of the sedan-type models, such as the *Accord* and *Civic* four-door sedans, especially in Russia.

Honda's motor vehicles have been relatively unpopular in the majority of Western Europe, in particular Italy and France. The company's best sales have occurred in the UK and Germany as shown in **Case Exhibit 5-7** (no sales information by country is available after 2003).

CASE EXHIBIT 5-7
HONDA'S UNIT SALES IN EUROPE BY COUNTRY: 1994–2003

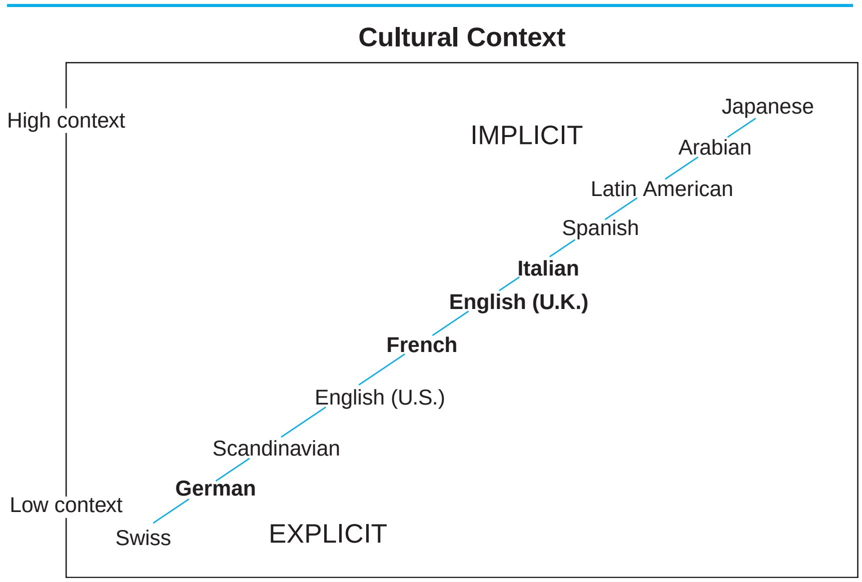
Country	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*
U.K.	38,187	45,772	50,075	55,611	61,044	65,290	68,736	63,459	77,942	81,858
Germany	53,687	52,614	54,550	55,918	48,247	43,610	33,536	31,868	32,590	34,251
France	14,411	11,848	13,260	12,585	14,095	15,270	8,717	6,495	6,392	5,547
Italy	12,063	14,101	15,014	25,406	24,532	22,031	18,570	13,732	15,509	18,887

European Culture. Honda's relatively poor showing in Europe may be explained by a number of reasons. The main problem was that the company failed to truly understand the culture of Europe, and more importantly, it treated Europe as one giant single market. Although France, Germany, the UK, and Italy are all European, cultural differences abound among them. One theory that explains the differences between the four nations is that of high-context versus low-context cultures. In a high-context culture, the interpretation of messages depends on contextual cues like gender, age, and balance of power, and not on physical written text. In a high context culture, things may be understood, rather than said. Countries considered to be high-context cultures include those of China, Japan, Italy, France, Spain, and Latin America.

Conversely, a low-context culture emphasizes a distinctive written text or spoken words, where ideas are communicated explicitly. Low-context cultures expect others to say what they mean and do what they say. There is far less emphasis on contextual cues, such as ranking and balance of power. Examples of countries that fall within this category are the United States, the Scandinavian nations, and Germany. A graphical view of high-context and low-context countries is presented in **Case Exhibit 5-8**.

Successful advertising in low-context cultures differs from that in high-context cultures. An advertisement for a high-context culture is based on an implicit style where the emphasis is on the

CASE EXHIBIT 5-8
CULTURAL CONTEXT



overall feel and outlook rather than on the feeding of pure information. In this type of advertisement, the actual product may not even be shown. The audience may only be given implied images and sublime messages. Honda's Jazz website contained a large amount of information that would have been too much for high-context cultures such as the French and the Italians. In addition, high-context cultures have been much slower than their low context counterparts in adopting the internet.

On the other hand, the advertisement for a low-context culture includes the actual product, together with a large amount of information. Low-context nations such as Germany would have most likely been able to appreciate Honda's Jazz website. It is therefore unlikely that an advertisement/promotion campaign created for a high-context culture will be effective in a low-context culture country and vice versa. Since Europe consists of both high-context and low-context culture countries, companies such as Honda, intending to expand its business, should take into consideration two separate market segments when planning its marketing strategy. Honda's situation in France, Italy, Germany, and the UK in regard to their culture are outlined in the following sections.

France. France is a high-context culture where style and image is of the utmost importance. The perceived quality of a product means that the French have a bias toward the style and image of a product. The image of Japanese cars in France is relatively poor, dating back to the 1930s when Japanese manufacturers entered the European market with low quality products. Since that time, Japanese carmakers, in particular Honda, have not understood the concept of style and image in marketing. They appear to show a car only in a factual way, which is extremely low-context. Japanese carmakers in France have recently tried to alter their image, though with limited success.

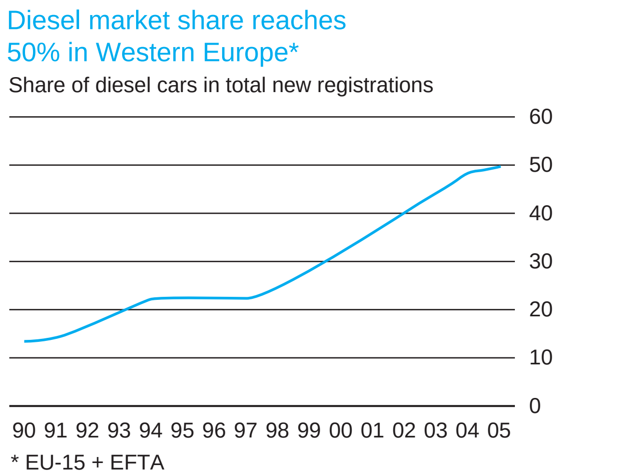
Today France's image of Japanese cars, and in particular of Honda, is that of a small, low-quality car, suitable only for a second car. Most buyers of Japanese cars are young career women who have just entered the workforce and housewives with limited cash. The main family car is likely to be a Renault or Peugeot and is driven by the man in the family. In addition, the French are risk-averse people, who dislike trying new things. They are also highly patriotic, supporting and purchasing their national products, such as Renault and Peugeot cars.

The patriotism and risk averseness of the French, together with their low image of Japanese cars and the large number of other European automobiles available in the market, makes it extremely difficult for Honda to be successful in this market.

Italy. Italy, like France, is a high-context culture where a great deal of emphasis is placed on feeling and style. The Italian culture is reflected in their daily lifestyle, which gives a sense of romance to the people living there. As in France, the Italians view Japanese cars as small, low-quality vehicles, suitable only as a second family car. The most popular automobile in Italy, especially for families, is the Fiat. The Fiat is dominant because the Italians, like their high-context cousins the French, being very patriotic.

Italians are also risk-averse and are not adventurous in sampling products outside of Europe. Italians, like the majority of Europeans, love to drive diesel automobiles. Only the French enjoy driving diesel cars more than the Italians. However, Honda still lags behind in the production of diesel cars relative to competition in Europe. As shown in **Case Exhibit 5-9**, the trend in the popularity of diesel cars relative to gasoline-powered cars is clear in Europe. Diesel cars are hugely popular because of the high gasoline prices in those countries. Diesel engine cars are cheaper to maintain in the long run, compared to gasoline engine cars.

CASE EXHIBIT 5-9
MARKET SHARE OF DIESEL CARS IN WESTERN EUROPE



Source: ACEA

A large number of European cars compete in Europe, particularly at the luxury end. BMW, Mercedes, and Audi are very popular for the very rich, as are Ferrari, Lamborghini, and Porsche. It is difficult for Japanese cars to enter the European market, especially at the higher end. The only Japanese cars that are selling reasonably well are Toyota's Yaris, Nissan's Micra, and Jazz from Honda. All three models compete in the 1.4 liter and under segment.

Germany. Of the four main European countries in which Honda is sold, Germany has had the second highest sales volume. Germany is a low-context culture where practicality and durability is one of the main concerns of a product. Consumers are concerned with every detail regarding a product and wish to know all relevant information before making a purchase. The promotion style used by Honda on the internet, bursting with information on their automobiles, seems to be an appropriate form of promotion for the low-context nature of the Germans.

Another factor that should place Honda's products in a better position in Germany is the Germans' greater willingness to take risks and to purchase new products. As a result, Honda would not have to spend additional resources to change the image of their vehicles in Germany, as it should probably do in France and Italy. If Honda's promotion is in line with the German's low context nature, why could Honda not improve its sales position further? There must be another reason for its lackluster sales increase. One of the most logical reasons is the perceived nature of Honda's quality. The company needs to use its marketing to promote quality because competitors such as Mercedes (under DaimlerChrysler), Audi, Volvo, Jaguar (under Ford), and Volkswagen, to name a few, are seen as high-quality carmakers.

The United Kingdom. English culture is moderately high, focusing on tradition and class. Accordingly, the type of advertising and marketing promotion that will appeal to the English is similar to that popular in France and Italy but is more conservative in nature. On the other hand, the English are more individualistic and less risk averse than the French and Italians. Hence, it should be easier for Honda to introduce its range of cars in the UK and to improve sales. The fact that the manufacturing plant is located in the UK helps in the promotion of the cars. The construction of a second assembly plant should also help Honda's position in the UK.

The existence of the assembly plant, together with the risk taking nature of the English, has increased the number of Hondas sold in the UK to such a level that it is easily Honda's best market. The number sold in the UK as of 2001 was twice that of Germany, which only five years before recorded more sales than the UK. However, no Honda vehicle has entered the list of the top ten cars sold in the UK or throughout Europe, as shown in **Case Exhibit 5-10**.

CASE EXHIBIT 5-10

TOP 10 CARS SOLD IN EUROPE IN 2007

Rank	*Make & Model*	*No. of Cars Sold*
1	Peugeot 207	437,505
2	VW Golf	435,055
3	Ford Focus	406,557
4	Opel/Vauxhall Corsa	402,044
5	Opel/Vauxhall Astra	402,173
6	Renault Clio	382,041
7	Fiat Punto	377,989
8	Ford Fiesta	355,933
9	VW Passat	300,566
10	BMW 3 Series	295,312

Possible Entry Wedge. A possible entry wedge exists in Europe that could help Honda recover some of its lost ground. The European automotive industry is committed to a voluntary agreement to reduce CO_2 emissions by 25 percent from the 1995 levels by 2008 for all new cars. As an incentive for individuals to drive low-emission cars, special tax brackets will be given to drivers of low emission cars.

In 2001, Honda's Insight produced the lowest levels of CO_2 emission of any car in Europe. **Case Exhibit 5-11** shows the five cars with the lowest CO_2 emission.

CASE EXHIBIT 5-11

TOP 5 CARS WITH THE LOWEST CO_2 EMISSION

Rank	*Car*	*Engine*	*Gas Type*	*CO_2 g/km*
1	Honda Insight	1 liter	Gasoline	80
2	Peugeot 206	1.4 liter	Diesel	113
3	Toyota Prius	1.5 liter	Gasoline	114
4	Renault Clio	1.5 liter	Diesel	115
5	Audi A2	1.4 liter	Diesel	116

The ranking is an excellent opportunity for Honda to promote its cars in Europe, where people (especially in Germany) are obsessed with the environment and are burdened with high taxes. In addition, Honda introduced the Civic Hybrid in 2003. It is a gasoline-electric power train, fuel-efficient car with a low CO_2 emission level. Although the car has an electric engine, it does not need to be plugged in and recharged. The battery pack recharges itself automatically as the car is running.

Aiming at further business expansion in Europe, Honda is promoting product development that meets regional needs by establishing a broad-based local network of company facilities and R&D offices. In 2004, Honda released a diesel version of the Accord, the first car to be fitted with Honda's own diesel engine and designed to meet EU environmental performance standards for emission control (Euro 4). The diesel lineup expanded rapidly thereafter with the addition of diesel CR-V, FR-V, and Civic models. Targeting local customer needs, Honda subsequently launched a European version of the Civic in 2006, which has been well received by a wide range of customers. Further, in July 2008 at the British Motor Show, Honda unveiled its low-emission roadster concept, the OSM, the design of which was out of the company's R&D facility in Offenbach, Germany.

The Issue. Honda is currently at the crossroads of its European expansion in the automobile market. It has been successful in managing to market essentially the same cars in many parts of the world, particularly in the North American and Japanese markets. Honda executives are wondering whether or not they should adopt more localized product development in Europe.

DISCUSSION QUESTIONS

1. Does adapting the promotion of its motor vehicles to suit each country's culture make sense for Honda?
2. Is it wise for Honda to market its products the same way in every country?
3. Is pricing its vehicles similar to the competition a good strategy for Honda?
4. Should Honda change its product mix from country to country?
5. Is distributing its motor vehicles together with its motorcycles a good strategy for Honda?
6. Is the European market too competitive for Honda?

CASE 6

ANHEUSER-BUSCH INTERNATIONAL, INC.: MAKING INROADS INTO BRAZIL AND MEXICO*

HISTORY

In 1852 George Schneider started a small brewery in St. Louis. Five years later the brewery faced insolvency. Several St. Louis businessmen purchased the brewery, launching an expansion financed largely by a loan from Eberhard Anheuser. By 1860 the enterprise had run into trouble again. Anheuser, with money already earned from a successful soap-manufacturing business, bought up the interest of minority creditors and became a brewery owner. In 1864 he joined forces with his new son-in-law, Adolphus Busch, a brewery supplier, and eventually Busch became president of the company. Busch is credited with transforming it into an industry giant and is therefore considered the founder of the company.

Busch wanted to break the barriers of all local beers and breweries, so he created a network of railside icehouses to cool cars of beer being shipped long distances. This moved the company that much closer to becoming one of the first national beers. In the late 1870s, Busch launched the industry's first fleet of refrigerated cars, but needed more to ensure the beer's freshness over long distances. In response, Busch pioneered the use of a new pasteurization process.

In 1876 Busch created Budweiser and today the company brews Bud the same way it did in 1876. In 1896 the company introduced Michelob as its first premium beer. By 1879 annual sales rose to more than 105,000 barrels, and in 1901 the company reached the one million barrel mark.

In 1913, after his father's death, August A. Busch, Sr. took charge of the company, and with the new leadership came new problems: World War I, Prohibition, and the Great Depression. To keep the company running, Anheuser-Busch switched its emphasis to the production of corn products, baker's yeast, ice cream, soft drinks, commercial refrigeration units, and truck bodies. They stopped most of these activities when Prohibition ended. However, the yeast production was kept and even expanded to the point that Anheuser-Busch became the nation's leading producer of compressed baker's yeast through the encouragement of the company's new president in 1934, Adolphus Busch III.

August A. Busch, Jr. succeeded his brother as president in 1946 and served as the company's CEO until 1975. During this time eight branch breweries were constructed, and annual sales increased from 3 million barrels in 1946 to more than 34 million in 1974. The company was extended to include family entertainment, real estate, can manufacturing, transportation, and major league baseball.

August A. Busch III became president in 1974 and was named CEO in 1975. From that time to the present, the company opened three new breweries and acquired one. Other acquisitions included the nation's second-largest baking company and Sea World. The company also increased vertical integration capabilities with the addition of new can manufacturing and malt production facilities, container recovery, metalized label printing, snack foods, and international marketing and creative services.

Corporate Mission Statement. Anheuser-Busch's corporate mission statement provides the foundation for strategic planning for the company's businesses:

> The fundamental premise of the mission statement is that beer is and always will be Anheuser-Busch's core business. In the brewing industry, Anheuser-Busch's goals are to extend its position as the world's leading brewer of quality products; increase its share of the domestic beer market 50 percent by the late 1990s; and extend its presence in the international beer market. In non-beer areas, Anheuser-Busch's existing food products, packaging, and entertainment will continue to be developed.

The mission statement also sets forth Anheuser-Busch's belief that the cornerstones of its success are a commitment to quality and adherence to the highest standards of honesty and integrity in its dealings with all stakeholders.

BEER AND BEER-RELATED OPERATIONS

Anheuser-Busch, which began operations in 1852 as the Bavarian Brewery, ranks as the world's largest brewer and has held the position of industry leader in the United States since 1957. Currently, more than four out of every ten beers sold in the United States are Anheuser-Busch products.

Anheuser-Busch's principal product is beer, produced and distributed by its subsidiary, Anheuser-Busch, Inc. (ABI), in a variety of containers primarily under the brand names Budweiser, Bud Light, Bud Dry Draft, Michelob, Michelob Light, Michelob Dry, Michelob Golden Draft, Michelob Gold, Draft Light, Busch Light, Natural Light, and King Cobra, to name just a few. In 1993 Anheuser-Busch introduced a new brand, Ice Draft from Budweiser, which is marketed in the United States and abroad as the preferred beer because it is lighter and less bitter than beer produced in foreign countries. Bud Draft from Budweiser was first introduced in the United States in late 1993 in 14 states, with a full national rollout in 1994 in the United States and abroad.

Sales. Anheuser-Busch's sales grew slowly after a sales decline in 1994. Net sales increased consistently from 1993 to almost $13.3 billion in 1998 but fell again to $11.8 billion in 1999. Net sales were up again in the next five years to $14.9 billion in 2004. Thanks to a portfolio of products that expanded in 2007, Anheuser-Busch reported U.S. shipments of 104.4 million barrels in 2007, up 2.1 million barrels over 2006. The net sales in 2007 increased 6.2 percent, reaching $16.7 billion.

*This case was prepared and updated by Masaaki Kotabe with the assistance of Dan Zhang of Temple University for class discussion, rather than to illustrate either effective or ineffective management of a situation described (2008).

ANHEUSER-BUSCH INTERNATIONAL, INC.

Anheuser-Busch International, Inc. (A-BII) was formed in 1981 to explore and develop the international beer market. A-BII is responsible for handling the company foreign beer operations and for exploring and developing beer markets outside the United States. Its activities include contract and license brewing, export sales, marketing and distribution of the company's beer in foreign markets, and equity partnerships with foreign brewers.

A-BII has a two-pronged strategy: (1) build Budweiser into an international brand and (2) build an international business through equity investments and creating partnerships with leading foreign brewers (see **Case Exhibit 6-1**). In seeking growth, Anheuser-Busch International emphasizes part-ownership in foreign brewers, joint ventures, and contract-brewing arrangements. These elements give the company opportunities to use its marketing expertise and management practices in foreign markets. The success of these growth opportunities depends largely on finding the right partnerships that create a net gain for all parties involved. Other options for international expansion include license-brewing arrangements and exporting. In addition to its domestic breweries in the United States, the company operates two international breweries in China and the United Kingdom, respectively. Budweiser beer is locally brewed through partnerships in seven other countries, Argentina, Canada, Italy, Ireland, Spain, Japan, and South Korea.

A-BII is currently pursuing the dual objectives of building Budweiser's worldwide presence and establishing a significant international business operation through joint ventures and equity investments in foreign brewers. Anheuser-Busch's beer products are sold in more than 80 countries and U.S. territories. A-BII now sells about 35 percent of its total beer volume outside the United States. Anheuser-Busch's total beer volume was 157 million barrels in 2006, up 5.6 percent from 2005. Domestic beer volume rose a meager 1.2 percent. International volume from Anheuser-Busch brands produced overseas and exports from the company's U.S. breweries rose 9.3 percent to 23 million barrels for 2006. International volume via partnerships with foreign brewers grew near 20 percent to 32 million barrels, principally due to sales of Tsingtao brand in China and Modelo beer in Mexico.

Market Share. The top 20 beer brands in worldwide market share for 2007 are shown in **Case Exhibit 6-2**. Most recently, Anheuser-Busch has announced several agreements with other leading brewers around the world, including Modelo in Mexico, Antarctica in Brazil, and Tsingtao Brewery in China. These agreements are part of A-BII's two-pronged strategy of investing internationally through both brand and partnership development. Through partnerships A-BII will continue to identify, execute, and manage significant brewing acquisitions and joint ventures, partnering with the number-one or number-two brewers in growing markets. This strategy will allow A-BII to participate in beer industries around the world by investing in leading foreign brands, such as Corona in Mexico through Modelo. A-BII's goal is to share the best practices with its partners, allowing an open interchange of ideas that will benefit both partners.

CASE EXHIBIT 6-1
ANHEUSER-BUSCH INTERNATIONAL PARTNERSHIPS

Country	*Partner*	*Investment*	*Date*
Argentina	Compañía cervecerías Unidas S.A.-Argentina (CCU - Argentina)	Equity investment (of which 28.6% Is direct and indirect); licensed brewing and joint marketing	1995
Canada	Labatt	Licensed brewing, distribution, and marketing agreement	1980
Central America (Costa Rica El Salvador Guatemala Honduras Nicaragua Panama)	(Cervecería Costa Rica –La Constancia –Cervecería Centroamericana –Cervecería Hondureña –Compañía de Nicaragua –Cervecería Nacional)	Import, distribution	1994
Chile	Compañía Cervecerías Unidas (CCU)	20% Equity investment	2001
China	–Tsingtao –Budweiser Wuhan International Brewing Co. –Harbin Brewery	–27% equity investment –98% A-B Owned brewery A-B Sales, marketing, distribution –100% ownership	1993 1995 2005
Denmark	Carlsberg Breweries A/S	Import, distribution	1998
France	Brasseries Kronenbourg	Import, distribution, packaging	1996
India	Crown International	Joint venture	2007
Ireland	Diageo (Guinness Ireland Ltd.)	Licensed brewing; joint marketing	1986
Italy	Heineken Italia	Licensed brewing; joint marketing	2003
Japan	Kirin Brewery Co. Ltd.	Licensed brewing; joint marketing Kirin sales, distribution	2000
Mexico	Grupo Modelo	Import, distribution Equity investment (of which 50% is direct and indirect)	1989 1993
Russia	Heineken Russia	Licensed brewing; joint marketing	2006
South Korea	Oriental Brewery Co. Ltd.	Licensed brewing; joint marketing	1986

CASE EXHIBIT 6-2
TOP 20 BEER BRANDS WORLDWIDE, 2007

Rank	*Brand*	*Company/Brewer*	*Shipments (Barrels)*
1	**Bud Light**	**Anheuser-Busch**	**40.9**
2	**Budweiser**	**Anheuser-Busch**	**33.7**
3	Skol	InBev	28.5
4	Snow	China Resources Snow Breweries	25.9
5	Corona	Grupo Modelo	25.8
6	Brahma	InBev	21.6
7	Heineken	Heineken	21.4
8	Miller Lite	SABMiller	18.2
9	Coors Light	Molson Coors Brewing Co.	16.8
10	Asahi Super Dry	Asahi Breweries	14.8
11	Yanjing	Beijing Yanjing Beer Group Corp.	12.8
12	Tsingtao	Qingdao Brewery (Holdings) Corp.	12.6
13	Polar	Cerveceria Polar	11.2
14	Antarctica Pilsen	InBev	10.4
15	Amstel	Heineken	10.4
16	Carlsberg	Carlsberg Breweries	10.4
17	Baltika	Baltic Beverages Holding	10.0
18	Guinness	Guinness Brewing Worldwide (Diageo)	9.2
19	**Natural Light**	**Anheuser-Busch**	**9.0**
20	Sedrin	Fujian Sedrin Brewery Co./InBev	8.6
	Total Top 20		352.2

Latin America. The development of Budweiser in Latin America is one of the keys to long-term growth in the international beer business, for it is one of the world's fastest growing beer markets and is a region with a growing consumer demand for beer. Anheuser-Busch products are sold in 11 Latin American countries—Argentina, Belize, Brazil, Chile, Ecuador, Mexico, Nicaragua, Panama, Paraguay, Uruguay, and Venezuela—with a total population of over 380 million consumers. Particularly, the three countries showing the fastest growth in total beer consumption in the period between 1990 and 2000 are Brazil (+200%), Colombia (+130%), and Mexico (+100%). In Brazil and Mexico–the two largest beer markets in Latin America, Anheuser-Busch International acquired an equity position in their major local breweries.

Brazil. In 1995, Anheuser-Busch International made an initial investment of 10 percent in a new Antarctica subsidiary in Brazil that would consolidate all of Antarctica's holdings in affiliated companies and control 75 percent of Antarctica's operations. Anheuser-Busch had an option to increase its investment to approximately 30 percent in the new company in the future. The amount of the initial investment was approximately $105 million. The investment has established a partnership that gave Antarctica a seat on the board of Anheuser-Busch, Inc. and gave Anheuser-Busch International proportionate representation on the board of the new Antarctica subsidiary. The two brewers also explored joint distribution opportunities in the fast-growing South American beer market. A-BII desired to sign a deal that calls for establishing an Anheuser-Busch-controlled marketing and distribution agreement between the two brewers to support sales of Budweiser in Brazil.

The second component of the partnership was a licensing agreement in which Antarctica would brew Budweiser in Brazil. The joint venture would be 51 percent owned and controlled by Anheuser-Busch, 49 percent by Antarctica. Antarctica's production plants would produce Budweiser according to the brand's quality requirements. Local sourcing of Budweiser would allow more competitive pricing and increased sales of the brand in Brazil.

Antarctica, based in São Paulo, controlled 35 percent of the Brazilian beer market. Its annual production in 1998 was about 20 million barrels of beer. Antarctica had a network of nearly 1,000 Brazilian wholesalers. Prior to its investment in Antarctica, Budweiser had achieved a distribution foothold in the Brazilian beer market in cooperation with its distributor, Arisco. Brazil has a population of 180 million people, with per capita beer consumption in Brazil estimated to be 40 liters per year. With Brazil's population growing by 1.7 percent a year, reduced import duties, and free market reforms, Anheuser-Busch was expected to do well in the Brazilian market over the next decade.

However, the Antarctica–Anheuser-Busch partnership stayed rocky at best, and ended up breaking apart in 1999, putting an end to the contract which permitted the U.S. company to acquire up to 29.7 percent of the partnership. And in the same year, Antarctica merged with another Brazilian brewery, Brahma, creating Brazil's largest and the world's third largest brewery, Companhia de Bebidas das Américas (AmBev), effectively forcing out Anheuser-Busch out of the Brazilian market at that point. And, in 2004, when AmBev joined hands with Belgium's Interbrew, the combined firm InterbrewAmBev (InBev) became the world's largest brewer with a global market share of 14 percent and revenues of over $12 billion. And further in 2008 (at the time of this writing), InBev announced an agreement to acquire Anheuser-Busch. The combination of Anheuser-Busch and InBev will create the global leader in the beer industry and one of the world's top five consumer products companies. On a pro-forma basis for 2007, the combined company would have generated global volumes of 460 million hectoliters, revenues of $36.4 billion (€26.6 billion) and earnings before interests, taxes, depreciation and amortization (EBITDA) of $10.7 billion (€7.8 billion). Anheuser-Busch and InBev together believe that this transaction is in the best interests of both companies' shareholders, consumers, employees, wholesalers, business partners and the communities they serve.

Mexico. In a further move to strengthen its international capabilities, Anheuser-Busch companies purchased a 37 percent direct and indirect equity interest for $980 million in Grupo Modelo (located in Mexico City) and its subsidiaries, which thus far are privately held. Modelo is Mexico's largest brewer and the producer of Corona, that country's best-selling beer. The brewer has a 51 percent market share and exports to 56 countries. In connection with the purchase, three Anheuser-Busch representatives have been elected to the Modelo board, and a Modelo representative has been elected to serve on the Anheuser-Busch board. As of 2002, Anheuser Busch owned approximately 50 percent of Grupo Modelo (directly and indirectly). Its brands Budweiser and Bud Light sales volume grew 25 percent in Mexico in 2003. Mexico is now the company's largest export market as well. In 2003, Anheuser-Busch's sales volume in Mexico saw double-digit growth for the fifth consecutive year.

In addition, the agreement includes the planned implementation of a program for the exchange of executives and management personnel between Modelo and Anheuser-Busch in key areas, including accounting/auditing, marketing, operations, planning, and finance. Modelo will remain Mexico's exclusive importer and distributor of Budweiser and other Anheuser-Busch brands, which have achieved a leading position in imported beers sold in Mexico. These brands will continue to be brewed exclusively by Anheuser-Busch breweries in the United States. Currently, Anheuser-Busch brews beer for Mexico at its Houston and Los Angeles breweries, which are not very far away from Mexico and add to the markup of ABI brands.

All of Modelo's brands will continue to be brewed exclusively in its seven existing Mexican breweries and a new brewery in North Central Mexico. U.S. distribution rights for the Modelo products are not involved in the arrangement. Corona and other Modelo brands will continue to be imported into the United States by Barton Beers and Gambrinus Company and distributed by those importers to beer wholesalers.

Modelo is the world's tenth-largest brewer and, through sales of Corona Modelo Especial, Pacifico, Negra Modelo and other regional brands, holds more than 51 percent of the Mexican beer market. Its beer exports to 56 countries in North and South America, Asia, Australia, Europe, and Africa account for more than 69 percent of Mexico's total beer exports.

Modelo is one of several companies that distribute Budweiser besides Antarctica in Brazil and other local import-export companies in other Latin American countries. Modelo is the exclusive importer and distributor of Anheuser-Busch beers in Mexico. The newest brand, Ice Draft, will be the fourth ABI brand distributed in Mexico by Modelo, joining Budweiser, Bud Light, and O'Douls.

The Modelo agreement is significant because beer consumption has grown 6.5 percent annually in Mexico in the past few years. Mexico's beer consumption is the eighth largest in the world but still only half of U.S. consumption. The per capita beer consumption rate in Mexico is estimated at 44 liters, compared to 87 liters per person in the United States, which is high given that Mexico's per-capita income is one-tenth that of the United States. The Mexican market is expected to grow at a rapid rate.

Anheuser-Busch does not have control over pricing. The local wholesalers and retailers set prices for Budweiser. A-BII also does not have plans to set up a full-scale production facility in Mexico at this time.

At present Budweiser is imported, which makes it two to three times higher in price than local beers. So it is largely an upscale, niche market brand at this time. An equity arrangement in another brewery or an agreement with Modelo could lead to local production and make ABI brands more competitive with the local beer brands. In 2002, Budweiser brands made up 34 percent of the beer imports in Mexico. In 2002, net income for the company's international beer operations rose 6.3 percent in the third quarter, which the company claimed was due to the performance of Grupo Modelo.

Besides the 11 Latin American countries mentioned, Anheuser-Busch has signed agreements with the largest brewers in Costa Rica, El Salvador, Guatemala, and Honduras to distribute and market Budweiser in their respective countries. Local breweries (Cerveceria Costa Rica in Costa Rica, La Constancia in El Salvador, Cerveceria Centroamericana in Guatemala, and Cerveceria Hondurena in Honduras) distribute Budweiser in the 12-ounce bottles and 12-ounce aluminum cans.

These distribution agreements will allow Budweiser to expand its distribution throughout the rest of Central America. These countries have an extensive national distribution network and, more important, have local market expertise to develop Budweiser throughout the region. Under the agreements, the Central American brewers will import Budweiser from Anheuser-Busch plants in Houston, Texas, and Williamsburg, Virginia. Anheuser-Busch will share responsibility for Budweiser's marketing with each of its Central American partners, supported by nationwide advertising and promotional campaigns.

Advertising. Event Sponsorship. Given Budweiser's advertising approach, which is traditionally built around sports, the decision to hold the 1994 World Cup soccer tournament in the United States gave A-BII a perfect venue to pitch Budweiser to Latin Americans. The company signed a multimillion-dollar sponsorship deal with the World Cup Organizing Committee, making Budweiser the only brand of beer authorized to use the World Cup logo. "The World Cup has become a vehicle for us to reach Latin America," said Charlie Acevedo, director of Latin American marketing for Anheuser-Busch International.

For ten months, soccer fans in South America saw the Bud logo on everything from soccer balls to beer glasses. Soccer fans collected a World Cup bumper sticker when they purchased a 12-pack of Bud. When they watched the game on television, they saw Budweiser signs decorating the stadiums and a glimpse of the Bud blimp hovering overhead. According to Charlie Acevedo, the goal is to make Budweiser a global icon, like McDonald's or Coca-Cola.

Anheuser-Busch just signed its second two-year agreement with ESPNLatin America. "Being able to buy on a regional basis gives a consistent message that is very reasonable in terms of cost," said Steve Burrows, A-BII's executive vice president of marketing.

Latin America offers promise with its youthful population and rising personal income. Half of Mexico's population is under 21, and other Latin American countries have similar profiles, offering opportunities for advertisers to reach the region's 450 million population.

The biggest new advertising opportunities in the Latin American market are Fox Latin America, MTV Latino, Cinemax Ole (a premium channel venture with Caracas cable operator Omnivision Latin American Entertainment), USANetwork, and Telemundo (a 24-hour Spanish-language news channel). Marketers will have yet another pan-regional advertising option. Hughes (the U.S. aerospace company) and three Latin American partners—Multivision in Mexico, Televisao Abril in Brazil, and the Cisneros Group in Venezuela—launched a $700 million satellite that will beam programs in Spanish and Portuguese into homes across the continent. The service is called DirectTV. Because of this satellite, Central and South America have added 24 new channels; with digital compression technology, its capability could reach 144 cable channels.

In the past Anheuser-Busch used CNN international as its only ad vehicle, but with all the new opportunities, "the company will begin adding a local media presence throughout Latin America," said Robert Gunthner, A-BII's vice president of the Americas region (see **Case Exhibit 6-3**).

CASE EXHIBIT 6-3
PENETRATION OF PAID CABLE TV CHANNELS

TV Location	*Households (in millions)*	*Paid subscribers*	*Penetration rate*
Brazil	30.0	3,300,000	15%
Mexico	14.0	1,700,000	12
Argentina	9.0	4,300,000	47
Chile	3.4	200,000	6
Venezuela	3.3	90,000	3
Uruguay	0.7	35,000	5
Ecuador	0.5	25,000	5
Paraguay	0.5	45,000	9

Anheuser-Busch will be using ads originally aimed at U.S. Hispanics, most of which were created by Carter Advertising of New York. A-BII will let the local agencies pick its messages, customize advertising, and do local media planning. In the past, there has been much criticism of ABI's ethnocentric approach to marketing Budweiser; however, because of the world obsession with American pop culture, A-BI executives feel they do not need to tone down the company's American image. In Costa Rica, A-BII will use JBQ, San Jose; in El Salvador, Apex/BBDO, San Salvador; in Guatemala, Cerveceria's in-house media department; and in Honduras, McCann-Erickson Centroamericana, San Pedro.

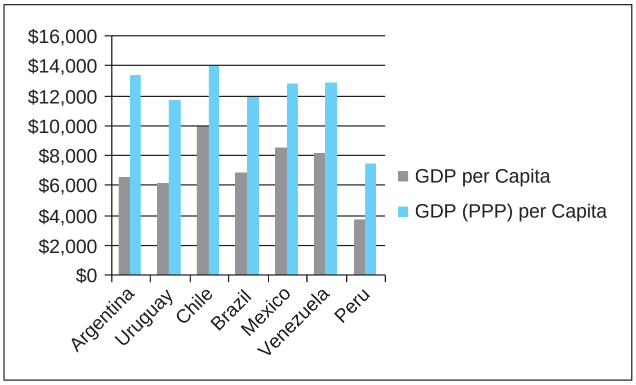
Imported beers cost two or three times as much as locally brewed beers in South America, but thanks to cable television and product positioning in U.S. movies, Budweiser was already a well-known brand in South America when the company began exporting to the continent.

Strategy. Anheuser-Busch has seen double-digit increases in Latin American sales in the past five years. The gains came from both an increase in disposable income and increasingly favorable attitudes toward U.S. products, especially in Argentina, Brazil, Chile, and Venezuela. Because Latin America has a very young population, Anheuser-Busch expects this market to grow at 4 percent annually. Furthermore, with NAFTA and a free-trade zone, the company expects to see a significant rise in personal income in Latin American countries, which translates to great growth potential for Anheuser-Busch brands. The GDP (gross domestic product) per capita in 2007 is presented in **Case Exhibit 6-4**.

North American products and lifestyles are very much accepted in South America, but beer consumption still lags far behind U.S. levels. Argentines consume about 30 liters annually per capita. Brazilians 40 liters, Chileans 50 liters, and Venezuelans 65 liters, compared to 87 liters per person annually in the United States.

"The international focus will be almost completely on Budweiser because there is a worldwide trend toward less-heavy,

CASE EXHIBIT 6-4
GDP PER CAPITA IN SELECTED LATIN AMERICAN COUNTRIES (2007)



less-bitter beers," and Jack Purnell, chair and chief executive officer of Anheuser-Busch International. The company is counting on the American image to carry its beer, therefore opting for a universal campaign with American themes as opposed to tailoring Budweiser's image for local markets.

In the past, ABII has tinkered with its formula and marketed Budweiser under different names to give a local flavor to their beer but had absolutely no success. Purnell said: "What the market does not need is an American brewery trying to make up from scratch, new European-style beers. Bud should be Bud wherever you get it."

Opportunities. Mexico offers the U.S. exporter a variety of opportunities encompassing most product categories. Mexico is continuing to open its borders to imported products. Mexico's population of approximately 109 million is the eleventh largest in the world and the second largest in Latin America (after Brazil and Argentina). Mexico is a young country, with 69 percent of its population under 30 years of age. In addition the Mexican government has adopted new privatization policies decreasing its involvement in the country's economy. As a result, private resources, both local and foreign, are playing a greater role in all areas of the Mexican economy.

NAFTA, which aims to eliminate all tariffs on goods originating from Canada and the United States, is expected to create a massive market, with more than 360 million people and $16 trillion in annual output.

Demographics. Mexico's overall population in 2007 was estimated at 109 million people. The age breakdown is as follows: under 15, 38 percent; 15–29, 29 percent; 30–44, 17 percent; 45–59, 9 percent; 60–74, 5 percent; 75 and over, 2 percent. The average age of the Mexican population was 23.3 years.

Between 1970 and 1990 the ratio of the population living in localities with between 100,000 and 500,000 inhabitants grew from 12 to 22 percent. This was largely due to rural-urban migration. More than 71 percent of the population lives in urban areas of Mexico. In 1990, 22 percent of the national population lived in Mexico City and the State of Mexico. The Mexican population is expected to rise to 112 million in the year 2010.