CHAPTER 20

Tapping into Global Markets

Refocusing from volume and market share to quality, backed by a groundbreaking warranty, transformed the image of Hyundai Motor Company.

Source: VDWI Automotive/ Alamy Stock Photo

Countries are increasingly multicultural, and products and services developed in one country are finding wide acceptance in others. Consider the globalization of the auto industry. According to a J. D. Power study, vehicles in the 2018 study were manufactured in 25 countries, 11 of which weren't present in the study five years ago. Those 11 new homes to auto manufacturing were Brazil, China, Finland, India, Italy, the Netherlands, Poland, Serbia, Spain, Thailand, and Turkey.[1] Consider, for example, the rapid ascent of Hyundai.

>>> Once synonymous with cheap and unreliable cars, Hyundai Motor Company has experienced a massive global transformation. In 1999 its new chairman, Mong-Koo Chung, declared that Hyundai would focus not on volume and market share but on quality. The company began to benchmark industry leader Toyota, adopted Six Sigma processes, organized product development cross-functionally, partnered more closely with suppliers, and increased quality-oversight meetings. From a place near the bottom of J. D. Power's study of U.S. new-vehicle quality in 2001—ranking 32nd of 37 brands—Hyundai's luxury brand Genesis zoomed to number 1 by 2018. Hyundai also transformed its marketing. Its groundbreaking 10-year warranty sent a strong signal of reliability and quality, and

more consumers began to appreciate the value its stylish cars had to offer. The U.S. market was not the only one receiving attention from Hyundai and its younger, more affordable brand sibling, Kia (in which Hyundai is a minority shareholder). Hyundai vehicles are sold in over 200 countries. The company employs more than 110,000 people around the globe and has manufacturing and research facilities worldwide, including in the United States, Canada, China, Brazil, Germany, the Czech Republic, Russia, and Egypt. Hyundai's new motto, "Explore the Possibilities," captures the company's ambition for innovation on a global scale.[2]

Although opportunities to compete in international markets are significant, the risks can be high. Companies selling in global industries have no choice, however, but to internationalize their operations. In this chapter, we review the major decisions involved in expanding into global markets.

Deciding Whether to Go Abroad

U.S. retailers such as The Limited and Gap have become globally prominent. Dutch retailer Ahold and Belgian retailer Delhaize earn almost two-thirds and three-quarters of their sales, respectively, in nondomestic markets. Foreign-based global retailers in the United States include Italy's Benetton, Sweden's IKEA home furnishings stores, and Japan's UNIQLO casual apparel retailer.

Several factors draw companies into the international arena. First, certain international markets might present better profit opportunities than the domestic market. Second, a company might need a larger customer base to achieve economies of scale. A company might also decide to go abroad to reduce its dependence on any one market. Another reason for going abroad could be a company's desire to counterattack global competitors in their home markets. A company's decision to go abroad might also stem from a its desire to be able to serve its global customers who require international service.

As cultures blend across countries, another benefit of global expansion is the ability to transfer ideas and products or services from one market into another. Cinnabon discovered that products it developed for Central and South America were finding success in the United States, too, given its large Hispanic population.[3]

Despite the potential appeal of going global, many companies would prefer to remain domestic if their domestic market were large enough. Managers would not need to learn other languages and laws, deal with volatile currencies, face political and legal uncertainties, or redesign their products to suit different customer needs and expectations. This reluctance is often grounded in the real challenges posed by wading into international markets.

International markets pose distinct challenges, including variations in customers' shopping habits, the need to gain social acceptance, and the absence of a communication and distribution infrastructure.[4] Going abroad involves two major types of risks.

Learning Objectives After studying this chapter you should be able to:

20.1 Explain how companies decide whether to go abroad.

20.2 Discuss the factors that companies consider in deciding which global markets to enter.

20.3 Summarize the strategies companies use to enter global markets.

20.4 Explain how companies can adapt their marketing strategies for global markets.

- **General risks associated with entering a new market** (domestic or foreign). These risks involve a company's inability to understand customer needs and develop an offering to address these needs, to correctly identify competitive threat, to build effective supply and distribution networks, or to promote the offering in an effective and cost-efficient manner.
- **Specific risks associated with doing business in a different country**. These risks involve not understanding the nuances of the foreign country's business culture and the intricacies of foreign regulations; lacking skilled managers with international experience; and having business disrupted by commercial and political changes such as tariffs, currency fluctuations, and even a government change leading to expropriation of foreign property.

The world's top three retailers—U.S.-based Walmart, UK-based Tesco, and France-based Carrefour—all have struggled to enter certain overseas markets. Consider the plight of Tesco.

Tesco Tesco introduced its Fresh & Easy gourmet mini-supermarkets to California after much research, which included spending time with U.S. families and videotaping the contents of their refrigerators. Fresh & Easy's 200 or so stores were roughly 10,000 square feet (about one-fifth the size of a standard U.S. supermarket but much bigger than a convenience store), with a focus on fresh-food offerings. Despite its significant investment, after five unprofitable years and more than $1.6 billion in losses, Tesco decided to exit the market in 2013. A host of problems plagued the retailer. Its U.S. customers were not accustomed to British-style ready meals, self-service cash registers, and unorthodox store layouts. Other complaints were that the product range was too narrow, there was no bakery, the flower department was underwhelming, and the stores were physically too cold. The United States was not the only trouble spot for Tesco. The company had exited Japan the preceding year and was encountering difficulty in Central and Eastern Europe. While it focused on geographic expansion, its core supermarket business in the United Kingdom was neglected. Stores weren't properly staffed, fresh food was not properly maintained, and new private-label products were not introduced. The attempt to add non-grocery items such as clothing and electronics proved futile in a recession, and entry into new areas like banking and telephony was a distraction. After enduring six consecutive quarters of same-store sales declines in its home market, Tesco announced a $1.7 billion program to refresh its UK stores and a pull-back of its global ambitions.[5]

The problems that plagued Tesco in the United Kingdom are a common downside of overly aggressive global expansion. In many cases, such expansion occurs at the expense of maintaining sufficient support for the home market. Selling everything from food to televisions, Carrefour,

Source: Ian Dagnall/Alamy Stock Photo

>> After less-than-successful attempts to expand into U.S. and other markets around the world threatened its UK stores, Tesco scaled back its global ambitions and concentrated on refurbishing its UK outlets.

FIGURE 20.1
Major Decisions in International Marketing

the world's second-biggest retailer, has also encountered stiff competition at home from smaller supermarkets for groceries, and from specialist retailers such as IKEA for other goods. Although strong in some parts of Europe and Asia, Carrefour (which means "crossroads" in French) has been forced to cease operations in Japan, South Korea, Mexico, the Czech Republic, Slovakia, Bulgaria, Switzerland, and Portugal.

Deciding whether to go abroad is the first of several decisions a company must make when developing its global strategy. If the company has concluded that going abroad is indeed the best course of action, it must then make a set of more specific decisions, including which markets to enter, how to enter these markets, which specific marketing program to use for each market, and how to structure the marketing organization in each country. These decisions are illustrated in Figure 20.1 and discussed in the following sections.

Deciding Which Markets to Enter

In deciding to go abroad, the company needs to define its marketing objectives and policies. What ratio of international sales to total sales will it seek? Most companies start small when they venture abroad. Some plan to stay small; others have bigger plans.

DETERMINING HOW MANY MARKETS TO ENTER

The company must decide how many countries to enter and how fast to expand. Typical entry strategies are the *waterfall* approach, gradually entering countries in sequence, and the *sprinkler* approach, entering many countries simultaneously. Increasingly, firms—especially technology-intensive firms and online ventures—are born global and market to the entire world from the outset.

Matsushita, BMW, General Electric, Benetton, and The Body Shop followed the waterfall approach, which allows firms to carefully plan expansion and is less likely to strain human and financial resources. But when first-mover advantage is crucial and a high degree of competitive intensity prevails, the sprinkler approach is better. Apple, Gillette, and Unilever used the sprinkler approach for some of their products. The main risks in the sprinkler approach are the substantial resources needed and the difficulty of planning entry strategies for many diverse markets.

The company must also choose what countries to enter based on the product and on factors such as geography, income, population, and political climate. Competitive considerations come into play too. It may make sense to go into markets where competitors have already entered to force them to defend their market share, as well as to learn how they are marketing in that environment.

A critical consideration, without question, is market growth. Getting a toehold in a fast-growing market can be a very attractive option, even if that market is likely to be crowded with more competitors soon. KFC has entered scores of countries as a pioneer by franchising its retail concept and making its marketing culturally relevant.

KFC KFC is one of the most recognizable quick-service restaurant brands in the world, with more than 21,000 restaurants around the world. The company is world famous for its Original Recipe fried chicken—made with the same secret blend of 11 herbs and spices that Colonel Harland Sanders perfected more than half a century ago. KFC is the largest, oldest, most popular, and fastest-growing quick-service restaurant chain in China, with many of the more than 5,000 locations enjoying healthy margins of 20 percent per store. The company has tailored its menu in China to local tastes with items such as the Dragon Twister, a wrap stuffed with chicken strips, Peking duck sauce, cucumbers, and scallions. KFC even has a Chinese mascot—a kid-friendly character named Chicky, which the company boasts has become "the Ronald McDonald of China." Like any emerging market, China does pose challenges for KFC. Sales there took a

Source: Lou-Foto/Alamy Stock Photo

>> KFC has managed to surmount global expansion challenges by tailoring its menu and advertising to the logistical and cultural requirements of specific locations.

stumble early in 2013, when state-owned Chinese media accused the company of using local suppliers that gave their chickens excessive antibiotics to stimulate faster growth. A social media firestorm followed, eventually causing KFC to apologize for not having tighter controls. Supply chain problems have posed a different challenge in Africa, KFC's next growth target. Without a domestic supply of chickens, the company had to import them, which is illegal in Nigeria and Kenya. To overcome the supply problem in Nigeria, it added fish to the menu. As it moved into more African markets, the company made sure to localize its menu—selling Ugali, a type of porridge, in Kenya and jollof rice in Nigeria—as well as to showcase local culture on store walls and in its advertising.[6]

EVALUATING POTENTIAL MARKETS

How does a company choose among potential markets to enter? One key factor is their *physical proximity*. Many companies prefer to sell to neighboring countries because they understand these countries better and can control their entry costs more effectively. It's not surprising that the two largest U.S. export markets are Canada and Mexico or that Swedish companies first sold to their Scandinavian neighbors.

At other times, *cultural proximity* determines choices. Given more familiar language, laws, and culture, many U.S. firms prefer to sell in Canada, England, and Australia rather than in larger markets such as Germany and France. Companies should be careful, however, when choosing markets according to cultural proximity. Besides overlooking potentially better markets, they may only superficially analyze real differences that put them at a disadvantage.

It often makes sense to operate in fewer countries, with a deeper commitment and penetration in each. In general, companies show preference for countries that have high market attractiveness and low market risk and in which they possess a competitive advantage.

In assessing potential markets, it may often be necessary to consider the benefits of engaging underserved populations.

Consider how the following companies successfully entered developing markets by pioneering ways to serve "invisible" consumers.[7] Grameenphone marketed cell phones to 35,000 villages in Bangladesh by hiring village women as agents who leased phone time to other villagers, one call at a time. Colgate-Palmolive rolled into Indian villages with video vans that showed the benefits of toothbrushing. And Corporación GEO builds low-income housing in Mexico, featuring two-bedroom homes that are modular and expandable.

Companies may also want to take into account the positive impact that successful relationships with collaborators can have when assessing markets. When Unilever introduced TRESemmé in Brazil, it secured the support of 40 big retailers, courted fashion bloggers, distributed 10 million free samples, and launched the company's biggest-ever single-day online ad blitz, which eventually lured 1 million fans to the brand's Brazilian Facebook page. In less than a year, sales of TRESemmé surpassed those of P&G shampoo stalwart Pantene in hypermarkets and drugstores, giving Unilever confidence to set its sights on India and Indonesia next.[8]

Marketers are learning the nuances of marketing to a broader population in emerging markets, especially when cost reductions are difficult to realize because of the firm's established supply chain, production methods, and distribution strategy, and when price premiums are hard to command because of consumer price sensitivity. Yet, getting the marketing equation right in developing markets can pay big dividends:

> Smaller packaging and lower prices are often critical when income and space are limited. Unilever's four-cent sachets of detergent and shampoo were a big hit in rural India, where 70 percent of the population still lives.[9]
>
> The vast majority of consumers in emerging markets buy their products from tiny bodegas, stalls, kiosks, and mom-and-pop stores not much bigger than a closet, which Procter & Gamble calls "high-frequency stores." In India, food is largely purchased from the 12 million neighborhood mom-and-pop outfits called kirana stores. These thrive by offering convenience, credit, and even home delivery, although modern retailing is beginning to make inroads.[10]

Successfully entering developing markets requires a special set of skills and plans, along with the ability to do a number of things differently and well.[11] Selling in developing areas can't be "business as usual." Economic and cultural differences abound, a marketing infrastructure may barely exist, and local competition can be surprisingly stiff.[12]

Many firms from developed markets are using lessons gleaned from developing markets to better compete in their home or existing markets. Product innovation has become a two-way street between developing and developed markets. The challenge is to think creatively about how marketing can fulfill the dreams of most of the world's population for a better standard of living. Many companies are betting they can do that. To feed a projected world population of 9 billion by 2050, analysts estimate that food production globally must increase by 60 percent, a challenge John Deere is addressing.

Source: Jorge_Adriano/Shutterstock

<< The 8R line of John Deere tractors adapts to the needs of farmers in both developed and developing markets around the world.

Deere & Company Deere & Company (also referred to as John Deere), a manufacturer of agricultural, construction, and forestry machinery, dates back to 1937 when John Deere established the namesake company in Illinois. Initially focused on serving the U.S. market, the company is now the largest agriculture machinery company in the world, employing over 60,000 people worldwide. Its most popular products include various types of tractors, corn pickers, sugarcane and cotton harvesters, mowers, and golf course equipment, along with accessories and associated services. John Deere's 8R line was the first tractor line designed to accommodate the needs of different farmers in 130 countries worldwide. The 8R is powerful but agile and fuel-efficient, best suited for larger farms. At the same time, it is highly customizable to suit the needs of growers in developing markets like Brazil and Russia, as well as the developed markets of the United States or Germany. To serve its diverse global customer base, Deere has a number of factories outside the United States in both developed and developing markets, including Germany, India, China, Mexico, and Brazil.[13]

Deciding How to Enter the Market

Once a company decides to target a particular country, it must choose the best mode of entry for its brands. Its broad choices are *indirect exporting, direct exporting, licensing, joint ventures,* and *direct investment,* as shown in Figure 20.2. Each succeeding strategy entails more commitment, risk, control, and profit potential.

When going global, firms often start by working with an independent agent and entering a nearby or similar country. Later, the firm establishes an export department to manage its agent relationships. Still later, it replaces agents with its own sales subsidiaries in its larger export markets. This increases investment and risk but also enlarges earning potential. Next, to manage subsidiaries, the company replaces the export department with an international department or division. If markets are large and stable, or if the host country requires local production, the company will locate production facilities there. By this time, the firm is operating as a multinational and optimizing its sourcing, financing, manufacturing, and marketing as a global organization.

We discuss the different options for entering foreign markets in the following sections.

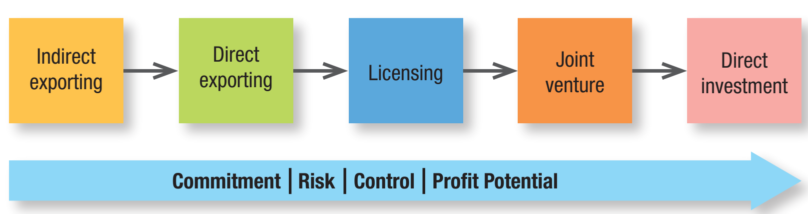
INDIRECT AND DIRECT EXPORT

Companies typically start with exporting, specifically **indirect exporting**—that is, they work through independent intermediaries. There are three types of organizations that act as intermediaries between a company and an international market: domestic-based export agents, cooperative organizations, and export-management companies. *Domestic-based export merchants* buy the manufacturer's products and then sell them abroad. *Domestic-based export agents,* including trading companies, seek and negotiate foreign purchases for a commission. *Cooperative organizations* conduct exporting activities for several producers—often of primary products such as fruits or nuts—and are partly under their administrative control. *Export-management companies* agree to manage a company's export activities for a fee.

Indirect export has two advantages. First, there is less investment: The firm doesn't have to develop an export department, an overseas sales force, or a set of international contacts. Second, there's less risk: Because international marketing intermediaries bring know-how and services to the relationship, the seller will make fewer mistakes.

Companies may eventually decide to handle their own exports. The investment and risk are somewhat greater, but so is the potential return. **Direct exporting** happens in several ways. It may involve

FIGURE **20.2**
Five Modes of Entry into Foreign Markets



a domestic-based export department or division—purely a service function that may evolve into a self-contained export department operating as its own profit center. Alternatively, exporting might involve an overseas sales branch or subsidiary that handles sales and distribution and sometimes warehousing, promotion, and customer service as well. Finally, exporting might involve home-country-based traveling export sales representatives.

Many companies use direct or indirect exporting to "test the waters" before building a plant and manufacturing their product overseas. A company does not necessarily have to attend international trade shows if it can effectively use the internet to attract new customers overseas, support existing customers who live abroad, source from international suppliers, and build global brand awareness.

Successful companies adapt their websites to provide country-specific content and services, ideally in the local language, to international markets with the highest potential. Finding free information about trade and exporting has never been easier. Export-promotion offices in many states also have online resources and allow businesses to link to their sites.

LICENSING

Licensing is a simple way to engage in international marketing. The licensor issues a license to a foreign company to use a manufacturing process, trademark, patent, trade secret, or other item of value for a fee or royalty. The licensor gains market entry at little risk; the licensee gains production expertise and/or a well-known product or brand name.

The licensor, however, has less control over the licensee than over its own production and sales facilities. If the licensee is very successful, the licensing firm has given up profits, and if and when the contract ends, it might find it has created a competitor. To prevent this, the licensor usually supplies some proprietary product ingredients or components (as Coca-Cola does with its syrup). Perhaps the best strategy is to lead in innovation so the licensee will continue to depend on the licensor.

Licensing arrangements vary. Companies such as Hyatt and Marriott sell *management contracts* to owners of foreign hotels to manage these businesses for a fee. The management firm may have the option to purchase some share in the managed company within a stated period.

In **contract manufacturing**, the firm hires local manufacturers to produce the product. Volkswagen has a contract agreement with Russian automotive conglomerate GAZ Group, whereby GAZ will build the Volkswagen Jetta, Škoda Octavia, and Škoda Yeti models in Nizhny Novgorod for the Russian market. Toshiba, Hitachi, and other Japanese television manufacturers use contract manufacturing to service the Eastern European market. Contract manufacturing reduces the company's control over the process and risks loss of potential profits. However, it offers a chance to start faster, with the opportunity to partner with or buy out the local manufacturer later.

Finally, a company can enter a foreign market through **franchising**, a more comprehensive form of licensing. The franchisor offers a complete brand concept and operating system. In return, the franchisee pays certain fees to the franchisor. Quick-service operators such as McDonald's, Subway, and Burger King have franchised all over the world, as have service and retail companies like 7-Eleven, Hertz, and Best Western Hotels.

JOINT VENTURES

Just doing business in another country may require the firm to license its product, form a **joint venture** with a local firm, or buy from local suppliers to meet "domestic content" requirements. Many firms have developed global strategic networks, with victory going to those who build the better one. The Star Alliance brings together 28 airlines—including Lufthansa, United Airlines, Singapore Airlines, SAS, and Avianca—in a huge global partnership that enables travelers around the globe to make nearly seamless connections to hundreds of destinations.

Historically, foreign investors have often joined local investors in a joint venture company in which they share ownership and control. A joint venture may be necessary or desirable for economic or political reasons. The foreign firm might lack the financial, physical, or managerial resources to undertake the venture alone, or the foreign government might require joint ownership as a condition for entry.

The value of a partnership can extend far beyond increased sales or access to distribution. Good partners share "brand values" that help maintain brand consistency across markets. For example, the fierce commitment of McDonald's to product and service standardization is one reason why its retail outlets are so similar around the world. McDonald's handpicks its global partners one by one to find "compulsive achievers" who will put forth the desired effort.

>> Vodafone's web portal lets amateur and professional software developers create mobile apps on any network, giving Vodafone early access to the latest innovations.

Source: Zoonar GmbH/Alamy Stock Photo

After years of growth through acquisition and buying interests in two dozen companies, the world's biggest wireless telecom operator, Vodafone, has looked outside for partners to help it leverage its existing assets.

Vodafone To spur more innovation and growth, London-based Vodafone has embraced open-source software and open platforms that allow it to tap into the creativity and skills of others. With its web portal called Betavine, both amateur and professional software developers can create and test their latest mobile applications on any network, not just Vodafone's. These developers retain intellectual property rights, but Vodafone gains early exposure to the latest trends and ensures that innovations are compatible with its network. The new apps include real-time train arrivals and departures, movie show times, and an Amazon.com widget with personalized details. With 404 million customers in 30 countries, the £46 billion company hasn't had trouble finding help from interested corporate partners. Dell has collaborated with Vodafone to design laptops and low-priced netbooks with built-in wireless broadband access over Vodafone's networks.[14]

Joint ventures also have drawbacks. The partners might disagree over investment, marketing, or other policies. One partner might want to reinvest earnings for growth, the other to declare more dividends. Joint ownership can also prevent a multinational company from carrying out specific manufacturing and marketing policies on a worldwide basis.

DIRECT INVESTMENT

The ultimate form of foreign involvement is **direct investment**: The foreign company can buy part or full interest in a local company or build its own manufacturing or service facilities.

If the market is large enough, direct investment offers distinct advantages. First, the firm secures cost economies through cheaper labor or raw materials, government incentives, and freight savings. Second, the firm strengthens its image in the host country because it creates jobs. Third, the firm deepens its relationship with the government, customers, local suppliers, and distributors, enabling it to better adapt its products to the local environment. Fourth, the firm retains full control over its investment and can develop manufacturing and marketing policies that serve its long-term international objectives. Fifth, the firm ensures its access to the market in case the host country insists that locally purchased goods must have domestic content.

The main disadvantage of direct investment is that the firm exposes a large investment to risks such as blocked or devalued currencies, worsening markets, or expropriation. If the host country requires high severance pay for local employees, reducing or closing operations can be expensive. A company might also be unable to successfully adapt its offering to the needs and preferences of local customers. Consider the challenges faced by Starbucks when it entered Australian markets.

Starbucks Despite its phenomenal success in the United States and many other countries around the globe, Starbucks did not flourish in Australia. The first Starbucks opened its doors in Australia in 2000, and the firm quickly grew to nearly 90 locations. Despite Australia's deep love for coffee and its tradition of espresso-based drinks, however, consumers did not flock to Starbucks, which served higher-priced coffee drinks that were a bit too sweet for local tastes. After suffering $105 million in losses, in 2008 the company was forced to close two-thirds of its stores, leaving it with locations only in major metropolitan and resort areas frequented by tourists.[15]

Rather than bringing their brands into certain countries, many companies choose acquisition of local brands for their brand portfolios. Strong local brands can tap into consumer sentiment in a way that international brands may find difficult. A good example of a company assembling a collection of "local jewels" is SABMiller.

SABMiller From its origins as the dominant brewery in South Africa, SABMiller has gained presence in 75 different countries all over the world, thanks to a series of acquisitions including its purchase of Miller Brewing in the United States. The company produces such well-known brands as Grolsch, Miller Lite, Peroni, Pilsner Urquell, South Africa's Castle Lager, and Australia's Victoria Bitter. Its global strategy, however, is in stark contrast to that of its main competitor: Whereas Anheuser-Busch InBev's strategy with Budweiser is to sell the brand all over the world, positioned as "The American Dream in a Bottle," SABMiller calls itself "the most local of global brewers" and believes the key to global success is pushing local brands that reflect a home country's customs, attitudes, and traditions. The company relies on sociologists, anthropologists, and historians to find the right way to create "local intimacy" and also employs 10 analysts whose sole responsibility is segmentation research in different markets. Peru's Cusqueña brand "pays tribute to the elite standard of Inca craftsmanship." Romania's Timisoreana brand taps into its own 18th-century roots. In Ghana and other parts of Africa, cloudy Chibuku beer is priced at only 58¢ a liter to compete with home brews. When research revealed that many beer drinkers in Poland felt that "no one takes us seriously," SABMiller launched a campaign for its Tyskie brand featuring foreigners lauding the brew and the Polish people. SABMiller's global acquisition strategy made it the world's second-largest beer maker until it was itself acquired in 2016 by the market leader, Brazilian-Belgian corporation AB InBev.[16]

Source: Keith Homan/Alamy Stock Photo

>> By acquiring local brewers whose brands reflect local customs and traditions, SAB Miller has established a presence in countries around the world.

Acquisition can couple the benefits of having a local presence with access to advanced technologies, proprietary know-how, and state-of-the-art manufacturing processes. Consider Czech carmaker Škoda. Once the butt of jokes ("Why do you need a rear-window defroster on a Škoda? To keep your hands warm when you're pushing it.") Škoda was acquired by VW, which invested to upgrade the car's quality and image and to offer an affordable option to consumers worldwide.[17] VW's investment paid off: In 2017, Škoda delivered more than 1.2 million vehicles to many countries around the globe, including China, Germany, Great Britain, Italy, India, Israel, and Australia.[18]

Rather than forming a partnership, a firm may choose to acquire another firm. Kraft acquired Cadbury in 2010, in part because of Cadbury's deep roots in emerging markets like India where Kraft did not have a strong presence. The acquisition also permitted Kraft to do a restructuring and divide its businesses into two companies: one focused on grocery products, the other on snack foods. Despite their multiple advantages, acquisitions can have important drawbacks. Perhaps the most obvious drawback is the investment necessary to acquire another company outright. Another drawback is the potential mismatch between the corporate cultures of the two organizations—a not unlikely scenario in global acquisitions. Acquisition also represents a longer-term commitment by the company to maintain a presence in the country in which the acquired company operates. Consequently, the decision to acquire another firm involves careful consideration of its pros and cons of acquisition compared to other forms of global market entry.

Deciding on the Global Marketing Program

International companies must decide how extensively to adapt their marketing strategy to local conditions. At one extreme is a **standardized marketing program** worldwide, which promises the greatest consistency across individual countries. At the other extreme is an **localized marketing program** in which the company, consistent with the marketing concept, believes consumer needs vary and tailors its marketing to each target group. Oreo cookies offers a good example of the latter strategy.

Oreo In launching its Oreo brand of cookies worldwide, Kraft chose to adopt a consistent global positioning, "Milk's Favorite Cookie." Although not necessarily highly relevant in all countries, it did reinforce generally desirable associations like nurturing, caring, and health. To help ensure global understanding, Kraft created a brand book in an Oreo-shaped box that summarized brand management fundamentals—what needed to be common across countries, what could be changed, and what could not. At first, Kraft tried to sell the U.S. Oreo everywhere. When research showed cultural differences in taste preferences—Chinese found the cookies too sweet, whereas Indians found them too bitter—new formulas were introduced across markets. In China, the cookie was made less sweet and with different fillings, such as green tea ice cream, grape–peach, mango–orange, and raspberry–strawberry. Indonesia has a chocolate-and-peanut variety; Argentina has banana and dulce de leche varieties. In an example of reverse innovation, Kraft successfully introduced some of these new flavors into other countries. The company also tailors its marketing efforts to better connect with local consumers. One Chinese commercial has a child showing China's first NBA star Yao Ming how to dunk an Oreo cookie.[19]

Having a standardized marketing program offers multiple advantages. These include economies of scale in production and distribution, lower marketing costs, consistency in brand image, ability to leverage good ideas across different markets, and uniformity of marketing practices.

>> Oreo has become a truly global brand by creatively communicating its message of "togetherness" and "Milk's Favorite Cookie" in markets around the world.

Source: Keith Homan/Alamy Stock Photo

At the same time, having a standardized marketing program has several drawbacks. It ignores differences in areas such as the customer needs, wants, and usage patterns for products; customer response to marketing programs and activities; the different competitive environment; and the specifics of the legal, cultural, and political context.

GLOBAL PRODUCT STRATEGIES

Developing global product strategies requires knowing what types of products or services are easily standardized and what are appropriate adaptation strategies. There are three basic global product strategies: straight extension, product adaptation, and product innovation.

Straight Extension. Straight extension introduces the product in the foreign market without any change. This strategy is tempting because it requires no additional research and development expense, manufacturing retooling, or promotional modification. Straight extension has been successful for cameras, consumer electronics, and many machine tools.

Many high-end and luxury products also rely on product standardization because quality and prestige often can be marketed similarly across countries. Culture and wealth factors influence how quickly a new product takes off in a country, although adoption and diffusion rates are becoming more alike across countries over time. Food and beverage marketers find it more challenging to standardize, of course, given widely varying tastes and cultural habits.[20]

Standardization can backfire if consumers differ in product knowledge, preferences, and usage behavior. Campbell Soup Company lost an estimated $30 million introducing condensed soups in England; consumers saw expensive small cans and didn't realize water needed to be added. Here are some other famous global marketing missteps:

- Hallmark cards failed in France, where consumers dislike syrupy sentiment and prefer writing their own cards.
- Philips became profitable in Japan only after reducing the size of its coffeemakers to fit smaller kitchens and its shavers to fit smaller hands.
- Coca-Cola withdrew its big two-liter bottle in Spain after discovering that few Spaniards owned refrigerators that could accommodate it.
- Tang, from General Foods, initially failed in France when it was positioned as a substitute for orange juice at breakfast. The French drink little orange juice and almost never at breakfast.
- Kellogg's Pop-Tarts failed in Britain because fewer homes have toasters than in the United States and the product was too sweet for British tastes.
- The U.S. campaign for Procter & Gamble's Crest toothpaste initially failed in Mexico. Mexicans did not care as much about the decay-prevention benefit or the scientifically oriented advertising appeal.
- General Foods squandered millions trying to introduce packaged cake mixes to Japan, where only 3 percent of homes at the time were equipped with ovens.
- S. C. Johnson's wax floor polish initially failed in Japan. It made floors too slippery for a culture in which people do not wear shoes at home.

Rather than fully customizing its products, a company may position its offerings differently across markets. In its medical-equipment business, Philips traditionally reserved high-end, premium products for developed markets and emphasized products with basic functionality and affordability in developing markets. Increasingly, however, the company is designing, engineering, and manufacturing locally in emerging markets like China and India.

With a growing middle class in many emerging markets, many firms are assembling product portfolios to tap into different income segments. French food company Danone has many high-end healthful products, such as Dannon yogurt, Evian water, and Blédina baby food, but it also sells products priced much lower targeting consumers with "dollar-a-day" food budgets.

Product Adaptation. Differences in consumer behavior, as well as historical market factors, have led marketers to position products differently in different markets. Because of all these differences, most products require at least some adaptation.[21] Even Coca-Cola is sweeter or less carbonated in certain countries. Rather than assuming it can introduce its domestic product "as is" in another country, a company should review alterations to the following elements and determine which changes, if adopted, would add more revenue than cost: product features, labeling, colors, ingredients, packaging, brand name, sales promotion, prices, and advertising message, media, and creative execution. Consider the following examples:

Heineken beer is a high-end super-premium offering in the United States but a more middle-of-the-road brew in its Dutch home market.
Honda automobiles connote speed, youth, and energy in Japan but quality and reliability in the United States.
The Toyota Camry is the quintessential middle-class car in the United States but is at the high end in China, even though the cars in the two markets differ only cosmetically.

Product adaptation alters the product to meet local conditions or preferences. Depending on the similarity of customer preferences across different markets, product adaptation can occur on several levels. A company can produce a *regional version* of its product. Dunkin' Donuts has been introducing more regionalized products, such as Coco Leche donuts in Miami and sausage kolaches in Dallas. A big hit in developing markets in Latin America, Mexico, and the Middle East, the powdered drink Tang has added local flavors like lemon pepper, mango, and soursop. Alternatively, a company can produce a *country version* of its product. Kraft blends different coffees for the British (who drink coffee with milk), the French (who drink it black), and Latin Americans (who want a chicory taste). In some cases, a company can produce a *city version*—for instance, a beer to meet Munich's or Tokyo's tastes. A company can also produce different *retailer versions*, such as one coffee brew for the Migros chain store and another for the Cooperative chain store, both in Switzerland.

Some companies have learned adaptation the hard way. The Euro Disney theme park, launched outside Paris in 1992, was harshly criticized as an example of U.S. cultural imperialism that ignored French customs and values, such as the serving of wine with meals. As one Euro Disney executive noted, "When we first launched, there was the belief that it was enough to be Disney. Now we realize our guests need to be welcomed on the basis of their own culture and travel habits." Renamed Disneyland Paris, the theme park eventually became one of Europe's biggest tourist attractions—even more popular than the Eiffel Tower—by incorporating a number of local touches.[22]

Product Invention. Rather than using or adapting its current products, a company might choose to develop new products for its global markets. For example, to address the need of less developed countries for low-cost, high-protein foods, companies such as Quaker Oats, Swift, and Monsanto have researched these countries' nutrition requirements, formulated new foods, and developed advertising to gain product trial and acceptance.

McDonald's allows countries and regions to customize their basic layout and menu staples. McDonald's aficionados can get fried shrimp in Switzerland, Sausage 'n Egg Twisty Pasta in Hong Kong, Mozzarella Dippers—a spin on mozzarella sticks—in the UK, and the classic Georgie Pie in New Zealand. McDonald's in Portugal offers a soup alternative to burgers, including bean and spinach soup. Other product innovations include Japan's chicken veggie burger, made from chicken, soybeans, and vegetables; the many vegetarian items available in India, from the McVeggie to the Veg Pizza McPuff, which features tomato sauce, mozzarella cheese, and an array of vegetables; Mexico's McMollette, an open-faced breakfast sandwich with beans, cheese, and sauce; Germany's McToast pancakes, spread with chocolate and folded up like a sandwich; and the McKroket in the Netherlands, a patty containing stew and beef topped with mustard sauce. For those seeking the more exotic, McDonald's Malaysia offers the Burbur Ayam McD—chicken-topped porridge garnished with onions, ginger, shallots, and chilies.[23]

Dealing with Counterfeit Products. As companies develop global supply chain networks and move production farther from home, the possible occasions for corruption, fraud, and quality control problems increase. Sophisticated overseas factories seem able to reproduce almost anything. Name a popular brand, and chances are a counterfeit version of it exists somewhere in the world.

Counterfeiting is estimated to cost more than a trillion dollars a year. Losses suffered just from online counterfeiting globally amounted to $323 billion in 2017. Counterfeit products take a big bite out of the profits of luxury brands such as Hermès, LVMH (Moët Hennessy Louis Vuitton), and Tiffany, with losses incurred by luxury brands from online sales of counterfeited products exceeding $30 billion.[24]

Virtually every product is vulnerable. Microsoft estimates that about 90 percent of its Windows software in China is pirated.[25] As one anti-counterfeit consultant observed, "If you can make it, they can fake it." After surveying thousands of items, LVMH estimated that 90 percent of Louis Vuitton and Christian Dior pieces listed on eBay were fakes, prompting the firm to sue.

Manufacturers are fighting back with online software that detects fraud and automatically warns apparent violators, without the need for any human intervention. The use of artificial intelligence software helps identify counterfeit storefronts and sales online by detecting advertisements similar to those of legitimate brands and unauthorized internet sites that plaster brand trademarks and logos on their homepages. It also checks for keywords such as *cheap, discount, authentic,* and *factory variants,* as well as colors that products were never made in and prices that are far too low.

GLOBAL BRAND STRATEGIES

When entering global markets, a company must decide how to position its brand, as well as whether and how much to adapt the brand to the specifics of each particular market. It also must consider the potential country-of-origin effects that are likely to influence the way the brand is perceived in different markets around the world.

Brand Adaptation. When they launch products and services globally, marketers may need to change certain brand elements. Even a brand name may require a choice between phonetic and semantic translations. When Clairol introduced the "Mist Stick," a curling iron, in Germany, it found that *mist* is slang for *manure*. In China, Coca-Cola and Nike have both found sets of Chinese characters that sound broadly like their names but offer some relevant meaning at the same time ("Can Be Tasty, Can Be Happy" and "Endurance Conquer," respectively).[26]

Numbers and colors can take on special meaning in certain countries. The number four is considered unlucky throughout much of Asia, because the Japanese and Chinese word for the number sounds like the word for "death." Some East Asian buildings skip not only the fourth floor but often every floor that has a four in it (14, 24, 40–49). Nokia doesn't release phone models containing the number four in Asia. Purple is associated with death in Burma and in some Latin American nations, white is a mourning color in India, and in Malaysia green connotes disease. Red generally signifies luck and prosperity in China.[27]

Brand slogans or ad taglines sometimes need to be changed too: When Coors put its brand slogan "Turn it loose" into Spanish, some read it as "suffer from diarrhea." A laundry soap ad claiming to wash "really dirty parts" was translated in French-speaking Québec to read "a soap for washing private parts." Perdue's slogan—"It takes a tough man to make a tender chicken"—was rendered into Spanish as "It takes a sexually excited man to make a chicken affectionate."[28]

Country-of-Origin Effects. Country-of-origin perceptions are the mental associations and beliefs triggered by a country. Government officials want to strengthen their country's image to help domestic marketers export and to attract foreign firms and investors. Marketers want to use positive country-of-origin perceptions to sell their products and services.

Global marketers know that buyers hold distinct attitudes and beliefs about brands or products from different countries. These perceptions can stem from a variety of factors, including the attributes of the product, the meaning of the brand, and the country of origin ("If it's French, it must be stylish"). Coca-Cola's success against local cola brand Jianlibao in China was partly due to its association with U.S. modernity and affluence. Consider the experience of Digicel:

Digicel Launched in 2001, Jamaica-based Digicel has conquered politically unstable developing countries such as Papua New Guinea, Haiti, and Tonga with mobile telecommunication products and services appealing to poor and typically overlooked consumers. The company strives for 100 percent population coverage with its networks, bringing affordable mobile service to local and rural residents who have never before had the opportunity for coverage. It operates in 31 markets in the Caribbean, Central America, and Asia Pacific. To be locally relevant, Digicel sponsors local cricket, rugby, and other high-profile sports teams in each of these areas. Well-known champion Olympic sprinter Usain Bolt is the chief Digicel Brand Ambassador for various advertising and promotions across the region. The company also runs a host of community-based initiatives in each market through the educational, cultural, and social development programs of its Digicel Foundation. The company's marketing efforts in Fiji are instructive. Pitched in a fierce battle with incumbent Vodafone only two years after entry, Digicel Fiji even added a shade of light blue from the bottom of the Fiji national flag to its own red logo to reflect the company's pride in its contributions to Fijian life and sport, as reflected in its campaign "Fiji Matters to Us."[29]

>> Efforts to stay locally relevant have enabled Digicel to bring its mobile telecom products and services to underserved customers in politically unstable countries.

Source: Rafael Ben-Ari/Alamy Stock Photo

The mere fact that a brand is perceived as successful on a global stage—whether it sends a quality signal, taps into cultural myths, or reinforces a sense of social responsibility—may lend credibility and respect.[30] Research studies have found that certain countries enjoy a reputation for certain goods: Japan for automobiles and consumer electronics; the United States for high-tech innovations, soft drinks, toys, cigarettes, and jeans; France for wine, perfume, and luxury goods.

When consumers do not know where the products and brands come from, they often make inferences about their origin. In surveys, they routinely guess that Heineken is German, Nokia is Japanese, and Au Bon Pain is French (they are Dutch, Finnish, and American, respectively). Most consumers are unaware that Popov vodka, Ginsu Knives, Estée Lauder, and Häagen-Dazs originated in the United States.

Häagen-Dazs After peddling the Mattus family's homemade ice cream for more than 30 years to small candy stores and neighborhood restaurants in the Bronx, Reuben Mattus decided that ice cream lovers in New York would be willing to pay a premium for something they perceived as different, even evocative, and maybe better. To create this image, he came up with Häagen-Dazs—a fabricated name that sounded cold, crisp, luxurious, and Danish. Yet the name is not Danish (in fact, the umlaut does not exist in that language), and the name is as meaningless in Danish as it is in English. But the arresting name, reinforced by the map of Scandinavia that appeared on the cartons in which the product was sold, set the ice cream apart from its competitors and evoked an immediate association with shimmeringly clear, cold Scandinavian climes. The added cachet of the quirky name contributed to building a reputation for Häagen-Dazs as a richly textured luxury product that consumers perceived as being the best to be had.[31]

Marketers must look at country-of-origin perceptions from both a domestic and a foreign perspective. In the domestic market, these perceptions may stir consumers' patriotic notions or remind them of their past. As international trade grows, consumers may view certain brands as symbolically important to their own cultural identity or as playing an important role in keeping jobs in their country. More than three-quarters of U.S. consumers said that, given a choice between a product made at home and an identical one made abroad, they would choose the U.S. product.[32]

Many brands have gone to great lengths to weave themselves into the cultural fabric of their foreign markets. One Coca-Cola executive tells of a young child visiting the United States from Japan who commented to her parents on seeing a Coca-Cola vending machine—"Look, they have Coca-Cola too!"

As far as she was concerned, Coca-Cola was a Japanese brand. Haier is another global brand working hard to establish local roots in other countries.

Haier As China's leading maker of refrigerators, washing machines, and air conditioners, Haier was well known and respected in its home market for its well-designed products. For rural customers, Haier sold extra-durable washing machines that could wash vegetables as well as clothes; for urban customers, it made smaller washing machines to fit in tiny apartments. At the turn of the 21st century, the company set its sights on a much bigger goal: building a truly global brand. Unlike most other Asian companies, which chose to enter Asian markets before considering Western markets, Haier decided to target the United States and Western Europe first. The company felt success there would make greater success possible elsewhere in the world. In the United States, Haier established a beachhead by tapping a neglected market—mini-fridges for homes, offices, dorms, and hotels—and securing distribution at Walmart, Target, Home Depot, and other top retailers. After some initial success, the company began to sell higher-end refrigerators and other appliances, such as air conditioners, washing machines, and dishwashers. Its goal is to be seen as a "localized U.S. brand," not an "imported Chinese brand." Thus, Haier invested in a manufacturing plant in South Carolina and became a marketing partner with the National Basketball Association. By 2018, the company's revenue from overseas markets reached 40 percent of Haier's total revenue, and Haier is now the world's top-selling home appliance brand.[33]

GLOBAL PRICING STRATEGIES

The same Gucci handbag may sell for $200 in Italy, $300 in the United States, and $400 in China. Why? Gucci must add the cost of transportation, tariffs, importer margin, wholesaler margin, and retailer margin to its factory price. Price escalation from these added costs and currency-fluctuation risk might require the price to be two to five times as high for the manufacturer to earn the same profit. In addition, prices reflect customers' willingness to pay for the benefits provided by the company's offering.

Companies have two basic choices for setting prices in different countries:

- *Set a uniform price everywhere.* PepsiCo might want to charge $1 for Pepsi everywhere in the world, but then it would earn quite different profit rates in different countries. Also, this strategy would make the price too high in poor countries and not high enough in rich countries.
- *Set a market-based price in each country.* PepsiCo could charge what each country could afford, but this strategy ignores differences in the actual cost from country to country. It might also motivate intermediaries in low-price countries to reship their Pepsi to high-price countries.

Market-based pricing can lead to scenarios in which one unit charges another unit in the same company a transfer price for goods it ships to its foreign subsidiaries. If the company charges a subsidiary too *high* a price, it may end up paying higher tariff duties, although it may pay lower income taxes in the foreign country. If the company charges its subsidiary too *low* a price, it can be accused of dumping—charging either less than its costs or less than it charges at home in order to enter or win a market. Various governments are watching for abuses and often force companies to set a price similar to prices charged by other competitors for the same product or a similar one.

Countries with overcapacity, cheap currencies, and the need to export aggressively have pushed their prices down and devalued their currencies. Sluggish demand and reluctance to pay higher prices make selling in these markets difficult. For example, when the Swedish home furnishings giant IKEA opened its first store in Beijing in 2002, local stores were selling copies of its designs at a fraction of IKEA's prices. The only way to compete in China's challenging pricing market was to drastically slash prices. By stocking its Chinese stores with Chinese-made products, IKEA has been able to slash prices as low as 70 percent below their level outside China. Although it still contends with persistent knockoffs, IKEA maintains sizable stores in 24 locations in China and continues opening new ones.[34]

GLOBAL COMMUNICATION STRATEGIES

Companies vary in the extent to which they adapt their marketing communication for each local market. A company can use one message everywhere, varying only the language and name. General Mills positions its Häagen-Dazs brand globally in terms of "indulgence," "affordable luxury," and "intense sensuality." Alternatively, a company can use the same message and creative theme globally but adapt the execution to a specific market. GE's global "Ecomagination" ad campaign substitutes creative content in Asia and the Middle East to reflect cultural interests there. Even in the high-tech space, local adaptations may be necessary.[35] A company can also develop a global pool of ads from which each country selects the most appropriate—an approach adopted by Coca-Cola and Goodyear. Finally, some companies allow their country managers themselves to create country-specific ads—within guidelines, of course.

Companies that adapt their communications wrestle with a number of challenges. They first must ensure that their communications are legally and culturally acceptable. U.S. toy makers were surprised to learn that in many countries (Norway and Sweden, for example), no TV ads may be directed at children under 12. To foster a culture of gender neutrality, Sweden also prohibits sexist advertising—a commercial that spoke of "cars for boys, princesses for girls" was criticized by government advertising regulators.[36]

A number of countries are taking steps to eliminate super skinny and airbrushed models in ads. Israel has banned underweight models from print and TV ads and runway shows. Models must have a body-mass index (BMI)—a calculation based on height and weight—of greater than 18.5. According to that BMI standard, a female model who is 5 feet, 8 inches tall can weigh no less than 119 pounds.[37]

Firms next must check their creative strategies and communication approaches for appropriateness. Comparative ads, though acceptable and even common in the United States and Canada, are less frequent in the United Kingdom, unacceptable in Japan, and illegal in India and Brazil. The EU seems to have very low tolerance for comparative advertising and prohibits bashing rivals in ads.

Companies also must be prepared to vary the appeal of their messages. In advertising its hair care products, Helene Curtis observed that middle-class British women wash their hair frequently, Spanish women less so. Japanese women avoid over-washing for fear of removing protective oils. Effective messaging in these countries must be cognizant of these differences. Language can vary, too—the local language, another language such as English, or some combination. Personal selling tactics also may need to change. The direct, no-nonsense approach favored in the United States ("Let's get down to business" and "What's in it for me?") may not work as well in Europe or Asia as an indirect, subtle approach.[38]

GLOBAL DISTRIBUTION STRATEGIES

When multinationals first enter a country, they prefer to work with local distributors who have good local knowledge, but friction often arises later.[39] The multinational complains that the local distributor doesn't invest in business growth, doesn't follow company policy, and doesn't share enough information. The local distributor complains of insufficient corporate support, impossible goals, and confusing policies. The multinational must choose the right distributors, invest in them, and set performance goals to which both parties can agree.

Distribution channels across countries vary considerably. To sell consumer products in Japan, companies must work through one of the most complicated distribution systems in the world. They sell to a general wholesaler, who sells to a product wholesaler, who sells to a product-specialty wholesaler, who sells to a regional wholesaler, who sells to a local wholesaler, who finally sells to retailers. All these distribution levels can double the consumer's price or triple the importer's price. Taking these same consumer products to tropical Africa, the company might sell to an import wholesaler, who sells to several local wholesalers, who sell to petty traders working in local markets.

Another difference is the size and character of retail units abroad. Large-scale retail chains dominate the U.S. scene, but much foreign retailing is in the hands of small, independent retailers. Millions of Indian retailers operate tiny shops or sell in open markets. Markups are high, but the real price comes down through haggling. Incomes are low, most homes lack storage and refrigeration, and people shop daily for whatever they can carry home on foot or by bicycle. In India, people often buy one cigarette at a time. Breaking bulk remains an important function of intermediaries and helps perpetuate long channels of distribution, a major obstacle to the expansion of large-scale retailing in developing countries.

Nevertheless, retailers are increasingly moving into new global markets, offering firms the opportunity to sell across more countries and creating a challenge to local distributors and retailers.[40] France's Carrefour, Germany's Aldi and Metro, and the UK's Tesco have all established global positions. But even some of the world's most successful retailers have had mixed success abroad. Despite concerted efforts and earlier success in Latin America and China, Walmart had to withdraw from both the German and the South Korean markets after heavy losses.[41]

Many multinationals are plagued by the **gray market,** which diverts branded products from authorized distribution channels either in-country or across international borders. Often a company finds some enterprising distributors buying more than they can sell in their own country and reshipping the goods to another country to take advantage of price differences.

Gray markets create a free-rider problem, making legitimate distributors' investments in supporting a manufacturer's product less productive and selective distribution systems more intensive to reduce the number of gray market possibilities. They harm distributor relationships, tarnish the manufacturer's brand equity, and undermine the integrity of the distribution channel. They can even pose risks to consumers if the product is damaged, relabeled, obsolete, without warranty or support, or just counterfeit. Because of their high prices, prescription drugs are often a gray market target, although U.S. government regulators have been looking at the industry more closely since fake vials of Riche Holding AG's cancer drug Avastin were shipped to U.S. doctors.[42]

Multinationals try to prevent gray markets by policing distributors, raising their prices to lower-cost distributors, and altering product characteristics or service warranties for different countries. One research study found that gray market activity was most effectively deterred when penalties were severe, when manufacturers were able to detect violations or mete out punishments in a timely fashion, or when both of these preventive measures were in place.[43]

marketing INSIGHT

Global Similarities and Differences

The vast penetration of global connectivity, online programming, mobile communications, and social media has led to a convergence of lifestyles. Shared needs and wants have created global markets for more standardized products, particularly among the young middle class.

At the same time, global consumers can still vary in significant ways. Thus, consumer behavior may reflect cultural differences that can be pronounced across countries.[44] Academic research identifies six cultural dimensions that differentiate countries. These dimensions represent independent preferences for one state of affairs over another that distinguish countries (rather than individuals) from each other.[45]

- **Power Distance Index.** This dimension reflects the degree to which the less powerful members of a society accept and expect that power will be distributed unequally. In other words, the power distance index reflects how a society handles inequalities among people. Countries characterized by high power distance accept a hierarchical social stratification, whereas countries with low power distance strive to equalize the distribution of power and demand justification for inequalities of power.
- **Individualism vs. Collectivism.** In collectivist societies (e.g., Japan), the self-worth of an individual is rooted more in the social system than in individual achievement. In contrast, in individualistic societies (e.g., the United States), people are expected to take care of only themselves and their immediate families. A society's position on this dimension is reflected in whether people's self-image is defined in terms of "I" or "we."
- **Masculinity vs. Femininity.** This dimension measures how greatly the culture reflects assertive characteristics more often attributed to males versus nurturing characteristics more often attributed to females. The masculinity aspect represents a preference in society for achievement, heroism, assertiveness, and material rewards for success. Its opposite, femininity, reflects a preference for cooperation, modesty, caring for the weak, and quality of life.
- **Uncertainty Avoidance Index.** Uncertainty avoidance reflects the degree to which the members of a society feel uncomfortable with uncertainty and ambiguity. Countries with high uncertainty avoidance maintain rigid codes of belief and behavior and are intolerant of unorthodox behavior and ideas. In contrast, countries with low uncertainty avoidance maintain a more relaxed attitude in which practice counts more than principles.
- **Normative vs. Pragmatic Orientation.** This dimension reflects the extent to which a society links with its own past while dealing with the challenges of the present and the future. Societies with normative orientation prefer to maintain time-honored traditions and norms and are skeptical about societal change. In contrast, societies with a pragmatic orientation tend to take a more practical approach: They encourage thrift and efforts in modern education as a way to prepare for the future.

(continued)

marketing insight *(continued)*

- **Indulgence vs. Restraint.** This cultural dimension represents the extent to which a society relies on strict norms to guide individual behavior. Here, indulgence stands for a society that allows relatively free gratification of basic hedonic human drives related to enjoying life. Restraint characterizes a society that subdues gratification of hedonic needs and regulates it by means of strict social norms.

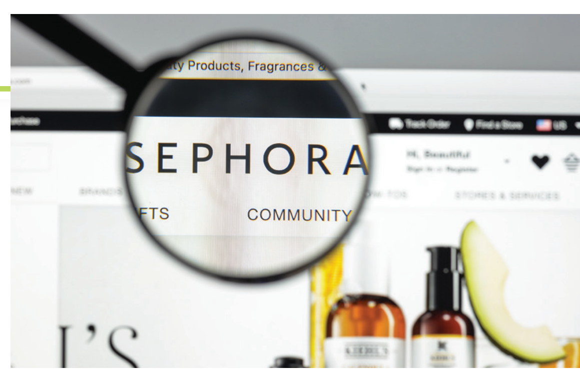
The best global brands are consistent in theme but reflect significant differences in consumer behavior, brand development, competitive forces, and the legal or political environment.[46] Often heard—and sometime modified—advice to marketers of global brands is to "Think Global, Act Local." In that spirit, HSBC was explicitly positioned for years as "The World's Local Bank."

summary

1. Going abroad involves two major types of risks: general risks associated with entering a new market and specific risks associated with doing business in a different country. When deciding to go abroad, a company must carefully assess the risk–reward ratio for each global market it considers entering.
2. Deciding whether to go abroad is the first of several decisions a company must make when developing its global strategy. If the company has concluded that going abroad is indeed the best course of action, it must then make a set of more specific decisions, including which markets to enter, how best to enter these markets, the specific marketing program for each market, and the most effective way to structure the marketing organization in each country.
3. Once a company decides to target a particular country, it must choose the best mode of entry with its brands. Its broad choices are indirect exporting, direct exporting, licensing, joint ventures, and direct investment, ordered in terms of ascending commitment, risk, control, and profit potential.
4. An important decision for a company entering a new global market is to what extent it will adapt its marketing strategy to local conditions. A standardized marketing program worldwide promises the greatest consistency across individual countries. In contrast, an adapted marketing program tailors a company's offering to the specifics of each country.
5. Developing global product strategies requires knowing what types of products or services are easily standardized and what adaptation strategies are appropriate. In deciding how extensively to adapt their marketing programs at the product level, firms can pursue a strategy of straight extension, product adaptation, or product invention.
6. When entering global markets, a company must also decide how to position its brand and whether or how much to adapt the brand to the specifics of each particular market. It also must consider the country-of-origin effects that are likely to influence the way the brand is perceived in the particular market.
7. A company can benefit from adapting its price and communication strategies to the local market. The level of adaptation can vary from minor variations in the marketing program to entirely different pricing and communication policies for each target country.
8. At the distribution level, firms need to take a whole-channel view of distributing products to the final users. Firms must always consider the cultural, social, political, technological, environmental, and legal limitations they face in other countries.

marketing SPOTLIGHT

Sephora



Source: Casimiro/Alamy Stock Photo

Starting out as a perfume store in 1969, Sephora has transformed into one of the world's strongest beauty retailers, employing around 20,000 people across 2,500 stores in more than 32 countries. Over 250 classic and new beauty brands in the segments of skincare, fragrance, cosmetics, bath, body, and haircare collectively take in over

$4 billion annually in revenue. The brand is now on a rapid worldwide expansion drive by becoming an omnichannel retailer on the back of the successful merger of its physical and digital retail network.

The origins of the company can be traced back to a small French perfumery called Shop 8 founded by Dominique Mandonnaud, who went on to build a chain of perfume and cosmetic stores before purchasing another chain in 1993 and merging them under a new brand name, Sephora. This is the Greek spelling of Zipporah, one of the wives of Moses who was famous for her enchanting beauty, which fit the image the brand sought to convey—beauty, class, and style. In 1997, Sephora was sold to LMVH Moët Hennessy Louis Vuitton, the global luxury conglomerate that also owns iconic brands such as Louis Vuitton, Givenchy, Marc Jacobs, Fendi, Dior, Bulgari, and Benefit Cosmetics. Just a year after it was acquired by LMVH, Sephora launched its global expansion drive by opening its first store in New York City.

Sephora's success comes from its ability to offer distinctive services to its customers and to adapt its offering with time. The brand's initial popularity was mainly due to its "experiential retail," a unique retail format based on an open-sell and merchandising philosophy that has enabled it to scale up globally and become a trendsetter for cosmetics stores around the world. Before Sephora, women who visited cosmetics shops were discouraged from touching, feeling, and sampling the products on display. Sephora believes that a visit to the beauty store should offer more than just items in a shopping bag; it should be an experience. Sephora's open-sell approach, where customers can sample several products, drew on its origins as a French perfume store—the shopping experience has to be engaging, and customers should experience and try out the products at their leisure before making their purchase, thus encouraging them to discover a wider range of products on their own.

Sephora has also drawn inspiration from beyond retail. In a typical Sephora outlet, customers will be seen trying on makeup in different beauty studios, testing skincare and personal care products, consulting with their trained associates, and trying on perfumes with a "fragrance finder," an attendant who helps customers find the perfume of their choice. Step into one of the outlets in any part of the world and you will see the same elements that constitute the brand's signature look: black-and-white striped store walls, smartly dressed staff with impeccable makeup, classy displays, upbeat music, and a happening vibe. Other than the faces and the languages used for store signage, there is nothing to distinguish a store in Singapore from another in Mumbai, Delhi, or Doha. In the store, the sales floor is referred to as the "stage," and other areas are called the "backstage." Its staff and associates are called "cast members," and they wear red-trimmed black costumes (*not* uniforms). The manager is the "director." Creating a theater-like environment dramatizes the shopping event for customers; it keeps them coming back to the store and has them stay longer once inside.

Other factors that have contributed to Sephora's success are its loyalty program, returns policy, events, and an omnichannel retail structure. Globally, Sephora has an extremely successful loyalty program and monthly subscription, through which members can discover new products at home. Also included are samples, makeovers, reward points, and makeup classes, both in-store and online. Sephora's fused physical and online retail strategy provides a seamless shopping experience that goes beyond any specific channel.

While expanding its physical stores in different countries, Sephora has maintained a strong focus on digital marketing and has created a strong online presence globally. Its website contains product tutorials and demonstrations and offers various digital beauty tools that help in creating customized product recommendations for different needs. For example, the Sephora Color IQ tool can recommend the best foundation, concealer, and lip color by scanning the customer's skin. The Sephora Digital Makeover Guide helps customers track all the products used or recommended to them by beauty advisors during their store visit or by email, creating a reference directory for future purchases.

In 2019, while many retailers were reducing their physical presence across the world to focus more on online sales, Sephora pursued an aggressive expansion. That year, it announced one of its largest expansion plans ever, the opening of 100 new stores in North America. It had also expanded aggressively in Asia by opening stores in India, Singapore, Thailand, and South Korea. That October, in the fashionable and upmarket fashion district of Gangnam, it opened the first Sephora store in South Korea, featuring around 100 different cosmetics and perfume brands. Naturally, the store had the signature layout, look, and feel; through all the new outlets, the foremost concern remains that customers should have an *experience*. Two months later, Sephora opened its second store in a retail strip in downtown Seoul, targeting both fashion-savvy Koreans and foreign visitors, especially the Chinese.

Internationally, Sephora is already ahead of the other beauty retailers in having an online presence, but it still wants to try out newer retail formats and different location strategies for expansion. It is focusing on three trends: having stores outside malls, smaller store sizes, and offering more products in the skincare and haircare segments. Sephora hopes that this will help reach more customers with a wider range of products and thereby aid in further market penetration. In cosmetics retail, Sephora is trying to become more omnipresent with the omnichannel strategy.[47]

Questions

1. Discuss the factors that have contributed to Sephora's success over the years.
2. How viable is a standardized store across different markets around the world for a beauty brand like Sephora?
3. What marketing challenges does Sephora face in its global expansion?

marketing SPOTLIGHT

Mandarin Oriental

Source: Greg Vaughn/Alamy Stock Photo

The Mandarin Oriental Hotel Group is an international hotel management company that specializes in Asian luxury hotels. The company operates over 31 hotels and 8 residences in more than 20 different countries. Mandarin Oriental hotels are renowned for offering exceptional facilities with high-quality restaurants, bars, employees, and accommodations.

The Mandarin Hotel started in 1963 in the Central District of Hong Kong island. In 1974, Mandarin International Hotels Limited was founded as a hotel management company and acquired 49 percent ownership of The Oriental Hotel in Bangkok. In 1985, these two massive luxury hotels and others in the region were combined under a common name—Mandarin Oriental Hotel Group.

Mandarin Oriental Hotel Group has built its brand based on the following guiding principles:

- **Delighting guests.** Mandarin Oriental is fully committed to exceeding guest expectations by anticipating and fulfilling their wishes.
- **Delighting colleagues.** Mandarin Oriental is dedicated to creating a supportive, motivating, and rewarding environment for its employees through effective training and personal development.
- **Becoming the best.** The group intends to be an innovative leader in the luxury hospitality industry by constantly improving its service delivery, products, and facilities.
- **Working together.** Mandarin Oriental employees are committed to teamwork and to treating each other with the utmost trust and respect.
- **Acting responsibly.** The group maintains integrity, fairness, and honesty in its internal and external environments.

One of Mandarin Oriental's key success factors is the regionalization of its hotels in areas such as guest engagement, social media, and overall oriental charm. With hotel locations spanning the globe, one challenge Mandarin Oriental faces is ensuring that each location has its own regional expertise and local flavor. For example, to celebrate the famous cherry blossom season in Japan, Mandarin Oriental offered a Sakura (cherry blossom) version of its "Totally Tokyo Five Journeys from Nihonbashi" spa treatment. In addition, the group's bars and restaurants offered Sakura-themed dishes.

The group hires architects from across the globe to design each hotel to be authentic in style and embraced by the local community. Mandarin Oriental trains its employees so that they are deeply knowledgeable about the environments surrounding their hotels. Employees are familiar with local cultures and hotspot locations in their cities. When guests visit social media pages or hotel front desks, Mandarin Oriental provides an experience tailored to the regional market.

Mandarin Oriental's use of international celebrity endorsements has greatly contributed to the success of its global advertising campaign. Famous figures such as Adam Scott, Lucy Liu, and Morgan Freeman have all endorsed the brand. Mandarin Oriental selects celebrity brand endorsers from across the globe who are particularly attractive to audiences, making potential customers more likely to remember the advertisements. Criteria for choosing celebrities include physical attractiveness, athletic skills, intellectual capabilities, and credibility. Celebrities must have a positive reputation and perceived trustworthiness to endorse the brand. Celebrities also must be compatible with the Mandarin Oriental brand in terms of identity, personality, and lifestyle.

Celebrity endorsers frequently participate in the "Fan Campaign," a global advertising campaign in which photos taken of the celebrities staying at Mandarin Oriental hotels are printed in magazines. In addition, some celebrities are more personally involved with the company. Vivienne Tam, a fashion designer based in New York City, designed the spa employee uniforms for New York and Hong Kong locations. Singers such as Vanessa Mae and Dame Edna have performed at hotel openings. Mandarin Oriental has over 25 international celebrities endorsing the brand.

Mandarin Oriental has enjoyed international acclaim because of its authentic oriental charm and dedication to serving its guests, employees, and the local community. Locations have won the Hurun "Hot Hotel" award, one of the most prestigious hotel awards in China. The group leads the luxury hotel industry in culinary excellence, with

14 restaurants meriting 21 Michelin stars, demonstrating its commitment to providing guests with top-quality experiences. The group is also the only luxury hotel group in the world to have 10 Forbes "Five Star" spas. With its outstanding brand delivery, Mandarin Oriental is committed to providing the best in global luxury hospitality.[48]

Questions

1. What are the key drivers of Mandarin Oriental's global success?
2. What are the pros and cons of Mandarin Oriental's positioning as a global luxury brand? Can it have universal appeal for travelers around the world?
3. How should Mandarin Oriental build its global digital media strategy in a way that increases its popularity without hurting its brand image?