chapter 17

Marketing in the Global Firm

Learning Objectives

In this chapter, you will learn about:

1. Global marketing strategy
2. Standardization and adaptation of the international marketing program
3. Global branding and product development
4. International pricing
5. International marketing communications
6. International distribution
7. Ethical dimensions of international marketing

Zara's Unique Model for International Marketing Success

The Spanish multinational Inditex has transformed itself into Europe's leading apparel retailer. Inditex's flagship store is Zara, the fashion chain that specializes in up-to-date clothing at affordable prices. Headquartered in northern Spain, Zara generated about $5 billion in sales in 2006 across its stores in some 60 countries. In Asia, Zara has some 40 stores from Bangkok to Tokyo, and opened its first shop in Shanghai in 2006. In the United States, the firm plans to double its store count to more than 50 by 2009.

Zara is a leader in rapid-response retailing. In-house teams produce fresh designs twice a week. While competitors typically have up to an 11–month lead time to move a garment from design to manufacturing, total turn-around time at Zara is just 2 weeks. None of its styles last in stores more than a month. Zara is fast and flexible in meeting market needs by integrating design, production, distribution, and sales within its own stores. Zara created about 20,000 different items in 2006, roughly triple what Gap produced. Because textiles are a labor-intensive business, most retailers source from low-cost shops in Asia. Zara, on the other hand, produces its most fashionable items—50 percent of all its merchandise—at a dozen company-

owned factories in Spain. Clothes with longer shelf life are outsourced to low-cost suppliers in Turkey and Asia.

Zara's supply chain is lightning fast. Once clothing is produced, it is shipped to stores in 24 to 36 hours. Using the latest information technology, garments are continuously scanned as they pass through the distribution channel. Distributors immediately know what is needed for restocking. Predetermined fabrics await design instructions, and suppliers provide other needed materials, such as thread, zippers, and buttons just-in-time. Rapid-response retailing means fashions go straight from the factory to stores. Nevertheless, the Spain-based production and distribution model has its limitations. Rapid-response retailing becomes harder to manage the farther away from Spain the firm's outlets are located.

Stores are both uncluttered and colorful, creating a high-end luxury shopping environment. Management emphasizes product innovation and value pricing. Adapted to individual markets, prices are higher in high-income countries and more competitive in low-income or low-demand countries. Much of the firm's promotional activities depend on creating buzz, generating word-of-mouth, and setting up stores in prominent locations. Zara's flashy outlets are on some of the world's priciest

streets: Fifth Avenue in New York, Ginza in Tokyo, Via Condotti in Rome, and the Champs-Elysees in Paris.

Zara's positioning differentiates the firm from key competitors based on pricing (low to moderate) and fashion (slightly formal, chic). For instance, the United States-based chain Gap and Italy's Benetton are positioned as moderately high-priced but not particularly fashion-forward. Sweden's H&M offers merchandise that is casual and targeted to younger people. A key competitive advantage of Zara is that it stays at the very leading edge of fashion.

The retailer follows a unique approach to eliciting consumer feedback. Management reacts quickly to daily sales figures. Using wireless organizers, managers and salespeople in Zara's stores advise headquarters daily about constantly changing consumer tastes. Stores employ retail specialists with a strong sense of fashion who advise on which items move fastest. Fast-moving items are replicated quickly, in a myriad of colors or styles, and slow-moving items are removed. Zara's researchers also visit college campuses, clubs, and other hotspots. Magazines like Vogue as well as fashion shows provide additional inspiration.

In a fickle industry, often characterized by sluggish growth, Zara has been growing fairly rapidly. The firm is expanding in Asia and North America and penetrating deeper into Europe. Managers intend to apply the same strategies that have proven successful thus far.

Sources: *Business Week*, (2007). "Retailers Need to Boost Product Turnover," January 16. Retrieved from www.businessweek.com; *Business Week*, (2006). "Fashion Conquistador,"' September 4. Retrieved from www.businessweek.com; *Business Week*, (2006). "Zara: Taking the Lead in Fast-Fashion," April 4. Retrieved from www.businessweek.com; Echikson, William. (2000). "The Mark of Zara," *Business Week*, May 29, pp. 98–100; *Economist*, (2005). "The Future of Fast Fashion," June 18, p. 63; Fraiman, Nelson, and Medini Singh. (2002). *Zara*. Case study. New York: Columbia Business School, Columbia University; Heller, Richard. (2001). "Galician Beauty," *Forbes*, May 28, p. 98; Hoovers.com entry on Zara International, Inc.; Inditex press kit, June 2007. www.inditex.com; Inditex Press Release "Business Week Ranks Inditex as the Seventh Best Performing European Company," May 14, 2007; Maitland, Alison. (2005). "Make Sure You Have Your Christmas Stock In," *Financial Times*, December 19, p. 11.

Global Marketing Strategy

Marketing brings the customer focus to the firm's cross-border business. Marketing in the internationalizing firm is concerned with identifying, measuring, and pursuing market opportunities abroad. Exhibit 17.1 provides a framework for these activities and previews the topics of this chapter. The outer layer represents the cultural, social, political, legal, and regulatory environment of foreign markets. These environmental conditions constrain the firm's ability to price, promote, and distribute a product. For example, the firm will need to review prices frequently in high-inflation countries, adapt the positioning of the product to suit customer expectations, and ensure products comply with mandated government standards.

Working with the diversity of individual country markets, managers then will need to formulate a global marketing strategy. The middle layer in Exhibit 17.1 represents the **global marketing strategy**—a plan of action that guides the firm in: (1) how to position itself and its offerings in foreign markets and which customer segments to target, and (2) the degree to which its marketing program elements should be standardized and adapted.[1]

Global marketing strategy A plan of action that guides the firm in how to position itself and its offerings in foreign markets, which customer segments to target, and the degree to which its marketing program elements should be standardized and adapted.

Before we turn to the second aspect of global marketing strategy (standardization/adaptation), let's discuss the first function: targeting customer segments and positioning.

Targeting Customer Segments and Positioning

Market segmentation refers to the process of dividing the firm's total customer base into homogeneous clusters in a way that allows management to formulate unique marketing strategies for each group. Within each market segment, customers exhibit similar characteristics regarding income level, lifestyle, demographic pro-

Exhibit 17.1

Organizing Framework for Marketing in the International Firm

file, or desired product benefits. As an example, Caterpillar targets its earthmoving equipment by applying distinct marketing approaches to several major market segments, such as construction firms, farmers, and the military. For each of these customer segments, Caterpillar devises a distinct marketing program, for example, creating value-priced tractors for farmers, moderately priced earthmoving equipment for construction firms, and high-priced, heavy-duty trucks and other vehicles for the military.

In international business, firms frequently form market segments by grouping countries together based on macrolevel variables, such as level of economic development or cultural dimensions. For example, many MNEs group the Latin American countries together based on a common language (Spanish or Portuguese), or the European countries together based on similar economic conditions. The approach has proven most effective for product categories in which governments play a key regulatory role (such as telecommunications, medical products, and processed foods) or where national characteristics prevail in determining product acceptance and usage.[2]

Today, firms increasingly target *global* customer or market segments. A **global market segment** represents a group of customers that share common characteristics across many national markets. Firms target these buyers with relatively uniform marketing programs. For example, MTV and Levi Strauss both target a largely homogenous youth market that exists around most of the world. In fact, consumer product

Global market segment A group of customers that share common characteristics across many national markets.

MTV has a global market segment of young adults who enjoy music. Here, members of the Mexican band, Mana, hold their MTV Legend Award at the MTV Video Music Awards Latin America 2006 in Mexico City.

companies are targeting the youth market across advanced and emerging economies. This segment generally follows global media, is quick to embrace new fashions and trends, and has significant disposable income. Another global market segment is jet-setting business executives. They have much disposable affluence and are eager consumers of premium products that represent luxury and sophisticated style.

The firm's objective in pursuing global market segments is to create a unique positioning of its offerings in the minds of target customers. *Positioning* is an aspect of marketing strategy in which the firm develops both the product and its marketing to evoke a distinct impression in the customer's mind, emphasizing differences from competitive offerings. For example, in the international construction industry, Bechtel positions itself as providing sophisticated technical solutions for major infrastructure projects worldwide. In the theme park business, Disney positions itself as standing for family values and "good, clean fun" to attract families to its theme parks around the world.[3]

Positioning may also involve the images of specific product *attributes* held by consumers. For example, Diet Coke elicits an image of someone who needs to lose or maintain weight compared to regular Coca-Cola. When Coca-Cola first entered Japan, research revealed that Japanese women do not like products labeled as "diet," nor is the population considered overweight. Thus, management altered the product's positioning in Japan by changing the name of Diet Coke to Coke Light.

Internationalizing firms aim for a *global positioning strategy,* that is, one in which the offering is positioned *similarly* in the minds of buyers worldwide. Starbucks, Volvo, and Sony are good examples of companies that successfully use this approach. Consumers around the world view these strong brands in the same way. Global positioning strategy is beneficial because it reduces international marketing costs by minimizing the extent to which management must adapt elements of the marketing program for individual markets.[4]

Standardization and Adaptation of the International Marketing Program

In addition to guiding the process of targeting and positioning, global marketing strategy also articulates the degree to which the firm's marketing program should vary across foreign markets. In the innermost layer in Exhibit 17.1, we identify the key elements of the marketing program (sometimes referred to as the *marketing mix*) that are subjected to the standardization/adaptation decision, given the international context. These elements are: global branding and product development, international pricing, international marketing communications, and international distribution. Domestic marketing strategy is concerned with the marketing program elements in a single country. In the international context, marketing strategy takes on additional complexity because of local competitors, as well as cross-national differences in culture, language, living standards, economic conditions, regulations, and quality of business infrastructure. In addition, the firm needs to keep abreast of *global* competitors and optimize its value-chain activities across its various markets. Accordingly, the firm's key challenge is how to resolve the trade-offs between standardizing the firm's marketing program elements *and* adapting them for individual international markets. Since the firm is typically involved in more than a single foreign market, management also must grapple with how best to coordinate marketing activities across national markets.

Adaptation refers to the firm efforts to modify one or more elements of its international marketing program to accommodate specific customer requirements in a particular market. In contrast, **standardization** refers to the firm efforts to make its marketing program elements uniform, with a view to targeting entire regions, or even the global marketplace, with a similar product or service.

Adaptation Firm efforts to modify one or more elements of its international marketing program to accommodate specific customer requirements in a particular market.

Standardization Firm efforts to make its marketing program elements uniform, with a view to targeting entire regions, or even the global marketplace, with a similar product or service.

Achieving a balance between adaptation and standardization is part of a broader corporate strategy that has the firm debating its position between *global integration* and *local responsiveness.* As we discussed in Chapter 11, global integration seeks worldwide efficiency, synergy, and cross-fertilization in the firm's value-chain activities, while local responsiveness objectives seek to meet the specific needs of buyers in individual countries. How the firm resolves the balance between global integration and local responsiveness affects how it makes standardization and adaptation decisions in its marketing program elements.

Exhibit 17.2 highlights the trade-offs between standardization and adaptation in international marketing. Let's now examine the arguments for, and advantages of, each strategy.

Standardization

Representing a tendency toward global integration, standardization is more likely to be pursued in global industries such as aircraft manufacturing, pharmaceuticals, and credit cards. Boeing, Pfizer, and MasterCard are examples of firms that use standardized marketing strategy with great success. Their offerings are largely uniform across many markets worldwide. A standardized marketing approach is most appropriate when:

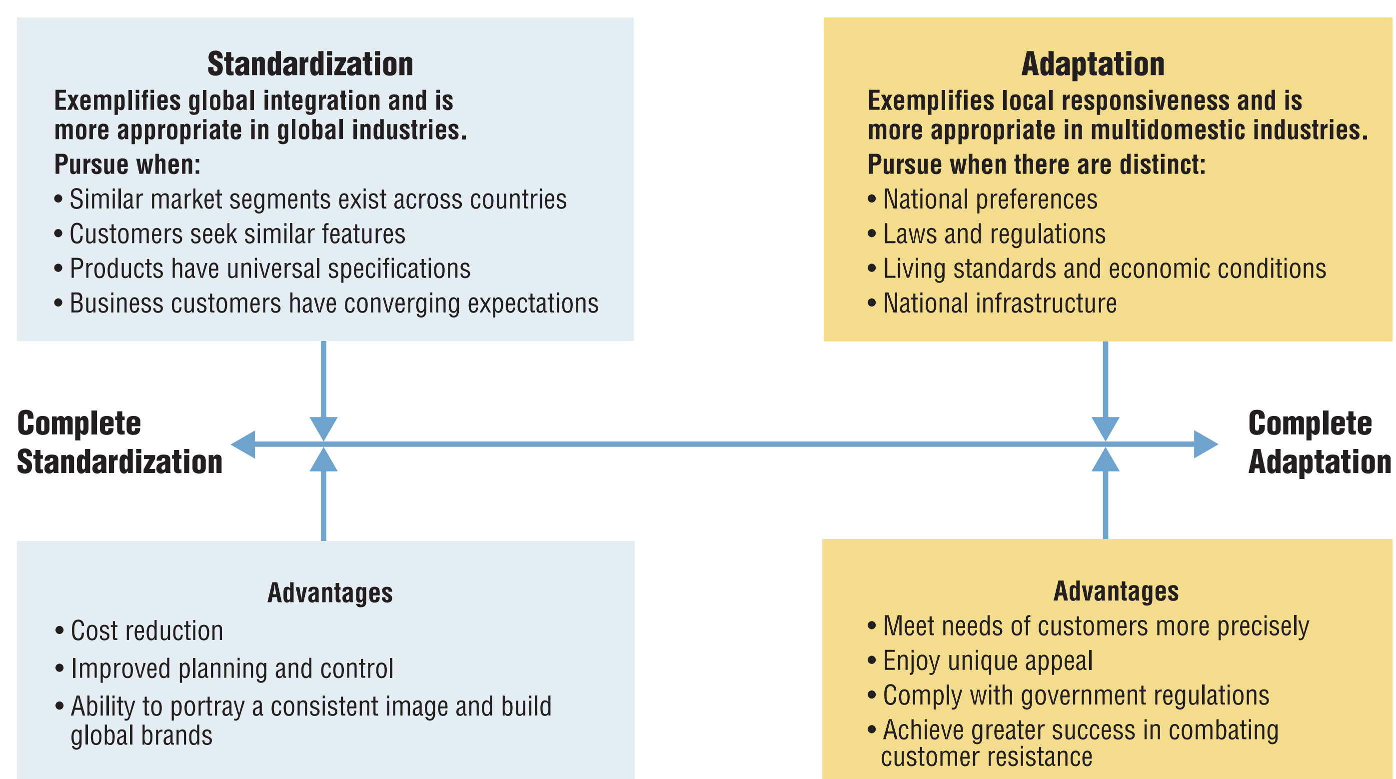

Exhibit 17.2 Tradeoffs between Adaptation and Standardization of International Marketing Program

Popular consumer electronics such as Apple's iPod can gain a worldwide following and require little adaptation from country to country.

- Similar market segments exist across countries.
- Customers seek similar features in the product or service.
- Products have universal specifications.
- Business customers have converging expectations such as quality and performance.

The viability of standardization varies across industries and product categories. For example, commodities, industrial equipment, and high-technology products lend themselves to a high degree of standardization. Popular consumer electronics (e.g., Sony's PlayStation, Apple's iPod, and Canon digital cameras) and several well-known fashion accessories (e.g., Rolex watches and Louis Vuitton handbags) are largely standardized around the world. Automotive parts, building materials, dinnerware, and basic food ingredients are other examples of products that require little or no adaptation.

When managers build on commonalities in customer preferences and attempt to standardize their international marketing program, they can expect at least three types of favorable outcomes.

- *Cost Reduction.* Standardization reduces costs by enabling economies of scale in design, sourcing, manufacturing and marketing. Offering a similar marketing program to the global marketplace or across entire regions is more efficient than having to adapt products for each of numerous individual markets. For example, the appliance manufacturer Electrolux once made hundreds of refrigerator models to accommodate the diverse tastes and regulatory requirements of each country in Europe. However, as product standards and tastes gradually harmonized across the European Union, Electrolux was able to reduce the number of its refrigerators to a few dozen models. The move allowed management to consolidate manufacturing facilities and streamline its marketing activities across the EU. The resulting consolidation saved Electrolux millions of euros. With fewer offerings, the company can better concentrate on incorporating advanced features and superior technology into its products.
- *Improved Planning and Control.* Standardization provides for improved planning and control of value-adding activities. In the case of Electrolux, for example, fewer offerings mean that management can simplify quality control and reduce the number of parts that it stocks for repairing defective products. Marketing activities are also simplified. Instead of designing a unique marketing campaign for each country in Europe, the firm is able to standardize its campaigns.
- *Ability to Portray a Consistent Image and Build Global Brands.* A *brand* is a name, sign, symbol, or design intended to identify the firm's product and differentiate it from those of competitors. A **global brand** is a brand whose positioning, advertising strategy, look, and personality are standardized worldwide. Standardization allows the firm to establish and project a globally recognized corporate or product brand that helps increase customer interest and reduces the confusion that arises from the proliferation of numerous adapted products and marketing programs.[5] Marketing is more effective and efficient because the firm can serve larger global market segments that transcend multiple countries.

Global brand A brand whose positioning, advertising strategy, look, and personality are standardized worldwide.

As an example, Gillette, the U.S. shaving products company recently acquired by Procter & Gamble, sells the same products using uniform marketing in all the countries where it does business, often engaging in a simultaneous global launch. The firm has successfully launched its line of shavers (such as Trak II, Sensor, and Fusion) across multiple countries. Results have been impressive. While achieving 70 percent market share in the world shaver market, Gillette's global approach allows management to minimize the cost of marketing and distribution.[6]

Adaptation

While standardizing where they can, firms will also engage in adaptation. Adaptation of an international marketing program exemplifies local responsiveness. It is a strategy used in *multidomestic industries*, which tailor their offerings to suit individual markets. Examples include publishing and software industries, where books, magazines, and software must be translated into the language of the target country. Adaptation may be as simple as translating labels and instructions into a foreign language, or as complex as completely modifying a product to fit the needs of unique market conditions. Local adaptation can provide the marketer with important advantages. Let's explore the major reasons why firms may adapt marketing program elements.

Differences in National Preferences. Adaptation makes the offering more acceptable to customers in individual markets. Differences in consumer behavior around the world are a major driver of local adaptation. For example, when targeting China, the dairy producer New Zealand Milk adds ginger and papaya flavoring to its milk products to suit the tastes of local customers. The Netherlands' Foremost Friesland Co. sells green tea-flavored fresh milk in Thailand. Japan's Meiji Co. is selling a pandan-flavored milk in Singapore.[7] When *The Simpsons* cartoon series was broadcast in Saudi Arabia, it was substantially adapted for language and local Islamic sensibilities. The show was renamed *Al Shamshoon,* Homer Simpson's name was changed to "Omar," and Bart Simpson became "Badr." The program aims to win coveted young viewers, who constitute a large proportion of the population in the Arab world. In addition to translating the show into Arabic, producers had to deal with the way the Simpson daughter and mother dress. Producers removed references to practices forbidden by the Qur'an or considered potentially offensive, such as consuming pork and beer. Producers changed Homer Simpson's Duff beer to soda, hot dogs to Egyptian beef sausages, and donuts to the popular Arab cookies called *kahk.* Moe's Bar was completely written out of the show. As one Arab viewer told ABC News "It's different. . . . we are a totally different culture, so you can't be talking about the same subject and in the same way."[8]

McDonald's has been able to standardize its hamburgers across most world markets, but not all. Because some people do not eat beef—for example, Hindus in India—the company substitutes lamb in its burgers in some markets, while adding to its menu additional items such as Kofte burgers (hamburger with special spices) in Turkey. In Japan, McDonald's offers shrimp burgers, as well as miso soup and rice. McDonald's outlets in Norway serve "McLaks"—a grilled salmon sandwich with dill sauce. In Berlin, consumers can savor a beer with their double cheeseburgers and fries. In some Arab countries, the "McArabia"—a flatbread, spicy chicken filet—has been a success.[9]

Differences in Laws and Regulations. The promotion of certain products is restricted in some countries. For example, laws in Europe, including Germany, Norway, and Switzerland, restrict advertising directed at children. Packaged foods in Europe are often labeled in several different languages, including English, French, German, and Spanish. In Quebec, Canada's French-speaking province, local law requires product packaging to be in both English and French. The use of some sales promotion activities—for example, coupons and sales contests—is restricted or just not customary in some markets.

Differences in Living Standards and Economic Conditions. Because income levels vary substantially around the world, firms typically adjust both the pricing and

the complexity of their product offerings for individual markets. For example, Microsoft has had to lower the price of its software for some markets (e.g., Thailand, Malaysia, and Indonesia) in order to bring it in line with local purchasing power.[10] Dell sells simplified versions of its computers in developing economies to accommodate lower local spending power. Inflation and economic recessions also influence pricing policy. A recession signals a drop in consumer confidence, and the firm may need to reduce prices in order to generate sales. High inflation can rapidly erode profits, even as prices rise. Exchange rate fluctuations also necessitate adjustments. When the importing country currency is weak, the buying power of its consumers is reduced. But when the importing country currency is strong, buyers can afford to pay higher prices for imported products.

Differences in National Infrastructure. The quality of transportation networks, marketing institutions, and overall business infrastructure particularly influences the alternatives and quality of marketing communications and distribution systems that firms employ abroad. Infrastructure is especially poor in the rural parts of developing economies, which necessitates innovative approaches for getting products to customers. For example, the density of roads and rail networks in western China is underdeveloped. Firms use small trucks to reach retailers in outlying communities. Deficiencies in media require substantial adaptations to promotional activities. In rural Vietnam, most consumers cannot access television, magazines, or the Internet. Radio, billboards, and brochures are favored for targeting low-income buyers.

What can managers expect when they accommodate these differences by customizing international marketing program elements? Primary advantages of adapting an international marketing program to the individual market include the following:

- Meeting needs of customers more precisely
- Creating unique appeal for the product
- Complying with such government regulations as health and technical standards
- Achieving greater success in combating customer resistance

In addition, adaptation provides managers with an opportunity to explore alternative ways of marketing the product or service. Such knowledge of market reactions to customized offerings can guide the firm in its R & D efforts, often leading to superior products for sale abroad and at home. In fact, products developed or modified for foreign markets sometimes prove so successful that they are launched as new products in the firm's home market. For example, Toyota originally designed the Lexus for the U.S. market. After perfecting the luxury car during 15 years in the United States, the firm launched Lexus in Japan in 2005.[11]

Standardization and Adaptation: A Balancing Act

A managerial decision about the degree of standardization and adaptation is not an either/or decision, but, rather, a balancing act. There are good arguments and outcomes in favor of both standardization and adaptation; it is up to the manager to sort out the trade-offs in light of the unique circumstances of the international business environment and the firm's chosen strategy.

Perhaps the most important distinction between standardization and adaptation is that standardization helps the firm reduce its costs, while adaptation helps the firm more precisely cater to local needs and requirements, thereby increasing its revenues. While there are many reasons for firms to engage in adaptation of their international marketing program, adaptation is costly. Adaptation may require substantial redesign of products, modifications to manufacturing operations, lower pricing, and overhauled distribution and communications strategies. The costs add up when these changes simultaneously multiply in numerous national markets. Therefore, whenever possible, managers usually err on the side of standardization

because it is easier and less costly than adaptation. Others adapt marketing program elements *only when necessary,* to respond to local customer preferences and mandated regulations. For instance, the Anglo-Dutch MNE Unilever streamlined the number of its brands from over 1,600 to about 400 and focused attention on a dozen or so global brands. However, the firm had to retain many local adaptations to suit individual markets. In nutrition-conscious countries, Unilever is adapting its food products by lowering the levels of sugar, salt, trans-fats, and saturated fats.

Often managers will engage in standardization and adaptation simultaneously, at varying degrees. They will make adjustments to some elements of the marketing program while keeping others intact. For example, IKEA will maintain product design uniformity across markets while making modifications to, say, the size of beds or drawers it sells in individual countries. Similarly, it will emphasize its catalog as the principal promotional tool but supplement it with TV advertising in a mass-media oriented market such as the United States.

It is also rarely feasible or practical to follow a "one offering-one world" strategy across *all* dimensions of the marketing program. For example, automotive companies tried for years to market a "world car" that meets customer preferences everywhere as well as complying with various government-imposed safety specifications. Ambitious experiments such as the Ford Mondeo failed to meet the approval of customers and regulatory bodies around the world. Flexibility and adaptability in design became necessary due to climate and geography (for example, engine specifications), government regulations (emissions standards), customer preferences (e.g., cupholders), and gas prices.

As a compromise, some firms will pursue standardization as part of a *regional* strategy, where international marketing program elements are formulated to exploit commonalities across a geographic region instead of across the world. For example, General Motors markets distinctive car models for China (e.g., Buick), Europe (Opel, Vauxhall), and North America (Cadillac, Saturn). Convergence of regional preferences, regional economic integration, harmonization of product standards, and growth of regional media and distribution channels all make regional marketing more feasible than pursuing global marketing approaches.[12]

Global Branding and Product Development

Global marketing strategy poses unique challenges and opportunities for managers, particularly in the marketing program elements of global branding and global product development. Let's review these specific topics.

Global Branding

A key outcome of global positioning strategy is the development of a global brand. Well-known global brands include Hollywood movies (for example, Star Wars), pop stars (Shakira), sports figures (David Beckham), personal care products (Gillette Sensor), toys (Barbie), credit cards (Visa), food (Cadbury), beverages (Heineken), furniture (IKEA), and consumer electronics (iPod).[13] Consumers prefer globally branded products because branding provides a sense of trust and confidence in the purchase decision.[14] A strong global brand enhances the efficiency and effectiveness of marketing programs, stimulates brand loyalty, facilitates the ability to charge premium prices, increases the firm's

Well-known celebrities such as Shakira are considered global brands because they command worldwide appeal and premium value.

Exhibit 17.3

Top Global Brands, by Region, 2007

SOURCE: *Business Week* (www.businessweek.com/brand) and *Interbrand* (www.interbrand.com)

Company	*Brand Value U.S.$ billions*	*Country of Origin*	*Main Product or Service*
Asian Brands			
Toyota	24.8	Japan	Cars
Honda	15.8	Japan	Cars
Samsung	15.0	South Korea	Consumer electronics
Sony	10.7	Japan	Consumer electronics
Canon	9.0	Japan	Copiers, cameras
European Brands			
Nokia	26.5	Finland	Cell phones
Mercedes-Benz	20.0	Germany	Cars
BMW	17.1	Germany	Cars
Louis Vuitton	16.1	France	Fashion accessories
Nescafé	12.2	Switzerland	Coffee
U.S. Brands			
Coca-Cola	67.5	United States	Soft drinks
Microsoft	59.9	United States	Software
IBM	53.4	United States	IT services and consulting
GE	47.0	United States	Appliances, jet engines
Intel	35.6	United States	Computer chips

leverage with intermediaries and retailers, and generally enhances the firm's competitive advantage in global markets.[15] The firm can reduce its marketing and advertising costs by concentrating on a single global brand instead of a number of national brands.

The strength of a global brand is best measured by its brand equity—the market value of a brand. Exhibit 17.3 provides brand equity figures for selected global brands, as calculated by Interbrand (www.interbrand.com), a European-based company. *Business Week* devotes a special issue each year to Interbrand's list of the top 100 global brands (www.businessweek.com/brand). To qualify for Interbrand's list, a brand must first generate worldwide sales exceeding $1 billion, at least a third of which should come from outside the home market. Then, Interbrand estimates the projected brand earnings and deducts a charge for the cost of owning the tangible assets from these earnings. Finally, Interbrand calculates the net present value of future brand earnings, ending with an estimate of brand value.

You may wish to look up the entire list of 100 global brands on the *Business Week* portal. What makes these brands so successful in capturing such a worldwide following? Here are the underlying features that make these brands special:

- Some are highly visible, conspicuous consumer products, such as consumer electronics and jeans.
- Some serve as status symbols worldwide, such as cars and jewelry.
- Many have widespread appeal because of innovative features that seem to fit everyone's lifestyle, such as mobile phones, credit cards. and cosmetics.
- Some are identified with the country of origin and command a certain degree of country appeal, such as Levi's (American style) and IKEA furniture (Scandinavian style).

Still, in other cases, global brands are reaping the benefits of first-mover advantages in offering new and novel products or services. For example, in 1971 the first

Starbucks opened in Seattle, Washington, and offered freshly-brewed coffee in a comfortable setting that encouraged people to sit and relax. Nokia, originally founded as a Finnish wood-processing plant in 1865, reengineered itself in the 1990s to become one of the world's leading telephone exchange and mobile phone companies. It has distanced itself from competitors by investing in new technologies and design. Samsung Electronics, part of a larger South Korean conglomerate, also propelled itself into consumer electronics with unique design and leading-edge technology. Interestingly, Sony—a long-time leader in consumer electronics—turned to Samsung in 2004 to help it gain a foothold in the flat-panel TV market.

Developing and maintaining a global brand name is the best way for firms to build global recognition and maximize the effectiveness of their international marketing program. For example, the Eveready Battery Co. consolidated its various national brand names—such as Ucar, Wonder, and Mazda—into one global brand name, Energizer. The move greatly increased the efficiency of Eveready's marketing efforts around the world. While most managers conceive brands for a national market and then internationalize them, the preferred approach is to build a global brand from the beginning. Several firms have succeeded in this approach, including Japan's Sony Corporation. "Sony" was derived from the Latin for "sound." Another Japanese firm, Datsun, switched to Nissan worldwide to create a unified global brand.[16]

Global branding also helps the MNE compete more effectively with local brands, which are often quite popular because they appeal to buyers' sense of local tradition, pride, and preference. For example, market leaders Coca-Cola and Pepsi face many local brands around the world. In Europe, popular local brands include Virgin Cola (Britain), Afri-Cola (Germany), Kofola (Czech Republic), and Cuba Cola (Sweden). Cola Turka was developed to help retain soft drink profits in its native Turkey and challenged the dominance of Coca-Cola and PepsiCo. In Peru, Inca Kola was long a successful local brand that established itself as "Peru's Drink." But Inca Kola's experience revealed how local brands can be vulnerable to the market power of strong global brands. In 1999, Coca-Cola purchased 50 percent of the Inca Kola Corporation. Inca Cola and Coke each have about 30 percent of the Peruvian market, giving Coke an edge since it owns half of the former local brand.

Global Product Development

In developing products with multicountry potential, managers emphasize the commonalities across countries rather than the differences between them.[17] A basic product will incorporate only core features into which the firm can inexpensively implement variations for individual markets. For example, while the basic computers that Dell sells worldwide are essentially identical, the letters on its keyboards and the languages used in its software are unique to countries or major regions. Everything else in the computers is largely identical. Firms design many products using *modular architecture,* a collection of *standardized* components and subsystems that can be rapidly assembled in various configurations to suit the needs of individual markets. Honda and Toyota design models like the Accord and Corolla, respectively, around a standardized platform to which modular components, parts, and features are added to suit specific needs and tastes.

General Motors has been relying on its *Global Product Development Council* in Detroit to improve efficiency. Concerned about duplication of effort across its divisions, GM top management took authority away from regional engineering operations and charged the council with overseeing $7 billion annual spending on new model development. The council promotes company-wide use of GM's best car platforms, wherever they are developed, worldwide. For example, it adapted the Holden Monaro from its Australian subsidiary for North American use as the GTO rather than creating a totally new model. As a result, development cost was a modest $50 million instead of the $500 million it would typically cost to create a new model.

A *global team* is a group within a firm that develops common solutions and global products. As we discussed in Chapter 11, global teams are assigned to formulate best practices that a firm would implement in all of its worldwide units. Global teams assemble employees with specialized knowledge and expertise from various geographically diverse units of the MNE, who collaborate in a project to develop workable solutions to common problems.

The *Global Trend* feature highlights the increasing use of global teams in the development of global products and designs. You may wish to do a quick on-line search for creative product designs that benefited from global teams. For example, the iRobot Roomba Discovery Floorvac, designed by iRobot Corporation, performs domestic chores by navigating its way through rooms without falling down stairs. The iXi Bike was designed in Britain, France, and the United States for France's iXi Bicycle Company. The bike fits easily into the trunk of a small car. Lenovo Smartphone ET960 was designed by a team from East Asia. The lightweight telephone is an MP3 and media player, a game console, and can receive television transmissions. PerfectDraft was developed for Belgium's Inbev Company.

A special feature of global development is the opportunity for a firm to engage in global product launch—simultaneous roll-out of a new product across multiple markets. Simultaneous launch of products that cater to a global clientele has also become increasingly common because it provides scale economies in R&D, product development, production, and marketing. IT products (for example, Apple computers), software (Microsoft), pharmaceuticals (Viagra), movies (*The Matrix*), and many consumer products (Gillette's razor series) are often introduced simultaneously across several countries or geographic regions.

International Pricing

Pricing is complex and generally subjective in domestic business. It is even more difficult in international business, with multiple currencies, trade barriers, additional cost considerations, and typically longer distribution channels. Managers readily acknowledge the critical role of prices in international markets' success.[18] After all, prices do have a measurable effect on sales and directly affect profitability. Prices often invite competitive reaction, which can drive down a price. Conversely, prices can escalate to unreasonable levels because of tariffs, taxes, and higher markups by foreign intermediaries. Price variations among different markets can lead to **gray market activity**—legal importation of genuine products into a country by intermediaries other than authorized distributors (also known as parallel imports). We discuss gray markets later in this chapter.

Gray market activity Legal importation of genuine products into a country by intermediaries other than authorized distributors (also known as parallel imports).

Pricing interacts with and affects all other marketing program elements. Prices influence customers' perception of value, determine the level of motivation to expect from foreign intermediaries, have an impact on promotional spending and strategy, and compensate for weaknesses in other elements of the marketing mix. Let's explore the unique aspects of international pricing.

Factors Affecting International Pricing

Factors that influence pricing for international customers fall into four categories. First is the *nature of the product or industry.* A specialized product, or one with a technological edge, gives a company greater price flexibility. When the firm holds a relative monopoly in a given product (such as Microsoft's operating system software), it can generally charge premium prices.

The second factor is the *location of the production facility.* Locating manufacturing in countries with low-cost labor enables a firm to charge cheaper prices. Locating factories in or near major markets cuts transportation costs and may eliminate problems created by foreign exchange fluctuations. During the 1980s, for example,

GLOBAL TREND

Designing Global Products with Global Teams

Until the 1990s, product development and design was a sequential process, usually based in a single country. Marketers and engineers agreed on a set of technical specifications and they developed a product and sent it to the factory for manufacturing. However, development in a single national environment meant that the product required much adaptation for selling abroad. Today, many more firms develop global products that are intended for world markets from the outset. Product designers work in virtual global teams, held together by information and communications technologies. Firms usually draw global team members from various functional areas in subsidiaries around the globe. The firm identifies members based on their comparative advantages rather than on their physical location.

Consider how Verifone develops its latest telecommunications products at its development centers in France, India, Singapore, Taiwan, and the United States. Management emphasizes a strong global culture of interpersonal communications and information sharing among the centers and team members. The firm uses international rotational assignments, ongoing training, videoconferencing, and crossnational social events to facilitate cross-fertilization of knowledge. As another example, the Boeing 777 was developed by design teams composed of experts from Europe, Japan, and the United States. The company separated the jet design plans into tail, fuselage, wings, and other modular sections. A global team developed and designed each section. Boeing management prefers the team approach because it leverages comparative advantages provided by designers and engineers in specific countries as well as the core competencies of the best subcontractors and experienced personnel, wherever they are located worldwide.

While the global team approach requires careful cross-national coordination, it results in offerings that are both cost effective and suitable for major markets worldwide. Design and development occur simultaneously, and many companies co-opt suppliers and customers. Such teams allow firms to optimize their global resources, run their design and development operations on a 24–hour clock, and launch new products in record time.

Modern communications technology enables global teams. Groupware and Web-enabled design and product development applications allow multinational teams to seamlessly manage product development and design. Teams use computer-aided design (CAD)—which facilitates three-dimensional design on compatible computer systems—to integrate contributions from their counterparts from around the world. Sophisticated software allows the team to pilot various product configurations at virtually no cost. Rapid prototyping means that a firm can test new designs on global customers and modify them based on market research.

How do companies organize the global design process? Best-in-class firms manage the global team effort centrally, typically from company headquarters. Success depends on obtaining and sharing the latest data on customer needs and circumstances and continuously measuring product development performance internally and with partners. International market research is critical. To continuously learn what customers are thinking, many firms use online communities and *blogs* (*weblogs*), a user-generated portal where entries are made and displayed in journal style. Blogs combine text, images, Internet links, and the ability for members to leave interactive comments.

Sources: Aberdeen Group. (2005). *The Global Product Design Benchmark Report: Managing Complexity as Product Design Goes Global,* December, Boston: Aberdeen Group; *BusinessWeek Online.* (2006). “Special Report: Innovation,” April 24. Retrieved from www.businessweek.com; *Business Week,* (2005). “The Best Product Designs of 2005,” July 4. Retrieved from www.businessweek.com; Galbraith, Jay. (2000). *Designing the Global Corporation.* San Francisco: Jossey-Bass; Keller, Robert. (2001). “Cross-Functional Project Groups in Research and New Product Development,” *Academy of Management Journal,* 44(3), pp. 547–555; Murray, Janet, and Mike C. H. Chao. (2005). “A Cross-Team Framework of International Knowledge Acquisition on New Product Development Capabilities and New Product Market Performance,” *Journal of International Marketing,* 13(3), pp. 54–73.

Toyota and Honda built car factories in the United States, their most important foreign market. But Mazda retained much of its manufacturing in Japan, exporting its cars to the United States. As the Japanese yen appreciated against the dollar, Mazda had to raise its prices, which hurt its U.S. sales.

The third factor that influences international pricing is the *type of distribution system.* Exporting firms rely on independent distributors based abroad, who occasionally modify export pricing to suit their own goals. Some distributors mark up prices substantially—up to 200 percent in some countries—which may harm the manufacturer's image and pricing strategy in the market. By contrast, when the firm internationalizes via FDI by establishing company-owned marketing subsidiaries abroad, management can maintain control over pricing strategy. Firms that make direct sales to end users also control their pricing and can make rapid adjustments to suit evolving market conditions.

The fourth factor is *foreign market considerations.* Such foreign market factors as climate and other natural conditions may require the firm to spend money to modify a product or its distribution. Food items shipped to hot climates require refrigeration, which drives up costs. In countries with many rural residents, or those with a poor distribution infrastructure, delivering products to widely dispersed customers necessitates higher pricing because of higher shipping costs. Foreign government intervention is also a critical factor. Governments impose tariffs that lead to higher prices. Many governments also impose limits on prices. For example, Canada imposes price limits on prescription drugs, which reduces the firm's pricing flexibility. Health rules, safety standards, and other regulations increase the cost of doing business locally, which necessitates higher prices.

Exhibit 17.4 provides a comprehensive list of the factors, both internal and external to the firm, that influence how firms set international prices. Ini-

Exhibit 17.4

Internal and External Factors That Affect International Pricing

Internal to the Firm

- Management's profit and market share expectations
- Cost of manufacturing, marketing, and other value-chain activities
- The degree of control management desires over price setting in foreign markets

External Factors

- Customer expectations, purchasing power, and sensitivity to price increases
- Nature of competitors' offerings, prices, and strategy
- International customer costs:
  - Product/package modification; labeling and marking requirements
  - Documentation (certificate of origin, invoices, banking fees)
  - Financing costs
  - Packing and container charges
  - Shipping (inspection, warehousing, freight forwarder's fee)
  - Insurance
- Landed cost
  - Tariffs (customs duty, import tax, customs clearance fee)
  - Warehousing charges at the port of import; local transportation
- Importer's cost
  - Value-added tax and other applicable taxes paid by the importer
  - Local intermediary (distributor, wholesaler, retailer) margins
  - Cost of financing inventory
- Anticipated fluctuations in currency exchange rates

tially, management must account for its own objectives. Most firms seek to maximize profits abroad. However, many companies focus on market share, often charging low prices in order to gain the largest number of customers. Earlier in this chapter we discussed other factors, such as control issues and the cost of production and marketing. Many countries in Europe and elsewhere charge value-added taxes (VATs) on imported products. Unlike a sales tax, which is calculated off of the retail sales price, the VAT is determined as a percentage of the gross margin—the difference between the sales price and the cost to the seller of the item sold. In the EU, for example, VAT rates range between 15 and 25 percent.

A Framework for Setting International Prices

Managers examine the suitability of prices at several levels in the international distribution channel—importers, wholesalers, retailers, and end users—and then set prices accordingly. Exhibit 17.5 presents a systematic approach for managers to use to set international prices at various levels.[19]

Let's illustrate the international pricing framework with an example. Suppose that a leading musical instrument manufacturer, Melody Corporation, wants to begin exporting electric guitars to Japan and needs to set prices. Initially, Melody will export its "John Mayer" line of guitars, which normally retail at around $2,000 in the United States. Initial research reveals that added costs of shipping, transportation insurance, and a 5 percent Japanese tariff will add a total of $300 to the price of each guitar, bringing the total landed price to $2,300. Melody has identified an importer in Japan, Aoki Music Wholesalers, which wants to add a 10 percent profit margin to the cost of each imported guitar. Thus, the total price once a

Exhibit 17.5

Key Steps in International Price Setting

Step 1. Estimate the "landed" price of the product in the foreign market by totaling all costs associated with shipping the product to the customer's location.

Step 2. Estimate the price the importer or distributor will charge when it adds its profit margin.

Step 3. Estimate the target price range for end users. Determine:
- Floor price (lowest acceptable price to the firm, based on cost considerations)
- Ceiling price (highest possible price, based on customer purchasing power price sensitivity and competitive considerations)

Step 4. Assess the company sales potential at the price the firm is most likely to charge (between the floor price and ceiling price).

Step 5. Select a suitable pricing strategy based on corporate goals and preferences from:
- Rigid cost-plus pricing
- Flexible cost-plus pricing
- Incremental pricing

Step 6. Check consistency with current prices across product lines, key customers, and foreign markets (in order to deter potential gray market activity).

Step 7. Implement pricing strategy and tactics, and set intermediary and end-user prices. Then, continuously monitor market performance and make pricing adjustments as necessary to accommodate evolving market conditions.

guitar leaves Aoki's Japan warehouse is $2,530, which is also the lowest acceptable price to Melody (the floor price), since management doesn't want Japanese earnings to dip below those in the United States.

Next, market research on per capita (per person) income levels and competitor prices reveals that Japanese musicians are willing to pay prices about 20 percent above typical U.S. prices for high-quality instruments. Given this information, Melody management believes that Japan can sustain a ceiling price for the Mayer guitar of 10 percent above the floor price—that is, $2,783. Next, management commissions a report from a Japanese market research firm that estimates Melody's sales potential at the floor price and at the ceiling price. Managers eventually decide on a suggested price of $2,560, representing a desire to get established quickly in the Japanese market. This price is also consistent with other factors in the target market, such as Japanese purchasing power, market growth, Japan's large musician population, competitors' prices, and Japanese attitudes on the relationship of price to product quality. Management also feels the price is reasonable given the Melody's pricing in other markets, such as Hawaii and Australia. Accordingly, the firm implements the price level for end users and the corresponding price for its importer, Aoki. Melody begins shipping guitars to Japan and monitors the marketplace, paying close attention to actual demand and the need to make any pricing adjustments in coming months.

Let's review the three pricing strategies in Step 5 of Exhibit 17.5. *Rigid cost-plus pricing* refers to setting a fixed price for all export markets. It is an approach favored by less experienced exporters. In most cases, management simply adds a flat percentage to the domestic price to compensate for the added costs of doing business abroad. The export customer's final price includes a mark-up to cover transporting and marketing the product, as well as profit margins for both intermediaries and the manufacturer. This method often fails to account for local market conditions, such as buyer demand, income level, and competition.

In *flexible cost-plus pricing,* management includes any added costs of doing business abroad in its final price. At the same time, management adjusts prices as needed to accommodate local market and competitive conditions, such as customer purchasing power, demand, competitor prices, and other external variables, as identified in Exhibit 17.4. This approach is more sophisticated than rigid cost-plus pricing because it accounts for specific circumstances in the target market. In the opening vignette, Zara uses this approach, adapting prices to suit conditions in each of the countries where it does business.

In highly competitive markets, the firm may set prices to cover only its variable costs, not its fixed costs. This is known as *incremental pricing.* Here, management assumes that fixed costs are already paid from sales of the product in the firm's home country or other markets. The approach enables the firm to offer very competitive prices, but must be pursued carefully because it may result in suboptimal profits.

When carried to an extreme, incremental pricing may invite competitors to accuse a firm of dumping. As discussed in Chapter 7, *dumping* is the practice of charging a lower price for exported products, sometimes below manufacturing cost—potentially driving local suppliers out of business. The seller may compensate for the low price by charging higher prices in other markets. Many national governments regard dumping as a form of unfair competition and, consequently, may impose antidumping duties or initiate legal action with the World Trade Organization.

International price escalation The problem of end-user prices reaching exorbitant levels in the export market caused by multilayered distribution channels, intermediary margins, tariffs, and other international customer costs.

Managing International Price Escalation

International price escalation refers to the problem of end-user prices reaching exorbitant levels in the export market caused by multilayered distribution channels, intermediary margins, tariffs, and other international customer costs (identified in Exhibit 17.4). International price escalation may mean that the retail price

in the export market may be two or three times the domestic price, creating a competitive disadvantage for the exporter. Managers can use five key strategies to combat export price escalation abroad.[20]

First, the exporter can attempt to *shorten the distribution channel.* The exporter can set up a more direct route to reach the final customer by bypassing some intermediaries in the channel. With a shorter channel, there are fewer intermediaries to compensate, which reduces the product's final price. Second, the *product can be redesigned* to remove costly features. For example, Whirlpool developed a no-frills, simplified washing machine that it can produce inexpensively and which it sells for a lower price in developing economies. Third, the firm can *ship its products unassembled,* as parts and components, qualifying for lower import tariffs. The firm will then perform final assembly in the foreign market, often by low-cost labor. Some firms have their product assembled in Foreign Trade Zones, where import costs are lower and government incentives may be available.[21] Fourth, some firms explore whether the product can be *re-classified using a different tariff classification* to qualify for lower tariffs. Suppose that Motorola faces a high tariff when exporting "telecommunications equipment" to Bolivia. By having the product reclassified as "computer equipment," Motorola might be able to export the product under a lower tariff. The practice is possible because imported products often fit more than one product category for determining tariffs. Finally, the firm may decide to *move production or sourcing to another country* to take advantage of lower production costs or favorable currency rates.

Managing Pricing under Varying Currency Conditions

The strength of the home-country currency vis-à-vis its trading partners affects the firm's pricing abroad. For example, when the U.S. dollar is strong, it costs Europeans more to purchase U.S. products. Conversely, when the U.S. dollar is weak, it costs Europeans relatively less to purchase U.S. products. In export markets, a strong domestic currency can deter competitiveness, while a weakening domestic currency makes the firm's pricing more competitive. Examine Exhibit 17.6 for strategies firms can use to react to either weakening or appreciating domestic currencies.[22]

Transfer Pricing

Also known as intracorporate pricing, **transfer pricing** refers to the practice of pricing intermediate or finished products exchanged among the subsidiaries and affiliates of the same corporate family located in different countries.[23] For example, when Ford's factory in South Africa sells parts and components to the Ford manufacturing plant in Spain, it charges a transfer price for this intracorporate transaction. These prices, for products transferred within the Ford corporate family, generally differ from the market prices that Ford charges its external customers.

Transfer pricing The practice of pricing intermediate or finished products exchanged among the subsidiaries and affiliates of the same corporate family located in different countries.

MNEs like Ford attempt to manage internal prices primarily for two reasons. First, companies use transfer pricing to repatriate—that is, to bring back to the home country the profits from countries that restrict MNEs from taking their earnings out of the country. Occasionally, a foreign government may block the transfer of funds out of the country, often due to a shortage of its own currency. When this happens, the MNE might opt to charge high prices to its foreign affiliate as an alternative means of transferring money out of the affiliate's country. In this way, the affiliate transfers substantial funds to the parent, by paying high prices for goods imported from the parent. The strategy works because controls imposed on money transferred in this way are not normally as strict as controls imposed on straight repatriation of profits. Second, transfer pricing can serve as a vehicle for MNEs to shift profits out of a high corporate income-tax country into a low corporate

Exhibit 17.6

Strategies for Dealing with Varying Currency Conditions

When the exporter gains a price advantage because its home-country currency is WEAKENING relative to the customer's currency, then it should:	*When the exporter suffers from a price disadvantage because its home-country currency is APPRECIATING relative to the customer's currency, then it should:*
Stress the benefits of the firm's low prices to foreign customers.	Accentuate competitive strengths in nonprice elements of its marketing program, such as product quality, delivery, and after-sales service.
Maintain normal price levels, expand the product line, or add more costly features.	Consider lowering prices by improving productivity, reducing production costs, or redesigning the product to eliminate costly features.
Exploit greater export opportunities in markets where this favorable exchange rate exists.	Concentrate exporting to those countries whose currencies have not weakened in relation to the exporter.
Speed repatriation of foreign-earned income and collections.	Maintain foreign-earned income in the customer's currency and delay collection of foreign accounts receivable (if there is an expectation that the customer's currency will regain strength over a reasonable time period).
Minimize expenditures in the customer's currency (for example, for advertising and local transportation).	Maximize expenditures in the customer's currency.

income-tax one and thereby increase company-wide profitability. When this occurs, the MNE may opt to maximize the expenses (and therefore minimize the profits) of the foreign-country affiliate by charging high prices for goods sold to the affiliate. MNEs typically centralize transfer pricing under the direction of the chief financial officer at corporate headquarters.

Consider Exhibit 17.7 for a simple illustration of transfer pricing. A subsidiary may buy or sell a finished or intermediate product from another affiliate at below cost, at cost, or above cost. Suppose that the MNE treats Subsidiary A as a favored unit. That is, Subsidiary A is allowed to *source at or below cost* and *sell at a relatively high price* when transacting with other subsidiaries. When consistently applied over a period of time, Subsidiary A will produce relatively more favorable financial results, at the expense of Subsidiaries B, C, and D. Why would the MNE headquarters allow this? In this scenario, the favored Subsidiary A is likely to be in a country that has:

- Lower corporate income-tax rates
- High tariffs for the product in question
- Favorable accounting rules for calculating corporate income
- Political stability
- Little or no restrictions on profit repatriation
- Strategic importance to the MNE

While the subsidiary's financial performance has been boosted in an artificial way, the earnings of the MNE as a whole are optimized. Nevertheless, this benefit

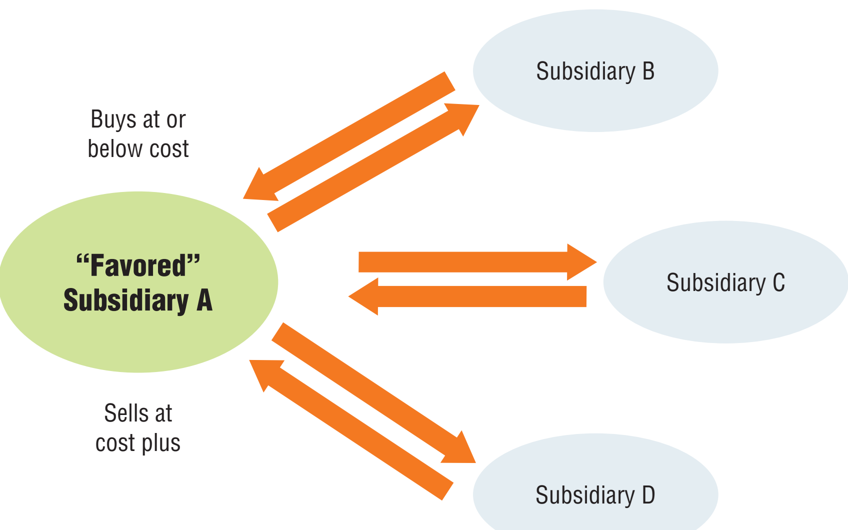

Exhibit 17.7 How Transfer Pricing Can Help Maximize Corporate-Wide Reported Earnings

often comes at a cost. First, there is the complication of internal control measures. Manipulating transfer prices makes it very difficult to determine the true profit contribution of a subsidiary. Second, morale problems typically surface at a subsidiary whose profit performance has been made to look worse than it really is. Third, some subsidiary managers may react negatively to price manipulation. Fourth, there is the concern about local accounting regulations. Subsidiaries, as local businesses, must abide by the rules. Legal problems will arise if the subsidiary follows accounting standards that are not approved by the host government. Indeed, many governments closely scrutinize transfer pricing practices of multinational companies to ensure that foreign companies pay their fair share of taxes by reporting accurate earnings.

Gray Market Activity (Parallel Imports)

What do companies such as Caterpillar, Duracell, Gucci, Mercedes-Benz, and Sony have in common? They are MNEs with established brand names that have been the target of gray market activity. Exhibit 17.8 illustrates the nature of flows

Exhibit 17.8 Illustration of Gray Market Activity

and relationships in a gray market activity—the legal importation of genuine products into a country by intermediaries other than authorized distributors.[24] Consider a manufacturer that produces in the source country and exports its products to another, illustrated by the green arrow between countries A and B in Exhibit 17.8. If the going price of the product happens to be sufficiently lower in Country B, then gray market brokers can exploit arbitrage opportunities—buy the product at a low price in Country B, import it into the original source country, and then sell it at a high price there, illustrated by the orange arrow.

In this scenario, the first transaction, illustrated by the green arrow, is carried out by authorized channel intermediaries. The second transaction, illustrated by the red arrow, is carried out by unauthorized intermediaries. Often referred to as *gray marketers,* the unauthorized intermediaries are typically independent entrepreneurs. Because their transactions parallel those of authorized distributors, gray market activity is also called *parallel importation.*

A recent example of gray marketing activity can be drawn from the pharmaceutical trade between the United States and Canada where, in the latter, prescription drugs are available at a lower cost. Some consumers in the United States purchase their prescription drugs from online pharmacies in Canada, at a considerable saving. The gray market opportunity arises because the Canadian provinces negotiate with pharmaceutical companies in establishing a wholesale price—often lower than the prevailing price in the United States. Though the U.S. Federal Drug Administration discourages importation of drugs from other countries since their authenticity or efficacy cannot be verified, consumers continue to fill their prescriptions through Internet pharmacies in Canada. Gray market activity is especially common among premium brands of automobiles, cameras, watches, computers, perfumes, and even construction equipment. It also occurs in international buying and selling of commodities, such as light bulbs and car parts.

You can see that the root cause of gray market activity is a sufficiently large difference in price of the same product between two countries. Such a price difference may be due to either: (1) the manufacturer's inability to coordinate prices across its markets, or (2) a conscious effort on the part of the firm to charge higher prices in some countries when competitive conditions permit. Exchange rate fluctuations may also exacerbate gray market activity by widening the price gap between products priced in two different currencies.

Manufacturers of branded products have good reason to be concerned. Substantial gray market activity complicates at least three aspects of their business. First, there is the risk of a tarnished brand image when customers realize that the product is available at a lower price through alternative channels—particularly less-prestigious outlets. Second, manufacturer-distributor relations can be strained because parallel imports result in lost sales to authorized distributors. Third, gray market activity can disrupt regional sales forecasting, pricing strategies, merchandising plans, and other marketing efforts.

In the United States, the legality of parallel imports had not been initially clarified (hence the term *gray* markets) until the U.S. Supreme Court ruled in 1988 that trademark owners cannot prevent parallel importation. By ruling in favor of the gray market brokers, the Supreme Court acted to serve the best interests of the consumer, who has access to *genuine* (not counterfeit) products at substantially lower prices. Since lobbying by the COPIAT (The Coalition to Preserve the Integrity of American Trademarks) has not produced adequate legislation to stop gray market imports, companies are now compelled to develop their own solutions to combat such activity.

Companies can pursue at least four strategies to cope with gray market imports.[25] First, they can counter through aggressive *price-cutting* in countries and regions targeted by gray market brokers. Second, they can interfere with

the flow of products into markets where gray market brokers procure the product. For example, the U.S. firm Pfizer could substantially reduce the shipment of its cholesterol drug Lipitor to Canada to levels that would be just sufficient for local use by Canadian patients. Third, companies can publicize the limitations of gray market channels. Trademark owners such as pharmaceutical companies could flood the media with messages that tactfully build doubt about gray market products. Consumers who fill their prescriptions via online Canadian pharmacies have been warned that the products they receive through these channels may be counterfeits. Indeed, this is a legitimate concern, since counterfeit drugs do make their way into pharmacies in Canada and the United States.[26] Finally, firms can design products with exclusive features that strongly appeal to customers. Adding safety, luxury, or functional features that are unique to each market reduces the likelihood that products will be channeled elsewhere.

International Marketing Communications

Companies use *marketing communications* (also known as *promotion*) to provide information to and communicate with existing and potential customers, with the ultimate aim of stimulating demand. International marketing communications emphasize advertising and promotional activities. The nature of these activities can vary substantially around the world. Let's examine them in more detail.

International Advertising

Firms conduct advertising via *media,* which includes direct mail, radio, television, cinema, billboards, transit, print media, and the Internet. *Transit* refers to ads placed in buses, trains, and subways, and is particularly useful in large cities. *Print media* refer to newspapers, magazines, and trade journals. We can assess media availability by examining the amount of advertising spending by region. In 2006, advertising expenditures on major media (newspapers, magazines, television, radio, cinema, billboards, and Internet) amounted to approximately U.S. $100 billion in each of Western Europe and Asia-Pacific. In the United States, advertising expenditures totaled almost U.S. $200 billion.

The availability and quality of media closely determine the feasibility and nature of marketing communications. Exhibit 17.9 provides statistics on media

Exhibit 17.9

Media Characteristics in Selected Countries

SOURCES: CIA World Factbook at www.cia.gov; World Bank at www.worldbank.org

	Literacy Rate (percentage of population)	*Percentage of Households with Television*	*Radio Stations per one Million People*	*Newspapers per one Million People*
Argentina	97	97	6.5	2.7
Australia	99	96	30.0	2.4
China	91	91	0.5	0.7
India	60	37	0.2	4.8
Japan	99	99	9.2	0.9
Mexico	92	92	13.0	2.9
Netherlands	99	99	15.2	2.1
Nigeria	68	26	0.9	0.2
South Africa	86	54	13.7	0.4
United States	99	99	46.7	5.0

Note: Data are for the most recent year available.

Many firms use a standardized approach to international advertising. Benetton's standardized 'United Colors of Benetton' ad has enjoyed much success worldwide.

for various countries. The literacy rate indicates the number of people who can read—a critical ability for understanding most ads. Other data reveal the diversity of communication media in selected countries. Media are widely available in advanced economies. In developing economies, however, TV, radio, the Internet, and newspapers may be limited. The firm must use creative approaches to advertise in countries with low literacy rates and limited media infrastructure. Certain media selections make sense for some countries but not for others. For example, Mexico and Peru emphasize television advertising, Kuwait and Norway concentrate on print media, and Bolivia uses a lot of outdoor advertising on billboards and buildings.

At the firm level, international advertising expenditures vary depending on the size and extent of the firm's foreign operations. For instance, smaller firms often lack the resources to advertise on TV or develop a foreign sales force. Differences in culture, laws, and media availability mean that it is seldom possible to duplicate in foreign markets the type and mix of advertising used in the home market. For example, the Italian government limits television advertising on state channels to 12 percent of airtime per hour and 4 percent per week. Mexico and Peru require that firms produce commercials for the local audience in their respective countries and use local actors.

Advertising conveys a message encoded in language, symbols, colors, and other attributes, each of which may have distinctive meanings. Buyer receptiveness differs as a function of culture and language. Culture determines buyer attitudes toward the role and function of advertising, humor content, the depiction of characters (such as the role of men and women), and decency standards. In China, Nike Inc. ran an ad produced for the U.S. audience in which NBA basketball star LeBron James battles—and defeats—a computer-generated Chinese Kung Fu master. Chinese consumers were offended and China's national government banned the ad.[27]

Many MNEs succeed in applying a relatively standardized approach to international advertising. Benetton, the Italian clothing manufacturer, has run essentially the same and highly successful, "United Colors of Benetton" ad campaign, which features interracial harmony, in markets worldwide. Levi Strauss' advertising approach is similar around the world, stressing the all-American image of its jeans. One TV ad in Indonesia showed teenagers cruising around a small U.S. town in 1960s convertibles. In Japan, Levi's frequently used James Dean, the 1950s U.S. film star, as the centerpiece of its advertising. The dialogue in Levi's ads is often in English, worldwide.[28] The most effective ad campaigns are based on a full understanding of the target audience's buying motivations, values, behavior, purchasing power, and demographic characteristics.

Most MNEs employ advertising agencies to create promotional content and select media for foreign markets. The choice is usually between a home-country-based agency with international expertise, a local agency based in the target market, and a *global ad agency* that also has offices in the target market. Exhibit 17.10 identifies the leading global advertising agencies. Such agencies maintain networks of affiliates and local offices around the world. Consequently, they can create advertising that is both global and sensitive to local conditions while offering a range of additional services such as market research, publicity, and package design.

Rank	*Agency*	*Headquarters*	*Parent Company*
1	McCann Erickson Worldwide	U.S.	Interpublic Group, U.S.
2	Ogilvy & Mather	U.S.	WPP Group, U.K.
3	Grey Worldwide	U.S.	WPP Group, U.K.
4	Euro RSCG Worldwide	U.S.	Havas, France
5	Saatchi & Saatchi	U.S.	Publicis Groupe, France
6	BBDO Worldwide	U.S.	Omnicom Group, U.S.
7	Publicis	France	Publicis Groupe, France
8	JWT	U.S.	WPP Group, U.K.
9	Y&R Advertising	U.S.	WPP Group, U.K.
10	Lowe Worldwide	U.K.	Interpublic Group, U.S.

Exhibit 17.10 The Largest Global Ad Agencies, 2005

SOURCE: Adapted from Endicott, R. Craig. (2005). "Ad Age Global Marketing Report 2005," *Advertising Age*, Nov. 14.

International Promotional Activities

Promotional activities are short-term marketing activities intended to stimulate an initial purchase of the product, immediate purchase, or increased purchases, as well as to improve intermediary effectiveness and cooperation. They include tools such as coupons, point-of-purchase displays, demonstrations, samples, contests, gifts, and Internet interfacing. Some promotional activities (for example, couponing) are illegal or restricted abroad. For instance, Greece, Portugal, and Spain permit virtually every type of promotion, but Germany, Norway, and Switzerland forbid or restrict some. Other promotional activities, such as giveaways, may be considered unethical. Depending on the country, some consumers may be turned off by particular activities. In much of the world, promotional activities are relatively uncommon and may be misunderstood. For example, receiving a free gift is difficult to interpret in some societies. Promotional activities usually require a high level of intermediary or retailer sophistication in order to succeed.

Global Account Management

With more transparent markets, global customers demand uniform and consistent prices, quality, and customer service. **Global account management (GAM)** refers to servicing a key global customer in a consistent and standardized manner, regardless of where in the world it operates. For example, Wal-Mart is a key global account for Procter & Gamble as it purchases a substantial amount of products from P&G. Wal-Mart expects consistent service, including uniform prices for the same product from P&G regardless of where in the world they are delivered. Key accounts such as Migros, Zellers, and Wal-Mart typically purchase from a collection of preferred suppliers who meet their specifications. Suppliers target these key customers by shifting resources from national, regional, and function-based operations to GAM, whose programs feature dedicated cross-functional teams, specialized coordination activities for specific accounts, and formalized structures and processes. Private IT-based portals facilitate the implementation of such systems. Each global customer is assigned a global account manager, or team, who provides the customer with coordinated marketing support and service across various countries.[29]

Global account management (GAM) Servicing a key global customer in a consistent and standardized manner, regardless of where in the world it operates.

International Distribution

Distribution refers to the processes of getting the product or service from its place of origin to the customer. Distribution is the most inflexible of the marketing program elements—once a firm establishes a distribution channel, it may be difficult to change it. As we discussed in chapters 3 and 13, the most common approaches to international distribution include engaging independent intermediaries (for exporting firms), or establishing marketing and sales subsidiaries directly in target markets (an FDI-based approach).

For exporters, intermediaries typically include foreign distributors, agents, trading companies, and export management companies. Many exporters prefer a full stocking distributor because it possesses product knowledge, expert personnel, physical facilities (such as warehousing), and financial resources. When the firm enters a market with direct investment, it will establish a subsidiary. This implies investing directly in the market to lease, acquire, or set up a sales office, production facilities, warehouse, or an entire distribution channel. Entering a new market as a foreign direct investor provides various advantages. First, it helps ensure control over marketing and distribution activities in the target market. Second, it facilitates monitoring the performance of employees and other actors in the local market. Third, it allows the firm to get close to the market, which is especially helpful when the market is complex or rapidly changing.

Some firms bypass traditional distribution systems altogether by using *direct marketing*—selling directly to end users. To supplement direct marketing efforts, many firms use the Internet to provide detailed product information and the means for foreigners to buy offerings. Some firms, such as Amazon.com, are entirely Internet-based, with no retail stores. Others, such as Carrefour, Coles, and Tesco, combine direct marketing with traditional retailing.

The international distribution channel differs for the exporter and the foreign subsidiary. The exporter ships goods to its intermediary, who moves the product through customs and the foreign distribution channel to retail outlets or end users. By contrast, the foreign subsidiary may function as its own distributor, working directly with customers and retailers to move offerings through the channel into the local marketplace. *Channel length* refers to the number of distributors or other intermediaries that it takes to get the product from the manufacturer to the market. The longer the channel, the more intermediaries the firm must compensate, and the costlier the channel. For example, Japan is characterized by long distribution channels involving numerous intermediaries. High channel costs contribute to international price escalation, creating a competitive disadvantage for the firm.

Ethical Dimensions of International Marketing

Because of market globalization, firms' marketing activities strongly influence the buying decisions of consumers worldwide. MNEs now recognize that their customers and other stakeholders expect them to act in a socially responsible manner and display corporate citizenship in their international operations. Many MNEs are proactively developing policies aimed at meeting higher expectations of the public. An important dimension of corporate citizenship is the way firms develop and align their products and services to create greater value for society. In marketing, ensuring that suppliers earn a sustainable income, providing needed products to poor consumers, and disposing of used products responsibly are examples of issues that are high on the corporate social responsibility (CSR) agenda.

For example, in its 7,400 outlets throughout Europe, McDonald's in 2007 began selling coffee sourced only from growers certified by the Rainforest Alliance. The nonprofit organization aims to ensure a sustainable income to the world's poorest coffee growers, mostly in Africa.[30] In a similar move, Nestlé in 2005 joined the Fair Trade movement and began offering a brand of coffee that is sourced from farmers who receive a guaranteed price above world market levels.

Meanwhile, some firms are developing products to serve the needs of the world's poor, such as a bicycle rigged to carry heavy loads, and simple pumps for irrigating crops during the dry season. Such products help people who cannot afford labor-saving and technological products ordinarily targeted to customers in advanced economies. For example, Quanta Computers Inc. makes a laptop computer that is inexpensive enough—around U.S. $100—to help ensure that children in poor countries have access to the information technologies that drive the world economy. The computer is aimed at the nearly 2 billion children in developing economies who receive little or no education.[31]

Motorola has developed various initiatives to promote greater access to mobile communications in developing economies where fixed-line telecommunications are often inadequate or nonexistent, and hinder productivity and economic development. Telephone service is a critical vehicle that promotes increased entrepreneurship and improved GDP. Many countries leapfrogged into fixed-line infrastructure and developed mobile phone networks to support national telecommunication needs. Between 2006 and 2010, it is estimated that the number of mobile customers in developing economies will double, surpassing two billion users. To support this growth, Motorola delivered more than 16 million low-cost (under $30) mobile phones to more than 50 developing countries. In 2006, the firm helped develop a mobile phone-based system for disease management in Africa, where field health workers file patient reports and check drug supplies by mobile phone. Cellular connectivity helps professionals in poor areas deal more effectively with disease outbreaks, medicine shortages, and health maintenance.[32]

A critical environmental issue in marketing is the proper disposal of used products. In the United States, for example, consumers own more than three billion electronic products, ranging from cellular telephones to computers and television sets. Rapid technological changes mean that the life expectancy of these goods is growing shorter. They are usually discarded not because they are broken, but because better versions become available. Products that could be recycled instead end up in landfills, harming the natural environment. In Europe, national governments have passed legislation to deal with the problem. The Waste Electrical and Electronic Equipment (WEEE) directive of the European Union makes companies responsible for collecting and recycling unwanted electronic goods. Similar legislation has been passed in some U.S. states. European law also restricts the types of materials (e.g., harmful substances such as lead and mercury) that can be used to manufacture electronic products. Meanwhile, Cisco and other firms have created incentive programs that encourage consumers to return their old equipment, often for credit toward the purchase of new products. Cisco's program is designed as a financial incentive to prevent old equipment from piling up in landfills.[33]

CLOSING CASE

MTV India: Balancing Global and Local Marketing

MTV Networks (www.mtv.com), a division of Viacom, has a big audience among young people in Asia, Australia, Canada, Europe, and Latin America. In total, MTV is broadcast in more than 170 countries in 32 languages. Only 20 percent of all MTV viewers live in the United States, the company's home market. There are 136 distinct MTV channels and 230 Web sites, and they are more widely viewed than any other global network, including CNN. Originally created as a basic cable channel dedicated to music, MTV now encompasses an array of media services and even licensed consumer products.

MTV first went international in 1987 when it launched MTV Europe. With the U.S. market near saturation, management decided to target the huge and growing youth market abroad. Indeed, about one in four people around the world is between 15 and 34 years old. Despite being a global media giant, MTV maintains its international strategy of "Think globally and locally, act appropriately." Management requires that about 70 percent of its programming be developed or adapted for each of the youth segments that it targets abroad. But while most MTV channels have flourished, especially in Brazil and the United Kingdom, others have struggled to find a niche, especially in Asia, and more specifically, in India.

With 470 million people between the ages of 10 and 34, India seems like a huge potential market. India's middle class is rapidly expanding, and the number of households with TV sets has skyrocketed in recent years to 100 million, half of which receive cable. Economic liberalization has made it easier for foreign businesses to enter India. Nevertheless, the Indian market poses various challenges. There are roughly 100 distinctive cable channels vying for advertising dollars. Competition for cable subscribers is intense, and profit margins are often razor thin. There is also corruption and theft, including cable cutting, piracy, and theft of subscriber fees. Indian families typically watch TV as an entire household, which makes it difficult for advertisers to isolate target audiences.

MTV first entered India through a low-risk licensing agreement with Hong Kong's Star TV. Initially MTV was responsible only for programming, while Star TV focused on negotiating deals with local cable companies and advertisers. Because individual markets remained small and undeveloped, MTV management developed a regional marketing strategy by delivering a pan-Asian music channel.

Later, Star TV was sold to the News Corporation, the media giant owned by Rupert Murdoch. News Corporation had its own music channel, known simply as [V], so Star TV ended its partnership with MTV and even hired key staffers away from MTV to develop a new music channel specifically for India. As MTV continued to follow a regional marketing approach, targeting all of Asia and employing English-speaking hosts, management at [V] pursued a different approach. It decided to adapt its music channel to accommodate the preferences of customers in individual Asian markets. This approach paid off, as [V] managed to capture much of MTV's market share. Over time, as [V] flourished, MTV struggled to gain share using its more standardized programming.

MTV also committed some blunders that hurt its prospects in Asia. MTV's Indian staff initially insisted that widely popular Bollywood music (Bollywood is the Indian equivalent of the Hollywood movie industry) wasn't "cool" enough for the teen market. However, the Indian audience disagreed, and MTV's ratings suffered. Gradually, several other music channels emerged, hosted in a variety of local dialects in the population.

Finally, in the late-1990s MTV management opted for a more localized approach and began adapting its programming. It launched MTV India, based in Mumbai, and broadcast across Bangladesh, Nepal, Pakistan, Sri Lanka, and the Middle East as well. MTV India utilized new technologies, such as digital compression, to achieve its goals of increased local programming. When MTV began including more Bollywood music in its programming, ratings soared by 700 percent. Hosts began to speak a mix of both English and Hindi, dubbed "Hinglish." MTV also targeted Indian youth with cricket matches and fashion shows. As the sophistication of its strategy improved, MTV grabbed more market share and eventually surpassed its main rival, [V]. On a worldwide basis, however, MTV's Indian profitability was still low compared to the firm's other international subsidiaries, mainly due to poor advertising revenue.

MTV needed to be creative to become profitable. Initially, it established relationships with advertisers. Instead of merely selling time slots to advertisers, MTV developed programming that incorporates a particular product or brand. For example, the firm worked with Honda to develop "Roadies," a series that documents the experiences of seven young people traveling across India on Honda motorbikes. MTV also created the "World's Longest Dance Party," sponsored by Axe deodorant, and a fashion awards show, sponsored by Lycra.

Ultimately, MTV management discovered that it could not simply export U.S. programming to India. Shows that were extremely popular in the United States, such as "The Osbournes," floundered in India. MTV catered increasingly to the Indian audience, developing costly programming tailored to specific cultural traits and other characteristics.

Localization of TV programming seems to have worked well for MTV. Nevertheless, MTV managers are concerned that the firm may not be reaping the benefits of a global marketing strategy. Programming is broadcast worldwide, but many channels are highly localized, reducing potential gains from economies of scale. Thus, the latest strategic initiative is to develop uniform programming that sells in multiple countries. Therefore, MTV has greatly increased funding of international programming and has developed a jointly based team out of London and New York to develop ideas.

In addition, suspecting that it is missing out on opportunities to cater to the youth market with alternative products and services such as video games, MTV also wishes to explore the feasibility of becoming a one-stop shop for companies hoping to reach global youth markets. For instance, in an advertising relationship with Motorola, MTV aired commercials in Europe, Latin America, and Asia. To supplement revenues, MTV is also considering launching a line of consumer products—fragrances, CDs, and clothing—designed for the youth market.

MTV continues to seek international growth from emerging markets such as China and Mexico, where strong per capita income gains are expected. Management believes that international operations are capable of earning 40 percent of total revenue in the near term. Yet, the goal of sustaining a profitable organization by striking an ideal balance between local adaptation and global standardization has been very elusive.

AACSB: Reflective Thinking

Case Questions

1. What strategies and tactics in marketing program elements are most important in MTV's international operations?
2. What is MTV's main international market segment? What are the characteristics of this segment? How did management position MTV for this segment in India?
3. Describe the evolution of MTV's international marketing strategy in India. What approach did it apply in the early years compared to the later years? Has MTV been able to articulate a clear global marketing strategy in India? What other opportunities can it pursue with the youth market in addition to broadcasting music?
4. Is it feasible for MTV to reach an ideal balance between standardization of programming and local adaptation? If so, how? Thinking in terms of the marketing program elements and marketing strategy, what can management do now to make MTV succeed around the world?

This case was written by Kelly Nealis under the supervision of Dr. Gary Knight.

Sources: Capell, Kerry. (2002). "MTV's World," *Business Week*, February 18, pp. 81–86; *Economist.com*, (1998). "Star Woes," April 9. Retrieved from www.economist.com/displaystory.cfm?story_id=159806; Goldsmith, Charles. (2003). "MTV Seeks Global Appeal," *Wall Street Journal*, July 21, p. B1; Gunther, Marc. (2004). "MTV's Passage to India," *Fortune*, August 9, pp.117–121; "MTV: Music Television." Retrieved from www.viacom.com; "MTV Launches Innovative Web Site in India." Retrieved from www.viacom.com; "MTV Announces International Expansion Plans for Europe, Asia, and Latin America." Retrieved from www.viacom.com; (2007). "MTV Networks India." Retrieved from www.mtvindia.com; (2007). "MTV Property Counts." Retrieved from www.viacom.com.

CHAPTER ESSENTIALS

Key Terms

adaptation, p. 519
global account management (GAM), p. 537
global brand, p. 520
global market segment, p. 517
global marketing strategy, p. 516
gray market activity, p. 526
international price escalation, p. 530
standardization, p. 519
transfer pricing, p. 531

Summary

In this chapter, you learned about:

1. Global marketing strategy

Developing a marketing strategy requires managers to assess the unique foreign market environment and then make choices about market segments, targeting, and positioning. A **global marketing strategy** is a plan of action that guides the firm in: how to position itself and its offerings in foreign markets, which customer segments to pursue, and the degree to which its marketing program elements should be standardized and adapted.

2. Standardization and adaptation of the international marketing program

How the firm balances **adaptation** and **standardization** determines the extent to which the firm must modify a product and its marketing to suit foreign markets. When possible, firms prefer to standardize their products to achieve scale economies and minimize complexity. A **global market segment** is a group of customers that share common characteristics across many national markets. *Positioning* strategy involves using marketing to create a particular image of a product or service, especially relative to competitor offerings, among the firm's customers worldwide.

3. Global branding and product development

A **global brand** is perceived similarly in all the firm's markets and increases marketing strategy effectiveness, allowing the firm to charge higher prices and deal more effectively with channel members and competitors. In developing products with multicountry potential, managers emphasize the commonalities across countries rather than the differences. The development of global products facilitates economies of scale in R&D, production, and marketing. Innovation and design in international product development are increasingly performed by *global teams*—an internationally distributed group of people with a specific mandate to make or implement decisions that are international in scope.

4. International pricing

International prices are determined by factors both internal and external to the firm, which often cause prices to inflate abroad. A special challenge for exporters in pricing is **international price escalation**—the problem of end-user prices reaching exorbitant levels in the export market, caused by multilayered distribution channels, intermediary margins, tariffs, and other international customer costs. **Transfer pricing** is the practice of pricing intermediate or finished products exchanged among the subsidiaries and affiliates of the same corporate family located in different countries. **Gray market activity**, also known as parallel imports, refers to legal importation of genuine products into a country by intermediaries other than authorized distributors.

5. International marketing communications

International marketing communications involves the management of advertising and promotional activities across national borders. Managers are often compelled to adapt their international communications due to unique legal, cultural, and socioeconomic factors in foreign markets. Firms must also accommodate literacy levels, language, and available media. In working with key business customers, firms may follow **global account management (GAM)** practices—the servicing of a key global customer in a consistent and standardized manner, regardless of where in the world they operate.

6. International distribution

Firms usually engage foreign intermediaries or foreign-based subsidiaries to reach customers in international markets. When designing the international channel, management must account for various factors, including the nature of the product and the market. Some firms bypass traditional distribution systems altogether by using *direct marketing*. *Channel length* refers to the number of distributors or other intermediaries that it takes to get the product from the manufacturer to the market. The longer the channel, the more intermediaries must be compensated, and the costlier the distribution function.

7. **Ethical dimensions of international marketing**

   Firms increasingly recognize that their international marketing activities are closely scrutinized by the public. In response, firms put in place corporate social responsibility programs such as ensuring that suppliers earn a sustainable income, providing needed products to poor consumers, and disposing of used products responsibly. Firms are becoming more proactive in corporate citizenship, but much more remains to be accomplished.

Test Your Comprehension AACSB: Reflective Thinking, Ethical Reasoning

1. Describe the marketing program elements and how each influences sales and performance in international business.
2. Audrey Corp. has historically adapted its offerings for all its foreign markets, leading to a proliferation of product variations. Explain why Audrey Corp. might want to consider global marketing strategy. What are the benefits of global marketing strategy?
3. Distinguish between adaptation and standardization in international marketing.
4. Consider Toshiba's laptop computer division. In terms of the marketing program elements, what attributes of laptop computers does the firm need to adapt and which attributes can it standardize for international markets?
5. What is the role of market segmentation and positioning in international marketing? What is a global market segment?
6. William Corporation is a manufacturer of high-quality men and women's fashions. What steps should you take to transform William into a well-recognized global brand?
7. What are the most important factors to consider when formulating international pricing strategies? What steps would you follow in arriving at international prices?
8. Export customers of a consumer products firm tend to be highly sensitive to price. However, the firm is experiencing substantial price escalation in these markets. What factors may be causing this situation? What can management do to reduce the detrimental impact of international price escalation?
9. What are the most important factors to consider when designing strategy for international marketing communications?
10. Describe the role of distribution and logistics in international business.
11. Summarize the key ethical issues that characterize international marketing.

Apply Your Understanding AACSB: Reflective Thinking, Analytical Skills

1. One manifestation of global marketing strategy is the increased tendency of MNEs to launch new products simultaneously around the world. For example, many movies—such as *The Matrix* and *Harry Potter*—are introduced at the same time in markets worldwide, using essentially the same marketing program. Visit the Web sites of the *Matrix* and the *Harry Potter* movies. What global market segments do these movies appear to target? Describe the specific aspects of global marketing strategy that you can detect in the international marketing of these films.
2. Products must be adapted to accommodate national differences arising from customer preferences and each market's economic conditions, climate, culture, and language. Think about the following products: packaged flour, swimsuits, textbooks, and automobiles. For each of these products, describe how a firm would need to adapt different marketing program elements to suit conditions in China, Germany, and Saudi Arabia. Keep in mind that China is an emerging market with low per capita income, Saudi Arabia is an emerging market with a conservative culture rooted in Islam, and Germany is an advanced and liberal economy. In developing your answer for each product, think especially about the nature of the product, its pricing and distribution, and how a firm would promote it in the market.
3. Office Depot, the supplier of office equipment and supplies, has stores in countries throughout Asia, Europe, and Latin America. Suppose the firm has decided to launch its own line of notebook computers and wants to know how to price them in various markets. What would be the most important factors Office Depot should consider when setting prices in foreign markets? Suggest a step-by-step approach to international pricing.

AACSB: Reflective Thinking

Refer to Chapter 1, page 27, for instructions on how to access and use globalEDGE™.

1. Global branding is key to international marketing success. Every year *Business Week* and *Interbrand* publish a ranking of the top 100 global brands. The ranking can be accessed by searching the term "global brand" at globalEDGE™, or by entering "global brands scorecard" in a Google search. For this exercise, locate and retrieve the most current ranking and answer the following questions:

   a. What do you consider are the strengths and weaknesses of the methodology *Interbrand* uses to estimate brand equity?

   b. What patterns do you detect in terms of the countries and industries most represented in the top 100 list?

   c. *Business Week* publishes an article in conjunction with the ranking. According to *Business Week,* what managerial guidelines are helpful in order for a company to develop a strong global brand?

2. Procter and Gamble (P&G) and Unilever are the two leading firms in the consumer products industry for products such as soap, shampoo, and laundry detergent. P&G (www.pg.com) is based in the United States and Unilever (www.unilever.com) is based in Europe. What are the major regional markets of each firm? What products does each firm offer through a global marketing strategy? Structure your answer in terms of the elements of the marketing program. That is, what global strategy approaches does each firm apply for the product, its pricing, promotion, and distribution?

3. A *third-party logistics provider* (3PL) provides outsourced or "third party" logistics services to companies for part or all of their distribution activities. Examples include C.H. Robinson Worldwide, Maersk Logistics, and FedEx. Your firm needs to find a 3PL to handle its distribution efforts abroad. Your task is to locate two 3PLs online and address the following questions:

   a. What logistical services does each firm provide?

   b. What types of customers does each 3PL serve?

   c. Where are their headquarters and branch offices located?

   d. Based on the information provided, which of the two 3PLs would you most likely choose? Why?

CKR Cavusgil Knight Riesenberger

Management Skill Builder©

Developing a Distribution Channel in Japan

A critical step in developing international marketing operations is the creation of the foreign distribution channel. The distribution channel provides the means to convey products (and many services) from their point of production to a convenient location where they can be purchased by customers. In the absence of a well-conceived distribution channel, efforts in formulating the other marketing program elements—product, pricing, and communications—may prove fruitless.

AACSB: Reflective Thinking, Multicultural and Diversity

Managerial Challenge

The firm should establish a reliable distribution channel in the foreign market from the very beginning. Channels are often costly to set up, and once established, may be difficult to change. Because buyers may view the distributor as the originator of the product or service, the firm must use a systematic approach to choose the right distributor. In this C/K/R Management Skill Builder©, your challenge is to investigate the nature of distribution channels in Japan for a firm that manufactures medical equipment.

Background

The market in Japan for medical equipment and supplies is very promising. Japan's medical device market is the second largest in the world and is one of the few product markets that have achieved steady growth despite the sluggish performance of the Japanese economy in recent years. The value of the market exceeds $10 billion annually, and imported products are popular. Foreign firms see bright sales prospects in such product categories as pacemakers, artificial implants, and catheters, as well as software and other products used in medical information and communications systems.

Managerial Skills You Will Gain

In this C/K/R Management Skill Builder©, as a prospective manager, you will:

1. Design a channel in a promising foreign market to increase firm performance.
2. Learn the factors to consider when making international channel arrangements.
3. Research alternative channels to reach end users.
4. Explore the types of country-level barriers that firms encounter in setting up distribution channels within foreign markets.

Your Task

Investigate establishing a distribution channel in Japan for a firm in your home country that makes medical equipment.

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Proceed to the C/K/R Knowledge Portal© to obtain the expanded background information, your task and methodology, suggested resources for this exercise, and the presentation template.